COVENTRY Building Society

Interim Financial Report

for the period ended 30 June 2022

All together, better

Performance highlights

All together, better

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

Better for savers

1.0%

Savings balance growth

(H1 2021: 2.4%)

£99m

Value returned to members[1]

(H1 2021: £100m)

2021 Which Recommended Provider for savings

Better for borrowers

0.0%

Mortgage balance growth

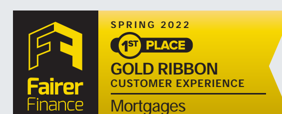
(H1 2021: 5.5%)

We helped

2,200

members to buy their first home

(H1 2021: 3,800)



2022 award Fairer Finance Gold Ribbons for mortgages

Better for service

+77

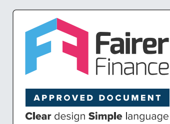
Net Promoter Score[2]

(H1 2021: +73)

97

Seconds average call waiting time[3]

(H1 2021: 51 seconds)



2022 Fairer Finance Clear and simple terms and conditions

Better for our colleagues and communities

£700k

Total community investment[4]

(H1 2021: £600k)

3,100

hours of colleagues' time donated to volunteering in the community

(H1 2021: 1,000 hours)

2022 Great places to work

Sustainable financial performance.

Capital

29.9%
Common Equity Tier 1
(FY 2021: 36.2%[5])

5.0%
UK Leverage Ratio
(FY 2021: 4.8%)

Profitability

£158m
Profit before tax
(H1 2021: £124m)

1.11%
Net Interest Margin
(H1 2021: 0.88%)

Efficiency

46.3%
Cost to income ratio
(H1 2021: 53.5%)

0.50%
Cost as a percentage of average assets
(H1 2021: 0.48%)

Lower risk

0.17%
% of mortgages more than 3 months in arrears
(FY 2021: 0.18%)

206%
Liquidity coverage ratio
(FY 2021: 187%)

1. Based on the Society's average month end savings rate compared to the CACI market average rate for savings accounts, excluding current accounts and offset savings, for the first five months of the year.
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.
3. Based on average call waiting times between 1 January 2022 and 30 June 2022.
4. Total community investment made by the Society including donations from the Society and fundraising activities.
5. From the 1 January 2022 the Society applied a new calculation methodology in order to comply with new regulatory changes. A comparative ratio for 31 December 2021 under this new methodology would have been 26.6%.

Chief Executive's review

The start of 2022 brought increasing confidence that the worst of the Covid health crisis was behind us. Whilst this has proved to be true, the impact of the pandemic and the heartbreaking conflict in Ukraine, with its enormous human cost, have helped create significant economic challenges, including the highest level of inflation experienced in the UK in forty years. In this context, the Society's robust performance in the first half of the year is a good reminder of the strength of our business model in the most challenging times. We remain strong and secure, we continue to support Members through our excellent service and value propositions whilst increasing help for the most vulnerable in our communities, and we continue to invest to ensure the resilience and relevance of the Society for the long term.

We have taken a balanced approach to managing the Society, which has increased profitability and investment in the near term, and maintained our strong capital position.

The economic conditions have led The Bank of England to increase Bank Rate four times in the first half of 2022 from 0.25% to 1.25%. We are expecting further increases during 2022 as the rate of inflation continues to present a significant challenge to the economy.

We have taken a deliberately cautious approach to lending that reflects both the uncertain market conditions, and competitive margin pressures. Redemptions are also running higher than in previous years with more borrowers choosing to pay early redemption charges in order to lock into lower mortgage rates ahead of anticipated increases in the Bank of England Bank Rate. Collectively this has meant mortgage balances have been maintained at £46.6 billion.

As we look ahead to the next six months, it is likely that demand for mortgage borrowing will continue to focus more on re-mortgages as home-owners seek certainty in what has become a very uncertain world. Ensuring that we remain a safe and secure place to save and borrow remains our priority, as is our focus on exceptional service and investing in the Society's future.

Our profit before tax of £158 million for the six months to 30 June 2022 compares with £124 million reported in the same period of 2021. This has been supported by the increases in Bank of England Bank Rate which have improved our margin and income performance. This has ensured our capital position remains strong despite changes to the regulatory environment and provides resilience in uncertain times.

A higher cost of living may limit people's ability to save and we will always work hard to provide the best value savings we can afford whilst ensuring we maintain our financial resilience.

We have supported savings members as interest rates have risen. Our average savings rates[1] increased by 0.35% to 1.12% in the first half of 2022, maintaining our very strong competitive position. This kept our average savings rate 0.54% higher than the market average meaning we paid an additional £99 million[2] of interest to our members than if we'd simply matched the average rates paid in the market (30 June 2021: 0.56%, £100 million)[2].

This helped grow our savings balances by £0.4 billion (30 June 2021: £0.9 billion), with overall balances exceeding £40 billion for the first time.

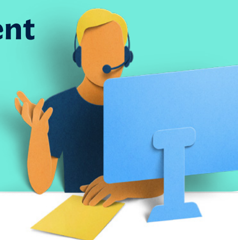
£158m Profit before tax

(H1 2021: £124m)

+77 Net Promoter Score

Our measure of excellent service[3]

(H1 2021: +73)



We also matched the average increase on our variable rate savings of 0.60% with the same average increase on our flexible variable mortgage rates. This together with limiting increases to our Standard Variable Rate linked mortgages to 0.40% shows our balanced and member-focussed approach to a rising interest rate environment.

We were able to offer higher rate savings bonds, including new loyalty bonds too. These products have been popular in the first six months of this year with members welcoming these additional options demonstrated by 70,000 members taking advantage of these great products at the time of writing.

While it is a challenging time for both savers and borrowers we have taken a balanced view for the whole of the Society. This means paying the best savings rates we can afford to our members, whilst maintaining our focus on financial resilience and protecting our mortgage customers too.

Our members and intermediary partners tell us how much they value the exceptional service my colleagues provide, which continues to differentiate us from other organisations.

We use a Net Promoter Score[3] to measure satisfaction. Our overall score currently stands at an outstanding +77, an increase of +4 from 30 June 2021. It is unsurprising, given this performance, that we have been re-awarded Gold Ribbons for customer experience for both savings and mortgages by Fairer Finance.

A simple example of this is the average time we take to answer the phone which stands at 97 seconds[4] on average so far this year (30 June 2021: 51 seconds). It's been a busy time, with customers contacting us more often and with more complex queries as interest rates have risen. I am really proud of the way our colleagues continue to offer such a brilliant and quick response to our members needs.

Our ability to deliver exceptional service as we grow will depend on our continued delivery of digital enhancements to both the savings and mortgage sides of the business.

We are maintaining this service focus with new capabilities coming on stream throughout the year, increasing the ability of members and brokers to self-serve whilst improving efficiency in the process. Notable enhancements during the first half of the year include digitising product switch capability for residential mortgages plus elements of our savings maturity process, as well as launching a webchat service for brokers and members. These are all examples of investing in making our services easier to access and scalable in support of our long term growth ambitions.

Chief Executive's review Continued

We talk about digital with a human touch, and our commitment to the personal service delivered through branches and contact centres is undiminished. During the last six months we have almost completed our branch investment programme, which will see all branches refurbished in a modern, warm and welcoming style. They are at the heart of their local communities, and the feedback we have received from members and colleagues alike has been fantastic. Fittingly, the final branch to be completed will be a new site in the heart of Coventry city centre, which is on track to open this autumn.

The 'customer-facing' investment is matched by ongoing delivery behind the scenes of improvements to operational resilience, information security and the transformation of our financial planning, controls and reporting. Again, these are significant investments in the long-term security and efficiency of the Society and we are increasingly seeing the benefit as we deliver these complex but critical programmes.

It is important that we invest wisely and during the six months to 30 June 2022 we kept our cost to mean assets ratio of 0.50%[5] which remains one of the lowest in the building society sector. This has been achieved despite the pressures of very high inflation and the need to support, attract and retain colleagues in the context of a tight employment market and cost of living challenges.

We do not take our colleagues' commitment to the Society lightly and continue to work really hard to reward their contribution as well as create a fantastic environment for them to develop and succeed.

It was great to be publicly recognised as one of the best places in the UK to work following our first entry to the Great Place to Work survey.

To achieve a top 20 position in our first entry was fantastic, and we are really keen to take this further by listening to our colleagues and hearing examples of best practice. One of our priorities is to adapt to hybrid working – a way of doing things that brings many benefits of increased flexibility but presents challenges too. Ensuring we're investing in our people and giving opportunities to engage, collaborate and connect with each other is key to maintaining a successful culture, and attracting and retaining talent at the Society.

Nowhere is this more important than building an inclusive and diverse workforce. I've talked in previous reports about our ambition to reflect the diversity of our city and the communities we serve. Following last year's submission, Great Place to Work also recently recognised us as one of the best places to work for women, ranking us 14th amongst the top 39 super large companies in this regard. One of our targets is for 50% of management roles to be held by women by 2025 and we are making real progress towards this, with women in 45% of management positions. We have a similar ambition for 25% of our manager and above roles to be held by colleagues with a Black, Asian or Minority Ethnic background by 2025. Progress against this metric is slower and so this year we've launched a talent programme specifically for colleagues from Black, Asian or Minority Ethnic backgrounds and are reviewing our hiring practices too. We are determined to make a difference.

We continue to make good progress in pursuit of our climate change objectives, being the first large building society to position sustainability within the Society's rules, an approach agreed by the FCA, as well as presenting our Climate Action Plan to a membership vote at our 2022 AGM.

The support was overwhelming, and we continue to press ahead. In the last six months we have signed The Climate Pledge[6], having demonstrated our transparency of reporting, our commitment to net zero plans, and our progress in already achieving net zero for Scope 1 and carbon neutrality for Scope 2 emissions. We incentivise and support work that improves the energy efficiency of existing housing stock and plan to do more in this area. We have joined the Science Based Targets Initiative and applied for BCorp[7] status and will update on both in future reports.

Investing in the governance of our sustainability strategy, whether through engaging members or applying independent scrutiny to our activities shows we are doing the right things in the right way. It extends to our social impact too, where we are supporting a trial with the leading global framework for measuring social impact (B4SI[8]) to evaluate the difference organisations are making through their community activities.

At a time when cost of living increases are being felt by members and non-members alike, we understand that many people's priorities are simply to make ends meet. We work really hard to help members who find themselves in financial difficulties. And we have extended the support we offer in partnership with national and local charities to provide a safety net to many families struggling in the current environment.

This builds upon our community strategy by which we are targeting issues of financial education and aspiration, access to housing and isolation and vulnerability.

I am really pleased with the progress we are making in building long term partnerships with public, third sector and business organisations. A particular highlight for me was the Seeing is Believing event, co-organised with the charity, Business in the Community, which demonstrated the fantastic work being done by charities in our most deprived areas. It really brought home to me the challenges our communities face but also the immense contribution businesses can make by applying their skills, knowledge and resources to the problems being faced by so many today. And I really appreciate that our branches play a vital role in sustaining and supporting local communities across the country. We will continue to report our social impact through our annual sustainability report which can be found on our website.

This review also comes as Coventry's time as the UK City of Culture officially comes to an end. Although altered by the pandemic I am proud to have supported something that has

showcased the best of the city whilst helping to transform many aspects of it. The legacy of this investment will be felt for years to come and help change many people's perception of this young, diverse and energetic city.

We are looking to change perceptions too. Coventry Building Society will grow and succeed by being better known and this is why we continue to invest in increasing brand awareness. The sponsorship of the Coventry Building Society Arena has put us on the map, with great visibility from the sporting, entertainment and business events it holds. We are starting to see the impact in terms of increased awareness of the Society, and it is proving the focal point we hoped for in our community and colleague engagement.

Taking the long-term view lies at the heart of our performance.

I have said many times that the strength of the mutual business model is our ability to take the long-term view, working in the interests of members, colleagues, investors, business partners and local communities. Profit and capital provide resilience and a platform for investment. Our members see the benefit of the model through the value we offer, the service we provide and the impact we can have on them and their communities. We also invest for the future to ensure a thriving and relevant business for current and future members. All of this underpinned by investment in our colleagues, their careers and development.

In April, we said goodbye to Gary Hoffman, our Chair since 2018 and a fantastic advocate of the Society and what we do. I want to take this opportunity to thank him for his support to me personally and all that he has done for the Society during a period of great change.

