ANNUAL REPORT & ACCOUNTS 2009

the COVENTRY

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Chairman
David Harding

Deputy Chairman and Senior Independent Director
Bridget Blow

Chief Executive
David Stewart

Executive Directors
Colin Franklin, Sales and Marketing Director
Rob Green, Finance Director
Phil Vaughan, Chief Operating Officer

Non-executive Directors
Roger Burnell
Ian Geden
Ian Pickering
Fiona Smith

Secretary and Solicitor
Nailesh Rambhai

Senior Management
Julian Atkins
Rachel Haworth
Darin Landon
Sheryl Lawrence
John Lowe
Sally Wrigglesworth

Auditors
Ernst & Young LLP
1 More London Place
London SE1 2AF

Bankers
Bank of England
HSBC plc
The Royal Bank of Scotland plc

Registered Office
Economic House
PO Box 9
High Street
Coventry CV1 5QN

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CHAIRMAN'S STATEMENT

I am pleased to report that, in a challenging year, Coventry has once again made outstanding progress.

The economic background is well known. During 2009, the financial sector was marked by continuing crisis and the UK economy remained in recession. The recapitalisation of two of the UK's largest banks placed a significant proportion of the banking sector in Government ownership – and caused some in the industry to question whether this would distort the market. The sum of money involved in rescuing these banks was truly staggering. The debt to the nation will remain a key influencer of economic policy for many years to come. The detrimental impact on the reputation of the financial sector may be equally long-lasting.

The Bank of England Base Rate was reduced to an historic low of 0.5% in March in an attempt to soften the impact of the recession. This action helped prevent the collapse of house prices and enabled many mortgage holders to maintain their repayments. The burden of low interest rates was principally borne by savers, many of whom have experienced a significant reduction in income over the last two years.

Against this background, Coventry's performance was quite possibly the most successful in the building society sector.

Although lending volumes were down slightly on the previous year, the Society achieved the highest share of the mortgage market in its 125 year history. With mortgage growth of £919 million, our share of net mortgage lending for the market as a whole reached 8%. The Society's ability to maintain lending throughout the financial crisis demonstrates our fundamental strength.

I am particularly pleased that this strength enabled the Society to continue to help first time buyers. In 2009, we launched a proposition for first time buyers who either had a track record of saving with the Society or close family relations who were existing members. This was hailed by some commentators as a return to mutual values. It is my belief that Coventry has always held these values.

2009 proved again the Society's ability to compete with innovative savings products offering long term value. The increase in net savings of £833 million meant that at the end of the financial year the Society funded 100% of mortgages through members' savings, capital and reserves.

In contrast to many lenders of a similar size, the Society's strong financial position meant that we were also able to access the wholesale funding markets. In October we made a landmark £350 million 10 year unsecured issuance, a deal that was heavily oversubscribed. Since the credit crisis began in 2007 Coventry is one of only two building societies to have successfully raised such unsecured long term funding without the need for a Government guarantee.

As always, the quality of our lending has remained extremely high. We have taken steps to protect members from the impact of falling house valuations by lending at prudent loan to value ratios: the overall loan to value of new mortgage advances in 2009 was 51%. This has reinforced the Society's position on arrears and repossessions, that continue to be well below industry norms. Loan impairment charges are also amongst the lowest of any of the larger mortgage lenders.

I am pleased to say that growth has been achieved whilst maintaining the cost efficiency for which the Society is well known. Management expenses expressed as a percentage of average assets fell again in 2009, and at 0.38% is the lowest reported by any building society group.

By achieving growth in assets, low levels of impairment and improvements in cost efficiency the Society achieved profit before tax of £56.2 million.

The ability to generate adequate profits, once taken for granted in the building society sector, ensured we have been able to add significantly to capital reserves and has helped to maintain confidence amongst credit rating agencies and institutional investors, as well as our own members.

In difficult times factors like reputation, trust and confidence become even more important and it is pleasing that Coventry retained 'A' ratings from both Moody's (A3) and Fitch (A) credit rating agencies.

In summary, Coventry has achieved an exceptionally strong performance in 2009 across all aspects of the business. This has been achieved by putting members' interests at the heart of the Society's decision-making. In 2009 the Society was recognised by the Mortgage Finance Gazette for 'Excellence in Treating Customers Fairly'. We believe our success is based on understanding and delivering fairness and long term value to our members.

My comments on performance should also include the many initiatives by members of staff in support of our local communities. The energy and enthusiasm shown by Society staff has made a genuine difference to many groups and charities and also adds to the sense of pride that staff feel for working at the Society. I should like to thank everyone who has given their time and commitment to support our community activities.

As usual at this time of the year, the board must formally consider the status of the Society. The events of the last two years and the strength of the Society's performance throughout this period have shown that a traditional, mutual building society, properly focused on members' interests, can prosper even in challenging times. The directors believe unanimously that the Society should remain an independent, mutual building society.

Looking forward I cannot predict when the current difficult market conditions will ease. Unemployment, signs of returning inflation and the public debt crisis will continue to present challenges to all but the strongest organisations.

I do believe, however, that Coventry Building Society has the strategy, leadership and capability to succeed in the toughest market environment. This is testament to the hard work and commitment of the entire staff of the Society and I should like to thank them for their efforts in securing a strong foundation for the future.

David Harding
Chairman

CHIEF EXECUTIVE'S REVIEW

I am pleased to report that Coventry Building Society has performed strongly in an environment which continues to expose and challenge any organisational weaknesses.

Our performance is based upon the consistent application of a simple and traditional building society model. We have been successful in attracting and retaining savings balances and have maintained our track record of responsible lending to protect the interests of new and existing members.

The Society's strength is its ability to execute this strategy without recourse to new or increased levels of risk. This has meant that we have avoided the pitfalls experienced by some competitors which have restricted their ability to lend.

By contrast Coventry has remained active in the mortgage market throughout the financial crisis, advancing £2.7 billion in 2009 (2008 - £3.1 billion). This equates to a share of new advances of 1.9%, significantly more than our 'natural' market share, and 15% of all building society lending. This out-performance meant that Coventry accounted for 8% of all mortgage growth in the UK.

This performance is enabled by the strength of our funding position and by the quality of lending undertaken in previous years. The vast majority of new lending has been for traditional residential loans, to owner occupiers with an unblemished credit history. Already low risk, the Society has taken appropriate action to manage loan to value on new mortgages very carefully, with the result that the average loan to value for new advances made in 2009 was 51%.

The benefits of a conservative approach can be seen in an arrears performance that is much better than industry averages.

At 31 December 2009, only 0.80% of mortgage balances were 2.5% or more in arrears, very substantially lower than industry norms. At the time of the latest available data (30 September 2009), Coventry's arrears were just under one third of the industry average, according to figures published by the Financial Services Authority.

In terms of numbers of accounts (as opposed to balances) just 1.18% of mortgages were more than three months in arrears, also significantly less than the Council of Mortgage Lenders' (CML) average of 2.38%. This favourable position is similarly reflected in six months arrears levels, where Coventry's rate of 0.55% is 39% of that of CML members as a whole. These figures exclude cases where a receiver of rent has been appointed.

Our low arrears levels are reflected in the low level of provisions required for loan impairment and as a result the Society's strong underlying profitability has not been eroded by significant credit losses. At the year end, the Society held just 82 properties in possession out of a total of 141,000 mortgages.

The provision of mortgage loans is one of the primary objectives for all building societies and our ability to carry on lending throughout the financial crisis is testament to the underlying strength of the Society.

The quality of lending is vital but the ability to lend in the first place is dependent on appropriate funding. In 2009, in the face of significant challenges, the Society excelled once again in attracting and retaining retail savings and has successfully maintained institutional investment.

The ongoing restrictions in the wholesale market made the market for retail savings extremely competitive and the resulting high cost of retail funds continues to exert pressure on margins.

However, by extending our comprehensive portfolio of savings products and moving quickly to secure competitive advantage when required to do so, we made sure we achieved pre-funding of our mortgage lending with appropriate support for the Society's margin. The overall increase in retail savings balances in 2009 was £833 million, allowing us to grow mortgage lending at an appropriate rate for the market conditions.

The Society continued to be a safe home for institutional investors. Despite the restrictions in the wholesale markets, we continued to attract substantial deposits from local authorities and other financial institutions. We were one of only two building societies to issue a long term wholesale bond with no requirement for a Government guarantee. This issue confirmed Coventry's reputation as a strong, secure and high performing building society and was heavily oversubscribed.

The theme of an exceptional but business as usual performance for the Society is also shown by the continued progress made in improving our sector leading cost efficiency. Management expenses as a percentage of average assets fell to 0.38%, an improvement of 0.02% and the lowest ratio reported by any building society group.

The result was record profit before impairments and exceptional items of £75.0 million and profit before tax of £56.2 million (2008 - £26.4 million). After provisions for tax of £12.7 million, we were able to transfer £43.5 million to reserves, increasing our capital strength.

Although in the current difficult environment it is appropriate to focus on the financial performance of the Society, it is just one measure of success. The Society has been equally focused in meeting members' expectations in terms of the service we provide, as well as increasing our support for the communities we serve.

The Society wins more than its fair share of awards and 2009 has been no exception. The Directors' Report highlights a number of these so I will not repeat them here. However, one example of independent review is worthy of note as it explains a great deal about the Society and the approach we take to customer service.

From time to time we do make mistakes and receive justified complaints as a result. However, in keeping with our mutual status, we aim to resolve these complaints professionally and fairly.

In 2009, for the first time, the Financial Ombudsman Service (FOS) published details of the complaints that it receives. Approximately 130 financial organisations that had more than 30 complaints referred to FOS in the previous six months were included.

Coventry's low level of complaints referred to FOS meant that we were the largest mortgage lender not to be included in the FOS report. This was repeated in February 2010.

The mutual model of customers owning the organisation seems to be one that is particularly appropriate to the delivery of excellent customer service.

The mutual tradition also encourages strong links with local communities. In 2009 we continued to expand our activities in this area.

Having developed over the last two years a programme which focuses on our strengths in terms of promoting financial literacy and supporting local community groups, we have also been able to use our position and contacts to broker a number of successful partnerships.

For example, last year the Society used its links with the Coventry Citizens Advice Bureau, Coventry Law Centre and a local school, to extend the provision of debt advice and access to counselling services.

Overall the number of staff involved in volunteering and fundraising has increased significantly and the beneficial effects are clear for the Society as well as the groups we are supporting.

I should also mention the ongoing partnership with The Royal British Legion whose work is sadly increasingly relevant. We have extended our popular 'Poppy' product range by adding Poppy Save and by following up the initial Poppy Bond with a two year version. Over 54,000 members now support the work of The Royal British Legion in this way and overall we have donated £3.4 million to the Poppy Appeal since our partnership began in October 2008. This is a tremendous performance and I would like to thank all those members and staff who have helped make it possible.

In many ways writing this year's review has been like writing some of my previous reviews. The Society has recorded an excellent financial performance based on the implementation of its simple strategy. However, in an environment that is significantly different from two years ago, it is worth taking a moment to reflect on this.

There has been a great deal of commentary in the industry about the causes of the financial crisis, the role of the regulators and the actions taken by the Government to stabilise the system.

Clearly there is a need for effective regulation. There is also a responsibility for all financial organisations to make decisions that promote good practice and build trust with consumers.

The mutual model provides a suitable framework for this to happen. Coventry's performance demonstrates that it can work very effectively.

However, there is a danger that new regulation which treats the mutual sector in the same way as the 'plc' sector, or developments that encourage the introduction of new capital rewarded by profit, will damage the ability of the mutual sector to compete and grow whilst sticking to its values.

To succeed, building societies need to hold appropriate capital for the risks they underwrite and to support future growth. Banks, with their diverse business models, have different capital requirements and regulations need to recognise and address these differences.

Looking ahead it is my belief that financial services in the UK stands at a crossroads. Much work has been done to stabilise a shocked financial system and reduce the impact of a deep and prolonged recession.

The repercussions of these interventions will last a long time. The challenge now is to put in place appropriate measures to promote the right balance of risk and reward. These must be sufficiently pragmatic and flexible to support a variety of business models including a vibrant mutual sector.

Coventry's performance demonstrates that the regulatory environment for building societies may not need fundamental change. Instead care needs to be taken to avoid unintended consequences damaging a sector that has at its core a consistent objective to support owners and customers.

Looking forward, there can be little doubt that market conditions will remain challenging throughout 2010. The impact of very low interest rates and the ongoing seizure of financial markets means that downward pressure on margins is likely to persist. The implications of further regulatory changes, including those affecting capital and liquidity, may also bear down on profitability. Nor can we discount the possibility that the recent revival in the housing market and wider economy could reverse.

Nevertheless, in many ways the prevailing market conditions help our competitive position. We continue to earn an adequate return from our assets, we are well funded and we are not exposed to the scale of impairment losses faced by our competitors. And although there has undoubtedly been a significant increase in the cost of acquiring and retaining retail funding, this is adequately reflected in the market price available for new prime mortgage lending.

From the start of the credit crunch, it was the board's belief that the Society had the right business model for these difficult conditions. Subsequent events have shown this to be the case and I continue to believe that Coventry remains well placed to report further progress in 2010 and beyond.

David Stewart
Chief Executive

THE DIRECTORS AND SECRETARY

BRIDGET BLOW, DEPUTY CHAIRMAN AND SENIOR INDEPENDENT DIRECTOR (60)

Bridget Blow joined the board as a non-executive director in 2007. Between 2000 and 2005 Bridget was a non-executive director of the Bank of England.

Bridget is an experienced company director with a strong information technology background, having been Chief Executive of ITNET plc. Bridget is immediate past president of the Birmingham Chamber of Commerce and Industry, a non-executive director of Birmingham Hippodrome and a member of the Council of Birmingham University.

She is also Chairman of Trustmarque Group and Harvard International plc.

Bridget became the Society's Deputy Chairman in 2009. She is Senior Independent Director, Chairman of the Society's Remuneration Committee and a member of the Audit Committee.

ROGER BURNELL (59)

Roger Burnell joined the board as a non-executive director in 2008 and is a Chartered Accountant with over 25 years' senior executive experience. He worked as Finance Director and Managing Director of several businesses within the Thomson Travel Group before becoming Group Chief Operating Officer in 1998.

Since 2000 Roger has continued to work at board level through a number of non-executive directorships, including previously as Chairman of International Life Leisure Group, Chairman of The First Resort and Chairman of HomeForm Group.

Roger is currently a non-executive director of Thomas Cook Group plc and a member of the Society's Audit Committee.

COLIN FRANKLIN (54)

Colin has been with the Society for over 30 years during which time he has held line management responsibility for a number of areas including the branch network, operations and sales.

Colin joined the Society's executive team as Head of Sales in 2005 and in 2009 he was appointed to the board as Director of Sales and Marketing. He is also Managing Director of Godiva Mortgages, the Society's intermediary lending subsidiary.

IAN GEDEN (56)

Ian Geden joined the board as a non-executive director in 2008. He has over 30 years' financial services experience in the mutual sector, working for most of his career with NFU Mutual where he was Chief Executive before retiring at the end of 2008.

In addition, Ian was Chairman of the Association of Mutual Insurers and a board member of the International Cooperative and Mutual Insurers Federation.

Ian is a non-executive director of The Police Mutual and a member of the Society's Audit Committee.

ROB GREEN, FINANCE DIRECTOR (41)

Rob Green joined the board as Finance Director in 2006 having previously held a number of senior finance roles with Marconi. He qualified as a Chartered Accountant at Coopers & Lybrand and gained financial services experience at Lloyds TSB.

Rob is a trustee of Coventry Cyrenians, a charity for the homeless based in Coventry.

DAVID HARDING, CHAIRMAN (62)

David Harding joined the board as a non-executive director in 1996, becoming Deputy Chairman in 1999 and Chairman in 2005.

David has experienced a wide career in finance. His career has included board positions with several major listed companies, including Railtrack Plc, Rugby Group Plc and T&N plc. He was also Chairman of PD Ports PLC until 2006.

David is a non-executive director of the Royal Mint and of Enterprise Inns plc and is a local Magistrate.

THE DIRECTORS AND SECRETARY
(continued)

IAN PICKERING (54)

Ian Pickering was appointed to the board as a non-executive director in 2005. He is a qualified Chartered Accountant.

An experienced company director, having worked for much of the last 20 years in the engineering industry, Ian is a former Chief Executive of Manganese Bronze Holdings plc. Prior to this he was a director of the Dennis Group PLC.

Ian is a non-executive director of Bedford Hospital NHS Trust and a member of the Council of Cranfield University. He is a member of the Auditing Practices Board of the Financial Reporting Council.

Ian is Chairman of the Society's Audit Committee.

NAILESH RAMBHAI, SECRETARY AND SOLICITOR (35)

Nailesh Rambhai is a Solicitor. He joined the Society in 2006, having qualified at Linklaters and then working at another major law firm in the City of London.

Nailesh is the principal legal advisor for the Society. Nailesh is a non-executive director of the Belgrade Theatre in Coventry where he is Chairman of the theatre's community and education company.

FIONA SMITH (51)

Fiona Smith joined the board as a non-executive director in 2002. Fiona is a Solicitor and has been General Counsel and Company Secretary of Severn Trent plc since 2006. She was previously General Counsel and Company Secretary at National Grid plc, where she worked for 15 years, and then at Transport for London.

Fiona is a trustee of the Society's Staff Superannuation Fund.

DAVID STEWART, CHIEF EXECUTIVE (44)

David Stewart is a graduate of Warwick University and a Chartered Accountant, having qualified with KPMG. He joined the board in 2002 as Finance Director, assumed board responsibility for the sales and marketing functions in 2004 and was appointed Chief Executive in 2006.

Prior to joining the Society, David gained financial services experience at DBS Management plc where he was Group Finance Director and then Group Chief Executive.

David is a member of the Council of the Building Societies Association and of the Executive Committee of the Council of Mortgage Lenders. He is also a member of the Financial Ombudsman Service Steering Group and the Retail Financial Services Forum.

PHIL VAUGHAN (45)

Phil Vaughan joined the Society in 2006 as Chief Operating Officer and was appointed to the board in 2009. He holds responsibility for the Society's information systems infrastructure and its customer service centre including the telephone call centre and mortgage and savings processing functions.

