Interim Financial Report

for the six month period ended 30 June 2023

Performance highlights

All together, better

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

Delivering value to members

7.5%
Savings balance growth
(H1 2022: 1.0%)

£163m
Value returned to members[1]
(H1 2022: £99m)

1st place 2023 Fairer Finance Gold Ribbon for savings

1.7%
Mortgage balance growth
(H1 2022: 0.0%)

3,200
members to buy their first home
(H1 2022: 2,200)

1st place 2023 Fairer Finance Gold Ribbon for mortgages

Our commitment to service

+74
Net Promoter Score[2]
(FY 2022: +75)

155
Seconds average call waiting time[3]
(FY 2022: 207 seconds)

2023 award Fairer Finance Most Transparent for savings

Engaging colleagues and supporting our communities

£1.3m
Total community investment[4]
(H1 2022: £0.7m)

13th
Great Place to Work in the Super Large category[5]
(FY 2022: 17th)

Certified Great Place to work
77% Trust Index score[6]

Performance highlights

Sustainable financial performance

Capital ratios

30.4%
Common Equity Tier 1
(FY 2022: 27.4%)

5.5%
UK leverage ratio
(FY 2022: 5.2%)

Profitability

£269m
Profit before tax
(H1 2022: £158m)

1.34%
Net Interest Margin
(H1 2022: 1.11%)

Efficiency

34.4%
Cost to income ratio
(H1 2022: 46.3%)

0.49%
Cost as a percentage of average assets
(H1 2022: 0.50%)

Low risk

0.22%
% of mortgages more than 3 months in arrears
(FY 2022: 0.17%)

263%
Liquidity coverage ratio
(FY 2022: 195%)

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 (H1 2022: five months).
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 2023 and 30 June 2023.
4. Total community investment made by the Society in H1 2023 has been determined in line with with the Business for Societal Impact (B4SI) framework.
5. Position in the Super Large category of 57 UK organisations that met the Great Place to Work benchmark.
6. A measure indicating a trust-based people first workplace based on positive responses to the annual Great Place to Work survey.

Chief Executive's review

The challenges of persistently high inflation have dominated the first half of 2023. Whilst savers are benefiting from the Bank of England's actions in increasing interest rates, there is also greater mortgage market volatility and pressure on homeowners, landlords and tenants.

We have remained focused on delivering great value products and outstanding service to our members and customers, whilst making the balanced choices needed to stay financially secure with the right foundations in place for our future success. In the first six months we have grown, consciously chosen to strengthen our capital base and continued to invest in the Society, in our colleagues and the communities we serve.

Chief Executive's review continued

The last 18 months has seen significant change in the interest rate environment, with the Bank of England raising the base rate to 5% in a bid to reduce inflation, which has been running at levels not experienced for 40 years. It is now clear that, in the UK at least, inflation is proving more difficult to bring down than initially anticipated and that further interest rate rises are likely during the year. There is no doubt that the speed and extent of these changes is an increasing concern for many borrowers, particularly those who are coming to the end of fixed rate deals.

The impact on homeowners, landlords and tenants is significant and the full implications of the increased borrowing costs have yet to be seen. In this context, I expect the Society's track record of responsible customer-focused lending to hold us in good stead, and we will continue to support those who need our help. We have already contacted several thousand of our mortgage borrowers who we felt were the most affected. Our care and support has been welcomed but thankfully only a very small number have needed any additional help to date. This proactive approach and the extensive forbearance arrangements already in place have been further underlined by signing up to the Government's Mortgage Charter Initiative.

It is unsurprising given this context that the mortgage market has been fast-moving and unpredictable during the first half of 2023. Uncertainty about costs of funds, pricing and service has led lenders to re-price or withdraw products with little notice, which has been challenging in turn for brokers and borrowers.

Supporting borrowers and intermediary partners

We have stayed open for business, protecting our customers and distribution partners by our long-held commitment to provide 48 hours' notice of product withdrawal and the strength of our overall mortgage proposition. We continue to enhance our service through the delivery of our mortgage transformation programme where we have already implemented digital rate switch and are soon to launch new digital mortgage journeys.

We have grown mortgage balances by £0.8 billion (H1 2022: £nil), taking a responsible approach to lending that reflects the uncertain market conditions and the needs of our customers. This growth, which includes gross advances of £4.0 billion, up 5% on H1 2022, and an increase in our share of the first time buyer market, was achieved in a broadly flat market and really demonstrates the strength of our overall proposition.

Whilst we must be responsive to the overall market to remain competitive, our record in increasing Standard Variable Rate by 2.75% since December 2021, the period in which the base rate has increased by 4.9%, as well as offering some of our best rates to existing customers when switching products, demonstrates that loyalty is rewarded on the mortgage side as well as the savings side of the business. And, as I've mentioned, we are proactively contacting people we believe may need additional support.

Our customer-focused approach and quality of our underwriting capability is clearly demonstrated in our continued low level of arrears. At just 0.22% (FY 2022: 0.17%), these remain appreciably lower than the market average[1] and consistent with our position last year. The application of prudent stress testing is clearly a factor in this, and it is encouraging that relatively few borrowers have made use of additional help we can offer where needed.

This approach extends to our buy to let lending where we remain one of the leading providers in the UK. There is no doubt that regulatory requirements and rising interest rates are proving challenging, particularly to small-scale landlords. It is our belief that a healthy private rental sector is a critical part of the overall housing market and attention must be given to supporting landlords, and of course tenants, if the current housing challenges are going to be addressed. However the resilience of our lending to the buy to let market, both in terms of maintaining volumes and our strong credit risk position, shows this sector remains viable in challenging circumstances.

Overall, redemptions are still running slightly higher than in previous years, and it is to be expected that speculation about further base rate rises may encourage some borrowers to seek more security over the coming months. But our growth in mortgage balances shows we remain very much open for business and are doing all we can to support borrowers and our intermediary partners.

Delivering value to savers

We have grown savings by offering exceptional and market-leading products, with a particular focus of rewarding loyalty.

During the ISA season, we launched a Loyalty Fixed Rate ISA that was 0.2% above its nearest rival. Nearly 60,000 members applied, over half having been members of the Society for more than 10 years. At a time when building societies are finding innovative ways to underline the benefits of the mutual business model, our simple strategy of providing fantastic value backed by outstanding service to all members is making a strong contribution to the debate. Over the last 18 months over 190,000 members have benefited from our loyalty propositions.

£163m

Value returned to members[3]

(H1 2022: £99m)

Chief Executive's review continued

During the first half of 2023 our average savings rate[2] was 2.7%, compared to 0.9% for the first half of 2022, and was around 0.8% higher than the market average. This increased the amount of additional interest we pay to our savers from £99 million in the first six months of 2022 to £163 million[3] in the first six months of 2023 than if we'd simply matched the average in the market. This 65% increase in the value we pay our members clearly demonstrates our commitment to paying the best rates we can afford, and our performance in passing on the benefit of the rising interest rate environment where we can.

The result is equally clear. Great products and great value have attracted more savers to the Society, increasing our overall savings balances by £3.2 billion (7.5%) to £45.5 billion as a result (H1 2022 1.0%). An important proof point of the benefits of mutuality.

Delivering on our service promise

Value is important to our members in terms of our rates but many stay with us because of our fantastic service. This is something we absolutely believe in, and we work exceptionally hard to provide a level of service which stands out in the industry.

At times, particularly when the market is changing fast and we are offering great value products, this can be challenging. I've already mentioned our commitment to provide 48 hours' notice before withdrawing mortgage products and brokers regularly take to social media or tell us directly how much they appreciate it. It doesn't happen easily and there are times when giving 48 hours' notice puts our service under a lot of pressure. But we believe it is the right thing to do.

It is the same with our savers. It is clear that our members are needing more time and support to help make the right decisions and that these decisions are increasingly important. It means they contact us more often and conversations take longer. We have adapted to this by recruiting more colleagues and changing the way branches and the call centre work. A fantastic savings product, like the Loyalty ISA in April or the more recent loyalty bonds, will still lead to peaks of demand and longer wait times than we aim for. Our investment in this area is working and our average call waiting time has reduced from 207 seconds for 2022 full year, to 155 seconds[4] in the first six months of this year. We strive for excellence but this performance still stands comparison with the best in the market and we can be proud of what we have delivered during a very busy six months.

Our members tell us when they talk to our colleagues, they have a fantastic experience. We use a Net Promoter Score (NPS)[5] to measure satisfaction and our overall NPS remains outstanding at +74 (FY 2022: +75). At the heart of this performance is the way colleagues consistently offer such a warm, expert and professional service. As we digitise more of our operations, we are improving our capability to manage the periods of peak demand, but we will not compromise on the human touch that makes the Society so trusted by our members.

Our investment in the business remains on track with significant milestones to enhancing our services, our operational resilience and the transformation of our financial systems being achieved during the reporting period. Our digital infrastructure, mobile app and enhancements to our mortgage servicing are progressing well with significant deliverables expected during the latter half of 2023. Collectively these represent complex and critical programmes that show our ability to implement and benefit from transformative change across all parts of the organisation.

A strong and sustainable performance

As well as delivering for our current members, we need to build upon the foundations for our future success. In this period, we have made balanced decisions in support of our borrowers and savers, but consciously chosen to strengthen our capital base too. It means we have delivered a strong and sustainable performance, that enhances the Society's resilience and supports our future ambition.

Our profit before tax of £269 million for the six months to 30 June 2023 compares with £158 million reported in the same period of 2022. This has enabled us to increase our UK leverage ratio to 5.5% (FY 2022: 5.2%) and our Common Equity Tier 1 ratio to 30.4% (FY 2022: 27.4%). The ability to enhance our capital position whilst also increasing the member value by 65% shows not simply the strength of the business but also the balance we bring to all decision-making. In this instance, balance is about the needs of current and future members. The member value rewards current members whilst our strong capital position supports investment and growth for the years to come.

£269m Profit before tax

(H1 2022: £158m)

Supporting colleagues and the communities we serve

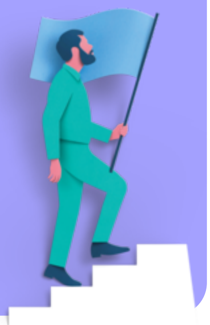
It is the essence of our mutual business model which aims to take the long-term view and to act responsibly with all stakeholders, including my colleagues and the communities we serve. I was delighted in March to hear that we had not only retained but improved our position in the UK's Great Place to Work survey, with our overall Trust score now at +77%. In the Super Large category of organisations that met the Great Place to Work benchmark we improved our position by four places from 17 to 13.

