Interim Financial Report 2015

for the period ended 30 June 2015

the
COVENTRY
TLC not PLC

CONTENTS

IFRS RESULTS

This Interim Financial Report for the six months ended 30 June 2015 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 2014, which have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU.

FORWARD LOOKING STATEMENTS

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

INTERIM MANAGEMENT REPORT:
CHIEF EXECUTIVE'S REVIEW

I am pleased to report that, in the first six months of 2015, the Society has continued its strong, member-focused performance. Our strength is this consistency. We continue to deliver a strategy of long-term value for our members based on low cost operations, low risk lending, and high quality service. This provides the basis for strong but appropriate levels of profitability, sustainable growth and a secure capital position.

Financial highlights include:

- **Record mortgage growth.** Mortgage assets up 13% on June 2014, with record advances of £4.2 billion in the first half of 2015 up 25% on the same period in 2014. Record net lending of £1.8 billion is equivalent to an estimated 16% mortgage market share[1].
- **Significant growth in savings.** Savings deposit balances have increased by 10% on June 2014, with growth in the first half of 2015 of £0.7 billion. As at 30 June 2015, the weighted average interest rate on all savings balances was 2.02%.
- **Strong profits.** Statutory profit before tax increased by 14.2% to £100.4 million (30 June 2014: £87.9 million).
- **Sector leading cost efficiency.** Cost to mean asset ratio of 0.41%[2] (30 June 2014: 0.41%) remains the lowest reported by a UK building society, supporting the Society's ability to offer consistently competitive interest rates[3].
- **Low risk operation.** The Society's responsible lending approach protects individual borrowers and the interests of saving members alike. Impairment charges totalled just £0.7 million (30 June 2014: £3.3 million), and loans where arrears (including possessions) were greater than 2.5% of the balance were 0.40%[4],(30 June 2014: 0.52%) less than half of the industry average of 1.07%[4].
- **Increased capital strength.** Common Equity Tier 1 (CET 1) ratio of 27.9% (30 June 2014: 24.6%) remains the highest reported by a top 10 building society and the leverage ratio of 3.9%[5] (30 June 2014: 3.8%[5]) is comfortably above the current minimum regulatory requirement.
- **Upgraded credit rating.** The Society has been 'A' rated throughout the 'credit crunch' and was recently upgraded from A3 to A2 by Moody's Investor Services.

The competitiveness of the Society's savings portfolio is shown by the growth in savings deposits and continues to be independently recognised. We were particularly pleased that at the 2015 Moneywise awards, which are based on the views of over 30,000 consumers, the Society was named 'Most Trusted Cash ISA Provider' and 'Most Trusted Savings Account Provider'.

Whilst the interest we pay to savers continues to be substantially above the average in the market[6], we believe the challenge of a historically low interest rate environment is also encouraging people to seek out higher yielding alternatives to traditional savings accounts, including the buy to let sector. In this context, we believe the relationship between savers and borrowers has changed, as many investors now look to the rental market as another means to diversify and supplement income.

The majority of the Society's lending continues to be in the traditional owner-occupied residential market and in particular we have increased our share of the low risk remortgage market[7]. Our share of the buy to let mortgage lending market[8] has also increased, focusing on low loan to value lending, with new lending in this sector at an average loan to value of 65% being similar to our owner-occupier lending. In the last five years, we have lent £10.5 billion in this market and made a credit loss on just one of these loans.

The competitiveness of our product range is just one aspect of our commitment to members. The service they receive is also central to our relationship and our customer service measures, whether based on members' experiences in our contact centre, branches or when taking out a mortgage, are strong and continue to increase.

A tangible expression of this continues to be the low number of complaints the Society receives, which reduced by a further 28% in the first half of 2015 compared with the same period in 2014. Of the few complaints that are referred to the Financial Ombudsman Service, we continue to have one of the lowest overturn rates in the industry[9].

INTERIM MANAGEMENT REPORT:
CHIEF EXECUTIVE'S REVIEW

(continued)

The strength of member satisfaction is both matched and underpinned by the level of employee engagement at the Society which has increased to 86%, well above the average financial services benchmark[10]. Over 90% of staff say they are proud to work for the Society and this underpinned the triennial Investors in People assessment which led to the Society retaining its Gold status.

Outlook

During the first half of 2015, despite the uncertainty of a general election and the increasing volatility in the Eurozone, the Society has maintained the consistent growth that has been its hallmark in recent years.

This growth reflects the strong foundations on which the Society is built and the Putting Members First principles which guide our progress. Our low cost, low risk operations give us the financial strength to do the right thing for our members in terms of competitive products and excellent service. It is a positive cycle that supports in turn our strong profitability and the capital we need to maintain our growth.

As I mark my first year at the Coventry, I am confident that we are well positioned to maintain our progress and to continue meeting the needs of all existing and new members.