At the same time, I would like to welcome David Thorburn our new Chair. David brings great experience and credibility to the role, but just as importantly shares the Values and ambition of a Society that continues to strive to improve. I am very much looking forward to working with him over the coming years.

Outlook

It is a challenging time. The economic fallout from the pandemic, exacerbated by the tragic events in Ukraine, will be the key influence on the lives of our members, colleagues and communities in the immediate future. It is likely there will be a period of retrenchment, if not recession, with implications for the type and level of activity we'll see in both the savings and mortgage markets.

'The strength of the mutual model is being able to take the long-term view'

At the same time, the rising interest rate environment will be welcomed by many of our members who rely on savings interest to bolster their income.

As I mentioned earlier, one of the strengths of the Society's business model is our ability to manage through tough times. Our priority is to protect the interests of our members over the long term, and we remain focused on doing so.

This means we will continue to deliver value and exceptional service, whilst investing for the future. It requires a sustainable financial performance and strong capital position, and we continue to deliver both. The Society is well placed to support our members, colleagues and communities delivering security and stability in an uncertain world, whilst proactively engaging with all stakeholders in line with our brand promise, All Together, Better.

I'd like to finish by thanking my colleagues across the Society who through their hard work make all this possible, and our members for the loyalty and trust they give us.

Steve Hughes

Chief Executive

28 July 2022

1. Based on the average month end rate across the Society's mix of products for savings accounts, excluding current accounts and offset savings for the first six months of the year.
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 2022. Comparative numbers have been updated to reflect a consistent basis with those used at 31 December 2021, previously disclosed numbers 0.53% and £100 million respectively.
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. Based on average call waiting times between 1 January 2022 and 30 June 2022.
5. Administrative expenses, depreciation and amortisation/Average total assets.
6. Companies and organisations that sign the Pledge agree to measure and report greenhouse gas emissions on a regular basis and implement decarbonisation strategies in line with the Paris Agreement with an overall goal to achieve net-zero annual carbon emissions by 2040.
7. B Corp status is the highest sustainability accolade awarded to organisations by the Science Based Targets Initiative.
8. The B4SI Framework is a robust measurement standard that any company can apply to understand the difference their contributions make to their business and society.

Chief Financial Officer's review

With the increased uncertainty currently affecting the UK economy, the Society is focused more than ever on ensuring long-term value is delivered to all of our stakeholders. Sustainable financial performance underpins this delivery and we remain committed to providing great propositions, products and services whilst investing in the long-term resilience of the Society. I am pleased to report that our financial performance has strengthened during the first six months of 2022 and we have delivered against our financial goals.

Summary

Our profit before tax increased to £158 million (30 June 2021: £124 million), an increase of £34 million on the same period last year. This increase is primarily due to improvements in net interest income, partly offset by an increase in costs and the net impact of a charge in the current period to expected credit losses verses the large release recognised in the prior period.

Net interest income increased to £304 million (30 June 2021: £228 million) and our net interest margin (NIM) increased to 111 bps (30 June 2021: 88 bps). The increase was driven by an improvement in retail funding costs where we have passed on 52% of the 1.15% increase in Bank of England Bank Rate, whilst at the same time maintaining the value returned to members compared to market average. Prior year performance was impacted by a £27 million reduction to net interest income and a 10 bps reduction to NIM as a result of a change in the estimation of the Effective Interest Rate (EIR) of our mortgage portfolio.

Given the economic uncertainty, increasingly competitive mortgage market and contraction in new business margins over the past 12 months, the Society took the decision to moderate its growth levels during this period, protecting both capital and the long-term interests of members. Our H1 2022 mortgage book has remained flat at £46.6 billion and with mortgage margins now stabilising, we expect to return to growth during the second half of the year.

Our strong financial performance has allowed the Society to increase its significant investment in improving and modernising services for members. We invested £47 million (30 June 2021: £44 million) in the first half of the year with a focus on digital, branches, mortgages and improving our risk and control environment. This, together with an increase in our operational costs to run the Society, has increased our management expenses to £139 million (30 June 2021: £124 million). Our costs to mean assets ratio of 0.50%[1] (30 June 2021: 0.48%) has increased as a result but remains flat on our 31 December 2021 position. The cost to income ratio improved to 46%[2] (30 June 2021: 54%) as a result of our strong income performance.

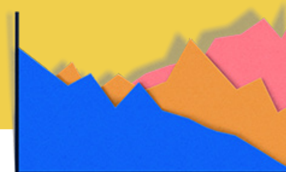
The Society's mortgage book continues to perform well with only 0.17% of mortgages more than 3 months in arrears, an improvement on the position at 31 December 2021 (0.18%). However, we are mindful of the potential impact of ongoing difficulties being experienced by UK consumers and are monitoring this carefully. The economic environment has shown a number of stronger indicators than expected, however with the current cost of living pressures and ongoing conflict in Ukraine, we remain cautious in our approach to expected credit losses, encapsulated through our inclusion of a 5th economic scenario to reflect the current inflationary environment. Despite the improved performance of the book and continued increase in house prices a charge of £2 million for the period has been recognised increasing provisions as result of a new £4.5 million cost of living post model adjustment for potential expected credit losses for those customer segments most impacted by the current inflationary environment.

This strong performance meant that we continue to hold a strong capital position with a Common Equity Tier 1 ratio of 29.9% (31 December: 36.2%[3]) and I am pleased to report a further improvement in the Leverage ratio to 5.0% (31 December 2021: 4.8%). The reduction in the CET 1 ratio to 29.9% was in line with previous guidance within our Annual Report and Accounts and reflects an increase in risk weighted assets driven by the change in industry wide regulation required from 1 January 2022.

46%

Cost to income ratio[2]

(H1 2021: 54%)



34%

Growth in Net Interest Income

(H1 2021: 28%)

0.17%

% of mortgages more than 3 months in arrears

(FY 2021: 0.18%)

The financial performance of the Society in the first half of 2022 has seen a strong and improving performance. The outlook remains positive for the remainder of 2022, although we remain alert to the impact of inflation and higher interest rates on both our mortgage and savings members.

Lee Raybould

Chief Financial Officer

28 July 2022

Chief Financial Officer's review Continued

Financial Review

Income Statement

	Period to 30 Jun 2022 (Unaudited) £m	Period to 30 Jun 2021 (Unaudited) £m	Year ended 31 Dec 2021 (Audited) £m
Interest receivable	**547.5**	406.9	833.9
Interest payable	**(243.3)**	(179.2)	(357.7)
Net interest income	**304.2**	227.7	476.2
Other income	**0.4**	(0.8)	(1.4)
(Losses)/gains on derivatives and hedge accounting	**(4.9)**	4.6	(6.6)
Total income	**299.7**	231.5	468.2
Management expenses	**(138.8)**	(123.9)	(263.5)
Impairment (charge)/release	**(2.3)**	17.1	28.7
Provisions	**—**	—	—
Charitable donation to Poppy Appeal	**(0.3)**	(0.3)	(0.6)
Profit before tax	**158.3**	124.4	232.8

Net interest income for the period was £304 million (30 June 2021: £228 million). The increase in net interest income of £76 million includes the impact of the charge recognised in the prior year due to changes made to the estimations within our Effective Interest Rate (EIR) calculation of £27 million explained below. The increase is due to improved performance in our savings portfolio as a result a lower cost of variable savings balances where we have passed on 52% of the 1.15% increase in the Bank of England Bank Rate, the benefit of lending growth in our book from prior year, offset by a reduction in our mortgage returns following the recent competitive pressure in the secured lending market. This improved performance delivered a Net Interest Margin (NIM) of 1.11% (30 June 2021: 0.88%).

Net interest income in the prior year included a charge of £27 million relating to a change to the future assumptions on mortgage redemption behaviour as customers spend less time on SVR, a trend that has continued to be observed into 2022. More information is included in note 3 to the accounts.

Losses on derivatives and hedge accounting of £5 million (30 June 2021: £5 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 loss in the first half of the year represents fair value movements on savings derivatives which were not yet designated into hedge relationships.

Management expenses including depreciation and amortisation for the period were £139 million (30 June 2021: £124 million). The increase in costs of £15 million was primarily driven by an increase of £8 million in spending related to the Society's strategic investment programme as well as an increase in day to day running costs of £7 million due to additional employee costs, inflationary impacts and investment in our brand including the Coventry Building Society Arena.

The total spend on investment programmes including capital expenditure of £47 million (30 June 2021: £44 million) has been focused on activity to modernise our services which has included the ongoing redesign of the branch network, the implementation of a new mortgage platform and investment to improve our digital capability. In addition, we continue to focus on improving the resilience of services for members, whilst maintaining our strong focus on cost efficiency.

The cost to mean assets ratio of 0.50%[1] is broadly in line with the first six months of 2021 and is expected to remain among the lowest in the building society sector[4]. The cost to income ratio has improved to 46%[2] (30 June 2021: 54%) reflecting the growth in income relative to our cost base in the period.

Expected credit losses

The performance of our mortgage book has improved with the overall economic outlook being better in certain key metrics than anticipated as at 31 December 2021 with the continued growth in house prices and observed lower unemployment levels. Despite these measures improving, with rising inflation and a cost of living crisis the Society has incorporated a 5th economic scenario into its models to account for a period of heightened inflation and the subsequent impact to the economy and in turn Expected Credit Losses (ECLs). As well as incorporating a new scenario we have introduced a new post model adjustment (PMA) to reflect the potential risk associated to the increase in cost of living for borrowers, and potential for increased levels of arrears which have not yet been identified within the Society's impairment models, despite the current low levels being observed and strong affordability lending measures used by the Society. As a result of this the ECL provision has increased to £21 million (31 December 2021: £19 million) reflecting a reduction of £2.5 million due to improved performance and economic scenarios offset by a £4.5 million post model adjustment for cost of living resulting in a net charge of £2 million being recognised in the Income Statement (30 June 2021: release of £17 million).

We have continued to remain cautious in our approach to estimating ECLs and in determining the appropriate provision. Significant judgement and estimates continue to be required in the calculation as a result of uncertainty within markets as the economy continues to recover from the pandemic hindered by the wider global economic factors resulting in rising costs of living.

Of the total expected credit loss provision, £11 million (31 December 2021: £9 million) relates to PMAs where existing models do not fully reflect the expected credit loss given the market environment. These adjustments include the new cost of living PMA noted above, potential for losses as a result of cladding remediation where fire safety standards have not yet been met and the continued roll off of those customers who took Covid-19 payment holidays as well as smaller adjustments for risks that cannot easily be modelled. More information on the calculation of the PMAs is included in note 7 to the accounts.

The remaining £10 million of provision relates to the modelled ECL provision across a range of alternative economic scenarios, including the newly incorporated 5th Stagflation scenario, which reflect various possible outcomes as the economy recovers from the pandemic and the current impact of cost of living on affordability.

As a result of these changes the ECL provision now equates to 0.05% of the overall mortgage book (31 December 2021: 0.04%).

Under IFRS 9 the Society is required to categorise its mortgages into one of three 'stages'. At 30 June 2022 92.8% of the Society's loans and advances to customers were within the Stage 1 'performing' category (31 December 2021: 92.7%), 6.8% were in Stage 2 (31 December 2021: 6.9%) reflecting a significant increase in credit risk since origination and 0.4% were in default or Stage 3 (31 December 2021: 0.4%). This profile has continued to improve during 2022 with customers' arrears falling with 0.17% of mortgages 3 months or more in arrears (31 December 2021: 0.18%).

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

The **Corporation tax** charge represents an effective rate of tax of 20.9% (30 June 2021: 20.4%). The increase in rate is driven by the increase in profits during the year including the impact of the 8.0% banking surcharge.

Chief Financial Officer's review Continued

Balance Sheet

	30 Jun 2022 (Unaudited) £m	30 Jun 2021 (Unaudited) £m	31 Dec 2021 (Audited) £m
Assets			
Loans and advances to customers	**46,642.7**	45,869.6	46,620.6
Liquidity	**8,543.2**	7,099.3	7,622.0
Other	**403.9**	454.3	287.1
Total assets	**55,589.8**	53,423.2	54,529.7
Liabilities			
Retail savings	**40,291.6**	39,079.4	39,890.2
Wholesale funding	**12,422.3**	11,564.9	11,907.3
Subordinated liabilities and subscribed capital	**56.9**	67.1	56.9
Other	**186.2**	399.8	215.7
Total liabilities	**52,957.0**	51,111.2	52,070.1
Equity			
General reserve	**2,121.7**	1,927.3	2,012.6
Other equity instruments	**415.0**	415.0	415.0
Other	**96.1**	(30.3)	32.0
Total equity	**2,632.8**	2,312.0	2,459.6
Total liabilities and equity	**55,589.8**	53,423.2	54,529.7

Loans and advances to customers: The Society's lending strategy 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 giving the Society a regionally diverse mortgage portfolio in a cost-effective way.