Chief Executive’s review continued

+74 Net Promoter Score

Our measure of excellent service[5]

(FY 2022: +75)



This is a critical part of our success. Ensuring that nearly 3,000 colleagues are engaged, motivated and supported is the only way we can meet the expectations of members and other stakeholders and succeed in such a competitive industry. We have improved our position by listening and acting on what our colleagues say and we will continue to do so.

Central to this is our work focusing on colleague wellbeing and building a diverse and inclusive workforce. One of our targets is for 50% of management roles to be held by women by 2025 and this year we have achieved this at executive level, with 45% of management positions overall being undertaken by women. We have a similar ambition for 25% of management roles to be held by colleagues with a Black, Asian or Minority Ethnic background and have received positive feedback from colleagues about the steps we are taking to achieve this. There is more to do but we are beginning to make a difference.

We are also making a difference in the communities we serve. In 2022, we invested over £3 million to our communities[6]. We will do even more in 2023. The partnerships we have established with schools, community groups and charities are delivering tangible benefits and my colleagues make a fantastic contribution in volunteering their time, energy and expertise. In March we launched our new corporate partnership with Centrepoint to support its national and local programmes. We are already well on the way to delivering on this commitment in 2023.

I will finish by focusing on something that brings all of these elements together; our performance, the way we work, our focus on sustainability and our colleagues, as well as all aspects of our wider stakeholder relationships. We have now been assessed for B Corp[7] accreditation and are the first building society and one of the first UK financial services organisations to be awarded this accolade. B Corp is the global gold standard for sustainability with an appropriately challenging assessment across all aspects of our activities. This recognition absolutely underpins our ambition and tells you a lot about the organisation we are.

Succeeding in a challenging environment

Looking ahead, it is clear that the UK economy is facing challenges. The Bank of England is focused on delivering against its inflation target of 2% and it is likely that interest rates will remain elevated for the foreseeable future. There continues to be the risk of the slowdown in the economy and house price reduction. Many members are facing day-to-day challenges with the cost of living, and we must do what we can to protect their interests.

The soon to be introduced Consumer Duty regulations clearly show the level of protection and support that financial services organisations must provide. I believe this ethos is central to who we are and what we do, and has been since we started in 1884.

We will continue to support our members by delivering value, exceptional service and putting their interest at the heart of our decision making. We will continue to invest for the future whilst supporting members, colleagues, our business partners and the communities we serve today. The balanced decisions we are taking mean that the Society’s financial performance has been strengthened, achieving our strongest ever capital position, which provides great reassurance and confidence in the face of future economic uncertainty.

We are ambitious and will continue delivering on our commitments. I’d like to thank my colleagues who through their hard work make it all possible, and our members for their loyalty and trust.

Steve Hughes

Chief Executive

27 July 2023

1. Based on UK Finance Q1 2023 published data.
2. 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.
3. 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 2023.
4. Based on average call waiting times between 1 January 2023 and 30 June 2023.
5. A measure of customer advocacy that ranges between -100 and +100 which represents how likely a customer is to recommend our products and services.
6. Total community investment made by the Society has been determined in line with the Business for Societal Impact (B4SI) framework.
7. B Corp status is the highest sustainability accolade awarded to organisations by the Science Based Targets Initiative.

Chief Financial Officer's review

The Society has delivered a strong financial performance in the first half of 2023, with an improvement in income and capital strength, whilst seeing resilient asset quality.

Our results have been delivered against a backdrop of high inflation and rapidly rising interest rates but we remain focused on taking the right decisions to continue delivering long-term sustainable value for our members and stakeholders.

Chief Financial Officer’s review continued

Summary

Our profit before tax increased to £269 million (30 June 2022: £158 million), an increase of 70% on the same period last year. This increase is predominantly due to improvements in net interest income, a function of rising interest rates and a competitive value proposition, partly offset by an increase in costs and a small increase in provisions for expected credit losses.

Net interest income increased to £404 million (30 June 2022: £304 million). The change has been driven by the raising interest rate environment with mortgage interest receivable rising more quickly than the interest payable on our deposits. Our focus remains on delivering excellent value to our savings members and this is evidenced by a 7.5% increase in deposits and a 65% increase in the member value which amounts to £163 million (30 June 2022: £99m).

We are reporting a gain on derivative financial instruments of £25 million. This mainly relates to updated mortgage prepayment assumptions and is partly offset by the impact of an increase in fixed rate ISA members choosing to close existing products as interest rates have risen.

The strong financial performance has allowed the Society to continue its significant investment in improving and modernising services for members. We invested £44 million (30 June 2022: £47 million) in the first half of the year with a focus on digital, mortgages and improving resilience and financial control environment. Together with a rise in our operational costs to run the Society, our management expenses increased to £147 million (30 June 2022: £139 million). Our cost to income ratio improved to 34%[1] (30 June 2022: 46%) as a result of our income performance.

From a balance sheet perspective, our mortgage book has grown by 1.7% in the context of a falling external market. An 7.5% growth in savings balances demonstrates the success of our retail funding strategy.

The Society's mortgage book continues to perform well with only 0.22% of mortgages more than 3 months in arrears (31 December 2022: 0.17%). We remain very alert to both cost of living pressures and the significant increase some borrowers are facing with mortgage rates having materially increased. We are taking proactive steps to identify borrowers who may need our support, although at the current time, very few borrowers are requesting support. With inflation remaining stubbornly high, interest rates have risen significantly and it's likely they have not yet peaked. Given this backdrop, we remain cautious in our approach to provisions for expected credit losses, with a charge of £11 million recognised in the period.

The improvement in our income performance has meant that we have seen a further strengthening in our leverage ratio to 5.5% (31 December 2022: 5.2%) and our Common Equity Tier 1 ratio has also increased to 30.4% (31 December 2022: 27.4%).

5.5%

UK Leverage ratio

(FY 2022: 5.2%)

33%

Growth in Net Interest Income

(H1 2022: 34%)

0.22%

% of mortgages more than 3 months in arrears

(FY 2022: 0.17%)

The financial performance of the Society in the first half of 2023 has seen a strong set of results reported. We are likely to be reaching the top of the income cycle and the higher interest rates move to curb inflation, the more support we expect borrowers will need. We are well placed to provide this support, our capital position has been consciously strengthened and we expect our earnings will further improve this position in the period ahead.

Lee Raybould

Chief Financial Officer

27 July 2023

Chief Financial Officer’s review continued

Financial Review

Income Statement

	Period to 30 Jun 2023 Unaudited £m	Period to 30 Jun 2022 Unaudited £m	Year ended 31 Dec 2022 Audited £m
Interest receivable	**1,346.4**	547.5	1,421.1
Interest payable	**(942.5)**	(243.3)	(763.8)
Net interest income	**403.9**	304.2	657.3
Other income	**(2.0)**	0.4	(1.6)
Gains/(losses) on derivative financial instruments	**24.6**	(4.9)	26.8
Total income	**426.5**	299.7	682.5
Management expenses	**(146.8)**	(138.8)	(294.8)
Impairment charge	**(11.1)**	(2.3)	(16.6)
Charitable donation to Poppy Appeal	**–**	(0.3)	(0.6)
Profit before tax	**268.6**	158.3	370.5

Net interest income for the six month period to 30 June 2023 was £404 million (30 June 2022: £304 million). The Bank of England Base Rate has continued to rise, increasing to 5.0% from 0.25% at the beginning of January 2022.

The overall increase in net interest income of £100 million compared to the June 2022 period contributed to a Net Interest Margin (NIM) of 1.34% (30 June 2022: 1.11%).

Interest receivable on mortgages increased by £158 million, predominately as a result of the impact of base rate increases. In addition we benefitted from a £180 million increase related to interest receivable on higher liquidity balances and £434 million on mortgage and wholesale hedged derivatives.

Interest payable on retail savings increased by £383 million following the base rate rises. Our average pass through rate on savings for base rate increases in the six month period was 49%. Throughout the period, the Society continued to pay above average savings rates, returning £163 million (H1 2022: £99 million) in member value compared to market average rates. A further £157 million interest payable arose from savings and wholesale hedged derivatives.

Net interest income in the prior year included a charge of £17 million for the full year (H1 2022: £8.7 million) relating to a change to the future assumptions on mortgage redemption behaviour as customers spend less time on SVR.

Gains on derivative financial instruments

The Society uses derivative financial instruments to manage interest rate and currency risks arising from its fixed mortgage and savings activity and from non-sterling and fixed rate wholesale issuances.

The Society applies hedge accounting where possible and its approach continued to be effective throughout the period. The gain in the first half of the year of £25 million (30 June 2022: £5 million loss) predominately reflects two things. Firstly, we have updated our assumptions for mortgage prepayments. This has had the effect of crystallising fair value gains on mortgage interest rate swaps and resulted in a gain of £75 million. Secondly, with such a significant increase in interest rates, we have seen members choosing to pay penalty interest to exit their fixed rate ISA products early and this has resulted in a loss of £48 million arising from changes to customer behaviour assumptions.

Management expenses including depreciation and amortisation for the period were £147 million (30 June 2022: £139 million). The rise in costs of £8 million was primarily driven by an increase in day-to-day running costs due to additional employee costs as we seek to improve service levels and resiliency, as well as continued inflationary impacts across all of our operations. The Society remains focused on operating efficiency whilst navigating the ongoing inflationary pressures and investment priorities.

Our strong financial performance has allowed the Society to continue with its significant investment programme. The total spend on investment, including capital expenditure, of £44 million (30 June 2022: £47 million) has been focused on activity to modernise our services, with great progress on our digital roadmap and new mortgage sales platform. In addition, we continue to make improvements to operational resilience and have achieved some significant milestones in our finance transformation programme.

The cost to income ratio has improved to 34%[1] (30 June 2022: 46%) reflecting the growth in income relative to our cost base in the period. The cost to mean assets ratio of 0.49%[2] has also marginally improved in the first six months of 2023 (H1 2022: 0.50%) and is expected to remain among the lowest in the building society sector[3].

Chief Financial Officer's review continued

Provision for expected credit losses

The performance of our mortgage book has remained resilient despite the backdrop of a worsening economic outlook with rising interest rates, house price concerns, and stubborn levels of high inflation presiding during the period.

The Society has updated its economic scenarios to account for this, which has impacted its Expected Credit Losses (ECLs) recognised in the period.

A deliberately cautious approach to estimating ECLs continues to be applied, given the structural challenges facing our members from both rising interest rates and the inflationary environment. As a result of this the ECL provision has increased to £47 million (31 December 2022: £36 million) reflecting £3 million due to worsening economic scenarios and a £8 million increase in the cost of living post model adjustment (PMA). Overall a charge of £11 million is recognised in the Income Statement (30 June 2022: charge of £2 million).