Signed on behalf of the Board by

Mark Parsons
Chief Executive
30 July 2015

1. Source: Bank of England.
2. Administrative expenses, depreciation and amortisation/Average total assets.
3. Based on a Coventry Cash ISA, savings account and Junior ISA being mentioned in the national press best buy tables for the period 1 January 2015 to 30 June 2015.
4. As at 31 March 2015, latest available industry data – source: PRA.
5. The leverage ratio is calculated on an end-point basis, in accordance with the definitions of CRD IV as amended by the European Commission delegated regulation. The calculation reflects constraints on the inclusion of Additional Tier 1 capital, in accordance with the FPC's leverage ratio regime. The ratio for 30 June 2014 has been updated to reflect these latest developments.
6. Based on average quoted deposit interest rates for instant access accounts, variable rate Cash ISA and 1 year fixed rate bonds published by the Bank of England as at 30 June 2015.
7. Source: CML Regulated Mortgage Survey as at 30 April 2015.
8. Source: CML Research Data.
9. Source: Financial Ombudsman Service, period from 1 July 2014 to 31 December 2014.
10. Financial services sector benchmark provided by an independent third party (for surveys they administered between October 2012 and October 2014).

FINANCIAL REVIEW

Income Statement

- **Net interest:** Net interest income for the period ended 30 June was £179.6 million (30 June 2014: £165.5 million), and the increase since the prior period was the primary driver in the increase in profit before tax. The Society's net interest margin has decreased by 3 basis points to 1.13% in the period (30 June 2014: 1.16%); as a result of increased competition for mortgage customers and the impact this has had on new business margins and redemption levels.
- **Management expenses:** Total expenses for the period ended 30 June 2015 were £65.1 million (30 June 2014: £59.5 million). The increase is a reflection of the growth of the Society and the costs of servicing a larger membership and also continued investment in the Society's core IT infrastructure and our response to ongoing regulatory requirements. Depreciation and amortisation of property, plant and equipment and intangibles of £6.1 million remained in line with 2014 (30 June 2014: £6.0 million). The Society continues to focus on rigorous cost control with a cost to mean asset ratio of 0.41%, remaining the lowest reported of all UK building societies (30 June 2014: 0.41%).
- **Impairment:** Impairment losses of £0.7 million were incurred during the first six months of the period (30 June 2014: £3.3 million). Impairment losses on residential mortgages have reduced by £0.4 million reflecting falling arrears levels and rising house prices. The business model continues to be focused on low risk lending and the average loan to value (simple average) of loans originated in the six months to 30 June is 63% (30 June 2014: 64%).
- **Provisions:** The £14.9 million provision for liabilities and charges is in respect of the Financial Services Compensation Scheme (FSCS) levy (£14.2 million) and Payment Protection Insurance (£0.7 million) (30 June 2014: £16.0 million FSCS levy). The charge for Payment Protection Insurance reflects a small increase in the number of claims received and amounts settled per case. Provisions for PPI claims continue to be materially lower for the Society than many other organisations. This is a consequence of the design of the PPI product previously offered by the Society.
- **Charitable donation:** The Society donated £1.2 million to The Royal British Legion's Poppy Appeal during the period (30 June 2014: £0.9 million).
- **Tax:** The Board believes it should contribute its fair share of tax and as at 30 June 2015 the corporation tax charge arising on profits represented an effective rate of tax of 20.2% (30 June 2014: 21.5%) which is in line with the statutory corporation tax rate of 20.25% (30 June 2014: 21.5%).
- **Capital added to reserves:** During the six months to 30 June 2015 the Society added £80.1 million (30 June 2014: £69.0 million) to its reserves to support future growth and maintained the leverage ratio[1] at 3.9% (31 December 2014: 3.9%) despite growth in the mortgage book of 6.7% over this period.

Balance Sheet

- **Loans and advances to customers:** The Society's lending strategy is focused on high quality, low loan to value owner-occupier and low loan to value buy to let loans within the prime residential market distributed via mortgage intermediaries. In the period to 30 June 2015, the Society advanced £4.2 billion of mortgages (30 June 2014: £3.4 billion), with net mortgage lending of £1.8 billion (30 June 2014: £1.3 billion). The overall simple average indexed loan to value of the mortgage book at 30 June 2015 was 48% (31 December 2014: 49%).
- **Liquidity:** On-balance sheet liquid assets have remained broadly unchanged at £3.8 billion; however additional high quality liquid assets are held off-balance sheet, which are readily available to meet cashflow requirements. When including these assets, the proportion of liabilities[1] represented by high quality liquidity is 15.4% (31 December 2014: 15.4%). The Liquidity Coverage Ratio at 30 June 2015 and throughout the six month period was in excess of 100%.
- **Retail savings:** The Society continues to be predominantly funded by retail savings, with a balance of £24.1 billion at 30 June 2015 (31 December 2014: £23.4 billion), with growth of £0.7 billion during the first six months of the year. The Society has maintained a competitive stance in the retail savings market particularly focused on ISA products.

FINANCIAL REVIEW
(continued)

- **Wholesale funding:** The Society uses wholesale funding to provide diversification by source and term, and also to provide value to members through lowering the overall cost of funding. During the period, wholesale funding has increased by £0.8 billion with a period end balance of £6.4 billion (31 December 2014: £5.6 billion). Also during the period, the Society issued a £500 million five year covered bond, which replaced a maturing bond. The net increase in wholesale funding reflects the utilisation of marketable securities in sale and repurchase agreements.