Previously Phil was Finance Director for Group Operations and Technology at Barclays Bank PLC. Phil joined the Society from American Express where he was Vice President for Business Management and Global Re-engineering.

DIRECTORS' REPORT

BUSINESS OBJECTIVES AND ACTIVITIES

The Society's principal objective is the provision of a range of personal financial services including mortgage finance for house purchase and improvements, savings, investment accounts and insurance.

The directors consider that no activities carried out during the year were outside the powers of the Society.

BUSINESS REVIEW

The Society performed strongly in 2009, achieving excellent results for a mortgage lender in difficult economic conditions. This success was based on strong fundamentals of secure funding, the ability to attract and retain retail savings, continued operational efficiency and strong asset quality. This underlying strength enabled the Society to continue lending and in doing so achieve record mortgage market share, affirming the board's belief that the Society has the right business model for these difficult conditions.

External environment

The financial crisis and resulting worldwide economic recession continued to define the market environment in 2009, damaging confidence and creating pressure on the operating models of all financial organisations.

At the start of the year, the UK housing market faced particular pressures. A shortage of mortgage availability, with many lenders unable to fund their usual level of new loans, combined with the impact of the recession, brought about falling house prices and sales.

The Government, faced with the twin imperatives of stabilising the financial sector, and in particular those failing banks deemed systemically important, and lessening the impact of the recession, intervened on an unprecedented scale. The sums of public money deployed to support the financial system resulted in a level of national debt that is likely to be a key influencer of economic policy for many years to come.

The support for Royal Bank of Scotland and Lloyds Banking Group involved a substantial investment of public funds and have, together with ongoing responsibilities for Northern Rock and the lending arm of Bradford & Bingley, taken significant elements of the UK banking sector effectively into public ownership.

Confidence in UK financial services, once seen as a world-leading industry, has been severely damaged and the long term impact of regulatory attempts to prevent a potential recurrence are yet to be understood.

The Government's actions to reduce the impact of the recession appear to have been effective in the short term but at a cost to the public finances which may define the economy for many years. The Bank of England Base Rate has remained at an historically low 0.5% since March 2009 and this attempt to stimulate spending was backed by a Quantitative Easing programme of £200 billion as the Bank attempted to improve liquidity across the market.

Monetary measures were backed by fiscal policies including the temporary reduction of VAT to 15% and specific action to protect a housing market that at the start of the year was showing significant reductions in house values and overall market volumes.

Collectively these measures appear to have helped prevent a collapse of the housing market. Prices rose in the second half of the year, though the lack of volume indicated that a shortage of supply was a major factor in this. Repossessions in the industry were also less than initially expected as the low interest rate environment and proactive approach taken by most lenders enabled more people to remain in their homes. Nevertheless, the board believes the outlook for the economy in general, and house prices in particular, remains uncertain.

The lack of volume in the housing market was also a result of the reduction in the capability of many lenders to fund mortgages. The wholesale funding market remained restricted and as a consequence the retail savings market was very competitive and the relative cost of retail funds was expensive.

The difficult market conditions exposed weaknesses within the building society sector too. 2009 was marked by the failure of Dunfermline, the merger of Yorkshire and Chelsea building societies and the introduction of a new debt for equity scheme to recapitalise West Bromwich Building Society. The latter raised particular questions about the dilution of mutuality amongst building societies and, overall, the future of the sector was questioned more during 2009 than at any time during the financial crisis. Credit ratings were reduced with some building societies being marked down significantly.

Impact on Coventry Building Society

Despite the difficult market, the Society performed very strongly, based on the consistent application of a simple traditional building society model of attracting and retaining new savings balances to support responsible lending.

The Society's strength is its ability to maintain this traditional approach without recourse to new or increased levels of risk. This has meant that the Society has avoided the pitfalls experienced by some competitors which have restricted their ability to lend.

DIRECTORS' REPORT
(continued)

Mortgages
The main focus of the Society is to provide responsible mortgage finance to help people buy their own homes. The ability of the Society to maintain this focus throughout an economic recession and, in particular, at a time when many competitors have been unable to carry on lending, is testament to Coventry's fundamental strength.

The Society advanced £2.7 billion in 2009. This equates to a record share of new loans of almost 2%, compared to Coventry's natural market share of 1.1%, and represents 15% of all building society lending.

In 2007 the directors estimated that Coventry's market share of net lending was 1.6%, a figure which was achieved in a record year's lending by the Society. In 2008, this figure had increased to 3.4% and in 2009 this has more than doubled again to 8.0%, with net lending of £919 million.

The Society has achieved this record market share in 2009 by being fundamentally strong, well funded, well capitalised, with excellent asset quality and high levels of operational efficiency.

Being in a position to lend has also meant that the Society has been able to maintain its key strategic goal of prudent and responsible lending. Recognising the impact of the economic recession on house values and the increased threat of mortgage fraud, additional checks have been put in place to maintain the Society's strong track record in safeguarding the money lent for house purchases.

As in previous years, lending was concentrated in low risk segments. The Society continues to experience relatively low levels of arrears and repossessions. At 31 December 2009, only 0.80% of mortgage balances were 2.5% or more in arrears, very substantially lower than industry norms. At the time of the latest available data (30 September 2009), Coventry's arrears were just under one third of the industry average, according to figures published by FSA.

This favourable position is reflected in the number of accounts in arrears at 31 December 2009 where just 1.18% of mortgages were more than three months in arrears, significantly less than the CML average of 2.38%, and in six months arrears levels, where Coventry's rate of 0.55% is 39% of that of CML members as a whole. These figures are stated excluding cases where a receiver of rent has been appointed. In addition, despite the overall fall in house values recorded in the last two years, the average loan to value of the Society's mortgage book remains low at 51% (2008 - 53%).

The Society's strong arrears performance is reflected in the relatively low amount required to cover non-payment of loans. As in 2008, impairment charges are certain to be amongst the lowest of any large UK mortgage lender meaning that the Society's strong profitability was not been eroded by credit losses.

The Society has never purchased a mortgage book or undertaken second charge or commercial lending.

Funding
The Society continues to fund its mortgage lending with retail savings deposits and has demonstrated its ability to compete very successfully in an intensely competitive savings market. As at 31 December 2009, all of the Society's mortgage book was funded by retail savings, capital and reserves.

The importance of understanding and quickly addressing the needs of current and future members is central to this success. The Society has shown that by continuing to develop and deliver its comprehensive portfolio of savings products it is able to fund further mortgage growth.

The launch of new products has been supported by strong retention rates for maturing products and overall retail balances increased substantially by £833 million in 2009 and have grown by £5 billion (61%) in the last three years.

Since 2008 the action taken on variable rate savings accounts meant that over 95% of balances have seen an increase in their rate relative to the Bank of England base rate. The annualised benefit of this action is an additional £70 million of interest paid to members based upon the balances held at 1 January 2009.

The growth in savings and mortgages also attracted over 100,000 new members to the Society taking the total number of members to more than 1.2 million.

In addition, the Society has maintained strong credit ratings with both Fitch (A) and Moody's (A3). As a result, the Society continued to attract significant deposits from institutional investors despite the restrictions in the wholesale market.

The Society's ability to attract long term deposits is worthy of particular note. In October 2009, it was able to complete a £350 million 10 year unsecured note issuance, in a deal that was heavily oversubscribed. Coventry remains one of only two building societies to have been able to attract such long term funds from institutional investors since the onset of the credit crunch in 2007.

Financial performance

The Society achieved excellent results in 2009, remaining strongly profitable and continuing to grow.

The uncertainty that prevailed particularly over the first half of the year, the high cost of acquiring retail savings and an unpredictable housing market meant that the directors focused on prudent lending at lower volume levels than in the previous year.

The Society's successful track record of competing for retail savings was maintained, ensuring a high level of liquidity at 23.9% and enabling the continued growth in mortgages to be funded comfortably.

The Society continues to achieve the lowest management expense to mean assets ratio reported by any UK building society. Despite significant growth in savings and mortgages, costs grew by only 5.6%. Operating costs fell as a percentage of average assets from 0.40% to 0.38%.

The result was record profit before impairments and exceptional items of £75.0 million.

A further provision for payment to the Financial Services Compensation Scheme of £2.0 million was made in relation to the bailout of failed institutions. Profit before tax increased substantially from £26.4 million to £56.2 million. After provision for tax of £12.7 million, profit for the financial year was £43.5 million (2008 - £18.8 million), further strengthening the Society's capital position.

Awards

The directors are pleased to report that the Society won many awards in 2009, with particular recognition going to two members of staff who were independently assessed as being the best in their respective fields.

The achievement of Joanne Taylor, an advisor in the Society's Coventry-based customer service centre, was exceptional. The Customer Contact Association, which assesses customer service across many industries, named Joanne not only the Advisor of the Year but also the Overall Professional of the Year – the first time this has been awarded to an advisor.

Diane Kennedy, who works as the national account manager in Coventry's Intermediary sales team, was awarded Business Development Manager of the Year in the British Mortgage Awards.

It is perhaps unsurprising that the Society should win a number of mortgage awards when its mortgage performance has been so outstanding. Among the many awards won, some stand out: Mortgage Strategy magazine awarded the Society 'Mortgage Strategist of the Year' and the Which? Mortgage Customer Satisfaction Survey, based on the opinion of customers of all organisations, rated the Society best high street lender. In addition, the Mortgage Finance Gazette named Coventry the largest organisation that has done the most to treat customers fairly.

The directors were also pleased that the Society won a number of awards for savings products, including being highly rated in the equivalent Which? Customer Satisfaction Survey for savings and 'Best Over 50s Account Provider' by Moneyfacts.

In 2008 the Society's Coventry-based customer service centre featured in the Sunday Times Top 20 UK Call Centres list. This was repeated in 2009. The team was also awarded the title 'Best Medium to Large Call Centre in Europe' in the 2009 European Call Centre Awards. The customer service centre was also presented with an award for innovation in back office operations, reflecting the work on flexibility, planning and efficiency that underpinned the performance of the Society in 2009.

The Society was recognised in the Coventry and Warwickshire Employer of Choice awards and re-awarded its Investors in People accreditation. The fact that these reflect the strength of commitment between Society and staff is extremely important to the Society.

In 2009, the Financial Ombudsman Service published details for the first time of the complaints that had been referred to it after failing to be resolved by individual financial organisations. A minimum of 30 complaints had to be referred within a six month period for an organisation to be included. The Society was the largest mortgage lender not to feature in the tables, and, although not an award, the directors believe this is tangible and independent recognition that the Society aims to deliver a service that meets the expectations of its membership. This was repeated in February 2010.

The directors believe that all the awards won by the Society in 2009 reflect the commitment for excellence that is shared by all staff and it is notable that the awards span a broad cross-section of the Society's activities.

DIRECTORS' REPORT
(continued)

GROUP ACCOUNTS

The Accounts show the consolidated Group results of the Society and its subsidiaries, and the Society as a single entity.

PENSION SCHEME

The Society's pension scheme had a surplus of £6.9 million at the year end.

PROFIT AND CAPITAL

The Group's profit after tax amounted to £43.5 million, which was added to reserves.

The Group holds capital to protect its depositors, to cover inherent risks, to support the development of the business and to provide a cushion for unexpected losses. In assessing the adequacy of its capital, the Group considers its risk appetite and the material risks to which it is exposed. Capital adequacy and capital resources are monitored on the basis of the framework developed by the Basel Committee on Banking Supervision and subsequently implemented in the UK by the UK regulator, FSA.

Prior to 1 January 2008, the Group followed the requirements of the Capital Accord (Basel I). Since 1 January 2008 the Group has complied with the EU Capital Requirements Directive (Basel II). From this date FSA granted the Group permission to use the Basel II Internal Ratings Based (IRB) approach to credit risk and capital management. This permission reflects the Group's detailed analysis of its customer base and control of its credit risk profile. It will allow the Group to set capital levels using internally developed models rather than through percentages set by FSA.

The table below summarises the composition of regulatory capital for the Group as at 31 December 2008 and 31 December 2009. At 31 December 2009, and throughout the year, the Group complied with the capital requirements that were in force. At 31 December 2009 the Group calculated its capital requirement under Basel II using the IRB approach for prime residential and buy-to-let mortgage exposures, and the standardised approach in calculating the capital requirements for other risk areas.

Capital structure

		2009	2008
	Notes	**£m**	£m
Tier 1			
General reserve		**616.0**	574.9
Pension fund surplus adjustment		**(6.9)**	(8.9)
Intangible assets		**(9.9)**	(8.5)
Deductions from tier 1 capital	2	**(19.2)**	(10.7)
Core tier 1 capital		**580.0**	546.8
Permanent interest bearing shares	1	**160.0**	160.0
Total tier 1 capital		**740.0**	706.8
Tier 2			
Collective provisions for impairment	3	**0.3**	0.8
Subordinated debt	1	**70.0**	70.0
Deductions from tier 2 capital	2	**(19.2)**	(10.7)
Total tier 2 capital		**51.1**	60.1
Total capital		**791.1**	766.9
Risk-weighted assets		**2,078.5**	2,043.7
Core tier 1 ratio (%)		**27.9**	26.8

1. Principal amount outstanding only.
2. Under Basel II a deduction is made for the excess of expected losses on loans and advances to customers, calculated on an IRB basis, over accounting provisions.
3. Under Basel II collective provisions for impairment relating to loans and advances to customers, calculated on a standardised basis, are included as tier 2 capital.

Core tier 1 ratio

The Society retains a strong capital position with a core tier 1 ratio of 27.9% (2008 – 26.8%).

ASSETS

The assets of the Group increased by £1,038 million to £18,402 million at 31 December 2009, representing growth of 6.0%.

Changes in intangible assets and property, plant and equipment are detailed in notes 24 and 25 to the Accounts.

Advances during the year amounted to £2.7 billion, contributing to total loan balances of £14.1 billion, representing growth of 6.8%. At 31 December 2009, there were 174 mortgage accounts twelve months or more in arrears (2008 - 66). The balances on these accounts totalled £22.2 million (2008 - £6.8 million) and the value of these arrears was £1.1 million (2008 - £0.5 million).

CREDITOR PAYMENT POLICY

The Society's policy is to agree the terms of payment at the start of trading with the supplier and to pay in accordance with its contractual and other legal obligations.

CHARITABLE AND POLITICAL DONATIONS

The Society provided for donations of £1.4 million (2008 - £1.8 million) to charitable organisations during the year. This included a provision for £1.3 million (2008 - £1.6 million) to The Royal British Legion's Poppy Appeal and £50,000 (2008 - £50,000) to the Coventry Building Society Charitable Foundation.

The amount donated to The Royal British Legion Poppy Appeal was the result of an ongoing relationship with the Legion for which the Society has developed a portfolio of products including fixed rate bonds and an easy access savings account. In February 2010, a cheque for £1.8 million was presented. This brings the total support given to the Poppy Appeal since the launch of the inaugural Poppy Bond in October 2008 to £3.4 million. The number of members holding accounts which support the Legion now totals over 54,000.

No contributions were made for political purposes. However, as a result of the Political Parties, Elections and Referendums Act 2000, time allowed for employees to carry out civic duties can amount to a donation. The Society supports a very small number of employees in this way.

CORPORATE RESPONSIBILITY, ENVIRONMENTAL AND EMPLOYEE FACTORS

Staff

The directors would like to recognise the contribution made by every member of staff in meeting the expectations of the Society's membership. During the economic downturn and in particular the uncertainty caused by ongoing shocks to the financial system, the need for staff to reassure members as well as deal with their financial requirements has been an additional priority.

The performance of staff in this regard has been exemplary, supported by a commitment to open, timely and relevant communications across the Society.

The emphasis on communication was just one aspect that was favourably reviewed by independent assessors for the Investor in People award. This was re-awarded during 2009, and the directors were delighted that the Society was placed in the top 100 of the 20,000 organisations assessed.

This award emphasises the Society's commitment to its staff. In uncertain times, when many organisations have been forced to make cutbacks with a corresponding loss of jobs, the directors are particularly pleased that Coventry continues to grow, providing opportunities for both new and existing staff.

However, members of staff are under no illusion that the economic conditions are harsh and that the Society must work hard to prosper. Their flexibility and willingness to take on additional responsibilities is a fundamental strength of the Society and one that has been encouraged through training and development opportunities over a number of years. This has supported improvements in efficiency and cost-effectiveness which has helped protect jobs in the current downturn.

It was very encouraging that the Society should also be recognised in the Coventry and Warwickshire Employer of Choice awards, being presented with the top award for its employee wellbeing programme and highly commended for the overall employer of choice award. The Society will continue to invest to provide the right environment and opportunities for members of staff to meet their expectations and those of the Society's membership.

Community

The directors are pleased to report that the Society's work in supporting the communities it serves has continued to flourish.

In 2008 a new strategy was launched to focus on areas where the Society has a particular interest or strength. The relationships that have been established subsequently and the initiatives that have been launched have proved the value of this approach.

The focus on financial literacy has been particularly encouraging. It is a national priority to improve the understanding and capability of young adults taking responsibility for their finances for the first time. The Society has worked with schools, local and national authorities, and partners including Aviva, to support or deliver courses and education events to schools across Coventry and Warwickshire. This support has also extended beyond schools to encompass ground-breaking partnerships with the Coventry Citizens Advice Bureau and Coventry Law Centre to support adult debt advice.

The Society has also begun a three year programme of support with Age Concern/Help the Aged, building on the success of previous campaigns with RNIB and Macmillan Cancer Support. Members of staff have gained a greater understanding of the problems faced by elderly people and the support provided by the charity to help those in need. In the eight months since the partnership began in April 2009, a total of £50,000 has been raised. The total amount raised for the previous corporate charity, Macmillan Cancer Support, was £77,484.

It is not only large charities that have been supported. The Coventry Building Society Charitable Foundation continues to support many local groups and smaller charities. The Foundation, which has donated over £650,000 in its 11 years, fulfils a vital role to many locally based groups which can provide life-changing support in their areas of operation. In addition, the Society's partnership with a local hospital, Rugby St Cross, resulted in a record donation in October 2009 of over £30,000.

The relationship with The Royal British Legion goes from strength to strength, aided by the loyalty and admiration felt by supporters of its work and the development of ground-breaking savings accounts by the Society.