Of the total expected credit loss provision, £28 million (31 December 2022: £19 million) relates to PMAs where core models do not fully reflect the risk of expected credit loss given the market environment. These adjustments related predominately to the cost of living PMA noted above, alongside smaller adjustments for risks that cannot easily be modelled, such as cladding and fraud.

The ECL provision now equates to 0.10% of the overall mortgage book (31 December 2022: 0.07%), which is reflective of the more challenging credit outlook.

IFRS 9 requires loans to be assessed as 'stage 2' where there has been a significant increase in credit risk. Loans are held in stage 2 until such a time when they are considered to have 'cured' by performing for a sustained period of time, typically 12 months from the stage 2 trigger event. In the first six months of 2023, stage 2 accounts increased to 13% (31 December 2022: 9%) principally due to more borrowers showing early signs of financial hardship, as shown in the cost of living PMA. 86% of the mortgage book remains in stage 1 (31 December 2022: 90%).

Charitable donation to the Poppy Appeal

At the end of 2022, the Society brought to an end its very successful long-standing support for the Royal British Legion's Poppy Appeal. All charitable donations are now included within management expenses.

The **Corporation tax** charge represents an effective rate of tax of 23.6% (30 June 2022: 20.9%). During the period, the standard rate of UK corporation tax has increased from 19% to 25%, however this has been offset by reductions to the banking surcharge.

Chief Financial Officer's review continued

Balance Sheet

	30 Jun 2023 Unaudited £m	30 Jun 2022 Unaudited £m	31 Dec 2022 Audited £m
Assets			
Loans and advances to customers	**48,849.4**	46,642.7	48,014.3
Liquidity	**11,736.3**	8,543.2	10,009.8
Other	**1,071.3**	403.9	843.0
Total assets	**61,657.0**	55,589.8	58,867.1
Liabilities			
Retail savings	**45,460.7**	40,291.6	42,288.7
Wholesale funding	**12,380.6**	12,422.3	13,207.2
Subordinated liabilities and subscribed capital	**57.0**	56.9	57.0
Other	**577.1**	186.2	366.5
Total liabilities	**58,475.4**	52,957.0	55,919.4
Equity			
General reserve	**2,437.5**	2,121.7	2,250.7
Other equity instruments	**415.0**	415.0	415.0
Other	**329.1**	96.1	282.0
Total equity	**3,181.6**	2,632.8	2,947.7
Total liabilities and equity	**61,657.0**	55,589.8	58,867.1

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. The mortgage book has grown £0.8 billion to £48.8 billion (31 December 2022: £48.0 billion) in the first six months of the year. During the period, the Society advanced £4.0 billion of mortgages (30 June 2022: £3.8 billion) offset by redemptions as customers look for rate certainty in response to base rate rises.

The balance weighted average indexed loan to value of the mortgage portfolio has seen a small increase to 52.5% at 30 June 2023 (31 December 2022: 51.0%) due to house price movements and new lending.

Despite the current economic conditions, the Society continues to have very low arrears with only 0.22% of mortgages more than three months in arrears (31 December 2022: 0.17%).

Liquidity

On-balance sheet liquid assets have increased to £11.7 billion (31 December 2022: £10.0 billion) and the Liquidity Coverage Ratio (LCR) at 30 June 2023 was 263% (31 December 2022: 195%), significantly in excess of the regulatory minimum. This reflects strong deposit inflows.

Retail savings

The Society continues to be predominantly funded by retail savings, with balances of £45.5 billion at 30 June 2023 (31 December 2022: £42.3 billion) and growth of £3.2 billion in the first six months of the year, which is reflective of our focus on offering very competitive savings propositions which have proved very popular with savers.

Wholesale funding

The Society uses wholesale funding[4] 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 broadly stable at £12.4 billion (31 December 2022: £13.2 billion).

The Society previously accessed the Bank of England's Term Funding Schemes with £5.25 billion drawn. Repayments of £1.35 billion have been made in the period and the outstanding drawings at 30 June 2023 are £3.9 billion (31 December 2022: £5.25 billion).

Equity

The growth in equity of £234 million in the first half of the year (30 June 2022: £173 million) predominately reflects retained profit for the period of £205 million (30 June 2022: £125 million), £14 million distribution to Additional Tier 1 capital holders (30 June 2022: £14 million) and £48 million (30 June 2022: £62 million) of positive movement in the cash flow hedge reserve.

Capital Ratios

Unaudited	End-point 30 Jun 2023 £m	End-point 30 Jun 2022 £m	End-point 31 Dec 2022 £m
Capital resources:			
Common Equity Tier 1 capital	**2,357.0**	2,000.5	2,169.0
Total Tier 1 capital	**2,772.0**	2,415.5	2,584.0
Total capital	**2,772.0**	2,415.5	2,584.0
Risk weighted assets	**7,757.2**	6,680.8	7,911.7
CRD V ratios:	%	%	%
Common Equity Tier 1 ratio (%)	**30.4**	29.9	27.4
Leverage ratio including central bank reserves and full AT1 capital (%)	**4.7**	4.4	4.5
UK Leverage ratio[5] (%)	**5.5**	5.0	5.2

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

Leverage

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 at the point retail deposits exceed £50 billion. The Society's UK leverage ratio increased to 5.5% due to the increase in retained profits, and remains above the current regulatory expectation of 3.25% minima.

Capital

The capital 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 2022 Annual Report & Accounts. The Society has submitted updated models to the PRA but has yet to receive approval for changes to its calculation of RWAs. When approval is granted, the final model output may vary from those calculated, impacting the capital ratios, effectively bringing forward some of the effect of increasing RWAs envisaged in Basel 3.1.

The reduction in RWAs in the first half of the year is as a result of the business as usual changes to mortgage book composition and performance, together with a reduction in the additional RWAs held for regulatory changes not reflected in the current models. This latter change has been made to align the adjustment with the new IRB models that were submitted to the PRA.

As a result of retained profits in the period and reduced RWAs, the CET 1 ratio has improved to 30.4% at 30 June 2023. Our CET 1 ratio remains significantly ahead of the Total Capital Requirement for the Society which was 10.7% of risk weighted assets as at 30 June 2023.

From 2025, Basel 3.1 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 3.1 RWA floors to the 30 June 2023 figures on a full transition basis would result in a CET 1 ratio of approximately 22%. The projected reduction in reported CET 1 measures has been included within the Society's financial plans, ensuring we remain safe and secure.

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 V. The Individual Consolidated CET 1 ratio on an end-point basis at 30 June 2023 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/ Total income.
2. Administrative expenses, depreciation and amortisation/Average total assets.
3. As at 27 July 2023 based on available market data.
4. Deposits from banks, Other deposits, Amounts owed to other customers and Debt securities in issue.
5. The UK leverage ratio includes a restriction on the amount of Additional Tier 1 (AT1) capital and excludes central bank reserves from the calculation of leverage exposures.

Top and emerging risks

In common with other financial institutions, the nature of the Society's business model results in a number of unavoidable or inherent risks, namely principal risks. These risks are closely monitored by the Board through the Risk Management Framework and outlined on page 35 of the Risk Management Report of the 2022 Annual Report & Accounts. The principal risks remain unchanged at June 2023.

The top and emerging risks outlined below provide information on the current risks, driven by the external environment, which could impact the Society and how we mitigate them. The Disclosure and Transparency Rules require that a description of these top and emerging risks are given in the Interim Financial Report for the remaining six months of the financial year. These emerging risks remain broadly consistent with those identified at the last financial year end, as set out on page 25 of the 2022 Annual Report & Accounts, with an update of the latest position provided below.

Risk	Mitigation
Macroeconomic and geopolitical environment	
A challenging global and UK economic environment has had an impact on inflation and interest rates. The Bank of England Base Rate rose from 0.25% at the beginning of January 2022 to 5.0% by June 2023. This will impact the rates borrowers will pay on their mortgages and impact affordability and ability to repay their mortgages.	The Society performs regular stress testing considering the impact of plausible economic downturns and confirms that we expect to withstand severe stresses. The Society's lower risk lending approach, for example, using higher affordability stress rates, means that our arrears level remains well below industry levels. The Society is proactively contacting customers who may be impacted by inflationary pressures, cost of living and increased mortgage rates. In addition, the Society holds additional expected credit loss provisions to protect against these risks which have yet to emerge in modelled data.
Market environment	
A continued elevated interest rate environment could place downward pressure on mortgage activity and mortgage margins, and restrict opportunities for the Society to grow. Increased mortgage rates could lead to a decrease in house prices and further reduce market activity.	The Society's simple, lower risk and low cost business model means that it is well placed to maintain growth flexibility and resilience through a range of market conditions. The Society undertakes a detailed strategic planning process which ensures the needs of savings and borrowing members are balanced with maintaining the strength and resilience of the Society and continuing to support the growth of the UK economy and our key markets.
Changing customer behaviour and expectations	
Customer expectations and increased use of digital channels are changing the way that savings and mortgage products are designed and delivered. There is a risk that the Society's products do not keep up with the pace of change, attract new members, or that the level of investment to keep pace challenges the Society's lower cost operating model.	The Society continues to focus on developing products and services which keep up with these expectations and we have increased our investment in digital servicing and distribution. Our plans balance the requirement to deliver short-term improvements and long-term strategic capabilities. The Society improved its digital channels during 2022 and continues to prioritise this in 2023.
Technology and innovation	
The risk that the level of investment in technology and innovation could fall behind others in the Society's core markets, reducing the Society's attractiveness to customers, or that 'outdated' capabilities could result in the Society no longer meeting requirements and expectations.	The Society's scaled agile change model along with additional investment, is expected to improve the resilience, flexibility and efficiency of delivering technology and other change. Strong financial performance has enabled accelerated investment in cloud strategy and digital platform investment.

