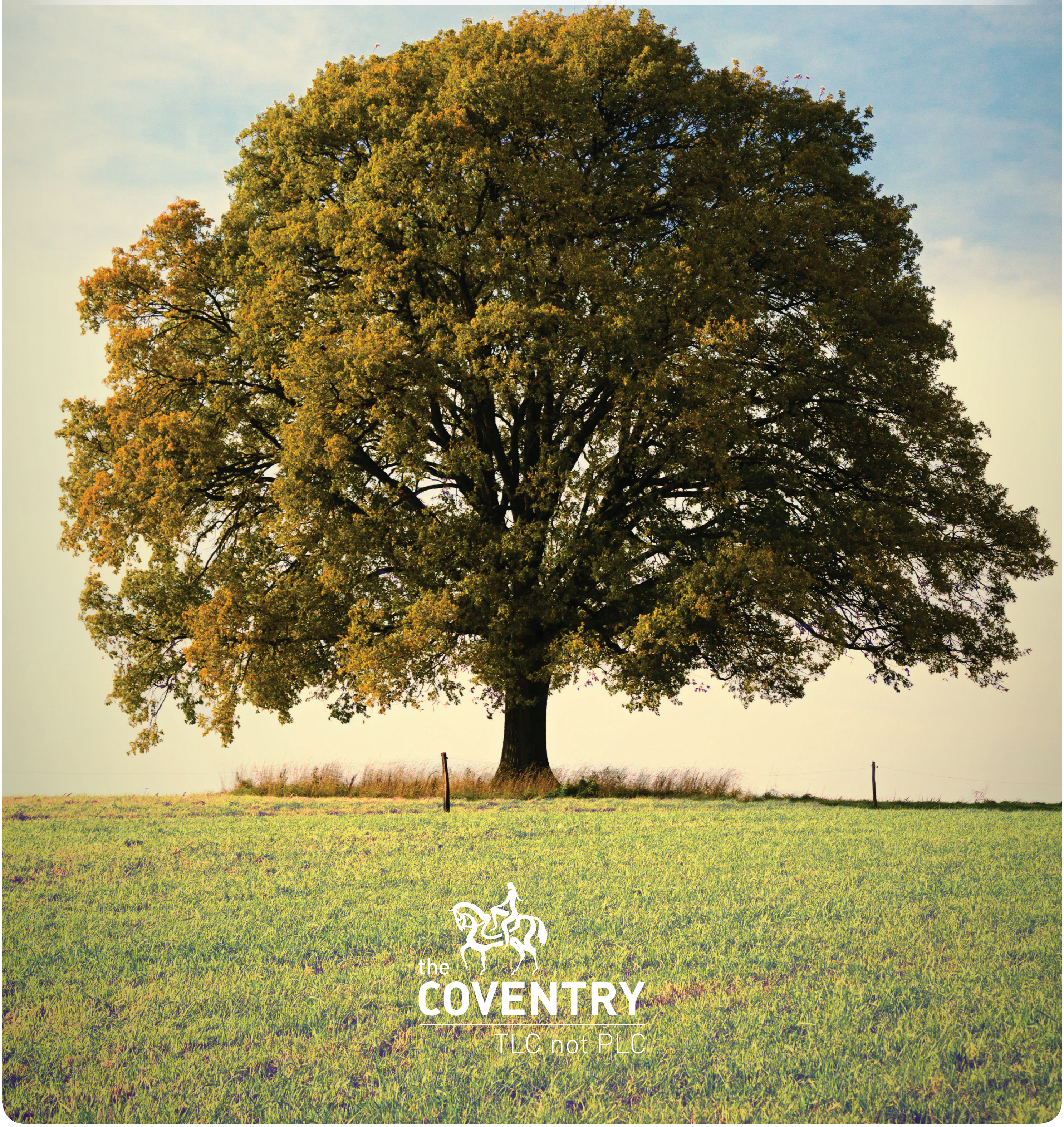
Interim Financial Report 2016

for the period ended 30 June 2016



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IFRS RESULTS

This Interim Financial Report for the six months ended 30 June 2016 has been prepared in accordance with the Disclosure and Transparency Rules of the Financial Conduct Authority (FCA) and with International Accounting Standard (IAS) 34 Interim Financial Reporting as adopted by the European Union (EU). This Interim Financial Report should be read in conjunction with the Annual Report & Accounts for the year ended 31 December 2015, which have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU.

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.

INTERIM MANAGEMENT REPORT:
CHIEF EXECUTIVE'S REVIEW

I am pleased to report that Coventry Building Society has maintained its success and delivered strong, profitable growth in the first half of 2016.

The repercussions of the European Union (EU) referendum may affect market sentiment and government policy; however, the fundamentals of our business are unchanged. We are a low cost, low risk provider of residential mortgages wholly within the UK, funded predominantly by over one million individual savers. There continues to be strong demand for housing and a consistent need amongst savers for security and long-term value. In this context I am confident that the Society will continue its track record of strong performance.

- **Record mortgage performance:** Mortgage assets up 9% on June 2015 following record advances of £4.8 billion and net lending of £2.0 billion for the first half of 2016. Market share of net lending for the five months to May 2016[1] was 13%.
- **Significant growth in savings:** Savings deposit balances up 12% on June 2015 with balances having increased by £1.6 billion in the first half of the year, taking the Society's overall savings deposits to a record £26.9 billion. Savings growth was nearly double that of the market for the five months to May 2016[1]. Indeed since 30 June 2015 Coventry Building Society has accounted for over 27% of Cash ISA market growth[1].
- **Strong profits:** Statutory profit before tax increased by 10% to £110.0 million (30 June 2015: £100.4 million).
- **Sector leading cost efficiency:** Cost to mean asset ratio maintained at 0.42%[2] and continues to be the lowest reported by a UK building society[3], supporting the Society's ability to offer consistently competitive interest rates.
- **Low risk:** The Society's low risk lending approach protects individual borrowers and the Society alike. Impairment charges totalled just £0.3 million on mortgage assets of £31.4 billion, and loans where arrears were greater than 2.5% of the balance were 0.23% (including possessions), around a quarter of the industry average of 1.0%[4].
- **Increased capital strength:** Common Equity Tier 1 (CET 1) ratio of 30.4% (30 June 2015: 27.9%) remains amongst the highest reported by any top 20 lender[5] whilst the Society's leverage ratio[6] has been maintained at 4.0%, substantially above regulatory requirements.

I am particularly proud of the record growth in savings we've achieved. This reflects our competitive pricing, shown by our average savings rate in the first five months of 2016 being 1.91% compared to a market average of 1.02%[7]. It also reflects our transparency, for example in helpfully explaining the changing savings landscape to new and existing members, for which we were singled out by consumer organisation Savings Champion earlier in the year.