The Society manages its growth according to economic conditions, market pricing and funding conditions; as a result, with mortgage margin pressure within the market the Society has continued to moderate its growth as seen in the second half of 2021. This decision has led to the overall loan book being kept broadly stable at £46.6 billion (31 December 2021: £46.6 billion) in the first 6 months of the year. During the period, the Society advanced £3.8 billion of mortgages (30 June 2021: £5.4 billion) offset by higher levels of redemptions as customers look for rate certainty and continue to lock in to longer term fixed products in response to Bank Rate rises. As at 30 June 2022 there are indications of improvements within the market with a stablisation of margins and the Society expects to see growth in H2.

The balance weighted average indexed loan to value of the mortgage portfolio has reduced to 48.6% at 30 June 2022 (31 December 2021: 50.9%) predominantly as a result of continued growth in house prices.

Liquidity: On-balance sheet liquid assets have increased to £8.5 billion (31 December 2021: £7.6 billion) and the Liquidity Coverage Ratio (LCR) at 30 June 2022 was 206% (31 December 2021: 187%), significantly in excess of the regulatory minimum.

Retail savings: The Society continues to be predominantly funded by retail savings, with balances of £40.3 billion at 30 June 2022 (31 December 2021: £39.9 billion) and growth of £0.4 billion in the first six months of the year.

Wholesale funding: The Society uses wholesale funding[5] to provide diversification of funding by source and term, supporting growth and lowering risk by reducing the overall cost of funding. This benefits saving members through better savings rates and mortgage customers by enabling us to offer more competitive long term rates. Wholesale funding in the period has remained stable at £12.4 billion (31 December 2021: £11.9 billion).

The Society previously accessed the Bank of England's Term Funding Schemes with balances of £5.25 billion outstanding at 30 June 2022 (31 December 2021: £5.25 billion).

Pension benefit surplus (included in Other assets): The pension benefit surplus has decreased to £27 million (31 December 2021: £29 million) as a result of volatility in financial markets which has impacted the valuation of the scheme assets largely offset by reductions in the pension obligation.

General reserves: The growth in General reserves of £109 million in the first half of the year (30 June 2021: £92 million) reflects retained profit for the period of £125 million (30 June 2021: £99 million), loss on remeasurement of the defined benefit pension scheme of £2 million (30 June 2021: gain of £7 million) and £14 million distribution to Additional Tier 1 capital holders (30 June 2021: £14 million).

Total equity: Total equity has increased by £0.1 billion to £2.6 billion (31 December 2021: £2.5 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 2022 £m	End-point 30 Jun 2021 £m	End-point 31 Dec 2021 £m
Capital resources:			
Common Equity Tier 1 (CET 1) capital	**2,000.5**	1,853.6	1,921.8
Total Tier 1 capital	**2,415.5**	2,268.6	2,336.8
Total Tier 2 capital	**—**	—	—
Total capital	**2,415.5**	2,268.6	2,336.8
Risk weighted assets	**6,680.8**	5,265.7	5,303.6
CRD IV ratios:	**%**	%	%
Common Equity Tier 1 (CET 1) ratio[3]	**29.9**	35.2	36.2
UK Leverage ratio	**5.0**	4.7	4.8

The table above shows the capital position at 30 June 2022. The ratios include additional risk weighted assets (RWAs) held for regulatory changes that are currently not reflected in the IRB models, as previously disclosed within the 2021 Annual Report & Accounts. The Society has submitted updated models but has yet to receive approval for changes to its calculation of RWAs and as further work is still required, it is unlikely to be implemented prior to the end of 2022. When approval is granted, the final model output may vary from those calculated, impacting the CET 1 ratio, effectively bringing forward some of the effect of increasing RWAs envisaged in Basel IV.

RWAs have increased as a result of the application of a post model adjustment by 36.4%, and by the growth in the mortgage book of 0.1%. This has been partially offset by improved credit conditions, predominantly driven by increases in house prices. As a result, the CET 1 ratio has decreased, mainly due to the regulatory changes in the IRB models, to 29.9%. Our CET 1 ratio remains significantly ahead of the Total Capital Requirement for the Society, which has been updated in H1 2022 and was of 10.8% of risk weighted assets as at 30 June 2022.

From 2025, 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 2022 figures on a full transition basis would result in a CET 1 ratio of 18.6%. The projected 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.

We are not currently bound by regulatory leverage ratios, which measure Tier 1 capital against total exposures, including off-balance sheet items. The UK leverage ratio framework will apply to the Society if retail deposits exceed £50 billion. The Society's UK leverage ratio increased to 5.0% due to the increase in retained profits, above the current regulatory minima of 3.25%.

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 2022 is 0.3% 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.
2. Administrative expenses, depreciation and amortisation/Total income.
3. From the 1 January 2022 the Society applied a new calculation methodology in order to comply with new regulatory changes. A comparative ratio for 31 December 2021 under this new methodology would have been 26.6%.
4. As at 28 July 2022 based on available market data.
5. 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 28 of the 2021 Annual Report & Accounts.

Risk	Mitigation
Macroeconomic and geopolitical environment	
The conflict in Ukraine has caused disruption to the supply of energy, food and other materials on top of already higher prices following the pandemic. Low unemployment is also contributing to higher wage growth. Interest rates are rising globally to counter inflation. Whilst good for our savings customers, higher interest rates could lead to falling economic activity, higher unemployment and a reduction in house prices. This could lead to increased arrears and credit losses.	The Society performs regular tests to confirm it is able to withstand the impact of severe but plausible economic stress events and uses hedging to manage interest rate risk. The Society's lower risk lending profile, using higher affordability stress rates for example, means that our arrears level remains well below industry levels. We are taking additional actions to ensure our mortgage customers in early arrears are supported.
Market environment	
The mortgage, savings and wholesale funding market environment remains highly competitive and pricing and market volatility is increasing. This could reduce net interest income and margins and negatively impact the Society's overall financial position.	Our lower-cost operating model and strong capital position means that we can operate resiliently in a lower margin environment while still returning value to our members, maintaining strong capital ratios and supporting market growth.
Changing customer behaviour and expectations	
Customer expectations and the increased use of technology are changing the way that savings and mortgage products are designed, purchased and distributed. There is a risk that this disruption impacts the Society more than other firms or that the Society fails to make the necessary levels of investment in technology and capabilities to remain successful and price competitive.	The Society continues to focus on developing propositions to meet changing demands of its customers and members and engages with them to identify product and service enhancements that they need and value. The Society is increasing investment in these critical technological capabilities, balancing this against returning value to members through better pricing and maintaining its long-term financial resilience and capital strength.
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 level of change activity could lead to disruption to existing operations, higher costs or obsolescence.	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
Operational resilience	
A major disruption to services could lead to customer harm, financial or regulatory impacts or to reputational damage. Such events could include cyber attacks, loss of customer or Society data or service outages. The number of cyber attacks against UK firms and infrastructure is increasing. The Society may not be able to attract and retain people with the skills and knowledge needed to remain successful and operationally resilient.	The Society manages operational risk through its Enterprise Risk Management Framework and regularly tests its response to risk events. The Society continues to invest in its IT security and operational controls to improve overall operational resilience and combat these evolving threats. The Society continues to support the physical, mental and financial wellbeing of its people and its attractiveness as a great place to work. This includes continuing to evolve its proposition to reflect changing colleague and candidate expectations, including embracing hybrid working.
Regulatory environment	
The evolving regulatory environment impacts the Society in a number of ways. Basel IV RWA floors and modelling changes are reducing CET 1 ratios and increasing ratio sensitivity. Leverage capital rules and MREL requirements make growth more difficult, and increase the costs, for firms like the Society, who focus on lower risk secured lending. Consumer Duty places additional responsibilities on firms to ensure products offer fair value and meet consumer needs. There is a risk that these changes increase our costs, funding and capital requirements relative to other firms.	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. The transition to a zero carbon economy will require significant investment in the existing UK housing stock and some less efficient homes may become harder to sell. New climate regulations could impact the growth and cause disruption in our core markets and increase our costs.	The Society continues to enhance its understanding of climate risk and stress test the potential impact on the business model and financial resilience, as summarised in the Annual Report and Accounts and in the Society's sustainability report. The Society continues to model the climate impact of the homes on which it provides mortgages and is investing to reduce the carbon footprint of its operations as well as developing propositions to support the transition for both current and future members.

Condensed Consolidated Income Statement

For the period ended 30 June 2022

	Notes	**Period to 30 Jun 2022 (Unaudited) £m**	Period to 30 Jun 2021 (Unaudited) £m	Year ended 31 Dec 2021 (Audited) £m
Interest receivable and similar income calculated using the Effective Interest Rate method	3	**547.5**	406.9	833.9
Interest payable and similar charges	4	**(243.3)**	(179.2)	(357.7)
Net interest income		**304.2**	227.7	476.2
Fees and commissions receivable		**4.7**	3.8	7.4
Fees and commissions payable		**(5.1)**	(5.2)	(10.3)
Other operating income		**0.8**	0.6	1.5
Net (losses)/gains from derivative financial instruments	5	**(4.9)**	4.6	(6.6)
Total income		**299.7**	231.5	468.2
Administrative expenses	6	**(123.6)**	(109.0)	(233.2)
Amortisation of intangible assets		**(5.9)**	(6.3)	(12.5)
Depreciation on property, plant and equipment		**(9.3)**	(8.6)	(17.8)
Impairment (charge)/release on loans and advances to customers	7	**(2.3)**	17.1	28.7
Provisions for liabilities and charges	8	**—**	—	—
Charitable donation to Poppy Appeal		**(0.3)**	(0.3)	(0.6)
Profit before tax		**158.3**	124.4	232.8
Taxation	9	**(33.1)**	(25.4)	(42.0)
Profit for the financial period		**125.2**	99.0	190.8

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 2022

	Notes	**Period to 30 Jun 2022 (Unaudited) £m**	Period to 30 Jun 2021 (Unaudited) £m	Year ended 31 Dec 2021 (Audited) £m
Profit for the financial period		**125.2**	99.0	190.8
Other comprehensive (expense)/income				
Items that will not be transferred to the income statement:				
Remeasurement of defined benefit pension plan	12	**(2.9)**	9.7	21.3
Taxation	9	**1.1**	(2.2)	(6.1)
Items that may be transferred to the income statement:				
Fair value through other comprehensive income investments:				
Fair value movements taken to reserves		**(27.8)**	(10.8)	(15.5)
Amount transferred to the income statement		**30.0**	11.4	18.8
Taxation	9	**(0.4)**	(0.3)	(1.1)
Cash flow hedges:				
Fair value movements taken to reserves		**128.8**	(43.1)	(34.4)
Amount transferred (to)/from the income statement		**(43.3)**	61.4	135.6
Taxation	9	**(23.2)**	(4.9)	(27.4)
Other comprehensive income for the period, net of tax		**62.3**	21.2	91.2
Total comprehensive income for the period, net of tax		**187.5**	120.2	282.0

The notes on pages 20 to 40 form part of this Interim Financial Report.

