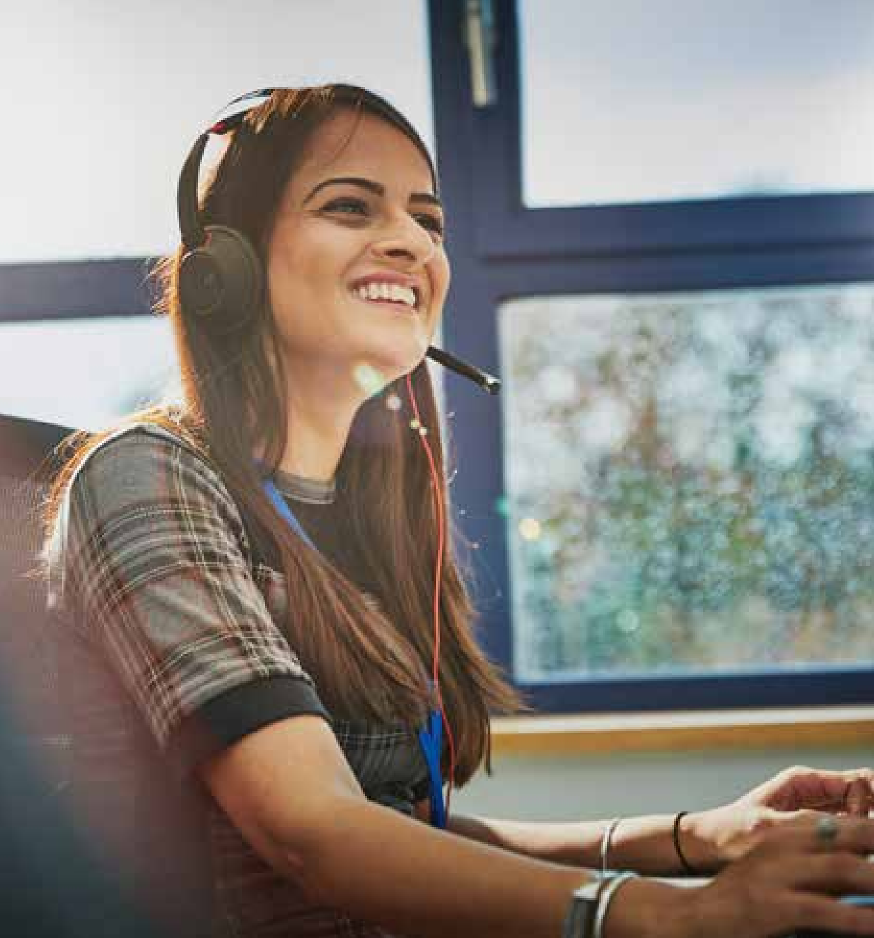

Interim Financial Report

for the period ended 30 June 2020

COVENTRY Building Society

Contents

IFRS Results

This Interim Financial Report for the six months ended 30 June 2020 has been prepared in accordance with the Disclosure and Transparency Rules of the Financial Conduct Authority (FCA) and with International Accounting Standard (IAS) 34 Interim Financial Reporting as adopted by the European Union (EU). This Interim Financial Report should be read in conjunction with the Annual Report & Accounts for the year ended 31 December 2019, which have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU.

Forward Looking Statements

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

Our performance on a page

Whilst Covid-19 and its economic and other consequences have impacted our financial results, we have continued to grow the balance sheet and maintained robust capital ratios. Despite the lockdown we have delivered exceptional levels of customer service and colleague engagement, and provided support to our local communities.

Member value

We paid **1.33%** average interest on savings

Market average[1] **0.76%** interest on savings

£103m

Value given to members by paying above market interest on savings[1]
(H1 2019: £117m)

Growth in mortgages and savings

2.0%

Mortgage balances have increased by £0.8bn to £43.0bn
(H1 2019: 3.4%)

-2.2%

Savings balances have decreased by £0.8bn to £35.4bn
(H1 2019: +5.6%)

Simple, transparent products

NPS +77

Net Promoter Score[2]
(Dec 2019: +74)

96%

Complaints upheld in the Society's favour by the Financial Ombudsman against the financial services average of 65%[3]
(Dec 2019: 97%)

Safe and secure

31.7%

Common Equity Tier 1 ratio
(Dec 2019: 32.0%)

4.5%

Leverage ratio[4]
(Dec 2019: 4.4%)

£22m

Profit before Tax
(H1 2019: £75m)

200%

Liquidity coverage ratio
(Dec 2019: 214%)

Spending money carefully

0.47%

Total costs as a percentage of average assets[5]
(H1 2019: 0.48%)

0.31%

Operational run costs as a percentage of average assets[6]
(H1 2019: 0.30%)

Colleagues and communities

66%

of colleagues engaged in charitable or community activities
(H1 2019: 75%)

THE SUNDAY TIMES 25 BEST BIG COMPANIES TO WORK FOR 2020

2nd

in the 25 Best Big Companies to Work For listing 2020

1. Based on the Society's average month end savings rate compared to the Bank of England average rate for household interest-bearing deposits for the first six months of the year on the Society's mix of products.
2. A measure of customer advocacy that ranges between -100 and +100 which represents how likely a customer is to recommend our products and services. H1 2020 score is based on surveys completed between 1 January 2020 and 17 March 2020.
3. Source: Financial Ombudsman Service latest available information for the six months ending 31 December 2019.
4. During the period the Society has refined its calculation of this measure. Had this applied previously 31 December 2019 result would have been 4.6%.
5. Administrative expenses, depreciation and amortisation/Average total assets.
6. Administrative expenses less change costs, depreciation and amortisation/Average total assets.

Chief Executive's Review

The first half of 2020 has been dominated by the Covid-19 pandemic which has brought concerns about health and wellbeing for many of us as well as having a significant economic impact. The efforts to control the pandemic have been considerable and I would like to thank every key worker in the UK for everything they have done for us during this time; the spirit and hard work shown by so many has been fantastic to see.

I joined the Society as Chief Executive in the last week of April and since then I have been very proud of the way our building society has worked hard to keep everyone safe whilst delivering great service to our members. I cannot thank the team enough for their efforts over the past six months, they have shown an unwavering focus on supporting our members and each other, putting our values into action.

Covid-19 has impacted all of our stakeholders including our members, our colleagues and our communities. We've responded quickly to the challenges we have faced and we're confident that we have made the right decisions to balance the needs of all of our stakeholders for the long term, ensuring prudence and resilience.

Our Response to Covid-19

Our members

- Over 90% of branches kept open through lockdown with full social distancing from day one.
- 37,000 members supported with mortgage payment holidays.
- Average call waiting times at the peak of the lockdown of around 3 minutes[1].

Our colleagues

- No colleagues have been furloughed, 60% of our people have been working from home since March.
- Carer's leave extended to three weeks for all employees.
- Launched a new Employee Assistance Programme which provides a wellbeing hub as well as telephone counselling services.

Our communities

- Increased support to community organisations including food banks and Coventry Haven women's refuge.
- Donated funds to Coventry Citizens Advice to support them working remotely.
- Provided stationery packs to 2,000 school pupils to support distance learning.

It is often during challenging times that our core values and long term focus matter most. During the first six months of the year this has been more important than ever before and our mission of Putting Members First and maintaining business resilience has been our priority. We have served more than 280,000 members since the start of lockdown in the UK, keeping our branches and contact centres open throughout the period and enhancing our website security and accessibility to give members choice in how they deal with us, allowing us to support both new and existing members who have needed our help. We have supported over 37,000 mortgage customers with payment holidays which will make an incredibly difficult time a little bit easier for members and customers who have seen reductions in their incomes over the last few months.

We have responded promptly to a new way of working and have invested in key capabilities to enable our colleagues to serve members safely. Over 1,600 of our colleagues have been able to work from home, allowing safe distancing for those who have remained in our offices and branches. No employees have been furloughed whilst training and support such as extending carers leave have been provided to help our teams through this time of uncertainty and change. The investment in new technology has been essential to support more effective remote working allowing colleagues to stay connected whilst working apart. All of our branches and head office buildings were made Covid-secure with the introduction of key safety measures across our sites.

Our performance

We have delivered a resilient operational and capital performance in the first six months of the year despite a challenging environment, maintaining strong service levels, delivering considerable technology change and continuing to grow our mortgage book. This resilience is underpinned by our simple, focussed business model and strong capital ratios which have been maintained. However, as with many organisations, our short term financial performance has been impacted by the economic environment and profitability is materially lower year on year

Chief Executive's Review

(continued)

driven by the impact of the Bank of England Base Rate reductions and an increase in provisions for credit losses which may materialise in future as a result of a worsened economic environment.

In March, the Base Rate was reduced to 0.10% as the Bank of England sought to reduce borrowing costs for the wider economy. This impacts the earnings from our mortgage book and the return we make on our investments. As a result, we have taken the difficult decision to reduce our savings rates in a managed way over a number of months to provide the necessary mitigation to support our capital position. These decisions are not easy, but necessary, to balance the interests of our members over the long term whilst maintaining capital strength.

During the first six months of the year, we grew our mortgage book by £0.8 billion (30 June 2019: £1.3 billion), underpinned by a strong first quarter. Our mortgage growth rate of 2.0% for the six months to 30 June 2020 is over twice the rate of growth seen in the market[2] overall but is lower than previous years (30 June 2019: 3.4%).

Since the end of March, there were almost two months where the house purchase market was effectively closed due to the lockdown measures and this has limited mortgage growth. From June, there has been a cautious reopening of the housing market, allowing the Society to start completing on new mortgages again. We are seeking to support the market by providing access to good value mortgages within our risk appetite, and we have selectively increased our loan to value new product offering in recent weeks and we expect to continue to grow our mortgage book in the second half of the year.

A core part of our business model is balancing the competing needs of our savings and borrowing members, and our focus is on doing this in a fair way that delivers long term value to all members. In the first six months of the year we delivered member value of £103 million (30 June 2019: £117 million) by paying interest rates to savers that were 0.57% higher than the market rate overall[3]. As a result of lower lending and significant savings acquisition in the second half of 2019, we have managed down our savings balances which declined by £0.8 billion in the six months to 30 June 2020 (30 June 2019: increased by £1.9 billion).

The impact of the pandemic on the economy has affected our profitability in the first half of the year. Arrears have remained low and our mortgage book has continued to perform well. However, as a result of a more uncertain economic outlook, we have sought to take a realistic view of losses that may materialise in future and have set aside an additional £39 million of provisions to manage this risk.

Our profitability has also been impacted by the reduction in the Base Rate by 0.65% to 0.10% in March. This resulted in a fall in earnings received on mortgages, and led to the difficult decision to reduce savings rates in order to balance this impact. We have reduced savings rates in a measured way over a number of months and our net interest margin has fallen to 72 basis points (30 June 2019: 86 basis points), with a reduction in net interest income of £23 million. As a result of the lower savings rates, we expect reduced interest expense in the second half of the year and therefore an improvement in net interest margin by the end of 2020.

Spending our members' money wisely is important as a mutual organisation. During the six months to 30 June 2020 our cost to mean assets ratio of 0.47%[4] reduced slightly (30 June 2019: 0.48%) and remains one of the lowest in the sector[5]. Total management expenses were £117 million, an increase of £4 million from the same period last year and we continue to invest in the business for the long term. Maintaining our advantage of being an efficient, low cost business will continue to be a strategic focus.

Taken together, these factors have resulted in the delivery of a reduced profit of £22 million for the six months to 30 June 2020 (30 June 2019: £75 million).

Capital is a key measure of business resilience and, notwithstanding the reduction in profits, we have maintained our capital ratios during the first half of the year. Our Common Equity Tier 1 ratio remained strong at 31.7% (31 December 2019: 32.0%), well above the regulatory minimum requirement. Our Leverage ratio was maintained at 4.5%[6] (31 December 2019: 4.4%) and our Liquidity Coverage Ratio was 200% (31 December 2019: 214%). With our strong capital ratios and liquidity, we remain a safe and secure place for savers and borrowers, and this allows us to take a long term view when making decisions.

Investing for the future

We are continuing to invest in order to meet the needs and expectations of our members both now and in the future. The Society has a significant change agenda and we have made good progress on a number of change initiatives during the year, despite the challenges presented by the Covid-19 pandemic.

We have made substantial progress in upgrading our technology infrastructure including migration to new datacentres and in June we completed our first major project on our digital journey to deliver stronger online authentication. This is important with more members wanting to use online services to manage their accounts. We

Chief Executive's Review
(continued)

have also progressed activity to upgrade our mortgage origination system, part of the upgrade of our core technology platform. Although some activity has slowed as a result of the impact of Covid-19, our multi-year programme of significant investment to digitise mortgage origination and enhance our digital savings capability is continuing and we will provide on-going updates on the progress of this work.

In the first half of the year, we completed the fit out of a further 3 branches as part of our branch redesign programme which has now seen 29 of our branches refurbished since 2018. This programme has been put on hold since the lockdown to allow us to complete the work safely and to keep more branches open to provide service to members when they needed us but will continue when appropriate to do so.

Our colleagues

Excellent service to members has its foundations in the dedication and commitment of our colleagues, even more so in this environment. I am immensely proud of our colleagues who have continued to deliver excellent service during the year measured by our Net Promoter Score[7] of +77 (31 December 2019: +74). This service is not possible without a highly engaged team, and we were delighted to be ranked second in the Sunday Times Best Big Companies to Work For[8] list earlier in the year. I am committed to continuing to nurture a balanced and diverse work force where everyone can belong and thrive. Diversity has always been and remains important to us and discrimination of any kind has no place at our Society or in society. We will continue to work on understanding how we can break it down in any way we can.

We continue to create employment opportunities with our apprenticeship and graduate offering growing each year, providing great development opportunities for our colleagues and adding to our capability across the organisation. Our Wellbeing offering has been built over many years and is ranked first by Best Companies[8] amongst all Big Companies surveyed. We have enhanced this further during the first half of the year through our new employee assistance programme which includes access to telephone counselling and other services to support our colleagues during these challenging times.

Our communities

Community support has always been an important part of life at the Coventry and our colleagues make a fantastic contribution to the communities they serve. I am proud that we have continued to make a real difference despite the challenges of the last few months, with 66% of colleagues engaged in charitable or community activity over the last 12 months (30 June 2019: 75%). Whilst lockdown measures have limited face to face activity, we have supported local projects to provide PPE to the NHS, worked with schools to deliver stationery to children currently studying at home and continued to donate to charities that are helping our communities during the pandemic. This is alongside the fantastic work we do with the Royal British Legion, who have received £0.4 million (30 June 2019: £0.6 million) in donations from our Poppy Bond so far this year, taking total donations to £18.3 million making a meaningful difference to the charity and the fantastic work it does.

Outlook

We expect the economic outlook to remain uncertain and difficult for some time to come, we recognise the challenging environment for savers, the uncertainty in the housing market and we know that some of our members will face financial difficulty. Our mutual values and capital strength mean that we can and will take a prudent, long term view, and we will be continuing with our plans to invest for the future. I am delighted to have joined the Society and look forward to leading your Society through the challenges and opportunities that lie ahead.