We have been equally successful in attracting new mortgage business. In common with other lenders, we had a particularly strong period ahead of the stamp duty changes in April, driven by the buy to let sector which has been an area of strength for the Society in recent years.

The new stamp duty rules, together with the forthcoming changes to mortgage interest tax relief, are significant developments within this sector. We will adapt to these changes, as will landlords and tenants, and I am confident that buy to let investments will continue to offer secure and high quality lending opportunities.

I am pleased to say that we managed this record business whilst sustaining service levels. In fact, we continue to record very high levels of satisfaction[8] whether our members engage with us online, through our branches, over the telephone, or through an intermediary.

INTERIM MANAGEMENT REPORT: CHIEF EXECUTIVE'S REVIEW

(continued)

This is underlined by our proactive and considerate approach on the occasions we make a mistake. We continue to receive few complaints and of those that are referred to the Financial Ombudsman Service our overturn rate of just 5%[9] reflects our commitment to doing the right thing for our members, and remains substantially lower than the 53% industry average.

Doing the right thing for our members is at the heart of who we are and I believe it is central to the strong engagement that members of staff feel for the Society. In the first half of 2016, employee engagement rose to 89%, with 94% saying that they are proud to work for Coventry Building Society. This was independently recognised by ORC International – a specialist in employee research – as being the highest level of employee engagement achieved by a medium-sized organisation in Europe[10].

Outlook

The Board is confident that Coventry Building Society is well positioned to continue its strong, profitable, member-focused growth, notwithstanding the outcome of the EU referendum. The same is true in relation to the developments affecting the savings and mortgage markets in the form of new regulation, competition and technology.

We believe that a simple business model based on low risk lending and low cost operations contains the elements required to deliver the right outcomes to our savings and borrowing members and the financial strength we need to thrive.

I am confident that we are on track to deliver a strong annual performance and, most importantly, to do so by Putting our Members First.

Signed on behalf of the Board by

Mark Parsons
Chief Executive
28 July 2016

1 Source: Bank of England - latest published data – as at 31 May 2016.
2 Administrative expenses, depreciation and amortisation/Average total assets.
3 Latest published data as at 28 July 2016.
4 Source: Prudential Regulation Authority - latest available data, as at 31 March 2016.
5 Source: CML Top 20 mortgage lenders (as published September 2015) - latest published CET 1 data, as at 28 July 2016.
6 The leverage ratio is calculated on an end-point basis, in accordance with the definitions of CRD IV as amended by the European Commission delegated regulation. The calculation reflects constraints on the inclusion of Additional Tier 1 capital, in accordance with the Financial Policy Committee's leverage ratio regime.
7 Weighted calculation comparing the Society balance mix of accounts to market mix as quoted by Bank of England (May 2016 data) for interest bearing sight deposits, interest bearing time deposits and Cash ISAs (excludes non-interest bearing current accounts, notes and coins and corporate/PNFC deposits).
8 Source: 14,716 branch customers (scoring 9 or 10 out of 10), 18,313 savings contact centre customers (scoring 4 or 5 out of 5), 4,322 online customers (scoring 9 or 10 out of 10) and 1,160 (scoring 9 or 10 out of 10) intermediary customers in 2015.
9 Source: Financial Ombudsman Service - latest available data, period from 1 July 2015 to 31 December 2015.
10 OCR International Award for Excellence 2016, European medium-sized organisations defined as having 300 - 2,500 employees.

FINANCIAL REVIEW

Income Statement

- **Net interest:** Net interest income for the period ended 30 June 2016 was £187.3 million (30 June 2015: £179.6 million). The Society's net interest margin has decreased by 7 basis points to 1.06% in the period (30 June 2015: 1.13%). This is due to the impact of increased competition for mortgage customers on new business margins and redemption levels, combined with sustained market leading rates on a range of savings products.
- **Other operating income:** Other income for the period ended 30 June 2016 was £5.6 million (30 June 2015: £0.5 million). The increase relates to the gain on completion of the acquisition of Visa Europe Limited by Visa Inc. The Society has received cash proceeds and preference shares, and will be eligible for future cash consideration in exchange for its membership of Visa Europe Limited.
- **Management expenses:** Total expenses for the period ended 30 June 2016 were £73.5 million (30 June 2015: £65.1 million). The increase is a reflection of the growth of the Society and the costs of servicing a larger membership, continued investment in the Society's core IT infrastructure and implementing ongoing changes to regulation. Depreciation and amortisation of property, plant and equipment and intangibles of £7.0 million (30 June 2015: £6.1 million) has increased due to investment in IT infrastructure during the year. The Society continues to focus on rigorous cost control with a cost to mean asset ratio of 0.42%, remaining the lowest reported of all UK building societies[1] (30 June 2015: 0.41%).
- **Impairment:** Impairment losses of £0.3 million were incurred during the first six months of the period (30 June 2015: £0.7 million). Impairment losses have reduced by £0.4 million reflecting falling arrears levels and rising house prices. The business model continues to be focused on low risk lending and the average loan to value (simple average) of loans originated in the six months to 30 June is 64% (30 June 2015: 63%).
- **Provisions:** The £8.1 million charge for provision for liabilities and charges for the period ended 30 June 2016 is in respect of the Financial Services Compensation Scheme (FSCS) levy (£7.6 million) and Payment Protection Insurance (PPI) (£0.5 million) (30 June 2015: £14.2 million FSCS levy and £0.7 million PPI). The charge for PPI reflects a small increase in the number of claims received in the period and the impact of the expected introduction of a deadline for PPI claims. Provisions for PPI claims continue to be materially lower for the Society than many other organisations. This is a consequence of the design of the PPI product previously offered by the Society.
- **Charitable donation:** The Society donated £0.7 million to The Royal British Legion's Poppy Appeal during the period (30 June 2015: £1.2 million).
- **Tax:** The Board believes the Society should contribute its fair share of tax and as at 30 June 2016 the corporation tax charge arising on profits represented an effective rate of tax of 23.5% (30 June 2015: 20.2%), which is significantly above the statutory corporation tax rate of 20% (30 June 2015: 20.25%). This is primarily due to a charge (£4.8 million) in respect of the 8% surcharge on the profits of banking companies, which was introduced from 1 January 2016, offset by one-off credits in respect of brought forward capital losses (£0.9 million).
- **Capital added to reserves:** During the six months to 30 June 2016 the Society added £84.2 million (30 June 2015: £80.1 million) to its reserves to support future growth and maintained the leverage ratio[2] at 4.0% (31 December 2015: 4.0%) despite growth in the mortgage book of £2.0 billion over this period.