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 2015 £m	End-point 30 Jun 2014 £m	End-point 31 Dec 2014 £m
Capital resources:			
Common Equity Tier 1 (CET 1) capital	**1,084.4**	928.0	1,011.2
Total Tier 1 capital	**1,481.3**	1,324.9	1,408.1
Total capital	**1,485.5**	1,331.6	1,414.2
CRD IV ratios:	**%**	%	%
Common Equity Tier 1 (CET 1) ratio	**27.9**	24.6	25.4
Leverage ratio[2]	**3.9**	3.8	3.9

The capital disclosures above are on a Group basis, including all subsidiary entities. For regulatory purposes the Group also reports on an Individual Consolidated basis, which only includes those subsidiaries meeting particular criteria contained within CRD IV. The Individual Consolidated CET 1 ratio on an end-point basis at 30 June 2015 is 0.5% higher than the Group ratio due to assets held by entities that sit outside of the Individual Consolidation, primarily those held by the Group's securitisation and covered bond entities.

1. Shares, Deposits from banks (including potential drawdown on Funding for Lending Scheme), Other deposits, Amounts owed to other customers, Debt securities in issue.
2. The leverage ratio is calculated on an end-point basis, in accordance with the definitions of CRD IV as amended by the European Commission delegated regulation. The calculation reflects constraints on the inclusion of Additional Tier 1 capital, in accordance with the FPC's leverage ratio regime. The ratio for 30 June 2014 has been updated to reflect these latest developments.

PRINCIPAL RISKS AND UNCERTAINTIES

The Disclosure and Transparency Rules (DTR 4.2.7R) require that a description of the principal risks and uncertainties is given in the Interim Financial Report for the remaining six months of the financial year.

The principal risks and uncertainties affecting the Society were reported on pages 16 to 54 of the Annual Report & Accounts for the year ended 31 December 2014. These risks are categorised as credit, market, liquidity and funding, conduct, operational and business risk, which are common to most financial services firms in the UK. These risks continue to affect the Society as at 30 June 2015 and there has been no material change in the assessment of these risks during the first half of the year.

The improvements seen in the UK economy through 2014 have continued into 2015 with pay rises at their highest level for four years. However, the effects from the Greek crisis, slowing growth in the manufacturing sector, and continued low productivity all point to an economy, that while improving, remains fragile.

Notwithstanding this improvement, some of the market-wide risks previously identified remain evident, including:

- Impact of interest rate rises on borrower affordability
- Regulatory reforms
- Cyber threats
- Eurozone and wider geopolitical issues.

Since the publication of the 2014 Annual Report & Accounts, a Government which has a small majority has been elected, easing fears of the destabilising effect that could have resulted from a hung Parliament. However, geopolitical uncertainty remains and there are continuing concerns over the financial situation of the Eurozone countries, notably in relation to Greece and a stalling economic recovery. Domestically, the prospect of a UK withdrawal from the EU is on the political agenda now a referendum has been confirmed and the threat of a potential 'UK breakup' remains, following the results of the recent General Election.

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

CONDENSED CONSOLIDATED INCOME STATEMENT

FOR THE PERIOD ENDED 30 JUNE 2015

	Notes	**Period to 30 Jun 2015 (Unaudited) £m**	Period to 30 Jun 2014 (Unaudited) £m	Year ended 31 Dec 2014 (Audited) £m
Interest receivable and similar income	3	**446.2**	431.9	885.3
Interest payable and similar charges	4	**(266.6)**	(266.4)	(544.0)
Net interest income		**179.6**	165.5	341.3
Fees and commissions receivable		**5.3**	5.2	11.1
Fees and commissions payable		**(2.7)**	(1.6)	(3.3)
Other operating income		**0.5**	0.2	0.4
Net losses from derivative financial instruments		**(0.4)**	(1.7)	(0.7)
Total income		**182.3**	167.6	348.8
Administrative expenses	5	**(59.0)**	(53.5)	(112.3)
Amortisation of intangible assets		**(3.5)**	(2.9)	(6.3)
Depreciation of tangible fixed assets		**(2.6)**	(3.1)	(6.0)
Impairment losses on loans and advances to customers	6	**(0.7)**	(3.3)	(5.4)
Provisions for liabilities and charges	7	**(14.9)**	(16.0)	(15.3)
Charitable donation to Poppy Appeal		**(1.2)**	(0.9)	(1.7)
Profit before tax		**100.4**	87.9	201.8
Taxation		**(20.3)**	(18.9)	(43.3)
Profit for the financial period		**80.1**	69.0	158.5

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 2015

Profit for the financial period		**80.1**	69.0	158.5
Other comprehensive income				
Items that will not be transferred to the Income Statement:				
Remeasurement of defined benefit plan		**-**	-	(5.1)
Taxation		**-**	-	1.0
Effect of change in corporation tax rate		**-**	-	(0.1)
Items that may be transferred to the Income Statement:				
Available-for-sale investments:				
Fair value movements taken to reserves		**(23.4)**	18.0	81.7
Amount transferred to Income Statement	13	**24.7**	(9.9)	(66.8)
Taxation		**(0.3)**	(1.7)	(3.5)
Cash flow hedges:				
Fair value movements taken to reserves		**(127.0)**	(25.2)	(44.0)
Amount transferred to Income Statement		**113.2**	55.9	94.4
Taxation		**2.7**	(6.2)	(10.8)
Effect of change in corporation tax rate		**-**	-	0.7
Other comprehensive income for the period, net of tax		**(10.1)**	30.9	47.5
Total comprehensive income for the period, net of tax		**70.0**	99.9	206.0

The notes on pages 11 to 19 form part of this Interim Financial Report.

