COVENTRY Building Society

Interim Financial Report

for the period ended 30 June 2021

Performance highlights

All together, better

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

Better for savers

2.4%
Savings balance growth
(H1 2020: -2.2%)

£100m
Value returned to members[1]
(H1 2020: £103m)

SPRING 2021
GOLD RIBBON
CUSTOMER EXPERIENCE
Savings Accounts

2021 award
Fairer Finance
Gold Ribbon for savings

Better for borrowers

5.5%
Mortgage balance growth
(H1 2020: 2.0%)

We helped
3,800
members to buy their first home
(H1 2020: 900)

Recommended Provider
Which?
Mortgages October 2020

2020
Which?
Recommended Provider for mortgages

Better for service

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

51 Seconds
average call waiting time[3]
(H1 2020: 47 seconds)

Fairer Finance
APPROVED DOCUMENT
Clear design Simple language

2021 award
Fairer Finance
Clear and simple terms and conditions

Better for colleagues and communities

3★
World Class Colleague Engagement[4]

£600k
To good causes[5]
(H1 2020: £400k)

THE UK'S
25
BEST BIG COMPANIES
TO WORK FOR
2021

2021
Best Companies
8th Best Big Company to Work For

Performance highlights

Our purpose is supported by a sustainable financial performance.

Capital Ratios

35.2%
Common Equity Tier 1
(FY 2020: 33.0%)

4.7%
UK leverage ratio
(FY 2020: 4.6%)

Profitability

£124m
Profit before tax
(H1 2020: £22m)

0.88%
Net interest margin
(H1 2020: 0.72%)

Cost and investment

0.48%
Costs as a percentage of average assets
(H1 2020: 0.47%)

£27m
Spending on investment projects
(H1 2020: £26m)

Lower risk

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

174%
Liquidity coverage ratio
(FY 2020: 179%)

1. Based on the Society's average month end savings rate compared to the CACI market average rate for savings accounts and excluding current accounts, for the latest available data for the five months ended 31 May 2021. This measure has been updated in the period to use CACI source data for the market rate, previous source Bank of England adjusted average rates. If H1 2020 had been calculated on an equivalent basis, Member Value would have been reported as £105 million.
2. A measure of customer advocacy that ranges between -100 and +100 which represents how likely a customer is to recommend our products and services. H1 2021 score is based on surveys completed between 1 January 2021 and 30 June 2021.
3. Based on average call waiting times between 1 January 2021 and 30 June 2021.
4. Source: Best Companies – 3 Star accreditation is awarded to organisations that receive an index score of 738 or higher reflecting 'world class' levels of workforce engagement.
5. Society donations to good causes include donations to the Royal British Legion through Poppy savings products in additon to donations to the Coventry Building Society Charitable Founation from release of dormant funds.

Chief Executive's Review

The first half of 2021 has been dominated by the ongoing effects of the pandemic with the continued impact on health, people's lives and livelihoods. As we move into the second half of the year there is cause for cautious optimism as we transition to a new norm but it is important we recognise the efforts of so many in what has been such a challenging time.

During these six months we have delivered a strong financial performance and made good progress against our strategic goals. This performance reflects an exceptional commitment to members and customers by my colleagues across the Society and I am so proud of what they have delivered. We continue to focus on running the Society in the interest of our members and ensuring that we are set up for long term success.

We are clear on our purpose and have refreshed our strategy which remains grounded in mutuality with a place for all our stakeholders, whether members, colleagues, the local communities we support or our business partners. Our brand identity has also been updated to reflect our purpose and belief that we are truly 'All together, better'.

We delivered a strong performance in the first half of 2021 despite the significant uncertainty created by the pandemic

Ensuring that we remain a safe and secure place to save and borrow remains our priority - enabled by strong capital ratios and our simple, focused business model.

Sustainable financial performance is key to that and we delivered a strong set of interim results for the first six months of the year, maintaining exceptional service levels whilst delivering mortgage and savings growth and sustaining the pace of investment in technology, branches and our people.

Our profit before tax of £124 million for the six months to 30 June 2021 compares to £22 million reported in the same period of 2020. We continue to focus on the long term strength and security of your Society. Over the long-term, we retain enough profit to maintain our capital strength and ensure we remain a safe place for our members to save and borrow. Our key measure of this is our risk based capital ratio (CET 1) which increased to 35.2% at 30 June 2021 (31 December 2020: 33.0%).

We increased mortgage lending and our support for first time buyers with lower deposits

During the first six months of the year, we grew our mortgage book by £2.4 billion (30 June 2020: £0.8 billion). Our mortgage growth rate of 5.5% for the six months to 30 June 2021 is over twice the rate of growth seen in the market[1] demonstrating the strength of our product range and service to brokers and consumers.

As a building society, we have always been proud to support people in owning their own homes and we have been doing this since members established the Society in 1884. In 2021 we extended our offering for those looking to buy their first homes, providing 3,800 loans to first time buyers compared to 900 loans in the same period of 2020.

Growth in our buy to let mortgage book was £0.9 billion in the first six months of the year (30 June 2020: £0.9 billion).

We continued to provide market leading regular savings and Child ISA products to encourage better savings habits

We are acutely aware of the impact that the low interest rate environment is having for our savings members. We remain focussed on balancing the interest we can afford to pay to members with maintaining capital strength and investing to improve our products and services.

Our performance has allowed us to deliver £100 million (H1 2020: £103 million) of value to savings members by paying interest rates that were 0.53% higher than the average market rate[2] (30 June 2020: 0.57% higher). This is in line with our focus on delivering long term value to all members.

Our savings balances grew by £0.9 billion in the first half of the year (30 June 2020: decline of £0.8 billion) with members showing a preference for easy access savings products and our regular savings account.

Chief Executive's Review continued

Our service levels continued to differentiate us from other firms based on feedback from members and intermediaries

We continued to deliver outstanding service to members and this is reflected in our Net Promoter Score of +73 (31 December 2020: +73)[3].

These high satisfaction and service levels were recognised by awards such as our Which Recommended Mortgage Provider status, Best Building Society from Savings champion and our Gold Ribbons for customer experience for both savings and mortgages from Fairer Finance.

We have continued to invest in capabilities to allow our colleagues to work effectively whilst managing record volumes of mortgage applications as well as supporting our savings members. Our mortgage teams have also continued to support customers with mortgage payment holiday requests. Our average call waiting time increased only marginally to 51 seconds (30 June 2020: 47 seconds) and I am grateful to our teams for how they pulled together at a time when members needed us most.

We were placed 8th in the Best Top 25 Big Companies to Work For rankings in 2021, maintaining our 'World-class' level of employee engagement rating

Despite the challenge for our front line colleagues managing with social distancing rules and with well over half of our people working remotely from home, we maintained very high levels of colleague engagement and remained one of the Best Large Companies to work for in the UK[4]. We are putting plans in place to allow the majority of our people to adopt a hybrid working pattern, where teams will determine the right mix between home and office locations.

I firmly believe this will also make us more inclusive as an employer, allowing people to balance personal and work commitments more easily and at the same time reducing the time, money and energy consumed by commuting. We have proven over the last year that colleagues can be as productive working remotely. At the same time, we recognise the need for face to face collaboration and how much colleagues have missed this.

Part of being a successful and growing organisation is the creation of opportunities for people of all backgrounds. We created an additional 50 jobs in the first half of 2021 and I am pleased we were able to continue with our apprenticeship and graduate programmes as well as adapting training and development for all our teams to be delivered remotely where possible. We have not accessed the furlough scheme for any roles at the Society since its inception in the first half of 2020.

One of our strategic priorities is to build an inclusive, inspiring workplace where everyone belongs and where the diversity of our city and communities is reflected in our teams. We have some challenging ambitions in this area which include having 50% of management roles held by women and 25% of management roles held by Black, Asian or Minority Ethnic colleagues by 2025. We currently have 43% of these roles held by women and 13% by Black, Asian or Minority Ethnic colleagues.

We continue to invest in better technology to deliver improved digital capabilities and branch experience to our members

Spending our members' money wisely is important to us as a mutual organisation. During the six months to 30 June 2021 our cost to mean assets ratio of 0.48%[5] increased marginally from June 2020 and remains one of the lowest in the building society sector[6]. We continue to invest in the business for the long term. In the first half of 2021 this included the refurbishment of a further 10 branches and making improvements to our digital capabilities, including enhancing our online authentication process and making it easier for members to find the information they are looking for when using our online services. We continued to invest in technology to improve the resilience and availability of services to members and are investing heavily in our mortgage systems to create a significantly easier process for mortgage customers to change their product.

We enhanced support for people in our home city and wider communities as well as progressing our environmental commitments

Whilst lockdown restrictions continued to limit face to face activity in the first half of the year, we have found ways of continuing with our financial education and employability support for young people delivered through technology.

We were able to have a positive impact in our communities by donating £0.3 million of funds from dormant accounts towards local and national charities in addition to a donation of £0.3 million to the Royal British Legion from our Poppy savings products. This takes our total donations to the Legion to £19 million since 2008. The Legion is celebrating its 100th year anniversary in 2021 and we are proud that with our members support we have created better futures for those who have served our country and their families through supporting their housing needs, training needs and supporting mental health.

Chief Executive's Review continued

We have also continued to progress our sustainability agenda and we were accepted as a signatory by the United Nations Global Compact and Principles for Responsible Banking Initiatives. We are on track to be Scope 1 and Scope 2 emissions Net Zero in 2021 and have developed a three year roadmap of product initiatives which have environmental and social impacts at their core. Later this year, we expect to publish the Society's first ever Climate Action Plan, which will set out our ambition on the climate agenda in more detail.

We increased our visibility in the City of Coventry and beyond as well as updating our brand identity

As the 2nd biggest building society in the UK, we believe that awareness of our brand can be improved. This awareness is critical to maintaining our success whether we are attracting the membership of the future, recruiting new colleagues or working with partner organisations.

Coventry is the UK City of Culture in 2021 and we are proud to be sponsoring the events and excited at how the City is finding creative ways to welcome artists and audiences from the UK and beyond as well as providing opportunities for many local people to get involved.

We have also signed a 10 year sponsorship agreement with Wasps Rugby Club to re-name what was the Ricoh Arena as the Coventry Building Society Arena. The 40,000 capacity sporting, concert and conference arena will create not just local but national awareness for our brand. However it's not just about brand and there will be exciting opportunities for members, schools and community groups to use the arena and its facilities.

Finally we have refreshed our visual and brand identity across our branches and digital channels and this will also feature in new advertising campaigns and our customer communications. It aligns to our purpose, which is summed up with the phrase 'All together, better'. It's an important and exciting investment in our brand as we look to build relevance for existing and future generations of members.

Outlook

The economic outlook improved over the last six months and the housing market has been stimulated by government support and housing demand outstripping supply. The labour market has also received continued support through the furlough scheme. We expect uncertainty to remain in the period ahead, and we will always take a prudent approach to running the business in order to protect the interest of our members over the long term.

We will maintain focus on delivering industry leading service, growing our membership and investing for the future. This is underpinned by our sustainable financial performance and strong capital position. As a mutual, member owned organisation we will work in the interest of our members but also our colleagues, communities and wider society as we continue to deliver on our purpose.

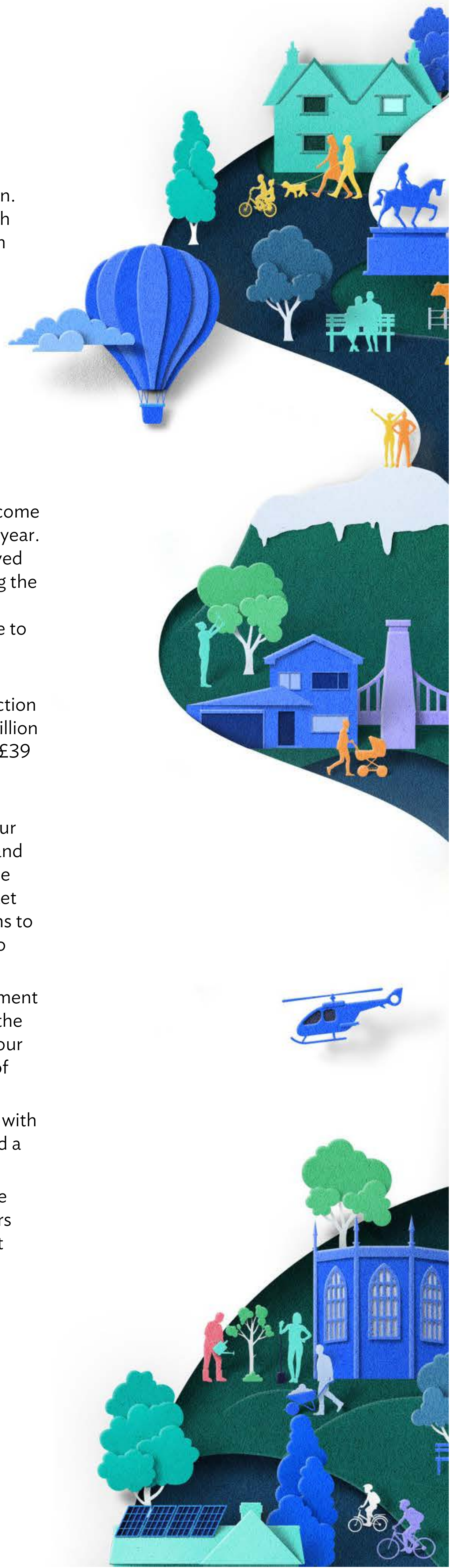
Steve Hughes

Chief Executive

28 July 2021

1. Source: Bank of England – latest published data as at 31 May 2021.
2. Based on the Society's average month end savings rate compared to the CACI market average rate for savings accounts and excluding current accounts, for the latest available data for the five months ended 31 May 2021. This measure has been updated in the period to use CACI data for the market rate, previous source Bank of England adjusted average rates. If H1 2020 had been calculated on an equivalent basis, Member Value would have been reported as £105 million.
3. 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. Source: Best Companies '25 Best Big Companies to Work For' listing 2021.
5. Administrative expenses, depreciation and amortisation/Average total assets.
6. As at 28 July 2021 based on available market data.

Chief Financial Officer's Review



Summary

During the first six months of 2021, the Society has delivered a strong financial performance and maintained its safe and secure capital position. We remain committed to providing long-term value to members through competitively priced savings and mortgage products, taking an approach which balances the long term interests of members and ensures we continue to invest to improve the products and services offered.

The impact of the Covid-19 pandemic remains uncertain with the effect of government support coming to an end yet to be seen. Notwithstanding the uncertainty which remains, the economy has performed better than anticipated with a rebound in GDP, continued growth in house prices and unemployment having remained stable. These better than expected economic conditions have supported our first half performance.