Balance Sheet

- **Loans and advances to customers:** The Society's lending strategy is focused on high quality, low loan to value owner-occupier and low loan to value buy to let loans within the prime residential market, distributed via mortgage intermediaries. In the period to 30 June 2016, the Society advanced £4.8 billion of mortgages (30 June 2015: £4.2 billion), with net mortgage lending of £2.0 billion (30 June 2015: £1.8 billion). The overall simple average indexed loan to value of the mortgage book at 30 June 2016 was 48% (31 December 2015: 48%).

- **Liquidity:** On-balance sheet liquid assets have increased to £4.6 billion (31 December 2015: £4.4 billion), with additional high quality liquid assets held off-balance sheet. When including these assets, the proportion of liabilities[3] represented by high quality liquidity is 19.5% (31 December 2015: 20.3%). The Liquidity Coverage Ratio at 30 June 2016 was 156% (31 December 2015: 141%) and throughout the six month period was significantly in excess of the regulatory minimum.
- **Retail savings:** The Society continues to be predominantly funded by retail savings, with a balance of £26.9 billion at 30 June 2016 (31 December 2015: £25.4 billion) and growth of £1.5 billion during the first six months of the year. The Society has maintained a competitive stance in the retail savings market with a strong focus on ISA products.
- **Wholesale funding:** The Society uses wholesale funding to provide diversification by source and term, and also to provide value to members through lowering the overall cost of funding. During the period, wholesale funding[4] has increased by £0.9 billion with a period end balance of £7.2 billion (31 December 2015: £6.3 billion). The net increase in wholesale funding reflects the utilisation of marketable securities in sale and repurchase agreements and the issuance of £275 million of mortgage backed securities.
- **Valuation of derivatives and hedge accounting:** The result of the European Union referendum saw sharp falls in both interest rates and the value of Sterling. These falls had a significant impact on the balance sheet value of the Society's derivatives. However as these derivatives are used solely for risk management purposes and are intended to be held for their full term, the impact of valuation movements on the Income Statement has been limited to a charge of £1.6 million (30 June 2015: £0.4 million).

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 2016 £m	End-point 30 Jun 2015 £m	End-point 31 Dec 2015 £m
Capital resources:			
Common Equity Tier 1 (CET 1) capital	**1,235.8**	1,084.4	1,167.2
Total Tier 1 capital	**1,632.7**	1,481.3	1,564.1
Total capital	**1,637.2**	1,485.5	1,568.4
Risk weighted assets	**4,069.2**	3,890.3	3,974.6
CRD IV ratios:	**%**	%	%
Common Equity Tier 1 (CET 1) ratio	**30.4**	27.9	29.4
Leverage ratio[2]	**4.0**	3.9	4.0

The Society is provided with Individual Capital Guidance (ICG) by the Prudential Regulatory Authority (PRA). Following a Supervisory Review process in the first half of 2016 the Society has been issued with an ICG of 12.8% which is the sum of its Pillar 1 and Pillar 2A requirements. With a CET 1 ratio of 30.4% the Society comfortably meets this requirement using CET 1 capital alone.

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 2016 is 0.8% 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 Administrative expenses, depreciation and amortisation/Average total assets. Source: Building Societies Association: Annual Accounts Data 2015 and latest published data as at 28 July 2016.
2 The leverage ratio is calculated in accordance with the definitions of CRD IV as amended by the European Commission delegated regulation. The calculation reflects constraints on the inclusion of Additional Tier 1 capital, in accordance with the Financial Policy Committee's leverage ratio regime.
3 Shares, Deposits from banks, Other deposits, Amounts owed to other customers and Debt securities in issue.
4 Deposits from banks, Other Deposits, Amounts owed to other customers and Debt securities in issue.

PRINCIPAL RISKS AND UNCERTAINTIES

The Society's business model involves the taking of deposits from retail and wholesale investors and using these funds to provide mortgages for residential properties. Investors are rewarded in the form of fixed and variable rates of interest and borrowers pay fixed and variable rates of interest on their loans. The amount of interest charged to borrowers is correlated to the perceived riskiness of the loan. All lending currently undertaken is on a secured, first charge basis, with the residential property forming the underlying security. The difference between interest paid and interest received results in a margin from which the Society meets its overheads, impairment losses and taxation, and is the primary source of capital (by way of retained earnings) to support future growth and absorb losses, should they arise.

The Disclosure and Transparency Rules (DTR 4.2.7R) require that a description of the principal risks and uncertainties is given in the Interim Financial Report for the remaining six months of the financial year. The principal risks and uncertainties affecting the Society were reported on pages 22 to 58 of the Annual Report & Accounts for the year ended 31 December 2015 along with a number of emerging risks. The Society continues to face and manage these risks.

Since 31 December 2015, the most significant event has been the referendum vote to leave the European Union (EU).

The run up to the referendum vote saw many UK and a number of non-UK firms reportedly putting off investment decisions, potentially compounding the slowdown in growth already being experienced in Asia and the US. Against the widespread expectation of a Bank Base Rate cut at the July meeting of the Monetary Policy Committee (MPC), the decision to hold rates was surprising, albeit most commentators expect a short delay before Bank Base Rate is cut in order to allow consideration of additional data including the latest quarterly inflation report.

Whilst a sustained economic slowdown, and possibly a recession may result, the Society is well placed to withstand any such downturn. In response to these economic concerns Moody's Rating Agency has placed the Society and a number of major banks and other building societies on negative outlook. It was pleasing to note that Fitch Rating Agency has affirmed the Society's 'A' rating for the 22nd consecutive year.

Coventry Building Society's retail operations are solely within the UK. Treasury credit exposures to overseas counterparties primarily consist of repurchase agreements and derivatives trades, which are collateralised with regular transfer of margin to mitigate movements in market valuations. See pages 36 to 40 of the 2015 Annual Report & Accounts for further details of these arrangements.

Consequently, second order effects are the most likely source of any adverse impact from Brexit. Most notably if house prices fall, losses may increase in the event of default, or borrowers may experience payment difficulties; perhaps as a result of increases in unemployment. Regular stress testing is undertaken to assess the impact on the financial performance of the Society for shock events to the economic variables to which it is most exposed. Under a range of severe but plausible scenarios the Board expects the Society to continue to report profits and capital levels in excess of regulatory requirements. Similar stress testing is undertaken to validate the adequacy of current and planned levels of liquidity held by the Society. The Society is well placed with a prudent approach to lending sustained for many years, and a low tolerance for liquidity risk with a Liquidity Coverage Ratio at 30 June 2016 of 156%.

The introduction of the increased stamp duty for second homes distorted buy to let demand over the first six months of 2016, with a surge in buy to let business volumes in the run up to April. Regulatory proposals on buy to let underwriting, including minimum stressed interest rate considerations and the differing treatment of portfolio landlords (defined as those having more than three mortgaged properties) to other buy to let investors, coupled with income tax relief changes announced last year for higher rate tax investors, are likely to reduce overall buy to let investor demand. From 14 July 2016 the Society required all new buy to let lending to be assessed against a minimum Interest Coverage Ratio (ICR) of 140% (previously 125%).