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2015

	Notes	30 Jun 2015 (Unaudited) £m	30 Jun 2014 (Unaudited) £m	31 Dec 2014 (Audited) £m
Assets				
Cash and balances with the Bank of England		**2,007.6**	2,121.2	2,114.5
Loans and advances to credit institutions		**242.9**	136.0	180.5
Debt securities		**1,557.0**	1,658.1	1,655.2
Loans and advances to customers	8	**28,764.1**	25,401.1	26,959.6
Hedge accounting adjustment		**64.0**	(16.3)	98.1
Derivative financial instruments		**161.7**	161.4	208.3
Intangible assets		**15.8**	14.9	15.9
Property, plant and equipment		**28.1**	28.2	28.4
Investment properties		**4.8**	5.3	5.2
Pension benefit surplus		**2.3**	5.9	1.6
Deferred tax assets		**5.2**	5.0	5.0
Prepayments and accrued income		**8.4**	5.5	6.0
Total assets		**32,861.9**	29,526.3	31,278.3
Liabilities				
Shares		**24,137.4**	21,951.6	23,395.6
Deposits from banks		**2,060.5**	1,170.9	1,479.0
Other deposits		**5.5**	9.0	7.5
Amounts owed to other customers		**712.8**	499.5	452.3
Debt securities in issue	9	**3,583.4**	3,893.7	3,665.5
Hedge accounting adjustment		**120.8**	83.8	162.0
Derivative financial instruments		**395.4**	222.7	323.3
Current tax liabilities		**18.1**	18.5	21.6
Deferred tax liabilities		**6.3**	6.3	9.1
Accruals and deferred income		**19.5**	24.8	26.9
Other liabilities		**8.7**	8.5	16.3
Provisions for liabilities and charges	7	**23.1**	25.6	8.5
Subordinated liabilities	10	**58.1**	58.1	58.2
Subscribed capital	11	**161.6**	161.5	161.6
Total liabilities		**31,311.2**	28,134.5	29,787.4
Equity				
General reserve		**1,131.8**	983.6	1,061.9
Other equity instruments	12	**396.9**	396.9	396.9
Available-for-sale reserve	13	**0.3**	(5.7)	(0.7)
Cash flow hedge reserve		**21.7**	17.0	32.8
Total members' interests and equity		**1,550.7**	1,391.8	1,490.9
Total members' interests, liabilities and equity		**32,861.9**	29,526.3	31,278.3

The notes on pages 11 to 19 form part of this Interim Financial Report.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN MEMBERS' INTERESTS AND EQUITY

FOR THE PERIOD ENDED 30 JUNE 2015

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

* The distribution to Additional Tier 1 capital holders is shown net of an associated tax credit of £2.6 million.

	General reserve £m	Other equity instruments £m	Available-for-sale reserve £m	Cash flow hedge reserve £m	Total £m
As at 1 January 2014	914.6	-	(12.1)	(7.5)	895.0
Profit for the financial period	69.0	-	-	-	69.0
Net movement in Available-for-sale reserve (net of tax)	-	-	6.4	-	6.4
Net movement in Cash flow hedge reserve (net of tax)	-	-	-	24.5	24.5
Total comprehensive income	69.0	-	6.4	24.5	99.9
Issue of Additional Tier 1 capital*	-	396.9	-	-	396.9
As at 30 June 2014 (Unaudited)	983.6	396.9	(5.7)	17.0	1,391.8

* The issue of Additional Tier 1 capital is shown net of an associated tax credit of £0.8 million.

	General reserve £m	Other equity instruments £m	Available-for-sale reserve £m	Cash flow hedge reserve £m	Total £m
As at 1 January 2014 (Audited)	914.6	-	(12.1)	(7.5)	895.0
Profit for the financial year	158.5	-	-	-	158.5
Remeasurement of defined benefit plan (net of tax)	(4.2)	-	-	-	(4.2)
Net movement in Available-for-sale reserve (net of tax)	-	-	11.4	-	11.4
Net movement in Cash flow hedge reserve (net of tax)	-	-	-	40.3	40.3
Total comprehensive income	154.3	-	11.4	40.3	206.0
Issue of Additional Tier 1 capital*	-	396.9	-	-	396.9
Distribution to Additional Tier 1 capital holders**	(7.0)	-	-	-	(7.0)
As at 31 December 2014 (Audited)	1,061.9	396.9	(0.7)	32.8	1,490.9

* The issue of Additional Tier 1 capital is shown net of an associated tax credit of £0.8 million.
** The distribution to Additional Tier 1 capital holders is shown net of an associated tax credit of £1.9 million.

