COVENTRY Building Society

All together, better

Interim Financial Report

for the six month period ended 30 June 2024

Performance highlights

All together, better

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

Delivering value to members

2.6%
Savings balance growth
(H1 2023: 7.5%)

£195m
Value returned to members[1]
(H1 2023: £163m)

2024
Fairer Finance Number 1 for Customer Experience - Savings

2.2%
Mortgage balance growth
(H1 2023: 1.7%)

3,000 first homes purchased by 4,900 members
(H1 2023: 3,200 homes, 5,300 members)

2024
Fairer Finance Gold ribbon for Customer Experience - Mortgages

Our commitment to service

+79
Net Promoter Score[2]
(FY 2023: +76)

62
Seconds average call waiting time[3]
(FY 2023: 105 seconds)

2024
Fairer Finance Most transparent for savings

Engaging colleagues and supporting our communities

£1.5m
Total community investment[4]
(H1 2023: £1.3m)

11th
Great Place to Work in the Super Large category[5]
(FY 2023: 13th)

Certified Great Place to Work
81% Trust Index Score[6]

Performance highlights continued

Sustainable financial performance

Capital ratios

28.9%
Common Equity Tier 1
(FY 2023: 29.1%)

5.6%
UK leverage ratio
(FY 2023: 5.4%)

Profitability

£159m
Profit before tax
(H1 2023: £269m)

1.05%
Net interest margin
(H1 2023: 1.34%)

Efficiency

54.2%
Cost to income ratio
(H1 2023: 34.4%)

0.55%
Cost as a percentage of average assets
(H1 2023: 0.49%)

Low risk

0.31%
% of mortgages more than 3 months in arrears
(FY 2023: 0.26%)

272%
Liquidity coverage ratio
(FY 2023: 227%)

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 2023: 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 2024 and 30 June 2024.
4. Total community investment made by the Society in H1 2024 has been determined in line with with the Business for Societal Impact (B4SI) framework.
5. Position in the Super Large category of 50 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 Society delivered a strong performance in the first six months of the year, growing both savings and mortgages and delivering the outstanding value and service our members expect.

We continued to make balanced decisions to protect the interests of our current and future members whilst enhancing the strong capital base that supports our near-term and longer-term strategic plans. Our continued growth, exceptional service, strong profitability and delivery on our investment priorities shows the strength of the Society and the mutual business model. The Society continues to deliver in line with expectations and we are making good progress to complete the acquisition of The Co-operative Bank in the first quarter of 2025.

There was some optimism at the start of 2024 that UK inflation would ease. However with wage inflation remaining high and the general election coming earlier than many expected, the Bank of England maintained the base rate at 5.25% for the first half of the year.

Whilst we saw some increased housing market activity at the start of the year, the lack of interest rate movement dampened confidence and we now expect relatively low levels of market growth this year. It is likely that we will see some Bank of England Base Rate reductions in the second half of the year, but we will continue to take a prudent and considered approach to current market conditions.

Strong financial foundations

Following the high performance of 2023, we had planned for and anticipated a year of lower profitability. However profit before tax of £159 million (H1 2023: £269 million) was still strong by historical standards and has ensured the Society's capital base remains robust.

We have delivered a balanced performance, growing mortgages in a deliberately controlled and disciplined way, backed by appropriate funding decisions that have recognised and rewarded members' loyalty and met their expectations for great value and service. Strong underwriting, excellent broker relationships and our proactive approach to borrowers facing payment challenges have kept arrears and credit losses low.

We have continued to invest in the Society's future, reducing technology risk and enhancing services to ensure relevance and resilience as well as greater efficiency. We also pursued the transformational acquisition of The Co-operative Bank and with it, the opportunity to deliver long-term benefits for members through increased scale, access to the current account and associated savings market as well as business banking, and a distinctive purpose-led position in UK financial services. Following the signing of a sale and purchase agreement in May, we anticipate completion of the acquisition in the first quarter of 2025, subject to receiving regulatory approvals.

Robust mortgage performance

The uncertainty over the timing and extent of interest rate cuts, in addition to competitive pressures, led to greater volatility in the housing market and we, in common with others, have repriced mortgage ranges frequently as a result. We recognise that this is challenging for brokers and borrowers alike but have maintained our 48 hours' notice of product withdrawal as a key element of our service promise, and continue to value and enhance the very positive relationships we have with our broker partners. The service we deliver to brokers and directly to members continues to set us apart.

That we are delivering this outstanding service during a period of economic uncertainty, and in circumstances that continue to challenge borrowers facing higher mortgage costs, is testament to our mortgage teams and the work we are doing to enhance our service offering. The implementation of our new mortgage origination platform has received very positive feedback from brokers and colleagues alike.

We have also taken steps to enhance our competitive position in a buy to let market which continues to experience significant change, particularly as regulatory developments have led to increasing professionalisation of the sector. Our extension of the number of properties that can be held in buy to let portfolios shows our considered approach to these changes, remaining relevant but ensuring that we protect landlords, tenants and the Society's membership.

Chief Executive's review continued

£195m

Value returned to members[3]

(H1 2023: £163m)

Our customer-focused approach and the quality of our underwriting continues to protect individual borrowers, whether in the owner-occupied or buy to let sectors. This is shown in our continued low level of arrears which at 0.31% (December 2023: 0.26%) has changed little over the last 12 months and remains lower than the market average[1]. Whilst we remain committed to supporting our borrowers through a number of proactive interventions, we are still finding that relatively few need the additional help we can provide.

Our mortgage balances have grown by £1.1 billion (H1 2023: £0.8 billion), or 2.2%. Delivering this growth shows our strong pipeline position coming into the year and improved retention, but was also supported by a disciplined approach to lending that reflected market conditions and the interests of our saving and borrowing members.

Delivering value to savers

It continues to be a strong market for savers, particularly as inflation has dropped ahead of interest rate reductions. Despite the market anticipating reductions, more accounts are paying higher than the headline rate of inflation than has been the case in recent years.

We have taken decisions to balance our funding requirements to support our lending along with our aim to pay competitive rates to our savers over the long term. We have prioritised our loyalty propositions and ensured that members with maturing accounts have had good options to choose from. As with our mortgage service, we continue to balance the ease and convenience of digital developments with the warmth and expertise provided by my colleagues in branches and the contact centres.

We have made significant progress with the digitalisation of our savings propositions, most notably with the very successful launch of our savings app, but also providing self-service options for those members with maturing accounts. Both developments are fundamental to operating at scale, by providing efficient and simple ways for members to open and manage their savings accounts themselves.

The mobile app went live in Q1 as planned and has been downloaded by nearly 100,000 members. Their feedback is that it is simple and intuitive to use. We are continuing to add functionality whilst actively promoting its use to our members.

We launched new online maturity capability to align with busy periods of savings activity, and by May, nearly three-quarters of maturity instructions were done online by members. This saved almost 1,000 hours of manual processing and meant that colleagues could spend more time supporting people who needed greater help. These new digital capabilities complement our branch and contact centre services, with branch colleagues running digital support classes to help members build the confidence they need to use all service options available.

The balance between efficient self-service and expert, warm and personal service for more complex queries lies at the heart of our outstanding customer service. Answering calls quickly is one element to this and our investment in people meant we answered calls in just 62 seconds[2] on average (FY 2023: 105 seconds). But it is also important that colleagues can answer member questions directly without handing them off for someone else to deal with. We will continue to invest in our colleagues and their training to maintain this outstanding point of difference.

The balance of great value and outstanding service continues to attract new savers to the Society, whilst our existing members remain loyal and save more with us. We have grown savings by £1.2 billion in the first half of the year (H1 2023: £3.2 billion) taking our overall savings balance to £48.8 billion. We have increased the savings premium we pay members to 0.9%[3] (H1 2023: 0.8%) which reflects our belief that competitive long-term value remains a key proof point of our mutuality.

Enhancing service, resilience and security

Our overall Net Promoter Score[4] (NPS) is +79, which exceeded even the very high standards we set ourselves and peaked in the +90s during the period. This is exceptional in the financial services industry.

I have talked a little about our progress in digitalising our savings and mortgage processes. Giving mortgage borrowers, brokers and savers the ability to do more of what they want to do themselves, at a time and place of their choosing, is making their lives easier whilst enabling the Society to operate more efficiently at scale.

Whilst these are very visible enhancements to the service we provide, we are also making significant progress in other aspects of our technical infrastructure, thereby reducing risk as we enhance the resilience and security of the services we provide.

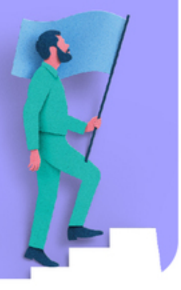
This ongoing investment includes the transformation of our financial systems where we have successfully delivered new systems that automate elements of our regulatory and capital markets reporting as well as a new procurement sourcing system. These projects share a common goal in enabling greater operating efficiency and a reduction in the risks associated with end user computing solutions.

+79

Net Promoter Score

Our measure of excellent service[4]

(FY 2023: +76)



Chief Executive's review continued

We continue to prioritise keeping members' money safe and are enhancing the protection we have in place whilst also meeting the expectations of today's fast-paced payments environment.

An efficient business also requires efficient collaboration between colleagues, and we are beginning to see the benefits of implementing new IT tools across the Society. This investment is enabling colleagues to work smarter and more effectively in the hybrid environment that is now our natural way of working.