Condensed Consolidated Balance Sheet

For the period ended 30 June 2022

	Notes	**Period to 30 Jun 2022 (Unaudited) £m**	Period to 30 Jun 2021 (Unaudited) £m	Year ended 31 Dec 2021 (Audited) £m
Assets				
Cash and balances with the Bank of England		**6,824.2**	5,885.1	6,650.2
Loans and advances to financial institutions		**417.7**	398.3	295.8
Debt securities		**1,301.3**	815.9	676.0
Loans and advances to customers	10	**46,642.7**	45,869.6	46,620.6
Hedge accounting adjustment		**(1,050.3)**	99.1	(295.4)
Derivative financial instruments		**1,278.4**	182.7	406.3
Investment in equity shares		**4.9**	5.2	4.9
Current tax assets		**3.8**	—	5.6
Deferred tax assets		**—**	14.4	—
Intangible assets		**38.1**	36.2	35.7
Property, plant and equipment		**72.0**	73.8	76.1
Prepayments and accrued income		**30.3**	25.5	24.6
Pension benefit surplus	12	**26.7**	17.4	29.3
Total assets		**55,589.8**	53,423.2	54,529.7
Liabilities				
Shares		**40,291.6**	39,079.4	39,890.2
Deposits from banks	11	**6,786.5**	5,780.2	6,040.2
Other deposits		**5.0**	5.0	5.0
Amounts owed to other customers		**409.0**	706.8	609.8
Debt securities in issue		**5,221.8**	5,072.9	5,252.3
Hedge accounting adjustment		**(309.1)**	21.4	(96.1)
Derivative financial instruments		**386.9**	297.7	219.8
Current tax liabilities		**—**	14.9	—
Deferred tax liability		**36.0**	—	13.4
Accruals and deferred income		**41.6**	33.3	43.5
Other liabilities		**30.4**	32.1	34.7
Provisions for liabilities and charges	8	**0.4**	0.4	0.4
Subordinated liabilities	13	**15.3**	25.5	15.3
Subscribed capital	14	**41.6**	41.6	41.6
Total liabilities		**52,957.0**	51,111.2	52,070.1
Members' interests and equity				
General reserve		**2,121.7**	1,927.3	2,012.6
Other equity instruments	15	**415.0**	415.0	415.0
Fair value through other comprehensive income reserve		**6.3**	2.6	4.5
Cash flow hedge reserve		**89.8**	(32.9)	27.5
Total members' interests and equity		**2,632.8**	2,312.0	2,459.6
Total members' interests, liabilities and equity		**55,589.8**	53,423.2	54,529.7

The notes on pages 20 to 40 form part of this Interim Financial Report.

Condensed Consolidated Statement of Changes in Members' Interests and Equity

For the period ended 30 June 2022

Period to 30 June 2022	Notes	**General reserve £m**	**Other equity instruments £m**	**Fair value through other compre-hensive income reserve £m**	**Cash flow hedge reserve £m**	**Total £m**
As at 1 January 2022		**2,012.6**	**415.0**	**4.5**	**27.5**	**2,459.6**
Profit for the financial period		**125.2**	**—**	**—**	**—**	**125.2**
Net remeasurement of defined benefit plan		**(1.8)**	**—**	**—**	**—**	**(1.8)**
Net movement in fair value through other comprehensive income reserve		**—**	**—**	**1.8**	**—**	**1.8**
Net movement in cash flow hedge reserve		**—**	**—**	**—**	**62.3**	**62.3**
Total comprehensive income		**123.4**	**—**	**1.8**	**62.3**	**187.5**
Distribution to Additional Tier 1 capital holders	15	**(14.3)**	**—**	**—**	**—**	**(14.3)**
As at 30 June 2022		**2,121.7**	**415.0**	**6.3**	**89.8**	**2,632.8**

Period to 30 June 2021		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		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		1,927.3	415.0	2.6	(32.9)	2,312.0

Year to 31 December 2021		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		1,835.1	415.0	2.3	(46.3)	2,206.1
Profit for the financial year		190.8	—	—	—	190.8
Net remeasurement of defined benefit plan		15.2	—	—	—	15.2
Net movement in fair value through other comprehensive income reserve		—	—	2.2	—	2.2
Net movement in cash flow hedge reserve		—	—	—	73.8	73.8
Total comprehensive income		206.0	—	2.2	73.8	282.0
Distribution to Additional Tier 1 capital holders	15	(28.5)	—	—	—	(28.5)
As at 31 December 2021		2,012.6	415.0	4.5	27.5	2,459.6

The notes on pages 20 to 40 form part of this Interim Financial Report.

Condensed Consolidated Statement of Cash Flows

For the period ended 30 June 2022

	Period to 30 Jun 2022 (Unaudited) £m	Period to 30 Jun 2021 (Unaudited) £m	Year ended 31 Dec 2021 (Audited) £m
Cash flows from operating activities:			
Profit before tax	**158.3**	124.4	232.8
Adjustments for:			
Expected credit loss provisions and other provisions	**2.3**	(17.1)	(28.7)
Depreciation and amortisation	**15.2**	14.9	30.3
Interest on subordinated liabilities and subscribed capital	**3.0**	3.3	6.5
Changes to fair value adjustment of hedged risk	**(47.6)**	(15.1)	50.7
Other non-cash movements	**88.2**	(0.7)	(101.9)
Non-cash items included in profit before tax	**61.1**	(14.7)	(43.1)
Loans and advances to credit institutions	**(125.8)**	173.7	260.8
Loans and advances to customers	**(24.4)**	(1,893.2)	(2,633.6)
Prepayments, accrued income and other assets	**(5.7)**	(6.1)	(5.2)
Changes in operating assets	**(155.9)**	(1,725.6)	(2,378.0)
Shares	**373.5**	930.9	1,761.9
Deposits and other borrowings	**545.5**	741.4	904.1
Debt securities in issue	**—**	(56.4)	—
Accruals and deferred income and other liabilities	**(4.8)**	(9.6)	4.9
Changes in operating liabilities	**914.2**	1,606.3	2,670.9
Interest paid on subordinated liabilities and subscribed capital	**(3.0)**	(3.4)	(6.5)
Interest paid on lease liabilities	**(0.2)**	(0.2)	(0.5)
Taxation	**(53.8)**	(18.0)	(67.9)
Net cash flows from operating activities	**920.7**	(31.2)	407.7
Cash flows from investing activities			
Purchase of investment securities	**(765.7)**	(134.2)	(167.5)
Sale and maturity of investment securities and equities	**112.5**	302.3	470.0
Proceeds from sale of properties	**1.6**	0.3	1.9
Purchase of mortgage assets (net of fees)	**—**	(476.9)	(476.9)
Purchase of property, plant and equipment and intangible assets	**(12.1)**	(17.3)	(37.2)
Net cash flows from investing activities	**(663.7)**	(325.8)	(209.7)
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	**(70.0)**	(121.6)	(545.6)
Principal elements of lease payments	**(2.4)**	(2.4)	(4.9)
Issue of debt securities	**—**	633.0	1,278.7
Repurchase of subordinated liabilities and subscribed capital	**—**	—	(10.3)
Net cash flows from financing activities	**(86.7)**	494.7	689.4
Net increase in cash	**170.3**	137.7	887.4
Cash and cash equivalents at start of year	**6,485.4**	5,598.0	5,598.0
Cash and cash equivalents at end of year	**6,655.7**	5,735.7	6,485.4
Cash and cash equivalents:			
Cash and balances with central banks[1]	**6,655.7**	5,735.7	6,485.4

1. Excludes £168.5 million mandatory reserve with the Bank of England (30 June 2021: £149.4 million, 31 December 2021: £164.8 million).

The notes on pages 20 to 40 form part of this Interim Financial Report.

1. Reporting period

These results have been prepared as at 30 June 2022 and show the financial performance for the period from 1 January 2022 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 2022 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). 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 2021. 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.

Terminology used in the Interim Financial Report is consistent with that of the Annual Report and Accounts 2021 which is available on the Society website (www.coventrybuildingsociety.co.uk) and contains a glossary of terms to aid users.

Going concern and long-term viability statement

Details of the Group's objectives, policies and processes for managing its risk exposure (including its principal risks of credit, market, liquidity and funding, conduct, operational and business risks) are contained in the Risk Management Report of the 2021 Annual Report & Accounts. An update on Top and Emerging risks has been provided on pages 14 and 15 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 129 of the 2021 Annual Report & Accounts. The current viability assessment has been made over the period to 31 December 2024, 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 updates to the Society's strategic plan and stress testing performed incorporating 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 2024.

Accounting Policies

The accounting policies adopted by the Group in its 2022 Interim Financial Report are consistent with those disclosed in the Annual Report & Accounts for the year ended 31 December 2021 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 2021 Annual Report & Accounts. During the period the criteria to determine a SICR under IFRS 9 has been updated to reflect the pressures on affordability as a result of the increasing cost of living. More information on this is included in note 7 to the accounts. There have been no other changes to the significant accounting policy judgements during the period.

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
Valuation 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 2022 (Unaudited) £m	Period to 30 Jun 2021 (Unaudited) £m	Year ended 31 Dec 2021 (Audited) £m
On financial assets measured at amortised cost:			
On loans and advances to customers	**491.9**	470.3	946.2
Interest on other liquid assets	**24.3**	3.1	6.9
Interest and other income on debt securities	**0.1**	0.1	0.1
Interest and other income on debt securities measured at FVOCI	**3.9**	2.3	5.3
Net income/(expense) on financial instruments in a qualifying hedge relationship	**27.3**	(68.9)	(124.6)
Total interest receivable and similar income calculated using the EIR method	**547.5**	406.9	833.9

Significant assumptions and estimates – Effective Interest Rate

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

The EIR method uses significant accounting estimates in relation to the expected life of the mortgages and the expected Standard Variable Rate (SVR) of interest which will apply at the end of the initial product term. These factors determine the assumed period and rate at which customers pay SVR which are the key estimates to the EIR calculation.

In 2021, the Society adjusted its estimates to reduce the expected time that customers will be paying SVR. This reflected the expected impact of investment in digital product switching being implemented between 2021 and 2023 and the assumed subsequent reduction in the level of SVR balances within the Society's loan book. This is in addition to the existing trend for customers to switch from SVR sooner, a trend that has continued through the first 6 months of the year as a result of a competitive re-mortgage market and similar digital investments by other firms. As a result of this we no longer expect mortgages that are written from the 1 January 2022 to enter a meaningful period in which they will be paying SVR and as such there has been no addition to the underlying EIR asset during the period with the existing asset continuing to decrease ahead of its expected cessation on 31 December 2022.

During the period, we have recognised a charge of £8.7 million in the Income Statement reflecting these accounting estimates and the continued amortisation of the remaining EIR asset for mortgages written pre 2022.

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

As at 30 June 2022 the EIR method resulted in the recognition of an asset of £8.6 million (30 June 2021: £50.3 million, 31 December 2021: £17.3 million), gross of fees, within loans and advances to customers. This asset represents 0.02% (30 June 2021: 0.11%, 31 December 2021: 0.04%) of the Balance Sheet carrying value of mortgages. The movement in the period of £8.7 million was recognised in the Income Statement.

4. Interest payable and similar charges

	Period to 30 Jun 2022 (Unaudited) £m	Period to 30 Jun 2021 (Unaudited) £m	Year ended 31 Dec 2021 (Audited) £m
Bank and customer			
Subordinated liabilities	**0.6**	0.9	1.6
Other	**24.2**	4.5	9.6
Debt securities in issue	**37.9**	32.8	67.4
Other borrowed funds			
On shares held by individuals	**164.1**	153.9	302.3
On subscribed capital	**2.4**	2.4	4.9
Net expense/(income) from hedging instruments	**14.4**	(15.5)	(28.5)
Foreign currency (gains)/losses	**(0.5)**	—	(0.1)
Other interest payable	**0.2**	0.2	0.5
Total	**243.3**	179.2	357.7

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

	Period to 30 Jun 2022 (Unaudited) £m	Period to 30 Jun 2021 (Unaudited) £m	Year ended 31 Dec 2021 (Audited) £m
Derivatives designated as fair value hedges			
Gains on derivatives designated as fair value hedges	**564.6**	219.6	501.5
Movement in fair value of hedged items attributable to hedged risk	**(571.9)**	(211.1)	(497.9)
Ineffectiveness on fair value hedges	**(7.3)**	8.5	3.6
Derivatives designated as cash flow hedges[1]			
Foreign exchange	**—**	(0.1)	(0.1)
Foreign exchange and interest rate	**—**	(0.4)	(0.4)
Interest rate	**6.0**	(5.1)	(9.7)
Ineffectiveness on cash flow hedges	**6.0**	(5.6)	(10.2)
(Losses)/gains on other derivatives	**(3.6)**	1.7	—
Total	**(4.9)**	4.6	(6.6)

1. Represents ineffectiveness on cash flow hedge relationships which will mature over a period of six years (30 June 2021: seven, 31 December 2021: seven).