Top and emerging risks continued

Risk	Mitigation
Operational resilience	
A major operational risk event could result in disruption to services, leading to customer harm, financial or regulatory impacts, or reputational damage. Such events could include the increasing threat of cyber attacks, loss of data or service outages. The Society may not be able to attract and retain people with the skills and knowledge to sustain its operational resilience.	The Society manages risk through its Enterprise Risk Management Framework (ERMF) and its response to risk events is tested regularly. The Society has operational resilience processes in place which aim to ensure that the Society's key services are able to recover in a timely manner in the event of disruption. From a people perspective, the Society evolves its proposition in line with external market changes and colleague feedback, with key person dependencies identified and mitigation options reviewed.
Regulatory environment	
There is a risk that the scope and complexity of regulatory changes arising from both the PRA and the FCA could increase the Society's costs and funding requirements. There is also a risk that regulatory expectations could increase as the Society grows.	The Society conducts horizon scanning and engages with trade bodies and its regulators constructively to ensure the impact of regulation on its business model is managed closely. The Society is currently undertaking work to enhance its preparedness for future regulatory expectations.
Climate change	
The risks of climate change could create material disruption to the Society's business as a result of transition risk as the UK economy transitions to lower carbon activities. This includes the potential impact of new regulations in our core markets.	The Society continues to develop its understanding of climate risk and its impact on the business model. The continued focus on understanding and planning for the impact of climate change is recognised in the Society's Sustainability Report and the Strategic Plan section of the Annual Report & Accounts.

Condensed Consolidated Income Statement

For the period ended 30 June 2023

	Notes	**Period to 30 Jun 2023 (Unaudited) £m**	Period to 30 Jun 2022 (Unaudited) £m	Year ended 31 Dec 2022 (Audited) £m
Interest receivable and similar income calculated using the Effective Interest Rate method	3	**1,346.4**	547.5	1,421.1
Interest payable and similar charges	4	**(942.5)**	(243.3)	(763.8)
Net interest income		**403.9**	304.2	657.3
Fees and commissions receivable		**2.3**	4.7	7.2
Fees and commissions payable		**(5.5)**	(5.1)	(10.7)
Other operating income		**1.2**	0.8	1.9
Net gains/(losses) from derivative financial instruments	5	**24.6**	(4.9)	26.8
Total income		**426.5**	299.7	682.5
Administrative expenses	6	**(134.0)**	(123.6)	(266.1)
Amortisation of intangible assets		**(6.2)**	(5.9)	(11.8)
Depreciation on property, plant and equipment		**(6.6)**	(9.3)	(16.9)
Impairment charge on loans and advances to customers	8	**(11.1)**	(2.3)	(16.6)
Charitable donation to Poppy Appeal		**–**	(0.3)	(0.6)
Profit before tax		**268.6**	158.3	370.5
Taxation	9	**(63.4)**	(33.1)	(84.3)
Profit for the financial period		**205.2**	125.2	286.2

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 2023

	Notes	**Period to 30 Jun 2023 (Unaudited) £m**	Period to 30 Jun 2022 (Unaudited) £m	Year ended 31 Dec 2022 (Audited) £m
Profit for the financial period		**205.2**	125.2	286.2
Other comprehensive income / (expense)				
Items that will not be transferred to the income statement:				
Remeasurement of defined benefit pension plan	11	**(5.7)**	(2.9)	(27.6)
Taxation	9	**1.6**	1.1	8.0
Items that may be transferred to the income statement				
Fair value through other comprehensive income investments:				
Fair value movements taken to reserves		**(11.2)**	(27.8)	(55.2)
Amount transferred to the income statement		**10.2**	30.0	55.4
Taxation	9	**0.2**	(0.4)	0.2
Cash flow hedges:				
Fair value movements taken to reserves		**45.5**	128.8	467.5
Amount transferred to the income statement		**22.4**	(43.3)	(121.9)
Taxation	9	**(20.0)**	(23.2)	(96.0)
Other comprehensive income for the period, net of tax		**43.0**	62.3	230.4
Total comprehensive income for the period, net of tax		**248.2**	187.5	516.6

The notes on pages 20 to 38 form part of this Interim Financial Report.

Condensed Consolidated Balance Sheet

As at 30 June 2023

	Notes	**30 Jun 2023 (Unaudited) £m**	30 Jun 2022 (Unaudited) £m	31 Dec 2022 (Audited) £m
Assets				
Cash and balances with the Bank of England		**9,280.2**	6,824.2	7,792.2
Loans and advances to financial institutions		**640.8**	417.7	622.8
Debt securities		**1,815.3**	1,301.3	1,594.8
Loans and advances to customers	7	**48,849.4**	46,642.7	48,014.3
Hedge accounting adjustment		**(2,015.7)**	(1,050.3)	(1,595.3)
Derivative financial instruments		**2,945.6**	1,278.4	2,278.1
Investment in equity shares		**6.3**	4.9	5.8
Current tax assets		**2.6**	3.8	20.8
Intangible assets		**48.0**	38.1	43.3
Property, plant and equipment		**54.4**	72.0	63.2
Prepayments and accrued income		**30.1**	30.3	23.8
Pension benefit surplus	11	**–**	26.7	3.3
Total assets		**61,657.0**	55,589.8	58,867.1
Liabilities				
Shares		**45,460.7**	40,291.6	42,288.7
Deposits from banks	10	**6,546.1**	6,786.5	7,542.9
Other deposits		**5.0**	5.0	5.0
Amounts owed to other customers		**285.8**	409.0	416.1
Debt securities in issue		**5,543.7**	5,221.8	5,243.2
Hedge accounting adjustment		**(464.7)**	(309.1)	(452.5)
Derivative financial instruments		**842.1**	386.9	626.5
Deferred tax liability		**130.4**	36.0	111.7
Accruals and deferred income		**38.1**	41.6	49.9
Other liabilities		**28.5**	30.4	30.5
Provisions for liabilities and charges		**0.4**	0.4	0.4
Pension benefit obligation	11	**2.3**	–	–
Subordinated liabilities	12	**15.4**	15.3	15.4
Subscribed capital	13	**41.6**	41.6	41.6
Total liabilities		**58,475.4**	52,957.0	55,919.4
Members' interests and equity				
General reserve		**2,437.5**	2,121.7	2,250.7
Other equity instruments	14	**415.0**	415.0	415.0
Fair value through other comprehensive income reserve		**4.1**	6.3	4.9
Cash flow hedge reserve		**325.0**	89.8	277.1
Total members' interests and equity		**3,181.6**	2,632.8	2,947.7
Total members' interests, liabilities and equity		**61,657.0**	55,589.8	58,867.1

The notes on pages 20 to 38 form part of this Interim Financial Report.

Condensed Consolidated Statement of Changes in Members' Interests and Equity

For the period ended 30 June 2023

Period to 30 June 2023	Notes	General reserve £m	Other equity instruments £m	Fair value through other comprehensive income reserve £m	Cash flow hedge reserve £m	Total £m
As at 1 January 2023 (Audited)		**2,250.7**	**415.0**	**4.9**	**277.1**	**2,947.7**
Profit for the financial period		**205.2**	**–**	**–**	**–**	**205.2**
Net remeasurement of defined benefit plan		**(4.1)**	**–**	**–**	**–**	**(4.1)**
Net movement in fair value through other comprehensive income reserve		**–**	**–**	**(0.8)**	**–**	**(0.8)**
Net movement in cash flow hedge reserve		**–**	**–**	**–**	**47.9**	**47.9**
Total comprehensive income		**201.1**	**–**	**(0.8)**	**47.9**	**248.2**
Distribution to Additional Tier 1 capital holders	14	**(14.3)**	**–**	**–**	**–**	**(14.3)**
As at 30 June 2023 (Unaudited)		**2,437.5**	**415.0**	**4.1**	**325.0**	**3,181.6**

Period to 30 June 2022	Notes	General reserve £m	Other equity instruments £m	Fair value through other comprehensive income reserve £m	Cash flow hedge reserve £m	Total £m
As at 1 January 2022 (Audited)		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	14	(14.3)	–	–	–	(14.3)
As at 30 June 2022 (Unaudited)		2,121.7	415.0	6.3	89.8	2,632.8

Year to 31 December 2022	Notes	General reserve £m	Other equity instruments £m	Fair value through other comprehensive income reserve £m	Cash flow hedge reserve £m	Total £m
As at 1 January 2022 (Audited)		2,012.6	415.0	4.5	27.5	2,459.6
Profit for the financial year		286.2	–	–	–	286.2
Net remeasurement of defined benefit plan		(19.6)	–	–	–	(19.6)
Net movement in fair value through other comprehensive income reserve		–	–	0.4	–	0.4
Net movement in cash flow hedge reserve		–	–	–	249.6	249.6
Total comprehensive income		266.6	–	0.4	249.6	516.6
Distribution to Additional Tier 1 capital holders	14	(28.5)	–	–	–	(28.5)
As at 31 December 2022 (Audited)		2,250.7	415.0	4.9	277.1	2,947.7

The notes on pages 20 to 38 form part of this Interim Financial Report.

Condensed Consolidated Statement of Cash Flows

For the period ended 30 June 2023

	Period to 30 Jun 2023 (Unaudited) £m	Period to 30 Jun 2022 (Unaudited) £m	Year ended 31 Dec 2022 (Audited) £m
Cash flows from operating activities:			
Profit before tax	**268.6**	158.3	370.5
Adjustments for:			
Expected credit loss provisions and other provisions	**11.1**	2.3	16.6
Depreciation and amortisation	**12.8**	15.2	28.7
Interest on subordinated liabilities and subscribed capital	**3.0**	3.0	6.0
Changes to fair value adjustment of hedged risk	**34.4**	(47.6)	(120.6)
Other non-cash movements	**158.6**	88.2	243.6
Non-cash items included in profit before tax	**219.9**	61.1	174.3
Loans and advances to credit institutions	**(27.4)**	(125.8)	(332.8)
Loans and advances to customers	**(846.2)**	(24.4)	(1,413.6)
Prepayments, accrued income and other assets	**(6.2)**	(5.7)	0.9
Changes in operating assets	**(879.8)**	(155.9)	(1,745.5)
Shares	**2,960.6**	373.5	2,304.2
Deposits and other borrowings	**(1,131.8)**	545.5	1,266.7
Debt securities in issue	**–**	–	(2.8)
Accruals and deferred income and other liabilities	**(11.5)**	(4.8)	3.6
Changes in operating liabilities	**1,817.3**	914.2	3,571.7
Interest paid on subordinated liabilities and subscribed capital	**(3.0)**	(3.0)	(5.9)
Interest paid on lease liabilities	**(0.2)**	(0.2)	(0.4)
Taxation	**(44.8)**	(53.8)	(89.0)
Net cash flows from operating activities	**1,378.0**	920.7	2,275.7
Cash flows from investing activities			
Purchase of investment securities	**(1,188.9)**	(765.7)	(1,727.0)
Sale and maturity of investment securities and equities	**956.9**	112.5	753.0
Proceeds from sale of properties	**2.6**	1.6	1.7
Purchase of property, plant and equipment and intangible assets	**(11.2)**	(12.1)	(26.7)
Net cash flows from investing activities	**(240.6)**	(663.7)	(999.0)
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	**(400.0)**	(70.0)	(540.0)
Principal elements of lease payments	**(2.4)**	(2.4)	(4.7)
Issue of debt securities	**758.1**	–	434.3
Net cash flows from financing activities	**341.4**	(86.7)	(138.9)
Net increase in cash	**1,478.8**	170.3	1,137.8
Cash and cash equivalents at start of period	**7,623.2**	6,485.4	6,485.4
Cash and cash equivalents at end of period	**9,102.0**	6,655.7	7,623.2
Cash and cash equivalents:			
Cash and balances with central banks[1]	**9,102.0**	6,655.7	7,623.2

1. Excludes £178.2 million mandatory reserve with the Bank of England (30 June 2022: £168.5 million, 31 December 2022: £169.0 million).