Steve Hughes

Chief Executive
5 August 2020

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1. Based on average call waiting times between 23 March 2020 and 3 May 2020.
2. Source: Bank of England - latest published data as at 30 June 2020.
3. Based on the Society's average month end savings rate compared to the Bank of England average rate for household interest-bearing deposits for the first six months of the year on the Society's mix of products.
4. Administrative expenses, depreciation and amortisation/Average total assets.
5. As at 5 August 2020.
6. During the period the Society has refined its calculation of this measure. Had this applied in 2019 the comparatives would be 30 June 2019 4.6% and 31 December 2019 4.6%.
7. A measure of customer advocacy that ranges between -100 and +100 which represents how likely a customer is to recommend our products and services. H1 2020 score is Based on surveys completed between 1 January 2020 and 17 March 2020.
8. Source: Best Companies '25 Best Big Companies to Work For' listing 2020. In 2019 The Society was rated 55th in the 'Top 100 Companies to work for' listing in the Mid-sized companies category.

Chief Financial Officer's Review

Summary

Our results during the first six months of the year have been significantly impacted by Covid-19, in particular:

- Mortgage demand has been reduced as a result of social distancing measures which have restricted house purchases;
- In the light of the uncertainty surrounding the future economic outlook, we have made reasonable provision for a significant deterioration in the credit environment resulting in an increase in expected credit losses (ECLs); and
- The 65 basis points (bps) reduction in the Bank of England Base Rate from March has reduced our net interest income in the short term.

As a result profits for the period have fallen to £22 million (30 June 2019: £75 million), lower than planned but sufficient to maintain capital ratios.

The Society remains committed to providing long term sustainable value to members through competitively priced savings and mortgage products. Each year we retain only the profit we need to maintain capital ratios, whilst investing to improve services and providing favourable pricing for members.

In doing this we must balance the long term interests of our savings and mortgage members. In March 2020 the Base Rate fell by 65 bps. This fall triggered an immediate repricing of a substantial part of our Balance Sheet, reflecting our risk management policy of hedging fixed rate flows from mortgages, savings and wholesale issuances to a variable rate position. In order to balance the impact of this on our net interest income, we took the difficult decision to reduce the rates of interest paid to our savings members but did so in a measured way. The Society chose to make these reductions over a period from April to July 2020. This balances our commitment to provide value to members and maintaining service standards and response times with the impact on capital and profits. This lag between the Base Rate changes and repricing savings rates reduced net interest income in the period.

In consequence, the overall net interest margin in the first half of the year reduced by 11 basis points to 72bps during the first six months of the year, of this reduction 10 bps was due to the impact of the repricing following the Base Rate fall. This 10 bps reduction will dilute over the rest of 2020 to c. 5 bps by the end of the year. Our running net interest margin for the month of June 2020 was 79 bps and we would expect that this, together with the impact of savings book repricing implemented in July, should see net interest margin returning towards 2019 levels by the end of the year if Base Rate remains unchanged.

Despite these rate reductions, the Society has continued to pay favourable savings rates compared to the market average[1], balancing member value and capital security. In the six months the value of above market average rates paid to members was £103 million (30 June 2019: £117 million).

The economic outcome remains very uncertain and the Society's central expectations are for a significant rise in unemployment and potential house price falls in the short term. We have made £39 million of provisions for expected credit losses arising under IFRS 9 on the Society's mortgage portfolio. This level of provision is highly judgemental due to the unfolding impacts of Covid-19. Further detail on how we arrived at the level of expected credit loss (ECL) provision is set out below and in the notes to the accounts.

In total we added £3 million (30 June 2019: £33 million) to General reserves during the period. This maintained our leverage ratio[2] at 4.5% on a UK modified basis (31 December 2019: 4.4%).

Income Statement summary

	Period to 30 June 2020 (Unaudited) £m	Period to 30 Jun 2019 (Unaudited) £m	Year ended 31 Dec 2019 (Audited) £m
Net interest income	**178.4**	201.1	396.7
Fees and commissions	**(0.9)**	(1.1)	(2.4)
Other income	**0.3**	2.2	2.5
Gain/(loss) on derivatives and hedge accounting	**1.2**	(12.4)	(17.2)
Total income	**179.0**	189.8	379.6
Management expenses	**(117.2)**	(113.3)	(229.1)
Expected credit losses	**(39.4)**	(1.2)	(2.1)
Provisions	**(0.5)**	-	-
Charitable donation to Poppy Appeal	**(0.4)**	(0.6)	(1.2)
Profit before tax	**21.5**	74.7	147.2

Chief Financial Officer's Review

(Continued)

Net interest income for the period was £178 million (30 June 2019: £201 million). The reduction of £23 million from 2019 included £24 million as a result of Base Rate reductions in March which was not offset by reductions in savings rates. As noted above this impact is expected to reduce in the second half of the year if Base Rate remains unchanged.

Other income for the period of £0.3 million (30 June 2019: £2.2 million) relates to a gain on sale of fixed assets. In 2019, other income related to income from a small number of equity investments and included £1.4 million of deferred contingent consideration received following the sale of our investment in VocaLink Holdings Limited in 2017.

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

Over the last 12 months, the Society has enhanced its hedge accounting processes, in part to improve hedge effectiveness. The gain in the first half of the year represents hedge ineffectiveness and fair value movements on derivatives where hedge accounting has not been obtained (30 June 2019: £12.4 million loss). These fair value movements represent timing differences and include adjustments to fair values as a result of Covid-19 related mortgage payment holidays, they are expected to reverse over the remaining life of the derivatives although further volatility may also be experienced particularly as payment holidays resolve.

Management expenses including depreciation and amortisation for the period were £117 million (30 June 2019: £113 million). The increase of costs in the year relates to the on-going costs of running the business and included £3 million of costs incurred in response to Covid-19, including costs to facilitate remote working, PPE for colleagues and modifications to our branch and head office buildings.

The Society's investment in change reflects four main areas of activity:

- 3 branches have been remodelled during the first half of the year, bringing the total to 29. The programme has been paused since the end of March in order to safely respond to Covid-19 and is expected to re-start when it is safe to do so.
- We have continued to progress the work on upgrading our core technology platform during the period, with the main focus of the platform upgrade being our mortgage origination system which will allow us to digitise our mortgage origination process, improving both the efficiency and speed of processing mortgages. In addition work has continued on upgrading our main database.
- During June we launched a new online authentication solution fully compliant with the Payment Services Regulations 2017. Since launching, this has been used by over 100,000 members to access their accounts online in a more secure way. This has been a significant project and was completed in line with expectations despite lockdown. We will leverage this capability in order to increase digital access for members in future.
- Progress on enhancing our data infrastructure has continued during 2020, slightly later than planned in part due to the impact of Covid-19. It will be substantially completed in the second half of 2020.

Whilst the cost to mean assets ratio of 0.47%[3] is expected to remain amongst the lowest in the UK Building Society Sector[4] (30 June 2019: 0.48%) the level of change investment makes it even more important that we focus on spending members' money wisely. Without the change costs incurred in the period the Society's 'run cost' ratio is 0.31% (30 June 2019: 0.30%)[5] reflecting the continued efficiency of our core operations.

Expected Credit Losses and IFRS 9

The full impacts of Covid-19 are yet to work their way through to the wider economy and Covid-19 related payment holidays have obscured potential credit deterioration in the loan book. Against this backdrop of significant uncertainty we have made provisions for expected credit losses of £39 million (30 June 2019: £1 million).

Up to 30 June 2020, over 37,000 members have taken Covid-19 related mortgage payment holidays, representing just under 14% by value of the mortgage loan book and 34,000 payment holidays were active at 30 June 2020. We have been working with members to support them through difficult circumstances.

The application of payment holidays, together with the unprecedented nature of Covid-19, means that the calculation of impairment provisions has involved significant judgement and estimation techniques. Of the total charge for the period, £33 million relates to a post model adjustment where existing models do not fully reflect the expected credit loss arising from Covid-19 implications. We have derived this post model adjustment (PMA) by segmenting the book to identify higher risk segments and uplifting Probability of Default (PDs) accordingly. Higher risk segments include loans with a Covid-19 related payment holiday and those loans which have not taken a payment holiday but where external credit data indicates a deterioration in credit quality. The uplift in PDs applied in calculating the PMA range from 4.8% to 15.4% with an average uplift of 5.6%, weighted by value.

Chief Financial Officer's Review
(Continued)

The remaining £6 million of expected credit loss increase relates to worsening forward looking macro-economic scenarios and increases in the modelled expected credit loss (ECL) provision. The alternative scenarios reflect various possible outcomes as the economy emerges from the pandemic.

In addition to our normal IFRS 9 staging criteria, we have treated those cases where a Covid-19 related payment holiday has been taken as Stage 2 loans if either the payment holiday has been extended beyond its original three month period or if external credit data indicates a deterioration in credit quality. The remaining payment holiday cases have been left in Stage 1. This change in criteria has resulted in 4.3% of loans being reclassified into Stage 2 but despite this 92.7% of the book remains in Stage 1.

We expect that Covid-19 payment holidays will have come to an end by the time we report our full year results and we will then be in a better position to assess the extent to which relevant accounts have resumed a normal level of payment and which are exhibiting signs of credit stress.

As a result of these changes the expected credit loss provision now equates to 0.12% of the overall mortgage book (30 December 2019: 0.03%). This is a far higher level of expected credit loss provision coverage than seen in recent years.

More information on the calculation of expected credit losses is included in note 8 to the accounts.

Provisions for liabilities and charges for the first six months are £0.5 million (30 June 2019: £nil). We have substantially completed the processing of PPI redress settlements during 2020 following the claims deadline in August 2019 and no further provisions were raised for PPI during the period.

Donations of £0.4 million were made to The Royal British Legion's Poppy Appeal during the period (30 June 2019: £0.6 million).

The **Corporation tax** charge represents an effective rate of tax of 13.0% (30 June 2019: 18.9%). The reduction in rate is driven by the decrease in profits during the year meaning that the Society has fallen below the threshold for the 8.0% banking surcharge. The effective tax rate for 30 June 2020 reflects the £1 million of tax relief on distributions to holders of our Additional Tier 1 (AT 1) capital instruments which is reflected in the tax charge as required by IAS12, without this the effective tax rate would have been 19.2%.

Balance Sheet summary

	30 June 2020 (Unaudited) £m	30 Jun 2019 (Unaudited) £m	31 Dec 2019 (Audited) £m
Assets			
Loans and advances to customers	**43,030.0**	40,586.5	42,234.7
Liquidity	**6,444.0**	7,575.6	6,854.7
Other	**886.0**	572.0	441.4
Total assets	**50,360.0**	48,734.1	49,530.8
Liabilities			
Retail funding	**35,438.6**	35,158.7	36,238.1
Wholesale funding	**11,926.6**	10,906.0	10,605.4
Subordinated liabilities and subscribed capital	**67.1**	67.1	67.1
Other	**780.9**	420.1	417.4
Total liabilities	**48,213.2**	46,551.9	47,328.0
Equity			
General reserve	**1,776.0**	1,725.4	1,773.3
Other equity instruments	**415.0**	429.9	415.0
Other	**(44.2)**	26.9	14.5
Total equity	**2,146.8**	2,182.2	2,202.8
Total liabilities and equity	**50,360.0**	48,734.1	49.530.8

Loans and advances to customers: The Society's business model remains focused on high quality, low loan to value owner-occupier and buy to let lending within the prime residential market, distributed mainly through mortgage intermediaries. During the period, the Society advanced £3.5 billion of mortgages (30 June 2019: £4.1 billion), with net mortgage lending of £0.8 billion (30 June 2019: £1.3 billion). New mortgage lending has reduced in the period as a result of Covid-19 and the impact of lockdown measures which have supressed the housing market.

The average loan to value (balance weighted average) of loans originated in the six months to 30 June 2020 has

Chief Financial Officer's Review

(Continued)

been broadly maintained at 57.5% (31 December 2019: 55.4%)

Liquidity: On-balance sheet liquid assets have decreased to £6.4 billion (31 December 2019: £6.9 billion) and the Liquidity Coverage Ratio (LCR) at 30 June 2020 was 200% (31 December 2019: 214%), significantly in excess of the regulatory minimum.

Retail savings: The Society continues to be predominantly funded by retail savings, with balances of £35.4 billion at 30 June 2020 (31 December 2019: £36.2 billion). Savings balances have been managed down in the first six months of the year to balance lending and deposits. Specifically, our need for retail savings has reduced as a result of high savings acquisition in the second half of 2019 coupled with reduced mortgage growth in the first half of 2020.

Wholesale funding: The Society uses wholesale funding[6] to provide diversification by source and term and also to provide value to members through lowering the overall cost of funding. The Bank of England launched the Term Funding Scheme with additional incentives for SMEs (TFSME) in March 2020 to enable lenders to support new lending into the wider economy. The Society has drawn £1.5 billion of funding under the scheme. In addition we completed a £0.5 billion covered bond issuance in January, which was offset by a £0.7 billion maturity in the period. On 31 July 2020 the Society completed an issuance of a further £0.4 billion of debt securities through a new RMBS programme.

Pension benefit surplus (included in Other assets): The pension benefit surplus has remained broadly stable at £22 million (31 December 2019: £24 million) as volatility in the financial markets which impacted the valuation of the pension obligation was largely offset by changes in value of scheme assets.

General reserves: The growth in General reserves of £3 million in the first half of the year (30 June 2019: £33 million) reflects retained profit for the period of £19 million (30 June 2019: £61 million), offset by £14 million distribution to Additional Tier 1 capital holders and the £2 million increase in the defined benefit pension obligation.

Total equity: Total equity has fallen by £56 million to £2.1 billion (31 December 2019: £2.2 billion) despite the increase in General reserves because of movement in the Cash flow hedge reserve of £59 million which reflects volatility on cash flow hedges where fair value hedging is not available. As noted above, this volatility should reverse over the life of the relevant hedge relationship.

Capital Ratios

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

	End-point 30 Jun 2020 £m	End-point 30 Jun 2019[1] £m	End-point 31 Dec 2019 £m
Capital resources:			
Common Equity Tier 1 (CET 1) capital	**1,718.7**	1,643.6	1,691.0
Total Tier 1 capital	**2,133.7**	2,058.6	2,106.0
Total Tier 2 capital	**11.8**	-	-
Total capital	**2,145.5**	2,058.6	2,106.0
Risk weighted assets	**5,423.3**	5,034.3	5,283.6
CRD IV ratios:	**%**	%	%
Common Equity Tier 1 (CET 1) ratio	**31.7**	32.6	32.0
CRR Leverage ratio[2]	**4.2**	4.1	4.1
UK Leverage ratio[3]	**4.5**	4.5	4.4

1. CET 1 ratio and risk weighted assets at 30 June 2019 have been restated following a correction to the Risk Weighted Assets (RWA) calculation reported in the 2019 Annual Report & Accounts. The reported figures in the 2019 Interim Financial Report were RWAs of £4,811.8 million and CET 1 ratio of 34.2%.
2. During the period the Society has refined its calculation of this measure. Had this applied in 2019 the comparatives would be 30 June 2019 4.2% and 31 December 2019 4.2%.
3. During the period the Society has refined its calculation of this measure. Had this applied in 2019 the comparatives would be 30 June 2019 4.6% and 31 December 2019 4.6%.