Coventry Building Society is an important source of support for communities and is often able to provide expertise or resources to support local activities. Branches and head office sites have formed community partnerships with local charities or schools and staff gain a great deal through the support they provide in terms of personal satisfaction, motivation and understanding of local communities.

Environment

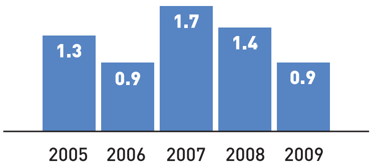
The board has set two environmental goals: firstly, to reduce the use of energy, water and materials; and secondly to reduce the amount of waste by working more efficiently and recycling or re-using more materials.

By focusing on the main environmental impacts the Society has ensured that all paper used within Coventry Building Society, including all branch sites and the head office printing and production unit, is recycled via a secure facility. Furthermore, over 95% of all literature produced by the Society uses recycled paper.

In 2010 monitoring and reporting of energy use will be enhanced through the Society's inclusion in the Government-led Carbon Reduction Commitment Energy Efficiency Scheme. The Society's work in reducing the use of materials has also been extended to the Society's water usage and an independent audit conducted during 2009 will not only inform target reductions in 2010, but be used to support members of staff in reducing their domestic consumption.

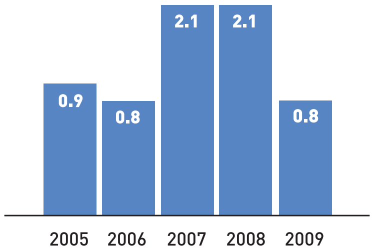
KEY PERFORMANCE INDICATORS

NET MORTGAGE LENDING (£bn)



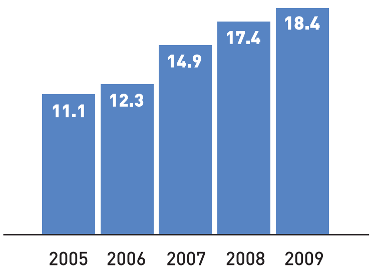
- The Society has maintained a strong presence in the mortgage market.
- Its market share of net lending in the UK for 2009 was 8%*.

INCREASE IN SAVINGS BALANCES (£bn)



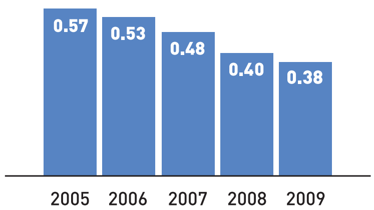
- Retail savings balances increased by 61% in the last three years.
- Savings balances combined with capital and other reserves fund all of the Society's mortgage lending.

ASSETS (£bn)



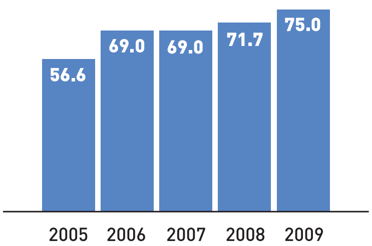
- Total assets grew by over 6% during 2009.
- The Society's mortgage book continues to be concentrated on low risk owner occupied properties.

MANAGEMENT EXPENSES RATIO (%)



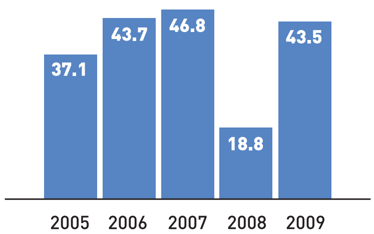
- This ratio measures management expenses as a percentage of average assets.
- For the fourteenth successive year this ratio has fallen and, at 0.38%, is the lowest reported by any building society.

OPERATING PROFIT BEFORE IMPAIRMENTS AND EXCEPTIONAL ITEMS (£m)



- Underlying profitability remained strong despite the pressure on margin arising from a low base rate environment.

PROFIT AFTER TAX (£m)



- Profit after tax represents the amount of capital that has been generated during the year.
- An appropriate level of profit enables the Society to continue to grow and to maintain the capital required to meet its regulatory obligations and protect the interests of members and investors.

* Source: Council of Mortgage Lenders' Statistical Release December 2009

DIRECTORS' REPORT
(continued)

DIRECTORS

The following persons served as directors of the Society during the year: Bridget Blow, Roger Burnell, Colin Franklin (appointed 7 July 2009), Ian Geden, Rob Green, David Harding, Ian Pickering, Fiona Smith, David Stewart, and Phil Vaughan (appointed 7 July 2009).

No director has had any interest in the shares or debentures of any associated body of the Society.

David Harding was re-elected Chairman on 19 May 2009.

Colin Franklin and Phil Vaughan were appointed to the board on 7 July 2009. They retire under Rule 25 and, being eligible, offer themselves for election in accordance with that Rule.

The directors retiring by rotation are Rob Green and David Harding.

David Harding joined the board in 1996, although he only became Chairman in 2005. Historically the Combined Code on Corporate Governance has recommended that non-executive directors should only serve a term of more than nine years in exceptional circumstances, although comments in the Walker Review of Governance in Banks and Other Financial Institutions (November 2009) indicate that this 'nine year rule' should be relaxed in order to preserve and retain experience in the sector.

The Financial Reporting Council is currently consulting on a new UK Corporate Governance Code. This is expected to be published later in 2010 and it is expected that the recommendations in the Walker Review will be incorporated in the new Code.

In 2008 and again in 2009 the non-executive directors, excluding, for this purpose, the Chairman, conducted a thorough review to assess David Harding's contribution to the board. They confirmed that he continues to be an effective non-executive director, that he facilitates an open atmosphere in board meetings and that he continues to effectively promote a balance of challenge and support to the executives.

The board, including the executive directors but again excluding, for this purpose, the Chairman, have also formally reviewed his performance and have concluded that he continues to discharge the role of Chairman with distinction. David Harding has led the Society through a period of transition in the board and has also provided strong leadership and guidance throughout the current market conditions. He is widely respected throughout the sector.

The board has therefore decided unanimously to recommend David Harding for re-election by the members at this year's AGM. Therefore, Rob Green and David Harding, being eligible, offer themselves for re-election in accordance with Rule 26.

The Society maintains liability insurance cover for directors and officers as permitted by the Building Societies Act 1986.

BOARDS AND MANAGEMENT

The board currently comprises a non-executive Chairman, five other independent non-executive directors and four executive directors. The Chairman is mainly responsible for leading the board; the Chief Executive's main responsibility is to focus on the operational business of the Society.

The role of the board is to determine long term strategy, approve major operational projects, maintain systems of internal control, consider significant financial matters and the appointment of executive directors and senior management. Risk management is viewed as an integral part of the board's decision making process and also of the Society's corporate planning process which is overseen by the board.

The board has a formal schedule of matters that are reserved to it, and it has also delegated authority in other matters to a number of board committees, as described below. The board has set clear terms of reference for these committees and has clearly documented delegated authority to the executive directors and senior management.

Although it is not obliged to do so, the Society complies with the Combined Code of Corporate Governance insofar as it is appropriate.

A report on corporate governance can be found on pages 21 to 24.

BOARD COMMITTEES

Nominations and Governance Committee

This committee comprises the Chairman, Deputy Chairman (or in her absence another non-executive director) and Chief Executive.

This committee is responsible for making recommendations to the board on matters including board and senior management succession planning.

Remuneration Committee
Consisting of the non-executive directors only and chaired by Bridget Blow, independent non-executive director, this committee approves the level of remuneration for the executive directors and senior management.

The report on directors' remuneration, prepared by the committee, can be found on pages 25 to 26.

Audit Committee
This committee comprises four independent directors: Ian Pickering (Chairman of the Audit Committee), Bridget Blow, Roger Burnell and Ian Geden.

The committee considers audit matters and other risks applying to the Society. These include compliance matters under the Financial Services and Markets Act 2000, internal controls, the work of internal audit, the appointment and re-appointment of the external auditors, financial reporting and other relevant prudential requirements.

The external auditors, the Society's Chief Executive, Finance Director, Secretary and Solicitor, Head of Risk, Chief Internal Auditor and also certain senior managers (if required) attend Audit Committee meetings. In addition, the Society's external auditors are provided with the opportunity to meet the members of the committee in private session.

The committee undertakes an annual evaluation to assess the independence and objectivity of the external auditors and the effectiveness of the audit process, taking into consideration relevant professional and regulatory requirements. The outcomes of this evaluation feed into the committee's recommendation to the board on the re-appointment of the external auditors. The final decision on the recommendation is, of course, reserved for the board.

SENIOR MANAGEMENT COMMITTEES

Senior Management Committee
Chaired by the Chief Executive and comprised of executive directors and senior management.

Committee members work closely day-to-day and the committee meets formally on a weekly basis to oversee the operational and business performance of the Society.

Risk Management Committee
Chaired by the Finance Director and comprised of the executive directors and senior management, with non-executive directors in attendance by rotation and the external auditors in attendance by invitation.

The committee meets monthly (with additional meetings as required) and ensures that risk is being managed efficiently across the Society, in accordance with the corporate plan. The minutes of the committee are presented to the full board.

The Society also has a number of sub-committees that report to the Risk Management Committee. The details of these committees are as follows:

Asset and Liability Committee (ALCO)
Chaired by the Finance Director and comprised of executive directors and senior management. The committee oversees the management of the Society's asset and liability management strategy with the objective of achieving the corporate plan.

Credit Risk and Lending Committee
Chaired by the Deputy Finance Director and comprised of senior management. The committee meets twice monthly and monitors the risks associated with lending policy, credit systems and credit processes.

Operational Risk and Compliance Committee
Chaired by the Chief Operating Officer and comprised of senior management. The committee monitors operational risk, financial crime, regulatory compliance and business continuity in the Society.

Rating System Committee
Chaired by the Finance Director and comprised of executive directors and senior management. The committee monitors the performance of the Society's Basel II credit risk rating system.

Security and Safety Committee
Chaired by the Sales and Marketing Director and comprised of executive directors and senior management. The committee oversees security and health and safety issues as they apply to staff and customers.

GOING CONCERN

In preparing the financial statements the directors must satisfy themselves that it is reasonable for them to conclude it is appropriate to adopt the going concern basis.

The Society meets its day-to-day liquidity requirements through managing both its retail and wholesale funding sources and is required to maintain a sufficient buffer over regulatory capital requirements in order to continue to be authorised to carry on its business.

DIRECTORS' REPORT
(continued)

The Society's business activities, together with the factors likely to affect its future development, performance, position, liquidity and capital structure are set out in the Chairman's Statement, Chief Executive's Review and this Directors' Report. In addition, the Risk Management Report and note 40 to the financial statements includes further information on the Society's objectives, policies and processes for managing its exposure to liquidity, credit and interest rate risk, details of its financial instruments and hedging activities.

The directors believe that the Society is well placed to manage its business risks successfully despite the current uncertain economic outlook. After considering factors including default rates on loans, house price movements and the Society's capital and liquidity position, the directors are confident that the Society has adequate resources to continue in business for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the Annual Report & Accounts.

DIRECTORS' STATEMENT PURSUANT TO THE DISCLOSURE AND TRANSPARENCY RULES

The directors confirm that, to the best of each person's knowledge and belief:

- The financial statements, prepared in accordance with IFRS as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit of the Group and Society; and
- The management report contained in this Directors' Report and the Risk Management Report includes a fair review of the development and performance of the business and the position of the Group and Society, together with a description of the principal risks and uncertainties that they face.

AUDITORS

Following a thorough review by the Audit Committee, the board has agreed that a resolution proposing the re-appointment of Ernst & Young LLP as auditors of the Society will be submitted at the Society's 2010 AGM.

FUTURE DEVELOPMENTS

There can be little doubt that market conditions will remain challenging throughout 2010. The impact of very low interest rates, a restricted financial market and further regulatory changes, including those affecting capital and liquidity, will put pressure on profitability. There is also the possibility that the recent revival in the housing market and wider economy could reverse.

However, the Society is well placed to succeed. It continues to earn an adequate return from its assets, it is well funded and it is not exposed to the scale of impairment losses faced by some competitors. And although there has undoubtedly been a significant increase in the cost of acquiring and retaining retail funding, this is reflected in the market price for new prime mortgage lending.

From the start of the credit crunch, it was the board's belief that the Society had the right business model for these difficult conditions. Subsequent events have shown this to be the case and the board continues to believe that Coventry remains well placed to report further progress in 2010 and beyond.

On behalf of the board

David Harding
Chairman
1 March 2010

RISK MANAGEMENT REPORT

PRINCIPAL RISKS AND UNCERTAINTIES

The Society seeks to understand and manage the various risks that arise from its operations. The principal risks facing the Society and the procedures put in place to manage them are described below.

FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Society defines the risks it faces in four categories. These are credit risk, market risk, liquidity risk, and operational risk (including compliance and financial crime).

Credit risk

Credit risk is the risk that customers or counterparties will not meet their financial obligations to the Society as they fall due. For a building society, this risk is most likely to present itself in the potential inability of customers to repay their mortgage or other loan commitments.

This retail credit risk is managed through the Society's underwriting process which seeks to ensure that customers only assume a debt that they can afford to repay, thereby safeguarding both themselves and the Society. Should customers find themselves in financial difficulty, the Society has established procedures to ensure that it responds appropriately. Usually, this involves working with the customer to clear arrears or making other arrangements commensurate with the customer's circumstances; should the situation deteriorate significantly, it can involve the Society taking possession of the underlying property.

The Society's exposure to retail credit risk is managed by a specialist department that reports to the Credit Risk and Lending Committee which in turn reports to the Risk Management Committee and board.

Credit risk within the treasury function arises from the risk that counterparties will be unable to repay loans and other financial instruments that the treasury function holds as part of its liquidity portfolio. This risk is managed by restrictions on the type of assets held, an assessment of the credit worthiness of counterparties and by working within exposure limits with each counterparty. The treasury risk management team reports through the ALCO to the Risk Management Committee and to the board.

Details of the Society's exposure to credit risk are contained in note 40 to the Accounts.

Market risk

Market risk is the risk that the value of income arising from the Society's assets and liabilities may change adversely as a result of changes in interest rates, exchange rates or house prices. The Society's policy is to manage its exposure to these risks within prudent limits. It does this through a combination of matching assets and liabilities with off-setting interest rate or exchange rate characteristics and by the use of derivative financial instruments such as interest rate swaps and caps, foreign exchange swaps and foreign exchange forward purchase contracts. Control of market risk exposure is managed by the ALCO, which makes regular reports to the Risk Management Committee and board. The most significant elements of market risk for the Society are interest rate risk, foreign currency risk and house price risk, each of which are described below.

Interest rate risk

Interest rate risk arises from the different interest rate characteristics of the Society's mortgages, savings products and other financial instruments. In particular, the issue of fixed and capped rate mortgages and fixed rate savings products exposes an organisation that principally operates within a variable rate environment (such as the Society) to the risk that the interest rate fluctuations could cause either a reduction in interest income or an increase in interest expense relative to the other interest flows.

Where the Society has issued fixed rate mortgages, the risk is that a general increase in interest rates would leave the Society facing higher interest expense, but without a compensating increase in interest income. In these circumstances, the Society would typically take out an interest rate swap with a counterparty bank under which the Society's fixed rate income is exchanged for one based on a variable rate which would be expected to follow the general pattern of interest rate movements and thereby reduce the Society's exposure. Similarly, in cases of issuing fixed rate savings products, the Society would typically take out an interest rate swap under which the Society receives a fixed rate of interest and pays a variable rate. With capped rate mortgages, the risk is that if the rates increase above a pre-determined level, the Society will be unable to increase its mortgage rate on these products to compensate. In these circumstances, the Society would typically purchase a rate cap that will pay a variable rate if an agreed index rate (generally LIBOR) exceeds a certain level.

RISK MANAGEMENT REPORT
(continued)

Foreign currency risk
Foreign currency risk arises as a result of the Society's activities in raising funds and making investments in foreign currencies. This is done to ensure wholesale funds are obtained cost effectively across a wide pool of potential providers, but exposes the Society to the risk of an appreciation in the value of foreign currency denominated liabilities or a deterioration in the value of the foreign currency denominated assets. The risk is managed through the use of currency swaps and foreign currency forward contracts and also, where appropriate, by the matching of foreign currency liabilities with assets denominated in the same currency.

Details of the Society's exposure to interest rate and foreign currency risk are contained in note 40 to the Accounts.

House price risk
House price risk arises from the 'no negative equity' guarantee given to borrowers who have a lifetime mortgage product, whereby the borrower is guaranteed that the amount recoverable by the Society at the end of the mortgage will not exceed the value of the property.

Under these loans, the borrower receives an advance but makes no payments of interest or principal until the loan is redeemed. The interest is added to the loan and recovered by the Society when the loan is redeemed. The 'no negative equity' guarantee therefore exposes the Society to the risk that the value of the property at the time of redemption is lower than the loan plus accumulated interest.

The Society manages this risk by granting loans at relatively low loan to value ratios subject to the age of the borrower. The risks presented by house price trends are evaluated through stress testing and monitored by the ALCO and, through this committee, by the Risk Management Committee and board.

Details of the Society's exposure to house price risk are contained in note 40 to the Accounts.

Liquidity risk
Liquidity risk is the risk that the Society will be unable to meet its financial obligations as they fall due. The risk is managed principally by the holding of cash and other easily realisable liquid assets. The minimum ratio of these liquid assets to the Society's liabilities is set by statute and adherence to this is monitored by FSA. Day-to-day management of the Society's liquidity position is the responsibility of the treasury function and is monitored by the ALCO and, through this committee, by the Risk Management Committee and board.

Details of the Society's exposure to liquidity risk are contained in note 40 to the Accounts.

Operational risk
Operational risk is the risk of loss arising from inadequate or failed internal processes, people and systems or from external events, including legal risks. These risks are managed as an integral part of the operations of each of the Society's business units. Management have a responsibility to understand how operational risk impacts their area of the business and for putting in place controls or mitigating activities. The operational risk department ensures co-ordination of the Society's risk assessment and resulting control activities, reporting to the Operational Risk and Compliance Committee and through this committee to the Risk Management Committee and board.