The notes on pages 20 to 38 form part of this Interim Financial Report.

Notes to the Interim Financial Report

1. Reporting period

These results have been prepared as at 30 June 2023 and show the financial performance for the period from 1 January 2023 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 2023 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 2022. 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 2022 which is available on the Society website (www.thecoventry.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, model and strategic risks) are contained in the Risk Management Report of the 2022 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 pages 125 and 126 of the 2022 Annual Report & Accounts. The current viability assessment has been made over the period to 31 December 2025, 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 2025.

Accounting Policies

The accounting policies adopted by the Group in its 2023 Interim Financial Report are consistent with those disclosed in the Annual Report & Accounts for the year ended 31 December 2022 with the exception of updates noted in this report.

Changes in accounting standards

The amendments to IAS 12 *Income taxes,* for deferred tax related to assets and liabilities arising from a single transaction is applicable to the Society with effect from 1 January 2023, however has no impact on the Group's financial statements. There are no other amendments to standards effective from 1 January 2023 that apply to or have a material impact on the Group.

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 2022 Annual Report & Accounts. There have been no changes to the significant accounting policy judgements during the period.

Notes to the Interim Financial Report continued

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

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

Significant assumptions and estimates	Notes
Expected Credit Loss provision on loans and advances to customers – application of post model adjustments	8
Expected Credit Loss provision on loans and advances to customers – forward-looking information incorporated in the ECL models	8
Valuation of the defined benefit pension scheme liabilities	11

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

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

	Period to 30 Jun 2023 (Unaudited) £m	Period to 30 Jun 2022 (Unaudited) £m	Year ended 31 Dec 2022 (Audited) £m
On financial assets measured at amortised cost:			
On loans and advances to customers	**650.0**	491.9	1,032.3
Interest on other liquid assets	**203.8**	24.3	114.8
Interest and other income on debt securities	**0.1**	0.1	0.1
Interest and other income on debt securities measured at FVOCI	**30.9**	3.9	16.3
Net income on financial instruments in a qualifying hedge relationship	**461.6**	27.3	257.6
Total interest receivable and similar income calculated using the EIR method	**1,346.4**	547.5	1,421.1

In the prior years, a charge of £8.7 million (30 June 2022) and £17.3 million (31 December 2022) was recognised in the Income Statement in the period in relation to a change in estimated future cash flows under the EIR method. The charge in the period to 30 June 2023 was £nil.

4. Interest payable and similar charges

	Period to 30 Jun 2023 (Unaudited) £m	Period to 30 Jun 2022 (Unaudited) £m	Year ended 31 Dec 2022 (Audited) £m
Bank and customer			
Subordinated liabilities	**0.6**	0.6	1.1
Other[1]	**148.4**	24.2	111.2
Debt securities in issue	**73.0**	37.9	86.7
Other borrowed funds			
On shares held by individuals	**546.7**	164.1	461.9
On subscribed capital	**2.4**	2.4	4.9
Net expense from hedging instruments	**170.9**	14.4	98.1
Foreign currency losses/(gains)	**0.3**	(0.5)	(0.5)
Other interest payable	**0.2**	0.2	0.4
Total	**942.5**	243.3	763.8

[1] Included in bank and customer other interest payable is £99 million relating to the the Bank of England's Term Funding Schemes (30 June 2022: £18 million, 31 December 2022: £77 million).

Notes to the Interim Financial Report continued

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

	Period to 30 Jun 2023 (Unaudited) £m	Period to 30 Jun 2022 (Unaudited) £m	Year ended 31 Dec 2022 (Audited) £m
Derivatives designated as fair value hedges			
Gains on derivatives designated as fair value hedges	**404.8**	564.6	973.7
Movement in fair value of hedged items attributable to hedged risk	**(418.7)**	(571.9)	(999.0)
Ineffectiveness on fair value hedges	**(13.9)**	(7.3)	(25.3)
Derivatives designated as cash flow hedges			
Foreign exchange	**(0.3)**	–	0.3
Interest rate	**41.2**	6.0	30.0
Ineffectiveness on cash flow hedges	**40.9**	6.0	30.3
(Losses)/ gains on other derivatives	**(2.4)**	(3.6)	21.8
Total	**24.6**	(4.9)	26.8

Losses on other derivatives, where hedge accounting relief has not been obtained are £2.4 million during the period (30 June 2022: losses of £3.6 million, 31 December 2022: gains of £21.8 million).

The gains and losses recognised represent both the impact of early termination of derivative instruments and timing differences, which are expected to reverse over the remaining life of the derivatives although further volatility may also be experienced.

During the period, the Society updated its assumptions for its mortgage prepayments to reflect more recent behaviour. This has resulted in crystallising fair value movements on mortgage related interest rate derivatives with a gain of £75 million recognised. In addition, as a consequence of such a significant increase in interest rates in recent months, the Society has seen members choosing to pay penalty interest to exit their fixed rate ISA products early. The early termination of the related derivative instruments has resulted in a loss of £48 million, included within the movement in fair value of hedged items in the disclosure table above.

6. Administrative expenses

	Period to 30 Jun 2023 (Unaudited) £m	Period to 30 Jun 2022 (Unaudited) £m	Year ended 31 Dec 2022 (Audited) £m
Employee costs			
Wages and salaries	**59.8**	52.1	132.9
Social security costs	**6.8**	5.6	13.1
Pension costs			
Defined benefit plan (note 11)	**(0.1)**	(0.3)	(1.3)
Defined contribution plan	**4.1**	3.8	10.9
	70.6	61.2	155.6
Other expenses			
Project costs	**24.1**	24.7	18.3
Information systems	**18.8**	13.2	28.9
Training, recruitment and other employee costs	**2.9**	4.1	15.7
Premises and facilities	**4.8**	5.1	10.7
Legal, professional and consultancy	**1.7**	2.7	7.2
Marketing and communications	**1.9**	2.5	6.7
Loss on disposal of property, plant and equipment and intangibles	**0.1**	1.0	6.4
Other operating expenses	**9.1**	9.1	16.6
Total	**134.0**	123.6	266.1

Notes to the Interim Financial Report continued

7. Loans and advances to customers

	30 Jun 2023 (Unaudited) £m	30 Jun 2022 (Unaudited) £m	31 Dec 2022 (Audited) £m
Residential mortgages - owner occupier	**29,475.3**	27,613.4	28,529.3
Residential mortgages - buy to let	**19,401.0**	19,017.6	19,496.2
Legacy lending[1]	**12.4**	14.5	13.2
Total Gross loans and advances to customers (contractual amounts)	**48,888.7**	46,645.5	48,038.7
Impairment	**(46.6)**	(21.2)	(35.5)
Total Net loans and advances to customers (contractual amounts)	**48,842.1**	46,624.3	48,003.2
EIR, fair value and other adjustments	**7.3**	18.4	11.1
Total	**48,849.4**	46,642.7	48,014.3

1. Legacy lending represents residual small portfolios of unsecured personal loans and commercial mortgages. The credit risk for these is immaterial and therefore not considered further in this report.

8. Impairment 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.

The tables below show gross loans and advances to customers, ECL provision and resulting coverage ratio split by IFRS 9 stage at 30 June 2023, 31 December 2022 and 30 June 2022 for the Group. For loans in stages 2 and 3, further analysis of accounts which are past due and not past due is also shown. Past due is defined as accounts over one month in arrears.

		Stage 2 Deteriorating		Stage 3 Default		
As at 30 June 2023 Unaudited	**Stage 1 Performing £m**	**Not past due £m**	**Past due £m**	**Not past due £m**	**Past due £m**	**Total £m**
Gross loans						
Residential mortgages - owner occupier	**25,443.1**	**3,803.2**	**74.5**	**56.5**	**98.0**	**29,475.3**
Residential mortgages - buy to let	**16,826.0**	**2,455.1**	**49.6**	**24.9**	**45.4**	**19,401.0**
Legacy lending	**9.6**	**1.9**	**0.4**	**0.3**	**0.2**	**12.4**
Total	**42,278.7**	**6,260.2**	**124.5**	**81.7**	**143.6**	**48,888.7**
ECL						
Residential mortgages - owner occupier	**3.6**	**24.2**	**0.4**	**3.0**	**1.7**	**32.9**
Residential mortgages - buy to let	**0.9**	**8.1**	**0.2**	**2.1**	**1.6**	**12.9**
Legacy lending	**0.1**	**0.4**	**0.1**	**0.1**	**0.1**	**0.8**
Total	**4.6**	**32.7**	**0.7**	**5.2**	**3.4**	**46.6**
ECL coverage as a % of total balance						
Residential mortgages - owner occupier	**0.01%**	**0.64%**	**0.54%**	**5.31%**	**1.73%**	**0.11%**
Residential mortgages - buy to let	**0.01%**	**0.33%**	**0.40%**	**8.43%**	**3.52%**	**0.07%**
Legacy lending	**1.04%**	**21.05%**	**25.00%**	**33.33%**	**50.00%**	**6.45%**
Total coverage	**0.01%**	**0.52%**	**0.56%**	**6.36%**	**2.37%**	**0.10%**

Notes to the Interim Financial Report continued

8. Impairment on loans and advances to customers continued

As at 31 December 2022 Audited	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	Total £m
Gross loans						
Residential mortgages - owner occupier	25,591.5	2,731.7	65.1	58.2	82.8	28,529.3
Residential mortgages - buy to let	17,768.4	1,623.3	44.0	25.5	35.0	19,496.2
Legacy lending	10.4	2.1	0.2	0.4	0.1	13.2
Total	43,370.3	4,357.1	109.3	84.1	117.9	48,038.7
ECL						
Residential mortgages - owner occupier	3.7	17.1	0.3	2.5	1.0	24.6
Residential mortgages - buy to let	1.2	5.6	0.1	1.9	1.3	10.1
Legacy lending	0.1	0.4	–	0.2	0.1	0.8
Total	5.0	23.1	0.4	4.6	2.4	35.5
ECL coverage as a % of total balance						
Residential mortgages - owner occupier	0.01%	0.63%	0.46%	4.30%	1.21%	0.08%
Residential mortgages - buy to let	0.01%	0.34%	0.23%	7.45%	3.71%	0.05%
Legacy lending	0.96%	19.05%	–	50.00%	100.00%	6.06%
Total coverage	0.01%	0.53%	0.37%	5.47%	2.04%	0.07%