Risk Weighted Assets (RWAs) have increased by 2.6% principally relating to a 2.5% increase in RWAs calculated under IRB models on the mortgage book. Growth in the loan book has largely been offset by HPI increases seen in the first half of the year. We have included an overlay within RWAs to reflect the potential impact of Covid-19 related payment holidays which accounted for substantially all the increase in RWA and decreased the CET 1 ratio by 0.8%.

Chief Financial Officer's Review
(Continued)

Expected credit losses calculated under IFRS 9 have increased above expected credit losses calculated on an Internal Ratings Based (IRB) approach. As a result the Society has recognised £11.8 million in Tier 2 capital at 30 June 2020 (31 December 2019: £nil).

Capital resources have grown by 1.9%, impacted by lower margins in the period and this has not fully offset the impact of increased RWAs such that the CET 1 ratio falls slightly by 0.3% to 31.7%.

At 31.7%, our CET 1 ratio remains significantly ahead of the Total Capital Requirements set by the PRA for the Society of 11.2% of risk weighted assets as at 31 December 2019.

We continue to operate as if Leverage is our binding capital constraint. The ratios[2] on a CRR and UK modified basis have been maintained significantly above both regulatory minima and the Society's internal risk appetite at 4.2% and 4.5% respectively (31 December 2019: 4.1% and 4.4%).

As set out in the 2019 Annual Report & Accounts we are in the process of updating our IRB models and we expect that once permission to use the new models to calculate RWAs is received from the PRA, they will be adopted and this will result in a modest decrease in reported CET 1.

These capital disclosures above are on a Group basis, including all subsidiary entities. For regulatory purposes the Group also reports on an Individual Consolidated basis, which only includes those subsidiaries meeting particular criteria contained within CRD IV. The Individual Consolidated CET 1 ratio on an end-point basis at 30 June 2020 is 0.8% higher than the Group ratio due to assets held by entities that sit outside of the Individual Consolidation, primarily those held by the Group's securitisation and covered bond entities.

Michele Faull

Chief Financial Officer
5 August 2020

1. Based on the Society's average month end savings rate compared to the Bank of England average rate for household interest-bearing deposits for the first six months of the year on the Society's mix of products.

2. During the period the Society has refined its calculation of this measure. Had this applied in 2019 the comparatives would be 30 June 2019 4.6% and 31 December 2019 4.6%.

3. Administrative expenses, depreciation and amortisation/Average total assets.

4. As at 5 August 2020.

5. Administrative expenses less change costs, depreciation and amortisation/Average total assets. In H1 2019 we reported a manex ratio which excluded strategic investment. This measure was updated for the 2019 Annual Report & Accounts and the comparative has been recalculated to align to this update.

6. Deposits from banks, Other deposits, Amounts owed to other customers and Debt securities in issue.

Principal and Inherent risks

The principal risks which could impact the Society's financial performance for the rest of the year are set out below. These have been updated from the risks reported in the 2019 Annual Report & Accounts following the emergence of the Covid-19 pandemic in March 2020.

Principal risks

Global pandemic and impact on the UK economy

The impact of the Covid-19 pandemic and measures to control it (referred to here as the impact of Covid-19) could cause widespread disruption to the UK and Global economy, impacting access to wholesale funding markets and resulting in a deterioration in the credit environment through a combination of a fall in house prices or increased unemployment.

Continued lockdowns or threats from on-going virus cases could adversely impact the Society's operations including restricting the ways that it interacts with its members as well as reducing the volume of new house purchases.

To date, the Society's operations have proved resilient to lockdown restrictions, with over 90% branches remaining open throughout the pandemic and colleagues continuing to work whether on site or from home. The impact of Covid-19 has also required increased flexibility of our operations in order to meet customer needs, and increased activity to manage the associated operational risks including those relating to data protection and wider information security. The effective management of Covid-19 has also seen a continued enhancement of the Society's business continuity capabilities and overall operational resilience levels.

The medium term impact of Covid-19 is likely to be a deterioration in the credit environment which may increase the risk of arrears and losses on the Society's loan book in the future. The Society's focus on high quality, low loan to value mortgage lending will provide some measure of protection against a downturn in the housing market and the Society will continue to work with borrowers who experience financial difficulty to reach a sustainable and fair arrangement to address affordability issues. Specifically the Society has taken steps to ensure that it can deal effectively with an increase in borrowers needing help to address payment difficulties or coming to the end of Covid-19 mortgage payment holidays.

The Society has strong capital and liquidity ratios and has completed stress testing during the year which indicated resilience to a range of Covid-19 recovery scenarios.

More information on the impact of Covid-19 on each of the Society's inherent risk categories is set out below.

UK political & economic uncertainty

The economic consequences of Covid-19 could lead to a significant downturn in the UK economy, which may be further impacted by on-going Brexit negotiations after the extension to the Brexit transition period was ruled out in the first half of the year.

This, in addition to a global economic downturn, could indirectly impact the Society's business model, crystallising strategic, credit or funding risks for the Society. For example, if the economy faces a prolonged downturn and a combination of falling house prices and rising unemployment occurs impacting mortgage demand and increasing credit risk.

The Society's simple, low risk, business model combined with intrinsically strong levels of risk based capital (CET 1) and liquidity (LCR) mean it remains resilient to both economic and credit downturns. Regular stress testing informs the Board and management that this remains the case even in extreme stress scenarios such as a very slow recovery from Covid-19 coupled with negative outcomes from the Brexit transition.

Market environment

There are a number of factors which could continue to put pressure on the Society's net interest margin or its ability to provide superior value to members, creating strategic risk. These risk factors include a prolonged and material slowdown of the house purchase market, and the impact of persistent low interest rates, particularly if the Bank of England reduces rates further from current levels. However, the Society's low cost operating model means that it can operate effectively in a low margin environment whilst maintaining capital ratios and still

Principal and Inherent risks
(continued)

returning value to members, albeit at lower levels than previously.

Change & execution risk

The Society continues to invest in significant levels of technology and business change and expects this to continue for a number of years.

As reported in the 2019 Annual Report & Accounts, whilst these change programmes will deliver additional resilience and flexibility and reduce risk once implemented, much of the change is complex and the extent of the change creates a number of operational risks. These include dependency risk, the risk that project costs and /or delivery timescales increase and risks from a greater reliance on third parties including security risks and the risk of supplier failure.

The Society continues to take steps to enhance change capability to improve change delivery and management of execution and cross dependency risks which are designed to ensure change is delivered safely, without disruption to core operations and within expectations, reducing the execution risk of change.

Keeping pace with customer demands

Customer expectations and the increased use of technology are changing the way in which both savings and mortgage products are designed and delivered. The impact of social distancing measures on the longer term expectations of our members is not yet known but could accelerate this trend further.

Whilst the Society has a significant number of change programmes under way there is a risk that the scale of change the Society could face, leaves it with insufficient capacity to develop new products and services in an increasingly digital world. Alternatively, change requirements could jeopardise the Society's low cost operating model and, if combined with continued low margins and increased impairment charges, could threaten its ability to return superior value to members.

As reported in the 2019 Annual Report & Accounts, the Society continues to focus on developing products and services to meet changing demands and engages with members to identify product and service enhancements that they need and value in order to do this. Over the coming months the Society will increasingly focus on how changes brought about by social distancing impact on customers and what they want from the Society.

The Society's Strategic Plan will continue to balance short term change demands with longer term strategic investment requirements within its appetite for expenditure.

Inherent risks

The Society's inherent risk categories have not changed during 2020. Information on inherent risk categories and how they are managed is included on pages 38 to 70 of the 2019 Annual Report & Accounts. Additional information on inherent risks has been included in this report where it is useful to aid understanding of the impact of the Covid-19 on the Society.

Retail credit risk

More information on the characteristics of the Society's mortgage book and the calculation of ECL provisions is included in notes 8 and 11 to the accounts.

Payment holidays

Covid-19 has had a significant impact on the credit risk profile of the Society's mortgage books, and the Society has worked with customers who are experiencing payment difficulties throughout the period. Since March 2020 a total of 37,000 payment holidays have been taken on mortgage accounts, of which 34,000 were active at 30 June 2020. The breakdown of payment holidays taken in relation to Covid-19 is set out in the following table.

Principal and Inherent risks
(continued)

30 June 2020	No. of active Payment Holidays[1]	% of total mortgage accounts	Gross balance £m	% of Gross mortgage balances	Balance weighted average LTV %
Residential					
Owner-occupier mortgages	**22,370**	**13.2**	**4,041.8**	**16.0**	**59.9**
Buy to let mortgages	**10,891**	**9.0**	**1,855.5**	**10.5**	**59.5**
Near-prime mortgages	**114**	**21.2**	**13.0**	**22.8**	**52.1**
Self-certification mortgages	**244**	**23.7**	**39.6**	**26.7**	**51.3**
Other					
Commercial mortgages	**1**	**6.7**	**0.2**	**10.5**	**66.3**
Unsecured	**-**	**-**	**-**	**-**	**-**
Total	**33,620**	**11.5**	**5,950.1**	**13.8**	**59.7**

1. Payment holidays where mortgage payments are due to resume on or after 1 July 2020.

In total 14% of the Society's mortgage accounts (by value) had an active payment holiday at 30 June 2020 and at the end of July, the percentage of the mortgage book with active payment holidays had decreased to 4.2%.

Of the payment holidays which ended before 31 July 2020; 19% of customers have extended their payment holiday and 80% have commenced repayments. The Society is working with a further 1% of customers to assess their future affordability and reach a sustainable and fair arrangement.

In order to respond to the needs of members through Covid-19, the Society has modified its processes and implemented a number of tools including introducing online tools to allow members to request payment holidays and calculate the impact of payment holidays on their overall mortgage repayments. In addition, capacity to serve borrowing members has been enhanced. The Society has increased the number of colleagues available to respond to member inquiries and requests, in particular our branch colleagues have been able to support our contact centres at peak times. We have delivered training to provide colleagues with new skills and techniques to deal with a wide range of member queries, and a more flexible approach to how the Society deploys resources.

Arrears performance

The Society's arrears position has increased marginally as a result of mortgage customers facing greater payment difficulty. £67.2 million (30 June 2019: £60.1 million) of accounts are three months or more in arrears. Since March 2020 there has been a moratorium on house possessions which will remain in place until 31 October 2020, this has led to an increase in balances which are greater than 6 months in arrears (including those 12 months or more in arrears) by £5 million to £33.2 million. Cases in possession have changed only marginally. However, the possession moratorium means that cases already in possession by March 2020 have not been resolved and there are 35 accounts which have been prevented from moving into possession during the period.

Despite this, the arrears balances at 30 June 2020 totalled £4.1 million, an increase of only £0.6 million from 30 June 2019 as shown in the table below. Total arrears as a percentage of balances continue to be substantially better than industry averages.

	Gross balance 30 Jun 2020 £m	**Arrears balance 30 Jun 2020 £m**	Gross balance 30 Jun 2019 £m	Arrears balance 30 Jun 2019 £m	Gross balance 31 Dec 2019 £m	Arrears balance 31 Dec 2019 £m
Greater than three months	**61.8**	**2.0**	54.7	1.8	54.0	1.7
Greater than six months	**27.8**	**1.3**	21.8	1.0	22.3	1.0
Greater than one year	**7.8**	**0.5**	4.8	0.3	5.1	0.4
In possession	**5.4**	**0.3**	5.4	0.4	4.6	0.2

Principal and Inherent risks
(continued)

Accounts in arrears	Group 30 Jun 2020 %	UK Finance 31 Mar 2020[1] %	Group 30 Jun 2019 %	UK Finance 30 Jun 2019 %	Group 31 Dec 2019 %	UK Finance 31 Dec 2019 %
Greater than three months	**0.18**	**0.74**	0.16	0.78	0.16	0.72
Greater than six months	**0.08**	**0.43**	0.06	0.47	0.06	0.43
Greater than one year	**0.02**	**0.22**	0.01	0.24	0.01	0.22
In possession	**0.01**	**0.03**	0.01	0.03	0.01	0.02

1. Latest available quarterly information from UK Finance is as at 31 March 2020.

Identifying impaired loans

As a result of Covid-19, the traditional indicators for stresses on affordability may not be identified. For example, Covid-19 related payment holidays will prevent accounts moving to arrears and the possession moratorium prevents cases rolling to possession. As a result, the Society has considered additional indicators of potential stress, and these have informed impairment calculations and IFRS 9 staging analyses. More information on this is in note 8 to the accounts and note 11 to the accounts contains additional analysis of loan balances.

Treasury credit risk

Treasury assets comprise cash and balances with the Bank of England, loans and advances to credit institutions and debt securities. The majority of treasury assets are held in UK central bank reserves and Government securities. Treasury assets are assessed for expected credit losses under IFRS 9. Due to the underlying quality of the assets, they have proven to have been resilient to the impact of Covid-19 and the required provision remained immaterial at 30 June 2020.

All of the Society's treasury exposures remain at investment grade as set out in the table below.

	Exposure value by Moody's rating				
30 June 2020	**Aaa-Aa3 £m**	**A1-A3 £m**	**Baa1-Baa3 £m**	**Unrated £m**	**Total £m**
Central banks and sovereigns	**5,078.4**	**-**	**-**	**-**	**5,078.4**
Multilateral development banks (supranational bonds)	**164.6**	**-**	**-**	**-**	**164.6**
Financial institutions	**862.6**	**236.5**	**74.1**[1]	**-**	**1,173.2**
Mortgage backed securities	**27.8**	**-**	**-**	**-**	**27.8**
Total	**6,133.4**	**236.5**	**74.1**	**-**	**6,444.0**

1. Cash collateral held by counterparties under Credit Support Annexes (CSAs) in relation to derivative liabilities. The Baa1-Baa3 exposure relates to two counterparties, one of which was downgraded in the first half of 2020, and the other that was downgraded in 2018.

	Exposure value by Moody's rating				
31 December 2019	Aaa-Aa3 £m	A1-A3 £m	Baa1-Baa3 £m	Unrated £m	Total £m
Central banks and sovereigns	5,736.1	-	-	-	5,736.1
Multilateral development banks (supranational bonds)	165.5	-	-	-	165.5
Financial institutions	678.9	197.0	56.9[1]	-	932.8
Mortgage backed securities	20.3	-	-	-	20.3
Total	6,600.8	197.0	56.9	-	6,854.7

1. Cash collateral held by counterparties under Credit Support Annexes (CSAs) in relation to derivative liabilities. The Baa1-Baa3 exposure relates to a single counterparty that was downgraded in 2018.

Market risk

The Society is exposed to market risk relating to mismatches between the repricing profiles of mortgages and savings products, as well as certain characteristics within these products. The Society maintains sufficient discretionary variable rate savings and mortgages on its balance sheet to give it flexibility to manage different interest rate environments, although there is a natural time lag in repricing action.

Over a period of two weeks in 2020 the bank Base Rate fell by 65 basis points (bps). This fall triggered an immediate repricing of a substantial part of the Society's balance sheet. Whilst in the medium term this will be matched on an on-going basis by repricing of variable savings and mortgage products, the Society has chosen to make savings book repricing changes over a number of months between April and July 2020. This approach balances impacts on the Society's operations and on members with the impact on Net Interest Income.

Principal and Inherent risks

(continued)

The impact on the present value of assets and liabilities for a 100 bps and 200 bps shock; and the impact of a 100 bps shock on net interest income are both monitored by the Society. As a result of the reduction in interest rates during March 2020 to historically low levels, the Society has moderated its assessment of interest rate shocks and removed the blanket zero rate floor from interest rates and yields which are now floored at up to -50 bps following an assessment of the potential for negative interest rates for each item within the financial statements.