PRINCIPAL RISKS AND UNCERTAINTIES

(continued)

Being a significant participant in the buy to let sector, the Society will continue to evolve its lending policy in response to future political and regulatory change, and remains committed to supporting this market whilst maintaining strong underwriting standards.

Further regulatory changes are under consultation with the determination of minimum requirements for own funds and eligible liabilities (MREL). Whilst the implementation date is likely to be several years away, in the intervening period the raising of additional eligible liabilities, may be required in order to achieve compliance in a measured fashion.

Fines and regulatory action against financial firms have been common place over recent years. Although the Society has not been subject to any such censure, reflecting its commitment to delivering good customer outcomes, the adverse publicity associated with some of our competitors continues to impact the reputation of the whole of the financial services sector. The Board therefore remains conscious of the conduct risks that have the potential to impact the Society, and continues to take the necessary steps to mitigate such risks.

CONDENSED CONSOLIDATED INCOME STATEMENT

FOR THE PERIOD ENDED 30 JUNE 2016

	Notes	**Period to 30 Jun 2016 (Unaudited) £m**	Period to 30 Jun 2015 (Unaudited) £m	Year ended 31 Dec 2015 (Audited) £m
Interest receivable and similar income	3	**461.9**	446.2	904.0
Interest payable and similar charges	4	**(274.6)**	(266.6)	(540.1)
Net interest income		**187.3**	179.6	363.9
Fees and commissions receivable		**5.7**	5.3	10.8
Fees and commissions payable		**(4.4)**	(2.7)	(6.6)
Other operating income	5	**5.6**	0.5	1.2
Net losses from derivative financial instruments		**(1.6)**	(0.4)	(0.3)
Total income		**192.6**	182.3	369.0
Administrative expenses	6	**(66.5)**	(59.0)	(124.5)
Amortisation of intangible assets		**(4.2)**	(3.5)	(7.5)
Depreciation of property, plant and equipment		**(2.8)**	(2.6)	(5.4)
Impairment (charge)/credit on loans and advances to customers	7	**(0.3)**	(0.7)	1.9
Provisions for liabilities and charges	8	**(8.1)**	(14.9)	(15.8)
Charitable donation to Poppy Appeal		**(0.7)**	(1.2)	(1.7)
Profit before tax		**110.0**	100.4	216.0
Taxation		**(25.8)**	(20.3)	(44.7)
Profit for the financial period		**84.2**	80.1	171.3

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 2016

Profit for the financial period		**84.2**	80.1	171.3
Other comprehensive income				
Items that will not be transferred to the Income Statement:				
Remeasurement of defined benefit plan		**-**	-	11.1
Taxation		**-**	-	(2.2)
Effect of change in corporation tax rate		**-**	-	0.6
Items that may be transferred to the Income Statement:				
Available-for-sale investments:				
Fair value movements taken to reserves		**49.5**	(23.4)	(18.4)
Amount transferred to Income Statement	14	**(54.3)**	24.7	21.6
Taxation		**0.4**	(0.3)	-
Cash flow hedges:				
Fair value movements taken to reserves		**185.6**	(127.0)	(70.8)
Amount transferred to Income Statement		**(150.2)**	113.2	70.4
Taxation		**(8.8)**	2.7	0.1
Effect of change in corporation tax rate		**-**	-	(2.7)
Other comprehensive income for the period, net of tax		**22.2**	(10.1)	9.7
Total comprehensive income for the period, net of tax		**106.4**	70.0	181.0

The notes on pages 12 to 21 form part of this Interim Financial Report.

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2016

	Notes	30 Jun 2016 (Unaudited) £m	30 Jun 2015 (Unaudited) £m	31 Dec 2015 (Audited) £m
Assets				
Cash and balances with the Bank of England		**2,854.7**	2,007.6	2,587.8
Loans and advances to credit institutions		**276.1**	242.9	235.8
Debt securities		**1,453.2**	1,557.0	1,551.7
Loans and advances to customers	9	**31,446.3**	28,764.1	29,411.0
Hedge accounting adjustment		**260.2**	64.0	78.1
Derivative financial instruments		**349.4**	161.7	173.0
Investment in equity shares		**5.8**	-	3.3
Intangible assets		**19.6**	15.8	16.3
Property, plant and equipment		**32.0**	28.1	32.9
Investment properties		**0.9**	4.8	2.6
Pension benefit surplus		**15.2**	2.3	14.2
Deferred tax assets		**2.1**	5.2	2.0
Prepayments and accrued income		**9.0**	8.4	5.7
Total assets		**36,724.5**	32,861.9	34,114.4
Liabilities				
Shares		**26,927.6**	24,137.4	25,355.8
Deposits from banks		**2,265.4**	2,060.5	1,809.9
Other deposits		**6.0**	5.5	3.0
Amounts owed to other customers		**781.3**	712.8	806.5
Debt securities in issue	10	**4,111.8**	3,583.4	3,716.6
Hedge accounting adjustment		**220.0**	120.8	121.0
Derivative financial instruments		**489.4**	395.4	353.5
Current tax liabilities		**22.3**	18.1	18.3
Deferred tax liabilities		**18.6**	6.3	10.1
Accruals and deferred income		**22.8**	19.5	23.6
Other liabilities		**9.3**	8.7	16.0
Provisions for liabilities and charges	8	**16.6**	23.1	8.8
Subordinated liabilities	11	**43.1**	58.1	58.2
Subscribed capital	12	**41.6**	161.6	161.6
Total liabilities		**34,975.8**	31,311.2	32,462.9
Equity				
General reserve		**1,297.3**	1,131.8	1,222.3
Other equity instruments	13	**396.9**	396.9	396.9
Available-for-sale reserve	14	**(1.9)**	0.3	2.5
Cash flow hedge reserve		**56.4**	21.7	29.8
Total members' interests and equity		**1,748.7**	1,550.7	1,651.5
Total members' interests, liabilities and equity		**36,724.5**	32,861.9	34,114.4

The notes on pages 12 to 21 form part of this Interim Financial Report.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN MEMBERS' INTERESTS AND EQUITY