Profits for the period have increased to £124 million (30 June 2020: £22 million). This increase is partly a result of increased Net Interest Income which at £228 million, was £49 million higher than the same period last year. The increase in Net Interest Income reflects mortgage growth at improved margins in addition to the impact of reductions to savings rates following the 0.65% reduction in the Bank of England Base Rate in 2020. This growth includes the impact of a reduction of £27 million as a result of an update to our expectations of future Standard Variable Rate (SVR) income on mortgages.

The better than expected economic environment has also led to a reduction in our provisions for expected credit losses and we have released £17 million of provision in the first six months of the year (30 June 2020: charge of £39 million).

The Bank of England Base Rate has been maintained at 0.10% which continues to support the economy whilst impacting the earnings from our mortgage book and the return we make on deposits at the Bank of England and other investments. With interest rates remaining at a historic low the Society has continued to pay higher savings rates compared to the market average[1], balancing member value and capital strength. In the six months to 30 June 2021 the amount of interest above market average rates paid to members was £100 million (30 June 2020: £103 million).

We have continued to invest in the business and our increased management expenses of £124 million (30 June 2020: £117 million) is attributed to the increased costs of running a larger Society in addition to the delivery of our change programmes which are focused on improvements to resilience of services to members.

This performance meant that we maintained our strong capital position with a Common Equity Tier 1 ratio of 35.2% (31 December 2020: 33.0%) and a Leverage ratio of 4.7% (31 December 2020: 4.6%).

We are committed to maintaining our financial strength, providing a safe place for members to save for their future and supporting more members into their own home. We will continue to operate the Society in the best interests of you, our members.

Lee Raybould

Chief Financial Officer

28 July 2021

Chief Financial Officer's Review

Financial Review
Income Statement

	Period to 30 June 2021 (Unaudited) £m	Period to 30 Jun 2020 (Unaudited) £m	Year ended 31 Dec 2020 (Audited) £m
Net interest income	**227.7**	178.4	408.5
Fees and commissions	**(1.4)**	(0.9)	(2.3)
Other income	**0.6**	0.3	2.2
Gain/(loss) on derivatives and hedge accounting	**4.6**	1.2	(0.7)
Total income	**231.5**	179.0	407.7
Management expenses	**(123.9)**	(117.2)	(245.6)
Expected credit losses	**17.1**	(39.4)	(36.4)
Provisions	**-**	(0.5)	(0.5)
Charitable donation to Poppy Appeal	**(0.3)**	(0.4)	(0.8)
Profit before tax	**124.4**	21.5	124.4

Net interest income for the period was £228 million (30 June 2020: £178 million). The increase in net interest income of £49 million includes the impact of an adjustment to our Effective Interest Rate (EIR) calculation which is explained below. The increase reflects both an improvement in mortgage interest receivable due to higher margins on new lending and lower interest payable to savers following the changes made after the fall in the Bank of England Base Rate in March 2020. This improved performance delivered a Net Interest Margin (NIM) of 0.88% (30 June 2020: 0.72%).

Net interest income includes an adjustment of £27 million which reflects a change to the future assumptions on mortgage redemption behaviour which forms part of the EIR calculation. This adjustment reflects an expectation that customers will spend less time paying the Standard Variable Rate of interest at the end of their fixed rate period than is currently the case. The Society recognises an EIR asset to reflect expected future Standard Variable Rate mortgage income which, after this adjustment, reduced to £50 million in the first half of 2021 (31 December 2020: £71 million). The impact of the adjustment reduced the Society's NIM in the first half of the year by 0.10%, without which reported NIM would have been 0.98%. More information is included in note 3 to the accounts.

Gain on derivatives and hedge accounting of £4.6 million (30 June 2020: £1.2 million gain). The Society uses derivative financial instruments to manage interest rate and currency risks arising from its mortgage and savings activity and from wholesale funding, including non-sterling issuances.

The gain in the first half of the year represents hedge ineffectiveness where movements in the fair value of derivatives did not fully offset movements in the fair value of the underlying hedged item in addition to fair value movements on derivatives which were not designated in hedge relationships.

Management expenses including depreciation and amortisation for the period were £124 million (30 June 2020: £117 million). The increase in costs of £7 million was driven by an increase in day to day running costs of £6 million which primarily relates to additional employee costs. There was a £1 million increase in spending related to the Society's strategic investment programmes with total spend on investment programmes of £27 million (30 June 2020: £26 million). This investment has been focused on activity to digitise our services, whilst enabling significant progress in delivery of our infrastructure programmes, and the Society's new mortgage platform, together with the ongoing redesign of the branch network. Investing to improve resilience of services for members whilst maintaining cost efficiency are key goals and will remain a focus for future periods.

The cost to mean assets ratio of 0.48%[2] is broadly in line with the first six months of 2020 and is expected to remain among the lowest in the building society sector[3]. The cost to income ratio has reduced to 54% (30 June 2020: 65%) reflecting the growth in income relative to our cost base in the period.

Chief Financial Officer's Review continued

Expected credit losses

The performance of our mortgage book and the overall economic outlook has improved compared to our expectations, with lower unemployment and higher growth in house prices than anticipated at 31 December 2020. The Society has granted c. 40,000 mortgage payment holidays since March 2020 of which only 358 remain active at 30 June 2021, with 98% of affected customers returning to making mortgage payments at the end of the payment holiday. As a result, the expected credit loss provision has been reduced to £31 million (31 December 2020: £48 million) and a corresponding release of £17 million has been recognised in the Income Statement (30 June 2020: charge of £39 million).

We have carried out extensive work in order to determine the appropriate provision and, as was the case at the 2020 year end, significant judgement and estimates have been required in the calculation of expected credit losses.

Uncertainty remains as to the impact of the removal of government and central bank intervention which have helped to support the economy. The performance of the mortgage book remains strong with less than 400 Covid-19 mortgage payment holidays active at 30 June 2021, reduced from 34,000 at the same time last year.

Of the total expected credit loss provision, £23.2 million relates to post model adjustments (PMAs) where existing models do not fully reflect the expected credit loss given the unprecedented environment. These adjustments reflect the potential impact of Covid-19 on the mortgage book in addition to other overlays for potential negative equity and risks of house price falls over and above the forward looking economic scenarios. We have introduced a further PMA in 2021 to reflect the potential risk around remediation for cladding on flats where fire safety standards have not been met. More information on the calculation of the PMAs is included in note 7 to the accounts.

The remaining £7.4 million of provision relates to the modelled expected credit loss (ECL) provision across a range of alternative economic scenarios which reflect various possible outcomes as the economy emerges from the pandemic.

As a result of these changes the expected credit loss provision now equates to 0.07% of the overall mortgage book (31 December 2020: 0.11%).

Under IFRS 9 the Society is required to categorise its mortgages into one of three 'stages'. At 30 June 2021 92.3% of the Society's loans and advances to customers were within the Stage 1 'performing' category (31 December 2020: 91.3%), 7.3% were in Stage 2 (31 December 2020: 8.2%) reflecting a significant increase in credit risk since origination and 0.4% were in default or Stage 3 (31 December 2020: 0.5%). This profile has improved during 2021 as a result of the continued performance of accounts previously subject to payment holidays as well as the improved economic outlook.

More information on the calculation of expected credit losses is included in note 7 and 10 to the accounts.

The Corporation tax charge represents an effective rate of tax of 20.4% (30 June 2020: 13.0%). The increase in rate is driven by the increase in profits during the year including the impact of the 8.0% banking surcharge which was not applied at 30 June 2020 as the Society did not meet the threshold.

Chief Financial Officer's Review continued

Balance Sheet

	30 June 2021 (Unaudited) £m	30 Jun 2020 (Unaudited) £m	31 Dec 2020 (Audited) £m
Assets			
Loans and advances to customers	**45,869.6**	43,030.0	43,482.8
Liquidity	**7,099.3**	6,444.0	7,314.5
Other	**454.3**	886.0	701.0
Total assets	**53,423.2**	50,360.0	51,498.3
Liabilities			
Retail funding	**39,079.4**	35,438.6	38,151.1
Wholesale funding	**11,564.9**	11,926.6	10,367.9
Subordinated liabilities and subscribed capital	**67.1**	67.1	67.2
Other	**399.8**	780.9	706.0
Total liabilities	**51,111.2**	48,213.2	49,292.2
Equity			
General reserve	**1,927.3**	1,776.0	1,835.1
Other equity instruments	**415.0**	415.0	415.0
Other	**(30.3)**	(44.2)	(44.0)
Total equity	**2,312.0**	2,146.8	2,206.1
Total liabilities and equity	**53,423.2**	50,360.0	51,498.3

Loans and advances to customers: The Society's business model remains focused on high quality, low loan to value owner-occupier and buy to let lending within the prime residential market, distributed mainly through mortgage intermediaries. We started 2021 with a substantial mortgage pipeline following a successful final quarter and we have continued to see strong volumes in the first half of 2021 supported by a buoyant housing market. During the period, the Society advanced £5.4 billion of mortgages (30 June 2020: £3.5 billion), with net mortgage lending of £2.4 billion (30 June 2020: £0.8 billion).

During the first half of the year the Society also introduced a range of up to 95% loan to value mortgages in order to support first time buyers entering the housing market. In addition the Society repurchased two buy to let mortgage portfolios totalling £0.5 billion. These loans were originated by the Society and have been recognised on the Balance Sheet within loans and advances to customers from the point of repurchase.

The balance weighted average indexed loan to value at 30 June 2021 was 51.4% (31 December 2020: 52.8%).

Liquidity: On-balance sheet liquid assets have decreased to £7.1 billion (31 December 2020: £7.3 billion) and the Liquidity Coverage Ratio (LCR) at 30 June 2021 was 174% (31 December 2020: 179%), significantly in excess of the regulatory minimum.

Retail savings: The Society continues to be predominantly funded by retail savings, with balances of £39.1 billion at 30 June 2021 (31 December 2020: £38.2 billion). Additional savings balances have been used to fund the growth in the mortgage book.

Wholesale funding: The Society uses wholesale funding[4] to provide diversification of funding, supporting growth and lowering risk as well as providing value to members through lowering the overall cost of funding. Wholesale funding in the period has increased by £1.2 billion as a result of drawdowns on the Bank of England Term Funding Scheme and issuances in the period, partially offset by maturities.

The Society has accessed the Bank of England's Term Funding Schemes with balances of £5.21 billion outstanding at 30 June 2021 (31 December 2020: £4.55 billion). Other new issuances in the year include £0.3 billion senior non-preferred notes issued in April 2021 and a further £0.4 billion issued from the Economic Master Issuer RMBS programme. This programme received recognition during 2021 from both the International Financing Review and the Global Capital awards.

Chief Financial Officer’s Review continued

Pension benefit surplus (included in Other assets): The pension benefit surplus has increased to £17 million (31 December 2020: £10 million) as a result of market movements, in particular an improvement in UK corporate bond yields which have reduced the scheme liabilities since 31 December 2020.

General reserves: The growth in General reserves of £92 million in the first half of the year (30 June 2020: £3 million) reflects retained profit for the period of £99 million (30 June 2020: £19 million), gain on remeasurement of the defined benefit pension scheme of £7 million (30 June 2020: loss of £2 million) offset by £14 million distribution to Additional Tier 1 capital holders (30 June 2020: £14 million).

Total equity: Total equity has increased by £0.1 billion to £2.3 billion (31 December 2020: £2.2 billion).

Capital Ratios

The table below provides a summary of the Society’s capital resources and CRD IV ratios on an end-point basis (i.e. assuming all CRD IV requirements were in force in full with no transitional provisions permitted).

	End-point 30 Jun 2021 £m	End-point 30 Jun 2020 £m	End-point 31 Dec 2020 £m
Capital resources:			
Common Equity Tier 1 (CET 1) capital	**1,853.6**	1,718.7	1,783.3
Total Tier 1 capital	**2,268.6**	2,133.7	2,198.3
Total Tier 2 capital	**-**	11.8	-
Total capital	**2,268.6**	2,145.5	2,198.30
Risk weighted assets	**5,265.7**	5,423.3	5,410.6
CRD IV ratios:	**%**	%	%
Common Equity Tier 1 (CET 1) ratio	**35.2**	31.7	33.0
CRR Leverage ratio	**4.2**	4.2	4.3
UK Leverage ratio	**4.7**	4.5	4.6

Risk Weighted Assets (RWAs) have decreased by 2.7% from 31 December 2020. The impact of growth in the mortgage book of 5% has been more than offset by improved credit conditions, predominantly driven by increases in HPI. As a result, the CET 1 ratio has increased by 2.2% in the first six months of 2021. At 35.2%, our CET 1 ratio remains significantly ahead of the Total Capital Requirements set by the PRA for the Society of 10.7% of risk weighted assets as at 30 June 2021.

During early 2022, there are two changes to the capital requirements due to be implemented. Firstly, the PRA released a policy statement (PS16/21): “Internal Ratings Based UK mortgage risk weights: Managing deficiencies in model risk capture”, which recommends flooring average IRB UK mortgage risk weights. Based on the June 2021 capital ratios, the expected impact to the Group’s CET 1 ratio would be a reduction by approximately 4%, which is less than initially expected due to the policy not flooring individual mortgages. Secondly, the Society will be required to transition to updated IRB models to meet the latest regulatory requirements contained in the EBA roadmap and largely covered within supervisory statement SS11/13. The expected impact of these updated models is an increase in RWAs due to an increase in the probability of possession given default and LTV at default. The range of outcomes is still uncertain and subject to approval from the PRA but the update may reduce the Society’s CET 1 ratio by up to one third. This would effectively bring forward the risk weights the Society would report based on the implementation of Basel IV RWA floors which are due to be phased in from 2023 to 2028 and are described below.

From 2023, Basel IV RWA floors are being phased in and will reduce the Group’s reported CET 1 ratio further, as they do not give full credit for the Group’s very low risk mortgage book. Applying the Basel IV RWA floors to the 30 June 2021 figures on a full transition basis would result in a CET 1 ratio of 17.3%. The reduction in reported CET 1 measures has been included within the Society’s financial plans and does not materially reduce the capital surplus to regulatory requirements, ensuring we remain safe and secure.

Chief Financial Officer's Review continued

The Society's Leverage ratios have been maintained at 4.7% and 4.2% on a UK and CRR basis respectively, significantly above both regulatory minima and the Society's internal risk appetite. The FPC and PRA have released a consultation paper (CP14/21) "Consultations by the FPC and PRA on changes to the UK leverage ratio framework" which sets out the review of the leverage framework in the UK. The consultation maintains that only firms with £50 billion retail deposits will be in the scope of the UK leverage regime, and as such the Society is not currently in scope for this requirement. This will lower the Society's expectation of the planned Minimum Requirement for own funds and Eligible Liabilities (MREL) requirements.