Losses on other derivatives of £3.6 million (30 June 2021: gains of £1.7 million, 31 December 2021: £nil) have been recognised in the Income Statement reflecting the fair value movements on derivatives which are not designated in hedge accounting relationships. The gains and losses represent timing differences and are expected to reverse over the remaining life of the derivatives although further volatility may also be experienced.

The Bank of England Bank Rate increased to 1.25% during the period which led to the significant decrease in the fair value of the fixed rate assets in particular for mortgage products to be reflected in hedge accounting adjustment on the balance sheet. This was, to the extent of hedge effectiveness, offset by the fair value increase in the interest rate derivatives designated to hedge those assets.

6. Administrative expenses

	Period to 30 Jun 2022 (Unaudited) £m	Period to 30 Jun 2021 (Unaudited) £m	Year ended 31 Dec 2021 (Audited) £m
Employee costs			
Wages and salaries	**52.1**	50.7	104.2
Social security costs	**5.6**	5.4	11.4
Pension costs			
Defined benefit plan (note 12)	**(0.3)**	2.0	1.9
Defined contribution plan	**3.8**	3.4	6.9
	61.2	61.5	124.4
Other expenses			
Project costs - non-employee	**24.7**	17.6	37.8
Information systems	**13.2**	10.0	23.1
Training, recruitment and other employee costs	**4.1**	3.6	7.3
Premises and facilities	**5.1**	4.3	9.6
Legal, professional and consultancy	**2.7**	2.3	6.2
Marketing and communications	**2.5**	1.1	4.6
Loss on disposal of property, plant and equipment and intangibles	**1.0**	0.2	4.2
Other operating expenses	**9.1**	8.4	16.0
Total	**123.6**	109.0	233.2

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 2022 (Unaudited) £m	Period to 30 Jun 2021 (Unaudited) £m	Year ended 31 Dec 2021 (Audited) £m
ECL (charge) / release for the period	**(2.3)**	17.1	28.7

ECL provision at the end of the period:			
Residential mortgages	**20.3**	29.5	17.8
Other loans	**0.9**	1.1	1.1
Total	**21.2**	30.6	18.9

The ECL charge for the period is £2.3 million (30 June 2021: £17.1 million release). This reflects the recording of additional ECLs in the period through the inclusion of a 5th scenario to enhance the consideration of an inflationary environment within the Society's models and a new post model adjustment in response to the risks resulting from the increase to cost of living. This is offset by the improved credit performance of the Society's loans and advances and an improved expectation in key economic metrics from the year end position due to lower than expected unemployment and continued House Price increases.

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.

The Society has added a new indicator within its staging assessment and has therefore moved loans to Stage 2 where a loan has an indication of worsening affordability criteria as a result of the cost of living crisis. This has resulted in £1,095.2 million of loans being recognised within Stage 2 at 30 June 2022 that otherwise would have remained in Stage 1.

All other SICR criteria are unchanged from 31 December 2021 and more information is on page 148 of the 2021 Annual Report & Accounts.

Significant accounting estimates – application of post model adjustments

Included within the ECL provision of £21.2 million (31 December 2021: £18.9 million) is £11.3 million (31 December 2021: £9.3 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 losses.

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 2022 is set out below.

Cost of living post model adjustment

The Society recognises the increasing cost of living and the impact this could have on its customers and has therefore included a new PMA to reflect the potential for further credit losses which have not yet been identified within the Society's impairment models.

The Cost of living PMA of £4.5 million (31 December 2021: £nil) 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 against the Society's affordability criteria. For segments which are considered to have increased risk, uplifts have been applied to the modelled probability of default (PD) with these uplifts having been estimated using historical data on customer defaults. Where the level of risk has increased sufficiently to meet new SICR criteria these accounts have been moved into Stage 2 where applicable.

The Society will continue to monitor the cost of living crisis and the impact on its customers and loan book to further refine the estimates and judgements applied in deriving this PMA.

Covid-19 post model adjustment

The identified risks for the new cost of living PMA and the response to these overlay with those in use for the Covid-19 PMA. As a result, where accounts meet the criteria for inclusions in both PMAs the new cost of living PMA will take priority with those accounts meeting the Covid-19 criteria only remaining in this PMA. This amounts to £0.9 million (31 December 2021: £2.1 million) associated with the risks of the Covid-19 pandemic at the 30 June 2022. This takes into account additional default risk for certain cohorts of customers that have not yet made sufficient normal repayments following the end of their payment holiday.

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

Cladding and other fire safety risk post model adjustment

The balance of the provision as at 30 June 2022 for potential credit losses associated with flats with unsuitable cladding and other fire safety risks which require remediation is £3.7 million (31 December 2021: £3.7 million). The Society has applied assumptions to the identified affected mortgage book which includes an assessment of impacts to property values, remediation costs and customer behaviour in order to calculate the provision.

Other post model adjustments

As at 30 June 2022 the Society held other PMAs in aggregate totaling £2.2 million (31 December 2021: £3.5 million).

Other PMAs include such items as an additional adjustment for negative equity accounts which are identified through using automated valuation models (AVM) and fraud. These have been included in ECLs on a consistent basis with previous periods with the exception of PMAs associated to interest only accounts which go past term which have been incorporated into the core models during the period.

A reconciliation of movements in gross exposures and impairment provision split by IFRS 9 stage from 1 January 2022 to 30 June 2022 is set out in the following table.

	Stage 1		Stage 2		Stage 3		Total	
(Unaudited)	Gross balance £m	Provision 12 month ECL £m	Gross balance £m	Provision lifetime ECL £m	Gross balance £m	Provision lifetime ECL £m	Gross balance £m	Provision £m
At 1 January 2022	**43,200.8**	**3.7**	**3,226.2**	**9.0**	**189.0**	**6.2**	**46,616.0**	**18.9**
Movements with Income Statement impact								
Transfers from Stage 1 to Stage 2	**(1,647.4)**	**(0.1)**	**1,647.4**	**0.5**	**—**	**—**	**—**	**0.4**
Transfers from Stage 1 to Stage 3	**(12.9)**	**—**	**—**	**—**	**12.9**	**0.1**	**—**	**0.1**
Transfers from Stage 2 to Stage 3	**—**	**—**	**(38.9)**	**(0.1)**	**38.9**	**0.1**	**—**	**—**
Transfers from Stage 3 to Stage 2	**—**	**—**	**17.5**	**0.1**	**(17.5)**	**(0.1)**	**—**	**—**
Transfers from Stage 3 to Stage 1	**4.7**	**—**	**—**	**—**	**(4.7)**	**—**	**—**	**—**
Transfers from Stage 2 to Stage 1	**1,408.5**	**0.1**	**(1,408.5)**	**(0.6)**	**—**	**—**	**—**	**(0.5)**
Net movement arising from transfer of stages	**(247.1)**	**—**	**217.5**	**(0.1)**	**29.6**	**0.1**	**—**	**—**
New loans originated	**3,860.0**	**0.7**	**11.4**	**—**	**0.1**	**—**	**3,871.5**	**0.7**
Remeasurement of ECL due to changes in risk parameters	**—**	**0.1**	**—**	**—**	**—**	**0.4**	**—**	**0.5**
Increase in post model adjustments	**—**	**4.0**	**—**	**(1.2)**	**—**	**(0.8)**	**—**	**2.0**
Remeasurement of ECL due to model refinements	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Loans derecognised in the period	**(2,612.2)**	**(0.3)**	**(202.2)**	**(0.1)**	**(26.0)**	**(0.3)**	**(2,840.4)**	**(0.7)**
Other items impacting Income Statement reversal	**—**	**—**	**—**	**—**	**—**	**(0.1)**	**—**	**(0.1)**
Net write offs directly to Income Statement	**—**	**—**	**—**	**—**	**—**	**(0.1)**	**—**	**(0.1)**
Income Statement charge for the period		**4.5**		**(1.4)**		**(0.8)**		**2.3**
Repayment and charges	**(934.9)**	**—**	**(62.0)**	**—**	**(4.3)**	**—**	**(1,001.2)**	**—**
Net write offs and other ECL movements	**—**	**—**	**—**	**—**	**(0.4)**	**—**	**(0.4)**	**—**
At 30 June 2022	**43,266.6**	**8.2**	**3,190.9**	**7.6**	**188.0**	**5.4**	**46,645.5**	**21.2**

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 31 December 2021 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 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								
Transfers from Stage 1 to Stage 2	(1,160.0)	(0.1)	1,160.0	3.5	—	—	—	3.4
Transfers from Stage 1 to Stage 3	(27.4)	—	—	—	27.4	0.5	—	0.5
Transfers from Stage 2 to Stage 3	—	—	(65.9)	(0.3)	65.9	0.3	—	—
Transfers from Stage 3 to Stage 2	—	—	40.0	0.7	(40.0)	(0.7)	—	—
Transfers from Stage 3 to Stage 1	14.1	—	—	—	(14.1)	(0.1)	—	(0.1)
Transfers from Stage 2 to Stage 1	948.4	0.1	(948.4)	(0.6)	—	—	—	(0.5)
Net movement arising from transfer of stages	(224.9)	—	185.7	3.3	39.2	—	—	3.3
New loans originated	10,452.3	0.8	51.2	—	1.3	—	10,504.8	0.8
Remeasurement of ECL due to changes in risk parameters	—	—	—	(0.9)	—	(1.7)	—	(2.6)
Increase in post model adjustments	—	(5.3)	—	(21.4)	—	(1.6)	—	(28.3)
Remeasurement of ECL due to model refinements	—	0.2	—	—	—	—	—	0.2
Loans derecognised in the period	(4,894.6)	(0.6)	(431.2)	(0.4)	(48.0)	(1.0)	(5,373.8)	(2.0)
Other items impacting Income Statement reversal	—	—	—	—	—	(0.1)	—	(0.1)
Net write offs directly to Income Statement	—	0.1	—	—	—	(0.1)	—	—
Income Statement release for the period		(4.8)		(19.4)		(4.5)		(28.7)
Repayment and charges	(1,835.3)	—	(128.6)	—	(9.2)	—	(1,973.1)	—
Net write offs and other ECL movements	(0.1)	(0.1)	—	—	(0.9)	(0.4)	(1.0)	(0.5)
At 31 December 2021	43,200.8	3.7	3,226.2	9.0	189.0	6.2	46,616.0	18.9

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	
(Unaudited)	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								
Transfers from Stage 1 to Stage 2	(812.9)	—	812.9	0.2	—	—	—	0.2
Transfers from Stage 1 to Stage 3	(12.8)	—	—	—	12.8	0.3	—	0.3
Transfers from Stage 2 to Stage 3	—	—	(39.3)	(0.2)	39.3	0.2	—	—
Transfers from Stage 3 to Stage 2	—	—	24.1	0.5	(24.1)	(0.5)	—	—
Transfers from Stage 3 to Stage 1	5.5	—	—	—	(5.5)	(0.1)		(0.1)
Transfers 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	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)
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 release 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

The table below provides more analysis on the reason for presence within stage 2 under the Society's SICR criteria. Where a loan meets more than one of these criteria at the balance sheet date it has been included in only one category, being the first which applied and led to its movement into stage 2.

	30 Jun 2022 (Unaudited)			**31 Dec 2021 (Audited)**		
	Stage 2 balance £m	**Provision lifetime ECL £m**	**Total £m**	Stage 2 balance £m	Provision lifetime ECL £m	Total £m
Quantitative criteria	**482.9**	**(1.0)**	**481.9**	484.0	(1.0)	483.0
Back stop criteria (arrears of one monthly payment)	**151.1**	**(0.1)**	**151.0**	145.5	(0.1)	145.4
Forbearance applied	**34.0**	**(0.1)**	**33.9**	59.5	(0.1)	59.4
Other qualitative criteria	**2,522.9**	**(6.4)**	**2,516.5**	2,537.2	(7.8)	2,529.4
Total	**3,190.9**	**(7.6)**	**3,183.3**	3,226.2	(9.0)	3,217.2

The Stage 2 balance decreased slightly in the period as a result of Covid-19 balances being transferred back into Stage 1 following the application of cure rules. This has been largely offset by loans recognised in Stage 2 during the period where a loan has an indication of worsening affordability criteria as a result of the cost of living crisis.

The largest component of Other qualitative criteria above are due to the SICR criteria established in response to affordability due to the increasing cost of living which resulted in an additional £1,095.2 million being moved into Stage 2 as at 30 June 2022 (31 December 2021: £nil) and accounts associated to the Covid-19 PMA of £733.2 million (31 December 2021: £1,884.7 million) yet to return to normal repayments. Other balances relate to accounts which have missed direct debit payments or court judgements.