Supporting colleagues and the communities we serve

A consistent theme in this review is an appreciation of the work undertaken by our colleagues in delivering for our members and other stakeholders. We expect a lot of the people who work at the Society and I fundamentally believe it is only through their engagement that the Society can succeed.

So I was delighted to hear in March that we are now 11th (2023: 13th) in the Super Large category of organisations that met the Great Place to Work benchmark, a category where more participants are joining each year. This is an excellent endorsement of what we are striving for. A workplace that welcomes diversity and makes everyone feel included, one that encourages and enables colleagues to do their best, and one that recognises and celebrates their achievements.

We measure the reality behind this accolade by such measures as the number of women in managerial roles, where we are close to achieving our target of 50%, and managers from a minority background, where we are seeing the benefits of consistent investment in specific development programmes. I am proud of our record of promoting colleagues whilst also attracting talented people to the Society. We are increasingly being recognised for our ambition and values, as well as the support we give colleagues to succeed and thrive.

We will continue to invest in this. In March, we became the first building society to join the 5% Club, a group of companies that is committed to raising the total number of colleagues on apprenticeships and graduate programmes to 5% of the total workforce within 5 years. We also had our leadership development programmes accredited by the Institute of Learning and Development. We are serious about providing great development opportunities for all our colleagues and understand the role this plays in encouraging great engagement.

Colleague engagement is also a key part of our community outreach. The same motivations that drive great customer service can be seen in colleagues' desire to volunteer and fundraise for the charities we support. We have well established programmes that focus on helping people stay in their own homes, raising aspiration and achievements amongst students and reducing isolation and loneliness and all these benefit from the commitment and expertise of volunteers from across the Society.

I have seen the benefit of our ongoing investment in the communities we serve, and am particularly proud of the creative approach we, together with our partners, bring to resolving issues, for example the work we have done with suppliers to support the launch of an innovative hub offering co-ordinated youth services in Coventry.

Looking forward

The experience of the last six months shows that the UK economy continues to face challenges. The new Government is keen to deliver the right conditions for growth but there is continued uncertainty in the timing or extent of expected interest rate cuts. In the meantime, high interest rates will continue to constrain activity levels in the housing market and challenge homeowners needing to remortgage.

Our priority is to maintain the great value and service our members expect, keeping their money safe and improving services and efficiency through the digitisation of our business. Whilst still subject to regulatory approvals, we are continuing to focus on The Co-operative Bank acquisition and bringing both organisations together. We are confident we can deliver real benefits for members and customers of both organisations and preparations for completion of the planned acquisition in early 2025 are progressing well. The Board and I are absolutely committed that this work will not distract us from delivering for today's members of the Society.

Our ability to do this is based on the firm financial foundations we have put in place over several years, balancing the needs of current members with building the capital strength that underpins this transformational acquisition. We are an ambitious organisation, both in the service and value we deliver for current members but in building a significant mutual financial services business that provides a purpose-led alternative within the UK market.

As we look ahead, I would like to welcome our two new non-executive directors, Ewa Kerin and Iain Plunkett, who joined the Board in July and will be very much part of shaping the Society's future.

I'd like to finish by thanking my colleagues whose hard work makes it all possible and our members for their loyalty and trust as we embark on the next stage of our long and successful history.

Stephen Hughes
Chief Executive

30 July 2024

1. Based on UK Finance Q1 2024 published data.
2. Based on average call waiting times between 1 January 2024 and 30 June 2024.
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 2024.
4. A measure of customer advocacy that ranges between -100 and +100 which represents how likely a customer is to recommend our products and services.

Chief Financial Officer's review

The Society has continued to deliver a strong financial performance in the first half of 2024. Whilst profit has decreased, in line with our expectations, we have delivered good mortgage growth, resilient asset quality and a further strengthening of our capital position.

The economic backdrop has improved with the recent falls in inflation, however forecasts of base rate cuts have remained uncertain in the first half of 2024. Despite this uncertainty, we have continued to deliver long-term sustainable value and exceptional service for our members.

Summary

Our profit before tax decreased to £159 million (30 June 2023: £269 million). Whilst a decrease on the same period last year, this is in line with our expectation following an exceptional operating environment in the prior year.

Net interest income decreased to £330 million (30 June 2023: £404 million). The reduction is due to the timing of asset and liability repricing from prior year base rate increases, increased retail savings competition flowing through from the second half of 2023 and the impact of mortgage customers repricing onto lower margin products.

Our focus remains on delivering excellent value to our savings members and this is evidenced by a 2.6% increase in deposits and our member value[1] increasing to £195 million (30 June 2023: £163 million).

The results for the period include a reported loss on derivative financial instruments of £11 million, as the gains seen in previous years begin to unwind.

We continue to invest for the long-term with an ambitious plan to improve and modernise services for members. We invested £43 million (30 June 2023: £44 million) in the first half of the year with a continued focus on digital, mortgages and improving resilience and financial control environment. Included within our management expenses of £171 million (30 June 2023: £147 million) are £14 million (30 June 2023: £nil) of costs associated with the anticipated acquisition of The Co-operative Bank along with £7 million relating to the new Bank of England levy. Our cost to income ratio increased to 54%[2] (30 June 2023: 34%), mainly due to the reduction in income in the period and one-off costs from the acquisition. Excluding the acquisition-related costs, our cost to income ratio would be 50%.

From a balance sheet perspective, our mortgage book has grown by 2.2% due to a strong mortgage pipeline and improved retention. Following the exceptional savings growth in 2023, performance has been deliberately moderated although savings balances have still grown more quickly than mortgages with balances up 2.6%.

The Society's mortgage book continues to perform well with only 0.31% of mortgages more than 3 months in arrears (31 December 2023: 0.26%). Interest rates have remained high, although current expectations are that rates will begin to reduce in the near future. Inflation has reduced to its lowest level in the last three years, however the cumulative effect of high interest rates and cost of living pressures are still very evident. Against this backdrop, credit quality is holding up better than we expected with only a moderate increase in arrears and losses remain very low. Therefore, in light of the resilient asset quality and the improved economic outlook, we have reduced our cost of living post model adjustment (PMA). Overall, this has resulted in a release of provision of £14 million in the period.

Despite a reduction in income, our careful management of the balance sheet has meant that we have seen a further strengthening in our leverage ratio to 5.6% (31 December 2023: 5.4%) and our Common Equity Tier 1 ratio has remained stable at 28.9% (31 December 2023: 29.1%).

A highly successful and oversubscribed issuance of £665 million Additional Tier 1 capital was completed in June which further strengthens the balance sheet ahead of our planned acquisition of The Co-operative Bank.

The financial performance of the Society in the first half of 2024 has been strong. As outlined in our 2023 Annual Report & Accounts, we have now passed the peak of the income cycle and the expected reduction in income has occurred with the second half of the year likely to be more stable.

Lee Raybould
Chief Financial Officer

30 July 2024

Financial Review

Income Statement

	Period to 30 Jun 2024 (Unaudited) £m	Period to 30 Jun 2023 (Unaudited) £m	Year ended 31 Dec 2023 (Audited) £m
Interest receivable	**1,656.0**	1,346.4	2,992.5
Interest payable	**(1,326.4)**	(942.5)	(2,225.3)
Net interest income	**329.6**	403.9	767.2
Other income and charges	**(2.8)**	(2.0)	(5.2)
(Losses)/gains on derivative financial instruments	**(10.5)**	24.6	30.3
Total income	**316.3**	426.5	792.3
Management expenses	**(171.3)**	(146.8)	(311.9)
Impairment release/ (charge)	**13.8**	(11.1)	(6.9)
Profit before tax	**158.8**	268.6	473.5

Net interest income for the six month period to 30 June 2024 was £330 million (30 June 2023: £404 million). The overall decrease in net interest income of £74 million compared to the June 2023 period contributed to a reduced net interest margin of 1.05% (30 June 2023: 1.34%), as base rates stabilised, retail savings competition increased and mortgage customers repriced to lower margin products.

Interest receivable on mortgages increased by £236 million, driven by both higher asset balances as well as higher rates. A further increase of £49 million in interest receivable arose from other liquid assets.

Interest payable on retail savings increased by £412 million following the increase in deposit balances and higher average rates paid on balances. Throughout the period, the Society continued to pay above average savings rates, returning £195 million (H1 2023: £163 million) in member value[1] compared to market average rates. This was offset by a reduction of £50 million to interest payable on savings and wholesale hedged derivatives.

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 loss in the first half of the year of £11 million (30 June 2023: £25 million gain) reflects the unwinding of previous gains, as expected due to the nature of hedge accounting.

Management expenses including depreciation and amortisation for the period were £171 million (30 June 2023: £147 million). The rise in costs of £24 million was due to one off costs of £14 million relating to the acquisition of The Co-operative Bank, the new Bank of England levy included as a £7 million cost to the Society and the impact of inflation on both employee costs and third party costs.

Our strong financial performance has allowed the Society to continue with its significant investment programme. The total spend on investment, including capital expenditure, of £43 million (30 June 2023: £44 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 further achieved some significant milestones in our finance transformation programme.

The cost to income ratio has increased to 54%[2] (30 June 2023: 34%) reflecting the expected reduction in income relative to our cost base in the period and the impact of one-off acquisition costs. Excluding the acquisition-related costs, our cost to income ratio would be 50%. We continue to demonstrate effective management of our operating cost base with just a 2% increase when excluding the acquisition-related costs and new levy.

The cost to mean assets ratio of 0.55%[3] has also increased in the first six months of 2024 (H1 2023: 0.49%) but is expected to remain among the lowest in the building society sector[4].