The capital disclosures above are on a Group basis, including all subsidiary entities. For regulatory purposes the Group also reports on an Individual Consolidated basis, which only includes those subsidiaries meeting particular criteria contained within CRD IV. The Individual Consolidated CET 1 ratio on an end-point basis at 30 June 2021 is 0.5% higher than the Group ratio due to assets held by entities that sit outside of the Individual Consolidation, primarily those held by the Group's securitisation and covered bond entities.

1. Based on the Society's average month end savings rate compared to the CACI market average rate for savings accounts and excluding current accounts, for the latest available data for the five months ended 31 May 2021. This measure has been updated in the period to use CACI source data for the market rate, previous source Bank of England adjusted average rates. If H1 2020 had been calculated on an equivalent basis, Member Value would have been reported as £105 million.
2. Administrative expenses, depreciation and amortisation/Average total assets.
3. As at 28 July 2021 based on available market data.
4. Deposits from banks, Other deposits, Amounts owed to other customers and Debt securities in issue.

Top and Emerging Risks

Top and emerging risks are those risks that could impact the Society's ability to achieve its strategic goals. Information on the current risks is provided below as an update to those set out on page 25 of the 2020 Annual Report & Accounts.

Risk	Mitigation
Impact of the Covid-19 pandemic The ongoing impacts of the Covid-19 pandemic could have significant consequences for the Society and all of its stakeholders. The economy is still being supported by government measures such as the furlough scheme and the macroeconomic environment, impacted by both the pandemic and Brexit, remains uncertain. A prolonged recovery or further downturn may lead to increases in arrears and credit losses. The pandemic and response to it impacts other top and emerging risks such as customer behaviour and operational resilience.	The Society's simple, low risk, business model combined with its strong capital position means it remains resilient to both economic and credit downturns. Stress testing is regularly carried out to ensure that the Society will remain within regulatory capital and liquidity requirements under severe stress scenarios. The Society has continued to undertake extensive additional analysis of its credit exposures since the emergence of the Covid-19 pandemic in order to make its assessment of potential credit losses. The Society continues to invest in operational resilience capabilities and regularly tests its response to risk events.
Market environment The market environment remains competitive and this could continue to increase pressure on the Society's financial position, with the potential to compress margins. This includes the impact of persistently low or negative interest rates and new entrants to our core markets.	Our low-cost operating model and strong capital position mean that we can operate effectively in a low margin environment while still returning value to our members and maintaining strong capital ratios.
Technology and innovation The Society continues to invest in significant levels of technology and business change and expects this to continue for a number of years. This activity increases operational risk and may result in requirements which are more costly or disruptive than expected.	The Society is investing in technology to increase flexibility and resilience. We have taken steps to enhance our change capability which improve our processes, capacity and governance around change programmes to mitigate the execution risks associated with change.

Top and Emerging Risks continued

Risk	Mitigation
Changing customer behaviour Customer expectations and the increased use of technology are changing the way that savings and mortgage products are designed and delivered. There is a risk that the scale of change leaves the Society with insufficient capacity to develop new products and services in an increasingly digital world. Alternatively, change requirements could jeopardise the Society's low-cost operating model.	The Society continues to focus on developing products and services to meet changing demands and engages with members to identify product and service enhancements that they need and value in order to do this. The Society's Strategic Plan seeks to balance strategic investment, returning value to members through better pricing and the long-term financial health of the Society.
Operational resilience A major operational risk event could result in disruption to services leading to customer harm, financial or regulatory impacts or to reputational damage. Such events could include cyber attacks, loss of data or service outages.	The Society manages operational risk through its Enterprise Risk Management Framework and regularly tests its response to risk events. The Society continues to both benchmark our IT security capabilities and make investment in them to improve overall operational resilience and combat the evolving threat landscape.
Regulatory environment The regulatory environment continues to evolve at pace and there are a number of regulatory changes that the Society is in the process of implementing. There is a risk that the scope and complexity of regulatory changes could increase our costs and funding requirements.	The Society closely monitors the regulatory environment to understand and model the impact of upcoming changes. In addition, the approach to responding to regulatory change continues to focus on driving value into the Society's business model.
Climate change The impact of Climate Change could lead to increased credit risk if properties are impacted by flooding or other weather events or strategic risk as the economy transitions towards low carbon activities.	The Society is investing in data and modelling capabilities to better understand and take steps to mitigate, the transition and physical risks associated with climate change. We are also monitoring the emerging Government policy interventions in this area as the UK progresses towards its 2050 Net Zero commitment set out in the Climate Change Act. The Society's low risk business model and strong capital position means it is well place to manage these risks.

Condensed Consolidated Income Statement

For the period ended 30 June 2021

	Notes	Period to 30 Jun 2021 (Unaudited) £m	Period to 30 Jun 2020 (Unaudited) £m	Year ended 31 Dec 2020 (Audited) £m
Interest receivable and similar income calculated using the Effective Interest Rate method	3	**406.9**	438.3	859.9
Interest payable and similar charges	4	**(179.2)**	(259.9)	(451.4)
Net interest income		**227.7**	178.4	408.5
Fees and commissions receivable		**3.8**	3.5	7.2
Fees and commissions payable		**(5.2)**	(4.4)	(9.5)
Other operating income		**0.6**	0.3	2.2
Net gains/(losses) from derivative financial instruments	5	**4.6**	1.2	(0.7)
Total income		**231.5**	179.0	407.7
Administrative expenses	6	**(109.0)**	(103.7)	(217.3)
Amortisation of intangible assets		**(6.3)**	(5.9)	(12.2)
Depreciation of property, plant and equipment		**(8.6)**	(7.6)	(16.1)
Expected credit losses on loans and advances to customers	7	**17.1**	(39.4)	(36.4)
Provisions for liabilities and charges	8	**-**	(0.5)	(0.5)
Charitable donation to Poppy Appeal		**(0.3)**	(0.4)	(0.8)
Profit before tax		**124.4**	21.5	124.4
Taxation	9	**(25.4)**	(2.8)	(23.0)
Profit for the financial period		**99.0**	18.7	101.4

Profit for the financial period arises from continuing operations and is attributable to the members of the Society.

Condensed Consolidated Statement of Comprehensive Income

For the period ended 30 June 2021

	Notes	Period to 30 Jun 2021 (Unaudited) £m	Period to 30 Jun 2020 (Unaudited) £m	Year ended 31 Dec 2020 (Audited) £m
Profit for the financial period		**99.0**	18.7	101.4
Other comprehensive income				
Items that will not be transferred to the Income Statement:				
Remeasurement of defined benefit plan		**9.7**	(2.4)	(15.3)
Taxation		**(2.2)**	0.7	4.2
Items that may be transferred to the Income Statement:				
Fair value through other comprehensive income investments:				
Fair value movements taken to reserves		**(10.8)**	11.8	0.2
Amount transferred to Income Statement		**11.4**	(11.7)	(1.9)
Taxation		**(0.3)**	(0.1)	0.3
Cash flow hedges:				
Fair value movements taken to reserves	17	**(43.1)**	34.8	(38.5)
Amount transferred to Income Statement	17	**61.4**	(115.0)	(39.6)
Taxation		**(4.9)**	21.5	21.0
Other comprehensive income/(expense) for the period, net of tax		**21.2**	(60.4)	(69.6)
Total comprehensive income/(expense) for the period, net of tax		**120.2**	(41.7)	31.8

The notes on pages 18 to 44 form part of this Interim Financial Report.

Condensed Consolidated Balance Sheet

For the period ended 30 June 2021

	Notes	30 Jun 2021 (Unaudited) £m	30 Jun 2020 (Unaudited) £m	31 Dec 2020 (Audited) £m
Assets				
Cash and balances with the Bank of England		**5,885.1**	4,360.2	5,728.9
Loans and advances to credit institutions		**398.3**	807.3	590.5
Debt securities		**815.9**	1,276.5	995.1
Loans and advances to customers	10	**45,869.6**	43,030.0	43,482.8
Hedge accounting adjustment		**99.1**	441.5	366.6
Derivative financial instruments	17	**182.7**	269.4	173.5
Investment in equity shares		**5.2**	4.3	5.0
Current tax asset		**-**	4.5	–
Deferred tax asset		**14.4**	17.1	20.1
Intangible assets		**36.2**	33.3	33.9
Property, plant and equipment		**73.8**	76.0	72.8
Prepayments and accrued income		**25.5**	17.9	19.4
Pension benefit surplus	12	**17.4**	22.0	9.7
Total assets		**53,423.2**	50,360.0	51,498.3
Liabilities				
Shares		**39,079.4**	35,438.6	38,151.1
Deposits from banks	11	**5,780.2**	7,256.7	5,140.2
Other deposits		**5.0**	7.0	1.0
Amounts owed to other customers		**706.8**	217.4	609.5
Debt securities in issue		**5,072.9**	4,445.5	4,617.2
Hedge accounting adjustment		**21.4**	113.8	88.0
Derivative financial instruments	17	**297.7**	601.1	534.2
Current tax liabilities		**14.9**	–	5.8
Accruals and deferred income		**33.3**	32.8	41.6
Other liabilities		**32.1**	32.7	36.0
Provisions for liabilities and charges	8	**0.4**	0.5	0.4
Subordinated liabilities	13	**25.5**	25.5	25.6
Subscribed capital	14	**41.6**	41.6	41.6
Total liabilities		**51,111.2**	48,213.2	49,292.2
Equity				
General reserve		**1,927.3**	1,776.0	1,835.1
Other equity instruments	15	**415.0**	415.0	415.0
Fair value through other comprehensive income reserve		**2.6**	3.7	2.3
Cash flow hedge reserve		**(32.9)**	(47.9)	(46.3)
Total members' interests and equity		**2,312.0**	2,146.8	2,206.1
Total members' interests, liabilities and equity		**53,423.2**	50,360.0	51,498.3

The notes on pages 18 to 44 form part of this Interim Financial Report.

Condensed Consolidated Statement of Changes in Members' Interests and Equity

For the period ended 30 June 2021

Period to 30 June 2021	Notes	General reserve £m	Other equity instruments £m	Fair value through other comprehensive income reserve £m	Cash flow hedge reserve £m	Total £m
As at 1 January 2021 (Audited)		**1,835.1**	**415.0**	**2.3**	**(46.3)**	**2,206.1**
Profit for the financial period		99.0	-	-	-	99.0
Net remeasurement of defined benefit plan		7.5	-	-	-	7.5
Net movement in Fair value through other comprehensive income reserve		-	-	0.3	-	0.3
Net movement in Cash flow hedge reserve		-	-	-	13.4	13.4
Total comprehensive income		**106.5**	-	**0.3**	**13.4**	**120.2**
Distribution to Additional Tier 1 capital holders	15	(14.3)	-	-	-	(14.3)
As at 30 June 2021 (Unaudited)		**1,927.3**	**415.0**	**2.6**	**(32.9)**	**2,312.0**

Period to 30 June 20						
As at 1 January 2019 (Audited)		1,773.3	415.0	3.7	10.8	2,202.8
Profit for the financial period		18.7	–	–	–	18.7
Net remeasurement of defined benefit plan		(1.7)	–	–	–	(1.7)
Net movement in Fair value through other comprehensive income reserve		–	–	–	–	–
Net movement in Cash flow hedge reserve		–	–	–	(58.7)	(58.7)
Total comprehensive income		17.0	–	–	(58.7)	(41.7)
Distribution to Additional Tier 1 capital holders	15	(14.3)	–	–	–	(14.3)
As at 30 June 2020 (Unaudited)		1,776.0	415.0	3.7	(47.9)	2,146.8

Year ending 31 December 2020						
As at 1 January 2020 (Audited)		1,773.3	415.0	3.7	10.8	2,202.8
Profit for the financial year		101.4	–	–	–	101.4
Net remeasurement of defined benefit plan		(11.1)	–	–	–	(11.1)
Net movement in Fair value through other comprehensive income reserve		–	–	(1.4)	–	(1.4)
Net movement in Cash flow hedge reserve		–	–	-	(57.1)	(57.1)
Total comprehensive income		90.3	–	(1.4)	(57.1)	31.8
Distribution to Additional Tier 1 capital holders	15	(28.5)	–	–	–	(28.5)
6As at 31 December 2020 (Audited)		1,835.1	415.0	2.3	(46.3)	2,206.1

The notes on pages 18 to 44 form part of this Interim Financial Report.

Condensed Consolidated Statement of Cash Flows

For the period ended 30 June 2021

	Period to 30 Jun 2021 (Unaudited) £m	Period to 30 Jun 2020 (Unaudited) £m	Year ended 31 Dec 2020 (Audited) £m
Cash flows from operating activities			
Profit before tax	**124.4**	21.5	124.4
Adjustments for:			
Expected credit loss provisions and other provisions	**(17.1)**	39.9	36.7
Depreciation and amortisation	**14.9**	13.5	28.3
Interest on subordinated liabilities and subscribed capital	**3.3**	3.3	6.7
Changes to fair value adjustment of hedged risk	**(15.1)**	(126.1)	(36.1)
Other non-cash movements	**(0.7)**	(7.1)	(78.7)
Non-cash items included in profit before tax	**(14.7)**	(76.5)	(43.1)
Loans and advances to credit institutions	**173.7**	(479.0)	(273.7)
Loans and advances to customers	**(1,893.2)**	(834.7)	(1,284.7)
Prepayments, accrued income and other assets	**(6.1)**	(3.6)	(5.0)
Changes in operating assets	**(1,725.6)**	(1,317.3)	(1,563.4)
Shares	**930.9**	(790.3)	1,985.0
Deposits and other borrowings	**741.4**	1,699.5	(29.9)
Debt securities in issue	**(56.4)**	132.0	(479.7)
Accruals and deferred income and other liabilities	**(9.6)**	(4.2)	8.9
Changes in operating liabilities	**1,606.3**	1,037.0	1,484.3
Interest paid on subordinated liabilities and subscribed capital	**(3.4)**	(3.3)	(6.6)
Interest paid on lease liabilities	**(0.2)**	(0.3)	(0.6)
Taxation	**(18.0)**	(21.6)	(31.0)
Net cash flows from operating activities	**(31.2)**	(360.5)	(36.0)
Cash flows from investing activities			
Purchase of investment securities	**(134.2)**	(572.3)	(921.9)
Sale and maturity of investment securities and equities	**302.3**	599.3	1,215.9
Proceeds from sale of property	**0.3**	0.5	0.5
Purchase of mortgage assets (net of fees)	**(476.9)**	-	-
Purchase of property, plant and equipment and intangible assets	**(17.3)**	(14.2)	(22.4)
Net cash flows from investing activities	**(325.8)**	13.3	272.1
Cash flows from financing activities			
Distributions paid to Additional Tier 1 capital holders	**(14.3)**	(14.3)	(28.5)
Repurchase and repayment of debt securities	**(121.6)**	(1,009.9)	(668.4)
Principal elements of lease payments	**(2.4)**	(2.4)	(5.5)
Issue of debt securities	**633.0**	500.0	950.0
Net cash flows from financing activities	**494.7**	(526.6)	247.6
Net increase/(decrease) in cash and cash equivalents	**137.7**	(873.8)	483.7
Cash and cash equivalents at start of period	**5,598.0**	5,114.3	5,114.3
Cash and cash equivalents at end of period	**5,735.7**	4,240.5	5,598.0
Cash and cash equivalents:			
Cash and balances with central banks[1]	**5,735.7**	4,240.5	5,598.0

1. Excludes £149.4 million mandatory reserve with the Bank of England (30 June 2020: £119.7 million, 31 December 2020: £130.9 million).