As at 30 June 2022 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	Total £m
Gross loans						
Residential mortgages - owner occupier	25,449.5	1,967.7	64.0	57.4	74.8	27,613.4
Residential mortgages - buy to let	17,806.2	1,120.1	36.1	23.9	31.3	19,017.6
Legacy lending	10.9	2.9	0.1	0.5	0.1	14.5
Total	43,266.6	3,090.7	100.2	81.8	106.2	46,645.5
ECL						
Residential mortgages - owner occupier	4.2	4.6	0.1	1.8	0.6	11.3
Residential mortgages - buy to let	3.9	2.2	0.1	1.7	1.0	8.9
Legacy lending	0.1	0.6	–	0.2	0.1	1.0
Total	8.2	7.4	0.2	3.7	1.7	21.2
ECL coverage as a % of total balance						
Residential mortgages - owner occupier	0.02%	0.23%	0.16%	3.14%	0.80%	0.04%
Residential mortgages - buy to let	0.02%	0.20%	0.28%	7.11%	3.19%	0.05%
Legacy lending	0.92%	20.69%	–	40.00%	100.00%	6.90%
Total coverage	0.02%	0.24%	0.20%	4.52%	1.60%	0.05%

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 86.5% of loans are in stage 1 with 13.0% in stage 2 and 0.5% in stage 3 (31 December 2022: 90.3%, 9.3% and 0.4%). The proportion in stage 1 fell, and correspondingly the proportion in stage 2 increased during the period as a result of the worsening macroeconomic environment and heighted risk arising from the rising rate and inflationary environment.

Cure periods are applied to accounts in stages 2 and 3 which have hit certain quantitative triggers such as arrears. These cure periods delay transition of loans to a lower credit risk classification (i.e. from stage 3 to stage 2 or from stage 2 to stage 1) by requiring 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.

Notes to the Interim Financial Report continued

8. Impairment on loans and advances to customers continued

Stage 2 balances were £6,384.7 million (31 December 2022: £4,466.4 million) and of these £124.5 million or 1.9% (31 December 2022: £109.3 million, 2.4%) are in arrears by 30 days or more. At 30 June 2023, 74.6% or £4,760.0 million (31 December 2022: 68.1% or £3,041.1 million) of the loans in stage 2 are present as a result of the SICR criteria established to reflect the cost of living affordability risk and are the driver of the higher level of loans in stage 2. All of these accounts were paid up to date at 30 June 2023 and remain in stage 2 as a result of indicators of increased risk.

Of the £225.3 million (31 December 2022: £202 million) of loans which are classified as stage 3 at the reporting date, 45.7% or £102.9 million were greater than or equal to three months in arrears (31 December 2022: 38.4%, £77.6 million), and 36.2% (£81.7 million) were paid up to date (31 December 2022: 41.6%, £84.1 million). As at 30 June 2023 the number of properties in possession remained low; a total of £3.6 million of stage 3 loans are in possession (31 December 2022: £4.1 million), representing 21 individual properties (31 December 2022: 27 properties).

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

IFRS 9 requires the Society to categorise its loans into one of three stages at the Balance Sheet date. Loans that are performing are shown in Stage 1; loans which have had a SICR since initial recognition are shown in Stage 2; and loans which are credit impaired or in default are in Stage 3. All SICR criteria remain unchanged from 31 December 2022 and more information is provided on page 145 of the 2022 Annual Report & Accounts.

Significant accounting estimates – application of post model adjustments

Included within the ECL provision of £46.6 million (31 December 2022: £35.5 million) is £27.7 million (31 December 2022: £19.4 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. 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.

Further information on the PMAs recognised at 30 June 2023 is set out below.

Cost of living post model adjustment

The Group has recognised a provision of £21.8 million (31 December 2022 £14.2 million) to reflect the elevated affordability pressures and payment shock risk arising as a result of the ongoing cost of living crisis. This was recognised as a PMA as the models do not satisfactorily capture all of the risks from the elevated inflationary environment.

The PMA attributes default probabilities to a cohort of customers identified as having experienced deterioration in credit quality in the last 12 months based on third party bureau data. The level of increased default risk applied varies depending on whether the customer has a fixed rate mortgage term end date before the end of December 2024 or not, with a higher default probability being assigned to those customer accounts who have an upcoming refinancing. Customers with an LTV below 60% are excluded from the cohort as the risk of loss on these accounts is deemed low. In applying these criteria, this captures 10.3% (31 December 2022: 6.4%) of total loans and advances to customers.

Other post model adjustments

At 30 June 2023, the Society held other PMAs in aggregate totalling £5.9 million (31 December 2022: £5.2 million).

Other PMAs include such items as an additional adjustment for negative equity accounts which are identified through using automated valuation models (AVM), unsuitable cladding and other fire safety risks and fraud. These have been included in ECLs on a consistent basis with previous periods.

Notes to the Interim Financial Report continued

8. Impairment 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 2023 to 30 June 2023 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 2023	43,370.3	5.0	4,466.4	23.5	202.0	7.0	48,038.7	35.5
Movements with Income Statement impact								
Transfers from Stage 1 to Stage 2	(3,204.3)	(0.7)	3,204.3	2.5	–	–	–	1.8
Transfers from Stage 1 to Stage 3	(22.2)	–	–	–	22.2	0.2	–	0.2
Transfers from Stage 2 to Stage 3	–	–	(51.1)	(0.2)	51.1	0.5	–	0.3
Transfers from Stage 3 to Stage 2	–	–	16.1	0.1	(16.1)	(0.2)	–	(0.1)
Transfers from Stage 3 to Stage 1	5.9	–	–	–	(5.9)	–	–	–
Transfers from Stage 2 to Stage 1	899.0	0.1	(899.0)	(0.3)	–	–	–	(0.2)
Net movement arising from transfer of stages	(2,321.6)	(0.6)	2,270.3	2.1	51.3	0.5	–	2.0
New loans originated	4,096.8	2.5	5.7	–	0.1	–	4,102.6	2.5
Remeasurement of ECL due to changes in risk parameters	–	(0.7)	–	0.3	–	0.9	–	0.5
Increase/(decrease) in post model adjustments	–	(0.3)	–	7.6	–	1.0	–	8.3
Loans derecognised in the period	(1,873.2)	(1.2)	(280.0)	(0.2)	(23.6)	(0.5)	(2,176.8)	(1.9)
Other items impacting Income Statement	–	(0.1)	–	0.2	–	(0.1)	–	–
Net write offs directly to Income Statement	–	–	–	(0.1)	–	(0.2)	–	(0.3)
Income Statement Charge for the period		(0.4)		9.9		1.6		11.1
Repayment and charges	(993.5)	–	(77.7)	–	(4.4)	–	(1,075.6)	–
Net write offs and other ECL movements	(0.1)	–	–	–	(0.1)	–	(0.2)	–
At 30 June 2023	42,278.7	4.6	6,384.7	33.4	225.3	8.6	48,888.7	46.6

Notes to the Interim Financial Report continued

8. Impairment 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 2022 to 31 December 2022 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 2022	43,200.8	3.7	3,226.2	9.0	189.0	6.2	46,616.0	18.9
Movements with Income Statement impact								
Transfers from Stage 1 to Stage 2	(3,803.4)	(0.4)	3,803.4	2.0	–	–	–	1.6
Transfers from Stage 1 to Stage 3	(38.7)	–	–	–	38.7	0.7	–	0.7
Transfers from Stage 2 to Stage 3	–	–	(76.1)	(0.5)	76.1	0.5	–	–
Transfers from Stage 3 to Stage 2	–	–	28.3	0.2	(28.3)	(0.2)	–	–
Transfers from Stage 3 to Stage 1	12.3	–	–	–	(12.3)	(0.1)	–	(0.1)
Transfers from Stage 2 to Stage 1	1,993.9	0.1	(1,993.9)	(0.5)	–	–	–	(0.4)
Net movement arising from transfer of stages	(1,835.9)	(0.3)	1,761.7	1.2	74.2	0.9	–	1.8
New loans originated	8,877.5	3.4	21.1	–	0.1	–	8,898.7	3.4
Remeasurement of ECL due to changes in risk parameters	–	1.5	–	1.2	–	1.4	–	4.1
Increase/(decrease) in post model adjustments	–	(1.6)	–	12.5	–	(0.8)	–	10.1
Loans derecognised in the period	(4,986.0)	(1.7)	(420.2)	(0.4)	(50.9)	(0.4)	(5,457.1)	(2.5)
Other items impacting Income Statement	–	–	–	–	–	(0.1)	–	(0.1)
Net write offs directly to Income Statement		–	–	–	–	(0.2)	–	(0.2)
Income Statement Charge for the period		1.3		14.5		0.8		16.6
Repayment and charges	(1,886.1)	–	(122.4)	–	(9.7)	–	(2,018.2)	–
Net write offs and other ECL movements	–	–	–	–	(0.7)	–	(0.7)	–
At 31 December 2022	43,370.3	5.0	4,466.4	23.5	202.0	7.0	48,038.7	35.5

Notes to the Interim Financial Report continued

8. Impairment 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 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/(decrease) in post model adjustments	–	4.0	–	(1.2)	–	(0.8)	–	2.0
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	–	–	–	–	–	(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

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 2023 the Group has used alternative economic scenarios to assess ECLs for its core owner-occupier and buy to let portfolios which represent over 99% of total loans and advances to customers.

Scenarios and accompanying weightings are determined following analysis of economic news, forecasts, peer benchmarking and 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.