Provision for expected credit losses

The performance of our mortgage book has remained resilient alongside the changing economic outlook, as interest rates, inflation and house prices all begin to stabilise. The Society has updated its economic scenarios to account for this, which has modestly reduced Expected Credit Losses (ECLs) recognised in the period.

Whilst a deliberately cautious approach to estimating ECLs continues to be applied, the cost of living post model adjustment has been reduced by £12 million, reflecting resilient credit quality and only a modest increase in arrears levels. The prolonged period of consumer pressures not resulting in the expected levels of borrowers requiring extra help over the period has led to a reduction in the ECL provision to £28 million in the period, (31 December 2023: £43 million), with a release of £14 million recognised in the Income Statement (30 June 2023: charge of £11 million).

Of the total expected credit loss provision, £11 million (31 December 2023: £24 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, alongside smaller adjustments for risks that cannot easily be modelled, such as fraud.

The ECL provision now equates to 0.05% of the overall mortgage book (31 December 2023: 0.08%), which is reflective of very strong credit quality with very low arrears and losses.

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 2024, stage 2 accounts decreased to 9.8% (31 December 2023: 14.5%) driven by the reduction of the cost of living PMA, with fewer customers showing signs of payment hardship than initially expected. 89.6% of the mortgage book remains in stage 1 (31 December 2023: 85.0%).

Balance Sheet

	Period to 30 Jun 2024 (Unaudited) £m	Period to 30 Jun 2023 (Unaudited) £m	Year ended 31 Dec 2023 (Audited) £m
Assets			
Loans and advances to customers	**51,397.4**	48,849.4	50,276.1
Liquidity	**10,579.4**	11,736.3	10,924.3
Other	**951.4**	1,071.3	1,262.3
Total assets	**62,928.2**	61,657.0	62,462.7
Liabilities			
Retail savings	**48,823.7**	45,460.7	47,582.3
Wholesale funding	**10,003.5**	12,380.6	10,845.5
Subordinated liabilities and subscribed capital	**57.0**	57.0	57.0
Other	**460.4**	577.1	738.3
Total liabilities	**59,344.6**	58,475.4	59,223.1
Equity			
General reserve	**2,662.4**	2,437.5	2,573.2
Other equity instruments	**691.9**	415.0	415.0
Other	**229.3**	329.1	251.4
Total equity	**3,583.6**	3,181.6	3,239.6
Total liabilities and equity	**62,928.2**	61,657.0	62,462.7

Loans and advances to customers

The Society's lending strategy remains focused on high quality, low loan to value owner-occupier and buy to let lending within the prime residential market, distributed mainly through mortgage intermediaries giving the Society a regionally diverse mortgage portfolio in a cost-effective way.

The Society manages its growth according to economic conditions, market pricing and funding conditions. The mortgage book has grown £1.1 billion to £51.4 billion (31 December 2023: £50.3 billion) in the first six months of the year. During the period, the Society advanced £3.5 billion of mortgages (30 June 2023: £4.0 billion) offset by redemptions as customers continue to look for rate certainty in a more volatile environment.

The balance weighted average indexed loan to value of the mortgage portfolio has seen a small decrease to 53.4% at 30 June 2024 (31 December 2023: 53.8%).

Despite the current economic conditions, the Society continues to have very low arrears with only 0.31% of mortgages more than three months in arrears (31 December 2023: 0.26%).

Liquidity

On-balance sheet liquid assets have decreased slightly to £10.6 billion (31 December 2023: £10.9 billion) and the Liquidity Coverage Ratio (LCR) at 30 June 2024 was 272% (31 December 2023: 227%), significantly in excess of the regulatory minimum.

Retail savings

The Society continues to be predominantly funded by retail savings, with balances of £48.8 billion at 30 June 2024 (31 December 2023: £47.6 billion) and growth of £1.2 billion in the first six months of the year, which is reflective of our focus on offering very competitive savings propositions for our members.

Wholesale funding

The Society uses wholesale funding[5] to provide diversification of funding by source and term, supporting growth and lowering risk by reducing the overall cost of funding. This benefits saving members through better savings rates and mortgage customers by enabling us to offer more competitive long-term rates. Wholesale funding in the period has remained broadly stable at £10.0 billion (31 December 2023: £10.8 billion).

The Society previously accessed the Bank of England's Term Funding Schemes with £5.25 billion drawn. Repayments of £0.5 billion have been made in the period and the outstanding drawings at 30 June 2024 are £2.95 billion (31 December 2023: £3.45 billion).

Equity

In June 2024, the Society completed a new £665 million issuance of Additional Tier 1 (AT1) capital. This instrument has a first call date in 2029. At the same time, a tender for the existing 2019 AT1 instruments was made, resulting in the repurchase of £388 million of the £415 million existing AT1 capital balance. Therefore, the total AT1 Other Equity balance at 30 June 2024 is £692 million (31 December 2023: £415 million).

The remaining movement in the equity balance predominately reflects retained profit for the period of £123 million (30 June 2023: £205 million). Other movements include a negative movement of £22 million (30 June 2023: positive movement of £48 million) in the cash flow hedge reserve and £21 million distribution to Additional Tier 1 capital holders (30 June 2023: £14 million).

0.31%

% of mortgages more than 3 months in arrears

(FY 2023: 0.26%)

Chief Financial Officer's review continued

Capital Ratios

Unaudited	End-point 30 Jun 2024 £m	End-point 30 Jun 2023 £m	End-point 31 Dec 2023 £m
Capital resources:			
Common Equity Tier 1 capital	**2,531.4**	2,357.0	2,475.5
Total Tier 1 capital	**3,223.3**	2,772.0	2,890.5
Total capital	**3,223.3**	2,772.0	2,890.5
Risk weighted assets	**8,758.5**	7,757.2	8,499.1
CRD V ratios:	%	%	%
Common Equity Tier 1 ratio	**28.9**	30.4	29.1
Leverage ratio including central bank reserves and full AT1 capital	**5.2**	4.7	4.6
UK Leverage ratio[6]	**5.6**	5.5	5.4

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 at its annual reporting date. The Society's UK leverage ratio increased to 5.6% 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 2023 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 increase in capital as a result of retained profits in the period has been offset by an increase in RWAs of 3%, resulting in a broadly stable CET 1 ratio of 28.9% at 30 June 2024. Our CET 1 ratio remains significantly ahead of the Total Capital Requirement for the Society which was 10.6% of risk weighted assets as at 30 June 2024.

From 2025, Basel 3.1 RWA floors are currently expected to be 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 2024 figures on a full transition basis would result in a CET 1 ratio of approximately 21.8%. 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 2024 is 0.2% 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.

5.6%

UK Leverage ratio

(FY 2023: 5.4%)

1. Based on the Society's average month end savings rate compared to the CACI market average rate for savings accounts and excluding current accounts, for the latest available data for the five months ended 31 May 2024.
2. Administrative expenses, depreciation and amortisation/ Total income.
3. Administrative expenses, depreciation and amortisation/Average total assets.
4. As at 30 July 2024 based on available market data.
5. Deposits from banks, Other deposits, Amounts owed to other customers and Debt securities in issue.
6. 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 31 of the Risk Management Report of the 2023 Annual Report & Accounts. The principal risks remain unchanged at June 2024.

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. Compared to the emerging risks identified at the last financial year end, as set out on page 22 of the 2023 Annual Report & Accounts, a new risk has been added to reflect the risk of failure to effectively execute the Society's strategic change agenda. This is of particular importance given the Society's proposed acquisition of The Co-operative Bank. Other emerging risks remain broadly consistent, with an update of the latest position provided below.

Risk	Mitigation
Economic and geopolitical environment	
Global conflict and economic conditions following the pandemic have led to an environment of increased inflation and interest rates. This has increased mortgage costs for borrowers and impacts affordability and ability to repay. There continues to be heightened geopolitical tension and uncertainty over the future economic conditions and interest rate profiles.	The Society regularly conducts stress testing against different economic scenarios to confirm that we can withstand severe but plausible stresses. The Society's lower risk lending approach, combining multiple tools like scorecards, policy rules and affordability stress rates, translates into arrears levels that remain well below industry levels. The Society's board risk appetite measures track new lending and portfolio performance and have well established limits to identify signs of deterioration. The Society proactively contacts customers who may be most impacted by higher mortgage rates. The Society holds credit loss provisions to protect against the risks which have yet to emerge in modelled data.
Housing, mortgage and funding market environment	
An elevated interest rate environment places downward pressure on house prices, mortgage activity, mortgage margins, and growth. The higher cost of living, the end of Term Funding Schemes, quantitative tightening or disruption to wholesale funding markets could lead to higher funding costs.	The Society undertakes detailed strategic planning to 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 functioning of our key markets. In extreme conditions, the Society can moderate its rate of growth or deleverage to reduce its funding and capital requirements.
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 2023 and continues to prioritise this in 2024.
Technology, innovation and change	
As new technology (including Artificial Intelligence) develops and is adopted there is a risk that the level of investment does not keep pace with core market competitors, reducing the Society's relative attractiveness to customers. There is also a risk that technological change delivery itself could impact service levels, growth or other performance measures. Furthermore, as the technology landscape evolves external cyber threats also evolve in frequency, severity and sophistication.	The adoption and embedding of a scaled agile change model together with ongoing investment continues to improve the resilience, flexibility and efficiency of delivering technology and other change. The Society continues to invest in the cloud strategy and developing the digital platform. There is a continual programme of Cyber Risk testing and development to strengthen the Society's protection from threats. Technology and Data were established as principal risk categories in 2023, underpinning the ongoing development in these areas in the Society and ensuring appropriate risk mitigation and governance.