The notes on pages 11 to 19 form part of this Interim Financial Report.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE PERIOD ENDED 30 JUNE 2015

	Period to 30 Jun 2015 (Unaudited) £m	Period to 30 Jun 2014 (Unaudited) £m	Year ended 31 Dec 2014 (Audited) £m
Cash flows from operating activities			
Profit before tax	**100.4**	87.9	201.8
Adjustments for:			
Impairment provisions and other provisions	**15.6**	19.3	20.7
Depreciation and amortisation	**6.1**	6.0	12.3
Interest on subordinated liabilities and subscribed capital	**8.2**	8.2	16.4
Changes to fair value adjustment of hedged risk	**122.5**	61.9	42.2
Other non-cash movements	**(32.3)**	(1.0)	33.5
Non-cash items included in profit before tax	**120.1**	94.4	125.1
Loans to credit institutions	**(64.7)**	24.0	(72.0)
Loans and advances to customers	**(1,805.3)**	(1,287.3)	(2,847.3)
Prepayments, accrued income and other assets	**(3.1)**	(0.5)	(6.8)
Changes in operating assets	**(1,873.1)**	(1,263.8)	(2,926.1)
Shares	**767.9**	635.0	2,053.3
Deposits and other borrowings	**838.8**	306.1	565.2
Debt securities in issue	**(23.5)**	(60.0)	(55.9)
Accruals, deferred income and other liabilities	**(15.3)**	(18.2)	(30.8)
Changes in operating liabilities	**1,567.9**	862.9	2,531.8
Interest paid on subordinated liabilities and subscribed capital	**(8.2)**	(8.2)	(16.4)
Taxation	**(21.8)**	(16.0)	(37.2)
Net cash flows from operating activities	**(114.7)**	(242.8)	(121.0)
Cash flows from investing activities			
Purchase of investment securities	**(173.4)**	(152.5)	(313.2)
Sale and maturity of investment securities	**248.1**	178.4	405.8
Purchase of property, plant and equipment and intangible assets	**(6.4)**	(7.9)	(16.7)
Proceeds from sale of properties	**0.6**	-	-
Net cash flows from investing activities	**68.9**	18.0	75.9
Cash flows from financing activities			
Issuance of Additional Tier 1 capital	**-**	396.1	396.1
Distributions paid to Additional Tier 1 capital holders	**(12.8)**	-	(8.9)
Repurchase and repayment of debt securities	**(549.5)**	(111.5)	(726.9)
Issue of debt securities	**499.0**	-	386.5
Net cash flows from financing activities	**(63.3)**	284.6	46.8
Net (decrease)/increase in cash	**(109.1)**	59.8	1.7
Cash and cash equivalents at start of period	**2,073.3**	2,071.6	2,071.6
Cash and cash equivalents at end of period	**1,964.2**	2,131.4	2,073.3
Cash and cash equivalents:			
Cash and balances with the Bank of England	**1,964.2**	2,081.4	2,073.3
Loans and advances to credit institutions	**-**	50.0	-
	1,964.2	2,131.4	2,073.3

The notes on pages 11 to 19 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 2015 and show the financial performance for the period from, and including, 1 January 2015 to this date.

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

Basis of preparation

This condensed consolidated financial report for the six months ended 30 June 2015 has 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 2014, which have been prepared in accordance with IFRSs as adopted by the EU.

The Group accounts consolidate the assets, liabilities and results of the Society and all its subsidiary companies.

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

Changes in accounting policy

The accounting policies adopted by the Group in the preparation of its 2015 Interim Financial Report are consistent with those disclosed in the Annual Report & Accounts for the year ended 31 December 2014, except for the adoption of new accounting policies and new standards or interpretations effective as of 1 January 2015 which were not previously adopted. Additional accounting standards that became applicable during the interim period did not have a significant impact on the Group's Income Statement or Statement of Financial Position. The following standards and amendments, relevant to the Group, have been adopted during the interim period:

Pronouncement	Nature of change
IAS 19 Defined Benefit Plans: Employee Contributions	Clarifies existing consideration of contributions from employees or third parties when accounting for defined benefit plans. The amendment has no impact for the Group.

Going concern

Details of the Group's objectives, policies and processes for managing its exposure to credit, market, liquidity and funding, conduct, operational and business risks are contained in the Risk Management Report of the 2014 Annual Report & Accounts. Taking these objectives, policies and processes into account alongside the current economic and regulatory environment, the directors confirm they are satisfied the Group has adequate resources to continue in business for the foreseeable future and that, therefore, it is appropriate to adopt the going concern basis in preparing this interim financial information.

NOTES TO THE INTERIM FINANCIAL REPORT

(continued)

Significant accounting judgement and estimates

The preparation of financial statements requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results ultimately may differ from these estimates. Those items where management is required to make critical accounting estimates remain unchanged from the year ended 31 December 2014, as noted below, and details are provided on page 104 of the 2014 Annual Report & Accounts.