It is also clear that for all financial organisations to follow good practice and build trust with customers there is a need for effective regulation. The Society's compliance, treasury risk and legal teams, as well as its external advisors, are charged with ensuring the Society meets its regulatory obligations. In recent times there have been a large number of regulatory changes. However, there is a danger that new regulation which treats the mutual sector in the same way as the 'plc' sector, or developments that encourage the introduction of new capital rewarded by profit, will damage the ability of the mutual sector to compete and grow whilst sticking to its values.

CORPORATE GOVERNANCE

The board is accountable to the Society's members for the operation of the Society and places the highest priority on good corporate governance.

An updated Code of Corporate Governance (the Code) was published by the Financial Reporting Council (FRC) in 2008 and all listed companies are required to explain their governance policies in light of the principles contained in the Code and to confirm that they comply with the Code's provisions or provide an explanation where they do not comply.

Whilst the Society does not have to comply with the Code, as it is not a listed company, the board is firmly of the view that, to uphold good corporate governance practices, it should aim to adhere to the principles and provisions of the Code that are relevant to the Society or explain to members why this is not the case. The board believes that the Society complies with the Code insofar as it is appropriate, unless stated otherwise.

The FRC is currently consulting on a new UK Corporate Governance Code. This is likely to include many of the recommendations in the Walker Review of Governance in Banks and Other Financial Institutions (November 2009). The new Code is expected to be published later in 2010 and will be applicable for financial years beginning on or after 29 June 2010. The board has considered the recommendations in the Walker Review and, as with all prevailing and relevant codes of best practice, will continue to seek compliance in a manner which is proportionate to the size, scale and relative simplicity of the Society's operations.

In addition, in the December 2009 Pre Budget Report HM Treasury indicated that it plans to bring forward, in due course, a new governance code for building societies and other financial institutions. At the time of writing no further details in relation to this new code have emerged, but the board will continue to monitor developments in this regard and seek to continue to adopt the highest standards of corporate governance.

Insofar as it is applicable the Society is also compliant with the 8th EU Company Law Directive.

THE BOARD OF DIRECTORS

The board applies principles of good governance by adopting the following procedures:

- the board's role is to set the Society's strategy, review performance and ensure that the necessary resources are in place for it to meet its objectives. It is also responsible for ensuring that financial controls and systems of risk management are robust. In particular the board's role is to provide overall direction to the Society and to safeguard the interests of its members;
- the board retains specific powers in relation to the approval of the Society's strategic aims and policies and other matters which must be approved by it under applicable legislation and the Society's Rules. The board is also responsible for the recruitment and terms of employment of executive directors and senior management within the Society. Other powers are devolved to the executive directors and senior management;
- the board currently consists of four executive directors and six non-executive directors. The size and composition of the board and the senior management team is kept under review to ensure that there is adequate succession planning for executive and non-executive directors and that there are the optimum skills and experience represented on the board for the direction of the Society's activities;
- all directors receive accurate, timely and clear information and it is the responsibility of the Chairman to ensure that this is reviewed by the board;
- the Chairman also ensures that, on appointment, non-executive directors receive a comprehensive tailored induction programme that covers the Society's business and regulatory environment. Non-executive directors update their skills, knowledge and familiarity with the Society through presentations by senior managers and by attending relevant bespoke internal and external courses; and
- all directors have access to the advice and services of the Secretary and Solicitor who is responsible for ensuring compliance with board procedures and advising the board, through the Chairman, on governance related matters.

Set out on the next page are details of the directors during 2009 and their attendance record at board meetings and relevant board committee meetings during the year.

CORPORATE GOVERNANCE
(continued)

BOARD COMMITTEES AND MEETINGS 2009

Name	Title	Number of Board Meetings - 11	Number of Audit Committee Meetings - 6	Number of Nominations and Governance Committee Meetings - 2	Number of Remuneration Committee Meetings - 4
David Harding	Chairman	11		2	4
Bridget Blow	Deputy Chairman	11	6	1[2]	4
Roger Burnell	Non-executive director	11	5		4
Colin Franklin	Sales and Marketing Director (appointed 07.07.2009)	5[1]			
Ian Geden	Non-executive director	11	5		4
Rob Green	Finance Director	11			
Ian Pickering	Non-executive director	10	6		4
Fiona Smith	Non-executive director	11		1[2]	4
David Stewart	Chief Executive	11		2	
Phil Vaughan	Chief Operating Officer (appointed 07.07.2009)	5[1]			

[1] maximum number of board meetings is 5.

[2] maximum number of Nominations and Governance Committee meetings is 1. Fiona Smith was temporarily co-opted onto the committee at the beginning of 2009. Bridget Blow joined the committee following her appointment as Deputy Chairman of the Society in May 2009.

NON-EXECUTIVE DIRECTORS

In the opinion of the board, each non-executive director is independent in character and judgement.

Bridget Blow fulfils the role of Senior Independent Director insofar as this role is relevant to the nature and scale of the Society's operations.

CHAIRMAN AND CHIEF EXECUTIVE

The roles of the Chairman and Chief Executive are held by different people and are distinct in their purpose.

The Chairman is responsible for leading the board and ensuring that it acts effectively. The Chief Executive has overall responsibility for managing the Society and for implementing the strategies and policies agreed by the board.

PERFORMANCE EVALUATION

The Society has a formal performance evaluation system for all members of staff including the executive directors. The performance of the non-executive directors and each of the board committees is appraised by the Nominations and Governance Committee, and the Chairman's performance is reviewed by the rest of the board. As noted in the Directors' Report on page 16, in 2009 the board, excluding the Chairman, again conducted a formal and thorough review of the performance of the Chairman.

The board also periodically fully reviews its own performance and in 2009 this review took the form of a formal board self appraisal questionnaire that was led by the Deputy Chairman and the Secretary and Solicitor. In addition, all directors have open and direct access to the Chairman and to the Senior Independent Director in order to raise any issues of concern.

APPOINTMENTS TO THE BOARD

The appointment of new directors is considered by the Nominations and Governance Committee which makes recommendations to the board. In accordance with Rule 25 of the Society's Rules, all directors are subject to election by members at the AGM following their appointment or, where applicable, at the next following AGM. In addition, all directors must receive approval from FSA as an Approved Person in order to fulfil their controlled function as a director.

Under Rule 26, directors have to submit themselves for re-election at least once every three years.

BOARD COMMITTEES

The board has established a number of committees that have their own terms of reference. Details of the principal board committees, including their membership, are set out below.

AUDIT COMMITTEE

The committee consists of:

Ian Pickering, Chairman of the committee
Bridget Blow, non-executive director
Roger Burnell, non-executive director
Ian Geden, non-executive director

The Chairman of the committee, Ian Pickering, has recent and relevant financial experience and is a Chartered Accountant.

The responsibilities of the committee comply with the provisions of the Smith Guidance on Audit Committees. The main function of the committee is to assist the board in fulfilling its oversight responsibilities with specific regard to:

- monitoring the integrity of the half-year and annual financial statements and any formal announcements relating to financial performance, focusing particularly on financial reporting judgements contained in them;
- reviewing the adequacy of systems of internal control and risk management processes;
- assessing the effectiveness of internal audit;
- considering compliance with relevant laws and regulations;
- reviewing the performance of external auditors and oversees the appointment by the Society of the external auditors for non audit work; and
- making recommendations to the board on the appointment, re-appointment or removal of external auditors and the amount of their remuneration.

During 2009 the committee met six times and, amongst other things, considered reports on:

- the Society's risk management framework and systems of internal control;
- the integrity of financial statements;
- operational risk related matters;
- compliance with laws and regulations, including adherence to Money Laundering Regulations; and
- the activities and performance of the internal and external auditors.

Reports were provided by the finance, internal audit, operational risk and compliance functions and the external auditors.

The committee also completed a thorough self appraisal exercise in 2009 and considers that it has met its responsibilities and performed its duties with appropriate levels of care and expertise.

NOMINATIONS AND GOVERNANCE COMMITTEE

The committee consists of:

David Harding, Chairman of the Society
and Chairman of the committee
Bridget Blow, Deputy Chairman
David Stewart, Chief Executive

The committee is responsible for making recommendations to the board on matters relating to the composition of the board (including board succession planning, the appointment of new directors, the re-appointment of retiring directors, the appointment of non-executive directors to committees of the board and executive director and senior management succession planning).

The committee is responsible for appraising the performance of the board and its committees as well as of individual directors. The performance of the Chairman is reviewed by the board excluding, for this purpose, the Chairman.

CORPORATE GOVERNANCE
(continued)

REMUNERATION COMMITTEE

The committee consists of all of the non-executive directors of the Society and is chaired by Bridget Blow, Deputy Chairman and Senior Independent Director.

The committee is responsible for considering and approving the remuneration of executive directors and senior management and also sets targets for the Society's performance related bonus scheme in which all staff members participate. Further details of the committee, the remuneration policy and directors' service contracts can be found in the Directors' Remuneration Report on pages 25 and 26.

The Combined Code states that the Remuneration Committee should set the remuneration of the Chairman. However, the board believes that it is more appropriate for the remuneration of the Chairman to be set and reviewed in the same manner as that used to determine the remuneration for all other non-executive directors. It is therefore dealt with by the board, acting upon a recommendation from the executive directors and excluding, for this purpose, the Chairman. No director takes part in the discussion of his/her own remuneration.

The terms of reference of the Audit Committee, the Nominations and Governance Committee and the Remuneration Committee and the letters of appointment for non-executive directors are available on request from the Secretary and Solicitor.

RELATIONS WITH MEMBERS

The Society's members comprise its investors (except deposit account holders) and borrowers. The majority of its customers are therefore its members and the Society encourages feedback from them on all aspects of the Society's activities.

All members who are eligible are also encouraged to exercise their vote at the AGM either by attending in person or by voting by proxy, for which purpose they are sent a proxy voting form and reply-paid envelope, or they can vote in any branch or online. All proxy votes are counted. Except where a poll is required or called, the Chairman indicates the level of proxies lodged on each resolution by announcing the numbers for and against the resolution, after it has been dealt with on a show of hands. A separate resolution is proposed on each item including a resolution on the Annual Report & Accounts. The Society employs Electoral Reform Services Limited to act as independent scrutineers and ensure the votes are properly received and recorded.

INTERNAL CONTROLS

Responsibility for implementing sound and effective systems of internal control has been delegated by the board to senior management. The internal audit function provides independent assurance to the board on the effectiveness of the systems of internal control through the Audit Committee.

The information received and considered by the Audit Committee provided assurance that, during 2009, there were no material breaches of control or regulatory requirements and that, overall, the Society maintained adequate systems of internal control.

AUDITORS

The Society has a policy on the use of the external auditors for non-audit work which has been approved by the Audit Committee. The purpose of this policy, which stipulates when prior approval is required from the Audit Committee for any ancillary services, is to ensure the continued independence and objectivity of the external auditors.

DIRECTORS' REMUNERATION REPORT

INTRODUCTION

This report informs members of the Society of the policy for the remuneration of directors, executive and non-executive, who are equally responsible in law for directing the Society's affairs.

POLICY FOR EXECUTIVE DIRECTORS

Executive directors are employed by the Society and are required to devote substantially the whole of their time to its affairs. The policy of the board is to recruit and retain high calibre executive directors and to ensure that their remuneration packages (consisting of basic salary, performance related bonuses, pension arrangements and other benefits) reflect their responsibilities, performance and experience. The level of remuneration for the executive directors is set by the Remuneration Committee. The Committee consists of the non-executive directors only and is chaired by Bridget Blow, the Society's Deputy Chairman and Senior Independent Director.

The principal elements of the executive directors' remuneration packages are as follows:

a) Basic salary

The Society's reward strategy for executive directors aims to pay competitive market salaries and to recognise individual development and progression through the annual salary and personal review processes.

Salaries are reviewed annually, taking into account comparative data from other building societies. The latest review of remuneration policy found that base salaries for the executive directors remain below median levels relative to other societies of a comparable size.

b) Annual performance related bonus

All eligible Coventry Building Society staff participate in an annual performance related bonus scheme. Eligibility is dependent upon satisfactory individual performance. The executive directors participated in this scheme in 2009.

The performance of the Society during 2009 gave rise to a calculated bonus for all 1,350 eligible members of staff equivalent to 8% of basic salary. The bonus percentage payable to each of the executive directors of 8% of basic salary was identical to that of all other eligible staff.

In view of the continuing difficult economic environment and its impact on members, David Stewart elected to waive all bonus payments for 2009.

As with base salaries, bonus payments are also benchmarked on a regular basis. Bonuses earned by executive directors are significantly below median levels relative to the comparison group of building societies.

c) Long Term Incentive Plan

In order to ensure that the remuneration package of executive directors reflects the long term performance of the Society and members' interests, the Remuneration Committee operates a Long Term Incentive Plan (LTIP) for executive directors.

The primary objective of this plan is to align remuneration with the longer term goals of the Society. The LTIP also helps the Society to recruit and retain executives of the calibre required to promote the interests of members.

Under the LTIP, the executive directors are eligible to receive a performance related payment based on the financial performance of the Society over rolling three year periods. The first period over which performance was measured ended 31 December 2009. A second period ends 31 December 2010.

The plan is designed to make payments in the early part of the year following the end of the three year period providing that consistent and strong performance is achieved against the current three year plan. An on-plan performance over each of the three year periods would provide a 20% of salary cash payment, with a maximum of 40% (which is below the 50% of salary maximum permitted under the Society's Rules) for consistent over-performance over the three year period. Performance measures have been designed to balance the objective of sustained profit growth with the need for the Society to provide competitive lending and savings rates to members.

In addition, to protect the interests of members, the Committee may amend any payment if it considers it appropriate in light of either the Society's overall performance or economic conditions. In assessing this, the Committee will take account of a range of factors such as customer and member satisfaction, the impact of 'one-off' exceptional items, the performance of competitors, and the Society's health and safety record.

Notwithstanding the very strong performance of the Society, in view of the impact of the 'credit crunch' on the Society's members, the Committee determined that no payment was made for the period 2007-2009.

Any payments under the LTIP are subject to approval by the Remuneration Committee and are not pensionable. It is expected that further plans will be put in place giving potential payments in years subsequent to 2011.

DIRECTORS' REMUNERATION REPORT
(continued)

d) Pension arrangements

The Chief Executive, the Finance Director and the Chief Operating Officer are active members of the Society's funded defined contribution pension scheme.

The Chief Executive is also a deferred member of the Society's contributory final salary pension scheme which he voluntarily left in July 2006 on being appointed Chief Executive.

The Sales and Marketing Director is a member of the Society's contributory final salary pension scheme.

e) Other benefits

Each executive director is provided with a fully expensed car and membership of a private medical insurance scheme.

POLICY FOR NON-EXECUTIVE DIRECTORS

Non-executive directors are independent of the Society's management and are not required to devote the whole of their time to its affairs.

After considering recommendations from the executive directors, the board (chaired for this purpose by an executive director) determines the remuneration of all non-executive directors. No director takes part in the discussion of his or her own remuneration. Fees of non-executive directors are reviewed annually in light of their responsibilities and comparative information from other building societies. An independent review commissioned by the Society in 2009 found that non-executive directors' fees were below the median level set by the Society's comparison group of building societies. Non-executive directors do not participate in any performance related pay or bonus scheme, pension arrangements or other benefits; nor do they have service contracts.

DIRECTORS' REMUNERATION

Full details of directors' remuneration for 2009 and prior year comparatives, all of which form part of this report, can be found in note 11 to the Accounts.

EXECUTIVE DIRECTORS' PENSIONS

Full details of executive directors' pension benefits can be found in note 11 to the Accounts.

DIRECTORS' SERVICE CONTRACTS

In 2006 the Society entered into a service contract with David Stewart. The contract expires at the age of 60, but is terminable by David Stewart on six months' notice and by the Society on one year's notice.

In 2006 the Society also entered into a service contract with Rob Green. This contract expires at the age of 60, but is terminable by Rob Green on six months' notice and by the Society on one year's notice.

In July 2009 the Society appointed Colin Franklin (Sales and Marketing Director) and Phil Vaughan (Chief Operating Officer) to the board. Service contracts were entered into which are terminable by the individual on six months' notice and by the Society on one year's notice.

On behalf of the board

Bridget Blow
Chairman of the Remuneration Committee
1 March 2010

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The following statement, which should be read in conjunction with the statement of the auditors' responsibilities on page 28, is made by the directors to explain their responsibilities in relation to the preparation of the Annual Accounts, Annual Business Statement and Directors' Report.

The directors are responsible for preparing the Annual Report, Annual Business Statement, Directors' Report and the Annual Accounts in accordance with applicable law and regulations.

The Building Societies Act 1986 (the Act) requires the directors to prepare Group and Society Annual Accounts for each financial year. Under that law they are required to prepare the Group Annual Accounts in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU) and applicable law and have elected to prepare the Society Accounts on the same basis.

The Group and Society Annual Accounts are required by law and IFRS as adopted by the EU to present fairly the financial position and the performance of the Group and the Society; the Building Societies Act 1986 provides in relation to such Annual Accounts that references in the relevant part of that Act to Annual Accounts giving a true and fair view are references to their achieving a fair presentation.

In preparing each of the Group and Society Annual Accounts, the directors are required to:

- select suitable accounting policies and apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRS as adopted by the EU; and
- prepare the Annual Accounts on the going concern basis, unless it is inappropriate to presume that the Group and Society will continue in business.

In addition to the Annual Accounts, the Act requires the directors to prepare, for each financial year, an Annual Business Statement and a Directors' Report, each containing prescribed information relating to the business of the Group.

The directors are responsible for ensuring that the Group:

- keeps proper accounting records that disclose with reasonable accuracy at any time the financial position of the Group and Society, in accordance with the Act; and
- takes reasonable care to establish, maintain, document and review such systems and controls as are appropriate to its business (in accordance with the rules made by FSA under the Financial Services and Markets Act 2000).

The directors have general responsibility for safeguarding the assets of the Group and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are satisfied that the Group has adequate resources to continue in business for the foreseeable future. For this reason, the Annual Accounts continue to be prepared on the going concern basis.