These impacts at 30 June 2020 are set out below:

Shock applied	**+100bps 30 Jun 2020 £m**	**-100bps 30 Jun 2020[1] £m**	+100bps 31 Dec 2019 £m	-100bps 31 Dec 2019 £m
PV100 results (impact on present value of assets and liabilities at period/year end)	**(2.6)**	**0.6**	(9.6)	6.8
Impact on net interest income for the period/year	**20.0**	**(34.2)**	23.7	(19.8)

Shock applied	**+200bps 30 Jun 2020 £m**	**-200bps 30 Jun 2020[1] £m**	+200bps 31 Dec 2019 £m	-200bps 31 Dec 2019 £m
PV200 results (impact on present value of assets and liabilities at period/year end)	**(4.7)**	**0.6**	(18.3)	6.8

1. Rate shock floored at -0.50% (31 December 2019: 0.00%).

The June 2020 assessments for a negative shock are greater than the December 2019 shocks because of the removal of the blanket zero rate floor explained above.

Liquidity and Funding Risk

Liquidity resources

The Society's liquidity resources at 30 June 2020 are set out in the table below. The amount of liquid assets has reduced during the first six months of the year, reflecting lower retail funding balances and given the potential to access over £4.25 billion of TFSME of which £1.5 billion has been drawn by 30 June 2020. At 30 June 2019, liquid assets were elevated as the Society took prudent risk management steps against any funding risk arising from Brexit uncertainty.

The amounts differ from those in the accounting Balance Sheet as this analysis excludes any encumbered assets such as cash held in the Society's covered bonds and RMBS programmes, and balances posted with counterparties as collateral under swap agreements.

	30 Jun 2020 £m	30 Jun 2019 £m	31 Dec 2019 £m
Cash balances with the Bank of England	**3,916.4**	5,619.3	4,778.8
UK Government securities and other qualifying securities	**1,268.6**	801.1	1,284.8
Sub-total high quality liquid assets	**5,185.0**	6,420.4	6,063.6
Other securities – on-balance sheet	**7.6**	125.0	7.8
Contingent liquidity	**4,363.0**	2,192.0	2,325.9
Total	**9,555.6**	8,737.4	8,397.3

Contingent liquidity includes Bank of England approved mortgage portfolios, self-issued covered bonds and Residential Mortgage Backed Securities (RMBS). These are approved portfolios of mortgage collateral that could be used to access Bank of England liquidity facilities or sold to and repurchased from third parties under repo agreements to realise contingent liquidity. Contingent liquidity increased by £2.2 billion in the period reflecting £850 million in new self-issued covered bonds prepositioned with the Bank of England, and multiple instances of topping up existing approved portfolios which was partially offset by the general run down of the loans.

The Society LCR at 30 June was 200% (31 December 2019: 214%), ahead of both regulatory minima and the Society's own risk appetite.

Principal and Inherent risks

(continued)

Wholesale funding

The Society's wholesale funding at 30 June 2020 has increased by £1.3 billion to £11.9 billion. The increase was driven by drawings of £1.5 billion under the TFSME scheme.

	30 Jun 2020		31 Dec 2019	
	£m	**%**	£m	%
Deposits from banks, including repo agreements	**1,505.4**	**12.6**	1,060.6	10.0
Amounts drawn under the Term Funding Scheme	**5,751.3**	**48.2**	4,258.0	40.2
Other deposits and amounts owed to other customers	**224.4**	**1.9**	471.2	4.4
Debt securities in issue				
Medium-term notes	**1,856.8**	**15.6**	2,158.4	20.4
Covered bonds	**2,458.7**	**20.6**	2,517.3	23.7
Residential Mortgage Backed Securities	**130.0**	**1.1**	139.9	1.3
Total	**11,926.6**	**100.0**	10,605.4	100.0

The expected maturity analysis for wholesale funding is shown below, based on the earlier of first call date or contractual maturity. This shows that the overall maturity of funding has lengthened as a result of the TFSME drawings during the first half of 2020.

	30 Jun 2020		31 Dec 2019	
	£m	**%**	£m	%
Less than one year	**2,949.9**	**24.7**	2,580.7	24.3
One to two years	**4,003.1**	**33.6**	3,562.1	33.6
Two to five years	**4,523.2**	**37.9**	4,043.0	38.1
More than five years	**450.4**	**3.8**	419.6	4.0
Total	**11,926.6**	**100.0**	10,605.4	100.0

Condensed Consolidated Income Statement

For the period ended 30 June 2020

	Notes	**Period to 30 Jun 2020 (Unaudited) £m**	Period to 30 Jun 2019 (Unaudited) £m	Year ended 31 Dec 2019 (Audited) £m
Interest receivable and similar income calculated using the Effective Interest Rate method	3	**438.3**	501.7	1,010.5
Interest payable and similar charges	4	**(259.9)**	(300.6)	(613.8)
Net interest income		**178.4**	201.1	396.7
Fees and commissions receivable		**3.5**	3.9	7.8
Fees and commissions payable		**(4.4)**	(5.0)	(10.2)
Other operating income	5	**0.3**	2.2	2.5
Net gains/(losses) from derivative financial instruments	6	**1.2**	(12.4)	(17.2)
Total income		**179.0**	189.8	379.6
Administrative expenses	7	**(103.7)**	(99.3)	(201.4)
Amortisation of intangible assets		**(5.9)**	(7.1)	(13.5)
Depreciation of property, plant and equipment		**(7.6)**	(6.9)	(14.2)
Expected credit losses on loans and advances to customers	8	**(39.4)**	(1.2)	(2.1)
Provisions for liabilities and charges	9	**(0.5)**	-	-
Charitable donation to Poppy Appeal		**(0.4)**	(0.6)	(1.2)
Profit before tax		**21.5**	74.7	147.2
Taxation	10	**(2.8)**	(14.1)	(25.5)
Profit for the financial period		**18.7**	60.6	121.7

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 2020

Profit for the financial period		**18.7**	60.6	121.7
Other comprehensive income				
Items that will not be transferred to the Income Statement:				
Remeasurement of defined benefit plan		**(2.4)**	(6.9)	(6.2)
Taxation		**0.7**	1.9	1.6
Effect of change in corporation tax rate		**-**	(0.1)	(0.1)
Items that may be transferred to the Income Statement:				
Fair value through other comprehensive income investments:				
Fair value movements taken to reserves		**11.8**	6.4	3.7
Amount transferred to Income Statement		**(11.7)**	(9.6)	(6.2)
Taxation		**(0.1)**	0.9	0.6
Effect of change in corporation tax rate		**-**	(0.1)	-
Cash flow hedges:				
Fair value movements taken to reserves	18	**34.8**	4.7	(124.2)
Amount transferred to Income Statement	18	**(115.0)**	(5.6)	106.0
Taxation		**21.4**	0.3	4.9
Effect of change in corporation tax rate		**0.1**	(0.1)	(0.3)
Other comprehensive expense for the period, net of tax		**(60.4)**	(8.2)	(20.2)
Total comprehensive (expense)/income for the period, net of tax		**(41.7)**	52.4	101.5

The notes on pages 21 to 45 form part of this Interim Financial Report.

Condensed Consolidated Balance Sheet

As at 30 June 2020

	Notes	**30 Jun 2020 (Unaudited) £m**	30 Jun 2019 (Unaudited) £m	31 Dec 2019 (Audited) £m
Assets				
Cash and balances with the Bank of England		**4,360.2**	6,044.2	5,226.0
Loans and advances to credit institutions		**807.3**	380.7	336.1
Debt securities		**1,276.5**	1,150.7	1,292.6
Loans and advances to customers	11	**43,030.0**	40,586.5	42,234.7
Hedge accounting adjustment		**441.5**	175.8	149.7
Derivative financial instruments	18	**269.4**	242.0	137.9
Investment in equity shares		**4.3**	4.0	4.1
Current tax asset		**4.5**	-	-
Deferred tax asset		**17.1**	-	-
Intangible assets		**33.3**	35.1	33.2
Property, plant and equipment		**76.0**	76.8	77.8
Pension benefit surplus	13	**22.0**	22.9	24.3
Prepayments and accrued income		**17.9**	15.4	14.4
Total assets		**50,360.0**	48,734.1	49,530.8
Liabilities				
Shares		**35,438.6**	35,158.7	36,238.1
Deposits from banks	12	**7,256.7**	5,320.7	5,318.6
Other deposits		**7.0**	12.5	8.5
Amounts owed to other customers		**217.4**	677.6	462.7
Debt securities in issue		**4,445.5**	4,895.2	4,815.6
Hedge accounting adjustment		**113.8**	58.8	44.0
Derivative financial instruments	18	**601.1**	255.2	281.8
Current tax liabilities		**-**	10.1	14.2
Deferred tax liabilities		**-**	14.7	5.0
Accruals and deferred income		**32.8**	38.0	36.0
Other liabilities		**32.7**	41.5	35.7
Provisions for liabilities and charges	9	**0.5**	1.8	0.7
Subordinated liabilities	14	**25.5**	25.5	25.5
Subscribed capital	15	**41.6**	41.6	41.6
Total liabilities		**48,213.2**	46,551.9	47,328.0
Equity				
General reserve		**1,776.0**	1,725.4	1,773.3
Other equity instruments	16	**415.0**	429.9	415.0
Fair value through other comprehensive income reserve		**3.7**	3.2	3.7
Cash flow hedge reserve		**(47.9)**	23.7	10.8
Total members' interests and equity		**2,146.8**	2,182.2	2,202.8
Total members' interests, liabilities and equity		**50,360.0**	48,734.1	49,530.8

The notes on pages 21 to 45 form part of this Interim Financial Report.

Condensed Consolidated Statement of Changes in Members' Interests and Equity

For the period ended 30 June 2020

Period to 30 June 2020	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 2020 (Audited)		**1,773.3**	**415.0**	**3.7**	**10.8**	**2,202.8**
Profit for the financial period		**18.7**	**-**	**-**	**-**	**18.7**
Net remeasurement of defined benefit plan		**(1.7)**	**-**	**-**	**-**	**(1.7)**
Net movement in Fair value through other comprehensive income reserve		**-**	**-**	**-**	**-**	**-**
Net movement in Cash flow hedge reserve		**-**	**-**	**-**	**(58.7)**	**(58.7)**
Total comprehensive income		**17.0**	**-**	**-**	**(58.7)**	**(41.7)**
Distribution to Additional Tier 1 capital holders	16	**(14.3)**	**-**	**-**	**-**	**(14.3)**
As at 30 June 2020 (Unaudited)		**1,776.0**	**415.0**	**3.7**	**(47.9)**	**2,146.8**

Period to 30 June 2019						
As at 1 January 2019 (Audited)		1,693.5	396.9	5.6	24.4	2,120.4
Changes on initial application of IFRS 16		(0.8)	-	-	-	(0.8)
Restated balance at 1 January 2019		1,692.7	396.9	5.6	24.4	2,119.6
Profit for the financial period		60.6	-	-	-	60.6
Net remeasurement of defined benefit plan		(5.1)	-	-	-	(5.1)
Net movement in Fair value through other comprehensive income reserve		-	-	(2.4)	-	(2.4)
Net movement in Cash flow hedge reserve		-	-	-	(0.7)	(0.7)
Additional Tier 1 Capital repurchased (net of tax)	16	(9.3)	(382.0)	-	-	(391.3)
Additional Tier 1 Capital issued (net of tax)	16	(2.5)	415.0	-	-	412.5
Total comprehensive income		43.7	33.0	(2.4)	(0.7)	73.6
Distribution to Additional Tier 1 capital holders	16	(11.0)	-	-	-	(11.0)
As at 30 June 2019 (Unaudited)		1,725.4	429.9	3.2	23.7	2,182.2

Year ending 31 December 2019						
As at 1 January 2019 (Audited)		1,693.5	396.9	5.6	24.4	2,120.4
Changes on initial application of IFRS 16		(0.8)	-	-	-	(0.8)
Restated balance at 1 January 2019		1,692.7	396.9	5.6	24.4	2,119.6
Profit for the financial year		121.7	-	-	-	121.7
Net remeasurement of defined benefit plan		(4.7)	-	-	-	(4.7)
Net movement in Fair value through other comprehensive income reserve		-	-	(1.9)	-	(1.9)
Net movement in Cash flow hedge reserve		-	-	-	(13.6)	(13.6)
Additional Tier 1 Capital repurchased (net of tax)		(9.3)	(396.9)	-	-	(406.2)
Additional Tier 1 Capital issued (net of tax)		(2.5)	415.0	-	-	412.5
Total comprehensive income		105.2	18.1	(1.9)	(13.6)	107.8
Distribution to Additional Tier 1 capital holders	16	(24.6)	-	-	-	(24.6)
As at 31 December 2019 (Audited)		1,773.3	415.0	3.7	10.8	2,202.8

The notes on pages 21 to 45 form part of this Interim Financial Report.

Condensed Consolidated Statement of Cash Flows

For the period ended 30 June 2020

	Period to 30 Jun 2020 (Unaudited) £m	Period to 30 Jun 2019 (Unaudited) £m	Year ended 31 Dec 2019 (Audited) £m
Cash flows from operating activities			
Profit before tax	**21.5**	74.7	147.2
Adjustments for:			
Expected credit loss provisions and other provisions	**39.9**	1.2	2.4
Depreciation and amortisation	**13.5**	14.0	27.7
Interest on subordinated liabilities and subscribed capital	**3.3**	3.3	6.6
Changes to fair value adjustment of hedged risk	**(126.1)**	(42.8)	85.3
Other non-cash movements	**(7.1)**	1.3	13.9
Non-cash items included in profit before tax	**(76.5)**	(23.0)	135.9
Loans and advances to credit institutions	**(479.0)**	(156.4)	(119.3)
Loans and advances to customers	**(834.7)**	(1,323.1)	(2,972.5)
Prepayments, accrued income and other assets	**(3.6)**	(5.3)	(4.2)
Changes in operating assets	**(1,317.3)**	(1,484.8)	(3,096.0)
Shares	**(790.3)**	1,907.6	2,963.5
Deposits and other borrowings	**1,699.5**	51.0	(170.3)
Debt securities in issue	**132.0**	3.2	(57.6)
Accruals and deferred income and other liabilities	**(4.2)**	(2.4)	(5.8)
Changes in operating liabilities	**1,037.0**	1,959.4	2,729.8
Interest paid on subordinated liabilities and subscribed capital	**(3.3)**	(3.3)	(6.6)
Interest paid on lease liabilities	**(0.3)**	(0.4)	(0.7)
Taxation	**(21.6)**	(15.9)	(29.0)
Net cash flows from operating activities	**(360.5)**	506.7	(119.4)
Cash flows from investing activities			
Purchase of investment securities	**(572.3)**	(596.9)	(1,095.1)
Sale and maturity of investment securities and equities	**599.3**	385.8	739.2
Proceeds from sale of property	**0.5**	-	-
Purchase of property, plant and equipment and intangible assets	**(14.2)**	(12.2)	(28.7)
Net cash flows from investing activities	**13.3**	(223.3)	(384.6)
Cash flows from financing activities			
Distributions paid to Additional Tier 1 capital holders	**(14.3)**	(11.0)	(24.6)
Repurchase of Additional Tier 1 capital	-	(393.6)	(400.0)
Repurchase of Additional Tier 1 transaction costs	-	-	(8.5)
Issue of Additional Tier 1 capital	-	411.6	415.0
Additional Tier 1 issuance costs	-	-	(3.4)
Repurchase and repayment of debt securities	**(1,009.9)**	(13.9)	(22.6)
Principal elements of lease payments	**(2.4)**	(3.2)	(4.5)
Issue of debt securities	**500.0**	544.6	544.6
Net cash flows from financing activities	**(526.6)**	534.5	496.0
Net (decrease)/increase in cash	**(873.8)**	817.9	(8.0)
Cash and cash equivalents at start of period	**5,114.3**	5,122.3	5,122.3
Cash and cash equivalents at end of period	**4,240.5**	5,940.2	5,114.3
Cash and cash equivalents:			
Cash and balances with the Bank of England[1]	**4,240.5**	5,940.2	5,114.3

1. Excludes £119.7 million mandatory reserve with the Bank of England (30 June 2019: £104.0 million, 31 December 2019: £111.7 million).