Top and emerging risks continued

Risk	Mitigation
Operational resilience	
A severe disruptive event or crisis could impact the ability of the Society to maintain the delivery of its important business services (IBS) and other support services. Such events could lead to member harm, loss of funds, impact the safety and soundness of the Society, reputational damage or regulatory penalties. Severe disruptive events could include technology failure impacting key IT services, widespread data loss or corruption, a cyber security event, or the failure of a critical third party.	The Society manages and governs a range of operational risk types in accordance with risk appetite. The Society has operational resilience capabilities in place (spanning crisis management, business continuity, technology, data, people, supply chain and property), which aim to ensure the Society's key services are resilient to disruptions and stress. 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.
Increased regulatory requirement	
The Society is facing into a step up in regulatory requirements as a function of its size and systemic importance to the UK financial services sector as a result of its organic growth and planned acquisition. It is expected to exceed the £50 billion deposit threshold in the near term resulting in additional compliance requirements. There is a risk that the scope and complexity of regulatory change and increased regulatory expectation could increase the Society's costs and capital requirements and if not delivered effectively increase the risk of reputational damage with the regulator. The introduction of Consumer Duty and implementation of Basel 3.1 are two examples of significant regulatory change the Society is responding to.	The Society has mobilised a range of prudential, financial and conduct programmes to ensure it meets and fulfils all requirements as they fall due, including those related to the planned acquisition. Estimates and sensitivities to changing financial and capital requirements are regularly assessed to give assurance that the Society has adequate headroom to operate within board risk appetite and regulatory requirements, including buffers. The Society conducts horizon scanning and engages with trade bodies and its regulators to ensure the impact of regulation on its business model is managed closely. The Society continues to undertake work to enhance its preparedness for future regulatory expectations and is in regular dialogue with both the PRA and the FCA on current and future matters impacting the organisation.
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 Climate section of the Annual Report & Accounts.
Strategic change execution	
The Society has an ambitious change agenda to enhance product and service offerings to customers and to develop operational and risk capabilities. Failure to effectively execute this change could delay the strategy delivery, the Society's growth and cause reputational damage with customers or regulators.	The Society has a change delivery framework which ensures strategic change is appropriately managed, and which monitors and controls execution risks. The framework is overseen by the Executive and the Board. The planned acquisition and integration of The Co-operative Bank will bring increased change execution risks which have been carefully considered during the due diligence process. The Society's approach to managing this risk has been developed across the three lines of defence. This includes deploying established programme risk and governance tools, bringing in third party support and subject matter expertise. The second line will be embedded in the programme while the third line will adopt a continuous monitoring approach (including thematic reviews). The Board will oversee directly the integration programme with support from appropriate sub committees.

Condensed Consolidated Income Statement

For the period ended 30 June 2024

		Period to 30 Jun 2024 (Unaudited) £m	Period to 30 Jun 2023 (Unaudited) £m	Year ended 31 Dec 2023 (Audited) £m
Interest receivable and similar income calculated using the Effective Interest Rate method	3	**1,656.0**	1,346.4	2,992.5
Interest payable and similar charges	4	**(1,326.4)**	(942.5)	(2,225.3)
Net interest income		**329.6**	403.9	767.2
Fees and commissions receivable		**2.3**	2.3	3.8
Fees and commissions payable		**(5.2)**	(5.5)	(11.1)
Other operating income		**0.1**	1.2	2.1
Net (losses)/gains from derivative financial instruments	5	**(10.5)**	24.6	30.3
Total income		**316.3**	426.5	792.3
Administrative expenses	6	**(158.4)**	(134.0)	(285.8)
Amortisation of intangible assets		**(6.9)**	(6.2)	(12.9)
Depreciation of property, plant and equipment		**(6.0)**	(6.6)	(13.2)
Impairment release/ (charge) on loans and advances to customers	8	**13.8**	(11.1)	(6.9)
Profit before tax		**158.8**	268.6	473.5
Taxation	9	**(35.6)**	(63.4)	(122.4)
Profit for the financial year		**123.2**	205.2	351.1

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 2024

	Notes	**Period to 30 Jun 2024 (Unaudited) £m**	Period to 30 Jun 2023 (Unaudited) £m	Year ended 31 Dec 2023 (Audited) £m
Profit for the financial year		**123.2**	205.2	351.1
Other comprehensive (expense)/ income				
Items that will not be transferred to the income statement:				
Remeasurement of defined benefit pension plan	11	**(6.1)**	(5.7)	–
Taxation	9	**1.0**	1.6	(0.1)
Items that may be transferred to the income statement				
Fair value through other comprehensive income investments:				
Fair value movements taken to reserves		**(4.2)**	(11.2)	15.2
Amount transferred to the income statement		**4.3**	10.2	(20.2)
Taxation	9	**–**	0.2	1.4
Cash flow hedges:				
Fair value movements taken to reserves		**(9.7)**	45.5	18.8
Amount transferred to the income statement		**(21.3)**	22.4	(54.6)
Taxation	9	**8.8**	(20.0)	8.8
Other comprehensive (expense)/ income for the year, net of tax		**(27.2)**	43.0	(30.7)
Total comprehensive income for the year, net of tax		**96.0**	248.2	320.4

The notes on pages 17 to 35 form part of this Interim Financial Report.

Condensed Consolidated Balance Sheet

As at 30 June 2024

		30 Jun 2024 (Unaudited) £m	30 Jun 2023 (Unaudited) £m	31 Dec 2023 (Audited) £m
Assets				
Cash in hand and balances with the Bank of England		**8,749.4**	9,280.2	8,572.2
Loans and advances to credit institutions		**473.1**	640.8	787.9
Debt securities		**1,356.9**	1,815.3	1,564.2
Loans and advances to customers	7	**51,397.4**	48,849.4	50,276.1
Hedge accounting adjustment		**(668.1)**	(2,015.7)	(433.1)
Derivative financial instruments		**1,435.4**	2,945.6	1,513.5
Investment in equity shares		**6.9**	6.3	6.8
Current tax assets		**42.5**	2.6	41.3
Intangible assets		**53.4**	48.0	49.6
Property, plant and equipment		**46.5**	54.4	51.0
Prepayments and accrued income		**34.8**	30.1	29.5
Pension asset	11	**–**	–	3.7
Total assets		**62,928.2**	61,657.0	62,462.7
Liabilities				
Shares		**48,823.7**	45,460.7	47,582.3
Deposits from banks	10	**4,470.6**	6,546.1	5,230.7
Other deposits		**–**	5.0	–
Amounts owed to other customers		**167.1**	285.8	237.3
Debt securities in issue		**5,365.8**	5,543.7	5,377.5
Hedge accounting adjustment		**(108.8)**	(464.7)	(68.1)
Derivative financial instruments		**373.2**	842.1	594.2
Deferred tax liabilities		**123.2**	130.4	133.1
Accruals and deferred income		**46.2**	38.1	49.5
Other liabilities		**23.9**	28.5	29.2
Provisions for liabilities and charges		**0.4**	0.4	0.4
Pension Benefit Obligations	11	**2.3**	2.3	–
Subordinated liabilities	12	**15.4**	15.4	15.4
Subscribed capital	13	**41.6**	41.6	41.6
Total liabilities		**59,344.6**	58,475.4	59,223.1
Equity				
General reserve		**2,662.4**	2,437.5	2,573.2
Other equity instruments	14	**691.9**	415.0	415.0
FVTOCI reserve		**1.4**	4.1	1.3
Cash flow hedge reserve		**227.9**	325.0	250.1
Total equity		**3,583.6**	3,181.6	3,239.6
Total liabilities and equity		**62,928.2**	61,657.0	62,462.7

The notes on pages 17 to 35 form part of this Interim Financial Report.

Condensed Consolidated Statement of Changes in Members' Interests and Equity

For the period ended 30 June 2024

Period to 30 June 2024	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 2024 (Audited)		2,573.2	415.0	1.3	250.1	3,239.6
Profit for the financial year		123.2	–	–	–	123.2
Additional Tier 1 Capital repurchased		(1.7)	(388.1)	–	–	(389.8)
Additional Tier 1 Capital issued		(6.7)	665.0	–	–	658.3
Net remeasurement of defined benefit plan		(5.1)	–	–	–	(5.1)
Net movement in fair value through other comprehensive income reserve		–	–	0.1	–	0.1
Net movement in cash flow hedge reserve		–	–	–	(22.2)	(22.2)
Total comprehensive income (Unaudited)		109.7	276.9	0.1	(22.2)	364.5
Distribution to Additional Tier 1 capital holders	14	(20.5)	–	–	–	(20.5)
As at 30 June 2024 (Unaudited)		2,662.4	691.9	1.4	227.9	3,583.6

Period to 30 June 2023		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 year		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 (Unaudited)		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 31 December 2023		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 year		351.1	–	–	–	351.1
Net remeasurement of defined benefit plan		(0.1)	–	–	–	(0.1)
Net movement in fair value through other comprehensive income reserve		–	–	(3.6)	–	(3.6)
Net movement in cash flow hedge reserve		–	–	–	(27.0)	(27.0)
Total comprehensive income (Audited)		351.0	–	(3.6)	(27.0)	320.4
Distribution to Additional Tier 1 capital holders	14	(28.5)	–	–	–	(28.5)
As at 31 December 2023 (Audited)		2,573.2	415.0	1.3	250.1	3,239.6

The notes on pages 17 to 35 form part of this Interim Financial Report.