INDEPENDENT AUDITORS' REPORT

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF COVENTRY BUILDING SOCIETY

We have audited the Group and Society Annual Accounts of Coventry Building Society for the year ended 31 December 2009 which comprise the Group and Society Income Statements, the Group and Society Statements of Other Comprehensive Income, the Group and Society Balance Sheets, the Group and Society Statements of Changes in Equity, the Group and Society Cash Flow Statements and the related notes 1 to 42. These Annual Accounts have been prepared under the accounting policies set out therein.

We have examined the Annual Business Statement (other than the details of directors and other officers upon which we are not required to report) and the Directors' Report.

This report is made solely to the Society's members, as a body, in accordance with Section 78 of the Building Societies Act 1986. Our audit work has been undertaken so that we might state to the Society's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Society and the Society's members as a body, for our audit work, for this report, or for the opinions we have formed.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The directors' responsibilities for preparing the Annual Report including the Directors' Report, the Annual Business Statement, and the Annual Accounts in accordance with applicable UK law and IFRS as adopted by the EU are set out in the Statement of Directors' Responsibilities on page 27.

Our responsibility is to audit the Annual Accounts in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). We are also responsible for examining the Annual Business Statement (other than the details of directors and other officers) and for reading the information in the Directors' Report and assessing whether it is consistent with the accounting records and the Annual Accounts.

We report to you our opinion as to whether the Annual Accounts give a true and fair view and whether the Annual Accounts are properly prepared in accordance with the Building Societies Act 1986 and regulations made under it and, as regards the Group Annual Accounts, Article 4 of the IAS Regulation. In addition, we report to you our opinion as to whether certain information in the Annual Business Statement gives a true representation of the matters in respect of which it is given, whether the information in the Directors' Report is consistent with the accounting records and the Annual Accounts and whether the Annual Business Statement and Directors' Report have each been prepared in accordance with the applicable requirements of the Building Societies Act 1986 and regulations made under it.

We also report to you if, in our opinion, the Annual Accounts are not in agreement with the accounting records, or if we have not received all the information and explanations we require for our audit.

We read the other information contained in the Annual Report and consider whether it is consistent with the audited Annual Accounts. This other information comprises only the details of directors and other officers within the Annual Business Statement, Chairman's Statement, Chief Executive's Review, Corporate Governance Report, Risk Management Report and Directors' Remuneration Report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Annual Accounts, Annual Business Statement and Directors' Report. Our responsibilities do not extend to any other information.

BASIS OF AUDIT OPINION

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Annual Accounts and the Annual Business Statement. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the Annual Accounts, and of whether the accounting policies are appropriate to the Group's and Society's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Annual Accounts are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the Annual Accounts.

OPINION

In our opinion:

- the Annual Accounts give a true and fair view, in accordance with IFRS as adopted by the EU, of the state of affairs of the Group and of the Society as at 31 December 2009, and of the income and expenditure of the Group and of the Society for the year then ended;
- the information given in the Annual Business Statement (other than the information upon which we are not required to report) gives a true representation of the matters in respect of which it is given;
- the information given in the Directors' Report is consistent with the accounting records and the Annual Accounts; and
- the Annual Accounts, the Annual Business Statement and the Directors' Report have each been prepared in accordance with the applicable requirements of the Building Societies Act 1986, regulations made under it and, as regards the Group financial statements, Article 4 of the IAS Regulation.

Peter Wallace (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London

1 March 2010

INCOME STATEMENTS

for the year ended 31 December 2009

	Notes	Group 2009 £m	Society 2009 £m	Group 2008 £m	Society 2008 £m
Interest receivable and similar income	3	**545.5**	**642.3**	1,043.5	1,097.4
Interest payable and similar charges	4	**(420.5)**	**(529.5)**	(927.3)	(987.2)
Net interest income		**125.0**	**112.8**	116.2	110.2
Fees and commissions receivable	5	**17.4**	**16.9**	19.0	18.4
Fees and commissions payable	6	**(1.1)**	**(1.1)**	(1.0)	(1.0)
Other operating income	7	**0.7**	**0.7**	0.4	0.4
Net gains from derivative financial instruments	8	**1.3**	**1.3**	1.8	1.8
Total income		**143.3**	**130.6**	136.4	129.8
Administrative expenses	9	**(61.6)**	**(59.8)**	(58.7)	(57.1)
Amortisation of intangible fixed assets	24	**(2.7)**	**(2.7)**	(2.2)	(2.2)
Depreciation of property, plant and equipment	25	**(4.0)**	**(4.0)**	(3.8)	(3.8)
Operating profit before impairments and exceptional items		**75.0**	**64.1**	71.7	66.7
Impairment losses on loans and advances to customers	13	**(19.9)**	**(14.3)**	(8.4)	(6.3)
Release of provisions	33	**2.9**	**2.9**	-	-
Operating profit before exceptional items		**58.0**	**52.7**	63.3	60.4
Provision for FSCS levies	14,33	**(2.0)**	**(2.0)**	(11.4)	(11.4)
Release/(charge) of provision for impairment of debt securities	15	**1.5**	**1.5**	(23.9)	(23.9)
Profit after impairments and exceptional items		**57.5**	**52.2**	28.0	25.1
Charitable donation to Poppy Appeal	16	**(1.3)**	**(1.3)**	(1.6)	(1.6)
Profit on ordinary activities before tax		**56.2**	**50.9**	26.4	23.5
Tax on profit on ordinary activities	17	**(12.7)**	**(11.7)**	(7.6)	(6.8)
Profit for the financial year		**43.5**	**39.2**	18.8	16.7

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

The accounting policies and notes on pages 34 to 75 form part of these Accounts.

STATEMENTS OF OTHER COMPREHENSIVE INCOME

for the year ended 31 December 2009

	Notes	Group 2009 £m	Society 2009 £m	Group 2008 £m	Society 2008 £m
Profit for the financial year		**43.5**	**39.2**	18.8	16.7
Other comprehensive income					
Actuarial loss on defined benefit pension plan	12	**(3.3)**	**(3.3)**	(4.3)	(4.3)
Tax credit on actuarial loss on defined benefit pension plan	12,17	**0.9**	**0.9**	1.2	1.2
Fair value movements on available-for-sale assets taken to reserves	37	**(11.1)**	**(11.1)**	(27.8)	(27.8)
Tax credit on fair value movements taken to reserves	17,37	**3.1**	**3.1**	7.9	7.9
Other comprehensive income for the year, net of tax		**(10.4)**	**(10.4)**	(23.0)	(23.0)
Total comprehensive income for the year, net of tax		**33.1**	**28.8**	(4.2)	(6.3)

The accounting policies and notes on pages 34 to 75 form part of these Accounts.

BALANCE SHEETS

as at 31 December 2009

	Notes	Group 2009 £m	Society 2009 £m	Group 2008 £m	Society 2008 £m
Assets					
Cash in hand and balances with the Bank of England	18	**302.2**	**300.0**	247.0	245.1
Loans and advances to credit institutions	19	**325.2**	**325.2**	470.4	470.4
Debt securities	20	**3,538.0**	**3,538.0**	3,155.8	3,155.8
		4,165.4	**4,163.2**	3,873.2	3,871.3
Derivative financial instruments	21	**29.3**	**29.3**	160.6	160.6
Loans and advances to customers	22	**14,074.7**	**11,397.2**	13,172.8	11,202.9
Hedge accounting adjustment		**76.1**	**76.1**	96.4	96.4
Pension asset	12	**6.9**	**6.9**	8.9	8.9
Prepayments and accrued income		**5.6**	**5.6**	5.9	5.8
Investments in subsidiary undertakings	23	**-**	**5,313.5**	-	4,769.5
Intangible fixed assets	24	**9.9**	**9.9**	8.5	8.5
Property, plant and equipment	25	**25.5**	**25.5**	26.2	26.2
Current tax asset		**6.5**	**8.2**	8.1	8.8
Deferred tax assets	26	**2.1**	**2.0**	3.8	3.8
Total assets		**18,402.0**	**21,037.4**	17,364.4	20,162.7
Liabilities					
Shares	27	**13,218.8**	**13,218.8**	12,386.1	12,386.1
Deposits from banks	28	**1,370.3**	**1,370.3**	1,679.3	1,679.3
Other deposits	29	**18.0**	**18.0**	47.0	47.0
Amounts owed to other customers	30	**856.2**	**856.2**	887.4	887.4
Derivative financial instruments	21	**108.9**	**108.9**	93.9	93.9
Debt securities in issue	31	**1,969.8**	**1,969.8**	1,438.8	1,438.8
Other liabilities	32	**19.3**	**2,661.7**	12.1	2,813.2
Deferred tax liabilities	26	**5.3**	**5.3**	5.2	5.1
Provisions for liabilities and charges	33	**10.1**	**10.1**	15.7	15.7
Accruals and deferred income		**9.2**	**8.7**	16.0	15.5
Subordinated liabilities	34	**70.7**	**70.7**	70.7	70.7
Subscribed capital	35	**161.2**	**161.2**	161.1	161.1
Total liabilities		**17,817.8**	**20,459.7**	16,813.3	19,613.8
Equity					
General reserve	36	**616.0**	**609.5**	574.9	572.7
Available-for-sale reserve	37	**(31.8)**	**(31.8)**	(23.8)	(23.8)
Total liabilities and equity		**18,402.0**	**21,037.4**	17,364.4	20,162.7
Memorandum item					
Financial commitments	38	**56.0**	**5.0**	32.5	4.6

The accounting policies and notes on pages 34 to 75 form part of these Accounts.

Approved by the board of directors on 1 March 2010.

David Harding
Chairman

David Stewart
Chief Executive

Rob Green
Finance Director

STATEMENTS OF CHANGES IN EQUITY

for the year ended 31 December 2009

	Notes	Group 2009 £m	Society 2009 £m	Group 2008 £m	Society 2008 £m
As at 1 January					
General reserve		**574.9**	**572.7**	559.2	559.1
Available-for-sale reserve		**(23.8)**	**(23.8)**	(3.9)	(3.9)
		551.1	**548.9**	555.3	555.2
Profit for the financial year		**43.5**	**39.2**	18.8	16.7
Actuarial loss on defined benefit pension plan	12	**(3.3)**	**(3.3)**	(4.3)	(4.3)
Tax credit on actuarial loss on defined benefit pension plan	12,17	**0.9**	**0.9**	1.2	1.2
Fair value movements on available-for-sale assets taken to reserves	37	**(11.1)**	**(11.1)**	(27.8)	(27.8)
Tax credit on fair value movements taken to reserves	17,37	**3.1**	**3.1**	7.9	7.9
Total comprehensive income for the year, net of tax		**33.1**	**28.8**	(4.2)	(6.3)
As at 31 December					
General reserve		**616.0**	**609.5**	574.9	572.7
Available-for-sale reserve		**(31.8)**	**(31.8)**	(23.8)	(23.8)
		584.2	**577.7**	551.1	548.9

The accounting policies and notes on pages 34 to 75 form part of these Accounts.

CASH FLOW STATEMENTS

for the year ended 31 December 2009

	Notes	Group 2009 £m	Society 2009 £m	Group 2008 £m	Society 2008 £m
Cash flows from operating activities					
Profit before tax		**56.2**	**50.9**	26.4	23.5
Adjustments for:					
Non-cash items included in profit before tax	42	**164.0**	**158.6**	(37.3)	(32.9)
Changes in operating assets	42	**(865.2)**	**(152.0)**	317.6	1,355.9
Changes in operating liabilities	42	**691.1**	**690.9**	762.4	762.5
Interest paid on subordinated liabilities		**(4.0)**	**(4.0)**	(4.0)	(4.0)
Interest paid on subscribed capital		**(12.2)**	**(12.2)**	(12.2)	(12.2)
Taxation		**(5.2)**	**(5.0)**	(14.7)	(14.7)
Net cash flows from operating activities		**24.7**	**727.2**	1,038.2	2,078.1
Cash flows from investing activities					
Purchase of investment securities		**(12,479.9)**	**(12,479.9)**	(10,504.4)	(10,504.4)
Sale and maturity of investment securities		**12,084.0**	**12,084.0**	9,556.8	9,556.8
Purchase of property, plant and equipment		**(3.4)**	**(3.4)**	(5.7)	(5.7)
Purchase of intangible fixed assets		**(4.4)**	**(4.4)**	(2.8)	(2.8)
Net cash flows from investing activities		**(403.7)**	**(403.7)**	(956.1)	(956.1)
Cash flows from financing activities					
Loans from connected undertakings		**-**	**158.8**	-	2,801.1
Loans to connected undertakings		**-**	**(861.6)**	-	(3,842.3)
Issue of securities		**346.6**	**346.6**	-	-
Net cash flows from financing activities		**346.6**	**(356.2)**	-	(1,041.2)
Net (decrease)/increase in cash		**(32.4)**	**(32.7)**	82.1	80.8
Cash and cash equivalents at start of year		**360.5**	**358.6**	278.4	277.8
Cash and cash equivalents at end of year	42	**328.1**	**325.9**	360.5	358.6

The accounting policies and notes on pages 34 to 75 form part of these Accounts.

NOTES TO THE ACCOUNTS

1. ACCOUNTING POLICIES

The following accounting policies have been applied consistently in dealing with items that were considered material in relation to the Accounts.

BASIS OF PREPARATION

These Accounts have been prepared in accordance with IFRS as adopted by the EU; interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC); and with those parts of the Building Societies (Accounts and Related Provisions) Regulations 1998 applicable to organisations reporting under IFRS.

The Accounts have been prepared on an historical cost basis, as modified by the revaluation of available-for-sale debt securities and certain financial instruments which are measured at fair value. The carrying values of recognised assets and liabilities that are hedged items in fair value hedges and are otherwise carried at cost are adjusted to record changes in the fair values attributable to the risks that are being hedged.

The Society notes that the following standards and interpretations have been released or have an impact in the year:

IAS 1 Presentation of Financial Statements (Revised) (effective 1 January 2009)
This has revised the presentation of the financial statements into a separate income statement and a statement of other comprehensive income with a statement of changes in equity.

IAS 23 Borrowing Costs (Revised) (effective 1 January 2009)
This has removed the option to recognise immediately the interest on borrowings on assets which take a long time to get ready for intended use or sale. This amendment has had no impact for the Society.

IAS 27 Consolidated and Separate Financial Statements (effective 1 July 2009)
This amendment requires the effects of all transactions with non controlling interests to be recorded in equity if there has been no change in control. It also specifies the accounting where control is lost. The amendment has had no impact for the Society.

IAS 32 Financial Instruments: Presentation and IAS 1 Presentation of Financial Statements – puttable financial instruments and obligations arising on liquidations (Amended) (effective 1 January 2009)
This amendment requires some puttable financial instruments and some financial instruments that impose on the entity an obligation to deliver to another party a prorata share of the net assets of the entity only on liquidation to be classified as equity (currently would be classified as financial liabilities). The Society holds no such instruments.

IFRIC 16 Hedges of a net investment in foreign operations (effective 1 October 2008)
The IFRIC applies to an entity that hedges foreign currency risk arising from net investments in foreign operations and wishes to qualify for hedge accounting in accordance with IAS 39. The Society currently has no such hedges of net investments in foreign operations. The IFRIC therefore has no impact for the Society.

Amendments to IAS 39: Eligible Hedged Items (effective 1 July 2009)
The amendment clarifies how existing principles underlying hedge accounting should be applied in two particular situations: (i) one sided risk in a hedged item; and (ii) inflation in a financial hedged item. The amendment has had no significant impact for the Society.

IFRS 7 Improving Disclosures about Financial Instruments (effective 1 January 2009)
The amendment clarifies and enhances disclosures about fair value measurements and the liquidity risk of financial instruments. The amendment has resulted in changes and enhancements to the risk disclosures provided in note 40.

IFRIC 9 & IAS 39 Embedded Derivatives (effective 30 June 2009)
These amendments clarify that, on reclassification, an entity would be required to assess whether an embedded derivative would have to be separately accounted for under IAS 39. This amendment has had no impact on the Society.

IFRIC 13 Customer Loyalty Programmes
This amendment addresses accounting by entities who grant customer loyalty award credits to customers as part of sales transactions which can be redeemed in the future for free or discounted goods or services. This amendment has had no impact on the Society.

Improvements to IFRS
The improvements to IFRS have resulted in several small amendments with no significant impact for the Society.

The Society has considered the impact of these developments and, where necessary, has made adjustment to the disclosure in the financial statements. The Society has not early adopted any of these IFRS but does not consider their impact to be significant to the Society's Accounts.

The preparation of financial statements that conform with IFRS requires the use of certain critical judgements and estimates, a summary of which is presented in note 2. The areas involving estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under current or normal operating circumstances.

BASIS OF CONSOLIDATION
The Group Accounts consolidate the assets, liabilities and results of the Society and all its subsidiary companies.

The financial statements are presented in sterling millions (£m), and are rounded to the nearest hundred thousand except where otherwise indicated.

Subsidiaries are all entities, including special purpose entities, controlled by the Society. Control exists when the Society has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The carrying value of the investment in the subsidiaries in the Society's balance sheet is at cost. Intragroup transactions, balances and unrealised gains on transactions between Group companies are eliminated in the consolidated accounts.

INTEREST RECEIVABLE AND INTEREST EXPENSE
For instruments measured at amortised cost the effective interest rate method is used to measure the carrying value of a financial asset or a liability and to allocate associated interest income or expense over the relevant period. The effective interest rate is the rate that exactly discounts the estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period, to the net carrying amount of the financial asset.

In calculating the effective interest rate, the Society estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses. The calculation includes the spread of various incentives, fees and charges, both paid and received by the Society, across the expected life of the loan account. Items spread in this way include:

- initial interest rate discounts;
- cash backs and other customer incentives; and
- certain fees and charges paid and received by the Society.

The purpose of using the effective interest rate method is to recognise interest income at a more level yield across the expected life of the product than would be obtained by recognising income as it is received.

Interest income on available-for-sale debt securities is included in interest receivable and similar income.

FEES AND COMMISSIONS
Fees and commissions receivable and payable that are not spread across expected asset lives under the effective interest rate method are taken to income on an accruals basis as services are provided, or on the completion of an act to which the fee relates.

SEGMENTAL REPORTING
The Society operates solely within the retail financial services sector and within the United Kingdom. As such, no detailed segmental analysis is required.