The notes on pages 21 to 45 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 2020 and show the financial performance for the period from 1 January 2020 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 2020 have been prepared in accordance with the Disclosure and Transparency Rules of the Financial Conduct Authority (FCA) and with IAS 34 Interim Financial Reporting as adopted by the EU. The Interim Financial Report does not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Annual Report & Accounts for the year ended 31 December 2019, which have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU. The Group accounts consolidate the assets, liabilities and results of the Society and all its subsidiary companies.

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

Going concern and long term viability statement

Details of the Group's objectives, policies and processes for managing its risk exposure (including credit, market, liquidity and funding, conduct, operational and business risks) are contained in the Risk Management Report of the 2019 Annual Report & Accounts. An update on Principal and Inherent risks has been provided on page 11 and this includes a new risk in relation to the Coronavirus Pandemic and its impact on the UK economy, referred to in this report as Covid-19.

The directors also include a statement on long term viability on page 89 of the 2019 Annual Report & Accounts. The current viability assessment has been made over the period to 31 December 2022, in line with the Society's Strategic Plan and capital and liquidity stress testing process.

During the first half of 2020, the assessment of prospects and of long term viability has been updated to consider the impact of Covid-19 on the Society. This included updated views of the Society's profitability, capital and funding position for a range of outcomes.

Taking the Society's objectives, policies and processes into account alongside the current economic and regulatory environment, the directors confirm they are satisfied the Group has adequate resources to continue in business for the foreseeable future and accordingly, it is appropriate to adopt the going concern basis in preparing this Interim Financial Report. In addition, having reassessed long term viability, the directors have a reasonable expectation that the Society will continue to operate and meet its liabilities as they fall due over the period to December 2022.

Accounting Policies

The accounting policies adopted by the Group in its 2020 Interim Financial Report are consistent with those disclosed in the Annual Report & Accounts for the year ended 31 December 2019 with the exception of updates noted in this report.

Judgement in applying accounting policies and significant accounting estimates

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

Notes to the Interim Financial Report

(continued)

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

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

These significant accounting policy judgements are set out in note 1 to the 2019 Annual Report & Accounts. During the year the criteria to determine a SICR under IFRS 9 has been updated for mortgage payment holidays which have been taken as a result of Covid-19, referred to as 'mortgage payment holidays'. More information on this is included in note 8 to the accounts. There have been no other changes to significant accounting policy judgements during the year.

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**
Mortgage Effective Interest Rate	3
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
Present value of the defined benefit pension scheme liabilities	13

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

	Period to 30 Jun 2020 (Unaudited) £m	Period to 30 Jun 2019 (Unaudited) £m	Year ended 31 Dec 2019 (Audited) £m
On financial assets measured at amortised cost:			
On loans and advances to customers	**485.4**	493.8	997.7
Foreign currency losses	**-**	(0.2)	-
Interest on other liquid assets	**9.6**	18.7	39.1
Interest and other income on debt securities	**0.2**	0.2	0.5
Interest and other income on debt securities measured at FVOCI	**8.2**	12.5	21.2
On financial instruments in a qualifying hedge relationship	**(65.1)**	(23.3)	(48.0)
Total interest receivable and similar income calculated using the EIR method	**438.3**	501.7	1,010.5

Significant assumptions and estimates – Effective Interest Rate

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

As at 30 June 2020 the EIR method resulted in an asset of £66.2 million (30 June 2019: £81.0 million, 31 December 2019: £75.8 million), gross of fees, within loans and advances to customers. This asset represents 0.2% (30 June 2019: 0.2%, 31 December 2019: 0.2%) of the Balance Sheet carrying value of mortgages. The movement in the period of £9.6 million was recognised in the Income Statement.

A critical estimate in the calculation of the EIR is the expected life of the mortgages, as this determines the assumed period over which customers may be paying Standard Variable Rates. The calculation of the EIR uses assumptions on expected life that are based on the experience of similar products. These assumptions are monitored to ensure their on-going appropriateness. Changes arising from actual product life experience differing from the assumptions, are periodically calculated and an adjustment is made to the EIR asset with a corresponding adjustment to interest receivable and similar income. An increase of 5% in the redemption rate of a loan for 12 months after the initial incentive period would result in a decrease in the EIR asset of £8.6 million, with a

Notes to the Interim Financial Report

(continued)

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

corresponding reduction to income in the Income Statement. Future market interest rates also affect the calculation. A decrease in the Standard Variable Rate received by the Society after the initial incentive period of 25 basis points would result in a decrease in the EIR asset of £9.7 million with a corresponding reduction to income in the Income Statement.

4. Interest payable and similar charges

	Period to 30 Jun 2020 (Unaudited) £m	Period to 30 Jun 2019 (Unaudited) £m	Year ended 31 Dec 2019 (Audited) £m
Bank and customer			
Subordinated liabilities	**0.9**	0.9	1.8
Other	**13.0**	21.6	45.5
Debt securities in issue	**40.4**	49.0	96.7
Other borrowed funds			
On shares held by individuals	**221.9**	238.0	482.2
On subscribed capital	**2.4**	2.4	4.8
Net income on financial instruments hedging liabilities	**(18.9)**	(11.5)	(18.1)
Foreign currency (gains)/losses[1]	**(0.1)**	(0.2)	0.2
Other interest payable	**0.3**	0.4	0.7
Total	**259.9**	300.6	613.8

1. From 1 January 2019 foreign currency losses have been presented on a net basis within interest payable and similar charges.

5. Other operating income

Other income for the period of £0.3 million (30 June 2019: £2.2 million) relates to profit on disposal of fixed assets.

In 2019, other income included £1.4 million of deferred contingent consideration received following the sale of the Society's equity investment in VocaLink Holdings Limited in 2017.

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

	Period to 30 Jun 2020 (Unaudited) £m	Period to 30 Jun 2019 (Unaudited) £m	Year ended 31 Dec 2019 (Audited) £m
Derivatives designated as fair value hedges			
Losses on derivatives designated as fair value hedges	**(230.1)**	(138.1)	(120.2)
Movement in fair value of hedged items attributable to hedged risk	**230.0**	138.1	123.0
Ineffectiveness on fair value hedges	**(0.1)**	-	2.8
Derivatives designated as cash flow hedges			
Foreign exchange	**-**	-	-
Foreign exchange and interest rate	**0.1**	0.6	0.6
Interest rate	**(0.5)**	(0.2)	(0.6)
Ineffectiveness on cash flow hedges	**(0.4)**	0.4	-
Gains/(losses) on other derivatives	**1.7**	(12.8)	(20.0)
Total	**1.2**	(12.4)	(17.2)

Notes to the Interim Financial Report
(continued)

6. Net gains/(losses) from derivative financial instruments continued

Ineffectiveness on fair value hedges includes an assessment of the impact of Covid-19 mortgage payment holidays on hedge accounting, it is possible that further volatility may be experienced as payment holidays resolve.

Gains on other derivatives of £1.7 million have been recognised in the Income Statement reflecting the fair value movements on derivatives where hedge accounting relief has not been fully obtained.

7. Administrative expenses

	Period to 30 Jun 2020 (Unaudited) £m	Period to 30 Jun 2019 (Unaudited) £m	Year ended 31 Dec 2019 (Audited) £m
Employee costs			
Wages and salaries	**45.8**	43.3	87.4
Social security costs	**4.6**	4.6	9.2
Pension costs			
Defined benefit plan	**(0.2)**	(0.3)	(0.8)
Defined contribution plan	**3.1**	2.8	5.8
	53.3	50.4	101.6
Other expenses			
Loss on disposal of property, plant and equipment and intangibles	**-**	-	0.9
Premises and facilities	**4.8**	3.9	8.2
Project costs	**17.6**	19.6	36.3
Information systems	**8.4**	7.5	15.4
Other operating expenses	**19.6**	17.9	39.0
Total	**103.7**	99.3	201.4

Administrative expenses include the costs of on-going business as usual activity and the costs of delivering change as shown below. Costs of delivering change includes both third party and relevant employee costs.

	Period to 30 Jun 2020 (Unaudited) £m	Period to 30 Jun 2019 (Unaudited) £m	Year ended 31 Dec 2019 (Audited) £m
Business as usual run costs	**77.7**	71.8	149.1
Costs of delivering change (including relevant employee costs)	**26.0**	27.5	52.3
Total	**103.7**	99.3	201.4

Notes to the Interim Financial Report

(continued)

8. Expected credit losses on loans and advances to customers

Expected credit losses (ECLs) have been deducted from the loans and advances to customers in the Condensed Consolidated Balance Sheet.

	Period to 30 Jun 2020 (Unaudited) £m	Period to 30 Jun 2019 (Unaudited) £m	Year ended 31 Dec 2019 (Audited) £m
ECL charge for the period	**39.4**	1.2	2.1
ECL provision at the end of the period:			
Residential mortgages	**49.9**	10.7	11.3
Other loans	**1.4**	1.3	0.7
Total	**51.3**	12.0	12.0

The ECL charge for the period of £39.4 million (30 June 2019: £1.2 million) reflects worsened expectation of the credit performance of the Society's loans and advances as a result of Covid-19.

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

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

The Society has added the following indicators to its staging assessment, and therefore moved loans to Stage 2 where a loan has a Covid-19 payment holiday and either the payment holiday has been extended beyond three months or there are additional indicators of credit deterioration such as worsening credit bureau data or a decline in credit risk grading.

This has resulted in £1,850.1 million of loans being recognised within Stage 2 at 30 June 2020 that otherwise would have remained in Stage 1.

All other SICR criteria are unchanged from 31 December 2019 and more information is on page 127 of the 2019 Annual Report & Accounts.

Significant accounting judgements – application of post model adjustments

Included within the ECL provision of £51.3 million (31 December 2019: £12.0 million) is £37.1 million (31 December 2019: £4.0 million) relating to post model adjustments (PMAs). The substantial increase relates to a PMA for potential further credit losses as a result of the impact of Covid-19 which has not yet been identified within the Society's impairment models.

The PMA was derived by assessing potential indicators of a deterioration in credit quality including loans subject to mortgage payment holidays and enhanced external credit bureau data. The probability of default (PD) for accounts that were identified as being higher risk was uplifted by a weighted average of 5.6% compared to the modelled PD. This resulted in additional ECL provisions of £33.1 million after the application of alternative economic scenarios.

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

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

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

1. New mortgages originated in Stage 2 relate to further advances on accounts which are performing at the date of origination but are in the 12 month cure period for IFRS 9 staging.
2. A number of refinements to the Society's ECL models have been made during 2020. These include an update to the calculation of the Probability of Default for interest rate shock and enhancements to staging methodology for UPLs. In the period these refinements increased ECLs by £1.3 million.

Notes to the Interim Financial Report
(continued)

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

A reconciliation of movements in gross exposures and impairment provision split by IFRS 9 stage from 1 January 2019 to 31 December 2019 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 2019	37,853.6	1.4	1,129.6	3.9	208.6	6.3	39,191.8	11.6
Movements with Income Statement impact								
Transfer from stage 1 to stage 2	(570.0)	(0.1)	570.0	1.1	-	-	-	1.0
Transfer from stage 1 to stage 3	(39.6)	-	-	-	39.6	1.1	-	1.1
Transfer from stage 2 to stage 3	-	-	(49.9)	(0.3)	49.9	0.3	-	-
Transfer from stage 3 to stage 2	-	-	38.2	0.5	(38.2)	(0.5)	-	-
Transfer from stage 3 to stage 1	11.8	-	-	-	(11.8)	(0.1)	-	(0.1)
Transfer from stage 2 to stage 1	465.2	0.1	(465.2)	(0.5)	-	-	-	(0.4)
Net movement arising from transfer of stages	(132.6)	-	93.1	0.8	39.5	0.8	-	1.6
New loans originated[1]	8,582.4	0.6	4.2	-	0.1	-	8,586.7	0.6
Remeasurement of ECL due to changes in risk parameters	-	(0.1)	-	(0.3)	-	0.6	-	0.2
(Decrease)/increase in post model adjustments	-	-	-	(0.3)	-	3.1	-	2.8
Remeasurement of ECL due to model refinements[2]	-	(0.4)	-	(0.6)	-	(0.1)	-	(1.1)
Loans derecognised in the period	(3,752.7)	(0.4)	(103.4)	(0.3)	(40.6)	(0.7)	(3,896.7)	(1.4)
Other items impacting income statement reversal	-	-	-	-	-	(0.3)	-	(0.3)
Net write offs directly to Income Statement	-	0.1	-	-	-	(0.4)	-	(0.3)
Income Statement (credit)/ charge for the period		(0.2)		(0.7)		3.0		2.1
Repayment and charges	(1,657.3)	-	(44.9)	-	(7.9)	-	(1,710.1)	-
Net write offs and other ECL movements	(0.3)	(0.2)	-	-	(2.4)	(1.5)	(2.7)	(1.7)
At 31 December 2019	40,893.1	1.0	1,078.6	3.2	197.3	7.8	42,169.0	12.0

1. New mortgages originated in Stages 2 and 3 relate to further advances on accounts which are performing at the date of origination but are in the 12 month cure period for IFRS 9 staging.
2. A number of refinements to the Society's ECL models have been made during 2019. These include an update to the calculation of the Probability of Default and an enhancement to the regional house price index modelling capability. In the year these refinements decreased ECLs by £1.1 million.