Areas of significant judgement and estimation

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

3. Interest receivable and similar income

	Period to 30 Jun 2015 (Unaudited) £m	Period to 30 Jun 2014 (Unaudited) £m	Year ended 31 Dec 2014 (Audited) £m
On loans fully secured on residential property	**464.5**	443.1	909.0
On other loans	**1.3**	1.4	2.7
Interest and other income on debt securities	**18.0**	19.8	40.5
Interest and other income on other liquid assets	**4.7**	5.8	10.9
Net expense on financial instruments hedging assets	**(42.3)**	(38.2)	(77.8)
Total	**446.2**	431.9	885.3

4. Interest payable and similar charges

	Period to 30 Jun 2015 (Unaudited) £m	Period to 30 Jun 2014 (Unaudited) £m	Year ended 31 Dec 2014 (Audited) £m
Bank and customer			
Subordinated liabilities	**2.1**	2.1	4.2
Other	**10.0**	7.5	14.7
Debt securities in issue	**57.2**	69.6	136.8
Other borrowed funds			
On shares held by individuals	**223.6**	211.6	437.8
On other shares	**-**	-	0.1
On subscribed capital	**6.1**	6.1	12.2
Net income on financial instruments hedging liabilities	**(32.4)**	(30.5)	(61.8)
Total	**266.6**	266.4	544.0

5. Administrative expenses

	Period to 30 Jun 2015 (Unaudited) £m	Period to 30 Jun 2014 (Unaudited) £m	Year ended 31 Dec 2014 (Audited) £m
Employee costs			
Wages and salaries	**29.7**	26.8	57.8
Social security costs	**2.9**	2.6	5.6
Pension costs			
Defined benefit plan	**-**	(0.1)	(0.2)
Defined contribution plan	**2.2**	2.1	4.0
	34.8	31.4	67.2
Other expenses	**24.2**	22.1	45.1
Total	**59.0**	53.5	112.3

6. Impairment provisions on loans and advances to customers

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

	Period to 30 Jun 2015 (Unaudited) £m	Period to 30 Jun 2014 (Unaudited) £m	Year ended 31 Dec 2014 (Audited) £m
Impairment charge for the period	**0.7**	3.3	5.4

Impairment provision at the end of the period:			
Residential mortgages	**20.6**	22.7	20.9
Other loans	**5.2**	4.3	5.2
Total	**25.8**	27.0	26.1

The incurred loss element of the fair value adjustments arising from the merger with Stroud & Swindon Building Society of £5.0 million has been included within the closing provision in the table above (30 June 2014: £5.2 million, 31 December 2014: £5.2 million).

Further information on loans and advances to customers is presented in note 8.

7. Provisions for liabilities and charges

	30 Jun 2015 (Unaudited) £m	30 Jun 2014 (Unaudited) £m	31 Dec 2014 (Audited) £m
At 1 January	**8.5**	9.9	9.9
Charge for the period	**14.9**	16.0	15.3
Provision utilised	**(0.3)**	(0.3)	(16.7)
Total	**23.1**	25.6	8.5

As at 30 June 2015, a provision of £22.0 million (30 June 2014: £24.6 million, 31 December 2014: £7.8 million) was held for amounts payable to the Financial Services Compensation Scheme (FSCS). During the period, further provision was made in respect of the FSCS totalling £14.2 million (30 June 2014: £16.0 million, 31 December 2014: £15.3 million).

Included above are other provisions totalling £1.1 million (30 June 2014: £1.0 million, 31 December 2014: £0.7 million) made in respect of circumstances that may give rise to various customer claims. During the period, the Group raised a further £0.7 million provision (30 June 2014: £nil, 31 December 2014: £nil) for Payment Protection Insurance (PPI) redress to customers, reflecting a small increase in the number of claims received and amounts settled per case. It is expected that the liability will mainly crystallise over the next five years.

8. Loans and advances to customers

	30 Jun 2015 (Unaudited) £m	30 Jun 2014 (Unaudited) £m	31 Dec 2014 (Audited) £m
Residential mortgages			
Owner-occupier mortgages	**17,727.2**	15,884.8	16,826.2
Buy to let mortgages	**10,577.5**	9,000.4	9,647.9
Near-prime mortgages	**99.2**	109.3	104.1
Self-certification mortgages	**313.1**	349.1	330.3
Other loans			
Commercial mortgages	**4.7**	7.0	5.5
Unsecured loans	**42.4**	50.5	45.6
Total	**28,764.1**	25,401.1	26,959.6

9. Debt securities in issue

In March 2015 the Society raised £500 million of five year funding paying a floating rate of 3 month LIBOR plus margin of 0.3% issued from the covered bonds programme, replacing £500 million of covered bonds which matured in February 2015.

10. Subordinated liabilities

	30 Jun 2015 (Unaudited) £m	30 Jun 2014 (Unaudited) £m	31 Dec 2014 (Audited) £m
Fixed rate subordinated notes 2016 - 12.25%	**7.5**	7.5	7.1
Fixed rate subordinated notes 2021 - 6.12%	**10.1**	10.1	10.1
Fixed rate subordinated notes 2022 - 6.469%	**15.0**	15.0	15.5
Fixed rate subordinated notes 2026 - 6.327%	**10.2**	10.2	10.2
Fixed rate subordinated notes 2032 - 7.54%	**15.3**	15.3	15.3
Total	**58.1**	58.1	58.2

All the subordinated liabilities are denominated in sterling. The notes are repayable in the years stated, or earlier in accordance with their terms at the option of the Society, with the prior consent of the Prudential Regulation Authority (PRA). The subordinated notes rank equally with each other and behind all other creditors of the Society and the claims of Shareholding Members (other than holders of Permanent Interest Bearing Shares (PIBS) and Perpetual Capital Securities (PCS)) as to principal and interest.