The notes on pages 18 to 44 form part of this Interim Financial Report.

Notes to the Interim Financial Report

1. Reporting period

These results have been prepared as at 30 June 2021 and show the financial performance for the period from 1 January 2021 to this date.

2. Basis of preparation and changes to the Group's accounting policies

Basis of preparation

These condensed consolidated financial statements for the six months ended 30 June 2021 have been prepared in accordance with the Disclosure and Transparency Rules of the Financial Conduct Authority (FCA) and in accordance with UK adopted International Accounting Standards (IAS 34 Interim Financial Reporting). Previous reporting periods were prepared under International Financial Reporting Standards as adopted by the EU, this change has occurred as a result of Brexit and has no impact on accounting policies and practices applied by the Group. The Interim Financial Report does not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Annual Report & Accounts for the year ended 31 December 2020, which have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU. The Group accounts consolidate the assets, liabilities and results of the Society and all its subsidiary companies.

The Group operates solely within the retail financial services sector and within the United Kingdom. As such, no segmental analysis is presented.

Going concern and long-term viability statement

Details of the Group's objectives, policies and processes for managing its risk exposure (including credit, market, liquidity and funding, conduct, operational and business risks) are contained in the Risk Management Report of the 2020 Annual Report & Accounts. An update on Top and Emerging risks has been provided on pages 12 and 13 and does not identify any material changes to the Society's risk profile.

The directors also include a statement on long-term viability on page 98 of the 2020 Annual Report & Accounts. The current viability assessment has been made over the period to 31 December 2023, in line with the Society's Strategic Plan and capital and liquidity stress testing process.

Taking the Society's objectives, policies and processes into account alongside the current economic and regulatory environment, the directors confirm they are satisfied the Group has adequate resources to continue in business for the foreseeable future and accordingly, it is appropriate to adopt the going concern basis in preparing this Interim Financial Report. In addition, having reassessed long-term viability, the directors have a reasonable expectation that the Society will continue to operate and meet its liabilities as they fall due over the period to December 2023.

Accounting Policies

The accounting policies adopted by the Group in its 2021 Interim Financial Report are consistent with those disclosed in the Annual Report & Accounts for the year ended 31 December 2020 with the exception of updates noted in this report.

Judgement in applying accounting policies and significant accounting estimates

There are judgements relating to the application of the Group's accounting policies which have had a significant effect on the amounts recognised in the financial statements. The Group has also made significant assumptions and estimates that could affect the reported amount of assets and liabilities both in the accounts and in the following financial periods.

The most significant accounting policy judgements made by the Group are set out below:

Significant accounting policy judgements
Classification and measurement of equity release loans
Determining a significant increase in credit risk (SICR) under IFRS 9

These significant accounting policy judgements are set out in note 1 to the 2020 Annual Report & Accounts and there have been no changes to significant accounting policy judgements during the year.

Notes to the Interim Financial Report continued

Judgement in applying accounting policies and significant accounting estimates continued

The most significant accounting assumptions and estimates made by the Group are set out below, more information on each of them is included in the notes to the accounts.

Significant assumptions and estimates	Notes
Effective Interest Rate (EIR) on loans and advances to customers – revenue recognition	3
Expected Credit Loss provision on loans and advances to customers – application of post model adjustments	7
Expected Credit Loss provision on loans and advances to customers – forward-looking information incorporated in the ECL models	7
Present value of the defined benefit pension scheme liabilities	12

3. Interest receivable and similar income calculated using the Effective Interest Rate method

	Period to 30 Jun 2021 (Unaudited) £m	Period to 30 Jun 2020 (Unaudited) £m	Year ended 31 Dec 2020 (Audited) £m
On financial assets measured at amortised cost:			
On loans and advances to customers	**470.3**	485.4	982.0
Interest on other liquid assets	**3.1**	9.6	12.2
Interest and other income on debt securities	**0.1**	0.2	0.2
Interest and other income on debt securities measured at FVOCI	**2.3**	8.2	15.3
On financial instruments in a qualifying hedge relationship	**(68.9)**	(65.1)	(149.8)
Total interest receivable and similar income calculated using the EIR method	**406.9**	438.3	859.9

Significant assumptions and estimates – Effective Interest Rate

The Group recognises interest on loans and advances to customers on the basis of their Effective Interest Rate (EIR). This is a constant rate that averages out the effect of fixed and variable rates of interest and fees across the expected life of the loan account.

Both the expected life of the mortgages and the expected Standard Variable Rate (SVR) of interest at maturity of the initial product term are significant accounting estimates. These factors determine the assumed period and rate at which customers may be paying SVR which forms the basis of the EIR calculation.

During the period an adjustment has been made to reduce the expected time customers will be paying SVR compared to the current experience. This reflects a trend of shortening behavioural lives in recent reporting periods. The impact of this adjustment was a £27.3 million reduction to the EIR asset with a corresponding charge to the Income Statement.

These assumptions are monitored to ensure that they remain appropriate, using comparisons against actual product life experience.

As at 30 June 2021 the EIR method resulted in the recognition of an asset of £50.3 million (30 June 2020: £66.2 million, 31 December 2020: £71.1 million), gross of fees, within loans and advances to customers. This asset represents 0.1% (30 June 2020: 0.2%, 31 December 2020: 0.2%) of the Balance Sheet carrying value of mortgages. The movement in the period of £20.8 million was recognised in the Income Statement.

An increase of 5% in the redemption rate of a loan after the initial incentive period would result in a decrease in the EIR asset of £6.6 million, with a corresponding reduction to income in the Income Statement. Future market interest rates also affect the calculation. A decrease in the SVR received by the Society after the initial incentive period of 0.25% would result in a decrease in the EIR asset of £7.2 million with a corresponding reduction to income in the Income Statement.

Notes to the Interim Financial Report continued

4. Interest payable and similar charges

	Period to 30 Jun 2021 (Unaudited) £m	Period to 30 Jun 2020 (Unaudited) £m	Year ended 31 Dec 2020 (Audited) £m
Bank and customer			
Subordinated liabilities	**0.9**	0.9	1.8
Other	**4.5**	13.0	18.6
Debt securities in issue	**32.8**	40.4	77.3
Other borrowed funds			
On shares held by individuals	**153.9**	221.9	388.5
On subscribed capital	**2.4**	2.4	4.9
Net income on financial instruments hedging liabilities	**(15.5)**	(18.9)	(40.7)
Foreign currency (gains)/losses	**-**	(0.1)	0.4
Other interest payable	**0.2**	0.3	0.6
Total	**179.2**	259.9	451.4

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

	Period to 30 Jun 2021 (Unaudited) £m	Period to 30 Jun 2020 (Unaudited) £m	Year ended 31 Dec 2020 (Audited) £m
Derivatives designated as fair value hedges			
Gains/(losses) on derivatives designated as fair value hedges	**219.6**	(230.1)	(155.2)
Movement in fair value of hedged items attributable to hedged risk	**(211.1)**	230.0	163.5
Ineffectiveness on fair value hedges	**8.5**	(0.1)	8.3
Derivatives designated as cash flow hedges			
Foreign exchange	**(0.1)**	–	0.1
Foreign exchange and interest rate	**(0.4)**	0.1	(0.4)
Interest rate	**(5.1)**	(0.5)	(10.0)
Ineffectiveness on cash flow hedges	**(5.6)**	(0.4)	(10.3)
Gains on other derivatives	**1.7**	1.7	1.3
Total	**4.6**	1.2	(0.7)

Gains on other derivatives of £1.7 million (30 June 2020: £1.7 million, 31 December 2020: £1.3 million) have been recognised in the Income Statement reflecting the fair value movements on derivatives which are not designated in hedge accounting relationships. The gains represent timing differences and are expected to reverse over the remaining life of the derivatives although further volatility may also be experienced.

Notes to the Interim Financial Report continued

6. Administrative expenses

	Period to 30 Jun 2021 (Unaudited) £m	Period to 30 Jun 2020 (Unaudited) £m	Year ended 31 Dec 2020 (Audited) £m
Employee costs			
Wages and salaries	**50.7**	45.8	95.6
Social security costs	**5.4**	4.6	10.0
Pension costs			
Defined benefit plan	**2.0**	(0.2)	(0.5)
Defined contribution plan	**3.4**	3.1	6.4
	61.5	53.3	111.5
Other expenses			
Project costs	**17.6**	17.6	40.3
Training, recruitment and other employee costs	**3.6**	6.8	12.5
Information systems	**10.0**	8.4	19.4
Premises and facilities	**4.3**	4.8	9.5
Legal, professional and consultancy	**2.3**	3.2	6.7
Marketing and communications	**1.1**	1.0	3.1
Loss on disposal of property, plant and equipment and intangibles	**0.2**	-	0.9
Other operating expenses	**8.4**	8.6	13.4
Total	**109.0**	103.7	217.3

Administrative expenses include the costs of ongoing business as usual activity and the costs of delivering change as shown below. Costs of delivering change includes both project costs as well as third party and employee costs which relate to change activity.

	Period to 30 Jun 2021 (Unaudited) £m	Period to 30 Jun 2020 (Unaudited) £m	Year ended 31 Dec 2020 (Audited) £m
Business as usual run costs	**82.2**	77.7	159.9
Costs of delivering change (including relevant employee costs)	**26.8**	26.0	57.4
Total	**109.0**	103.7	217.3

Notes to the Interim Financial Report continued

7. Expected credit losses on loans and advances to customers

Provisions for expected credit losses (ECLs) have been deducted from Loans and advances to customers in the Condensed Consolidated Balance Sheet.

	Period to 30 Jun 2021 (Unaudited) £m	Period to 30 Jun 2020 (Unaudited) £m	Year ended 31 Dec 2020 (Audited) £m
ECL (release)/charge for the period	**(17.1)**	39.4	36.4

ECL provision at the end of the period:			
Residential mortgages	**29.5**	49.9	46.8
Other loans	**1.1**	1.4	1.3
Total	**30.6**	51.3	48.1

The ECL release for the period is £17.1 million (30 June 2020: £39.4 million charge). This reflects an improved expectation of the credit performance of the Society's loans and advances as a result of improved economic outlook in addition to the continued strong performance of the Society's mortgage book.

Significant accounting judgements – determining criteria for a significant increase in credit risk (SICR)

IFRS 9 requires the Society to categorise its loans into one of three stages at the Balance Sheet date. Loans that are performing are shown in Stage 1; loans which have had a SICR since initial recognition are shown in Stage 2; and loans which are credit impaired or in default are in Stage 3.

All SICR criteria are unchanged from 31 December 2020 and more information is on page 136 of the 2020 Annual Report & Accounts.

Significant accounting estimates – application of post model adjustments

Included within the ECL provision of £30.6 million (31 December 2020: £48.1 million) is £23.2 million (31 December 2020: £37.6 million) relating to post model adjustments (PMAs). These post model adjustments have been included where the Society's models do not fully capture the associated risks of future credit loss.

The application of PMAs are considered by the Society's ECL management committee which is made up of members of Finance, Treasury and Credit Risk. PMAs are reviewed and assessed for reasonableness considering future expectation of performance in context of historic performance and other indicators. Oversight of judgements relating to ECLs is provided by the Board Audit Committee.

More information on the PMAs recognised at 30 June 2021 is set out below.

Covid-19 post model adjustment

The Covid-19 PMA of £6.6 million (31 December 2020: £16.8 million) was derived by segmenting the mortgage book to identify areas of higher risk based on an assessment for potential indicators of a deterioration in credit quality. Higher risk segments include loans where a Covid-19 related payment holiday has been taken and where there has been a deterioration in risk grade or external credit bureau data which indicates a deterioration in credit quality.

For segments which are considered to have increased risk, uplifts have been applied to the modelled probability of default (PD). These uplifts have been estimated using historical data on customer defaults and management judgement and an average uplift of 6.5% (weighted by value) has been applied to PDs (31 December 2020: uplift of 7.5%). This uplift of PDs is a key assumption within the ECL calculation. If the applied uplift was increased by a further 5 percentage points (i.e. increasing a PD of 5% to 10%) the impact would be an increase in the total ECL provision of £11.4 million after the application of multiple economic scenarios.

Notes to the Interim Financial Report continued

7. Expected credit losses on loans and advances to customers continued

The decrease in this PMA during 2021 is due to accounts 'curing' after having made 12 consecutive mortgage payments after the higher risk indicator was last observed in addition to improved forward-looking economic scenarios.

House Price Inflation and Negative Equity post model adjustment

At 30 June 2021 the ECL held for the expected impact of House Price Inflation (HPI) and negative equity as a result of the Covid-19 pandemic is £8.2 million (31 December 2020: £15.7 million) a reduction of £7.5 million in the first six months of 2021.

This includes an adjustment to remove the impact of HPI growth from 1 October 2020 onwards (31 December 2020: HPI growth adjusted from 1 April 2020) in order to reflect management's expectation of the potential for house price falls in the near term, particularly once government measures to support the housing market such as the stamp duty holiday and ongoing furlough arrangements are removed.

An adjustment is also recognised for negative equity accounts which are identified using automated valuation models (AVM). This assessment is in addition to provisions for negative equity which are made through the modelled approach which uses Nationwide Building Society quarterly regional HPI.

Fire safety risk post model adjustment

In the period the Society has recognised a provision for potential credit losses of £5.0 million (31 December 2020: £nil) associated with flats with unsuitable cladding and other fire safety risks which require remediation. The Society has applied assumptions on its affected mortgage book which include an assessment of impacts to property values, remediation costs and customer behaviour in order to calculate the provision.

Other post model adjustments

There are additional PMAs of £3.4 million which have been included in ECLs on a consistent basis with previous periods (31 December 2020: £5.1 million).

Notes to the Interim Financial Report continued

7. Expected credit losses on loans and advances to customers continued

A reconciliation of movements in gross exposures and impairment provision split by IFRS 9 stage from 1 January 2021 to 30 June 2021 is set out in the following table.

