Coventry Building Society

Interim financial report
for the period ended 30 June 2010

the
COVENTRY
TLC not PLC

Contents

IFRS RESULTS

This condensed consolidated interim financial report for the half year ended 30 June 2010 has been prepared in accordance with the Disclosure and Transparency Rules of the Financial Services Authority and with IAS 34 Interim Financial Reporting as adopted by the EU. The interim financial report should be read in conjunction with the annual financial statements for the year ended 31 December 2009, which have been prepared in accordance with IFRS as adopted by the EU.

FORWARD LOOKING STATEMENTS

Certain statements in this interim financial report are forward looking. Although 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, 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.

GOING CONCERN

The directors conclude there are no material uncertainties that lead to significant doubt about the Society's ability to continue as a going concern.

HIGHLIGHTS

Strong financials

- Underlying profit before tax increased by 40% to £46.5 million.[1]
- Profit before tax increased by 20% to £43.5 million.
- A further £971,000 to be donated to the Poppy Appeal, bringing total donations since October 2008 to significantly above £3.5 million.

Record market share

- Net mortgage lending of £751 million, equivalent to 31% of all net mortgage lending in the UK. (source: Bank of England).
- Gross mortgage advances of £1.6 billion, representing 18% of all mortgage advances by building societies and mutual banks. (source: BSA).
- Retail savings balances grew by £1.7 billion (13%) during the first half of 2010.
- Net retail receipts equivalent to 8% of net retail receipts of all UK banks and building societies. (source: BSA).

Consistent outperformance throughout credit crunch

- In three years since 30 June 2007:
    - Total assets grew by £6.5 billion (50%).
    - Mortgage balances increased by £4.2 billion (39%).
    - Savings balances rose £6.4 billion (76%), funding comfortably the substantial growth in mortgages.

Strong, stable and efficient

- Cost to mean assets ratio of only 0.37% (2009 first half year: 0.39%), the lowest level reported by a UK building society.
- Cost to income ratio reduced to 40.5% (2009 first half year: 45.4%).
- On the basis of latest available data, mortgage balances 2.5% or more in arrears remain less than 40% of industry average (source: FSA).
- Retail savings, capital and reserves equivalent to 106% of mortgages.
- Core tier 1 ratio of 26.9%, the highest reported by any building society.
- Maintained strong ‘A’ credit ratings throughout ‘credit crunch’ - Fitch (A) and Moody’s (A3).
- Merger with Stroud & Swindon will complete on 1 September 2010. Integration plans are on track.

Notes:

1. Underlying profit is defined as operating profit before exceptional items

INTERIM MANAGEMENT REPORT: CHIEF EXECUTIVE'S REVIEW

"I am pleased to report that the Society continues to perform well. Underlying profit before tax increased by 40% to £46.5 million, during a period in which the Society's net mortgage lending was equivalent to 31% of the market as a whole. These excellent results maintain our record of strong performance since the onset of the credit crisis in 2007.

Excellent financial performance

We have been able to do this because Coventry's simple business model was equipped to cope with the events of the past three years.

In particular, we have remained very much open for business, lending at modest loan to value ratios and to low risk borrowers. The increase in margins available for new mortgages means that our ability to continue to lend has helped support profitability.

This can be seen in the Society's robust and consistent financial performance. In the first half of 2010, net interest income increased by a further £16 million (25%) to £79.6 million, reflecting the benefits of our recent growth.

We continue to pay close attention to costs. Coventry remains the UK's most efficient building society as evidenced by a management expenses ratio of 0.37% of average assets (2009 first half year: 0.39%). The cost to income ratio for the first half of 2010 reduced to just 40.5%.

We retain a high quality mortgage book, with mortgage arrears significantly below those for the industry as a whole. At 30 June 2010, just 0.79% of mortgage balances were 2.5% or more in arrears. This represents a slight fall from the position at the end of 2009. Impairment charges are certain to remain amongst the lowest levels reported by any of the larger UK lenders.

Improved income, low costs and low impairment provisions combined to produce an increase in profit before tax of 20% to £43.5 million.

Record share of the mortgage market

The Society's strength is its ability to execute this simple business model without recourse to new or increased levels of risk.