Condensed Consolidated Statement of Cash Flows

For the period ended 30 June 2024

	Period to 30 Jun 2024 (Unaudited) £m	Period to 30 Jun 2023 (Unaudited) £m	Year ended 31 Dec 2023 (Audited) £m
Cash flows from operating activities:			
Profit before tax	**158.8**	268.6	473.5
Adjustments for:			
Expected credit loss provisions and other provisions	**(13.8)**	11.1	6.9
Depreciation and amortisation	**12.9**	12.8	26.1
Interest on subordinated liabilities and subscribed capital	**3.0**	3.0	6.0
Changes to fair value adjustment of hedged risk	**24.7**	34.4	(101.6)
Other non-cash movements	**184.3**	158.6	304.8
Non-cash items included in profit before tax	**211.1**	219.9	242.2
Loans and advances to credit institutions	**499.6**	(27.4)	(179.3)
Loans and advances to customers	**(1,107.5)**	(846.2)	(2,268.8)
Prepayments, accrued income and other assets	**(5.1)**	(6.2)	(5.7)
Changes in operating assets	**(613.0)**	(879.8)	(2,453.8)
Shares	**1,023.3**	2,960.6	4,960.7
Deposits and other borrowings	**(819.3)**	(1,131.8)	(2,507.2)
Accruals and deferred income and other liabilities	**(6.0)**	(11.5)	2.6
Changes in operating liabilities	**198.0**	1,817.3	2,456.1
Interest paid on subordinated liabilities and subscribed capital	**(3.0)**	(3.0)	(6.0)
Interest paid on lease liabilities	**(0.2)**	(0.2)	(0.3)
Taxation	**(38.0)**	(44.8)	(111.3)
Net cash flows from operating activities	**(86.3)**	1,378.0	600.4
Cash flows from investing activities			
Purchase of investment securities	**(690.0)**	(1,188.9)	(1,980.9)
Sale and maturity of investment securities and equities	**892.7**	956.9	2,026.9
Proceeds from sale of properties	**–**	2.6	2.6
Purchase of property, plant and equipment and intangible assets	**(11.6)**	(11.2)	(22.8)
Net cash flows from investing activities	**191.1**	(240.6)	25.8
Cash flows from financing activities			
Distributions paid to Additional Tier 1 capital holders	**(20.5)**	(14.3)	(28.5)
Issuance of AT1 Capital[1]	**658.3**	–	–
Repurchase of AT1 Capital[1]	**(389.8)**	–	–
Repurchase and repayment of debt securities	**(488.9)**	(400.0)	(1,713.1)
Principal elements of lease payments	**(2.2)**	(2.4)	(4.7)
Issue of debt securities	**497.6**	758.1	1,887.0
Net cash flows from financing activities	**254.5**	341.4	140.7
Net increase in cash	**359.3**	1,478.8	766.9
Cash and cash equivalents at start of year	**8,390.1**	7,623.2	7,623.2
Cash and cash equivalents at end of year	**8,749.4**	9,102.0	8,390.1
Cash and cash equivalents:			
Cash and balances with central banks[2]	**8,749.4**	9,102.0	8,390.1

1. Net of transaction fees.
2. In the prior periods, this balance excluded the mandatory reserve with the Bank of England (30 June 2023: £178.2 million, 31 December 2023: £182.1 million). This was replaced by the Bank of England levy in 2024.

The notes on pages 17 to 35 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 2024 and show the financial performance for the period from 1 January 2024 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 2024 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 2023. 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 2023 which is available on the Society website (www.thecoventry.co.uk) and contains a glossary of terms to aid users.

Going concern 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 2023 Annual Report & Accounts. An update on Top and emerging risks has been provided on pages 11 and 12 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 104 and 105 of the 2023 Annual Report & Accounts. The current viability assessment has been made over the period to 31 December 2026, 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.

Accounting Policies

The accounting policies adopted by the Group in its 2024 Interim Financial Report are consistent with those disclosed in the Annual Report & Accounts for the year ended 31 December 2023 with the exception of updates noted in this report.

Changes in accounting standards

There are no amendments to standards effective from 1 January 2024 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 2023 Annual Report & Accounts. There have been no changes to the significant accounting policy judgements during the period.

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

Significant assumptions and estimates	Notes
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

Notes to the Interim Financial Report continued

3. Interest receivable and similar income

	Period to 30 Jun 2024 (Unaudited) £m	Period to 30 Jun 2023 (Unaudited) £m	Year ended 31 Dec 2023 (Audited) £m
On financial assets measured at amortised cost:			
On loans and advances to customers	**886.0**	650.0	1,446.8
Interest on other liquid assets	**252.9**	203.8	449.9
Interest and other income on debt securities	**0.1**	0.1	0.1
Interest and other income on debt securities measured at FVOCI	**35.7**	30.9	85.7
Net income on financial instruments in a qualifying hedge relationship	**481.3**	461.6	1,010.0
Total interest receivable and similar income calculated using the EIR method	**1,656.0**	1,346.4	2,992.5

4. Interest payable and similar charges

	Period to 30 Jun 2024 (Unaudited) £m	Period to 30 Jun 2023 (Unaudited) £m	Year ended 31 Dec 2023 (Audited) £m
Bank and customer			
Subordinated liabilities	**0.6**	0.6	1.1
Other[1]	**138.4**	148.4	317.5
Debt securities in issue	**105.0**	73.0	164.9
Other borrowed funds			
On shares held by individuals	**958.6**	546.7	1,369.8
On subscribed capital	**2.4**	2.4	4.9
Net expense from hedging instruments	**121.3**	170.9	366.3
Foreign currency (gains)/losses	**(0.1)**	0.3	0.5
Other interest payable	**0.2**	0.2	0.3
Total	**1,326.4**	942.5	2,225.3

[1] Included in bank and customer other interest payable is £89 million relating to the the Bank of England's Term Funding Schemes (30 June 2023: £99 million, 31 December 2023: £200 million).

Notes to the Interim Financial Report continued

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

	Period to 30 Jun 2024 (Unaudited) £m	Period to 30 Jun 2023 (Unaudited) £m	Year ended 31 Dec 2023 (Audited) £m
Derivatives designated as fair value hedges			
Gains/(losses) on derivatives designated as fair value hedges	**128.8**	404.8	(862.9)
Movement in fair value of hedged items attributable to hedged risk	**(198.9)**	(418.7)	798.2
Derivatives designated as fair value hedges	**(70.1)**	(13.9)	(64.7)
Derivatives designated as cash flow hedges			
Foreign exchange	**0.1**	(0.3)	(0.4)
Interest rate	**56.4**	41.2	101.1
Derivatives designated as cash flow hedges	**56.5**	40.9	100.7
Gains/ (losses) on other derivatives	**3.1**	(2.4)	(5.7)
Total	**(10.5)**	24.6	30.3

Gains on other derivatives, where hedge accounting could not be applied, are £3.1 million during the period (30 June 2023: losses of £2.4 million, 31 December 2023: losses of £5.7 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.

6. Administrative expenses

	Period to 30 Jun 2024 (Unaudited) £m	Period to 30 Jun 2023 (Unaudited) £m	Year ended 31 Dec 2023 (Audited) £m
Employee costs			
Wages and salaries	**62.6**	59.8	131.9
Social security costs	**6.9**	6.8	14.4
Pension costs			
Defined benefit plan	**(0.1)**	(0.1)	(0.2)
Defined contribution plan	**4.5**	4.1	8.3
	73.9	70.6	154.4
Other expenses			
Information technology systems	**28.3**	18.8	38.0
Training, recruitment and other employee costs	**6.1**	2.9	20.4
Premises and facilities	**4.0**	4.8	10.0
Legal, professional and consultancy	**27.3**	1.7	6.6
Marketing and communications	**2.8**	1.9	6.7
Other operating expenses (including project costs)	**16.0**	33.3	49.7
Total	**158.4**	134.0	285.8

Included within Legal, professional and consultancy expenses are £14 million of costs relating to the anticipated acquisition of The Co-operative Bank. A further £7 million of costs were also recognised in this category relating to a new Bank of England levy, which is recognised in full once the obligating event has occurred.