	Stage 1		Stage 2		Stage 3		Total	
	Gross balance £m	Provision 12 month ECL £m	Gross balance £m	Provision lifetime ECL £m	Gross balance £m	Provision lifetime ECL £m	Gross balance £m	Provision £m
At 1 January 2021	39,703.4	8.6	3,549.1	28.4	206.6	11.1	43,459.1	48.1
Movements with Income Statement impact								
Transfer from stage 1 to stage 2	(812.9)	–	812.9	0.2	–	–	–	0.2
Transfer from stage 1 to stage 3	(12.8)	–	–	–	12.8	0.3	–	0.3
Transfer from stage 2 to stage 3	–	–	(39.3)	(0.2)	39.3	0.2	–	–
Transfer from stage 3 to stage 2	–	–	24.1	0.5	(24.1)	(0.5)	–	–
Transfer from stage 3 to stage 1	5.5	–	–	–	(5.5)	(0.1)	–	(0.1)
Transfer from stage 2 to stage 1	748.9	0.1	(748.9)	(0.4)	–	–	–	(0.3)
Net movement arising from transfer of stages	(71.3)	0.1	48.8	0.1	22.5	(0.1)	–	0.1
New loans originated[1]	6,206.8	0.3	41.1	–	1.1	–	6,249.0	0.3
Remeasurement of ECL due to changes in risk parameters	–	(0.4)	–	(1.0)	–	(0.7)	–	(2.1)
Increase/(decrease) in post model adjustments	–	0.4	–	(15.3)	–	0.5	–	(14.4)
Remeasurement of ECL due to model refinements	–	–	–	–	–	–	–	–
Loans derecognised in the period	(2,575.9)	(0.2)	(252.7)	(0.1)	(27.2)	(0.5)	(2,855.8)	(0.8)
Other items impacting income statement reversal	–	–	–	–	–	(0.1)	–	(0.1)
Net write offs directly to Income Statement	–	–	–	–	–	(0.1)	–	(0.1)
Income Statement charge/(credit) for the period		0.2		(16.3)		(1.0)		(17.1)
Repayment and charges	(939.6)	–	(63.6)	–	(4.4)	–	(1,007.6)	–
Net write offs and other ECL movements	–	–	–	–	(0.6)	(0.4)	(0.6)	(0.4)
At 30 June 2021	42,323.4	8.8	3,322.7	12.1	198.0	9.7	45,844.1	30.6

1. New mortgages originated in Stages 2 and 3 relate to purchased mortgage books and 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 Interim Financial Report continued

7. Expected credit losses on loans and advances to customers continued

A reconciliation of movements in gross exposures and impairment provision split by IFRS 9 stage from 1 January 2020 to 31 December 2020 is set out in the following table.

	Stage 1		Stage 2		Stage 3		Total	
(Audited)	Gross balance £m	Provision 12 month ECL £m	Gross balance £m	Provision lifetime ECL £m	Gross balance £m	Provision lifetime ECL £m	Gross balance £m	Provision £m
At 1 January 2020	40,893.1	1.0	1,078.6	3.2	197.3	7.8	42,169.0	12.0
Movements with Income Statement impact								
Transfer from stage 1 to stage 2	(3,104.2)	(0.1)	3,104.2	0.5	–	–	–	0.4
Transfer from stage 1 to stage 3	(39.1)	–	–	–	39.1	0.9	–	0.9
Transfer from stage 2 to stage 3	–	–	(57.5)	(0.2)	57.5	0.2	–	–
Transfer from stage 3 to stage 2	–	–	36.9	0.9	(36.9)	(0.9)	–	–
Transfer from stage 3 to stage 1	10.8	0.1	–	–	(10.8)	(0.1)	–	–
Transfer from stage 2 to stage 1	303.0	–	(303.0)	(0.4)	–	–	–	(0.4)
Net movement arising from transfer of stages	(2,829.5)	–	2,780.6	0.8	48.9	0.1	–	0.9
New loans originated[1]	6,981.1	0.5	2.5	–	–	–	6,983.6	0.5
Remeasurement of ECL due to changes in risk parameters	–	(4.7)	–	4.5	–	1.7	–	1.5
Increase in post model adjustments	–	12.0	–	19.4	–	2.2	–	33.6
Remeasurement of ECL due to model refinements[2]	–	0.1	–	0.9	–	1.0	–	2.0
Loans derecognised in the period	(3,698.9)	(0.3)	(233.3)	(0.4)	(32.1)	(0.7)	(3,964.3)	(1.4)
Other items impacting income statement reversal	–	–	–	–	–	(0.3)	–	(0.3)
Net write offs directly to Income Statement	–	–	–	–	–	(0.4)	–	(0.4)
Income Statement charge for the period		7.6		25.2		3.6		36.4
Repayment and charges	(1,642.4)	–	(79.3)	–	(6.4)	–	(1,728.1)	–
Net write offs and other ECL movements	–	–	–	–	(1.1)	(0.3)	(1.1)	(0.3)
At 31 December 2020	39,703.4	8.6	3,549.1	28.4	206.6	11.1	43,459.1	48.1

1. New mortgages originated in Stages 2 and 3 relate to further advances on accounts which are performing at the date of origination but are in the 12 month cure period for IFRS 9 staging.
2. A number of refinements to the Society's ECL models were made during 2020. These include an update to the calculation of the probability of default for interest rate shock, enhancements to staging methodology for UPLs, time to modelled possession of properties in default, and lag of unemployment to credit deterioration in buy to let properties. In the period these refinements increased ECLs by £2.0 million.

Notes to the Interim Financial Report continued

7. Expected credit losses on loans and advances to customers continued

A reconciliation of movements in gross exposures and impairment provision split by IFRS 9 stage from 1 January 2020 to 30 June 2020 is set out in the following table.

	Stage 1		Stage 2		Stage 3		Total	
	Gross balance £m	Provision 12 month ECL £m	Gross balance £m	Provision lifetime ECL £m	Gross balance £m	Provision lifetime ECL £m	Gross balance £m	Provision £m
At 1 January 2020	40,893.1	1.0	1,078.6	3.2	197.3	7.8	42,169.0	12.0
Movements with Income Statement impact								
Transfer from stage 1 to stage 2	(2,171.0)	(0.2)	2,171.0	1.9	–	–	–	1.7
Transfer from stage 1 to stage 3	(15.7)	–	–	–	15.7	0.6	–	0.6
Transfer from stage 2 to stage 3	–	–	(32.3)	(0.1)	32.3	0.1	–	–
Transfer from stage 3 to stage 2	–	–	20.4	0.1	(20.4)	(0.1)	–	–
Transfer from stage 3 to stage 1	4.1	–	–	–	(4.1)	(0.1)	–	(0.1)
Transfer from stage 2 to stage 1	213.9	0.1	(213.9)	(0.1)	–	–	–	–
Net movement arising from transfer of stages	(1,968.7)	(0.1)	1,945.2	1.8	23.5	0.5	–	2.2
New loans originated[1]	3,440.1	0.2	1.0	–	–	–	3,441.1	0.2
Remeasurement of ECL due to changes in risk parameters	–	0.6	–	0.2	–	2.5	–	3.3
Increase in post model adjustments	–	23.8	–	8.9	–	0.4	–	33.1
Remeasurement of ECL due to model refinements[2]	–	0.5	–	0.7	–	0.1	–	1.3
Loans derecognised in the period	(1,669.9)	(0.1)	(65.4)	(0.1)	(13.4)	(0.2)	(1,748.7)	(0.4)
Other items impacting income statement reversal	–	–	–	–	–	(0.2)	–	(0.2)
Net write offs directly to Income Statement	–	–	–	–	–	(0.1)	–	(0.1)
Income Statement charge for the period		24.9		11.5		3.0		39.4
Repayment and charges	(811.0)	–	(28.9)	–	(2.8)	–	(842.7)	–
Net write offs and other ECL movements	–	–	–	–	(0.5)	(0.1)	(0.5)	(0.1)
At 30 June 2020	39,883.6	25.9	2,930.5	14.7	204.1	10.7	43,018.2	51.3

1. New mortgages originated in Stages 2 and 3 relate to further advances on accounts which are performing at the date of origination but are in the 12 month cure period for IFRS 9 staging.
2. A number of refinements to the Society's ECL models were made during 2020. These include an update to the calculation of the probability of default for interest rate shock, enhancements to staging methodology for UPLs, time to modelled possession of properties in default, and lag of unemployment to credit deterioration in buy to let properties. In the period these refinements increased ECLs by £2.0 million.

Notes to the Interim Financial Report continued

7. Expected credit losses on loans and advances to customers continued

Use of forward-looking assumptions

The assessment of a SICR and the calculation of ECLs both incorporate forward-looking information and therefore require significant estimation techniques.

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

The economic scenarios used by the Society reflect management's best estimate of the future economic conditions under a range of scenarios and managements estimate of probability of such scenarios occurring. At 30 June 2021 the Group has used alternative economic scenarios to assess ECLs for its core owner-occupier and Buy to Let portfolios which represent over 99% of total loans and advances to customers.

The economic scenarios and probability weights used by the Society are created using external data, statistical analysis and management judgement with benchmarking performed against published economic forecasts to assess for reasonableness. These scenarios and weightings are reviewed and approved quarterly by the Society's Asset and Liability Committee with further approval at reporting periods by the Board Audit Committee.

The alternative economic scenarios which have been used at 30 June 2021 are more optimistic than those which were used at 31 December 2020. During the period, the probability weightings for each scenario were reviewed and updated from those applied at 2020 year end. An explanation of each scenario and its relative weighting in calculating ECL is set out below:

Scenario	Weighting
Base – a central scenario based on the Group's Strategic Plan updated for the latest forecasts. This Scenario is based on a measured reopening of the economy with no additional significant lockdown measures being applied. Factored into the assumptions are the impact of the unwind of government support schemes including a rise in unemployment until the end of 2021 as a result of furlough ending followed by improvement as the economy recovers from the impact of Covid-19 and lockdown measures. This scenario also assumes that effective trade agreements are established and maintained with the EU.	55%
Upside – an upside scenario which reflects a more rapid recovery leading to lower unemployment, continued HPI growth, larger GDP increases in 2021 with a longer growth period and stronger post 2023 performance. Base rate will be expected to increase in increments as the economy continues to recover.	15%
Downside – a scenario which factors in the impact of a new strain of Coronavirus that is resistant to current vaccine programmes, further delaying recovery from the economic consequences of the pandemic. As a result of this prolonged slowdown, this scenario assumes unemployment rises peaking in 2022 prior to a slower recovery in addition to falls in house prices in 2022 and 2023. Base rate would be expected to reduce to 0% to support the economy. This scenario is consistent with effective trade agreements being established with the EU over a longer time period than for the Base scenario.	20%
Severe downside – based on the Internal Capital Adequacy Assessment Process (ICAAP) low rates stress with further adjustment for worsened unemployment, based on the 2019 annual cyclical scenario (ACS). This scenario is considered severe enough to reflect delayed economic recovery from a deeper Covid-19 related slowdown and negative outcomes from EU trade relations.	10%

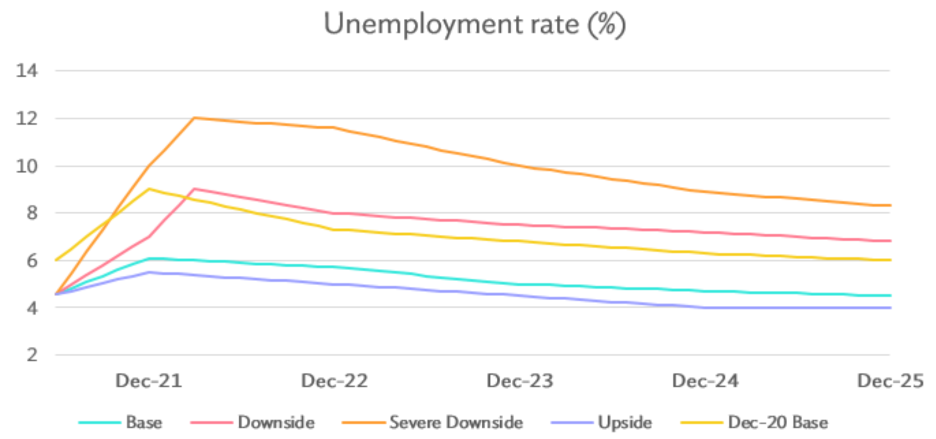
Notes to the Interim Financial Report continued

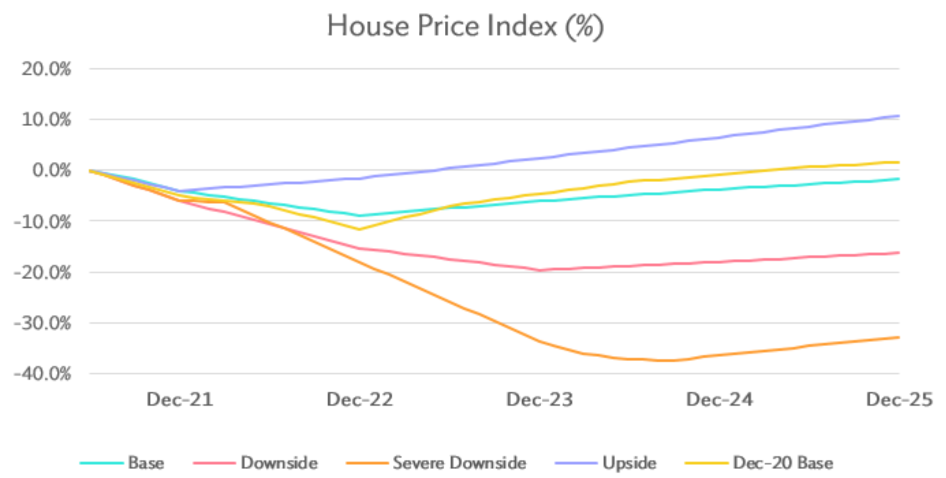
7. Expected credit losses on loans and advances to customers continued

The ECL calculation is particularly sensitive to changes in the following assumptions in each of the scenarios:

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

The following graphs and table show the key economic assumptions used in the scenarios at the 30 June 2021.