Throughout the financial crisis, our appetite for new mortgage lending has remained relatively unchanged, with mortgage assets increasing by 6% during the first half year, a rate of growth broadly in line with the long-term performance established over the past 10 years. However, this lending is being undertaken during a period in which a number of institutions have been forced to withdraw capacity from the market. As a result the Society's share of the total mortgage market increased further over the record levels achieved in both 2009 and 2008. Mortgage balances grew by £751m, equivalent to 31% of all new lending undertaken in the UK.

Gross advances totalled £1.6 billion, representing 18% of new lending undertaken by building societies and mutual banks. The average loan to value ratio on advances made in 2010 was 54%.

INTERIM MANAGEMENT REPORT: CHIEF EXECUTIVE'S REVIEW (CONTINUED)

Exceptional growth in savings

The Society's mortgage growth was funded by an even larger rise in savings balances. Although the cost of acquiring and retaining savings has increased significantly in relation to base rate, limited competition for mortgages means this cost is now reflected adequately in the margins available on new lending.

During 2010, acquisition of new savings has accelerated further over the outstanding performance reported in each of the last three financial years. Saving balances increased by £1.7 billion, more than double the growth in mortgages, and bringing the increase since 30 June 2007 to £6.4 billion, or 76%.

Capital

It is unsurprising given the events of the last three years, that increased attention is being paid to the capital position of mortgage lenders. At 26.9% Coventry's core tier 1 ratio is the highest reported by any large building society, illustrating clearly the high quality of assets and the low risk nature of our operations.

Looking ahead, the primary source of capital for building societies will be retained earnings. These results confirm the Society's ability to generate the capital required to support further significant growth.

Protecting members

Our commitment is to restrict profits to the levels required to maintain financial strength, and we continue to take decisions that limit profitability in the interests of members.

Many building society members rely on interest from savings accounts to supplement their income. The reduction in the Bank of England base rate to 0.5% has undoubtedly put pressure on many of our older savers in particular.

We have tried hard to mitigate the impact of base rate reductions for as many members as possible, consistent with maintaining the financial strength and security of Coventry Building Society. Over the most recent cycle of base rate cuts that began in October 2008, no variable rate savings account has been reduced by more than the cut in base rate. In fact, over 95% of the balances held in variable rate savings accounts on 1 November 2008 have seen interest rates improve relative to base rate. We estimate that the benefit provided to members from these improvements relative to base rate is already in excess of £100 million.

We have done this whilst maintaining the lowest standard variable rate of any of our peer group of larger building societies[1]. The Society's ability to report strong profits and compete for new business whilst providing long term value for existing members underlines the resilience of our business model.

Stroud & Swindon

These figures exclude the forthcoming increase in mortgage and savings balances that will occur on 1 September 2010, following completion of the merger with Stroud & Swindon.

Our work in preparation for this date has progressed well.

Notes:

1. Peer group of larger building societies defined as building societies with reported assets of between £5bn and £40bn.

INTERIM MANAGEMENT REPORT: CHIEF EXECUTIVE’S REVIEW (CONTINUED)

Outlook

Although Coventry is performing well, we are not complacent. Certainly the environment in which we operate is volatile and will remain so.

The impact of forthcoming regulatory changes, including those affecting capital and liquidity, will no doubt bring new challenges, whilst we must remain alert to the possibility of a significant deterioration in the housing market and the wider economy. Nevertheless, prevailing market conditions continue to help our competitive position. The Society’s performance is strong and we retain the flexibility to adjust margins should the operating environment deteriorate.

From the very start of the credit crunch, it was my belief that Coventry had the right business model for these difficult times. Subsequent events have shown this to be the case and I remain confident of further progress in 2010 and beyond.”