Notes to the Interim Financial Report continued

7. Loans and advances to customers

	30 Jun 2024 (Unaudited) £m	30 Jun 2023 (Unaudited) £m	31 Dec 2023 (Audited) £m
Residential mortgages - owner occupier	**31,977.4**	29,475.3	30,944.5
Residential mortgages - buy to let	**19,419.4**	19,401.0	19,351.0
Legacy lending[1]	**10.5**	12.4	11.7
Total Gross loans and advances to customers (contractual amounts)	**51,407.3**	48,888.7	50,307.2
Expected credit loss provision	**(28.2)**	(46.6)	(42.5)
Total Net loans and advances to customers (contractual amounts)	**51,379.1**	48,842.1	50,264.7
EIR, fair value and other adjustments	**18.3**	7.3	11.4
Total	**51,397.4**	48,849.4	50,276.1

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 2024, 31 December 2023 and 30 June 2023 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 2024 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	28,934.4	2,724.2	110.8	61.3	146.7	31,977.4
Residential mortgages - buy to let	17,110.2	2,122.3	73.9	28.1	84.9	19,419.4
Legacy lending	8.2	1.5	0.2	0.3	0.3	10.5
Total	46,052.8	4,848.0	184.9	89.7	231.9	51,407.3
ECL						
Residential mortgages - owner occupier	1.5	10.6	0.3	3.2	2.8	18.4
Residential mortgages - buy to let	0.7	4.1	0.1	2.2	2.1	9.2
Legacy lending	0.1	0.3	–	0.1	0.1	0.6
Total	2.3	15.0	0.4	5.5	5.0	28.2
ECL coverage as a % of total balance						
Residential mortgages - owner occupier	0.01%	0.39%	0.27%	5.22%	1.91%	0.06%
Residential mortgages - buy to let	–	0.19%	0.14%	7.83%	2.47%	0.05%
Legacy lending	1.22%	20.00%	–	33.33%	33.33%	5.71%
Total coverage	–	0.31%	0.22%	6.13%	2.16%	0.05%

Notes to the Interim Financial Report continued

8. Impairment on loans and advances to customers continued

As at 31 December 2023 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	26,387.7	4,271.1	107.6	52.5	125.6	30,944.5
Residential mortgages - buy to let	16,324.0	2,866.8	71.2	25.5	63.5	19,351.0
Legacy lending	8.9	1.8	0.4	0.4	0.2	11.7
Total	42,720.6	7,139.7	179.2	78.4	189.3	50,307.2
ECL						
Residential mortgages - owner occupier	1.5	19.8	0.4	4.1	1.9	27.7
Residential mortgages - buy to let	0.8	8.2	0.2	2.5	2.3	14.0
Legacy lending	0.1	0.4	–	0.2	0.1	0.8
Total	2.4	28.4	0.6	6.8	4.3	42.5
ECL coverage as a % of total balance						
Residential mortgages - owner occupier	0.01%	0.46%	0.37%	7.81%	1.51%	0.09%
Residential mortgages - buy to let	–	0.29%	0.28%	9.80%	3.62%	0.07%
Legacy lending	1.12%	22.22%	–	50.00%	50.00%	6.84%
Total coverage	0.01%	0.40%	0.33%	8.67%	2.27%	0.08%

As at 30 June 2023 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	25,443.1	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%

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 89.6% of loans are in stage 1 with 9.8% in stage 2 and 0.6% in stage 3 (31 December 2023: 85.0%, 14.5% and 0.5%). The proportion in stage 1 increased, and correspondingly the proportion in stage 2 decreased, during the period as a result of the change in cost of living post model adjustment methodology to reflect experience to date and resilient credit quality. More information on PMAs is outlined on page 22.

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 £5,032.9 million (31 December 2023: £7,318.9 million) and of these £184.9 million or 3.7% (31 December 2023: £179.2 million, 2.4%) are in arrears by 30 days or more. At 30 June 2024, 70% or £3,534.5 million (31 December 2023: 81% or £5,894.2 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. All of these accounts were paid up to date at 30 June 2024 and remain in stage 2 as a result of indicators of increased risk. The reduction in the level of loans in stage 2 is driven by the change in methodology to the cost of living post model adjustment.

Of the £321.6 million (31 December 2023: £267.7 million) of loans which are classified as stage 3 at the reporting date, 54.9% or £176.4 million were greater than or equal to three months in arrears (31 December 2023: 51.9%, £139.0 million), and 27.9% (£89.7 million) were paid up to date (31 December 2023: 29.3%, £78.4 million). As at 30 June 2024 the number of properties in possession remained low; a total of £6.7 million of stage 3 loans are in possession (31 December 2023: £4.7 million), representing 40 individual properties (31 December 2023: 25 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 2023 and more information is provided on page 123 of the 2023 Annual Report & Accounts.

Significant accounting estimates – application of post model adjustments

Included within the ECL provision of £28.2 million (31 December 2023: £42.5 million) is £11.2 million (31 December 2023: £24.4 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 2024 is set out below.

Cost of living post model adjustment

The Group has recognised a provision of £6.8 million (31 December 2023: £18.4 million) to reflect the elevated affordability pressures and payment shock risk arising as a result of ongoing cost of living challenges. This is recognised as a PMA as the models do not satisfactorily capture all of the risks from the elevated inflationary and higher refinancing rate environment.

The methodology for the post model adjustment has been reviewed and updated from that applied at the 2023 year end in light of continued experience gained and the limited level of defaults arising to date. The PMA now attributes default probabilities to a cohort of customers identified as having experienced deterioration in credit quality since June 2022 (31 December 2023: rolling 12 month look back), namely the start of the challenging economic period for affordability. In addition, there is now no differentiation in the level of default risk assigned to customers with upcoming fixed rate maturities. 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 7.4% (31 December 2023: 12.3%) of total loans and advances to customers.

This update to the methodology, along with the more positive economic outlook, has caused the PMA to reduce by £11.6m to £6.8m at 30 June 2024.

Other post model adjustments

At 30 June 2024, the Society held other PMAs in aggregate totalling £4.4 million (31 December 2023: £6.0 million).

Other PMAs include areas such as fraud, unsuitable cladding and other fire safety risks and negative equity accounts identified through using automated valuation models (AVM). 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 2024 to 30 June 2024 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 2024	42,720.6	2.4	7,318.9	29.0	267.7	11.1	50,307.2	42.5
Movements with Income Statement impact								
Transfers from Stage 1 to Stage 2	(1,254.4)	(0.1)	1,254.4	0.6	–	–	–	0.5
Transfers from Stage 1 to Stage 3	(30.0)	–	–	–	30.0	0.7	–	0.7
Transfers from Stage 2 to Stage 3	–	–	(78.8)	(0.6)	78.8	0.6	–	–
Transfers from Stage 3 to Stage 2	–	–	14.3	0.2	(14.3)	(0.2)	–	–
Transfers from Stage 3 to Stage 1	2.8	–	–	–	(2.8)	–	–	–
Transfers from Stage 2 to Stage 1	3,190.9	0.2	(3,190.9)	(0.8)	–	–	–	(0.6)
Net movement arising from transfer of stages	1,909.3	0.1	(2,001.0)	(0.6)	91.7	1.1	–	0.6
New loans originated	3,655.8	1.0	7.3	–	–	–	3,663.1	1.0
Remeasurement of ECL due to changes in risk parameters	–	(0.6)	–	(0.6)	–	0.8	–	(0.4)
Decrease in post model adjustments	–	–	–	(11.8)	–	(1.4)	–	(13.2)
Loans derecognised in the period	(1,313.1)	(0.6)	(241.5)	(0.6)	(35.2)	(0.5)	(1,589.8)	(1.7)
Other items impacting Income Statement reversal	–	–	–	–	–	–	–	–
Net write offs directly to Income Statement	–	–	–	–	–	(0.1)	–	(0.1)
Income Statement Charge for the period		(0.1)		(13.6)		(0.1)		(13.8)
Repayment and charges	(919.8)	–	(50.8)	–	(2.0)	–	(972.6)	–
Net write offs and other ECL movements	–	–	–	–	(0.6)	(0.5)	(0.6)	(0.5)
At 30 June 2024	46,052.8	2.3	5,032.9	15.4	321.6	10.5	51,407.3	28.2

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 31 December 2023 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 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	(5,309.0)	(1.6)	5,309.0	4.1	–	–	–	2.5
Transfers from Stage 1 to Stage 3	(73.2)	–	–	–	73.2	1.4	–	1.4
Transfers from Stage 2 to Stage 3	–	–	(101.5)	(0.5)	101.5	0.5	–	–
Transfers from Stage 3 to Stage 2	–	–	29.9	0.3	(29.9)	(0.3)	–	–
Transfers from Stage 3 to Stage 1	11.4	–	–	–	(11.4)	–	–	–
Transfers from Stage 2 to Stage 1	1,634.6	0.1	(1,634.6)	(0.6)	–	–	–	(0.5)
Net movement arising from transfer of stages	(3,736.2)	(1.5)	3,602.8	3.3	133.4	1.6	–	3.4
New loans originated	8,235.8	4.0	11.2	–	0.1	–	8,247.1	4.0
Remeasurement of ECL due to changes in risk parameters	–	(2.3)	–	0.1	–	1.9	–	(0.3)
Increase/(decrease) in post model adjustments	–	(0.6)	–	3.3	–	2.2	–	4.9
Loans derecognised in the period	(3,252.8)	(2.3)	(599.1)	(1.1)	(59.1)	(0.9)	(3,911.0)	(4.3)
Other items impacting Income Statement reversal	–	0.1	–	(0.1)	–	(0.4)	–	(0.4)
Net write offs directly to Income Statement	–	–	–	–	–	(0.3)	–	(0.3)
Income Statement Charge for the period		(2.6)		5.5		4.1		7.0
Repayment and charges	(1,896.5)	–	(162.4)	–	(7.9)	–	(2,066.8)	–
Net write offs and other ECL movements	–	–	–	–	(0.8)	–	(0.8)	
At 31 December 2023	42,720.6	2.4	7,318.9	29.0	267.7	11.1	50,307.2	42.5

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 reversal	–	(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

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 2024 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.

Notes to the Interim Financial Report continued

8. Impairment on loans and advances to customers continued

Current year scenarios and weightings

The assumptions in each of the four (31 December 2023: 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.

During the period the weightings for each scenario were reviewed and updated from those applied at 2023 year end. The upside scenario weighting has increased to 15% (31 December 2023: 10%), and the downside scenario weighting has reduced to 20% (31 December 2023: 25%). The weightings used at the period end reflect the Society's view of the range of potential future economic conditions at the Balance Sheet date.