		30 June 2021			31 December 2020		
		Weighting	Unemployment %	HPI %	Weighting	Unemployment %	HPI %
Base	2021	55%	6.1	(4.0)	58%	9.0	(5.0)
	2022		5.7	(5.0)		7.3	(7.0)
Upside	2021	15%	5.5	(4.0)	2%	5.0	2.5
	2022		5.0	2.5		4.5	4.0
Downside	2021	20%	7.0	(5.9)	20%	9.8	(7.5)
	2022		8.0	(10.0)		9.0	(10.0)
Severe Downside	2021	10%	10.0	(5.9)	20%	11.6	(8.7)
	2022		11.6	(12.8)		10.0	(18.2)

7. Expected credit losses on loans and advances to customers continued

While the Society's ECL calculation is particularly sensitive to unemployment and HPI movements, GDP and 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:

Key economic assumptions as at 30 June 2021

Scenario/ weighting	Assumption[1]	2021 %	2022 %	2023 %	2024 %	2025 %	Peak to trough %	Range %	Average to 31 Dec 2025[2] %
Base 55%	Unemployment	6.1	5.7	5.0	4.7	4.5	1.6	4.5 – 6.1	5.2
	HPI	(4.0)	(5.0)	3.0	2.5	2.0	8.2	(8.8) – (0.6)	(0.4)
	GDP	3.7	6.0	3.0	2.0	2.0	17.2	0.6 – 17.8	3.7
	Base Rate	0.1	0.1	0.1	0.1	0.1	-	0.1 – 0.1	0.1
Upside 15%	Unemployment	5.5	5.0	4.5	4.0	4.0	1.5	4.0 – 5.5	4.6
	HPI	(4.0)	2.5	4.0	4.0	4.0	14.7	(4.0) – 10.7	2.3
	GDP	4.7	6.0	3.0	2.8	3.2	20.5	0.8 – 21.3	4.4
	Base Rate	0.1	0.1	1.0	1.3	1.5	1.4	0.1 – 1.5	0.7
Downside 20%	Unemployment	7.0	8.0	7.5	7.2	6.8	4.0	5.0 – 9.0	7.4
	HPI	(5.9)	(10.0)	(5.0)	2.0	2.0	18.6	(19.6) – (1.0)	(3.9)
	GDP	0.7	1.0	5.0	2.0	2.0	11.0	0.1 – 11.1	2.4
	Base Rate	0.1	0.0	0.0	0.0	0.0	0.1	0.0 – 0.1	0.0
Severe Downside 10%	Unemployment	10.0	11.6	10.0	8.9	8.3	6.5	5.5 – 12.0	9.8
	HPI	(5.9)	(12.8)	(19.0)	(4.2)	5.8	36.3	(37.3) – (1.0)	(8.4)
	GDP	(0.3)	0.0	3.0	5.0	2.0	10.3	(0.3) – 10.0	2.1
	Base Rate	0.1	0.0	0.0	0.0	0.0	0.1	0.0 – 0.1	0.0

1. Unemployment and Base rate are shown at the year-end rate; HPI change and GDP change are for the six months ending 31 December 2021, and 12 months ending 31 December 2022 to 2025.
2. HPI change and GDP change average to 31 December 2025 are shown as the annual compound growth rates.

A significant degree of estimation relates to the relative weightings applied to each of the scenarios. In order to demonstrate this sensitivity, the impact of applying 100% of a particular scenario on the reported IFRS 9 ECL provision is shown below, for example, if the provision was wholly calculated on the Base scenario it would decrease by £8.9 million, or 29% (31 December 2020: £18.6 million, 39%) compared to the reported provision. If a 100% weighting was attributed to the severe downside scenario, ECLs would increase by £76.7 million or 251% (31 December 2020: £71.6 million, 149%).

	30 June 2021		31 December 2020	
Scenario	IFRS 9 ECL provision £m	(Decrease)/ increase %	IFRS 9 ECL provision £m	(Decrease)/ increase %
IFRS 9 weighted average	30.6	–	48.1	–
Base scenario	21.7	(29.1)	29.5	(38.7)
Downside scenario	49.1	60.5	60.8	(26.4)
Severe downside scenario	107.3	250.7	119.7	148.9
Upside scenario	16.5	(46.1)	18.6	(61.3)

Within each scenario the staging of loans will differ based on varying economic factors applied. However, for the final ECL calculation loans are allocated to a single stage with a weighted average 12 month of lifetime PD applied which takes into account the multiple economic scenarios. As a result of this, the ECL calculated above for 100% of each scenario multiplied by the scenario probability will not reconcile to the final ECL provision.

Notes to the Interim Financial Report continued

7. Expected credit losses on loans and advances to customers continued

ECL coverage ratios

The coverage ratio (ECL provision / loans and advances to customers before ECL provisions and EIR) is 7 basis points (31 December 2020: 11 basis points).

		30 Jun 2021	30 Jun 2020	31 Dec 2020
Total ECL provision	£m	**30.6**	51.3	48.1
Total Gross loans and advances to customers	£m	**45,844.1**	43,018.2	43,459.1
ECL coverage ratio	%	**0.07**	0.12	0.11

The Society's gross loans and advances by stage, impairment provision and the resulting coverage ratios is set out below:

As at 30 June 2021		Stage 2 'Deteriorating'		Stage 3 'Default'		
	Stage 1 'Performing' £m	Not past due £m	Past due £m	Not past due £m	Past due £m	Total £m
Gross balances						
Owner-occupier	24,788.7	2,060.1	49.8	53.1	58.0	27,009.7
Buy to Let	17,458.0	1,096.3	32.3	23.7	33.9	18,644.2
Other loans[1]	76.7	80.8	3.4	14.2	15.1	190.2
Total	42,323.4	3,237.2	85.5	91.0	107.0	45,844.1
ECL						
Owner-occupier	3.2	6.4	0.1	3.8	1.1	14.5
Buy to Let	5.4	4.7	0.1	2.1	1.5	13.8
Other loans[1]	0.2	0.8	–	0.9	0.3	2.3
Total	8.8	11.9	0.2	6.8	2.9	30.6
ECL coverage as a % of total balance						
Owner-occupier	0.01%	0.31%	0.20%	7.16%	1.90%	0.05%
Buy to Let	0.03%	0.43%	0.31%	8.86%	4.42%	0.07%
Other loans[1]	0.26%	0.99%	-	6.34%	1.99%	1.21%
Total coverage	0.02%	0.37%	0.23%	7.47%	2.71%	0.07%

1. These are legacy books with no new originations since 2010. Pipeline ECL of £0.1m has been included in other.

As at 31 December 2020		Stage 2 'Deteriorating'		Stage 3 'Default'		
	Stage 1 'Performing' £m	Not past due £m	Past due £m	Not past due £m	Past due £m	Total £m
Gross balances						
Owner-occupier	23,089.8	2,252.4	47.9	54.7	63.9	25,508.7
Buy to Let	16,532.8	1,122.1	30.2	21.7	33.9	17,740.7
Other[1]	80.8	93.3	3.2	14.5	17.9	209.7
Total	39,703.4	3,467.8	81.3	90.9	115.7	43,459.1
ECL on traditional Residential mortgages						
Owner-occupier	4.8	16.4	0.1	3.7	1.5	26.5
Buy to Let	3.5	10.2	0.1	2.7	2.0	18.5
Other[1]	0.3	1.5	0.1	0.8	0.4	3.1
Total	8.6	28.1	0.3	7.2	3.9	48.1
ECL coverage as a % of total balance						
Owner-occupier	0.02%	0.73%	0.21%	6.76%	2.35%	0.10%
Buy to Let	0.02%	0.91%	0.33%	12.44%	5.90%	0.10%
Other[1]	0.37%	1.61%	3.13%	5.52%	2.23%	1.48%
Total coverage	0.02%	0.81%	0.37%	7.92%	3.37%	0.11%

1. These are legacy books with no new originations since 2010. Pipeline ECL of £0.1m has been included in other.

Notes to the Interim Financial Report continued

7. Expected credit losses on loans and advances to customers continued

The reduction in ECL in the period has reduced the coverage to 23.5 times (31 December 2020: 43.7 times) the gross impairment losses before recoveries in the last 12 months as shown below.

		12 months to 30 Jun 2021	12 months to 30 Jun 2020	Year ended 31 Dec 2020
Impairment losses before recoveries	£m	**1.3**	1.9	1.1
Total ECL provision	£m	**30.6**	51.3	48.1
ECL coverage	Years	**23.5**	27.0	43.7

8. Provisions for liabilities and charges

	Period to 30 Jun 2021 (Unaudited) £m	Period to 30 Jun 2020 (Unaudited) £m	Year ended 31 Dec 2020 (Audited) £m
At 1 January	**0.4**	0.7	0.7
Charge for the period	**–**	0.5	0.5
Provision utilised	**–**	(0.7)	(0.8)
Total	**0.4**	0.5	0.4

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.

The Group's provisions relate to customer redress and other regulatory provisions. 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.

9. Taxation

The Group has an effective tax rate of 20.4% (Period to 30 June 2020: 13.0%, Year ended 31 December 2020: 18.5%). The effective tax rate is slightly higher than the UK statutory corporation tax rate of 19.0% due to the 8% banking surcharge offset by a tax credit in relation to distributions to holders of the Group's AT1 instrument.

A reduction in the UK corporation tax rate from 19% to 17% (effective 1 April 2020) was substantively enacted on 6 September 2016. The March 2020 Budget announced that a rate of 19% would continue to apply with effect from 1 April 2020, and this change was substantively enacted on 17 March 2020. An increase in the UK corporation rate from 19% to 25% (effective 1 April 2023) was substantively enacted on 24 May 2021. This will increase the Group's future current tax charge accordingly. The deferred tax asset at 30th June 2021 has been calculated based on these rates, reflecting the expected timing of reversal of the related timing differences (30 June 2020: 19%).

Notes to the Interim Financial Report continued

10. Loans and advances to customers

The balances below include interest accrued on loans subject to payment holidays.

	Period to 30 Jun 2021 (Unaudited) £m	Period to 30 Jun 2020 (Unaudited) £m	Year ended 31 Dec 2020 (Audited) £m
Residential mortgages			
Owner-occupier mortgages	27,009.7	25,203.6	25,508.7
Buy to Let mortgages	18,644.2	17,588.8	17,740.7
Near-prime mortgages[1]	49.1	56.9	53.8
Self-certification mortgages[1]	123.6	148.4	136.9
Other loans			
Commercial mortgages[1]	1.6	1.9	1.8
Unsecured loans[1]	15.9	18.6	17.2
Total gross loans and advances to customers (contractual amounts)	45,844.1	43,018.2	43,459.1
Provision for expected credit losses	(30.6)	(51.3)	(48.1)
Total net loans and advances to customers (contractual amounts)	45,813.5	42,966.9	43,411.0
EIR, fair value and other adjustments	56.1	63.1	71.8
Total	45,869.6	43,030.0	43,482.8

1. These are legacy books with no new originations since 2010.

Gross Loans and advances to customers

The following tables show the loans and advances to customers split by product and IFRS 9 stage at 30 June 2021 and their respective ECL. For loans in Stage 2 and 3 further analysis of accounts which are past due, not past due is also shown.

		Stage 2 'Deteriorating'		Stage 3 'Default'			
As at 30 June 2021	Stage 1 'Performing' £m	Not past due £m	Past due £m	Not past due £m	Past due £m	Impairment £m	Total £m
Residential mortgages							
Owner-occupier	24,788.7	2,060.1	49.8	53.1	58.0	(14.5)	26,995.2
Buy to Let	17,458.0	1,096.3	32.3	23.7	33.9	(13.8)	18,630.4
Total traditional residential mortgages	42,246.7	3,156.4	82.1	76.8	91.9	(28.3)	45,625.6
Non-traditional mortgages							
Residential near-prime	20.1	14.8	1.3	5.7	7.2	(0.4)	48.7
Residential self-certified	43.5	62.7	1.7	8.0	7.7	(0.7)	122.9
Commercial lending	-	1.1	0.2	0.3	–	(0.2)	1.4
Total non-traditional mortgages	63.6	78.6	3.2	14.0	14.9	(1.3)	173.0
Unsecured loans	13.1	2.2	0.2	0.2	0.2	(0.9)	15.0
Mortgage pipeline	–	–	–	–	–	(0.1)	(0.1)
Total gross loans	42,323.4	3,237.2	85.5	91.0	107.0	(30.6)	45,813.5
Total gross loans	92.3	7.1	0.2	0.2	0.2		

Notes to the Interim Financial Report continued

10. Loans and advances to customers continued

As at 31 December 2020	Stage 1 'Performing' £m	Stage 2 'Deteriorating' Not past due £m	Stage 2 'Deteriorating' Past due £m	Stage 3 'Default' Not past due £m	Stage 3 'Default' Past due £m	Impairment £m	Total £m
Residential mortgages							
Owner-occupier	23,089.8	2,252.4	47.9	54.7	63.9	(26.5)	25,192.7
Buy to Let	16,532.8	1,122.1	30.2	21.7	33.9	(18.5)	16,728.1
Total traditional residential mortgages	39,622.6	3,374.5	78.1	76.4	97.8	(45.0)	41,920.8
Non-traditional mortgages							
Residential near-prime	21.1	17.3	1.4	5.6	8.4	(0.5)	59.0
Residential self-certified	45.6	72.1	1.5	8.3	9.4	(1.2)	156.0
Commercial lending	–	1.4	–	0.4	–	(0.4)	1.6
Total non-traditional mortgages	66.7	90.8	2.9	14.3	17.8	(2.1)	216.6
Unsecured loans	14.1	2.5	0.3	0.2	0.1	(0.9)	19.7
Mortgage pipeline	–	–	–	–	–	(0.1)	(0.1)
Total gross loans	39,703.4	3,467.8	81.3	90.9	115.7	(48.1)	42,157.0
	%	%	%	%	%		
Total gross loans	91.3	8.0	0.2	0.2	0.3		

As at 30 June 2020	Stage 1 'Performing' £m	Stage 2 'Deteriorating' Not past due £m	Stage 2 'Deteriorating' Past due £m	Stage 3 'Default' Not past due £m	Stage 3 'Default' Past due £m	Impairment £m	Total £m
Residential mortgages							
Owner-occupier	23,160.8	1,848.9	69.3	59.9	64.7	(29.9)	25,173.7
Buy to Let	16,631.4	869.6	42.1	21.1	24.6	(18.7)	17,570.1
Total traditional residential mortgages	39,792.2	2,718.5	111.4	81.0	89.3	(48.6)	42,743.8
Non-traditional mortgages							
Residential near-prime	23.2	16.9	1.4	5.1	10.3	(0.4)	56.5
Residential self-certified	52.7	74.3	3.8	8.7	8.9	(0.8)	147.6
Commercial lending	–	1.5	–	0.4	–	(0.4)	1.5
Total non-traditional mortgages	75.9	92.7	5.2	14.2	19.2	(1.6)	205.6
Unsecured loans	15.5	2.4	0.3	0.2	0.2	(1.0)	17.6
Mortgage pipeline	–	–	–	–	–	(0.1)	(0.1)
Total gross loans	39,883.6	2,813.6	116.9	95.4	108.7	(51.3)	42,966.9
	%	%	%	%	%		
Total gross loans	92.7	6.5	0.3	0.2	0.3		

The Group's lending strategy has remained focused on high quality low-risk residential mortgages, reflected in the low loan to value of the mortgage book and low levels of arrears and possessions.