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

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

Formulation of economic scenarios and governance

The economic scenarios used by the Society reflect management's best estimate of the future economic conditions under a range of scenarios including a weighting reflecting the loss distribution on the occurrence of each scenario. At 30 June 2022 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.

Scenarios and accompanying weightings are determined following analysis of economic news, forecasts, peer benchmarking and, since the emergence of the Covid-19 pandemic, of scientific developments and results. By their nature, a significant degree of estimation is involved in determining the scenario weightings.

These scenarios and weightings are developed within the Society's Treasury function and are reviewed and approved quarterly by the Society's Asset and Liability Committee with further approval at reporting periods by the Board Audit Committee.

Current year scenarios and weightings

The base scenario has been updated to capture the shift in central bank response to the rapidly evolving inflationary environment that followed pandemic stimulus and energy price shocks. While labour shortage has kept the unemployment rate at a very low level, the medium term base scenario is more pessimistic than as at 31 December 2021 for both GDP and unemployment, reflecting the impact of higher interest rates on economic activity. House price growth continues to be resilient but a modest decline is assumed for 2023 consistent with both higher rates and unemployment.

During the period the weightings for each scenario were reviewed and updated from those applied at 2021 year end, most notably the inclusion of a 5th Stagflation scenario to reflect the ongoing high inflationary environment. The weightings used at the half year reflect the Society's view of the range of potential future economic conditions at the Balance Sheet date. An explanation of each scenario and its relative weighting in calculating ECL is set out below:

Scenario	Weighting
Base – a central scenario based on the Group's Strategic Plan updated for the latest forecasts. It reflects the continuing inflationary pressure driven by Covid-19 related labour and supply chain disruptions, and the conflict in Ukraine, combined with tight labour markets requiring rate hikes. These negatively impact growth which is expected to increase unemployment and cool house price growth.	55%
Upside – an upside scenario which reflects a continued recovery from Covid-19 with a cooling of inflationary pressures leading to low unemployment, continued and higher house price growth, larger GDP increases in 2022 with a longer growth period. The Bank of England Bank Rate would be expected to steadily increase without negatively impacting the economy.	10%
Downside – a scenario which factors in a sharp slowdown in the economy from current levels possibly from a new Covid 19 variant, and assumes unemployment rises peaking in 2022 prior to a slower recovery in addition to falls in house prices in 2022 and 2023. The Bank of England Bank 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.	10%
Severe downside – based on the Internal Capital Adequacy Assessment Process (ICAAP) Solvency Stress. This scenario is considered severe enough to reflect delayed economic recovery from Covid-19 due to the emergence of a new Covid-19 variant that is resistant to the current vaccine programmes, resulting in further lockdown controls, and negative outcomes from EU trade relations.	5%
Stagflation – representing a stagflation economic outlook with further increases in inflation and the wider macro-economic environment worsening. Pressure builds on personal finances, with a knock-on impact on firms, unemployment, and the housing market. Bank Rate rises to a peak of 4% to get inflation under control but unemployment and house prices only start recovering in 2025.	20%

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 tables show the key economic assumptions used in the scenarios at the 30 June 2022 including the new Stagflation scenario.

		30 June 2022			31 December 2021		
		Weighting	**Unemployment %**	**HPI %**	Weighting	Unemployment %	HPI %
Base	2022	**55%**	**3.9**	**0.4**	55%	4.5	(1.0)
	2023		**4.2**	**(2.0)**		4.4	3.0
Downside	2022	**10%**	**9.0**	**(5.0)**	20%	8.0	(10.0)
	2023		**7.8**	**(7.6)**		7.5	(5.0)
Severe Downside	2022	**5%**	**11.5**	**(11.9)**	10%	11.9	(25.9)
	2023		**11.5**	**(23.9)**		10.0	(1.3)
Upside	2022	**10%**	**3.9**	**1.3**	15%	4.3	2.5
	2023		**3.9**	**3.3**		4.0	4.0
Stagflation	2022	**20%**	**4.0**	**(6.2)**			
	2023		**7.0**	**(8.0)**			

While the Society's ECL calculation is particularly sensitive to unemployment and HPI movements, GDP and the Bank of England Bank Rate remain key drivers of the provision calculation and the forward economic outlook. In order to accommodate the larger impact of the inflationary environment a 5th scenario has been incorporated in the period as well as an additional PMA to fully capture the associated risks. The rates applied to all key measures are shown below for the five year forecast period:

Key economic assumptions as at 30 June 2022

Scenario/ weighting	Assumption[1]	2022 %	2023 %	2024 %	2025 %	2026 %	Peak to trough %	Range %	Average to 31 Dec 2026[2] %
Base 55%	Unemployment	**3.9**	**4.2**	**4.5**	**4.4**	**4.4**	**0.7**	**3.8 - 4.5**	**4.3**
	HPI	**0.4**	**(2.0)**	**1.0**	**1.5**	**1.5**	**4.0**	**(1.6) - 2.4**	**0.5**
	GDP	**2.0**	**1.5**	**1.5**	**1.5**	**1.5**	**8.2**	**0.0 - 8.2**	**1.8**
	Bank Rate	**2.25**	**2.50**	**2.50**	**2.50**	**2.25**	**1.25**	**1.25 - 2.50**	**2.34**
Downside 10%	Unemployment	**9.0**	**7.8**	**7.4**	**7.0**	**6.8**	**5.2**	**3.8 - 9.0**	**7.3**
	HPI	**(5.0)**	**(7.6)**	**(1.6)**	**2.0**	**2.0**	**14.5**	**(14.5) - 0.0**	**(1.9)**
	GDP	**0.5**	**2.0**	**2.2**	**1.5**	**1.8**	**8.1**	**0.1 - 8.2**	**2.4**
	Bank Rate	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**1.25**	**0.0 - 1.25**	**0.06**
Severe downside 5%	Unemployment	**11.5**	**11.5**	**8.3**	**5.5**	**4.9**	**8.1**	**3.8 - 11.9**	**8.3**
	HPI	**(11.9)**	**(23.9)**	**21.0**	**15.4**	**6.1**	**32.8**	**(32.9) - 0.0**	**(0.2)**
	GDP	**(5.1)**	**11.4**	**4.5**	**2.2**	**1.5**	**23.6**	**(0.9) - 14.6**	**3.1**
	Bank Rate	**(0.02)**	**(0.10)**	**(0.06)**	**0.02**	**0.11**	**1.35**	**(0.10) - 0.25**	**0.03**
Upside 10%	Unemployment	**3.9**	**3.9**	**3.9**	**3.9**	**3.9**	**0.1**	**3.8 - 3.9**	**3.9**
	HPI	**1.3**	**3.3**	**4.0**	**4.0**	**4.0**	**17.6**	**0.0 - 17.6**	**3.7**
	GDP	**3.0**	**4.5**	**2.9**	**3.0**	**3.2**	**17.7**	**0.0 - 17.7**	**3.7**
	Bank Rate	**1.25**	**1.25**	**1.25**	**1.50**	**2.00**	**0.75**	**1.25 - 2.00**	**1.45**
Stagflation 20%	Unemployment	**4.0**	**7.0**	**8.0**	**6.0**	**5.0**	**4.2**	**3.8 - 8.0**	**6.1**
	HPI	**(6.2)**	**(8.0)**	**(5.0)**	**0.0**	**3.0**	**18.0**	**(18.0) - 0.0**	**(3.7)**
	GDP	**(1.8)**	**(2.0)**	**(1.0)**	**0.0**	**1.0**	**4.7**	**(4.7) - 0.0**	**(0.8)**
	Bank Rate	**3.00**	**4.00**	**3.50**	**2.50**	**2.25**	**0.75**	**1.25 - 2.00**	**3.04**

1. Unemployment and Bank Rate are shown at the year-end rate; HPI change and GDP change are for the six months ending 31 December 2022, and 12 months ending 31 December 2023 to 2026.
2. HPI change and GDP change average to 31 December 2026 are shown as the annual compound growth rates.

A significant degree of estimation uncertainty 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 £5.2 million, or 24.5% (31 December 2021: £4.6 million, 24.3%) compared to the reported provision. If a 100% weighting was attributed to the severe downside scenario, ECLs would increase by £27.7 million or 130.7% (31 December 2021: £29.4 million, 155.6%).

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

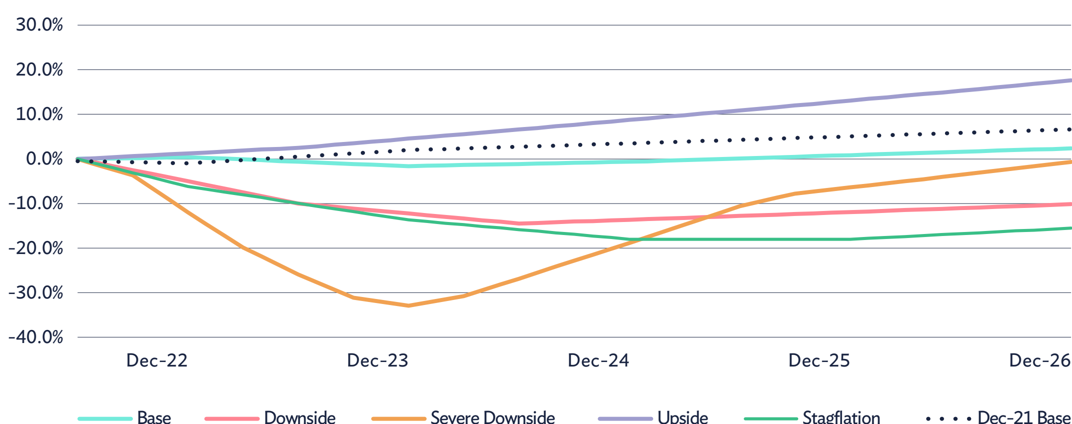
Scenario	30 June 2022 (Unaudited) IFRS 9 provision £m	30 June 2022 (Unaudited) (Decrease)/ increase %	31 December 2021 (Audited) IFRS 9 provision £m	31 December 2021 (Audited) (Decrease)/ increase %
IFRS 9 weighted average	**21.2**	**—**	18.9	—
Base scenario	**16.0**	**(24.5)**	14.3	(24.3)
Downside scenario	**26.3**	**24.1**	27.5	45.5
Severe downside scenario	**48.9**	**130.7**	48.3	155.6
Upside scenario	**12.5**	**(41.0)**	12.2	(35.4)
Stagflation scenario	**32.0**	**50.9**		

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.

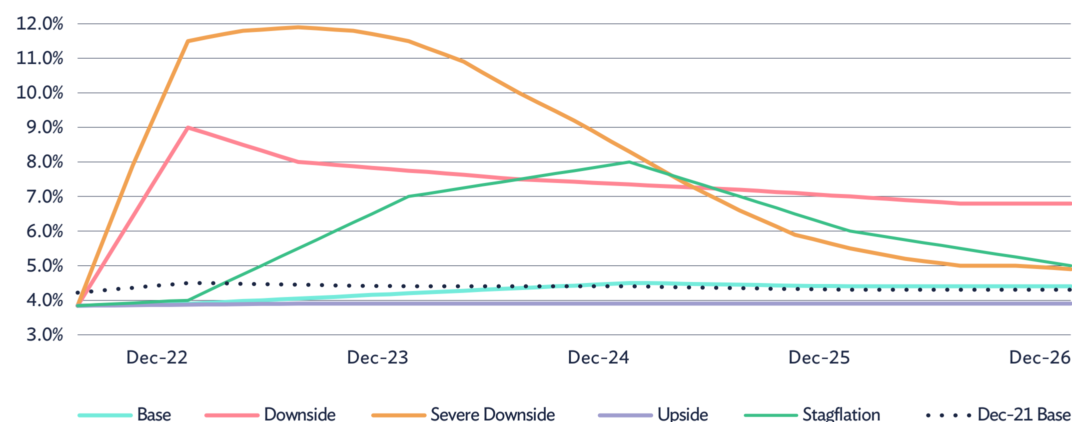
Sensitivity assessment

As at 30 June 2022, a decrease to the annual HPI assumption by 10% combined with an increase in the unemployment rate assumption of 10% throughout the forecast period has the impact of increasing the ECL provision by £12.5 million (31 December 2021: £5.9 million) to £33.7 million (31 December 2021: £24.8 million).