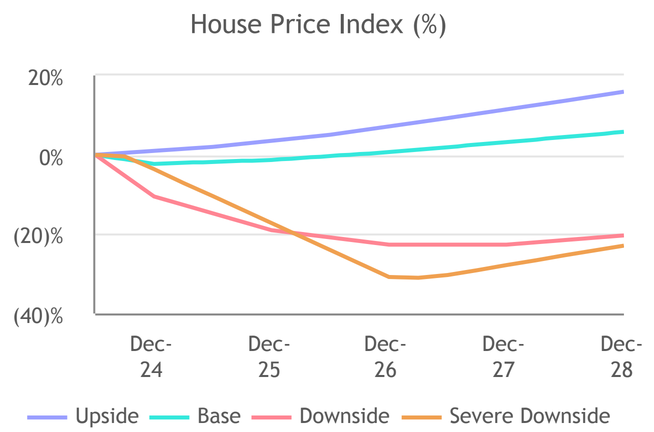
An explanation of each scenario and its relative weighting in calculating ECL is set out below.

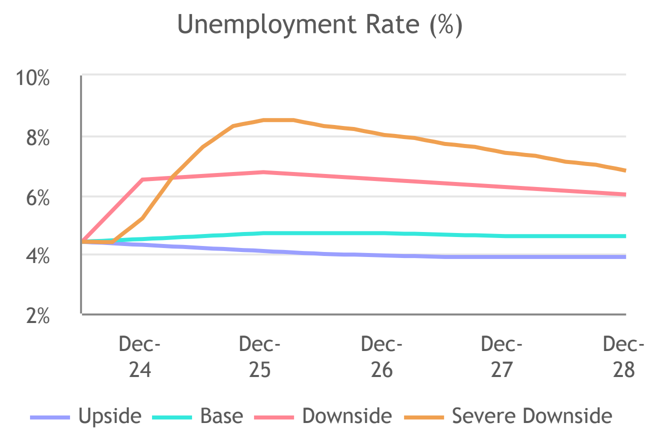
Scenario	Weighting
Base The central scenario used to support the business planning of the Society. Unemployment rises a little following restrictive monetary policy, but GDP growth is expected to pick up gradually. Whilst domestic inflationary pressures take longer to unwind than they did to emerge, CPI is expected to return close to the 2% target in the near term, allowing bank rate to lower slightly. This easing of conditions supports house prices which return to modest growth.	55%
Downside Inflation rebounds having proven stickier than expected, and central banks need to increase interest rates further to contain it. There is an economic contraction resulting from further cost of living deterioration which drives up unemployment, and house prices weaken considerably. Inflation remains high and isn't expected to return to the Bank of England's 2% target within the first five years.	20%
Severe downside Based on the Internal Capital Adequacy Assessment Process (ICAAP) Annual Cyclical Scenario (ACS). Inflation reignites 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 CPI 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 Inflation dissipates and unemployment reduces, underpinning robust economic growth and rising house prices. The Bank of England lowers bank rate in response to easing economic conditions.	15%

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 30 June 2024.





Notes to the Interim Financial Report continued

8. Impairment on loans and advances to customers continued

		30 June 2024 (Unaudited)			31 December 2023 (Audited)		
		Weighting	Unemployment %	HPI %	Weighting	Unemployment %	HPI %
Base	2024	55%	4.5	(2.3)	55%	4.7	(5.0)
	2025		4.7	1.0		4.7	–
Downside	2024	20%	6.5	(10.5)	25%	6.5	(7.5)
	2025		6.8	(9.5)		6.8	(9.5)
Severe Downside	2024	10%	5.2	(3.6)	10%	7.6	(10.4)
	2025		8.5	(14.1)		8.3	(15.2)
Upside	2024	15%	4.3	1.0	10%	4.2	2.0
	2025		4.1	2.5		4.0	3.0

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 2024 (Unaudited)

Scenario/ weighting	Assumption[1]	2024 %	2025 %	2026 %	2027 %	2028 %	Peak to trough %	Range %	Average to 31 Dec 2028[2] %
Base 55%	Unemployment	4.5	4.7	4.7	4.6	4.6	0.3	4.4 - 4.7	4.6
	HPI	(2.3)	1.0	2.0	2.5	2.5	8.0	(2.3) - 5.7	1.3
	GDP	(0.2)	1.3	1.5	1.5	1.5	5.9	(0.2) - 5.7	1.2
	Base Rate	4.75	3.50	3.25	3.25	3.25	2.00	3.25 - 5.25	3.68
Downside 20%	Unemployment	6.5	6.8	6.5	6.3	6.0	2.0	4.8 - 6.8	6.3
	HPI	(10.5)	(9.5)	(4.5)	–	3.0	20.9	(22.6) - (1.7)	(4.9)
	GDP	(3.1)	–	1.3	1.3	1.4	3.9	(3.1) - 0.8	0.2
	Base Rate	6.25	6.25	6.25	6.25	6.00	0.75	5.50 - 6.25	6.15
Severe Downside 10%	Unemployment	5.2	8.5	8.0	7.4	6.8	4.1	4.4 - 8.5	7.3
	HPI	(3.6)	(14.1)	(16.4)	4.3	6.8	30.9	(31.0) - (0.1)	(5.6)
	GDP	(1.5)	(3.0)	1.2	1.2	1.2	4.9	(5.0) - (0.1)	(0.2)
	Base Rate	6.50	7.50	6.75	6.00	5.25	2.25	5.25 - 7.50	6.53
Upside 15%	Unemployment	4.3	4.1	4.0	3.9	3.9	0.5	3.9 - 4.4	4.0
	HPI	1.0	2.5	3.5	4.0	4.0	15.7	0.2 - 15.9	3.3
	GDP	0.7	1.8	2.5	3.3	3.8	12.5	0.1 - 12.6	2.7
	Base Rate	4.75	3.50	3.00	3.00	3.00	2.25	3.00 - 5.25	3.54

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 2024, and 12 months ending 31 December 2025 to 2028.
2. HPI change and GDP change average to 31 December 2028 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 39.0% (31 December 2023: £16.4 million, 38.6%) compared to the reported provision. If a 100% weighting was attributed to the severe downside scenario, ECLs would increase by £24.5 million or 86.9% (31 December 2023: £36.1 million, 84.9%).

8. Impairment on loans and advances to customers continued

Scenario	30 June 2024 (Unaudited) IFRS 9 provision £m	30 June 2024 (Unaudited) (Decrease)/ increase %	31 December 2023 (Audited) IFRS 9 provision £m	31 December 2023 (Audited) (Decrease)/ increase %
IFRS 9 weighted average	**28.2**	**–**	42.5	–
Base scenario	**17.2**	**(39.0)**	26.1	(38.6)
Downside scenario	**46.9**	**66.3**	59.6	40.2
Severe downside scenario	**52.7**	**86.9**	78.6	84.9
Upside scenario	**14.4**	**(48.9)**	17.7	(58.4)

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 or 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 2024, 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 £11.8 million (31 December 2023: £21.4 million) to £40.0 million (31 December 2023: £63.9 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 the first half of 2024 with 87.8% of the mortgage book having an LTV of 75% or lower (31 December 2023: 87.0%). This is shown by IFRS 9 stage below:

As at 30 June 2024 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%	**20,158.9**	**570.7**	**134.3**	**(1.2)**	**20,862.7**	**40.6**
50% to 65%	**14,542.0**	**1,820.7**	**104.9**	**(8.1)**	**16,459.5**	**32.0**
65% to 75%	**5,946.9**	**1,802.3**	**50.3**	**(7.5)**	**7,792.0**	**15.2**
75% to 85%	**3,542.9**	**655.0**	**18.0**	**(4.7)**	**4,211.2**	**8.2**
85% to 90%	**1,134.4**	**133.8**	**7.0**	**(2.0)**	**1,273.2**	**2.5**
90% to 95%	**645.0**	**43.4**	**3.0**	**(0.9)**	**690.5**	**1.3**
95% to 100%	**74.2**	**5.0**	**0.7**	**(0.2)**	**79.7**	**0.2**
> 100%	**0.2**	**0.9**	**3.0**	**(1.7)**	**2.4**	**–**
Unsecured loans	**8.3**	**1.1**	**0.4**	**(0.5)**	**9.3**	**–**
Mortgage pipeline	**–**	**–**	**–**	**(0.3)**	**(0.3)**	**–**
Other[1]	**–**	**–**	**–**	**(1.1)**	**(1.1)**	**–**
Total	**46,052.8**	**5,032.9**	**321.6**	**(28.2)**	**51,379.1**	**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 2023 Indexed loan to value (Audited):	Stage 1 Performing £m	Stage 2 Deteriorating £m	Stage 3 Default £m	Impairment £m	Total £m	Proportion of book %
<50%	19,423.5	542.0	116.4	(1.5)	20,080.4	40.0
50% to 65%	13,696.3	2,184.6	84.8	(9.3)	15,956.4	31.8
65% to 75%	4,983.1	2,702.4	43.2	(10.7)	7,718.0	15.4
75% to 85%	3,078.7	1,196.2	13.8	(8.9)	4,279.8	8.5
85% to 90%	819.4	355.7	3.6	(3.2)	1,175.5	2.3
90% to 95%	566.4	253.9	2.1	(3.0)	819.4	1.6
95% to 100%	143.0	79.8	0.8	(1.2)	222.4	0.4
> 100%	1.3	3.0	2.7	(1.8)	5.2	–
Unsecured loans	8.9	1.3	0.3	(0.6)	9.9	–
Mortgage pipeline	–	–	–	(0.2)	(0.2)	–
Other[1]	–	–	–	(2.1)	(2.1)	–
Total	42,720.6	7,318.9	267.7	(42.5)	50,264.7	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 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.