11. Subscribed capital

	Call date	**30 Jun 2015 (Unaudited) £m**	30 Jun 2014 (Unaudited) £m	31 Dec 2014 (Audited) £m
Permanent Interest Bearing Shares 1992 - 12 1/8%	n/a	**41.6**	41.6	41.5
Permanent Interest Bearing Shares 2006 - 6.092%	June 2016	**120.0**	119.9	120.1
Total		**161.6**	161.5	161.6

Interest is paid in arrears on £40 million PIBS at the rate of 12 1/8% per annum in half-yearly instalments, and on £120 million PIBS at the rate of 6.092% per annum in half-yearly instalments. At the option of the Society, the £120 million PIBS can be repaid at par on the call date or any interest payment date thereafter. The shares are otherwise repayable only in the event of a winding up of the Society or otherwise with the prior consent of the PRA. PIBS rank equally with each other and PCS. They rank behind all other creditors of the Society including subordinated liabilities and the claims of Shareholding Members (other than holders of PCS) as to principal and interest. The holders of PIBS are not entitled to any share in any final surplus upon a winding up or final dissolution of the Society.

NOTES TO THE INTERIM FINANCIAL REPORT

(continued)

12. Other equity instruments

In June 2014, the Society issued £400 million of new PCS capital. These instruments rank equally with each other and PIBS. They rank behind all other creditors of the Society including subordinated liabilities and the claims of Shareholding Members (other than holders of PIBS) as to principal and interest. The holders of PCS are not entitled to any share in any final surplus upon a winding up or final dissolution of the Society.

The PCS pay a fully discretionary, non-cumulative fixed coupon at an initial rate of 6.375% per annum. The rate will reset on 1 November 2019 and every five years thereafter to the five year mid swap rate plus 4.113%. Coupons are paid semi-annually in May and November. A coupon payment of £12.8 million, covering the period 1 November 2014 to 30 April 2015 was approved and recognised in the Statement of Changes in Members' Interests and Equity in the period ended 30 June 2015 (31 December 2014: coupon payment of £8.9 million, covering the period from issuance to 31 October 2014 was made and recognised in the financial year ended 31 December 2014).

The instruments have no maturity date. They are repayable at the option of the Society in November 2019 or on every fifth anniversary thereafter, but only with the prior consent of the PRA. If the end-point Common Equity Tier 1 ratio for the Group, on either an individual consolidated or a consolidated basis, falls below 7% they convert to Core Capital Deferred Shares (CCDS) at the rate of one CCDS for every £67 held.

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

13. Available-for-sale reserve

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

During the period, a £24.7 million loss (30 June 2014: £9.9 million gain, 31 December 2014: £66.9 million gain) was transferred to 'Net losses from derivative financial instruments' in the Income Statement to offset the effects of changes in the fair value of derivatives hedging Available-for-sale debt securities. Amounts transferred to 'Interest receivable and similar income' totalled nil (30 June 2014: £nil, 31 December 2014: £0.1 million loss) in respect of the disposal of Available-for-sale debt securities.

14. Financial instruments – classification and fair value measurement

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

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

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

When applicable, the Group measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions take place with sufficient frequency and volume to provide pricing information on an ongoing basis. For all other financial instruments the Group determines fair values using other valuation techniques.

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

	Carrying amount 30 Jun 2015 (Unaudited) £m	**Fair value 30 Jun 2015 (Unaudited) £m**	Carrying amount 30 Jun 2014 (Unaudited) £m	Fair value 30 Jun 2014 (Unaudited) £m	Carrying amount 31 Dec 2014 (Audited) £m	Fair value 31 Dec 2014 (Audited) £m
Financial assets						
Loans and advances to credit institutions	**242.9**	**242.9**	136.0	136.0	180.5	180.5
Loans and advances to customers	**28,764.1**	**28,702.8**	25,401.1	25,341.0	26,959.6	26,884.6
Financial liabilities						
Shares	**24,137.4**	**24,396.4**	21,951.6	22,245.6	23,395.6	23,673.1
Deposits from banks	**2,060.5**	**2,058.7**	1,170.9	1,182.6	1,479.0	1,477.5
Other deposits	**5.5**	**5.5**	9.0	9.0	7.5	7.5
Amounts owed to other customers	**712.8**	**712.8**	499.5	499.5	452.3	452.3
Debt securities in issue	**3,583.4**	**3,831.6**	3,893.7	4,305.2	3,665.5	3,976.6
Subordinated liabilities	**58.1**	**61.7**	58.1	62.5	58.2	63.5
Subscribed capital	**161.6**	**204.6**	161.5	198.2	161.6	201.0

Loans and advances to customers

The fair value of loans to customers is assessed as the value of the expected future cash flows. Future cash flows are projected using contractual interest payments, contractual repayments and the expected prepayment behaviour of borrowers. Conservative assumptions are applied regarding expected levels of customer prepayments and the risk of defaults.

NOTES TO THE INTERIM
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(continued)

14. Financial instruments – classification and fair value measurement continued

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

Customer shares and deposits

Shares and deposits from customers are valued in accordance with the cash flows projected from the contractual terms of the deposits. The fair value of shares and deposits that are available on demand approximates to the carrying value. The fair value of fixed term or restricted access deposits is determined from the estimated projected cash flows from those deposits discounted at the current market rates for those types of deposit.