CONSOLIDATED INCOME STATEMENT FOR THE PERIOD ENDED 30 JUNE 2010

	Notes	Period to 30 June 2010 (Unaudited) £m	Period to 30 June 2009 (Unaudited) £m	Year ended 31 December 2009 (Audited) £m
Interest receivable and similar income	3	276.2	287.7	545.5
Interest payable and similar charges	4	(196.6)	(224.1)	(420.5)
Net interest income		79.6	63.6	125.0
Fees and commissions receivable		7.6	9.0	17.4
Fees and commissions payable		(0.5)	(0.5)	(1.1)
Other operating income		0.2	0.2	0.7
Net (losses)/gains from derivative financial instruments		(0.9)	1.2	1.3
Total income		86.0	73.5	143.3
Administrative expenses	5	(31.3)	(30.1)	(61.6)
Amortisation of intangible fixed assets		(1.4)	(1.4)	(2.7)
Depreciation of property, plant and equipment		(2.1)	(1.9)	(4.0)
Operating profit before impairments and exceptional items		51.2	40.1	75.0
Impairment losses on loans and advances to customers	6	(6.8)	(7.9)	(19.9)
Release of provision for impairment of debt securities		2.1	1.0	1.5
Release of provisions	7	-	-	2.9
Operating profit before exceptional items		46.5	33.2	59.5
Stroud & Swindon merger related costs		(2.0)	-	-
Release/(charge) of provision for FSCS levies	7	-	3.0	(2.0)
Profit after impairments and exceptional items		44.5	36.2	57.5
Charitable donation to Poppy Appeal		(1.0)	-	(1.3)
Profit before tax		43.5	36.2	56.2
Taxation		(12.6)	(5.1)	(12.7)
Profit for the financial period		30.9	31.1	43.5

Profit for the financial period arises from continuing operations and is attributable to the members of the Society.

CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME FOR THE PERIOD ENDED 30 JUNE 2010

	Notes	Period to 30 June 2010 (Unaudited) £m	Period to 30 June 2009 (Unaudited) £m	Year ended 31 December 2009 (Audited) £m
Profit for the financial period		30.9	31.1	43.5
Other comprehensive income				
Actuarial loss on defined benefit pension plan		-	-	(3.3)
Tax on actuarial loss on defined benefit pension plan		-	-	0.9
Fair value movements on available-for-sale assets taken to reserves	14	9.6	(44.2)	(11.1)
Tax on fair value movements taken to reserves	14	(2.6)	12.4	3.1
Other comprehensive income for the period, net of tax		7.0	(31.8)	(10.4)
Total comprehensive income for the period, net of tax		37.9	(0.7)	33.1

The notes on pages 11 to 17 form part of this consolidated interim financial report.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2010

	Notes	30 June 2010 (Unaudited) £m	30 June 2009 (Unaudited) £m	31 December 2009 (Audited) £m
Assets				
Cash in hand and balances with the Bank of England		977.4	230.7	302.2
Loans and advances to credit institutions		226.3	412.8	325.2
Debt securities	8	3,186.0	3,208.5	3,538.0
		4,389.7	3,852.0	4,165.4
Derivative financial instruments		68.8	65.2	29.3
Loans and advances to customers	9	14,837.5	13,500.0	14,074.7
Hedge accounting adjustment		83.3	68.6	76.1
Pension asset		7.5	9.6	6.9
Prepayments and accrued income		6.3	6.7	5.6
Intangible fixed assets		10.5	8.8	9.9
Property, plant and equipment		24.3	24.9	25.5
Current tax asset		-	11.8	6.5
Deferred tax assets		1.9	3.4	2.1
Total assets		19,429.8	17,551.0	18,402.0
Liabilities				
Shares	10	14,904.1	12,539.9	13,218.8
Deposits from banks		1,590.6	1,856.5	1,370.3
Other deposits		23.5	15.0	18.0
Amounts owed to other customers		752.2	957.7	856.2
Derivative financial instruments		133.3	106.2	108.9
Debt securities in issue		1,166.0	1,253.0	1,969.8
Other liabilities		9.6	10.9	19.3
Current tax liability		14.4	-	-
Deferred tax liabilities		5.1	4.2	5.3
Provisions for liabilities and charges	7	10.0	12.7	10.1
Accruals and deferred income		7.0	12.4	9.2
Subordinated liabilities	11	30.7	71.0	70.7
Subscribed capital	12	161.2	161.1	161.2
Total liabilities		18,807.7	17,000.6	17,817.8
Equity				
General reserve	13	646.9	606.0	616.0
Available-for-sale reserve	14	(24.8)	(55.6)	(31.8)
Total liabilities and equity		19,429.8	17,551.0	18,402.0

The notes on pages 11 to 17 form part of this consolidated interim financial report.