House Price Index



Unemployment Rate



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 5 basis points (31 December 2021: 4 basis points).

		30 Jun 2022 (Unaudited) £m	30 Jun 2021 (Unaudited) £m	31 Dec 2021 (Audited) £m
Total ECL provision	£m	**21.2**	30.6	18.9
Total gross loans and advances to customers	£m	**46,645.5**	45,844.1	46,616.0
ECL coverage ratio	%	**0.05**	0.07	0.04

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

		Stage 2 'Deteriorating'		Stage 3 'Default'		
As at 30 June 2022 (Unaudited)	**Stage 1 'Per-forming' £m**	**Not past due £m**	**Past due £m**	**Not past due £m**	**Past due £m**	**Total £m**
Gross balances						
Owner-occupier	**25,393.5**	**1,908.8**	**61.1**	**42.8**	**65.1**	**27,471.3**
Buy to let	**17,806.2**	**1,120.1**	**36.1**	**23.9**	**31.3**	**19,017.6**
Other loans[1]	**66.9**	**61.8**	**3.0**	**15.1**	**9.8**	**156.6**
Total	**43,266.6**	**3,090.7**	**100.2**	**81.8**	**106.2**	**46,645.5**
ECL						
Owner-occupier	**4.0**	**4.6**	**0.1**	**1.6**	**0.5**	**10.8**
Buy to let	**3.8**	**2.2**	**0.1**	**1.7**	**1.2**	**9.0**
Other loans[1]	**0.4**	**0.6**	**—**	**0.4**	**—**	**1.4**
Total	**8.2**	**7.4**	**0.2**	**3.7**	**1.7**	**21.2**
ECL coverage as a % of total balance						
Owner-occupier	**0.02%**	**0.24%**	**0.16%**	**3.74%**	**0.77%**	**0.04%**
Buy to let	**0.02%**	**0.20%**	**0.28%**	**7.11%**	**3.83%**	**0.05%**
Other loans[1]	**0.60%**	**0.97%**	**—**	**2.65%**	**—**	**0.89%**
Total coverage	**0.02%**	**0.24%**	**0.20%**	**4.52%**	**1.60%**	**0.05%**

1. These are legacy books with no new originations since 2010. Pipeline ECL of £0.4m has been included in other.

		Stage 2 'Deteriorating'		Stage 3 'Default'		
As at 31 December 2021 (Audited)	Stage 1 'Per-forming' £m	Not past due £m	Past due £m	Not past due £m	Past due £m	Total £m
Gross balances						
Owner-occupier	25,078.1	1,970.8	51.5	41.8	60.8	27,203.0
Buy to let	18,051.9	1,090.5	37.1	21.6	36.6	19,237.7
Other loans[1]	70.8	72.8	3.5	16.1	12.1	175.3
Total	43,200.8	3,134.1	92.1	79.5	109.5	46,616.0
ECL						
Owner-occupier	1.2	5.0	—	1.8	0.7	8.7
Buy to let	2.3	3.1	0.1	1.7	1.3	8.5
Other loans[1]	0.2	0.7	0.1	0.6	0.1	1.7
Total	3.7	8.8	0.2	4.1	2.1	18.9
ECL coverage as a % of total balance						
Owner-occupier	—	0.25%	—	4.31%	1.15%	0.03%
Buy to let	0.01%	0.28%	0.27%	7.87%	3.55%	0.04%
Other loans[1]	0.28%	0.96%	2.86%	3.73%	0.83%	0.97%
Total coverage	0.01%	0.28%	0.22%	5.16%	1.92%	0.04%

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

The increase in ECL in the period has increased the coverage to 26.5 times (31 December 2021: 18.9 times) the gross impairment losses before recoveries in the last 12 months as shown below.

		12 months to 30 Jun 2022	12 months to 30 Jun 2021	Year ended 31 Dec 2021
Impairment losses before recoveries	£m	**0.8**	1.3	1.0
Total ECL provision	£m	**21.2**	30.6	18.9
ECL coverage	Years	**26.5**	23.5	18.9

8. Provisions for liabilities and charges

	30 Jun 2022 (Unaudited) £m	30 Jun 2021 (Unaudited) £m	31 Dec 2021 (Audited) £m
At 1 January	**0.4**	0.4	0.4
Charge for the year	**—**	—	—
Provisions utilised	**—**	—	—
At period end	**0.4**	0.4	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 continues to monitor ongoing legal cases and makes assessment on potential exposure based on available information and expected outcomes. The Group does not expect the ultimate resolution of any current complaints, threatened or actual legal proceedings regulatory or other matters to have a material adverse impact on its financial position as at the reporting date.

9. Taxation

The Group has an effective tax rate of 20.9% (Period to 30 June 2021: 20.4%, Year ended 31 December 2021: 18.0%). The effective tax rate is higher than the UK statutory corporation tax rate of 19.0% due to the 8% banking surcharge and the tax credit in relation to distributions to holders of the Group's AT1 instrument.

The March 2021 Budget announced an increase in the UK corporation tax rate from 19% to 25% (effective 1 April 2023), which was substantively enacted on 24 May 2021. The deferred tax liability at 30 June 2022 has been calculated based on these rates, reflecting the expected timing of reversal of the related timing differences (30 June 2021: 25%).

In October 2021 the Government also announced that the Bank Corporation Tax Surcharge will be reduced from 8% to 3%, and that it will be chargeable on banking profits in excess of £100 million (previously £25 million). This was substantively enacted on 2 February 2022 and the charges will be effective from 1 April 2023 for current tax, aligning with the already enacted rise in the main rate of Corporation Tax, so that the combined rate of tax on Banking profits in excess of £100 million will be 28%. The deferred tax liability at 30 June 2022 has been calculated on these rates, reflecting the expected timing of reversal of the related timing differences (30 June 2021: 8%).

10. Loans and advances to customers

	Period to 30 Jun 2022 (Unaudited) £m	Period to 30 Jun 2021 (Unaudited) £m	Year ended 31 Dec 2021 (Audited) £m
Residential			
Owner-occupier mortgages	**27,471.3**	27,009.7	27,203.0
Buy to let mortgages	**19,017.6**	18,644.2	19,237.7
Near-prime mortgages[1]	**42.1**	49.1	46.7
Self-certification mortgages[1]	**100.0**	123.6	112.8
Other			
Commercial mortgages[1]	**1.3**	1.6	1.3
Unsecured personal loans[1]	**13.2**	15.9	14.5
Total Gross loans and advances to customers (contractual amounts)	**46,645.5**	45,844.1	46,616.0
Impairment	**(21.2)**	(30.6)	(18.9)
Total Net loans and advances to customers (contractual amounts)	**46,624.3**	45,813.5	46,597.1
EIR, fair value and other adjustments	**18.4**	56.1	23.5
Total	**46,642.7**	45,869.6	46,620.6

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 2022 and their respective ECL. For loans in Stage 2 and 3 further analysis of accounts which are past due and not past due is also shown.

		Stage 2 Deteriorating		**Stage 3 Default**			
As at 30 June 2022 (Unaudited)	**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	**25,393.5**	**1,908.8**	**61.1**	**42.8**	**65.1**	**(10.8)**	**27,460.5**
Buy to let	**17,806.2**	**1,120.1**	**36.1**	**23.9**	**31.3**	**(9.0)**	**19,008.6**
Total traditional residential mortgages	**43,199.7**	**3,028.9**	**97.2**	**66.7**	**96.4**	**(19.8)**	**46,469.1**
Non-traditional mortgages							
Residential near-prime	**18.6**	**10.9**	**1.9**	**5.8**	**4.9**	**—**	**42.1**
Residential self-certified	**37.4**	**48.0**	**1.0**	**8.8**	**4.8**	**(0.1)**	**99.9**
Commercial lending	**—**	**1.0**	**—**	**0.3**	**—**	**(0.2)**	**1.1**
Total non-traditional mortgages	**56.0**	**59.9**	**2.9**	**14.9**	**9.7**	**(0.3)**	**143.1**
Unsecured loans	**10.9**	**1.9**	**0.1**	**0.2**	**0.1**	**(0.7)**	**12.5**
Mortgage pipeline	**—**	**—**	**—**	**—**	**—**	**(0.4)**	**(0.4)**
Total gross loans	**43,266.6**	**3,090.7**	**100.2**	**81.8**	**106.2**	**(21.2)**	**46,624.3**
	%	**%**	**%**	**%**	**%**		
Total gross loans	**92.8**	**6.6**	**0.2**	**0.2**	**0.2**		

		Stage 2 Deteriorating		Stage 3 Default			
As at 31 December 2021 (Audited)	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	25,078.1	1,970.8	51.5	41.8	60.8	(8.7)	27,194.3
Buy to let	18,051.9	1,090.5	37.1	21.6	36.6	(8.5)	19,229.2
Total traditional residential mortgages	43,130.0	3,061.3	88.6	63.4	97.4	(17.2)	46,423.5
Non-traditional mortgages							
Residential near-prime	19.5	13.6	1.0	6.3	6.3	(0.1)	46.6
Residential self-certified	39.4	56.1	2.3	9.3	5.7	(0.4)	112.4
Commercial lending	—	1.0	—	0.3	—	(0.2)	1.1
Total non-traditional mortgages	58.9	70.7	3.3	15.9	12.0	(0.7)	160.1
Unsecured loans	11.9	2.1	0.2	0.2	0.1	(0.9)	13.6
Mortgage pipeline	—	—	—	—	—	(0.1)	(0.1)
Total gross loans	43,200.8	3,134.1	92.1	79.5	109.5	(18.9)	46,597.1
	%	%	%	%	%		
Total gross loans	92.7	6.7	0.2	0.2	0.2		

10. Loans and advances to customers continued

As at 30 June 2021 (Unaudited)	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	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		

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, 92.8% of loans are in stage 1 with 6.8% in stage 2 and 0.4% in stage 3 (31 December 2021: 92.7%, 6.9% and 0.4%). Cure periods are applied to accounts in stages 2 and 3 which have hit qualitative triggers such as having 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 £3,190.9 million (31 December 2021: £3,226.2 million) and of these £100.2 million or 3.1% (31 December 2021: £92.1 million, 2.9%) are in arrears by 30 days or more. A total of £751.1 million (31 December 2021: £1,930.0 million) are present within stage 2 as a result of the SICR criteria established in 2020 as a result of the Covid-19 pandemic and £1,095.2 million as a result of the new Cost of Living criteria established in the period. All £1,846.3 million total (31 December 2021: £1,930.0 million) relating to both the Covid-19 and Cost of Living risk factors were paid up to date as at 30 June 2022 and remain in stage 2 as a result of cure rules and indicators of increased risk. The slight decrease in stage 2 balances in the period is predominantly as a result of Covid-19 balances being transferred back into Stage 1 following application of the cure rules being largely offset by the impact on Stage 2 of the new SICR criteria associated to Cost of Living affordability.

Of the £188.0 million (31 December 2021: £189.0 million) of loans which are classified as stage 3 at the reporting date, 35% or £65.8 million were greater than three months in arrears (31 December 2021: 38.5%, £72.4 million), and 43.5% (£81.8 million) were paid up to date (31 December 2021: 42.1%, £79.5 million). As at 30 June 2022 the number of properties in possession remained low and a total of £3.0 million of stage 3 loans are in possession (31 December 2021: £4.2 million), representing 20 individual properties (31 December 2021: 27 properties).

LTV distribution of Loans and advances to customers

The LTV distribution of the mortgage book has remained broadly stable during 2022 with 95% of the mortgage book having an LTV of 75% or lower (31 December 2021: 93%). This is shown by IFRS 9 stage below:

As at 30 June 2022 Indexed loan to value (Un-audited):	Stage 1 Performing £m	Stage 2 Deteriorating £m	Stage 3 Default £m	Impairment £m	Total £m	Proportion of book %
<50%	21,953.8	1,420.8	109.4	(1.8)	23,482.2	50.4
50% to 65%	14,417.9	1,152.4	57.1	(6.2)	15,621.2	33.5
65% to 75%	4,711.6	433.1	16.9	(5.1)	5,156.5	11.1
75% to 85%	1,675.2	154.4	2.0	(3.0)	1,828.6	3.9
85% to 90%	330.9	26.1	0.2	(1.0)	356.2	0.8
90% to 95%	143.3	1.7	—	(0.1)	144.9	0.3
95% to 100%	21.9	—	—	—	21.9	—
> 100%	1.1	0.4	2.1	(1.2)	2.4	—
Unsecured loans	10.9	2.0	0.3	(0.8)	12.4	—
Mortgage pipeline	—	—	—	(0.4)	(0.4)	—
Other[1]	—	—	—	(1.6)	(1.6)	—
Total	43,266.6	3,190.9	188.0	(21.2)	46,624.3	100.0
	%	%	%			
Total Gross loans	92.8	6.8	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.