Debt securities in issue, subordinated liabilities and subscribed capital

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

Fair value measurements and classification within the fair value hierarchy

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

30 June 2015 (Unaudited)	**Level 1 £m**	**Level 2 £m**	**Level 3 £m**	**Total fair value £m**
Derivative financial instruments - assets	**-**	**161.7**	**-**	**161.7**
Debt securities	**1,517.4**	**32.2**	**7.4**	**1,557.0**
Derivative financial instruments - liabilities	**-**	**(342.3)**	**(53.1)**	**(395.4)**
30 June 2014 (Unaudited)				
Derivative financial instruments - assets	-	161.4	-	161.4
Debt securities	1,658.1	-	-	1,658.1
Derivative financial instruments - liabilities	-	(184.5)	(38.2)	(222.7)
31 December 2014 (Audited)				
Derivative financial instruments - assets	-	208.3	-	208.3
Debt securities	1,602.7	45.2	7.3	1,655.2
Derivative financial instruments - liabilities	-	(263.1)	(60.2)	(323.3)

Level 1 - Debt securities

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

Level 2 - Derivatives

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

NOTES TO THE INTERIM FINANCIAL REPORT

(continued)

14. Financial instruments – classification and fair value measurement continued

Level 2 - Debt securities

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

Level 3 - Derivatives

Level 3 derivatives comprise balance tracking interest rate swaps. These are valued using the same valuation technique as Level 2 derivatives. The unobservable inputs relate to the projection of the swap notional amount, which changes over time to match the balance of the underlying mortgage portfolio. Projected mortgage prepayment amounts are used in the modelling of the mortgage portfolio profile. A change of 10% in the prepayment rates used results in a £0.5 million change in the value of the swaps. As changes in the projection of interest and prepayment rates of the underlying mortgage portfolio impact the swap and hedged item equally, the net Income Statement and Balance Sheet impact would be negligible.

Level 3 – Debt securities

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

The following table analyses movements in the Level 3 portfolio:

	Total £m
As at 1 January 2014 (Audited)	(34.6)
Items recognised in the Income Statement	
Interest payable and similar expense	(6.4)
Net unrealised losses	(25.7)
Settlements	6.5
Transfers into Level 3 portfolio	7.3
As at 31 December 2014 (Audited)	**(52.9)**
Items recognised in the Income Statement	
Interest payable and similar expense	**(3.1)**
Net unrealised gains	**7.2**
Settlements	**3.1**
As at 30 June 2015 (Unaudited)	**(45.7)**

Transfers only occur when either it becomes possible to value a financial instrument using a method that is higher up the valuation hierarchy or it is no longer possible to value it using the current method and therefore it is valued using a method lower down the hierarchy.

In the six months to 30 June 2015, one security valued at £8.0 million was transferred from Level 2 to Level 1.

During 2014, five listed debt securities with a value of £52.5 million were transferred from Level 1 due to changes in the availability of observable market prices or executable bids. Of these, four securities, totalling £45.2 million were transferred to Level 2 and one security with a value of £7.3 million was transferred to Level 3.

RESPONSIBILITY STATEMENT

The directors confirm that this Interim Financial Report has been prepared in accordance with IAS 34 as adopted by the EU. The interim management report includes a fair review of the important events that have occurred during the first six months of the financial year and their impact on the Interim Financial Statements, as required by the Disclosure and Transparency Rules (DTR 4.2.7). The principal risks and uncertainties continue to be those reported within the Risk Management Report starting on page 16 of the 2014 Annual Report & Accounts and those detailed on page 6 of this Interim Financial Report.

A full list of the Board of directors can be found in the 2014 Annual Report & Accounts. Subsequent to the publication of those Accounts, on 31 March 2015, Feike Brouwers, the Society's Chief Risk Officer resigned from the Board.

Signed on behalf of the Board by

Mark Parsons	John Lowe
Chief Executive	Finance Director
30 July 2015	

INDEPENDENT REVIEW REPORT

Independent review report to Coventry Building Society

Introduction

We have been engaged by the Society to review the set of condensed consolidated financial statements in the Interim Financial Report for the six months ended 30 June 2015 which comprises the Condensed Consolidated Income Statement, Condensed Consolidated Statement of Comprehensive Income, Condensed Consolidated Statement of Financial Position, Condensed Consolidated Statement of Changes in Members' Interests and Equity, Condensed Consolidated Statement of Cash Flows and the related explanatory notes 1 to 14. We have read the other information contained in the Interim Financial Report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed consolidated financial statements.

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

Directors' Responsibilities

The Interim Financial Report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the Interim Financial Report in accordance with the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority.

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

Our Responsibility

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

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410 (UK and Ireland), 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity' issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the set of condensed consolidated financial statements in the Interim Financial Report for the six months ended 30 June 2015 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority.

Ernst & Young LLP
Leeds
30 July 2015

OTHER INFORMATION

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

The financial information for the year ended 31 December 2014 has been extracted from the Annual Report & Accounts for that year. The Annual Report & Accounts for the year ended 31 December 2014 have been filed with the Financial Conduct Authority (formerly the Financial Services Authority). The Auditors' report on these Annual Report & Accounts was unqualified.

A copy of the Interim Financial Report is placed on the website of Coventry Building Society, at thecoventry.co.uk/interim2015. 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.

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