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 2024 with £157.4 million (30 June 2023: £93.5 million, 31 December 2023: £126.7 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 continuing challenging external economic environment currently facing borrowers. Whilst interest rates have remained flat and inflation has reduced, the cumulative impact of their growth over the last two years continues to impact 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 2024 the Society has 40 properties in possession (31 December 2023: 25).

	Gross balance 30 Jun 2024 (Unaudited) £m	**Arrears balance 30 Jun 2024 (Unaudited) £m**	Gross balance 30 Jun 2023 (Unaudited) £m	Arrears balance 30 Jun 2023 (Unaudited) £m	Gross balance 31 Dec 2023 (Audited) £m	Arrears balance 31 Dec 2023 (Audited) £m
Greater than three months	**150.7**	**7.9**	89.9	4.4	122.0	5.9
Greater than six months	**82.6**	**6.1**	44.0	3.2	62.2	4.2
Greater than one year	**32.5**	**3.3**	15.3	1.7	19.7	2.2
In possession	**6.7**	**0.6**	3.6	0.2	4.7	0.3

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 2024 (Unaudited) %	**UK Finance 31 Mar 2024[1] (Unaudited) %**	Group 30 Jun 2023 (Unaudited) %	UK Finance 30 Jun 2023 (Unaudited) %	Group 31 Dec 2023 (Audited) %	UK Finance 31 Dec 2023 (Unaudited) %
Greater than three months	**0.31**	**0.94**	0.22	0.72	0.26	0.91
Greater than six months	**0.17**	**0.60**	0.10	0.44	0.14	0.56
Greater than one year	**0.06**	**0.29**	0.03	0.23	0.04	0.26
In possession	**0.01**	**0.03**	0.01	0.02	0.01	0.03

1. Latest available quarterly information from UK Finance is as at 31 March 2024.

9. Taxation

The Group has an effective tax rate of 22.4% (period to 30 June 2023: 23.6%; year ended 31 December 2023: 25.9%). The effective tax rate is lower than the UK statutory corporation tax rate of 25% due to a higher tax credit in relation to additional distributions made to holders following the repurchase and new issuance of the Group's AT1 instrument. The surcharge on banking profits is offset against this credit.

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 2024 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 2024 has been calculated on these rates, reflecting the expected timing of reversal of the related timing differences (30 June 2023: 3%).

10. Deposits from banks

Deposits from banks includes £2,950 million (30 June 2023: £3,900 million; 31 December 2023: £3,450 million) drawn down under the Term Funding Scheme with additional incentives for SMEs (TFSME) scheme. During the period, £500 million (30 June 2023: £1,350 million; 31 December 2023: £1,800 million) of the TFSME balance was repaid.

Deposits from banks also includes £253.1 million (30 June 2023: £252.6 million; 31 December 2023: £494.3 million) in respect of sale and purchase agreements (repos) of on-balance sheet notes in issue relating to the Group's covered bond programme and £95.4 million (30 June 2023: £261.6 million; 31 December 2023: £313.3 million) 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 2024 (Unaudited) £m	30 Jun 2023 (Unaudited) £m	31 Dec 2023 (Audited) £m
Present value of funded obligation	**(144.4)**	(152.8)	(149.5)
Fair value of plan assets	**142.1**	150.5	153.2
Pension benefit (obligation)/surplus	**(2.3)**	(2.3)	3.7

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 2024 as a result of movements in the discount and inflation rates 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 2024 (Unaudited) %**	30 Jun 2023 (Unaudited) %	31 Dec 2023 (Audited) %
Discount rate	**5.15**	5.25	4.80
Rates of inflation (Retail Prices Index)	**3.10**	3.15	3.05
Rates of inflation (Consumer Prices Index)	**2.50**	2.49	2.40

12. Subordinated liabilities

	30 Jun 2024 (Unaudited) £m	30 Jun 2023 (Unaudited) £m	31 Dec 2023 (Audited) £m
Fixed rate subordinated notes 2032 - 7.54%	**15.4**	15.4	15.4
Total	**15.4**	15.4	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.

13. Subscribed capital

	Call date	**30 Jun 2024 (Unaudited) £m**	30 Jun 2023 (Unaudited) £m	31 Dec 2023 (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.

Notes to the Interim Financial Report continued

14. Other equity instruments

In 2019, the Society issued £415.0 million balance of Perpetual Capital Securities (PCS) capital. This is also known as Additional Tier 1 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. In June 2024, a tender offer for this PCS issuance was completed with £388.1 million of the £415.0 million PCS repurchased for £389.8 million (net of tax). The cost of the tender of £1.7 million (net of tax and including the premium paid) has been recognised within the Society's general reserve.

In June 2024, the Society issued £665.0 million of new PCS. This PCS issuance pays a fully discretionary, non-cumulative fixed coupon at an initial rate of 8.750% per annum with optional redemption in December 2029. The rate will reset on 11 December 2029 and every five years thereafter to the prevailing rate on benchmark gilt plus 4.727%. Coupons are paid semi-annually in June and December. The cost of issuance of £6.7 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 2024, coupon payments of £20.5 million (30 June 2023: £14.3 million, 31 December 2023: £28.5 million) have been recognised in the Condensed Consolidated Statement of Change in Members' Interests and Equity. This includes the interest relating to the 2019 issuance which was settled as part of the tender process.

The 2024 instruments have no maturity date. They are repayable at the option of the Society in 2029 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.

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 2024 (Unaudited) £m	Fair value 30 Jun 2024 (Unaudited) £m	Carrying amount 30 Jun 2023 (Unaudited) £m	Fair value 30 Jun 2023 (Unaudited) £m	Carrying amount 31 Dec 2023 (Audited) £m	Fair value 31 Dec 2023 (Audited) £m
Financial assets						
Cash and balances with the Bank of England	**8,749.4**	**8,749.4**	9,280.2	9,280.2	8,572.2	8,572.2
Loans and advances to credit institutions	**473.1**	**473.1**	640.8	640.7	787.9	787.8
Loans and advances to customers	**51,397.4**	**50,541.0**	48,849.4	46,611.4	50,276.1	48,915.1
Debt securities	**—**	**—**	6.2	6.1	—	—
Financial liabilities						
Shares	**48,823.7**	**48,281.6**	45,460.7	43,126.3	47,582.3	46,497.0
Deposits from banks	**4,470.6**	**4,470.6**	6,546.1	6,546.0	5,230.7	5,230.4
Other deposits	**—**	**—**	5.0	5.0	—	—
Amounts owed to other customers	**167.1**	**167.2**	285.8	285.3	237.3	237.4
Debt securities in issue	**5,365.8**	**5,195.4**	5,543.7	5,248.2	5,377.5	5,221.3
Subordinated liabilities	**15.4**	**19.2**	15.4	18.7	15.4	20.2
Subscribed capital	**41.6**	**73.0**	41.6	59.4	41.6	66.1

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 £668 million (31 December 2023: £433 million; 30 June 2023: £2,016 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 £52.4 million (31 December 2023: £30.6 million; 30 June 2023: £359.3 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 2024 (Unaudited)	Level 1 £m	Level 2 £m	Level 3 £m	Total fair value £m
Derivative financial instruments - assets	**–**	**1,435.4**	**–**	**1,435.4**
Debt securities	**1,177.7**	**179.2**	**–**	**1,356.9**
Investment in equity shares	**0.8**	**–**	**6.1**	**6.9**
Derivative financial instruments - liabilities	**–**	**(372.3)**	**(0.9)**	**(373.2)**

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)

31 December 2023 (Audited)	Level 1 £m	Level 2 £m	Level 3 £m	Total fair value £m
Derivative financial instruments - assets	–	1,513.5	–	1,513.5
Debt securities	1,409.8	154.4	–	1,564.2
Investment in equity shares	0.8	–	6.0	6.8
Derivative financial instruments - liabilities	–	(592.6)	(1.6)	(594.2)

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.

16. The acquisition of The Co-operative Bank Holdings plc

In May 2024, the Society agreed to purchase the entire issued share capital of The Co-operative Bank Holdings plc (the ultimate holding company of The Co-operative Bank plc (the 'Bank')) for a cash consideration of £780 million. Up to £125 million of the total cash consideration will be deferred for a period of three years from completion subject to the future performance of the Bank and the terms of the sale and purchase agreement. Subject to the satisfaction of certain conditions, including gaining regulatory approval from the PRA and FCA to proceed, the acquisition is expected to complete in the first quarter of 2025 and therefore has no impact on the reported position or performance of the Coventry Building Society Group yet. The acquisition is not subject to any condition relating to the passing of a resolution by the Society's members.

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 2023 Annual Report & Accounts. Vanessa Murden resigned from the Board as a Non-Executive Director on 23 February 2024. On 1 July 2024, Ewa Kerin and Iain Plunkett joined the Board as Non-Executive Directors.

Signed on behalf of the Board by

Stephen Hughes
Chief Executive
30 July 2024

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 2024 (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 2024;
- 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.

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
30 July 2024

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 2023 has been extracted from the Annual Report & Accounts for that year. The Annual Report & Accounts for the year ended 31 December 2023 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.

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