INTANGIBLE FIXED ASSETS
Software development costs and purchased software that is not an integral part of a related hardware purchase is recognised as an intangible fixed asset. Amortisation of such assets is charged to the income statement on a straight line basis over the useful life of the asset. The useful life of computer software is between three and eight years, depending on the nature of the asset.

NOTES TO THE ACCOUNTS
(continued)

LEASES AND CONTRACT PURCHASE AGREEMENTS

The determination of whether an arrangement is, or contains, a lease, is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

Where the Society enters into a lease that entails taking substantially all the risks and rewards of ownership of an asset, the agreement is treated as a finance lease. The asset is recorded in the balance sheet within property, plant and equipment and is depreciated over its estimated useful life. If there is no reasonable certainty that the Society will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the lease term and its useful life. Future instalments under such leases, net of finance charges, are included within creditors. Rentals payable are apportioned between the finance element, which is charged to the income statement at a constant annual rate, and the capital element which reduces the outstanding obligation for future instalments.

All other leases are accounted for as operating leases and payments are charged to administrative expenses on a straight line basis over the period of the lease. Rents receivable are credited to other operating income on a straight line basis over the period of the lease.

TAXATION INCLUDING DEFERRED TAX

Income tax on the profits for the year comprises current and deferred taxation.

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates and laws that are enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements, with the exception that deferred tax assets are recognised only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, carried forward tax credits or tax losses can be utilised.

Deferred tax assets and liabilities are measured on an undiscounted basis at the tax rates that are expected to apply when the related asset is realised or liability settled, based on tax rates and laws enacted or substantively enacted by the balance sheet date.

Income tax is charged or credited directly to equity if it relates to items that are credited or charged to equity. Otherwise income tax is recognised in the income statement.

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment is stated at cost less accumulated depreciation and any accumulated impairment. As permitted by IFRS 1, the Society treated previous valuations of certain properties as the deemed cost of those properties on transition to IFRS. The carrying values of property, plant and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable.

An asset's carrying value is written down immediately to its recoverable amount if the asset's carrying value is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing the net disposal proceeds with the carrying value of the asset and are included in the income statement.

Depreciation is provided on a straight line basis over the anticipated useful life of the asset as follows:

Freehold buildings	Over a period of 50 years
Leasehold buildings	Shorter of remaining term of the lease and useful life
Equipment, fixtures, fittings and vehicles	Three to eight years

FINANCIAL LIABILITIES

Financial liabilities, including shares, bank and other deposits, amounts owed to other customers, debt securities in issue, subordinated liabilities and subscribed capital are initially measured at fair value plus (for items not subsequently measured at fair value through the income statement) transaction costs directly attributable to the acquisition or issue.

Financial liabilities are subsequently measured at amortised cost, adjusted for the amortisation of any transaction costs, premiums and discounts. The amortisation is recognised in interest payable and similar charges using the effective interest method.

Permanent Interest Bearing Shares (subscribed capital), which are redeemable at specific dates at the option of the Society, are classed as financial liabilities.

Financial liabilities are derecognised when the obligation is discharged, cancelled or has expired. Financial liabilities that are designated as hedged items are subject to measurement under the hedge accounting requirements described in the derivatives and hedge accounting policy note.

The impact of hedging on the measurement of financial liabilities is detailed in the derivatives and hedge accounting policy note.

Purchases and sales of financial assets are accounted for at trade date.

FINANCIAL ASSETS

All financial assets are measured initially at their fair value plus transaction costs, except in the case of financial assets recorded at fair value through profit and loss.

The Society classifies its financial assets at inception into the following categories:

Financial assets at fair value through profit or loss

This category consists of derivative financial assets.

Derivative financial assets are carried at fair value. The fair values are quoted market prices where there is an active market, or are based on valuation techniques where there is not.

Gains and losses arising from changes in the fair values are recognised in the income statement.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The Society's residential mortgage loans, unsecured lending and loans to banks are classified as loans and receivables.

Loans are recognised when the funds are advanced to customers. Loans and receivables are carried at amortised cost using the effective interest method.

Available-for-sale

Available-for-sale assets are non-derivative financial assets that are designated as such or not classified into either of the two categories above.

Available-for-sale assets are initially measured at fair value. Subsequently, available-for-sale assets are carried at fair value. The fair values, in the majority of cases, are based on quoted market prices or prices obtained from counterparties. In cases where quoted market prices are not available, discounted cash flow valuations are used.

Unrealised gains and losses arising from changes in the fair values are recognised directly in the available-for-sale reserve, except for impairment losses, and foreign exchange gains and losses, which are recognised in the income statement. Gains and losses arising on the sale of available-for-sale assets, including any cumulative gains or losses previously recognised in the available-for-sale reserve, are recognised in the income statement.

Financial assets are derecognised when the rights to receive cash flows have expired or where substantially all of the risks and rewards of ownership have been transferred. In respect of the Group's secured funding structure, the Society sells to another entity, Coventry Building Society Covered Bonds LLP, the right to receive the cash flows arising on the loans which have been transferred. However, the Society receives substantially all of the profit of that entity, and hence retains substantially all of the risks and rewards of the transferred loans. Hence the transferred loans are retained on the Society's balance sheet.

The impact of hedging on the measurement of financial assets is detailed in the derivatives and hedge accounting policy note.

IMPAIRMENT OF LOANS AND ADVANCES TO CUSTOMERS

The Society assesses its loans and advances to customers for objective evidence of impairment at each balance sheet date. An impairment loss is recognised if, and only if, there is a loss event (or events) that has occurred after initial recognition and before the balance sheet date and has a reliably measurable impact on the estimated future cash flows of the loan amount.

Impairment is categorised as either individual impairment (where individual assets have been assessed for loss) or collective impairment (where losses are assessed as being present in a portfolio of loans, but they cannot be identified to individual accounts).

If there is objective evidence that an impairment loss on loans and advances to customers has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows (excluding future credit losses that have not been incurred). The carrying amount of the asset is reduced through the use of an impairment allowance and the amount of the loss is recognised in the income statement.

When a loan is not collectable, it is written off against the related provision for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the amount of the movement in the provision for loan impairment in the income statement.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the customer's credit rating), the previously recognised impairment loss is reversed by adjusting the impairment allowance. The amount of the reversal is recognised in the income statement.

SALE AND REPURCHASE AGREEMENTS

Securities lent or sold subject to a commitment to repurchase them (a 'repo') are retained on the balance sheet when substantially all the risks and rewards of ownership remain within the Group. The counterparty liability is included separately in the balance sheet, as appropriate. The difference between the sale and repurchase price is accrued over the life of the agreements using the effective interest method.

DERIVATIVE FINANCIAL INSTRUMENTS

The Society holds derivative financial instruments for the purposes of managing the risks associated with its various fixed and capped rate assets and liabilities and its foreign currency transactions. In accordance with legislation and its treasury policy, the Society holds derivative financial instruments only for risk management and not for speculative or trading purposes.

All derivative financial instruments are stated in the accounts at fair value, with movements in fair value taken through the income statement under 'net gains/(losses) from derivative financial instruments' in the period in which the movement occurred. The Society regards all of its derivative contracts entered into for the purpose of managing interest rate risk as fair value hedges because they are used to hedge movements in the fair value of an underlying asset or liability.

The Society also uses cross currency swaps to hedge movements in the fair value of the underlying liabilities. However, these do not qualify for hedge accounting and are fair valued through the income statement.

To the extent that the derivative qualifies as an effective hedge under the terms of IAS 39, the Society is able to apply the hedge accounting rules of that standard and recognise the corresponding movement in the fair value of the underlying asset or liability to which the derivative instrument relates. This has the effect of mitigating the volatility in earnings that could potentially arise from movements in the fair value of derivative financial instruments.

Where the Society has a financial instrument the cash flows of which may be modified according to the performance of a specified interest rate, price index or other variable (other than a non-financial variable not specific to either party of the instrument), that instrument is regarded as containing an embedded derivative. To the extent that the economic characteristics and risks of the embedded derivative are not closely related to those of the host contract, the embedded derivative is separated from the host contract and stated in the accounts at its fair value, with movements in the fair value taken through the income statement.

PENSION COSTS

The Society operates both a defined contribution and a defined benefit pension scheme for members of staff.

Contributions to the defined contribution pension scheme are recognised as an expense in the income statement as incurred, on an accruals basis.

The Society's net obligation under the defined benefit pension scheme is assessed annually by an independent qualified actuary. The net obligation is calculated as the difference between the fair value of the scheme's assets and the amount of future entitlements earned by scheme members from service in the current and prior periods, discounted back to present values using a rate based on an index of long dated AA rated corporate bonds. This calculation allows the scheme's net obligations to be expressed as either a surplus or deficit, which is recognised as respectively either an asset or liability in the Society's accounts at the balance sheet date.

Pension costs for service in the period are assessed in accordance with advice from a qualified actuary and are recognised in the income statement. Pension fund actuarial gains or losses are recognised in full in the year they occur in the statement of other comprehensive income.

FOREIGN CURRENCY TRANSLATION

The consolidated financial statements are presented in sterling, which is the functional currency of the Group.

Foreign currency transactions are translated into sterling using the exchange rates prevailing at the dates of the transactions. Monetary items denominated in foreign currencies are retranslated at the rate prevailing at the year end.

Foreign exchange gains and losses resulting from the retranslation and settlement of these items are recognised in the income statement.

LIQUID ASSETS

Liquid assets consist of cash in hand and balances with the Bank of England, loans and advances to credit institutions and debt securities.

The Society uses various debt securities (certificates of deposit, gilts, etc) to maintain its liquidity position. These debt securities are classified as available-for-sale under the terms of IAS 39 and, as such, are recorded in the accounts at fair value, with changes in fair value taken to the available-for-sale reserve within equity.

If debt securities are sold, the gain or loss on sale is measured as the difference between sale proceeds and original cost (net of any discount or premium on acquisition). Any fair value adjustments already recognised are released from reserves at the time of the sale.

When a decline in the fair value of an available-for-sale financial asset has been recognised directly in equity and there is objective evidence that the asset is impaired, the cumulative loss recognised in equity is removed and recognised in the income statement.

CASH AND CASH EQUIVALENTS

For the purposes of the cash flow statement, cash and cash equivalents comprise balances with less than three months' maturity from the date of acquisition, including cash and non-restricted balances with central banks and amounts due from other banks.

PROVISIONS AND CONTINGENT LIABILITIES

A provision is recognised when there is a present obligation as a result of a past event, it is probable that the obligation will be settled and the amount can be estimated reliably.

Contingent liabilities have not been recognised.

EXCEPTIONAL ITEMS

Exceptional items are items of income and expenditure that, in the judgement of management, should be disclosed separately on the basis that they are material, either by their nature or their size, to an understanding of the Society's financial performance and significantly distort the comparability of financial performance between periods.

NOTES TO THE ACCOUNTS
(continued)

2. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

JUDGEMENTS

In the process of applying the Society's accounting policies, the directors have made the following judgements, apart from those involving estimations (which are presented below), that have the most significant effect on the amounts recognised in the financial statements.

The treatment of derivative financial instruments

The Society uses derivative financial instruments. All such instruments are used to mitigate the interest rate risk and foreign currency risk that arises from the Society's lending and funding activities. All derivatives used for such purposes are treated as fair value hedges. This treatment is consistent with the economic purpose of using the derivative instruments, which is to provide a hedge against the movement in the fair value of fixed rate and foreign currency assets and liabilities. It also enables the Society to take advantage of the fair value hedge accounting provisions of IAS 39, which allow the recognition of movements in the hedged portion of the fair values of the underlying assets and liabilities that should materially offset the volatility that may arise from recognising the fair value movements of the derivatives themselves.

Debt securities

The Society maintains a portfolio of liquid assets to ensure it has sufficient funds available to meet its financial commitments as they fall due. A large part of this portfolio is made up of debt securities, for which there are various accounting treatments permitted under IAS 39. The Society has adopted the 'available-for-sale' treatment as this most closely matches the way debt securities are used within the business, with a portfolio of assets maintained for continuing use, and individual assets available to be sold depending on particular requirements for funding or the maintenance of interest yields. This treatment requires that debt securities are recognised at fair value with movements in fair value taken to a reserve in equity.

The determination of whether available-for-sale instruments are impaired is assessed based on similar criteria as financial assets carried at amortised cost.

Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded on the balance sheet cannot be derived from active markets, they are determined using interest rate yield curves and other relevant market data. These are judged to be the most appropriate valuation tools. The valuation of financial instruments is disclosed in more detail in note 40.

Deferred tax

The Society recognises deferred tax on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax assets are recognised only to the extent that it is probable that future taxable profits will be available to utilise the asset. The Society considers that sufficient future taxable profit will, in fact, be available to utilise all the Society's deferred tax assets and the Society has therefore recognised deferred tax assets where they have arisen.

Pension schemes

The Society maintains both a defined benefit and a defined contribution pension scheme for employees and each is accounted for under the terms of IAS 19. The standard requires the calculation of the net assets or liabilities of the defined benefit scheme and their inclusion on the balance sheet. The result is dependent in part on the interest rate used to discount scheme liabilities back to present value. IAS 19 requires that this should equate to a rate available on an AA rated corporate bond. In practice, the rates available on such bonds cover a wide range and there is therefore a range of possible outcomes that could be disclosed as the pension scheme's net position. In order to avoid this uncertainty, the directors have selected a rate from within a narrow range recommended by the Society's professional pension scheme advisors. This range has been based on an index of relevant corporate bond yields.

ESTIMATION UNCERTAINTY

The key assumptions regarding the future and other key sources of estimation uncertainty at the balance sheet date that have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year are discussed opposite.

Loan impairment and other provisions

IAS 39 requires that loan losses are only recognised where there is objective evidence of impairment. The Society has applied this requirement in determining the level of losses present in its loans and advances to customers, but has been required to apply management judgement in determining the financial impact of this impairment. IAS 39 makes a distinction between individual and collective impairment. Individual impairment relates to situations where individual assets are assessed for loss. The Society has used this approach on loans in possession and those in arrears. Estimates that have been applied include assessing the likelihood of the loan going into possession for those cases currently in arrears, the length of time expected to be required to complete the sale of properties in possession, and the expected costs of realisation. Collective impairment relates to cases where losses are assessed as being present in a loan portfolio, but they cannot be identified to individual accounts. This approach has been used to calculate a value of incurred but not reported losses, where statistical analysis has been used to determine a value for losses where a loss event has already impacted an account, but has not yet manifested itself in arrears data. A portfolio approach is also used on sections of the loan book where there are known problems but individual accounts are again as yet not identifiable. This method has been applied to loans advanced on city centre buy-to-let flats where a problem of oversupply is having a negative effect on prices and ease of sale, with the result that the Society has made an impairment provision against these assets.

The Society has also made provision for the expected cost of various customer claims. It is expected that the liability will mainly crystallise over the next five years.

Estimated asset lives

The Society recognises interest on loans and advances to customers on the basis of their effective interest rate. This is a constant rate that averages out the effect of incentives and fees across the expected life of the loan account. A critical assumption in the calculation is the expected life, as this determines the assumed period over which customers may be paying various differentiated interest rates. The calculation of the effective interest rate uses assumptions on expected life that are based on the historic experience of similar products. These assumptions are monitored to ensure their ongoing appropriateness. Changes in the amortised cost balance arising from actual product life experience differing from the assumed life, are periodically calculated and an adjustment made to the loan balance, with a corresponding adjustment to interest income. Also within the calculations, provision has been made for the uncertainty of the estimates in order to reduce the risk of overstatement of interest income.

Valuation of derivatives and available-for-sale assets

The fair values of derivative financial instruments and available-for-sale assets are based on open market prices, where available. If open market prices are not available, the Society uses valuation techniques which comprise discounted cash flow valuation models. The assumptions in these models are periodically reviewed to ensure that they remain relevant.

FSCS levy provision

The Society is committed to paying levy charges of the UK Financial Services Compensation Scheme (FSCS) (see note 14).

All deposit-taking institutions who are members of the FSCS are required to contribute to the costs of the FSCS in safeguarding the deposits of savers in failed financial institutions. The Society is, and continues to be, a member of the FSCS.

Contributions to the FSCS are calculated according to a prescribed formula using the retail savings balances of all deposit-taking institutions that are members of the FSCS. The provision for these costs in this year's accounts relates to payments to be made in future periods. The actual payments to be made are subject to change because they are based on estimations of the repayments by failed institutions and future interest rates.

NOTES TO THE ACCOUNTS
(continued)

3. INTEREST RECEIVABLE AND SIMILAR INCOME

	Group 2009	Society 2009	Group 2008	Society 2008
	£m	£m	£m	£m
On loans fully secured on residential property	554.9	448.4	732.3	639.1
On other loans				
Connected undertakings	-	129.6	-	147.6
Other	6.2	4.6	7.5	5.9
	561.1	582.6	739.8	792.6
Interest and other income on debt securities	81.0	81.0	239.5	239.5
Interest and other income on other liquid assets	9.0	9.0	49.1	49.1
Net (expense)/income on financial instruments	(105.6)	(30.3)	15.1	16.2
	545.5	642.3	1,043.5	1,097.4

Included within 'interest receivable and similar income' is interest accrued on impaired financial assets of Group £7.5 million (2008 - £5.3 million) and Society £6.1 million (2008 - £5.0 million).

The Society believes that interest receivable and similar income comprises revenue for the purposes of IAS 1.