FOR THE PERIOD ENDED 30 JUNE 2016

	Notes	General reserve £m	Other equity instruments £m	Available-for-sale reserve £m	Cash flow hedge reserve £m	Total £m
As at 1 January 2016 (Audited)		**1,222.3**	**396.9**	**2.5**	**29.8**	**1,651.5**
Profit for the financial period		**84.2**	**-**	**-**	**-**	**84.2**
Net movement in Available-for-sale reserve		**-**	**-**	**(4.4)**	**-**	**(4.4)**
Net movement in Cash flow hedge reserve		**-**	**-**	**-**	**26.6**	**26.6**
Total comprehensive income		**84.2**	**-**	**(4.4)**	**26.6**	**106.4**
Distribution to Additional Tier 1 capital holders*	13	**(9.2)**	**-**	**-**	**-**	**(9.2)**
As at 30 June 2016 (Unaudited)		**1,297.3**	**396.9**	**(1.9)**	**56.4**	**1,748.7**

	Notes	General reserve £m	Other equity instruments £m	Available-for-sale reserve £m	Cash flow hedge reserve £m	Total £m
As at 1 January 2015 (Audited)		1,061.9	396.9	(0.7)	32.8	1,490.9
Profit for the financial period		80.1	-	-	-	80.1
Net movement in Available-for-sale reserve		-	-	1.0	-	1.0
Net movement in Cash flow hedge reserve		-	-	-	(11.1)	(11.1)
Total comprehensive income		80.1	-	1.0	(11.1)	70.0
Distribution to Additional Tier 1 capital holders*	13	(10.2)	-	-	-	(10.2)
As at 30 June 2015 (Unaudited)		1,131.8	396.9	0.3	21.7	1,550.7

	Notes	General reserve £m	Other equity instruments £m	Available-for-sale reserve £m	Cash flow hedge reserve £m	Total £m
As at 1 January 2015 (Audited)		1,061.9	396.9	(0.7)	32.8	1,490.9
Profit for the financial year		171.3	-	-	-	171.3
Net remeasurement of defined benefit plan		9.5	-	-	-	9.5
Net movement in Available-for-sale reserve		-	-	3.2	-	3.2
Net movement in Cash flow hedge reserve		-	-	-	(3.0)	(3.0)
Total comprehensive income		180.8	-	3.2	(3.0)	181.0
Distribution to Additional Tier 1 capital holders*	13	(20.4)	-	-	-	(20.4)
As at 31 December 2015 (Audited)		1,222.3	396.9	2.5	29.8	1,651.5

* The distribution to Additional Tier 1 capital holders is shown net of an associated tax credit of £3.6 million (30 June 2015: £2.6 million, 31 December 2015: £5.2 million).

The notes on pages 12 to 21 form part of this Interim Financial Report.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE PERIOD ENDED 30 JUNE 2016

	Period to 30 Jun 2016 (Unaudited) £m	Period to 30 Jun 2015 (Unaudited) £m	Year ended 31 Dec 2015 (Audited) £m
Cash flows from operating activities			
Profit before tax	**110.0**	100.4	216.0
Adjustments for:			
Impairment provisions and other provisions	**8.4**	15.6	13.9
Depreciation and amortisation	**7.0**	6.1	12.9
Interest on subordinated liabilities and subscribed capital	**7.7**	8.2	16.4
Changes to fair value adjustment of hedged risk	**(137.6)**	122.5	65.7
Other non-cash movements	**(59.2)**	(32.3)	6.3
Non-cash items included in profit before tax	**(173.7)**	120.1	115.2
Loans and advances to credit institutions	**(13.4)**	(64.7)	(59.3)
Loans and advances to customers	**(2,035.6)**	(1,805.3)	(2,449.1)
Prepayments, accrued income and other assets	**(4.0)**	(3.1)	10.0
Changes in operating assets	**(2,053.0)**	(1,873.1)	(2,498.4)
Shares	**1,620.8**	767.9	1,942.9
Deposits and other borrowings	**433.5**	838.8	680.3
Debt securities in issue	**177.6**	(23.5)	(7.3)
Accruals, deferred income and other liabilities	**(7.8)**	(15.3)	(19.0)
Changes in operating liabilities	**2,224.1**	1,567.9	2,596.9
Interest paid on subordinated liabilities and subscribed capital	**(7.7)**	(8.2)	(16.4)
Taxation	**(18.2)**	(21.8)	(43.1)
Net cash flows from operating activities	**81.5**	(114.7)	370.2
Cash flows from investing activities			
Purchase of investment securities	**(92.8)**	(173.4)	(273.4)
Sale and maturity of investment securities and equities	**238.5**	248.1	355.1
Purchase of property, plant and equipment and intangible assets	**(10.4)**	(6.4)	(20.1)
Proceeds from sale of properties	**2.4**	0.6	3.3
Repurchase of subordinated liabilities and subscribed capital	**(134.8)**	-	-
Net cash flows from investing activities	**2.9**	68.9	64.9
Cash flows from financing activities			
Distributions paid to Additional Tier 1 capital holders	**(12.8)**	(12.8)	(25.6)
Repurchase and repayment of debt securities	**(52.8)**	(549.5)	(590.3)
Issue of debt securities	**275.0**	499.0	650.0
Net cash flows from financing activities	**209.4**	(63.3)	34.1
Net increase/(decrease) in cash	**293.8**	(109.1)	469.2
Cash and cash equivalents at start of period	**2,542.5**	2,073.3	2,073.3
Cash and cash equivalents at end of period	**2,836.3**	1,964.2	2,542.5
Cash and cash equivalents:			
Cash and balances with the Bank of England[1]	**2,806.3**	1,964.2	2,542.5
Loans and advances to credit institutions	**30.0**	-	-
	2,836.3	1,964.2	2,542.5

1. Excludes £48.4 million mandatory reserve with the Bank of England (30 June 2015: £43.4 million, 31 December 2015: £45.3 million).

The notes on pages 12 to 21 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 2016 and show the financial performance for the period from, and including, 1 January 2016 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 2016 have been prepared in accordance with the Disclosure and Transparency Rules of the Financial Conduct Authority (FCA) and with IAS 34 Interim Financial Reporting as adopted by the EU. 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 2015, which have been prepared in accordance with 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.

Changes in accounting policy

The accounting policies adopted by the Group in the preparation of its 2016 Interim Financial Report are consistent with those disclosed in the Annual Report & Accounts for the year ended 31 December 2015. There have been no new or amended standards or interpretations which have had a significant impact on the preparation of the 2016 Interim Financial Report.

Going concern

Details of the Group's objectives, policies and processes for managing its exposure to credit, market, liquidity and funding, conduct, operational and business risks are contained in the Risk Management Report of the 2015 Annual Report & Accounts. The directors also include a statement on long-term viability on page 58 of the 2015 Annual Report, which covers the period to December 2020. This period was chosen as the Society's Strategic Plan, ICAAP and ILAAP all cover a five year period. An update on new principal risks and uncertainties has been provided on page 6 and 7, which considers the impact of the European Union referendum vote and new legislation on buy to let lending.

Taking these 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 that the long-term viability statement in the 2015 Annual Report remains appropriate. Accordingly, it is appropriate to adopt the going concern basis in preparing this Interim Financial Report.