CONSOLIDATED STATEMENT OF CHANGES IN MEMBERS' INTERESTS
FOR THE PERIOD ENDED 30 JUNE 2010

	Notes	30 June 2010 (Unaudited) £m	30 June 2009 (Unaudited) £m	31 December 2009 (Audited) £m
As at 1 January				
General reserve		616.0	574.9	574.9
Available-for-sale reserve		(31.8)	(23.8)	(23.8)
		584.2	551.1	551.1
Profit for the financial period		30.9	31.1	43.5
Actuarial loss on defined benefit pension plan		-	-	(3.3)
Tax on actuarial loss on defined benefit pension plan		-	-	0.9
Fair value movements on available-for-sale assets taken to reserves	14	9.6	(44.2)	(11.1)
Tax on fair value movements taken to reserves	14	(2.6)	12.4	3.1
Total comprehensive income for the period, net of tax		37.9	(0.7)	33.1
As at period end				
General reserve		646.9	606.0	616.0
Available-for-sale reserve		(24.8)	(55.6)	(31.8)
		622.1	550.4	584.2

The notes on pages 11 to 17 form part of this consolidated interim financial report.

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE PERIOD ENDED 30 JUNE 2010

	Notes	Period to 30 June 2010 (Unaudited) £m	Period to 30 June 2009 (Unaudited) £m	Year ended 31 December 2009 (Audited) £m
Cash flows from operating activities				
Profit before tax		43.5	36.2	56.2
Adjustments for:				
Non-cash items included in profit before tax	15	6.0	140.5	164.0
Changes in operating assets	15	(621.4)	(178.5)	(865.2)
Changes in operating liabilities	15	935.7	5.5	691.1
Interest paid on subordinated liabilities		(0.3)	(1.7)	(4.0)
Interest paid on subscribed capital		(6.1)	(6.1)	(12.2)
Taxation		5.7	3.0	(5.2)
Net cash flows from operating activities		363.1	(1.1)	24.7
Cash flows from investing activities				
Purchase of investment securities		(2,540.3)	(6,958.3)	(12,479.9)
Sale and maturity of investment securities		2,928.4	6,851.8	12,084.0
Purchase of property, plant and equipment		(0.9)	(0.6)	(3.4)
Purchase of intangible fixed assets		(2.0)	(1.6)	(4.4)
Net cash flows from investing activities		385.2	(108.7)	(403.7)
Cash flows from financing activities				
Repurchase of subordinated liabilities		(40.0)	-	-
Issue of securities		-	-	346.6
Net cash flows from financing activities		(40.0)	-	346.6
Net increase/(decrease) in cash		708.3	(109.8)	(32.4)
Cash and cash equivalents at start of period		328.1	360.5	360.5
Cash and cash equivalents at end of period	15	1,036.4	250.7	328.1

The notes on pages 11 to 17 form part of this consolidated interim financial report.

NOTES TO THE INTERIM FINANCIAL REPORT

1 REPORTING PERIOD

These results have been prepared as at 30 June 2010 and show the financial performance for the period from, and including, 1 January 2010 to this date.

2 BASIS OF PREPARATION

This condensed consolidated financial report for the half year ended 30 June 2010 has been prepared in accordance with the Disclosure and Transparency Rules of the Financial Services Authority and with IAS 34 Interim Financial Reporting as adopted by the EU. This interim financial report should be read in conjunction with the annual financial statements for the year ended 31 December 2009, which have been prepared in accordance with IFRS as adopted by the EU.

The accounting policies adopted by the Society in the preparation of its 2010 interim financial report and those which the Society currently expects to adopt in its annual accounts for the year ended 31 December 2010 are consistent with those disclosed in the annual accounts for the year ended 31 December 2009, copies of which are available at http://www.coventrybuildingsociety.co.uk/pdfs/RepAcc_09.pdf. The accounting policies and disclosures adopted reflect the Society's current view of best practice and no new standards or interpretations have since been adopted.

IFRS is subject to ongoing review and endorsement by the EU or possible amendment by interpretive guidance from the International Accounting Standards Board and is therefore subject to change. In addition, practice may develop with regard to interpretation and application of the standards or further standards may be introduced with the option for early adoption. We will update the reporting of future results for any such changes should they occur. The Society's full year Annual Report and Accounts for 2010 may be prepared in accordance with different accounting policies to those used in this document.