8. Impairment on loans and advances to customers continued

Current year scenarios and weightings

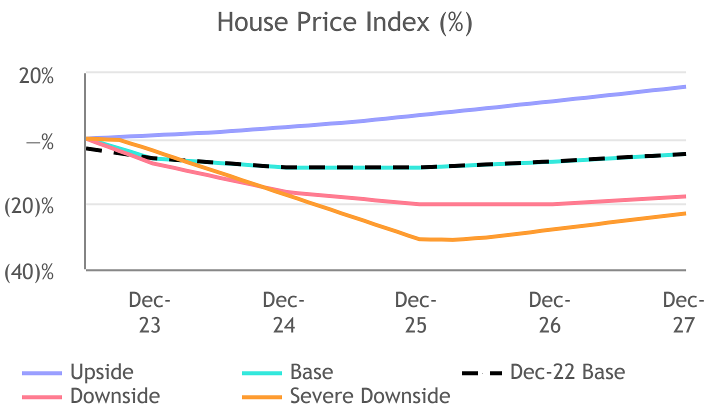
The assumptions in each of the four (31 December 2022: four) scenarios evolve to reflect latest expectations, with the base scenario representing the most likely outcome, complemented by upside and downside scenarios based on potential economic developments. The weightings used at the half year reflect 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:

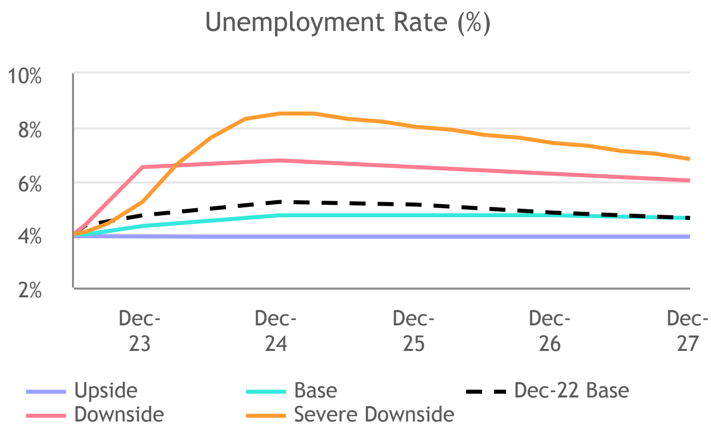
Scenario	Weighting
Base The central scenario used to support the business planning of the Society. Sustained core inflation and a resilient labour market is requiring the Bank of England to maintain pressure on interest rates, causing growth to stall in 2023. The erosion of affordability amid higher interest rates reduces house prices through 2024 to an approximate 12% fall from peak.	55%
Downside Central banks need to increase interest rates further than currently expected and keep them elevated to tackle prolonged inflation. An economic contraction resulting from further cost of living deterioration drives up unemployment, and the impact on house prices is more material than the base case. The stubborn level of inflation isn't expected to return to the Bank of England's 2% target within the first five years.	25%
Severe downside Based on the Internal Capital Adequacy Assessment Process (ICAAP) Annual Cyclical Scenario (ACS). This scenario embodies a significant rise in inflation across advanced economies accompanied by a sharp tightening in global financial conditions, as ongoing energy supply issues combine with cost shocks in other markets. Tightening is more severe than the global financial crisis and the bank rate in the UK rises rapidly to 7.5% against a peak inflation of 17%, causing GDP to shrink. As unemployment rises significantly, house prices fall by 31% at the lowest point, before a moderate recovery begins.	10%
Upside Inflationary pressures recede, leading to low unemployment, sustained house price increases, and robust economic growth. The Bank of England would be expected to steadily decrease bank rate as economic conditions ease.	10%

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

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

The following graphs and tables show the key economic assumptions used in the scenarios at the 30 June 2023.





Notes to the Interim Financial Report continued

8. Impairment on loans and advances to customers continued

		30 June 2023			31 December 2022		
		Weighting	Unemployment %	HPI %	Weighting	Unemployment %	HPI %
Base	2023	55%	4.3	(6.1)	55%	4.7	(6.0)
	2024		4.7	(3.0)		5.2	(3.0)
Downside	2023	25%	6.5	(7.6)	25%	6.5	(7.5)
	2024		6.8	(9.5)		7.3	(9.5)
Severe Downside	2023	10%	5.2	(3.6)	10%	7.6	(10.4)
	2024		8.5	(14.1)		8.3	(15.2)
Upside	2023	10%	3.9	1.0	10%	3.9	2.5
	2024		3.9	2.5		3.9	4.0

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. The rates applied to all key measures are shown below for the five year forecast period:

Key economic assumptions as at 30 June 2023

Scenario/ weighting	Assumption[1]	2023 %	2024 %	2025 %	2026 %	2027 %	Peak to trough %	Range %	Average to 31 Dec 2027[2] %
Base 55%	Unemployment	4.3	4.7	4.7	4.7	4.6	0.7	4 - 4.7	4.6
	HPI	(6.1)	(3.0)	–	2.0	2.5	7.9	(8.9) - (1)	(1.1)
	GDP	(0.1)	1.0	1.5	1.5	1.5	5.6	(0.1) - 5.5	1.2
	Bank Rate	5.8	5.0	4.3	3.8	3.8	2.0	3.75 - 5.75	4.6
Downside 25%	Unemployment	6.5	6.8	6.5	6.3	6.0	2.4	4.4 - 6.8	6.3
	HPI	(7.6)	(9.5)	(4.5)	–	3.0	18.8	(20.1) - (1.3)	(4.2)
	GDP	(2.6)	–	1.3	1.3	1.4	3.9	(2.6) - 1.4	0.3
	Bank Rate	6.3	6.3	6.3	6.3	6.0	1.3	5.00 - 6.25	6.1
Severe downside 10%	Unemployment	5.2	8.5	8.0	7.4	6.8	4.4	4.1 - 8.5	7.2
	HPI	(3.6)	(14.1)	(16.4)	4.3	6.8	30.9	(31) - (0.1)	(5.6)
	GDP	(1.5)	(3.0)	1.2	1.2	1.2	4.9	(5) - (0.1)	(0.2)
	Bank Rate	6.5	7.5	6.8	6.0	5.3	2.5	5.00 - 7.50	6.5
Upside 10%	Unemployment	3.9	3.9	3.9	3.9	3.9	–	3.9 - 3.9	3.9
	HPI	1.0	2.5	3.5	4.0	4.0	15.7	0.2 - 15.9	3.3
	GDP	1.5	3.3	3.5	3.5	3.8	16.2	0.2 - 16.5	3.4
	Bank Rate	5.3	4.8	4.0	3.8	3.5	1.8	3.50 - 5.25	4.4

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 2023, and 12 months ending 31 December 2024 to 2027.
2. HPI change and GDP change average to 31 December 2027 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 £11.0 million, or 24% (31 December 2022: £8.1 million, 23%) compared to the reported provision. If a 100% weighting was attributed to the severe downside scenario, ECLs would increase by £33.7 million or 72% (31 December 2022: £26 million, 73%).

Notes to the Interim Financial Report continued

8. Impairment on loans and advances to customers continued

Scenario	30 June 2023 (Unaudited) IFRS 9 provision £m	30 June 2023 (Unaudited) (Decrease)/ increase %	31 December 2022 (Audited) IFRS 9 provision £m	31 December 2022 (Audited) (Decrease)/ increase %
IFRS 9 weighted average	**46.6**	**—**	35.5	—
Base scenario	**35.6**	**(24.0)**	27.4	(22.8)
Downside scenario	**60.9**	**31.0**	43.6	22.8
Severe downside scenario	**80.3**	**72.0**	61.5	73.2
Upside scenario	**17.7**	**(62.0)**	13.3	(62.5)

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 2023, a decrease to the annual HPI assumption by 10 basis points combined with an increase in the unemployment rate assumption of 10% throughout the forecast period has the impact of increasing the ECL provision by £32.6 million (31 December 2022: £24.9 million) to £79.2 million (31 December 2022: £60.4 million).

Other credit risk information

LTV distribution of Loans and advances to customers

The LTV distribution of the mortgage book has remained broadly stable during 2023 with 89.3% of the mortgage book having an LTV of 75% or lower (31 December 2022: 91.4%). This is shown by IFRS 9 stage below:

As at 30 June 2023 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%	**19,970.1**	**643.5**	**115.3**	**(1.7)**	**20,727.2**	**42.5**
50% to 65%	**13,537.7**	**2,125.6**	**65.8**	**(9.2)**	**15,719.9**	**32.2**
65% to 75%	**4,760.3**	**2,353.8**	**29.7**	**(12.3)**	**7,131.5**	**14.6**
75% to 85%	**2,550.3**	**910.2**	**9.2**	**(10.6)**	**3,459.1**	**7.1**
85% to 90%	**753.9**	**245.5**	**1.4**	**(5.0)**	**995.8**	**2.0**
90% to 95%	**560.3**	**87.2**	**1.0**	**(2.4)**	**646.1**	**1.3**
95% to 100%	**136.0**	**17.2**	**0.6**	**(0.7)**	**153.1**	**0.3**
> 100%	**0.4**	**0.4**	**2.0**	**(1.3)**	**1.5**	**—**
Unsecured loans	**9.7**	**1.3**	**0.3**	**(0.6)**	**10.7**	**—**
Mortgage pipeline	**—**	**—**	**—**	**(0.7)**	**(0.7)**	**—**
Other[1]	**—**	**—**	**—**	**(2.1)**	**(2.1)**	**—**
Total	**42,278.7**	**6,384.7**	**225.3**	**(46.6)**	**48,842.1**	**100.0**

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

Notes to the Interim Financial Report continued

8. Impairment on loans and advances to customers continued

Other credit risk information continued

As at 31 December 2022 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%	21,086.7	639.6	108.4	(1.7)	21,833.0	45.5
50% to 65%	13,991.3	1,607.8	63.3	(7.9)	15,654.5	32.6
65% to 75%	4,873.0	1,513.6	21.4	(9.7)	6,398.3	13.3
75% to 85%	2,198.7	573.6	4.7	(8.3)	2,768.7	5.8
85% to 90%	603.2	117.3	1.0	(2.7)	718.8	1.5
90% to 95%	468.1	12.0	0.8	(1.0)	479.9	1.0
95% to 100%	137.8	0.8	–	(0.2)	138.4	0.3
> 100%	1.1	0.4	2.1	(1.2)	2.4	–
Unsecured loans	10.4	1.3	0.3	(0.6)	11.4	–
Mortgage pipeline	–	–	–	(0.6)	(0.6)	–
Other[1]	–	–	–	(1.6)	(1.6)	–
Total	43,370.3	4,466.4	202.0	(35.5)	48,003.2	100.0

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 2022 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%	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

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

Notes to the Interim Financial Report continued

8. Impairment on loans and advances to customers continued

Arrears performance

The Society's longer-term arrears position has worsened marginally in the first half of 2023 with £93.5 million (30 June 2022 £65.8 million, 31 December 2022: £70.4 million) of accounts being more than three months in arrears. The overall credit quality of the book however does remain high and arrears levels compare favourably to the UK finance average.

The overall increase in arrears balances since the year end is reflective of the challenging external economic environment currently facing borrowers with rising interest rates and continued inflationary pressures impacting household finances. 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 2023 the Society has 21 properties in possession (31 December 2022: 27).