NOTES TO THE INTERIM FINANCIAL REPORT

(continued)

Significant accounting judgement and estimates

The preparation of financial statements requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results ultimately may differ from these estimates. Those items where management is required to make critical accounting estimates (as noted below) remain unchanged from the year ended 31 December 2015 and details are provided on page 108 of the 2015 Annual Report & Accounts.

Areas of significant judgement and estimation

- Mortgage Effective Interest Rate
- Fair value adjustments in respect of acquired assets
- Impairment provisions on loans and advances to customers
- Valuation of Level 3 derivatives

3. Interest receivable and similar income

	Period to 30 Jun 2016 (Unaudited) £m	Period to 30 Jun 2015 (Unaudited) £m	Year ended 31 Dec 2015 (Audited) £m
On loans fully secured on residential property	**485.5**	464.5	944.5
On other loans	**1.1**	1.3	2.5
Interest and other income on debt securities	**20.0**	18.0	37.7
Interest and other income on other liquid assets	**6.3**	4.7	9.7
Net expense on financial instruments hedging assets	**(51.0)**	(42.3)	(90.4)
Total	**461.9**	446.2	904.0

4. Interest payable and similar charges

	Period to 30 Jun 2016 (Unaudited) £m	Period to 30 Jun 2015 (Unaudited) £m	Year ended 31 Dec 2015 (Audited) £m
Bank and customer			
Subordinated liabilities	**1.7**	2.1	4.2
Other	**11.3**	10.0	20.5
Debt securities in issue	**63.0**	57.2	115.9
Other borrowed funds			
On shares held by individuals	**229.8**	223.6	453.8
On other shares	**-**	-	0.1
On subscribed capital	**6.0**	6.1	12.2
Net income on financial instruments hedging liabilities	**(37.2)**	(32.4)	(66.6)
Total	**274.6**	266.6	540.1

5. Other operating income

Other operating income of £5.6 million (30 June 2015: £0.5 million) includes £4.9 million relating to the gain on completion of the acquisition of Visa Europe Limited by Visa Inc. The Society has received upfront cash proceeds and preference shares, and will be eligible for future cash consideration in exchange for its share in Visa Europe Limited.

6. Administrative expenses

	Period to 30 Jun 2016 (Unaudited) £m	Period to 30 Jun 2015 (Unaudited) £m	Year ended 31 Dec 2015 (Audited) £m
Employee costs			
Wages and salaries	**31.8**	29.7	61.6
Social security costs	**3.1**	2.9	6.1
Pension costs			
Defined benefit plan	**(0.3)**	-	(0.1)
Defined contribution plan	**2.3**	2.2	4.4
	36.9	34.8	72.0
Other expenses	**29.6**	24.2	52.5
Total	**66.5**	59.0	124.5

7. Impairment provisions on loans and advances to customers

Impairment provisions have been deducted from the appropriate asset values in the Condensed Consolidated Statement of Financial Position.

	Period to 30 Jun 2016 (Unaudited) £m	Period to 30 Jun 2015 (Unaudited) £m	Year ended 31 Dec 2015 (Audited) £m
Impairment charge/(credit) for the period	**0.3**	0.7	(1.9)
Impairment provision at the end of the period:			
Residential mortgages	**15.7**	20.6	16.5
Other loans	**5.2**	5.2	5.2
Total	**20.9**	25.8	21.7

The incurred loss element of the fair value adjustments arising from the merger with Stroud & Swindon Building Society of £4.0 million has been included within the closing provision in the table above (30 June 2015: £5.0 million, 31 December 2015: £4.3 million).

Further information on loans and advances to customers is presented in note 9.

NOTES TO THE INTERIM FINANCIAL REPORT

(continued)

8. Provisions for liabilities and charges

	Period to 30 Jun 2016 (Unaudited) £m	Period to 30 Jun 2015 (Unaudited) £m	Year ended 31 Dec 2015 (Audited) £m
At 1 January	**8.8**	8.5	8.5
Charge for the period	**8.1**	14.9	15.8
Provision utilised	**(0.3)**	(0.3)	(15.5)
Total	**16.6**	23.1	8.8

As at 30 June 2016, a provision of £14.6 million (30 June 2015: £22.0 million, 31 December 2015: £7.0 million) was held for amounts payable to the Financial Services Compensation Scheme (FSCS). During the period, a further provision was made in respect of the FSCS totalling £7.6 million (30 June 2015: £14.2 million, 31 December 2015: £14.1 million).

Included above are other provisions totalling £2.0 million (30 June 2015: £1.1 million, 31 December 2015: £1.8 million) made in respect of circumstances that may give rise to various customer claims. During the period, the Group raised a further £0.5 million provision (30 June 2015: £0.7 million, 31 December 2015: £1.7 million) for Payment Protection Insurance (PPI) redress to customers, reflecting a small increase in the number of claims received and the impact of the expected introduction of a deadline for PPI claims.

9. Loans and advances to customers

	Period to 30 Jun 2016 (Unaudited) £m	Period to 30 Jun 2015 (Unaudited) £m	Year ended 31 Dec 2015 (Audited) £m
Residential mortgages			
Owner-occupier mortgages	**19,002.9**	17,727.2	18,395.4
Buy to let mortgages	**12,043.2**	10,577.5	10,588.2
Near-prime mortgages[1]	**91.7**	99.2	94.6
Self-certification mortgages[1]	**269.2**	313.1	289.9
Other loans			
Commercial mortgages	**3.3**	4.7	3.8
Unsecured loans	**36.0**	42.4	39.1
Total	**31,446.3**	28,764.1	29,411.0

1. No new near prime or self-certification mortgages have been originated since November 2008 and February 2009 respectively.

10. Debt securities in issue

As at 30 June 2016, the Group had a total of £4,111.8 million debt securities in issue (30 June 2015: £3,583.4 million, 31 December 2015: £3,716.6 million).

In March 2016 a new Group structured entity, Offa No.1 Plc, issued £427.5 million of mortgage back securities secured against certain buy to let loans of Godiva Mortgages Limited, of which £152.5 million were retained by the Group. Under the terms of the securitisation programme, the nominal amount of the debt securities is paid down to match the payment profile of the mortgages pledged to the programme. The Group has not derecognised the loan book, and Offa No.1 Plc is consolidated within the Group. As at 30 June 2016, the nominal value of the Offa No.1 Plc mortgage backed securities totalled £404.0 million of which £144.1 million was held by the Group. The Group's obligation in respect of the Offa securitisation vehicle is limited to transferring cash flows from the underlying assets.