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. Details of the critical accounting estimates will be provided in the 2010 Annual Report and Accounts.

NOTES TO THE INTERIM FINANCIAL REPORT (CONTINUED)

3 INTEREST RECEIVABLE AND SIMILAR INCOME

	Period to 30 June 2010 (Unaudited) £m	Period to 30 June 2009 (Unaudited) £m	Year ended 31 December 2009 (Audited) £m
On loans fully secured on residential property	303.3	269.2	554.9
On other loans	2.5	3.3	6.2
	305.8	272.5	561.1
Interest and other income on debt securities	26.2	55.0	81.0
Interest and other income on other liquid assets	2.0	4.5	9.0
Net expense from hedging instruments	(57.8)	(44.3)	(105.6)
Total	276.2	287.7	545.5

4 INTEREST PAYABLE AND SIMILAR CHARGES

	Period to 30 June 2010 (Unaudited) £m	Period to 30 June 2009 (Unaudited) £m	Year ended 31 December 2009 (Audited) £m
Bank and customer			
Subordinated liabilities	1.7	2.0	4.0
Other	8.7	7.1	56.1
Debt securities in issue	12.4	29.7	2.8
Other borrowed funds			
On shares held by individuals	192.1	218.7	411.0
On other shares	0.1	0.1	0.2
On subscribed capital	6.1	6.0	12.2
Net income on hedging instruments	(24.5)	(39.5)	(65.8)
Total	196.6	224.1	420.5

5 ADMINISTRATIVE EXPENSES

	Period to 30 June 2010 (Unaudited) £m	Period to 30 June 2009 (Unaudited) £m	Year ended 31 December 2009 (Audited) £m
Employee costs			
Wages and salaries	15.3	14.5	31.3
Social security costs	1.5	1.4	3.0
Pension costs			
Defined benefit plan	0.5	0.4	0.8
Defined contribution plan	0.3	0.3	0.6
	17.6	16.6	35.7
Other expenses			
Finance lease charges	0.2	0.2	0.4
Other	13.5	13.3	25.5
Total	31.3	30.1	61.6

NOTES TO THE INTERIM FINANCIAL REPORT (CONTINUED)

6 IMPAIRMENT PROVISIONS ON LOANS AND ADVANCES TO CUSTOMERS

	Period to 30 June 2010 (Unaudited) £m	Period to 30 June 2009 (Unaudited) £m	Year ended 31 December 2009 (Audited) £m
Impairment charge for the period	6.8	7.9	19.9
Impairment provision at the end of the period			
Loans fully secured on residential property	19.9	16.5	20.6
Other loans	2.5	3.2	2.8
Total	22.4	19.7	23.4

These provisions are deducted from the appropriate asset values in the balance sheet.

7 PROVISIONS FOR LIABILITIES AND CHARGES

	30 June 2010 (Unaudited) £m	30 June 2009 (Unaudited) £m	31 December 2009 (Audited) £m
At 1 January	10.1	15.7	15.7
Charge for the period	-	-	2.0
Release in the period	-	(3.0)	(2.9)
Provision utilised	(0.1)	-	(4.7)
At end of period	10.0	12.7	10.1

Revisions to estimates of amounts payable to the Financial Services Compensation Scheme resulted in a £nil charge for the period ended 30 June 2010 (30 June 2009 - £3.0 million release, 31 December 2009 - £2.0 million charge).

Other provisions have been made in respect of circumstances that may give rise to various customer claims.

8 DEBT SECURITIES

	30 June 2010 (Unaudited) £m	30 June 2009 (Unaudited) £m	31 December 2009 (Audited) £m
Available-for-sale:			
Government investment securities	772.5	467.9	778.4
Analysis of transferable debt securities			
Listed	1,369.8	1,490.7	1,486.0
Unlisted	1,043.7	1,249.9	1,273.6
Total	3,186.0	3,208.5	3,538.0

NOTES TO THE INTERIM FINANCIAL REPORT (CONTINUED)

9 LOANS AND ADVANCES TO CUSTOMERS

	30 June 2010 (Unaudited) £m	30 June 2009 (Unaudited) £m	31 December 2009 (Audited) £m
Loans fully secured on residential property	14,758.2	13,407.4	13,991.2
Other loans			
Loans fully secured on land	0.1	0.2	0.1
Other loans	79.2	92.4	83.4
	79.3	92.6	83.5
Total	14,837.5	13,500.0	14,074.7

Other loans incorporate £1.2 million (30 June 2009 - £1.4 million, 31 December 2009 - £1.3 million) of loans that are fully secured on residential property and that were made to corporate bodies such as Housing Associations prior to 1 July 1998, the date upon which the Society adopted the powers of the Building Societies Act 1997.