10. Loans and advances to customers continued

As at 31 December 2021 Indexed loan to value (Audited):	Stage 1 Performing £m	Stage 2 Deteriorating £m	Stage 3 Default £m	Impairment £m	Total £m	Proportion of book %
<50%	19,621.1	1,344.1	95.1	(1.5)	21,058.8	45.2
50% to 65%	14,271.5	1,174.6	60.9	(5.3)	15,501.7	33.3
65% to 75%	6,250.1	580.3	23.8	(4.7)	6,849.5	14.7
75% to 85%	2,080.0	112.1	5.7	(2.2)	2,195.6	4.7
85% to 90%	670.4	8.2	0.5	(0.4)	678.7	1.5
90% to 95%	275.6	3.8	0.1	(0.3)	279.2	0.6
95% to 100%	19.7	0.3	0.1	—	20.1	—
> 100%	0.5	0.5	2.5	(1.3)	2.2	—
Unsecured loans	11.9	2.3	0.3	(0.9)	13.6	—
Mortgage pipeline	—	—	—	(0.1)	(0.1)	—
Other[1]	—	—	—	(2.2)	(2.2)	—
Total	43,200.8	3,226.2	189.0	(18.9)	46,597.1	100.0
	%	%	%			
Total Gross loans	92.7	6.9	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.

As at 30 June 2021 Indexed loan to value (Unaudited):	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.

10. Loans and advances to customers continued

Payment holidays and arrears performance

Arrears performance

The Society's longer term arrears position has improved during the first half of 2022 with £65.8 million (30 June 2021: £70.4 million, 31 December 2021: £72.7 million) of accounts are three months or more in arrears. The overall credit quality of the book remains high and arrears levels compare favourably to the UK finance average.

Overall arrears balances have decreased since the year end. This is due to the economy continuing to recover from the pandemic and for most customers a return to normal payments; however, for some the impact of the pandemic and now additional pressures due to cost of living increases continue. 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 2022 the Society has 20 properties in possession (31 December 2021: 27).

	Gross balance 30 Jun 2022 £m	**Arrears balance 30 Jun 2022 £m**	Gross balance 30 Jun 2021 £m	Arrears balance 30 Jun 2021 £m	Gross balance 31 Dec 2021 £m	Arrears balance 31 Dec 2021 £m
Greater than three months	**62.8**	**2.8**	67.2	2.7	68.5	2.7
Greater than six months	**30.7**	**2.1**	38.2	2.1	34.8	2.1
Greater than one year	**14.0**	**1.3**	16.3	1.3	15.8	1.3
In possession	**3.0**	**0.1**	3.2	0.1	4.2	0.1

The accounts in arrears as a percentage of loans and advances to customers has reduced during the period with the overall level of arrears remaining significantly lower than the UK Finance average, as shown below:

	Group 30 Jun 2022 %	**UK Finance 31 Mar 2022[1] %**	Group 30 Jun 2021 %	UK Finance 30 Jun 2021 %	Group 31 Dec 2021 %	UK Finance 31 Dec 2021 %
Greater than three months	**0.17**	**0.77**	0.17	0.89	0.17	0.83
Greater than six months	**0.08**	**0.54**	0.09	0.61	0.09	0.58
Greater than one year	**0.04**	**0.33**	0.04	0.35	0.04	0.36
In possession	**0.01**	**0.01**	0.01	0.01	0.01	0.01

1. Latest available quarterly information from UK Finance is as at 31 March 2022.

11. Deposits from banks

Deposits from banks includes £5,250.0 million (30 June 2021: £5,210.0 million; 31 December 2021: £5,250.0 million) drawn down under the Term Funding Scheme with additional incentives for SMEs (TFSME) scheme.

Deposits from banks also includes £403.6 million (30 June 2021: £525.3 million; 31 December 2021: £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 £65.7 million (30 June 2021: £nil; 31 December 2021: £nil) relating to repos of 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 2022 the value of scheme assets and liabilities are:

	30 Jun 2022 (Unaudited) £m	30 Jun 2021 (Unaudited) £m	31 Dec 2021 (Audited) £m
Present value of funded obligation	**(178.0)**	(233.8)	(235.1)
Fair value of plan assets	**204.7**	251.2	264.4
Funded status/pension benefit surplus	**26.7**	17.4	29.3

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 2022 %**	30 Jun 2021 %	31 Dec 2021 %
Discount rate	**3.85**	1.90	1.80
Rate of pensionable salary increase	**—**	—	—
Rates of inflation (Retail Prices Index)	**3.10**	3.10	3.25
Rates of inflation (Consumer Prices Index)	**2.41**	2.36	2.53

Weighted average assumptions used to determine net pension cost for the period ended	**30 Jun 2022 %**	30 Jun 2021 %	31 Dec 2021 %
Discount rate	**1.80**	1.45	1.45
Rate of pensionable salary increase	**—**	—	—
Rates of inflation (Retail Prices Index)	**3.25**	2.85	2.85
Rates of inflation (Consumer Prices Index)	**2.53**	2.04	2.04

Weighted average life expectancy for mortality tables used to determine benefit obligation at	**30 Jun 2022**		30 Jun 2021		31 Dec 2021	
	Male	**Female**	Male	Female	Male	Female
Member age 60 (current life expectancy)	**26.7**	**29.2**	26.2	28.3	26.5	28.4
Member age 45 (life expectancy at age 60)	**27.8**	**30.3**	26.5	28.8	27.3	29.3

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 of obligation:	**Change in assumption**	**Increase in assumption %**	**Increase in assumption £m**	**Decrease in assumption %**	**Decrease in assumption £m**
Discount rate	0.25%	**(3.5)**	**(6.3)**	**3.7**	**6.6**
Rates of inflation (Retail Prices Index and Consumer Prices Index)	0.25%	**2.4**	**4.3**	**(2.4)**	**(4.2)**
Life expectancy	1 year	**3.0**	**5.3**	**(3.0)**	**(5.4)**

13. Subordinated liabilities

	30 Jun 2022 (Unaudited) £m	30 Jun 2021 (Unaudited) £m	31 Dec 2021 (Audited) £m
Fixed rate subordinated notes 2026 - 6.327%	**—**	10.2	—
Fixed rate subordinated notes 2032 - 7.54%	**15.3**	15.3	15.3
Total	**15.3**	25.5	15.3

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.

In the prior year the £10.0 million fixed rate subordinated notes 2026 – 6.327% were redeemed by the Society on a call date at the £10.0 million par value with prior consent of the PRA. The fixed rate subordinated notes 2032 – 7.54% can be called at the option of the Society in August 2027 in accordance with their terms, subject to prior consent of the PRA.

14. Subscribed capital

	Call date	**30 Jun 2022 (Unaudited) £m**	30 Jun 2021 (Unaudited) £m	31 Dec 2021 (Audited) £m
Permanent Interest Bearing Shares - 1992 - 12 1/8%	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.

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 2022, coupon payments of £14.3 million (30 June 2021: £14.3 million, 31 December 2021: £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.

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 2022 (Unaudited) £m	**Fair value 30 Jun 2022 (Unaudited) £m**	Carrying amount 30 Jun 2021 (Unaudited) £m	Fair value 30 Jun 2021 (Unaudited) £m	Carrying amount 31 Dec 2021 (Audited) £m	Fair value 31 Dec 2021 (Audited) £m
Financial assets						
Cash and balances with the Bank of England	**6,824.2**	**6,824.2**	5,885.1	5,885.1	6,650.2	6,650.2
Loans and advances to credit institutions	**417.7**	**417.7**	398.3	398.3	295.8	295.7
Loans and advances to customers	**46,642.7**	**43,239.2**	45,869.6	45,852.7	46,620.6	46,285.0
Debt securities	**6.2**	**5.6**	10.0	10.2	6.6	6.2
Financial liabilities						
Shares	**40,291.6**	**39,119.8**	39,079.4	39,419.7	39,890.2	39,890.3
Deposits from banks	**6,786.5**	**6,786.4**	5,780.2	5,782.9	6,040.2	6,040.6
Other deposits	**5.0**	**5.0**	5.0	5.0	5.0	5.0
Amounts owed to other customers	**409.0**	**407.9**	706.8	706.8	609.8	607.8
Debt securities in issue	**5,221.8**	**5,032.4**	5,072.9	5,148.9	5,252.3	5,273.1
Subordinated liabilities	**15.3**	**17.0**	25.5	29.7	15.3	20.9
Subscribed capital	**41.6**	**70.9**	41.6	83.7	41.6	85.2

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 loan 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.

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.

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

continued

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 2022 (Unaudited)	**Level 1 £m**	**Level 2 £m**	**Level 3 £m**	**Total fair value £m**
Derivative financial instruments - assets	**—**	**1,278.4**	**—**	**1,278.4**
Debt securities	**1,282.7**	**12.4**	**—**	**1,295.1**
Investment in equity shares	**0.6**	**—**	**4.3**	**4.9**
Derivative financial instruments - liabilities	**—**	**(383.3)**	**(3.6)**	**(386.9)**
Total	**1,283.3**	**907.5**	**0.7**	**2,191.5**

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	—	(289.5)	(8.2)	(297.7)
Total	790.8	(90.9)	(3.7)	696.2

31 December 2021 (Audited)	Level 1 £m	Level 2 £m	Level 3 £m	Total fair value £m
Derivative financial instruments - assets	—	406.3	—	406.3
Debt securities	655.6	13.8	—	669.4
Investment in equity shares	0.6	—	4.3	4.9
Derivative financial instruments - liabilities	—	(213.2)	(6.6)	(219.8)
Total	656.2	206.9	(2.3)	860.8

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.

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

continued

Level 3 - Derivatives

The item included within Level 3 is a balance tracking swap which has remained in place during the period. It is 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 balance tracking 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 2021 (Audited)	(66.2)
Items recognised in the Income Statement	
Interest payable and similar expense	(2.5)
Net unrealised gains on derivatives and hedge accounting	63.2
Settlements	3.2
As at 31 December 2021 (Audited)	**(2.3)**
Items recognised in the Income Statement	
Interest payable and similar expense	**(0.4)**
Net unrealised gains on derivatives and hedge accounting	**3.0**
Settlements	**0.4**
As at 30 June 2022 (Unaudited)	**0.7**

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.

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 2021 Annual Report & Accounts. Subsequent to the publication of the Annual Report, on 28 April 2022, David Thorburn was appointed to the Board. David Thorburn is a Non-Executive Director and Chairman. He has held a number of roles including executive and non-executive positions in banking and financial professional services. On the same date Gary Hoffman retired from the Board.

Signed on behalf of the Board by

Steve Hughes
Chief Executive
28 July 2022

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 2022 (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.

The interim financial statements comprise:

- the Condensed Consolidated Balance Sheet as at 30 June 2022;
- 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.

Basis for conclusion

We conducted our review in accordance with International Standard on Review Engagements (UK) 2410, 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity' issued by the Financial Reporting Council 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.

Conclusions relating to going concern

Based on our review procedures, which are less extensive than those performed in an audit as described in the Basis for conclusion section of this report, nothing has come to our attention to suggest that the directors have inappropriately adopted the going concern basis of accounting or that the directors have identified material uncertainties relating to going concern that are not appropriately disclosed. This conclusion is based on the review procedures performed in accordance with this ISRE. However, future events or conditions may cause the group to cease to continue as a going concern.

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

Our responsibility is to express a conclusion on the interim financial statements in the interim financial report based on our review. Our conclusion, including our Conclusions relating to going concern, is based on procedures that are less extensive than audit procedures, as described in the Basis for conclusion paragraph of this report. 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.

PricewaterhouseCoopers LLP

Chartered Accountants

Birmingham

28 July 2022

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 2021 has been extracted from the Annual Report & Accounts for that year. The Annual Report & Accounts for the year ended 31 December 2021 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. 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.

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