NOTES TO THE INTERIM FINANCIAL REPORT

(continued)

11. Subordinated liabilities

	Period to 30 Jun 2016 (Unaudited) £m	Period to 30 Jun 2015 (Unaudited) £m	Year ended 31 Dec 2015 (Audited) £m
Fixed rate subordinated notes 2016 - 12.25%	**7.5**	7.5	7.1
Fixed rate subordinated notes 2021 - 6.12%	**10.1**	10.1	10.1
Fixed rate subordinated notes 2022 - 6.469%	**-**	15.0	15.5
Fixed rate subordinated notes 2026 - 6.327%	**10.2**	10.2	10.2
Fixed rate subordinated notes 2032 - 7.54%	**15.3**	15.3	15.3
Total	**43.1**	58.1	58.2

All the subordinated liabilities are denominated in sterling. The notes are repayable in the years stated, or earlier in accordance with their terms at the option of the Society, with the 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)) as to principal and interest.

In January 2016, with the consent of the PRA, the Society repurchased £15.5 million of the Fixed rate subordinated notes 2022 – 6.469%.

12. Subscribed capital

	Call date	**Period to 30 Jun 2016 (Unaudited) £m**	Period to 30 Jun 2015 (Unaudited) £m	Year ended 31 Dec 2015 (Audited) £m
Permanent Interest Bearing Shares 1992 - 12.125%	n/a	**41.6**	41.6	41.5
Permanent Interest Bearing Shares 2006 - 6.092%	June 2016	**-**	120.0	120.1
Total		**41.6**	161.6	161.6

Interest is paid in arrears on £40 million PIBS at the rate of 12.125% per annum in half-yearly instalments and on £120.0 million PIBS at the rate of 6.092% per annum in half yearly instalments. The shares are repayable only in the event of a winding up of the Society or otherwise with the prior consent of the PRA. PIBS rank equally with PCS. They rank behind all other creditors of the Society including subordinated liabilities and the claims of Shareholding Members (other than holders of PCS) as to 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.

In June 2016, with the consent of the PRA, the Society repaid in full the 2006 PIBS.

NOTES TO THE INTERIM FINANCIAL REPORT

(continued)

13. Other equity instruments

In June 2014, the Society issued £400 million (£396.9 million net of issuance costs and associated tax) of new PCS capital. These instruments rank equally with each other and with PIBS. They rank behind all other creditors of the Society including subordinated liabilities and the claims of Shareholding Members (other than holders of PIBS) as to 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.

The PCS pay a fully discretionary, non-cumulative fixed coupon at an initial rate of 6.375% per annum. The rate will reset on 1 November 2019 and every five years thereafter to the five year mid swap rate plus 4.113%. Coupons are paid semi-annually in May and November. A coupon payment of £12.8 million, covering the period 1 November 2015 to 30 April 2016 was approved and recognised net of tax in the Statement of Changes in Members' Interests and Equity in the period ended 30 June 2016 (31 December 2015: coupon payment of £25.6 million, covering the period from 1 November 2014 to 31 October 2015 was made and recognised in the financial year ended 31 December 2015).

The instruments have no maturity date. They are repayable at the option of the Society in November 2019 or 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 held.

The returns paid to investors on these securities are treated as an appropriation of profit after tax, reflecting their categorisation as equity instruments, and hence are not reflected within the Income Statement, but instead are distributed directly from the general reserve.

14. Available-for-sale reserve

Amounts within the Available-for-sale reserve are transferred to the Income Statement upon the disposal of the related debt securities or equity investments, and where a hedging relationship exists between the debt securities and a derivative instrument.

During the period, a £49.4 million gain (30 June 2015: £24.7 million loss, 31 December 2015: £21.6 million gain) was transferred to 'Net losses from derivative financial instruments' in the Income Statement to offset the effects of changes in the fair value of derivatives hedging Available-for-sale debt securities. Amounts transferred to 'Other Operating Income' (see note 5) totalled £4.9 million (30 June 2015: £nil, 31 December 2015: £nil) in respect of the disposal of Available-for-sale equity instruments.

NOTES TO THE INTERIM FINANCIAL REPORT

(continued)

15. Financial instruments – classification and fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Group has access at that date.

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: quoted prices (unadjusted) 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.

When applicable, the Group measures the fair value of an instrument 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. For all other financial instruments the Group determines fair values using other valuation techniques.

The following table summarises the fair value of the Group's financial assets and liabilities measured at amortised cost on the face of the Group's Statement of Financial Position:

	Carrying amount 30 Jun 2016 (Unaudited) £m	**Fair value 30 Jun 2016 (Unaudited) £m**	Carrying amount 30 Jun 2015 (Unaudited) £m	Fair value 30 Jun 2015 (Unaudited) £m	Carrying amount 31 Dec 2015 (Audited) £m	Fair value 31 Dec 2015 (Audited) £m
Financial assets						
Loans and advances to credit institutions	**276.1**	**276.1**	242.9	242.9	235.8	235.8
Loans and advances to customers	**31,446.3**	**31,325.2**	28,764.1	28,702.8	29,411.0	29,327.1
Financial liabilities						
Shares	**26,927.6**	**27,136.2**	24,137.4	24,396.4	25,355.8	25,597.2
Deposits from banks	**2,265.4**	**2,267.9**	2,060.5	2,058.7	1,809.9	1,809.4
Other deposits	**6.0**	**5.9**	5.5	5.5	3.0	3.0
Amounts owed to other customers	**781.3**	**780.9**	712.8	712.8	806.5	806.4
Debt securities in issue	**4,111.8**	**4,344.5**	3,583.4	3,831.6	3,716.6	3,953.8
Subordinated liabilities	**43.1**	**47.5**	58.1	61.7	58.2	63.8
Subscribed capital	**41.6**	**78.4**	161.6	204.6	161.6	199.2

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. Future cash flows are projected using contractual interest payments, contractual repayments and the expected prepayment behaviour of borrowers. Conservative assumptions are applied regarding expected levels of customer prepayments and the risk of defaults.

The resulting estimated future cash flows are discounted at current market rates to determine a fair value. These fair values have been adjusted where necessary to reflect any observable market conditions at the time of valuation.

15. Financial instruments – classification and fair value measurement continued

Customer shares and deposits
Shares and deposits from customers are valued in accordance with the cash flows projected from the contractual terms of the deposits. The fair value of shares and deposits that are 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 from those deposits discounted at the current market rates for those types of deposit.