4. INTEREST PAYABLE AND SIMILAR CHARGES

	Group 2009	Society 2009	Group 2008	Society 2008
Bank and customer				
Subordinated liabilities	4.0	4.0	4.0	4.0
Other	56.1	56.1	129.3	129.3
Debt securities in issue	2.8	2.8	205.9	205.9
Other borrowed funds				
On shares held by individuals	411.0	411.0	566.5	566.5
On other shares	0.2	0.2	0.3	0.3
On subscribed capital	12.2	12.2	12.2	12.2
On loans from connected undertakings	-	33.7	-	58.8
Net (income)/expense from hedging instruments	(65.8)	9.5	9.1	10.2
	420.5	529.5	927.3	987.2

5. FEES AND COMMISSIONS RECEIVABLE

	Group 2009	Society 2009	Group 2008	Society 2008
Mortgage related fees	2.9	2.5	3.9	3.3
General insurance fees	5.7	5.6	6.4	6.4
Other fees and commissions	8.8	8.8	8.7	8.7
	17.4	16.9	19.0	18.4

6. FEES AND COMMISSIONS PAYABLE

	Group 2009	Society 2009	Group 2008	Society 2008
Funding related fees	0.3	0.3	0.6	0.6
Other fees and commissions	0.8	0.8	0.4	0.4
	1.1	1.1	1.0	1.0

7. OTHER OPERATING INCOME

	Group 2009	Society 2009	Group 2008	Society 2008
	£m	£m	£m	£m
Rents receivable	**0.3**	**0.3**	0.3	0.3
Other	**0.4**	**0.4**	0.1	0.1
	0.7	**0.7**	0.4	0.4

8. NET GAINS FROM DERIVATIVE FINANCIAL INSTRUMENTS

	Group 2009	Society 2009	Group 2008	Society 2008
Gains less losses on derivatives:				
Derivatives designated as fair value hedges	**(22.6)**	**(22.6)**	(34.4)	(34.4)
Movement in fair value of hedged items attributable to hedged risk	**24.5**	**24.5**	36.0	36.0
	1.9	**1.9**	1.6	1.6
Other derivatives	**(0.5)**	**(0.5)**	0.6	0.6
On other assets and liabilities	**(0.1)**	**(0.1)**	(0.4)	(0.4)
	1.3	**1.3**	1.8	1.8

9. ADMINISTRATIVE EXPENSES

	Group 2009	Society 2009	Group 2008	Society 2008
Employee costs				
Wages and salaries	**31.3**	**31.3**	30.5	30.5
Social security costs	**3.0**	**3.0**	3.0	3.0
Pension costs (note 12)				
Defined benefit plan	**0.8**	**0.8**	0.6	0.6
Defined contribution plan	**0.6**	**0.6**	0.6	0.6
	35.7	**35.7**	34.7	34.7
Other expenses				
Finance lease charges	**0.4**	**0.4**	0.9	0.9
Other	**25.5**	**23.7**	23.1	21.5
	61.6	**59.8**	58.7	57.1

The remuneration of the auditors, Ernst & Young LLP, is set out below.

	Group 2009	Society 2009	Group 2008	Society 2008
For audit of the financial statements	**0.2**	**0.2**	0.2	0.2
Fees payable for other services:				
All other services	**0.1**	**0.1**	0.2	0.2
	0.3	**0.3**	0.4	0.4

All non-audit engagements provided by the Society's auditors, where the fee is expected to exceed a de minimis limit, are subject to pre-approval by the Audit Committee.

NOTES TO THE ACCOUNTS
(continued)

10. STAFF NUMBERS

	Group and Society 2009		Group and Society 2008	
	Full-time	**Part-time**	Full-time	Part-time
The average number of persons employed during the year (including executive directors) was:				
Head office and administrative centres	**641**	**239**	632	221
Branches	**324**	**203**	346	210
	965	**442**	978	431

11. DIRECTORS' EMOLUMENTS

	2009	2008
	£000	£000
Directors' emoluments		
For services as directors	**285**	245
For executive services	**890**	606
Increase in accrued pension	**-**	2
	1,175	853

The emoluments of the Society's directors are listed below.

Non-executive directors:		
David Harding (Chairman)	**75**	68
Bridget Blow (appointed Deputy Chairman 19.05.2009)	**48**	36
Roger Burnell (appointed 01.09.2008)	**38**	11
Ian Geden (appointed 01.09.2008)	**38**	11[1]
Andrew Pearce (former Deputy Chairman, retired 31.12.2008)	**-**	39
Ian Pickering (Chair of the Audit Committee)	**48**	38
Fiona Smith	**38**	33
Roger Wiglesworth (retired 14.04.2008)	**-**	9
	285	245

1. For 2008 the emoluments for Ian Geden's services as a non-executive director were paid to his employer, NFU Mutual.

No pension contributions were made for non-executive directors.

11. DIRECTORS' EMOLUMENTS (continued)

	Salary	Performance bonus	Pension contributions	Increase in accrued pension	Taxable benefits	Total
Executive directors:	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
2009						
David Stewart	**294**	**24**[2]	**76**	**-**	**15**	**409**
Colin Franklin (appointed 07.07.2009)	**66**	**11**[1]	**14**	**-**	**8**	**99**
Rob Green	**199**	**17**[1]	**19**	**-**	**21**	**256**
Phil Vaughan (appointed 07.07.2009)	**95**	**15**[1]	**9**	**-**	**7**	**126**
	654	**67**	**118**	**-**	**51**	**890**
2008						
David Stewart	290	-	72	2	19	383
Rob Green	186	-	18	-	21	225
	476	-	90	2	40	608

1. All eligible Coventry Building Society staff participate in an annual performance related bonus scheme. Eligibility is dependent upon satisfactory individual performance. The executive directors are eligible to receive an annual performance related payment which, in 2009, was calculated by reference to the Society's financial performance. The performance of the Society during 2009 gave rise to a calculated bonus for all 1,350 eligible members of staff equivalent to 8% of basic salary. The bonus percentage payable to each of the executive directors of 8% of basic salary was identical to that of all other eligible staff. The annual performance bonus for Colin Franklin and Phil Vaughan represents the amount payable for the full year.
2. In view of the continuing difficult economic environment and its impact on members, David Stewart elected to waive all bonus payments for 2009 of £24,000 which were previously awarded and approved by the Remuneration Committee. Total remuneration paid was therefore £385,000 (2008 - £383,000).

DEFINED BENEFIT SCHEME[3]

Pension benefits earned by directors	Director's contribution	Accrued pension per annum at 31.12.2009	Transfer value of accrued benefits 31.12.2008	Transfer value of accrued benefits 31.12.2009	Difference in transfer value less contributions
	£000	£000	£000	£000	£000
David Stewart	-	38	510	567	57
Colin Franklin	5[4]	40	-[4]	814	-[4]

3. The Chief Executive, the Finance Director and the Chief Operating Officer are all active members of the Society's funded defined contribution pension scheme.

   The Chief Executive is also a deferred member of the Society's contributory final salary pension scheme. In light of concerns over the cost of providing such final salary benefits, David Stewart voluntarily left the final salary pension scheme in July 2006 on being appointed Chief Executive.
4. Colin Franklin was appointed to the board on 7 July 2009. The pension disclosures are therefore in respect of his service as a director only.

Details of the executive directors' service contracts are contained in section 3 of the Annual Business Statement.

NOTES TO THE ACCOUNTS
(continued)

12. PENSION SCHEME

The Society operates funded defined benefit and funded defined contribution pension schemes for employees and executive directors. The defined benefit scheme has been closed to new members since December 2001.

The defined benefit scheme provides benefits based on final pensionable salary with assets held in a separate trustee-administered fund.

The cost of the defined benefit scheme is assessed in accordance with the advice of a qualified actuary on the basis of valuations using the projected unit method. The main assumptions used in the valuation were:

i). an investment return pre-retirement of 1.0% per annum in excess of projected salary increases; and
ii). an investment return post-retirement of 2.5% per annum in excess of guaranteed pension increases in respect of pensionable service accrued prior to 6 April 2006 and 3.5% per annum in excess of guaranteed pension increases in respect of pensionable service accrued after 6 April 2006.

The Society contributed 24.5% of members' pensionable salaries over the year to 31 December 2009.

The Society estimates its contributions to the fund in the following twelve months to be £2.1 million.

	2009	2008
	£m	£m
The amounts recognised in the balance sheet		
Present value of funded obligations	**(89.0)**	(71.5)
Fair value of plan assets	**95.9**	80.4
Asset in the balance sheet	**6.9**	8.9
The amounts recognised in the income statement		
Current service cost	**1.5**	1.9
Interest cost on benefit obligations	**4.3**	4.6
Expected return on plan assets	**(5.0)**	(5.9)
Total (charged within administrative expenses)	**0.8**	0.6
Actual return on plan assets	**14.5**	(14.9)
Changes in the present value of the defined benefit obligations		
Defined benefit obligation at 1 January	**71.5**	82.5
Current service cost	**1.5**	1.9
Interest cost	**4.3**	4.6
Employee contributions	**0.7**	0.7
Actuarial losses/(gains)	**12.8**	(16.4)
Benefits paid	**(1.8)**	(1.8)
Defined benefit obligation at 31 December	**89.0**	71.5
Changes in the fair value of plan assets		
Fair value of plan assets at 1 January	**80.4**	94.1
Expected return on plan assets	**5.0**	5.9
Actuarial gains/(losses)	**9.5**	(20.7)
Contributions by employer	**2.1**	2.2
Employee contributions	**0.7**	0.7
Benefits paid	**(1.8)**	(1.8)
Fair value of plan assets at 31 December	**95.9**	80.4

12. PENSION SCHEME (continued)

	2009	2008
	£m	£m
The amount recognised in the statement of other comprehensive income		
Actuarial loss	**(3.3)**	(4.3)
Tax credit on actuarial loss at 28% (2008 – 28.5%)	**0.9**	1.2
Actuarial loss net of tax	**(2.4)**	(3.1)

The major categories of plan assets as a percentage of the fair value of total plan assets, and their expected rates of return are:

	Expected return at balance sheet date	**Plan assets at 31.12.2009**	Expected return at balance sheet date	Plan assets at 31.12.2008
	%	**%**	%	%
Equities	**8.0**	**33**	7.4	45
Corporate bonds	**5.7**	**25**	6.4	28
Government bonds	**4.5**	**13**	3.9	10
Alternatives	**6.5**	**29**	5.9	17
		100		100

None of the fund's assets are invested in the Society (in 2008 this was also nil).

To develop the expected long term rate of return on assets assumption, the Society considered the current level of expected returns on risk free investments (primarily Government bonds), the historical level of the risk premium associated with the other asset classes in which the portfolio is invested and the expectations for future returns of each asset class. The expected return for each asset class, as shown above, was then weighted based on the asset allocation to develop the expected long term rate of return on assets assumption for the portfolio and then a deduction of 0.14% made for expenses. This resulted in the selection of the 6.2% assumption for 2010.

NOTES TO THE ACCOUNTS
(continued)

12. PENSION SCHEME (continued)

The principal actuarial assumptions used are as follows:

Weighted average assumptions used to determine benefit obligations at	**31.12.2009**	31.12.2008
	%	%
Discount rate	**5.8**	6.1
Rate of pensionable salary increase	**4.8**	4.3
Weighted average assumptions used to determine net pension cost for the year ended		
Discount rate	**6.1**	5.5
Expected long term return on fund assets	**6.2**	6.2
Rate of pensionable salary increase	**4.3**	4.4
Rates of inflation	**2.8**	3.4

Weighted average life expectancy for mortality tables used to determine benefit obligations at

	31.12.2009		31.12.2008	
	Male	**Female**	Male	Female
Member age 60 (current life expectancy)	**25.4**	**28.0**	26.8	29.8
Member age 45 (life expectancy at age 60)	**26.8**	**29.1**	27.7	30.6

The assumptions on mortality are determined by the actuarial tables known as S1PXA (YOB) medium cohort for current and future pensioners (2008 – PA92 (YOB) medium cohort for current and future pensioners).

	Financial year ending				
Fund history	**2009**	2008	2007	2006	2005
Fair value of fund assets at end of year (£m)	**95.9**	80.4	94.1	88.7	73.6
Benefit obligation at end of year (£m)	**89.0**	71.5	82.5	87.8	81.7
Surplus/(deficit) (£m)	**6.9**	8.9	11.6	0.9	(8.1)
Difference between expected and actual return on fund assets					
Amount (£m)	**9.5**	(20.8)	(1.2)	0.6	7.7
Percentage of fund assets	**9.9**	(25.9)	(1.3)	0.7	10.5
Actuarial losses/(gains) on fund liabilities					
Amount (£m)	**12.8**	(16.4)	(11.1)	0.3	13.8
Percentage of fund liabilities	**14.4**	(22.9)	(13.5)	0.3	16.9

13. IMPAIRMENT PROVISIONS ON LOANS AND ADVANCES TO CUSTOMERS

Group	Loans fully secured on residential property	Other loans	Total
	£m	£m	£m
At 1 January 2009			
Individual impairment	11.5	3.9	15.4
Collective impairment	4.7	0.8	5.5
	16.2	4.7	20.9
Charge for the year			
Individual impairment	15.8	4.0	19.8
Collective impairment	0.6	(0.5)	0.1
	16.4	3.5	19.9
Amounts written off individual impairment	(12.0)	(5.4)	(17.4)
At 31 December 2009			
Individual impairment	15.3	2.5	17.8
Collective impairment	5.3	0.3	5.6
	20.6	2.8	23.4
Society			
At 1 January 2009			
Individual impairment	9.8	3.5	13.3
Collective impairment	4.3	0.7	5.0
	14.1	4.2	18.3
Charge for the year			
Individual impairment	12.1	3.3	15.4
Collective impairment	(0.7)	(0.4)	(1.1)
	11.4	2.9	14.3
Amounts written off individual impairment	(10.2)	(4.6)	(14.8)
At 31 December 2009			
Individual impairment	11.7	2.2	13.9
Collective impairment	3.6	0.3	3.9
	15.3	2.5	17.8

13. IMPAIRMENT PROVISIONS ON LOANS AND ADVANCES TO CUSTOMERS (continued)

Group	Loans fully secured on residential property	Other loans	Total
	£m	£m	£m
At 1 January 2008			
Individual impairment	4.8	-	4.8
Collective impairment	10.0	3.0	13.0
	14.8	3.0	17.8
Charge for the year			
Individual impairment	9.0	6.9	15.9
Collective impairment	(5.3)	(2.2)	(7.5)
	3.7	4.7	8.4
Amounts written off individual impairment	(2.3)	(3.0)	(5.3)
At 31 December 2008			
Individual impairment	11.5	3.9	15.4
Collective impairment	4.7	0.8	5.5
	16.2	4.7	20.9

Society	Loans fully secured on residential property	Other loans	Total
At 1 January 2008			
Individual impairment	4.7	-	4.7
Collective impairment	9.5	2.9	12.4
	14.2	2.9	17.1
Charge for the year			
Individual impairment	7.4	6.3	13.7
Collective impairment	(5.2)	(2.2)	(7.4)
	2.2	4.1	6.3
Amounts written off individual impairment	(2.3)	(2.8)	(5.1)
At 31 December 2008			
Individual impairment	9.8	3.5	13.3
Collective impairment	4.3	0.7	5.0
	14.1	4.2	18.3

The provisions above have been deducted from the appropriate asset values in the balance sheet.

14. PROVISION FOR FSCS LEVIES

All deposit-taking institutions that are members of the UK Financial Services Compensation Scheme (FSCS) are required to contribute to the costs of the FSCS in safeguarding the deposits of savers in failed financial institutions. The Society is, and continues to be, a member of the FSCS.

Contributions to the FSCS are calculated according to a prescribed formula using the retail savings balances of all deposit-taking institutions who are members of the FSCS.

FSCS rules require the Society to provide for £2.0 million in its 2009 accounts with respect to the estimated levies for the period 2010/11 and revisions for the levy estimate for the period 2009/10 previously provided in its 2008 accounts (2008 - £11.4 million for the periods 2008/9 and 2009/10).

These costs are 'exceptional' because they are outside of the Society's control and are dependent upon the extent of failures of other deposit-taking institutions who are members of the FSCS.

15. PROVISION FOR IMPAIRMENT OF DEBT SECURITIES

The Society has recovered £1.5 million from the administrators of the Icelandic banking group, Kaupthing. The investment in debt securities of £23.9 million was previously fully provided for in 2008. It is unclear when, and to what extent, the Society will further recover its investment.

These recoveries and costs are 'exceptional' because, prior to 2008, no impairment of debt securities was ever previously required, and the provision does not relate to the Society's underlying financial performance.

16. CHARITABLE DONATION TO POPPY APPEAL

During 2009 the Society again partnered with The Royal British Legion to raise funds for the annual Poppy Appeal. The Society has provided for a donation of £1.3 million (2008 - £1.6 million) to the Poppy Appeal in addition to paying a fixed rate of interest to members on a savings bond and variable rate on a savings account.

17. TAXATION

	Group 2009	**Society 2009**	Group 2008	Society 2008
	£m	**£m**	£m	£m
Current tax				
UK corporation tax at 28% (2008 – 28.5%)	**15.3**	**13.8**	7.8	7.0
UK corporation tax – adjustment in respect of prior years	**(4.9)**	**(4.4)**	0.1	0.1
Total current tax	**10.4**	**9.4**	7.9	7.1
Deferred tax				
Current year	**0.6**	**0.6**	(0.3)	(0.3)
Adjustment in respect of prior years	**1.7**	**1.7**	-	-
Total deferred tax	**2.3**	**2.3**	(0.3)	(0.3)
	12.7	**11.7**	7.6	6.8

The effective tax rate for the year is 22.6% for the Group and 23.0% for the Society (2008 - 28.8% for the Group and 28.9% for the Society). Further information relating to deferred tax is presented in note 26.

17. TAXATION (continued)

	Group 2009	Society 2009	Group 2008	Society 2008
	£m	£m	£m	£m
Statement of other comprehensive income				
Tax credit on actuarial loss on defined benefit pension plan	(0.9)	(0.9)	(1.2)	(1.2)
Tax credit on fair value movements taken to reserves	(3.1)	(3.1)	(7.9)	(7.9)
Income tax reported in equity	(4.0)	(4.0)	(9.1)	(9.1)

The actual tax charge for the period differs from the UK standard corporation tax rate of 28%. The differences are explained below.

	Group 2009	Society 2009	Group 2008	Society 2008
Profit on ordinary activities before tax (PBT)	56.2	50.9	26.4	23.5
Tax at UK standard rate of corporation tax on PBT of 28% (2008 – 28.5%)	15.7	14.2	7.5	6.7
Adjustments in respect of prior years	(3.2)	(2.7)	0.1	0.1
Expenses not deductible for tax purposes	0.2	0.2	-	-
	12.7	11.7	7.6	6.8

18. CASH IN HAND AND BALANCES WITH THE BANK OF ENGLAND

	Group 2009	Society 2009	Group 2008	Society 2008
Cash in hand and balances with the Bank of England other than mandatory reserve deposits	287.6	285.4	232.5	230.6
Mandatory reserve with the Bank of England	14.6	14.6	14.5	14.5
	302.2	300.0	247.0	245.1

The mandatory reserve deposits with the Bank of England of £14.6 million (2008 - £14.5 million) are not available for use in the Society's day-to-day operations. All other balances with the Bank of England are not mandatory and are readily accessible.