Notes to the Interim Financial Report
(continued)

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

A reconciliation of movements in gross exposures and impairment provision split by IFRS 9 stage from 1 January 2019 to 30 June 2019 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 2019	37,853.6	1.4	1,129.6	3.9	208.6	6.3	39,191.8	11.6
Movements with Income Statement impact								
Transfer from stage 1 to stage 2	(419.3)	-	419.3	0.6	-	-	-	0.6
Transfer from stage 1 to stage 3	(11.7)	-	-	-	11.7	0.5	-	0.5
Transfer from stage 2 to stage 3	-	-	(27.1)	(0.1)	27.1	0.1	-	-
Transfer from stage 3 to stage 2	-	-	21.7	0.2	(21.7)	(0.2)	-	-
Transfer from stage 3 to stage 1	5.5	-	-	-	(5.5)	(0.1)	-	(0.1)
Transfer from stage 2 to stage 1	306.1	0.1	(306.1)	(0.4)	-	-	-	(0.3)
Net movement arising from transfer of stages	(119.4)	0.1	107.8	0.3	11.6	0.3	-	0.7
New loans originated[1]	4,086.2	0.3	2.8	-	0.1	-	4,089.1	0.3
Remeasurement of ECL due to changes in risk parameters	-	(0.3)	-	(0.2)	-	(0.1)	-	(0.6)
Increase in post model adjustments	-	-	-	-	-	1.5	-	1.5
Loans derecognised in the period	(1,841.8)	(0.2)	(51.8)	(0.1)	(19.7)	(0.3)	(1,913.3)	(0.6)
Other items impacting income statement charge	-	-	-	-	-	0.1	-	0.1
Net write offs directly to Income Statement	-	0.1	-	-	-	(0.3)	-	(0.2)
Income Statement charge for the period		-		-		1.2		1.2
Repayment and charges	(824.2)	-	(21.0)	-	(2.9)	-	(848.1)	-
Net write offs and other ECL movements	(0.1)	-	-	-	(1.1)	(0.8)	(1.2)	(0.8)
At 30 June 2019	39,154.3	1.4	1,167.4	3.9	196.6	6.7	40,518.3	12.0

1. New mortgages originated in Stages 2 and 3 relate to further advances on accounts which are performing at the date of origination but are in the 12 month cure period for IFRS 9 staging.

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

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

At 30 June 2020 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.

In response to Covid-19, a new base scenario has been developed which reflects a continued controlled reopening of the economy over the rest of 2020 along with a new downside scenario reflecting a prolonged slowdown as a result of the pandemic. The previous severe downside and upside scenarios have been updated from 2019 year end, particularly for a worsened expectation of unemployment in the severe downside scenario. The upside scenario has been assigned a weighting of 0% but is included here for disclosure purposes.

Notes to the Interim Financial Report
(continued)
8. Expected credit losses on loans and advances to customers continued

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

Scenario	Weighting
Base – a central scenario updated during 2020 to consider the impact of Covid-19. This scenario is based on a continued controlled reopening of the economy over the next 6 months with no second wave of the virus. This scenario also assumes that effective trade agreements are established post Brexit.	60%
Downside – a scenario that represents a significant downside equivalent to a prolonged economic slowdown into 2021 in the UK and delayed recovery from the economic consequences of the Covid-19 pandemic. This scenario is consistent with effective trade agreements being established post Brexit over a longer time period than for the Base scenario.	20%
Severe downside – based on the Internal Capital Adequacy Assessment Process (ICAAP) low rates stress (being the worst case scenario from a credit loss perspective used in capital stress testing), with further adjustment for worsened unemployment. This scenario is considered severe enough to reflect delayed economic recovery from the Covid-19 related slowdown and a negative outcome from Brexit trade negotiations.	20%
Upside – an upside scenario which reflects a more rapid recovery and a return to growth by the end of 2020.	0%

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

- 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 table shows these key economic assumptions used in the scenarios over a five year forecast period.

Key economic assumptions as at 30 June 2020

Scenario/ weighting	Assumption	2020 %[1]	2021 %[1]	2022 %[1]	2023 %[1]	2024 %[1]	Peak to trough %	Range %	Average to 31 Dec 2024 %[2]
Base 60%	Unemployment	9.0	7.5	7.0	6.5	6.0	4.3	4.7 – 9.0	7.1
	HPI	(6.1)	(5.0)	4.7	2.0	2.0	(14.1)	(14.1) – 0.0	(0.6)
	GDP	(4.0)	2.0	5.0	2.0	2.0	(10.9)	(4.0) – 6.9	1.5
	Base Rate	0.1	0.1	0.1	0.1	0.1	-	0.1 – 0.1	0.1
Downside 20%	Unemployment	12.0	9.5	9.0	8.0	7.5	6.8	5.2 – 12.0	9.0
	HPI	(12.0)	(8.5)	1.2	2.0	2.0	(19.5)	(19.5) – 0.0	(3.6)
	GDP	(6.0)	1.0	3.0	2.0	2.0	(7.7)	(6.0) – 1.7	0.4
	Base Rate	0.0	0.0	0.0	0.0	0.0	-	-	0.0
Severe Downside 20%	Unemployment	12.0	9.2	8.6	7.9	7.3	6.8	5.2 – 12.0	8.8
	HPI	(14.2)	(18.7)	(2.6)	5.8	5.5	(33.4)	(33.4) – 0.0	(6.0)
	GDP	(3.0)	1.0	5.0	2.0	2.0	(10.0)	(7.0) – 3.0	1.6
	Base Rate	0.0	0.0	0.0	0.0	0.0	-	-	0.0
Upside 0%	Unemployment	3.8	3.7	3.6	3.6	3.6	0.2	3.6 – 3.8	3.7
	HPI	2.3	4.0	4.0	4.0	4.0	19.0	0.7 – 19.7	4.1
	GDP	6.0	2.4	2.8	3.2	3.2	17.8	1.0 – 18.8	3.9
	Base Rate	0.5	1.0	1.3	1.5	2.0	1.9	0.1 – 2.0	1.3

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 2020, and 12 months ending 31 December 2021 through 2024.
2. HPI change and GDP change average to 31 December 2024 are shown as the annual compound growth rates.

Notes to the Interim Financial Report
(continued)

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

The alternative economic scenarios which have been used at 30 June 2020 are more negative than those which were used at 31 December 2019. The following table shows the movement for each scenario for the key assumptions of unemployment and HPI for 2020 and 2021:

		30 June 2020			31 December 2019		
		Weighting	**Unemployment %**	**HPI %**	Weighting	Unemployment %	HPI %
Base case	2020	**60%**	**9.0**	**(6.1)**	60%	4.1	(0.9)
	2021		**7.5**	**(5.0)**		4.2	-
Downside	2020	**20%**	**12.0**	**(12.0)**	26%	5.1	(4.0)
	2021		**9.5**	**(8.5)**		6.0	(3.7)
Severe Downside	2020	**20%**	**12.0**	**(14.2)**	12%	7.2	(8.8)
	2021		**9.2**	**(18.7)**		9.2	(18.4)
Upside	2020	**0%**	**3.8**	**2.3**	2%	3.8	2.6
	2021		**3.7**	**4.0**		3.7	4.0

The Society has also considered the Bank of England illustrative scenario for economic outlook published in May 2020 and a scenario has been calibrated against this with the following characteristics:

Assumption	2020 %	2021 %	2022 %	2023 %	2024 %	Peak to trough %	Range %	Average to 31 Dec 2024 %
Unemployment	**8.0**	**7.0**	**4.0**	**3.9**	**3.9**	**4.1**	**3.9 – 8.0**	**5.3**
HPI	**(8.1)**	**(6.1)**	**4.1**	**4.8**	**2.9**	**(15.9)**	**(15.9) – 0.0**	**(0.7)**
GDP	**(10.0)**	**15.0**	**3.0**	**2.0**	**2.0**	**20.9**	**(10.0) – 10.9**	**2.3**
Base Rate	**0.1**	**0.1**	**0.2**	**0.2**	**0.2**	**0.1**	**0.1 – 0.2**	**0.15**

If ECLs had been calculated using this scenario at 30 June 2020, the ECL provision would have been £30.0 million, a decrease of £21.3 million compared to the reported ECL provision.

Notes to the Interim Financial Report
(continued)

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

A significant degree of estimation relates to the relative weightings of the scenarios, incorporating different views of the House Price Index and Unemployment as indicated above. 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 £25.3 million, or 49.3% (31 December 2019: £1.6 million, 13.3%) compared to the reported provision. If a 100% weighting was attributed to the severe downside scenario, ECLs would increase by £49.6 million, 96.7% (31 December 2019: £10.7 million, 89.2%).

	30 June 2020		31 December 2019	
Scenario	**IFRS 9 ECL provision £m**	**(Decrease)/ increase %**	IFRS 9 ECL provision £m	(Decrease)/ increase %
IFRS 9 weighted average	**51.3**	**-**	12.0	-
Base scenario	**26.0**	**(49.3)**	10.4	(13.3)
Downside scenario	**62.2**	**21.2**	11.1	(7.5)
Severe downside scenario	**100.9**	**96.7**	22.7	89.2
Upside scenario	**6.3**	**(87.7)**	9.5	(20.8)

ECL coverage ratios

The increase in provisions for ECLs means that the ECL coverage has been increased to 27.0 times the gross impairment losses before recoveries in the last 12 months as shown below. This ECL coverage ratio (ECL provision / loans and advances to customers before ECL provisions and EIR) is 12 basis points (2019: 3 basis points)

		12 months to 30 Jun 2020	12 months to 30 Jun 2019	Year ended 31 Dec 2019
Impairment losses before recoveries	£m	**1.9**	2.2	2.7
Total ECL provision	£m	**51.3**	12.0	12.0
ECL coverage	Years	**27.0**	5.5	4.4

		30 Jun 2020	30 Jun 2019	31 Dec 2019
Total ECL provision	£m	**51.3**	12.0	12.0
Total gross loans and advances to customers before ECL and EIR	£m	**43,018.2**	40,518.3	42,169.0
ECL coverage ratio	%	**0.12**	0.03	0.03

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9. Provisions for liabilities and charges

	Period to 30 Jun 2020 (Unaudited) £m	Period to 30 Jun 2019 (Unaudited) £m	Year ended 31 Dec 2019 (Audited) £m
At 1 January	**0.7**	3.0	3.0
Charge for the period	**0.5**	-	-
Provision utilised	**(0.7)**	(1.2)	(2.3)
Total	**0.5**	1.8	0.7

During the period to 30 June 2020, the provision held for PPI claims was fully utilised as claims and enquiries received prior to the deadline in August 2019 were settled. The charge for the period to 30 June 2020 of £0.5 million relates to other provisions.

10. Taxation

The Group has an effective tax rate of 13.0% (Period to 30 June 2019: 18.9%, Year ended 31 December 2019: 17.3%), which is lower than the UK statutory corporation tax rate of 19.0% primarily due to the tax credit in relation to distributions to holders of the Group's AT 1 instrument.

The reduction in rate year on year also reflects the expectation that the banking surcharge of 8% of profits will not apply this year because the Society itself (being the only entity in the group subject to the surcharge) is not expected to meet the profit threshold at which the surcharge applies.

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(continued)

11. Loans and advances to customers

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

	Period to 30 Jun 2020 (Unaudited) £m	Period to 30 Jun 2019[2] (Unaudited) £m	Year ended 31 Dec 2019 (Audited) £m
Residential mortgages			
Owner-occupier mortgages	**25,203.6**	23,993.4	25,198.9
Buy to let mortgages	**17,588.8**	16,267.7	16,732.6
Near-prime mortgages[1]	**56.9**	63.4	59.2
Self-certification mortgages[1]	**148.4**	169.7	156.3
Other loans			
Commercial mortgages[1]	**1.9**	2.1	2.0
Unsecured loans[1]	**18.6**	22.0	20.0
Total gross loans and advances to customers (contractual amounts)	**43,018.2**	40,518.3	42,169.0
Provision for expected credit losses	**(51.3)**	(12.0)	(12.0)
Total net loans and advances to customers (contractual amounts)	**42,966.9**	40,506.3	42,157.0
EIR, fair value and other adjustments	**63.1**	80.2	77.7
Total	**43,030.0**	40,586.5	42,234.7

1. These are legacy books with no new originations since 2010.
2. Comparative information has been adjusted to remove EIR and fair value and other adjustments which were previously apportioned across gross balances.

The table below shows gross loans and advances to customers split by IFRS 9 stage at 30 June 2020. For loans in Stage 2 and 3 further analysis of accounts has been shown. This includes accounts which are past due, not past due and Stage 2 accounts which have been reclassified from Stage 1 as a result of the new staging criteria due to Covid-19.

		Stage 2 'Deteriorating'			Stage 3 'Default'			
As at 30 June 2020	**Stage 1 'Performing' £m**	**Covid-19 SICR PMA £m**	**Not past due £m**	**Past due £m**	**Not past due £m**	**Past due £m**	**Impairment £m**	**Total £m**
Residential mortgages								
Owner-occupier	**23,160.8**	**1,285.9**	**563.0**	**69.3**	**59.9**	**64.7**	**(29.9)**	**25,173.7**
Buy to let	**16,631.4**	**545.1**	**324.5**	**42.1**	**21.1**	**24.6**	**(18.7)**	**17,570.1**
Total traditional residential mortgages	**39,792.2**	**1,831.0**	**887.5**	**111.4**	**81.0**	**89.3**	**(48.6)**	**42,743.8**
Non-traditional mortgages								
Residential near-prime	**23.2**	**5.2**	**11.7**	**1.4**	**5.1**	**10.3**	**(0.4)**	**56.5**
Residential self-certified	**52.7**	**13.9**	**60.4**	**3.8**	**8.7**	**8.9**	**(0.8)**	**147.6**
Commercial lending	**-**	**-**	**1.5**	**-**	**0.4**	**-**	**(0.4)**	**1.5**
Total non-traditional mortgages	**75.9**	**19.1**	**73.6**	**5.2**	**14.2**	**19.2**	**(1.6)**	**205.6**
Unsecured loans	**15.5**	**-**	**2.4**	**0.3**	**0.2**	**0.2**	**(1.0)**	**17.6**
Mortgage pipeline	**-**	**-**	**-**	**-**	**-**	**-**	**(0.1)**	**(0.1)**
Total gross loans	**39,883.6**	**1,850.1**	**963.5**	**116.9**	**95.4**	**108.7**	**(51.3)**	**42,966.9**
	%	**%**	**%**	**%**	**%**	**%**		
Total gross loans	**92.7**	**4.3**	**2.2**	**0.3**	**0.2**	**0.3**		

Notes to the Interim Financial Report

(continued)

11. Loans and advances to customers continued

As at 31 December 2019	Stage 1 'Performing' £m	Stage 2 'Deteriorating' Not past due £m	Stage 2 'Deteriorating' Past due £m	Stage 3 'Default' Not past due £m	Stage 3 'Default' Past due £m	Impairment £m	Total £m
Residential mortgages							
Owner-occupier	24,433.1	588.5	56.0	48.2	73.1	(6.2)	25,192.7
Buy to let	16,350.4	307.9	32.8	19.7	21.8	(4.5)	16,728.1
Total traditional residential mortgages	40,783.5	896.4	88.8	67.9	94.9	(10.7)	41,920.8
Non-traditional mortgages							
Residential near-prime	26.5	14.2	2.1	5.2	11.2	(0.2)	59.0
Residential self-certified	63.5	72.0	3.2	6.7	10.9	(0.3)	156.0
Commercial lending	-	1.6	-	0.4	-	(0.4)	1.6
Total non-traditional mortgages	90.0	87.8	5.3	12.3	22.1	(0.9)	216.6
Unsecured loans	19.6	-	0.3	-	0.1	(0.3)	19.7
Mortgage pipeline	-	-	-	-	-	(0.1)	(0.1)
Total gross loans	40,893.1	984.2	94.4	80.2	117.1	(12.0)	42,157.0
	%	%	%	%	%		
Total gross loans	97.0	2.3	0.2	0.2	0.3		

As at 30 June 2019	Stage 1 'Performing' £m	Stage 2 'Deteriorating' Not past due £m	Stage 2 'Deteriorating' Past due £m	Stage 3 'Default' Not past due £m	Stage 3 'Default' Past due £m	Impairment £m	Total £m
Residential mortgages							
Owner-occupier	23,186.1	623.5	60.2	46.1	77.5	(6.5)	23,986.9
Buy to let	15,813.2	391.1	26.1	13.3	24.0	(3.7)	16,264.0
Total traditional residential mortgages	38,999.3	1,014.6	86.3	59.4	101.5	(10.2)	40,250.9
Non-traditional mortgages							
Residential near-prime	28.4	12.0	4.2	6.4	12.4	(0.2)	63.2
Residential self-certified	105.2	42.2	6.0	7.7	8.6	(0.2)	169.5
Commercial lending	-	1.7	-	0.4	-	(0.8)	1.3
Total non-traditional mortgages	133.6	55.9	10.2	14.5	21.0	(1.2)	234.0
Unsecured loans	21.4	-	0.4	-	0.2	(0.5)	21.5
Mortgage pipeline	-	-	-	-	-	(0.1)	(0.1)
Total gross loans	39,154.3	1,070.5	96.9	73.9	122.7	(12.0)	40,506.3
	%	%	%	%	%		
Total gross loans	96.6	2.7	0.2	0.2	0.3		

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

At the reporting date, 92.7% of loans are in Stage 1 with 6.8% in Stage 2 (including 4.3% in Stage 2 only as a result of the new SICR criteria relating to mortgage payment holidays) and 0.5% in Stage 3.