10 SHARES

	30 June 2010 (Unaudited) £m	30 June 2009 (Unaudited) £m	31 December 2009 (Audited) £m
Held by individuals	14,878.4	12,516.0	13,210.3
Other shares	8.1	8.7	7.9
Hedge accounting adjustment	17.6	15.2	0.6
Total	14,904.1	12,539.9	13,218.8

11 SUBORDINATED LIABILITIES

	30 June 2010 (Unaudited) £m	30 June 2009 (Unaudited) £m	31 December 2009 (Audited) £m
Subordinated liabilities owed to note holders are as follows:			
Fixed rate subordinated notes 2015	5.6	30.8	30.0
Fixed rate subordinated notes 2015	10.1	25.2	25.2
Fixed rate subordinated notes 2022	15.0	15.0	15.5
Total	30.7	71.0	70.7

All subordinated liabilities are denominated in sterling.

The notes are repayable at the dates stated, or earlier at the option of the Society, with the prior consent of the FSA.

During the period ended 30 June 2010 the group, with the consent of the FSA, redeemed early £15.0 million of the 5.25% subordinated loan due on 8 November 2015 and £24.5 million of the 5.875% subordinated loan due on 16 December 2015.

The rights of repayment of the holders of the notes are subordinated to the claims of all depositors, creditors and shareholders in the Society, as regards the principal of the notes and accrued interest.

NOTES TO THE INTERIM FINANCIAL REPORT (CONTINUED)

12 SUBSCRIBED CAPITAL

	30 June 2010 (Unaudited) £m	30 June 2009 (Unaudited) £m	31 December 2009 (Audited) £m
Subscribed capital owed to permanent interest holding members is as follows:			
Permanent interest bearing shares	161.2	161.1	161.2

Interest is paid in arrears on £40 million permanent interest bearing shares at the rate of 12 1/8% p.a. in half-yearly instalments, and paid in arrears on £120 million permanent interest bearing shares at the rate of 6.092% p.a. in half-yearly instalments. The shares are repayable only in the event of a winding up of the Society or otherwise with the consent of the FSA. In a winding up or dissolution of the Society the claims of the holders of permanent interest bearing shares would rank behind all other creditors of the Society and the claims of members holding shares as to principal and interest. The holders of permanent interest bearing shares are not entitled to any share in any final surplus upon a winding up or final dissolution of the Society.

13 GENERAL RESERVE

Movements in general reserves were as follows:

	30 June 2010 (Unaudited) £m	30 June 2009 (Unaudited) £m	31 December 2009 (Audited) £m
As at 1 January	616.0	574.9	574.9
Actuarial loss on defined benefit pension plan (net of tax at 28%)	-	-	(2.4)
Net profit for the financial period	30.9	31.1	43.5
At end of period	646.9	606.0	616.0

14 AVAILABLE-FOR-SALE RESERVE

Movements in available-for-sale reserves were as follows:

	30 June 2010 (Unaudited) £m	30 June 2009 (Unaudited) £m	31 December 2009 (Audited) £m
As at 1 January	(31.8)	(23.8)	(23.8)
Fair value gains/(losses) taken to reserves (net of tax at 28%)	7.0	(31.8)	(8.0)
At end of period	(24.8)	(55.6)	(31.8)

NOTES TO THE INTERIM FINANCIAL REPORT (CONTINUED)