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 measurements and classification within the fair value hierarchy
The following table summarises the fair value hierarchy of the Group's financial assets and liabilities measured at fair value on the face of the Group's Statement of Financial Position:

30 June 2016 (Unaudited)	**Level 1 £m**	**Level 2 £m**	**Level 3 £m**	**Total fair value £m**
Derivative financial instruments - assets	**-**	**349.4**	**-**	**349.4**
Debt securities	**1,444.2**	**3.0**	**6.0**	**1,453.2**
Investment in equity shares	**-**	**-**	**5.8**	**5.8**
Derivative financial instruments - liabilities	**-**	**(410.9)**	**(78.5)**	**(489.4)**
30 June 2015 (Unaudited)				
Derivative financial instruments - assets	-	161.7	-	161.7
Debt securities	1,517.4	32.2	7.4	1,557.0
Derivative financial instruments - liabilities	-	(342.3)	(53.1)	(395.4)
31 December 2015 (Audited)				
Derivative financial instruments - assets	-	173.0	-	173.0
Debt securities	1,535.0	9.7	7.0	1,551.7
Investment in equity shares	-	-	3.3	3.3
Derivative financial instruments - liabilities	-	(298.0)	(55.5)	(353.5)

Level 1 - Debt securities
Market prices have been used to determine the fair value of listed debt securities.

Level 2 - Derivatives
Derivative products valued using a valuation technique with observable market inputs are interest rate swaps and cross currency swaps. The valuation techniques applied are swap models using present value calculations. The models incorporate various assumptions including interest rate curves and foreign exchange spot and forward rates.

15. Financial instruments – classification and fair value measurement continued

Level 2 - Debt securities

Debt securities comprise mortgage backed securities. Debt securities for which no market price is available at the period end date are valued by one of two methods. Where there are recent market prices or executable bids for the security, these are used as the basis for establishing a period end price for valuation purposes. Otherwise, a security is priced based on its relative value to observable comparable bonds.

Level 3 - Derivatives

Level 3 derivatives comprise balance tracking interest rate swaps. These are valued using the same valuation technique as Level 2 derivatives. 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. A change of 10% in the prepayment rates used results in a £0.8 million change in the value of the swaps. As changes in the projection of interest and prepayment rates of the underlying mortgage portfolio impact the swap and hedged item equally, the net Income Statement and Balance Sheet impact would be negligible.

Level 3 – Investments in Equity Shares

Level 3 investments in equity shares comprise equity instruments which are held by the Group. They are valued based on future cash consideration which the Group expects to receive on sale of the instrument, or the underlying market value.

Where appropriate, a discount is applied to the valuation to reflect marketability and other risks in relation to the instruments. A change in the discount of 10% would result in a change in the carrying value of the investment of £0.8 million.

Level 3 – Debt securities

Level 3 debt securities comprise one mortgage backed security. This is valued using the same valuation technique as Level 2 listed securities, namely by establishing a price based on its value relative to comparable bonds. The unobservable inputs relate to estimates of the likely timing of repayments and hence the weighted average life of the security. A change in price of 3%, which can be taken to represent the impact of repayment commencing (if positive) or being set back further (if negative), would change the value of the security by £0.2 million.

The following table analyses movements in the Level 3 portfolio:

	Total £m
As at 1 January 2015 (Audited)	(52.9)
Items recognised in the Income Statement	
Interest receivable and similar income	0.1
Interest payable and similar expense	(6.3)
Net unrealised gains	4.8
Available-for-sale reserve fair value movement	(0.3)
Settlements	6.1
Transfers into Level 3 portfolio	3.3
As at 31 December 2015 (Audited)	**(45.2)**
Items recognised in the Income Statement	
Interest payable and similar expense	**(3.1)**
Net unrealised losses	**(23.0)**
Fair value movement taken to members' interests and equity	**0.7**
Settlements	**(0.6)**
Transfers into Level 3 portfolio	**4.5**
As at 30 June 2016 (Unaudited)	**(66.7)**

15. Financial instruments – classification and fair value measurement continued

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.

In the six months to 30 June 2016, one debt security valued at £8.7 million was transferred from Level 2 to Level 1, one debt security valued at £2.7 million was transferred from Level 1 to Level 2 and one investment in equity shares valued at £4.5 million was transferred into Level 3. The investment in equity shares was previously held at cost as fair value could not be reliably measured.

RESPONSIBILITY STATEMENT

The directors confirm that this Interim Financial Report has been prepared in accordance with IAS 34 as adopted by the EU. The Interim Management Report includes a fair review of the important events that have occurred during the first six months of the financial year and their impact on the Interim Financial Statements, as required by the Disclosure and Transparency Rules (DTR 4.2.7). The principal risks and uncertainties continue to be those reported within the Risk Management Report starting on page 22 of the 2015 Annual Report & Accounts and those detailed on page 6 and 7 of this Interim Financial Report.

A full list of the Board of directors can be found in the 2015 Annual Report & Accounts. Subsequent to the publication of those Accounts, on 28 April 2016, Bridget Blow retired from the Board. Catherine Doran will join the Society's Board on 1 August 2016 as a Non-executive Director. Catherine is an experienced IT executive who has worked in regulated industries for 30 years, most recently as chief information officer at Royal Mail plc.

Signed on behalf of the Board by

Mark Parsons
Chief Executive
28 July 2016

John Lowe
Finance Director

INDEPENDENT REVIEW REPORT

Independent review report to Coventry Building Society

Introduction

We have been engaged by the Society to review the set of condensed consolidated financial statements in the Interim Financial Report for the six months ended 30 June 2016 which comprises the Condensed Consolidated Income Statement, Condensed Consolidated Statement of Comprehensive Income, Condensed Consolidated Statement of Financial Position, Condensed Consolidated Statement of Changes in Members' Interests and Equity, Condensed Consolidated Statement of Cash Flows and the related explanatory notes 1 to 15. 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 condensed consolidated financial statements.

This report is made solely to the Society in accordance with guidance contained in International Standard on Review Engagements 2410 (UK and Ireland) 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity' issued by the Auditing Practices Board. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Society, for our work, for this report, or for the conclusions we have formed.

Directors' Responsibilities

The Interim Financial Report 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 and Transparency Rules of the United Kingdom's Financial Conduct Authority.

As disclosed in note 2, the Annual Report & Accounts of the Society are prepared in accordance with IFRSs as adopted by the European Union. The set of condensed consolidated financial statements included in this Interim Financial Report has been prepared in accordance with International Accounting Standard 34, 'Interim Financial Reporting', as adopted by the European Union.

Our Responsibility

Our responsibility is to express to the Society a conclusion on the set of condensed consolidated financial statements in the Interim Financial Report based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410 (UK and Ireland), '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 Ireland) 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.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the set of condensed consolidated financial statements in the Interim Financial Report for the six months ended 30 June 2016 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority.

Ernst & Young LLP
Leeds
28 July 2016

OTHER INFORMATION

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 2015 has been extracted from the Annual Report & Accounts for that year. The Annual Report & Accounts for the year ended 31 December 2015 have been filed with the Financial Conduct Authority (formerly the Financial Services 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 thecoventry.co.uk/interim2016. 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.

thecoventry.co.uk

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