Cure periods are applied to accounts in Stages 2 and 3 that have hit certain quantitative triggers such as arrears. These cure periods work to 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.

Of the balances in Stage 2 as at the reporting date, only £116.9 million (4.0%) (31 December 2019: £94.4 million, 8.8%) are in arrears by 30 days or more. A total of £2,047.0 million are subject to a mortgage payment holiday of which £1,850.1 were transferred into Stage 2 as a result of the new SICR criteria established for the Covid-19 payment holidays.

Loans which are classified as Stage 3 are currently three or more months in arrears, have been three or more months in arrears in the last 12 months, or have unlikeliness to pay indicators present.

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(continued)
11. Loans and advances to customers continued

Of the £204.1 million of loans which were classified as Stage 3 at the reporting date, only 32.9% or £67.2 million were greater than three months in arrears, and 46.7% (£95.4 million) of Stage 3 assets were paid up to date. As at 31 December 2019 29.7% (£58.6 million) of the £197.3 million of loans which were classified in Stage 3 were greater than three months in arrears and 40.2% (£80.2 million) were up to date.

Possession levels have remained low with only £5.4 million (31 December 2019: £4.6 million) of the Stage 3 loan properties in possession. This relates to 25 (31 December 2019: 33) individual cases and represents 0.01% (31 December 2019: 0.01%) of the total mortgage book. There is a moratorium on house possessions which will remain in place until 31 October 2020 and as a result there are 35 additional mortgage accounts which have been prevented from moving to possession during the period.

The loan to value distribution of the mortgage book has remained stable during 2020. This is shown by IFRS 9 stage in the following tables.

As at 30 June 2020	**Stage 1 'Performing'**	**Stage 2 'Deteriorating'**	**Stage 3 'Default'**	**Impairment**	**Total**	**Proportion of book**
Indexed loan to value:	**£m**	**£m**	**£m**	**£m**	**£m**	**%**
< 50%	**15,918.0**	**901.7**	**75.9**	**(5.8)**	**16,889.8**	**39.3**
50% to 65%	**12,279.8**	**853.2**	**60.7**	**(7.4)**	**13,186.3**	**30.7**
65% to 75%	**6,802.6**	**617.3**	**33.6**	**(7.9)**	**7,445.6**	**17.3**
75% to 85%	**3,628.4**	**371.4**	**21.9**	**(9.1)**	**4,012.6**	**9.3**
85% to 90%	**1,162.9**	**170.0**	**5.0**	**(4.0)**	**1,333.9**	**3.1**
90% to 95%	**70.9**	**9.6**	**1.9**	**(3.1)**	**79.3**	**0.2**
95% to 100%	**3.9**	**2.3**	**0.4**	**(5.4)**	**1.2**	**-**
> 100%	**1.7**	**2.3**	**4.3**	**(7.5)**	**0.8**	**-**
Unsecured loans	**15.4**	**2.7**	**0.4**	**(1.0)**	**17.5**	**0.1**
Mortgage pipeline	**-**	**-**	**-**	**(0.1)**	**(0.1)**	**-**
Total	**39,883.6**	**2,930.5**	**204.1**	**(51.3)**	**42,966.9**	**100.0**
	%	**%**	**%**			
Total gross loans	**92.7**	**6.8**	**0.5**			

As at 31 December 2019	Stage 1 'Performing'	Stage 2 'Deteriorating'	Stage 3 'Default'	Impairment	Total	Proportion of book
Indexed loan to value:	£m	£m	£m	£m	£m	%
< 50%	15,352.0	403.7	70.7	(1.0)	15,825.4	37.5
50% to 65%	12,112.9	326.1	61.9	(1.7)	12,499.2	29.6
65% to 75%	7,272.0	195.5	29.2	(1.4)	7,495.3	17.8
75% to 85%	4,098.4	102.2	21.0	(2.5)	4,219.1	10.0
85% to 90%	1,720.2	39.9	7.2	(1.2)	1,766.1	4.2
90% to 95%	309.5	7.0	1.4	(0.8)	317.1	0.8
95% to 100%	5.9	1.9	1.7	(0.9)	8.6	-
> 100%	2.6	2.0	4.0	(2.0)	6.6	-
Unsecured loans	19.6	0.3	0.2	(0.4)	19.7	0.1
Mortgage pipeline	-	-	-	(0.1)	(0.1)	-
Total	40,893.1	1,078.6	197.3	(12.0)	42,157.0	100.0
	%	%	%			
Total gross loans	97.0	2.6	0.4			

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11. Loans and advances to customers continued

As at 30 June 2019 Indexed loan to value:	Stage 1 'Performing' £m	Stage 2 'Deteriorating' £m	Stage 3 'Default' £m	Impairment £m	Total £m	Proportion of book %
< 50%	15,264.7	393.9	73.2	(1.1)	15,730.7	38.8
50% to 65%	12,034.8	354.8	60.6	(1.4)	12,448.8	30.7
65% to 75%	6,749.1	240.2	27.9	(1.9)	7,015.3	17.3
75% to 85%	3,539.9	115.8	18.9	(2.3)	3,672.3	9.1
85% to 90%	1,397.5	48.0	6.2	(1.1)	1,450.6	3.6
90% to 95%	135.7	10.1	3.4	(0.7)	148.5	0.4
95% to 100%	6.9	2.4	1.3	(0.8)	9.8	-
> 100%	4.3	1.8	4.9	(2.1)	8.9	-
Unsecured loans	21.4	0.4	0.2	(0.5)	21.5	0.1
Mortgage pipeline	-	-	-	(0.1)	(0.1)	-
Total	39,154.3	1,167.4	196.6	(12.0)	40,506.3	100.0
	%	%	%			
Total gross loans	96.6	2.9	0.5			

12. Deposits from Banks

Deposits from banks includes £5,750.0 million (30 June 2019: £4,250.0 million; 31 December 2019: £4,250.0 million) drawn down under the Bank of England Term Funding Scheme (TFS) and TFSME scheme.

Deposits from banks also includes £525.3 million (30 June 2019: £525.6 million; 31 December 2019: £532.4 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 £319.2 million (30 June 2019: £237.9 million; 31 December 2019: £nil) relating to debt securities.

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13. Pension scheme

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

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

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

The present value of scheme liabilities is measured by discounting the best estimate of future cash flows to be paid out by the plan using the projected unit credit method. The value calculated in this way is then deducted from the fair value of plan assets and the net surplus is presented on the Balance Sheet. At 30 June 2020 the value of scheme assets and liabilities are:

	30 Jun 2020 £m	30 Jun 2019 £m	31 Dec 2019 £m
Present value of defined benefit obligation	**(239.3)**	(218.8)	(221.5)
Fair value of plan assets	**261.3**	241.7	245.8
Funded status/pension benefit surplus	**22.0**	22.9	24.3

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

The principal actuarial assumptions used are as follows:

Weighted average assumptions used to determine benefit obligation at	**30 Jun 2020 %**	30 Jun 2019 %	31 Dec 2019 %
Discount rate	**1.60**	2.30	2.10
Rate of pensionable salary increase	**-**	-	-
Rates of inflation (Retail Prices Index)	**2.80**	3.10	2.90
Rates of inflation (Consumer Prices Index)	**1.80**	2.10	1.90

Weighted average assumptions used to determine net pension cost for the	**30 Jun 2020 %**	30 Jun 2019 %	31 Dec 2019 %
Discount rate	**2.10**	2.30	2.95
Rate of pensionable salary increase	**-**	-	-
Rates of inflation (Retail Prices Index)	**2.90**	3.10	3.15
Rates of inflation (Consumer Prices Index)	**1.90**	2.10	2.15

Weighted average life expectancy for mortality tables used to determine benefit obligation at	**30 Jun 2020**		30 Jun 2019		31 Dec 2019	
	Male	**Female**	Male	Female	Male	Female
Member age 60 (current life expectancy)	**26.2**	**28.2**	26.2	28.2	26.2	28.2
Member age 45 (life expectancy at age 60)	**26.5**	**28.7**	27.0	28.7	27.0	28.7

Notes to the Interim Financial Report
(continued)
13. Pension scheme continued

The Group has to make assumptions on the discount rate, inflation and life expectancy when valuing the pension fund surplus and changes in these assumptions could affect the reported surplus. The sensitivity of the defined benefit obligation to changes in the weighted principal assumptions is indicated below for isolated changes in assumptions; in reality it is likely that assumptions will be related to each other and impact simultaneously.

Impact on present value obligation	**Change in assumption**	**Increase in assumption %**	**Increase in assumption £m**	**Decrease in assumption %**	**Decrease in assumption £m**
Discount rate	0.25%	(4.5)	(10.8)	4.8	11.5
Rates of inflation (Retail Prices Index and Consumer Prices Index)	0.25%	2.0	4.8	(2.0)	(4.8)
Life expectancy	1 year	3.6	8.6	(3.6)	(8.6)

14. Subordinated liabilities

	Period to 30 Jun 2020 (Unaudited) £m	Period to 30 Jun 2019 (Unaudited) £m	Year ended 31 Dec 2019 (Audited) £m
Fixed rate subordinated notes 2026 - 6.327%	**10.2**	10.2	10.2
Fixed rate subordinated notes 2032 - 7.54%	**15.3**	15.3	15.3
Total	**25.5**	25.5	25.5

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.

15. Subscribed capital

	Call date	**Period to 30 Jun 2020 (Unaudited) £m**	Period to 30 Jun 2019 (Unaudited) £m	Year ended 31 Dec 2019 (Audited) £m
Permanent Interest Bearing Shares 1992 - 12.125%	n/a	**41.6**	41.6	41.6
Total		**41.6**	41.6	41.6

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

PIBS rank equally with each other and Perpetual Capital Securities (PCS). They rank behind all other creditors of the Society including subordinated liabilities and the claims of Shareholding Members (other than holders of PCS) for both principal and interest. The holders of PIBS are not entitled to any share in any final surplus upon a winding up or final dissolution of the Society.

Notes to the Interim Financial Report

(continued)

16. Other equity instruments

In June 2014, the Society issued £400.0 million of PCS capital. Following receipt of permission from the PRA, a tender offer for the PCS was completed in April 2019 with £385.1 million of the £400.0 million PCS tendered, which the Society repurchased for £391.3 million (net of tax). The combined cost of tender and initial issuance fees of £9.3 million (net of tax) was recognised within the Society's General reserve. The remaining £14.9 million was redeemed by the Society in November 2019 on the optional redemption date of the bonds.

In April 2019, the Society issued £415.0 million of PCS capital. These PCS pay a fully discretionary, non-cumulative fixed coupon at an initial rate of 6.875% per annum with an optional redemption in September 2024. The rate will reset on 18 September 2024 and every five years thereafter to the prevailing rate on a benchmark gilt plus 6.111%. Coupons are paid semi-annually in September and March. The cost of issuance of £2.5 million (net of tax) has been recognised within the Society's General reserve.

The returns paid to holders of PCS are treated as an appropriation of profit after tax, reflecting their categorisation as equity instruments, distributed directly from the general reserve. During the period to 30 June 2020, coupon payments of £14.3 million (30 June 2019: £11.0 million, 31 December 2019: £24.6 million) have been recognised in the Statement of Change in Members' Interests and Equity.

The instruments have no maturity date. They are repayable at the option of the Society in 2024 and on every fifth anniversary thereafter, but only with the prior consent of the PRA. If the end-point Common Equity Tier 1 ratio for the Group, on either an individual consolidated or a consolidated basis, falls below 7% they convert to Core Capital Deferred Shares (CCDS) at the rate of one CCDS for every £67 PCS held.

The PCS rank behind all other creditors of the Society including Subordinated liabilities and the claims of Shareholding Members (other than PIBS), for both principal and interest. The holders of PCS are not entitled to any share in any final surplus upon a winding up or final dissolution of the Society.

Notes to the Interim Financial Report

(continued)

17. 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 on-going basis. Where this is not applicable, the Group determines fair values using other valuation techniques.

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 2020 (Unaudited) £m	**Fair value 30 Jun 2020 (Unaudited) £m**	Carrying amount 30 Jun 2019 (Unaudited) £m	Fair value 30 Jun 2019 (Unaudited) £m	Carrying amount 31 Dec 2019 (Audited) £m	Fair value 31 Dec 2019 (Audited) £m
Financial assets						
Cash and balances with the Bank of England	**4,360.2**	**4,360.2**	6,044.2	6,044.2	5,226.0	5,226.0
Loans and advances to credit institutions	**807.3**	**807.3**	380.7	380.7	336.1	336.1
Debt securities	**15.8**	**15.5**	16.2	16.1	16.0	15.8
Loans and advances to customers	**43,030.0**	**43,003.2**	40,586.5	40,509.8	42,234.7	42,147.7
Financial liabilities						
Shares	**35,438.6**	**35,358.6**	35,158.7	35,235.0	36,238.1	36,158.5
Deposits from banks	**7,256.7**	**7,262.4**	5,320.7	5,329.8	5,318.6	5,326.9
Other deposits	**7.0**	**7.0**	12.5	12.5	8.5	8.5
Amounts owed to other customers	**217.4**	**217.4**	677.6	677.6	462.7	462.7
Debt securities in issue	**4,445.5**	**4,528.5**	4,895.2	4,936.9	4,815.6	4,901.3
Subordinated liabilities	**25.5**	**29.7**	25.5	29.1	25.5	30.0
Subscribed capital	**41.6**	**76.0**	41.6	77.0	41.6	82.2

Notes to the Interim Financial Report
(continued)

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

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

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

Loans and advances to customers
The fair value of loans and advances to customers is assessed as the value of the expected future cash flows, projected using contractual interest payments and repayments and the expected prepayment behaviour of borrowers. Conservative assumptions are applied regarding expected levels of customer prepayments and the risk of defaults. The estimated future cash flows are discounted at current market rates for the loans types and adjusted where necessary to reflect any observable market conditions.