At the reporting date, 92.3% of loans are in stage 1 with 7.3 % in stage 2 and 0.4 % in stage 3 (31 December 2020: 91.3%, 8.2% and 0.5%). Cure periods are applied to accounts in stages 2 and 3 which have had a Covid-19 payment holiday in addition to accounts which have hit certain quantitative triggers such as arrears. These cure periods delay transition of loans to a lower credit risk classification (i.e. from stage 3 to stage 2 or from stage 2 to stage 1) by requiring 12 months of sustained performance before a loan is reassessed. As a result, loans can be recorded in stage 2 or stage 3 despite otherwise performing at the reporting date.

Stage 2 balances were £3,322.7 million (31 December 2020: £3,549.1 million) and of these £ 85.5 million or 2.6 % (31 December 2020: £81.3 million, 2.3%) are in arrears by 30 days or more. A total of £2,385.3 million are presented within stage 2 as a result of the SICR criteria established for the Covid-19 pandemic of which £66.3 million or 2.0% have an active Covid-19 payment holiday at 30 June 2021 (31 December 2020: £2,604.1 million, £324.9 million or 9.2%).

Notes to the Interim Financial Report continued

10. Loans and advances to customers continued

Of these balances £2,345.1 million or 98.0% of accounts are up to date as at 30 June 2021 (31 December 2020: £2,561.5 million or 98.4%) and remain in stage 2 as a result of the application of cure rules or other indicators of increased risk.

Of the £198.0 million (31 December 2020: £206.6 million) of loans which are classified as stage 3 at the reporting date, 35.6% or £70.4 million were greater than three months in arrears (31 December 2020: 35.0%, £72.4 million), and 45.6% (£91.0 million) were paid up to date (31 December 2020: 44.0%, £90.9 million).

There has been a moratorium on house repossessions since March 2020 which ended on 1 April 2021. The Society will only seek repossession of a property when all reasonable efforts have failed or where the mortgage is unsustainable in the longer term. The number of properties in possession remains low and a total of £3.2 million of stage 3 loans are in possession (31 December 2020: £3.1 million), representing 23 individual properties (31 December 2020: 22 properties), with a further 28 properties where the process of repossession has now commenced following the end of the moratorium.

LTV distribution of Loans and advances to customers

The LTV distribution of the mortgage book has remained broadly stable during 2021 with 92.0% of the mortgage book having an LTV of 75% or lower (31 December 2020: 89.0%). This is shown by IFRS 9 stage below:

As at 30 June 2021 Indexed loan to value:	Stage 1 'Performing' £m	Stage 2 'Deteriorating' £m	Stage 3 'Default' £m	Impairment £m	Total £m	Proportion of book %
< 50%	18,755.8	1,284.2	93.0	(3.2)	20,129.8	43.9
50% to 65%	13,849.3	1,145.8	60.5	(7.1)	15,048.5	32.9
65% to 75%	6,312.8	646.6	29.9	(8.4)	6,980.9	15.2
75% to 85%	2,709.9	232.4	10.3	(5.5)	2,947.1	6.4
85% to 90%	405.1	8.0	0.9	(0.6)	413.4	0.9
90% to 95%	255.8	2.3	0.5	(0.2)	258.4	0.6
95% to 100%	20.9	0.2	0.3	(0.1)	21.3	0.1
> 100%	0.7	0.8	2.2	(1.1)	2.6	–
Unsecured loans	13.1	2.4	0.4	(0.9)	15.0	–
Mortgage pipeline	–	–	–	(0.1)	(0.1)	–
Other[1]	–	–	–	(3.4)	(3.4)	–
Total	42,323.4	3,322.7	198.0	(30.6)	45,813.5	100.0
	%	%	%			
Total gross loans	92.3	7.3	0.4			

1. Other includes expected credit losses which are not directly attributable to underlying accounts and therefore are not allocated across loan to value bandings.

Notes to the Interim Financial Report continued

10. Loans and advances to customers continued

As at 31 December 2020 Indexed loan to value:	Stage 1 'Performing' £m	Stage 2 'Deteriorating' £m	Stage 3 'Default' £m	Impairment £m	Total £m	Proportion of book %
< 50%	16,802.1	1,187.7	86.8	(1.3)	18,075.3	41.6
50% to 65%	12,595.2	1,130.7	62.8	(8.0)	13,780.7	31.7
65% to 75%	6,354.8	764.7	32.5	(14.4)	7,137.6	16.4
75% to 85%	3,465.7	435.3	17.4	(14.5)	3,903.9	9.0
85% to 90%	402.2	22.0	2.6	(1.6)	425.2	1.0
90% to 95%	67.1	3.7	0.6	(0.4)	71.0	0.2
95% to 100%	1.1	1.3	0.6	(0.3)	2.7	–
> 100%	1.1	0.9	3.0	(1.4)	3.6	–
Unsecured loans	14.1	2.8	0.3	(1.0)	16.2	–
Mortgage pipeline	–	–	–	(0.1)	(0.1)	–
Other[1]	–	–	–	(5.1)	(5.1)	–
Total	39,703.4	3,549.1	206.6	(48.1)	43,411.0	100.0
	%	%	%			
Total gross loans	91.3	8.2	0.5			

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 30 June 2020 Indexed loan to value:	Stage 1 'Performing' £m	Stage 2 'Deteriorating' £m	Stage 3 'Default' £m	Impairment[1] £m	Total £m	Proportion of book %
< 50%	15,918.0	901.7	75.9	(0.4)	16,895.2	39.3
50% to 65%	12,279.8	853.2	60.7	(6.1)	13,187.6	30.7
65% to 75%	6,802.6	617.3	33.6	(14.1)	7,439.4	17.3
75% to 85%	3,628.4	371.4	21.9	(14.1)	4,007.6	9.4
85% to 90%	1,162.9	170.0	5.0	(8.4)	1,329.5	3.1
90% to 95%	70.9	9.6	1.9	(0.6)	81.8	0.2
95% to 100%	3.9	2.3	0.4	(0.2)	6.4	–
> 100%	1.7	2.3	4.3	(1.8)	6.5	–
Unsecured loans	15.4	2.7	0.4	(1.0)	17.5	–
Mortgage pipeline	–	–	–	(0.1)	(0.1)	–
Other[1]	–	–	–	(4.5)	(4.5)	–
Total	39,883.6	2,930.5	204.1	(51.3)	42,966.9	100.0
	%	%	%			
Total gross loans	92.7	6.8	0.5			

1. Comparative information has been updated to assign the Covid-19 PMA against specific accounts as opposed to the previous apportionment method and the inclusion of 'Other' as a category. Other includes expected credit losses which are not directly attributable to underlying accounts which were previously apportioned based on gross balances.

Notes to the Interim Financial Report continued

10. Loans and advances to customers continued

Payment holidays and arrears performance

Payment holidays

The Society has continued to support its customers who have experienced payment difficulties as a result of the Covid-19 pandemic. In total the Society granted 40,101 mortgage payment holidays of which 358 were active at 30 June 2021 (31 December 2020: 2,565).

Of the accounts with payment holidays which had expired at 30 June 2021, 98.1% had commenced repayments (31 December 2020: 98.3%).

A further 1.9% had not resumed payments (31 December 2020: 1.7%). These accounts had balances of £93.8 million and a balance weighted loan to value of 53.8% (31 December 2020: £87.6 million, 56.4%). Of these, accounts with balances of £33.9 million are three months or more in arrears at the reporting date. The Society is working with these customers to assess their future affordability. In these cases, the Society seeks to reach a sustainable and fair arrangement to regularise the position in a timeframe which is acceptable to both the Society and the borrower. These accounts are presented within IFRS 9 Stage 2 or 3 and a lifetime loss provision has been recognised.

Arrears performance

The Society's longer term arrears position has improved during the first half of 2021 with £70.4 million (30 June 2020: £67.2 million, 31 December 2020: £72.4 million) of accounts are three months or more in arrears. This position has been supported by the Governments payment holiday and furlough schemes which are due to end this year. Despite this the overall credit quality of the book remains high and arrears levels compare favourably to the UK finance average.

Balances greater than one year in arrears as shown below has continued to increase. This is as a result of the moratorium on house repossessions since March 2020 which ended on 1 April 2021. The Society will only seek repossession of a property when all reasonable efforts have failed or where the mortgage is unsustainable in the longer term. As at 30 June 2021 the Society has 23 properties in possession with a further 28 where the process of repossession has now commenced following the ending of the moratorium.

	Gross balance 30 Jun 2021 £m	**Arrears balance 30 Jun 2021 £m**	Gross balance 30 Jun 2020 £m	Arrears balance 30 Jun 2020 £m	Gross balance 31 Dec 2020 £m	Arrears balance 31 Dec 2020 £m
Greater than three months	**67.2**	**2.7**	61.8	2.0	69.3	2.7
Greater than six months	**38.2**	**2.1**	27.8	1.3	38.7	2.1
Greater than one year	**16.3**	**1.3**	7.8	0.5	12.5	1.1
In possession	**3.2**	**0.1**	5.4	0.3	3.1	0.2

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

Accounts in arrears	**Group 30 Jun 2021 %**	**UK Finance 31 Mar 2021[1] %**	Group 30 Jun 2020 %	UK Finance 30 Jun 2020 %	Group 31 Dec 2020 %	UK Finance 31 Dec 2020 %
Greater than three months	**0.17**	**0.85**	0.18	0.84	0.18	0.83
Greater than six months	**0.09**	**0.56**	0.08	0.52	0.10	0.56
Greater than one year	**0.04**	**0.33**	0.02	0.27	0.03	0.31
In possession	**0.01**	**0.01**	0.01	0.02	0.01	0.01

1. Latest available quarterly information from UK Finance is as at 31 March 2021.

Notes to the Interim Financial Report continued

11. Deposits from banks

Deposits from banks includes £5,210.0 million (30 June 2020: £5,750.0 million; 31 December 2020: £4,550.0 million) drawn down under the Bank of England Term Funding Scheme (TFS) and the Term Funding Scheme with additional incentives for SMEs (TFSME) scheme.

Deposits from banks also includes £525.3 million (30 June 2020: £525.3 million; 31 December 2020: £525.3 million) in respect of sale and purchase agreements (repos) of on-balance sheet notes in issue relating to the Group's covered bond programme and £nil (30 June 2020: £319.2 million; 31 December 2020: £nil) relating to debt securities.

12. Pensions

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

The Coventry Building Society Defined Benefit pension scheme (the Scheme) is administered by a separate trust that is legally separated from the Society. The Scheme has been closed to new members since December 2001 and provides benefits based on final pensionable salary. It was closed to future service accrual from 31 December 2012.

Significant assumptions and estimates – present value of the defined benefit obligation

The present value of scheme liabilities is measured by discounting the best estimate of future cash flows to be paid out by the plan using the projected unit credit method. The value calculated in this way is then deducted from the fair value of plan assets and the net surplus is presented on the Balance Sheet. At 30 June 2021 the value of scheme assets and liabilities are:

	30 Jun 2021 £m	30 Jun 2020 £m	31 Dec 2020 £m
Present value of defined benefit obligation	**(233.8)**	(239.3)	(250.2)
Fair value of plan assets	**251.2**	261.3	259.9
Funded status/pension benefit surplus	**17.4**	22.0	9.7

The surplus reflects the Society's ability to recover a surplus either through reduced contributions in the future or through refunds from the scheme after the last benefit has been paid in line with IAS 19.

The principal actuarial assumptions used are as follows:

Weighted average assumptions used to determine benefit obligation at	**30 Jun 2021 %**	30 Jun 2020 %	31 Dec 2020 %
Discount rate	**1.90**	1.60	1.45
Rate of pensionable salary increase	**–**	–	–
Rates of inflation (Retail Prices Index)	**3.10**	2.80	2.85
Rates of inflation (Consumer Prices Index)	**2.36**	1.80	2.04

Weighted average assumptions used to determine net pension cost for the	**30 Jun 2021 %**	30 Jun 2020 %	31 Dec 2020 %
Discount rate	**1.45**	2.10	2.10
Rate of pensionable salary increase	**–**	–	–
Rates of inflation (Retail Prices Index)	**2.85**	2.90	2.90
Rates of inflation (Consumer Prices Index)	**2.04**	1.90	1.90

Weighted average life expectancy for mortality tables used to determine benefit obligation at	**30 Jun 2021 Male**	**30 Jun 2021 Female**	30 Jun 2020 Male	30 Jun 2020 Female	31 Dec 2020 Male	31 Dec 2020 Female
Member age 60 (current life expectancy)	**26.2**	**28.3**	26.2	28.2	26.2	28.2
Member age 45 (life expectancy at age 60)	**26.5**	**28.8**	26.5	28.7	26.5	28.7

Notes to the Interim Financial Report continued

12. Pensions continued

The Group has to make assumptions on the discount rate, inflation and life expectancy when valuing the pension 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 obligation	Change in assumption	Increase in assumption %	Increase in assumption £m	Decrease in assumption %	Decrease in assumption £m
Discount rate	0.25%	(4.4)	(10.0)	4.6	10.7
Rates of inflation (Retail Prices Index and Consumer Prices Index)	0.25%	2.1	4.8	(2.0)	(4.6)
Life expectancy	1 year	3.7	8.6	(3.6)	(8.4)

13. Subordinated liabilities

	Period to 30 Jun 2021 (Unaudited)	Period to 30 Jun 2020 (Unaudited)	Year ended 31 Dec 2020 (Audited)
Fixed rate subordinated notes 2026 - 6.327%	10.2	10.2	10.2
Fixed rate subordinated notes 2032 - 7.54%	15.3	15.3	15.4
Total	**25.5**	25.5	25.6

All 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.

14. Subscribed capital

	Call date	Period to 30 Jun 2021 (Unaudited) £m	Period to 30 Jun 2020 (Unaudited) £m	Year ended 31 Dec 2020 (Audited) £m
Permanent Interest Bearing Shares 1992 - 12.125%	n/a	41.6	41.6	41.6
Total		**41.6**	41.6	41.6

Subscribed capital comprises the Permanent Interest Bearing Shares (PIBS) issued in 1992 that are only repayable in the event of the winding up of the Society. Interest is paid in arrears in half yearly instalments at 12.125% per annum.

PIBS rank equally with each other and Perpetual Capital Securities (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.

Notes to the Interim Financial Report continued

15. Other equity instruments

The £415.0 million balance of Other equity instruments relates to PCS capital. 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 the period to 30 June 2021, coupon payments of £14.3 million (30 June 2020: £14.3 million, 31 December 2020: £28.5 million) have been recognised in the Condensed Consolidated Statement of Change 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.

16. 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.

Notes to the Interim Financial Report continued

16. Financial instruments – fair value of financial assets and liabilities continued

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 on the face of the Group's Balance Sheet.