	Gross balance 30 Jun 2023 £m	**Arrears balance 30 Jun 2023 £m**	Gross balance 30 Jun 2022 £m	Arrears balance 30 Jun 2022 £m	Gross balance 31 Dec 2022 £m	Arrears balance 31 Dec 2022 £m
Greater than three months	**89.9**	**4.4**	62.8	2.8	66.3	3.1
Greater than six months	**44.0**	**3.2**	30.7	2.1	32.0	2.3
Greater than one year	**15.3**	**1.7**	14.0	1.3	13.6	1.4
In possession	**3.6**	**0.2**	3.0	0.1	4.1	0.2

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 2023 %	**UK Finance 31 Mar 2023[1] %**	Group 30 Jun 2022 %	UK Finance 31 Mar 2022 %	Group 31 Dec 2022 %	UK Finance 31 Dec 2022 %
Greater than three months	**0.22**	**0.72**	0.17	0.77	0.17	0.71
Greater than six months	**0.10**	**0.44**	0.08	0.54	0.08	0.45
Greater than one year	**0.03**	**0.23**	0.04	0.33	0.03	0.25
In possession	**0.01**	**0.02**	0.01	0.01	0.01	0.02

1. Latest available quarterly information from UK Finance is as at 31 March 2023.

9. Taxation

The Group has an effective tax rate of 23.6% (Period to 30 June 2022: 20.9%; year ended 31 December 2022: 22.8%). The effective tax rate is higher than the UK statutory corporation tax rate of 23.5% due to the surcharge on banking profits offset by the tax credit in relation to distributions to holders of the Group's AT1 instrument.

An increase in the UK corporation tax rate from 19% to 25% came into effect from 1 April 2023. The deferred tax liability at 30 June 2023 has also been calculated based on these rates, reflecting the expected timing of reversal of the related timing differences.

In addition, a change in the Bank Corporation Tax Surcharge also came into effect from 1 April 2023, reducing from 8% to 3%, and chargeable on banking profits in excess of £100 million (previously £25 million). The charges have become effective from 1 April 2023 for current tax, aligning with the 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 2023 has been calculated on these rates, reflecting the expected timing of reversal of the related timing differences (30 June 2022: 8%).

10. Deposits from banks

Deposits from banks includes £3,900 million (30 June 2022 and 31 December 2022: £5,250 million) drawn down under the Term Funding Scheme with additional incentives for SMEs (TFSME) scheme. During the period, £1,350 million (30 June 2022 and 31 December 2022: £nil) of the TFSME balance was repaid.

Deposits from banks also includes £252.6 million (30 June 2022: £403.6 million; 31 December 2022: £251.8 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 £261.6 million (30 June 2022: £65.7 million; 31 December 2022: £nil) relating to repos of debt securities.

Notes to the Interim Financial Report continued

11. 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.

The present value of the 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 obligation/surplus is presented on the Balance Sheet as shown below:

	30 Jun 2023 (Unaudited) £m	30 Jun 2022 (Unaudited) £m	31 Dec 2022 (Audited) £m
Present value of funded obligation	**(152.8)**	(178.0)	(157.4)
Fair value of plan assets	**150.5**	204.7	160.7
Pension benefit (obligation)/surplus	**(2.3)**	26.7	3.3

Any surplus recognised 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 position has moved to a small deficit balance at 30 June 2023 as a result of movements in the discount rate during the period. This is expected to be recovered in future periods through investment performance.

The principal actuarial assumptions used are as follows:

Weighted average assumptions used to determine benefit obligation at	**30 Jun 2023 (Unaudited) %**	30 Jun 2022 (Unaudited) %	31 Dec 2022 (Audited) %
Discount rate	**5.25**	3.85	5.00
Rates of inflation (Retail Prices Index)	**3.15**	3.10	3.15
Rates of inflation (Consumer Prices Index)	**2.49**	2.41	2.46

12. Subordinated liabilities

	30 Jun 2023 (Unaudited) £m	30 Jun 2022 (Unaudited) £m	31 Dec 2022 (Audited) £m
Fixed rate subordinated notes 2032 - 7.54%	**15.4**	15.3	15.4
Total	**15.4**	15.3	15.4

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.

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.

Notes to the Interim Financial Report continued

13. Subscribed capital

	Call date	**30 Jun 2023 (Unaudited) £m**	30 Jun 2022 (Unaudited) £m	31 Dec 2022 (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.

14. Other equity instruments

The £415.0 million balance of Other equity instruments relates to Perpetual Capital Securities (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 2023, coupon payments of £14.3 million (30 June 2022: £14.3 million, 31 December 2022: £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.

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

For the purpose of calculating fair values, fair value is assessed as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants in the principal or, in its absence, the most advantageous market to which the Group has access at that date.

The Group measures fair value using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

- **Level 1**: unadjusted quoted prices in active markets for identical instruments.
- **Level 2**: valuation techniques for which all significant inputs are based on observable market data.
- **Level 3**: valuation techniques for which significant inputs are not based on observable market data.

Where applicable, the Group measures fair value using the quoted price in an active market for that instrument. A market is regarded as active if transactions take place with sufficient frequency and volume to provide pricing information on an ongoing basis. Where this is not applicable, the Group determines fair values using other valuation techniques.

Notes to the Interim Financial Report continued

15. 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 2023 (Unaudited) £m	**Fair value 30 Jun 2023 (Unaudited) £m**	Carrying amount 30 Jun 2022 (Unaudited) £m	Fair value 30 Jun 2022[1] (Unaudited) £m	Carrying amount 31 Dec 2022 (Audited) £m	Fair value 31 Dec 2022[1] (Audited) £m
Financial assets						
Cash and balances with the Bank of England	**9,280.2**	**9,280.2**	6,824.2	6,824.2	7,792.2	7,792.2
Loans and advances to credit institutions	**640.8**	**640.7**	417.7	417.7	622.8	622.8
Loans and advances to customers	**48,849.4**	**46,611.4**	46,642.7	45,527.5	48,014.3	45,854.5
Debt securities	**6.2**	**6.1**	6.2	5.6	6.2	5.5
Financial liabilities						
Shares	**45,460.7**	**43,126.3**	40,291.6	40,104.7	42,288.7	40,713.3
Deposits from banks	**6,546.1**	**6,546.0**	6,786.5	6,786.4	7,542.9	7,542.8
Other deposits	**5.0**	**5.0**	5.0	5.0	5.0	5.0
Amounts owed to other customers	**285.8**	**285.3**	409.0	407.9	416.1	415.9
Debt securities in issue	**5,543.7**	**5,248.2**	5,221.8	5,032.4	5,243.2	4,935.8
Subordinated liabilities	**15.4**	**18.7**	15.3	17.0	15.4	17.5
Subscribed capital	**41.6**	**59.4**	41.6	70.9	41.6	62.5

1. The Group has restated the fair value of its loans and advances to customers and shares as disclosed above as at December 2022 and June 2022. After a detailed review of market rate input assumptions, an error was identified in their application in the comparative reporting periods.

The impact of the restatement was to increase the reported fair value on loans and advances to customers from £41,547 million to £45,855 million at 31 December 2022 and £43,239 million to £45,528 million at 30 June 2022. The impact of the restatement on shares was to increase the reported fair value from £38,371 million to £40,713 million at 31 December 2022 and £39,120 million to £40,105 million at 30 June 2022.

Loans and advances to credit institutions

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

Loans and advances to customers

The fair value of loans and advances to customers is assessed as the value of the expected future cash flows, projected using contractual interest payments and repayments and the expected prepayment behaviour of borrowers. Assumptions are applied regarding expected levels of customer prepayments and the risk of defaults. The estimated future cash flows are discounted at current market rates for the loan types and adjusted where necessary to reflect any observable market conditions. The majority of the loans and advances to customers are on a fixed rate product, and therefore interest rate swap derivative instruments are in place against these assets. Hedge accounting related fair value adjustments of £2,016 million (31 December 2022: £1,595 million; 30 June 2022: £1,050 million) are excluded from the carrying value and fair value.

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.

Shares

The fair value of shares available on demand approximates to the carrying value. The fair value of fixed term or restricted access deposits is determined from the estimated projected cash flows discounted at the current market rates for those types of deposit. Hedge accounting fair value adjustments of £359 million (31 December 2022: £351 million; 30 June 2022: £241 million) are excluded from the carrying value and fair value.

Notes to the Interim Financial Report continued

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

Fair value of assets held at amortised cost continued

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

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

Debt securities in issue, subordinated liabilities and subscribed capital

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

Fair value of assets held at fair value, 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 2023 (Unaudited)	**Level 1 £m**	**Level 2 £m**	**Level 3 £m**	**Total fair value £m**
Derivative financial instruments - assets	**–**	**2,945.6**	**–**	**2,945.6**
Debt securities	**1,682.7**	**126.4**	**–**	**1,809.1**
Investment in equity shares	**0.8**	**–**	**5.5**	**6.3**
Derivative financial instruments - liabilities	**–**	**(841.7)**	**(0.4)**	**(842.1)**

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)

31 December 2022 (Audited)	Level 1 £m	Level 2 £m	Level 3 £m	Total fair value £m
Derivative financial instruments - assets	–	2,278.1	–	2,278.1
Debt securities	1,501.9	86.7	–	1,588.6
Investment in equity shares	0.7	–	5.1	5.8
Derivative financial instruments - liabilities	–	(625.2)	(1.3)	(626.5)

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 2 - Debt securities - fair value through other comprehensive income - Unlisted

Where quoted market prices are not available at the valuation date, valuations of securities are based on their relative value to comparable securities.

Notes to the Interim Financial Report continued

15. 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 continued

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.

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.

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. There have been no changes in methodology, redemption, additions or transfers in or out of Level 3 in the year.

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 2022 Annual Report & Accounts. On 30 January 2023, Vanessa Murden was appointed to the Board as a Non-Executive Director. On 27 April 2023, Peter Frost and Catherine Doran retired from the Board.

Signed on behalf of the Board by

Steve Hughes
Chief Executive
27 July 2023

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 2023 (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 2023
- 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 ("ISRE (UK) 2410"). 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 ISRE (UK) 2410. 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.

Independent review report to Coventry Building Society

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

27 July 2023

Other information

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

The financial information for the year ended 31 December 2022 has been extracted from the Annual Report & Accounts for that year. The Annual Report & Accounts for the year ended 31 December 2022 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.thecoventry.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.

Coventry Building Society. Principal Office: Coventry House, Harry Weston Road, Binley, Coventry, West Midlands, CV3 2TQ.

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