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

Deposits from banks, other deposits and amounts owed to other customers
The fair value of deposits taken from wholesale counterparties over the longer term is estimated by discounting expected cash flows at a market discount rate. Amounts maturing in the short term are valued at carrying amount.

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

30 June 2019 (Unaudited)	Level 1 £m	Level 2 £m	Level 3 £m	Total fair value £m
Derivative financial instruments – assets	-	242.0	-	242.0
Debt securities	1,134.5	-	-	1,134.5
Investment in equity shares	0.6	-	3.4	4.0
Derivative financial instruments – liabilities	-	(192.5)	(62.7)	(255.2)
Total	1,135.1	49.5	(59.3)	1,125.3

Notes to the Interim Financial Report

(continued)

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

31 December 2019 (Audited)	Level 1 £m	Level 2 £m	Level 3 £m	Total fair value £m
Derivative financial instruments – assets	-	137.9	-	137.9
Debt securities	1,264.1	12.5	-	1,276.6
Investment in equity shares	0.6	-	3.5[1]	4.1
Derivative financial instruments – liabilities	-	(219.8)	(62.0)	(281.8)
Total	1,264.7	(69.4)	(58.5)	1,136.8

1. 2019 comparative information has been updated to include equity instruments of £0.6 million held but omitted in the previously reported amount of £2.9 million. This amendment does not impact Investment in equity shares reported on the Balance Sheet.

Level 1 - Debt securities – fair value through other comprehensive income - Listed

Market prices have been used to determine the fair value of listed debt securities.

Level 1 - Investment in equity shares – fair value through profit and loss - Listed

Market prices have been used to determine the fair value of listed Investments in equity shares.

Level 2 - Derivatives

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

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

Level 3 investment in equity shares represent the Group's holding in Visa Inc. preference shares and VocaLink Holdings Limited shares. These shares are valued based on future cash consideration which the Group expects to receive on sale of these instruments, or the underlying market value.

Level 3 - Derivatives

The items included within Level 3 are balance tracking swaps which have remained in place during the period. These are valued using present value calculations based on market interest rates curves. The unobservable inputs relate to the projection of the swap notional amount, which changes over time to match the balance of the underlying mortgage portfolio. Projected mortgage prepayment amounts are used in the modelling of the mortgage portfolio profile. A change of 10% in the prepayment rates used results in a £0.5 million change in the value of the swaps. However, changes in the projection of interest and prepayment rates of the underlying mortgage portfolio impact both the swap and hedged item so that the net Income Statement and Balance Sheet impact would be minimal.

Notes to the Interim Financial Report

(continued)

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

The following table analyses movements in the Level 3 portfolio:

	Total £m
As at 1 January 2019 (Audited)	(54.4)
Items recognised in the Income Statement	
Interest payable and similar expense	(5.3)
Net unrealised gains[1]	6.1
Settlements	(4.9)
As at 31 December 2019 (Audited)[1]	**(58.5)**
Items recognised in the Income Statement	
Interest payable and similar expense	(2.7)
Net unrealised losses on derivatives and hedge accounting	(11.6)
Settlements	2.7
As at 30 June 2020 (Unaudited)	**(70.1)**

1. 2019 comparative information has been updated to include equity instruments of £0.6 million held but omitted in the previously reported amount of £2.9 million. This amendment does not impact Investment in equity shares reported on the Balance Sheet.

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.

18. Derivative financial instruments

The Group applies the hedge accounting requirements of IAS 39 as permitted under IFRS 9. The risk management strategy for the Group is set out on page 153 of the 2019 Annual Report & Accounts, and there have been no changes to this strategy during the first half of the year.

The table below contains details of the hedging instruments used in the Group's hedging strategies. The notional amount indicates the amount on which payment flows are derived at the Balance Sheet date and do not represent risk. Derivative assets and liabilities are included in the Balance Sheet at fair value.

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

Notes to the Interim Financial Report
(continued)
18. Derivative financial instruments continued

30 June 2019 (Unaudited)	Notional amount £m	Fair value assets £m	Fair value liabilities £m
Derivatives designated as fair value hedges:			
Interest rate risk	31,138.1	88.6	247.5
Derivatives designated as cash flow hedges			
Interest rate risk	1,694.0	0.1	7.7
Foreign exchange risk	872.6	26.9	-
Foreign exchange and interest rate risk	935.4	126.4	-
Total	34,640.1	242.0	255.2

31 December 2019 (Audited)	Notional amount £m	Fair value assets £m	Fair value liabilities £m
Derivatives designated as fair value hedges:			
Interest rate risk	33,283.4	75.7	240.6
Derivatives designated as cash flow hedges			
Interest rate risk	1,684.0	8.4	-
Foreign exchange risk	872.6	-	41.2
Foreign exchange and interest rate risk	935.4	53.8	-
Total	36,775.4	137.9	281.8

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

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

	Changes in fair value			Amounts reclassified from reserves to Income Statement		
31 December 2019 (Audited)	Hedging derivative £m	Hedged item for ineffectiveness assessment £m	Gains/(losses) recognised in OCI £m	Hedged cash flows will no longer occur £m	Hedged item affected Income Statement £m	Recognised in Income Statement £m
Derivatives designated as cash flow hedges:						
Foreign exchange	(55.0)	(54.9)	(54.9)	-	(46.5)	-
Foreign exchange and interest rate	(73.3)	(73.9)	(73.9)	-	(58.9)	0.6
Interest rate	4.6	4.6	4.6	(0.6)	-	(0.6)

Notes to the Interim Financial Report
(continued)
18. Derivative financial instruments continued

30 June 2019 (Unaudited)	Changes in fair value: Hedging derivative £m	Changes in fair value: Hedged item for ineffectiveness assessment £m	Gains/(losses) recognised in OCI £m	Amounts reclassified from reserves to Income Statement: Hedged cash flows will no longer occur £m	Amounts reclassified from reserves to Income Statement: Hedged item affected Income Statement £m	Amounts reclassified from reserves to Income Statement: Recognised in Income Statement £m
Derivatives designated as cash flow hedges:						
Foreign exchange	7.4	7.4	7.4	-	5.2	-
Foreign exchange and interest rate	(3.2)	(3.9)	(3.8)	-	0.6	0.6
Interest rate	0.9	1.1	1.1	(0.6)	-	(0.2)

As at 30 June 2020, balances remaining in the cash flow hedge reserve, gross of tax, are £32.7 million for continuing hedges and £36.8 million for discontinued hedges (30 June 2019: a debit of £33.4 million and £2.2 million respectively; 31 December 2019: a credit of £20.3 million, £5.7 million respectively).

The Society early adopted the amendments to IAS 39 and IFRS 7 which provide temporary reliefs from the impact of IBOR reform. In applying these reliefs the Group has assumed that the LIBOR rates used in its hedging relationships are not altered by the reforms. The total Group exposure to LIBOR linked derivatives is shown in the table below, the exposure has decreased as a result of progress in our LIBOR transition plan.

30 June 2020 (Unaudited)	**Notional: Total £m**	**Maturity: Up to two years £m**	**Maturity: Three to five years £m**
Derivatives designated as fair value hedges:			
Interest rate risk	**975.4**	**647.7**	**327.7**
Derivatives designated as cash flow hedges:			
Foreign exchange and interest rate risk	**394.3**	**394.3**	**-**
Total derivatives	**1,369.7**	**1,042.0**	**327.7**

31 December 2019 (Audited)	Notional: Total £m	Maturity: Up to two years £m	Maturity: Three to five years £m
Derivatives designated as fair value hedges:			
Interest rate risk	2,962.2	2,171.1	791.1
Derivatives designated as cash flow hedges:			
Foreign exchange and interest rate risk	394.3	394.3	-
Total derivatives	3,356.5	2,565.4	791.1

Responsibility Statement

The directors confirm that this Interim Financial Report has been prepared in accordance with IAS 34 *Interim Financial Reporting* as adopted by the EU. 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 2019 Annual Report & Accounts. Following the publication of those Accounts, on 20 April 2020, Steve Hughes was appointed Chief Executive Officer and to the Board as an Executive Director. Steve has experience in senior and board level role within the financial services sector, including most recently as the Chief Executive Officer of the Principality Building Society. Mark Parsons retired as Chief Executive Officer and from the Board on 19 April 2020.

Signed on behalf of the Board by

Steve Hughes
Chief Executive
05 August 2020

Michele Faull
Chief Financial Officer

Independent Review Report

Independent review report to Coventry Building Society

Report on the condensed consolidated financial statements

Our Conclusion

We have reviewed Coventry Building Society's condensed consolidated financial statements (the "interim financial statements") in the interim financial report of Coventry Building Society for the 6 month period ended 30 June 2020. 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 International Accounting Standard 34, 'Interim Financial Reporting', as adopted by the European Union and the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority.

What we have reviewed

The interim financial statements comprise:

- the Condensed Consolidated Balance Sheet as at 30 June 2020;
- 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 have been prepared in accordance with International Accounting Standard 34, 'Interim Financial Reporting', as adopted by the European Union and the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority.

As disclosed in note 2 to the interim financial statements, the financial reporting framework that has been applied in the preparation of the full annual financial statements of the Group is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

Responsibilities for the interim financial statements and the review

Our responsibilities and those of the directors

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

Our responsibility is to express a conclusion on the interim financial statements in the interim financial report based on our review. This report, including the conclusion, has been prepared for and only for the company for the purpose of complying with the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority and for no other purpose. We do not, in giving this conclusion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

What a review of interim financial statements involves

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

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

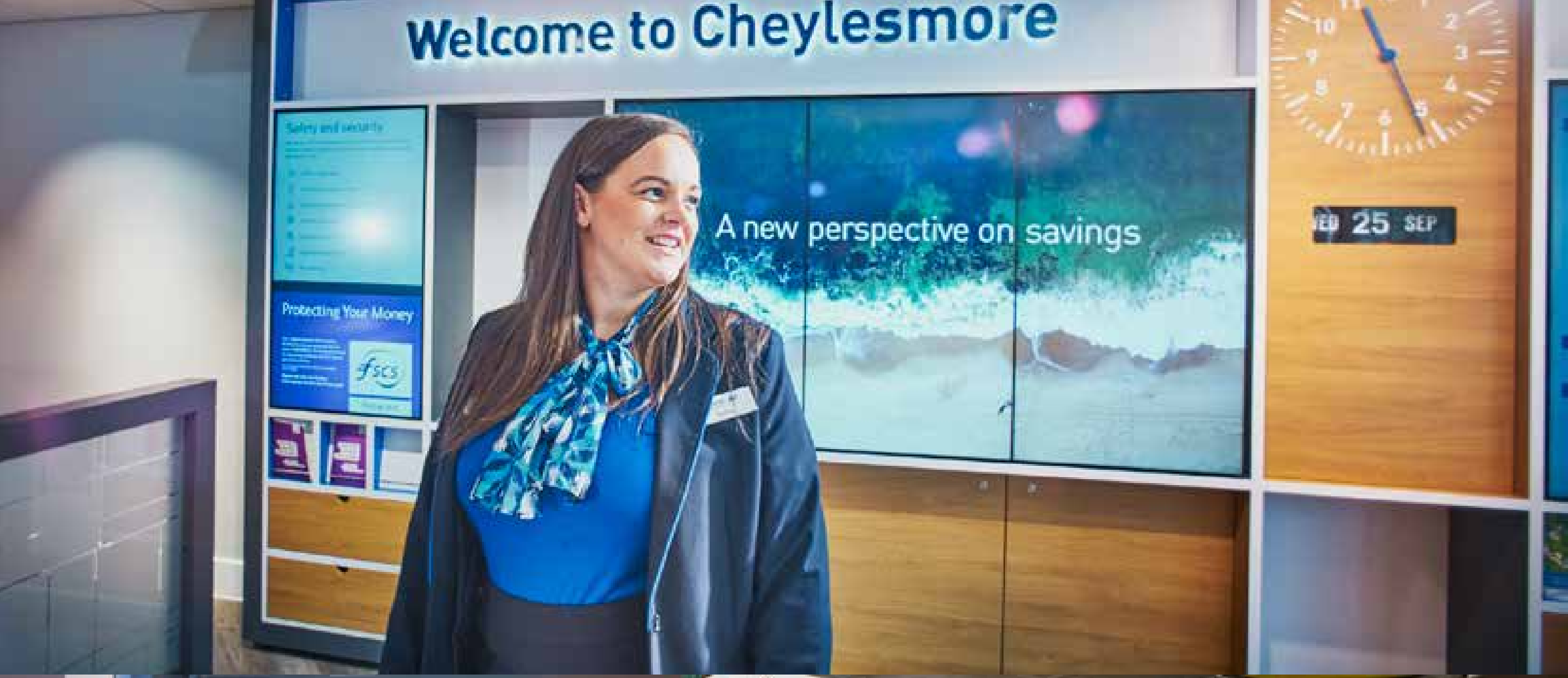
We have read the other information contained in the interim financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the interim financial statements.

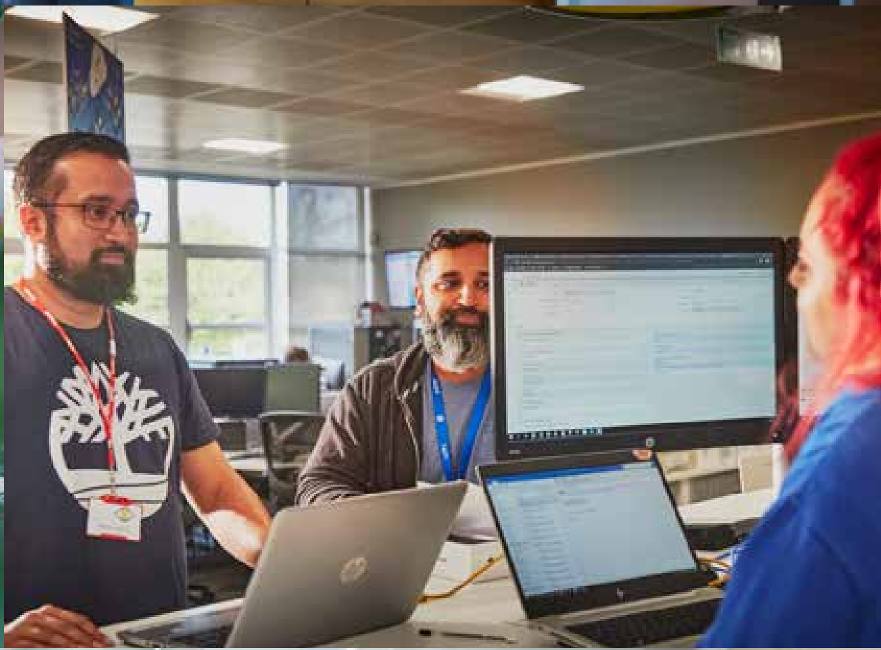
PricewaterhouseCoopers LLP
Chartered Accountants
Birmingham
5 August 2020

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 2019 has been extracted from the Annual Report & Accounts for that year. The Annual Report & Accounts for the year ended 31 December 2019 have been filed with the Financial Conduct Authority. The Auditors' report on these Annual Report & Accounts was unqualified.

A copy of the Interim Financial Report is placed on the website of Coventry Building Society, at www.coventrybuildingsociety.co.uk/interim2020. 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.





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