15 NOTES TO THE CASH FLOW STATEMENT

	Period to 30 June 2010 (Unaudited) £m	Period to 30 June 2009 (Unaudited) £m	Year ended 31 December 2009 (Audited) £m
Non-cash items included in profit before tax			
Net increase in impairment provisions	6.8	6.9	19.9
Depreciation and amortisation	3.5	3.3	6.7
Interest on subordinated liabilities	0.3	2.0	4.0
Interest on subscribed capital	6.1	6.1	12.2
Decrease in fair value adjustment of hedged risk	33.5	112.5	119.1
Other non-cash movements	(44.2)	9.7	2.1
	6.0	140.5	164.0
Changes in operating assets			
Decrease in loans to credit institutions and other liquid assets	131.8	157.3	54.3
Increase in loans and advances to customers	(751.9)	(340.2)	(921.8)
(Increase)/decrease in prepayments and accrued income	(0.7)	5.1	3.6
Increase in other assets	(0.6)	(0.7)	(1.3)
	(621.4)	(178.5)	(865.2)
Changes in operating liabilities			
Increase in shares	1,630.1	237.6	973.5
Increase/(decrease) in deposits and other borrowings	121.5	45.1	(341.7)
(Decrease)/increase in debt securities in issue	(844.1)	(173.7)	206.5
Increase/(decrease) in accruals and deferred income	37.9	(102.3)	(149.7)
(Decrease)/increase in other liabilities	(9.7)	(1.2)	2.5
	935.7	5.5	691.1

	30 June 2010 (Unaudited) £m	30 June 2009 (Unaudited) £m	31 December 2009 (Audited) £m
Cash and cash equivalents			
Cash and balances with the Bank of England	962.9	216.7	287.6
Due from other banks	73.5	34.0	40.5
Total	1,036.4	250.7	328.1

Cash and cash equivalents excludes the balance which the Society is required to maintain with the Bank of England which, at 30 June 2010, amounted to £14.5 million (30 June 2009 - £14.0 million, 31 December 2009 - £14.6 million).

NOTES TO THE INTERIM FINANCIAL REPORT (CONTINUED)

16 POST BALANCE SHEET EVENTS

Taxation

An announcement was made in the Emergency Budget on 22 June 2010 that legislation is to be introduced to reduce the main rate of corporation tax by 1% from 28% to 27% with effect from 1 April 2011. It is also intended to reduce the rate by a further 1% per annum falling to 24% with effect from 1 April 2014.

Under IFRS the reduction in the corporation tax cannot be reflected in the financial statements until the tax rate changes have been substantively enacted. For the Society's Interim Financial Statements this will be after the balance sheet date as at 30 June 2010.

Deferred tax applicable to the Society assets and liabilities is determined using the tax rates and law enacted or substantively enacted at the rates prevailing by the balance sheet date. The Society has reviewed the impact of the reduction of future rates changes, and has deemed that the impact is not significant enough to require disclosure at this time.

Stroud & Swindon Building Society merger.

On the 3 August 2010 the FSA confirmed the proposed transfer of engagements of Stroud & Swindon Building Society to Coventry Building Society. Further information is available at
http://www.fsa.gov.uk/pages/Library/Communication/PR/2010/131.shtml

RESPONSIBILITY STATEMENT

The directors confirm that this interim financial report has been prepared in accordance with IAS 34 as adopted by the EU. The half year 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 condensed set of financial statements, with a description of the principal risks and uncertainties for the remaining six months of the financial 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 2009 Annual Report and Accounts.

Signed on behalf of the Board by

Rob Green
Finance Director
17 August 2010

INDEPENDENT REVIEW REPORT TO COVENTRY BUILDING SOCIETY

Introduction

We have been engaged by the Society to review the condensed set of financial statements in the interim financial report for the six months ended 30 June 2010 which comprises the Consolidated Income Statement, Consolidated Statement of Other Comprehensive Income, Consolidated Statement of Financial Position, Consolidated Statement of Changes in Members Interests, Consolidated Statement of Cash Flows and the related explanatory notes. 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 set of 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 Services Authority.

As disclosed in note 2, the annual financial statements of the Society are prepared in accordance with IFRSs as adopted by the European Union. The condensed set of 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 condensed set of 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 (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 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 condensed set of financial statements in the interim financial report for the six months ended 30 June 2010 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 Services Authority.

Ernst & Young LLP
London
17 August 2010

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 2009 has been extracted from the Annual Accounts for that year. The Annual Accounts for the year ended 31 December 2009 have been filed with the Financial Services Authority. The Auditors' report on these Annual Accounts was unqualified.

A copy of the interim financial report is placed on the website of Coventry Building Society. 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.