	Carrying amount 30 Jun 2021 (Unaudited) £m	Fair value 30 Jun 2021 (Unaudited) £m	Carrying amount 30 Jun 2020 (Unaudited) £m	Fair value 30 Jun 2020 (Unaudited) £m	Carrying amount 31 Dec 2020 (Audited) £m	Fair value 31 Dec 2020 (Audited) £m
Financial assets						
Cash and balances with the Bank of England	**5,885.1**	**5,885.1**	4,360.2	4,360.2	5,728.9	5,728.9
Loans and advances to credit institutions	**398.3**	**398.3**	807.3	807.3	590.5	590.5
Debt securities	**10.0**	**10.2**	15.8	15.5	10.3	10.7
Loans and advances to customers	**45,869.6**	**45,852.7**	43,030.0	43,003.2	43,482.8	43,446.4
Financial liabilities						
Shares	**39,079.4**	**39,419.7**	35,438.6	35,358.6	38,151.1	38,452.6
Deposits from banks	**5,780.2**	**5,782.9**	7,256.7	7,262.4	5,140.2	5,140.8
Other deposits	**5.0**	**5.0**	7.0	7.0	1.0	1.0
Amounts owed to other customers	**706.8**	**706.8**	217.4	217.4	609.5	609.5
Debt securities in issue	**5,072.9**	**5,148.9**	4,445.5	4,528.5	4,617.2	4,712.1
Subordinated liabilities	**25.5**	**29.7**	25.5	29.7	25.6	30.3
Subscribed capital	**41.6**	**83.7**	41.6	76.0	41.6	83.7

Loans and advances to credit institutions

The fair value of loans and advances to credit institutions over the longer term is estimated by discounting expected cash flows at a market discount rate. Amounts maturing in the short term are valued at carrying amount.

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 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.

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 loans types and adjusted where necessary to reflect any observable market conditions.

Shares

The fair value of shares available on demand approximates to the carrying value. The fair value of fixed term or restricted access deposits is determined from the estimated projected cash flows discounted at the current market rates for those types of deposit.

Deposits from banks, other deposits and amounts owed to other customers

The fair value of deposits taken from wholesale counterparties over the longer term is estimated by discounting expected cash flows at a market discount rate. Amounts maturing in the short term are valued at carrying amount.

Notes to the Interim Financial Report continued

16. Financial instruments – fair value of financial assets and liabilities continued

Debt securities in issue, subordinated liabilities and subscribed capital

The estimated fair value of longer-dated liabilities is calculated based on quoted market prices where available or using similar issues as a proxy for those liabilities that are not of sufficient size or liquidity to have an active market quote. For those liabilities where quoted market prices are not available, a discounted cash flow model is used based on a current yield curve appropriate to the remaining term to maturity.

Fair value of assets held at fair value, and classification within the fair value hierarchy

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:

30 June 2021 (Unaudited)	Level 1 £m	Level 2 £m	Level 3 £m	Total fair value £m
Derivative financial instruments - assets	–	182.7	–	182.7
Debt securities	790.1	15.9	–	806.0
Investment in equity shares	0.7	–	4.5	5.2
Derivative financial instruments - liabilities	–	(289.6)	(8.2)	(297.8)
Total	**790.8**	**(91.0)**	**(3.7)**	**696.1**

30 June 2020 (Unaudited)	Level 1 £m	Level 2 £m	Level 3 £m	Total fair value £m
Derivative financial instruments – assets	–	269.4	–	269.4
Debt securities	1,240.4	20.3	–	1,260.7
Investment in equity shares	0.6	–	3.7	4.3
Derivative financial instruments – liabilities	–	(527.3)	(73.8)	(601.1)
Total	1,241.0	(237.6)	(70.1)	933.3

31 December 2020 (Audited)	Level 1 £m	Level 2 £m	Level 3 £m	Total fair value £m
Derivative financial instruments – assets	–	173.5	–	173.5
Debt securities	966.5	18.3	–	984.8
Investment in equity shares	0.7	–	4.3	5.0
Derivative financial instruments – liabilities	–	(463.7)	(70.5)	(534.2)
Total	967.2	(271.9)	(66.2)	629.1

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 Investments in equity shares.

Level 2 - Derivatives

Derivative products utilise observable market inputs for interest rate swaps and cross currency swaps. Valuations are generated by swap models which use present value calculations and incorporate assumptions for interest rate curves and foreign exchange spot and forward rates.

Level 3 - Investment in equity shares – fair value through profit and loss - Unlisted

Level 3 investment in equity shares represent the Group's holding in Visa Inc. preference shares and VocaLink Holdings Limited 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.

Notes to the Interim Financial Report continued

16. Financial instruments – fair value of financial assets and liabilities continued

Level 3 - Derivatives

The items included within Level 3 are balance tracking swaps which have remained in place during the period. These are valued using present value calculations based on market interest rates curves. The unobservable inputs relate to the projection of the swap notional amount, which changes over time to match the balance of the underlying mortgage portfolio. Projected mortgage prepayment amounts are used in the modelling of the mortgage portfolio profile. The changes in the projection of interest and prepayment rates of the underlying mortgage portfolio affect both the unbounded swap and hedged item so that the net Income Statement and Balance Sheet impact would be minimal.

The following table analyses movements in the Level 3 portfolio:

	Total £m
As at 1 January 2020 (Audited)	(58.5)
Items recognised in the Income Statement	
Interest payable and similar expense	(5.8)
Net unrealised losses on derivatives and hedge accounting	(6.9)
Settlements	5.0
As at 31 December 2020 (Audited)	**(66.2)**
Items recognised in the Income Statement	
Interest payable and similar expense	(2.0)
Net unrealised gains on derivatives and hedge accounting	14.1
Settlements	50.4
As at 30 June 2021 (Unaudited)	**(3.7)**

Transfers 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 therefore it is valued using a method lower down the hierarchy.

17. Derivative financial instruments

The Group elected to continue to apply the hedge accounting requirements of IAS 39 as permitted under IFRS 9. The risk management strategy for the Group is set out on pages 162 and 163 of the 2020 Annual Report & Accounts, and there have been no changes to this strategy during the first half of the year.

30 June 2021 (Unaudited)	Notional amount £m	Fair value assets £m	Fair value liabilities £m
Derivatives designated as fair value hedges:			
Interest rate risk	43,469.7	142.7	265.0
Derivatives designated as cash flow hedges			
Interest rate risk	4,500.4	2.1	1.6
Foreign exchange risk	872.6	–	31.1
Foreign exchange and interest rate risk	394.3	37.9	–
Total	49,237.0	182.7	297.7

Notes to the Interim Financial Report continued

17. Derivative financial instruments continued

30 June 2020 (Unaudited)	Notional amount £m	Fair value assets £m	Fair value liabilities £m
Derivatives designated as fair value hedges:			
Interest rate risk	34,040.9	129.9	571.6
Derivatives designated as cash flow hedges			
Interest rate risk	2,642.4	–	22.5
Foreign exchange risk	872.6	16.9	7.0
Foreign exchange and interest rate risk	935.4	122.6	–
Total	38,491.3	269.4	601.1

31 December 2020 (Audited)	Notional amount £m	Fair value assets £m	Fair value liabilities £m
Derivatives designated as fair value hedges:			
Interest rate risk	40,822.9	108.8	516.7
Derivatives designated as cash flow hedges			
Interest rate risk	854.0	0.1	0.8
Foreign exchange risk	872.6	7.5	16.7
Foreign exchange and interest rate risk	394.3	57.1	–
Total	42,943.8	173.5	534.2

The following tables provide additional information on cash flow hedges for the relevant period.

	Changes in fair value			Amounts reclassified from reserves to Income Statement		
30 June 2021 (Unaudited)	**Hedging derivative £m**	**Hedged item for ineffectiveness assessment £m**	**Gains/(losses) recognised in OCI £m**	**Hedged cash flows will no longer occur £m**	**Hedged item affected Income Statement £m**	**Recognised in Income Statement £m**
Derivatives designated as cash flow hedges:						
Foreign exchange	**(28.2)**	**(28.1)**	**(28.1)**	**–**	**(37.4)**	**(0.1)**
Foreign exchange and interest rate	**(21.0)**	**(20.6)**	**(20.6)**	**–**	**(18.7)**	**(0.4)**
Interest rate	**5.7**	**5.6**	**5.6**	**(5.3)**	**–**	**(5.1)**

	Changes in fair value			Amounts reclassified from reserves to Income Statement		
31 December 2020 (Audited)	Hedging derivative £m	Hedged item for ineffectiveness assessment £m	Gains/(losses) recognised in OCI £m	Hedged cash flows will no longer occur £m	Hedged item affected Income Statement £m	Recognised in Income Statement £m
Derivatives designated as cash flow hedges:						
Foreign exchange	24.5	24.4	24.4	–	42.1	0.1
Foreign exchange and interest rate	(4.7)	(4.3)	(4.3)	–	7.1	(0.4)
Interest rate	(59.0)	(58.6)	(58.6)	(9.6)	–	(10.0)

Notes to the Interim Financial Report continued

17. Derivative financial instruments continued

30 June 2020 (Unaudited)	Changes in fair value: Hedging derivative £m	Changes in fair value: Hedged item for ineffectiveness assessment £m	Gains/(losses) recognised in OCI £m	Amounts reclassified from reserves to Income Statement: Hedged cash flows will no longer occur £m	Amounts reclassified from reserves to Income Statement: Hedged item affected Income Statement £m	Recognised in Income Statement £m
Derivatives designated as cash flow hedges:						
Foreign exchange	38.3	38.3	38.3	–	54.7	–
Foreign exchange and interest rate	57.5	57.4	57.4	–	62.8	0.1
Interest rate	(61.4)	(60.9)	(60.9)	(2.1)	–	(0.5)

As at 30 June 2021, balances remaining in the cash flow hedge reserve, gross of tax, are £9.3 million debit for continuing hedges and £36.1 million debit for discontinued hedges (30 June 2020: £32.7 million debit, £36.8 million debit respectively; 31 December 2020: £18.0 million debit, £45.6 million debit respectively).

The Society has early adopted the amendments to IAS 39 and IFRS 7 (Phase 2) which provide temporary reliefs from the impact of IBOR reform. In applying these reliefs the Group has assumed that the LIBOR rates used in its hedging relationships are not altered by the reforms.

The Group has no exposure to LIBOR linked derivatives at 30 June 2021 (30 June 2020: £1,369.7 million; 31 December 2021: £126.6 million). The derivatives held at 31 December 2020 consisted of two equity release mortgage swaps which were transitioned to SONIA during the period. The Group has no exposure to IBOR linked derivatives in cash flow hedges.

Responsibility Statement

The directors confirm that this Interim Financial Report has been prepared in accordance with IAS 34 *Interim Financial Reporting*. The Interim Financial Report has been prepared in accordance with the applicable set of accounting standards giving a true and fair view of the assets, liabilities, financial position and profit or loss. This includes a fair review of the important events that have occurred during the first six months of the year and their impact on the Interim Financial Report, in addition to a description of the principal risks and uncertainties for the remaining six months of the year as required by the Disclosure and Transparency Rules (DTR 4.2.7).

A full list of the Board of directors can be found in the 2020 Annual Report & Accounts. Subsequent to the publication of the Annual Report, on 6 April 2021, Lee Raybould was appointed to the Board as Chief Financial Officer, having joined the Society in 2020 as Interim Chief Financial Officer. On 23 April 2021, Peter Ayliffe retired from the Board and Jo Kenrick was appointed to the role of Deputy Chair of the Board.

Signed on behalf of the Board by

Steve Hughes
Chief Executive
28 July 2021

Lee Raybould
Chief Financial Officer

Independent Review Report to Coventry Building Society

Report on the condensed consolidated interim financial statements

Our Conclusion

We have reviewed Coventry Building Society's condensed consolidated interim financial statements (the "interim financial statements") in the interim financial report of Coventry Building Society for the 6 month period ended 30 June 2021 (the "period").

Based on our review, nothing has come to our attention that causes us to believe that the interim financial statements are not prepared, in all material respects, in accordance with UK adopted International Accounting Standard 34, 'Interim Financial Reporting' and the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority.

What we have reviewed

The interim financial statements comprise:

- the Condensed Consolidated Balance Sheet as at 30 June 2021;
- the Condensed Consolidated Income Statement and Condensed Consolidated Statement of Comprehensive Income for the period then ended;
- the Condensed Consolidated Statement of Cash Flows for the period then ended;
- the Condensed Consolidated Statement of Changes in Members' Interests and Equity for the period then ended; and
- the explanatory notes to the interim financial statements.

The interim financial statements included in the interim financial report of Coventry Building Society have been prepared in accordance with UK adopted International Accounting Standard 34, 'Interim Financial Reporting' and the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority.

Responsibilities for the interim financial statements and the review

Our responsibilities and those of the directors

The interim financial report, including the interim financial statements, is the responsibility of, and has been approved by the directors. The directors are responsible for preparing the interim financial report in accordance with the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority.

Our responsibility is to express a conclusion on the interim financial statements in the interim financial report based on our review. This report, including the conclusion, has been prepared for and only for the Society for the purpose of complying with the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority and for no other purpose. We do not, in giving this conclusion, 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.

What a review of interim financial statements involves

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity' issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures.

A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK) and, consequently, does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

We have read the other information contained in the interim financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the interim financial statements.

PricewaterhouseCoopers LLP
Chartered Accountants
Birmingham
28 July 2021

The Interim Financial Report information set out in this document is unaudited and does not constitute accounts within the meaning of section 73 of the Building Societies Act 1986.

The financial information for the year ended 31 December 2020 has been extracted from the Annual Report & Accounts for that year. The Annual Report & Accounts for the year ended 31 December 2020 have been filed with the Financial Conduct Authority. The Auditors' report on these Annual Report & Accounts was unqualified.

A copy of the Interim Financial Report is placed on the website of Coventry Building Society, at www.coventrybuildingsociety.co.uk/member/financial-results. The directors are responsible for the maintenance and integrity of the information on the Society's website. Information published on the internet is accessible in many countries with different legal requirements. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Forward Looking Statements

Certain statements in this Interim Financial Report are forward looking. The Society, defined in this Interim Financial Report as Coventry Building Society and its subsidiary undertakings, believes that the expectations reflected in these forward looking statements are reasonable based on the information available at the time of the approval of this report. However, we can give no assurance that these expectations will prove to be an accurate reflection of actual results; because these statements involve risks and uncertainties, actual results may differ materially from those expressed or implied by these forward looking statements. We undertake no obligation to update any forward looking statements whether as a result of new information, future events or otherwise.

Coventry Building Society. Principal Office: Economic House, PO Box 9, High Street, Coventry CV1 5QN.