19. LOANS AND ADVANCES TO CREDIT INSTITUTIONS

Loans and advances to credit institutions have remaining maturities as follows:

	Group 2009	Society 2009	Group 2008	Society 2008
Accrued interest	0.8	0.8	4.1	4.1
Repayable on demand	40.5	40.5	128.0	128.0
Other loans and advances by residual maturity repayable				
In not more than three months	128.1	128.1	314.5	314.5
In more than three months but not more than one year	83.5	83.5	21.8	21.8
In more than one year but not more than five years	72.3	72.3	2.0	2.0
	325.2	325.2	470.4	470.4

20. DEBT SECURITIES

	Group 2009	Society 2009	Group 2008	Society 2008
	£m	£m	£m	£m
Available-for-sale:				
Government investment securities	778.4	778.4	109.8	109.8
Analysis of transferable debt securities				
Listed	1,486.0	1,486.0	1,286.3	1,286.3
Unlisted	1,273.6	1,273.6	1,759.7	1,759.7
	3,538.0	3,538.0	3,155.8	3,155.8
Debt securities have remaining maturities as follows:				
In not more than one year	1,669.8	1,669.8	2,128.1	2,128.1
In more than one year	1,868.2	1,868.2	1,027.7	1,027.7
	3,538.0	3,538.0	3,155.8	3,155.8
Movements during the year of transferable securities are analysed below:				
At 1 January	3,155.8	3,155.8	2,262.5	2,262.5
Additions	12,479.9	12,479.9	10,504.4	10,504.4
Maturities and disposals	(12,084.0)	(12,084.0)	(9,556.8)	(9,556.8)
Losses from changes in fair value	(13.7)	(13.7)	(30.4)	(30.4)
Impairment of debt securities (see note 15)	-	-	(23.9)	(23.9)
At 31 December	3,538.0	3,538.0	3,155.8	3,155.8

Foreign exchange losses of £2.6 million relating to the prior year have been reclassified into 'losses from changes in fair value'.

21. DERIVATIVES AND OTHER FINANCIAL INSTRUMENTS

	2009			2008		
	Contract/ notional amount	Fair value Assets	Fair value Liabilities	Contract/ notional amount	Fair value Assets	Fair value Liabilities
Group and Society	£m	£m	£m	£m	£m	£m
Derivatives designated as fair value hedges						
Interest rate caps	392.0	3.8	-	700.0	0.9	-
Interest rate swaps	7,498.2	24.0	107.9	6,359.9	54.6	93.9
Other derivatives						
Cross currency interest rate swaps	665.8	1.5	-	760.7	105.1	-
Interest rate basis swaps	300.0	-	1.0	-	-	-
Total derivatives	8,856.0	29.3	108.9	7,820.6	160.6	93.9

Contract/notional amount indicates the amount outstanding at the balance sheet date and does not represent amounts at risk.

All derivative counterparties are rated AA or better.

	2009			2008		
	Contract/ notional amount	Fair value Assets	Fair value Liabilities	Contract/ notional amount	Fair value Assets	Fair value Liabilities
Group and Society	£m	£m	£m	£m	£m	£m
Derivatives have remaining maturities as follows:						
In not more than one year	3,407.2	9.9	31.3	4,700.8	33.7	14.5
In more than one year	5,448.8	19.4	77.6	3,119.8	126.9	79.4
Total derivatives	8,856.0	29.3	108.9	7,820.6	160.6	93.9

HEDGING ACTIVITIES

Fair value hedges
At 31 December 2009 the Society held the following interest rate derivative contracts.

Interest rate swap agreements under which the Society pays a fixed rate of interest and receives interest at LIBOR. These swaps are used to hedge the exposure to changes in the fair value of fixed rate mortgage assets as a result of changes in market interest rates. These swaps have a nominal principal amount of £3,612.4 million (2008 - £2,891.4 million) and a net negative fair value of £88.6 million (2008 - net negative £91.9 million).

Interest rate swap agreements under which the Society receives a fixed rate of interest and pays interest at LIBOR. These swaps are used to hedge the exposure to changes in the fair value of the fixed rate savings liabilities as a result of changes in market interest rates. These swaps have a nominal principal amount of £2,200.0 million (2008 - £3,115.0 million) and a net positive fair value of £1.7 million (2008 - net positive £28.7 million).

Interest rate swap agreements under which the Society pays a fixed rate of interest and receives interest at LIBOR. These swaps are used to hedge the exposure to changes in the fair value of fixed rate gilts or Government guaranteed bonds purchased in the wholesale market as a result of changes in market interest rates. These swaps have a nominal principal amount of £582.0 million (2008 - nil) and a net negative fair value of £5.6 million (2008 – nil).

21. DERIVATIVES AND OTHER FINANCIAL INSTRUMENTS (continued)

Interest rate swap agreements under which the Society receives a fixed rate of interest and pays interest at LIBOR. These swaps are used to hedge the exposure to changes in the fair value of fixed rate bonds or liabilities issued in the wholesale market as a result of changes in market interest rates. These swaps have a nominal principal amount of £1,103.8 million (2008 - £353.5 million) and a net positive fair value of £8.6 million (2008 - net positive £23.9 million).

Interest rate cap agreements under which the Society pays an initial premium and is subsequently compensated to the extent that LIBOR exceeds the cap strike rate. These caps are used to hedge changes in the fair value of exposure to the risk that market rates exceed the cap on capped rate mortgage assets. These caps have a nominal principal amount of £392.0 million (2008 - £700.0 million) and a fair value of £3.8 million (2008 - £0.9 million).

The derivative gains and losses for the year in respect of fair value hedges comprise losses on derivatives of £22.6 million (2008 - losses of £34.4 million) and associated gains on hedged items of £24.5 million (2008 - gains of £36.0 million).

Hedges not qualifying for hedge accounting

Cross currency swaps under which the Society receives interest at EURIBOR and pays interest at LIBOR. These swaps are used to hedge the exposure to changes in the fair value of Euro denominated bonds issued in the wholesale market as a result of changes in market interest rates and exchange rates. These cross currency swaps have a nominal principal amount of £665.8 million (2008 - £760.7 million) and a net positive fair value of £1.5 million (2008 - net positive £105.1 million).

Interest rate basis swap agreements under which the Society pays interest at Bank of England Base Rate and receives interest at LIBOR. These swaps are used to hedge the Society's LIBOR liability position. These basis swaps have a nominal principal amount of £300.0 million (2008 – nil) and a net negative fair value of £1.0 million (2008 – nil).

The derivative gains and losses for the year in respect of hedges that do not qualify for hedge accounting comprise losses on derivatives of £0.5 million (2008 – gains of £0.6 million) and associated losses on hedged items of £0.1 million (2008 – losses of £0.4 million).

22. LOANS AND ADVANCES TO CUSTOMERS

	Group 2009	**Society 2009**	Group 2008	Society 2008
	£m	**£m**	£m	£m
Loans fully secured on residential property	**13,991.2**	**11,337.3**	13,073.2	11,128.6
Other loans				
Loans fully secured on land	**0.1**	**0.1**	0.1	0.1
Other loans	**83.4**	**59.8**	99.5	74.2
	83.5	**59.9**	99.6	74.3
	14,074.7	**11,397.2**	13,172.8	11,202.9

Other loans incorporate £1.3 million (2008 - £1.5 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. Although the classification of these assets is not consistent with similar loans made after 1 July 1998 that are included in 'loans fully secured on residential property', this treatment has been adopted in order to comply with the requirements of the Building Societies Act 1997.

NOTES TO THE ACCOUNTS
(continued)

22. LOANS AND ADVANCES TO CUSTOMERS (continued)

Maturity analysis
The remaining maturity of loans and advances to customers at the balance sheet date is as follows:

		Group 2009	Society 2009	Group 2008	Society 2008
		£m	£m	£m	£m
In not more than one year		56.5	50.9	62.5	59.9
In more than one year		14,041.6	11,364.1	13,131.2	11,161.3
		14,098.1	11,415.0	13,193.7	11,221.2
Impairment	(note 13)	(23.4)	(17.8)	(20.9)	(18.3)
	(note 40)	14,074.7	11,397.2	13,172.8	11,202.9

The maturity analysis is based on contractual maturity not actual redemption levels experienced by the Group or Society.

Covered bonds
On 21 April 2008, the Bank of England launched its Special Liquidity Scheme (SLS) which allows financial institutions to swap their high quality mortgage-backed and other securities for UK Treasury Bills for a defined period. In common with many banks and building societies, the Society has used this facility as an efficient way of maintaining a high level of liquidity.

The Society accessed the SLS by issuing a covered bond and swapping this with the Bank of England for UK Treasury Bills. To establish this structure the Society created a new entity, Coventry Building Society Covered Bonds LLP, which is consolidated by the Group.

Loans and advances to customers include £2,602.6 million (2008 – £2,790.4 million) for both the Group and Society which have been transferred from the Society to Coventry Building Society Covered Bonds LLP. The loans secure £2,000.0 million (2008 – £2,000.0 million) of covered bonds issued by the Society. The loans are retained on the Society's balance sheet as the Society retains substantially all the risks and rewards relating to the loans.

23. INVESTMENTS IN SUBSIDIARY UNDERTAKINGS

Society	Shares	Loans	Total 2009
	£m	£m	£m
Cost and net book value			
At 1 January	-	4,769.5	4,769.5
Additions	-	544.0	544.0
At 31 December	-	5,313.5	5,313.5

The Society holds 100% of the issued share capital of Godiva Mortgages Limited, an operating subsidiary undertaking incorporated in England and Wales whose principal activity is mortgage lending.

The Society also has an interest in Coventry Building Society Covered Bonds LLP that gives rise to risks and rewards that are in substance no different than if it was a subsidiary undertaking. As a consequence this entity is consolidated in the Group accounts. Coventry Building Society Covered Bonds LLP is registered in England and Wales. Its principal activity is intra-group mortgage acquisition and guarantor of covered bonds issued by Coventry Building Society.

Notes 4 and 5 of the Annual Business Statement include details of all the Society's subsidiary undertakings.

24. INTANGIBLE FIXED ASSETS

	Group 2009	Society 2009	Group 2008	Society 2008
	£m	£m	£m	£m
Cost				
At 1 January	10.2	9.7	32.8	32.3
Additions	4.4	4.4	2.8	2.8
Disposals	(3.2)	(3.2)	(25.4)	(25.4)
At 31 December	11.4	10.9	10.2	9.7
Amortisation				
At 1 January	1.7	1.2	24.8	24.3
Charge for the year	2.7	2.7	2.2	2.2
Disposals	(2.9)	(2.9)	(25.3)	(25.3)
At 31 December	1.5	1.0	1.7	1.2
Net book value at 31 December	9.9	9.9	8.5	8.5

The intangible assets disclosed above represent software expenditure.

25. PROPERTY, PLANT AND EQUIPMENT

Group and Society	Land and buildings			Equipment, fixtures, fittings & vehicles	Total
	Freehold	Long leasehold	Short leasehold		
	£m	£m	£m	£m	£m
Cost					
At 1 January 2009	7.1	3.5	3.2	39.1	52.9
Additions	-	-	-	3.4	3.4
Disposals	-	-	-	(2.4)	(2.4)
At 31 December 2009	7.1	3.5	3.2	40.1	53.9
Depreciation					
At 1 January 2009	1.0	0.2	2.0	23.5	26.7
Charge for the year	0.1	0.1	-	3.8	4.0
Depreciation on disposals	-	-	-	(2.3)	(2.3)
At 31 December 2009	1.1	0.3	2.0	25.0	28.4
Net book value at 31 December 2009	6.0	3.2	1.2	15.1	25.5

25. PROPERTY, PLANT AND EQUIPMENT (continued)

Group and Society	Land and buildings Freehold	Long leasehold	Short leasehold	Equipment, fixtures, fittings & vehicles	Total
	£m	£m	£m	£m	£m
Cost					
At 1 January 2008	7.1	3.5	3.2	71.6	85.4
Additions	-	-	-	5.7	5.7
Disposals	-	-	-	(38.2)	(38.2)
At 31 December 2008	7.1	3.5	3.2	39.1	52.9
Depreciation					
At 1 January 2008	0.9	0.2	1.9	57.9	60.9
Charge for the year	0.1	-	0.1	3.6	3.8
Depreciation on disposals	-	-	-	(38.0)	(38.0)
At 31 December 2008	1.0	0.2	2.0	23.5	26.7
Net book value at 31 December 2008	6.1	3.3	1.2	15.6	26.2

Included within freehold property are two properties held for investment purposes. The net book value of these properties is £0.6 million (2008 - £0.6 million).

Equipment, fixtures, fittings and vehicles includes assets held under finance leases as follows:	**2009**	2008
Group and Society	**£m**	£m
Net book value	**0.9**	0.9
Accumulated depreciation	**0.6**	0.5

The net book value of land and buildings occupied by the Society for its own activities is as follows:

Group and Society		
At 31 December	**9.6**	9.7

26. DEFERRED TAX

Deferred tax assets and liabilities are attributable to the following items:

	Group 2009	**Society 2009**	Group 2008	Society 2008
	£m	**£m**	£m	£m
Deferred tax assets				
Mortgage book impairment and other provisions	**0.4**	**0.4**	1.3	1.3
Pension scheme benefit from special contribution	**-**	**-**	0.6	0.6
Transitional fair value adjustments	**1.6**	**1.6**	1.9	1.9
Excess of depreciation over capital allowances	**0.1**	**-**	-	-
	2.1	**2.0**	3.8	3.8
Deferred tax liabilities				
Excess of capital allowances over depreciation	**1.0**	**1.0**	0.6	0.5
Transitional fair value adjustments	**2.4**	**2.4**	3.0	3.0
Tax on defined benefit pension plan surplus	**1.9**	**1.9**	1.6	1.6
	5.3	**5.3**	5.2	5.1

27. SHARES

Held by individuals	**13,210.3**	**13,210.3**	12,345.9	12,345.9
Other shares	**7.9**	**7.9**	8.6	8.6
Hedge accounting adjustment	**0.6**	**0.6**	31.6	31.6
	13,218.8	**13,218.8**	12,386.1	12,386.1

Shares are repayable from the balance sheet date in the ordinary course of business as follows:

Accrued interest	**111.3**	**111.3**	222.9	222.9
Repayable on demand	**12,724.1**	**12,724.1**	12,163.2	12,163.2
Shares with residual maturity repayable:				
In more than one year but not more than five years	**383.4**	**383.4**	-	-
	13,218.8	**13,218.8**	12,386.1	12,386.1

28. DEPOSITS FROM BANKS

Deposits from banks are repayable from the balance sheet date in the ordinary course of business as follows:

Accrued interest	**0.7**	**0.7**	19.3	19.3
Repayable on demand	**38.1**	**38.1**	0.8	0.8
Other amounts owed to banks with residual maturity repayable:				
In not more than three months	**969.6**	**969.6**	1,288.7	1,288.7
In more than three months but not more than one year	**-**	**-**	0.7	0.7
In more than one year but not more than five years	**361.9**	**361.9**	369.8	369.8
	1,370.3	**1,370.3**	1,679.3	1,679.3

Deposits from banks include £1,327 million (2008 – £1,608 million) in respect of sale and repurchase agreements.

29. OTHER DEPOSITS

	Group 2009	**Society 2009**	Group 2008	Society 2008
	£m	**£m**	£m	£m
Other deposits are repayable from the balance sheet date in the ordinary course of business as follows:				
Accrued interest	**-**	**-**	0.1	0.1
Other amounts owed to depositors with residual maturity repayable:				
In more than three months but not more than one year	**18.0**	**18.0**	46.9	46.9
	18.0	**18.0**	47.0	47.0

30. AMOUNTS OWED TO OTHER CUSTOMERS

Amounts owed to other customers are repayable from the balance sheet date in the ordinary course of business as follows:

	Group 2009	**Society 2009**	Group 2008	Society 2008
Accrued interest	**5.5**	**5.5**	14.3	14.3
Repayable on demand	**58.3**	**58.3**	11.9	11.9
Other amounts due to customers with residual maturity repayable:				
In not more than three months	**577.6**	**577.6**	614.0	614.0
In more than three months but not more than one year	**186.2**	**186.2**	185.6	185.6
In more than one year but not more than five years	**28.6**	**28.6**	61.6	61.6
	856.2	**856.2**	887.4	887.4

31. DEBT SECURITIES IN ISSUE

	Group 2009	**Society 2009**	Group 2008	Society 2008
Certificates of deposit	**101.2**	**101.2**	183.6	183.6
Fixed and floating rate notes	**1,863.9**	**1,863.9**	1,234.1	1,234.1
	1,965.1	**1,965.1**	1,417.7	1,417.7
Hedge accounting adjustment	**4.7**	**4.7**	21.1	21.1
	1,969.8	**1,969.8**	1,438.8	1,438.8

Debt securities in issue are repayable from the balance sheet date in the ordinary course of business as follows:

	Group 2009	**Society 2009**	Group 2008	Society 2008
Accrued interest	**2.3**	**2.3**	8.0	8.0
Other debt securities in issue with residual maturity repayable:				
In not more than one year	**972.9**	**972.9**	1,009.8	1,009.8
In more than one year	**989.9**	**989.9**	399.9	399.9
	1,965.1	**1,965.1**	1,417.7	1,417.7
Hedge accounting adjustment	**4.7**	**4.7**	21.1	21.1
	1,969.8	**1,969.8**	1,438.8	1,438.8

32. OTHER LIABILITIES

	Group 2009	Society 2009	Group 2008	Society 2008
	£m	£m	£m	£m
Other liabilities falling due within one year are as follows:				
Amounts due to connected undertakings	-	2,642.3	-	2,801.1
Tax deducted at source from interest paid	14.5	14.5	6.4	6.4
Other taxation and social security	1.3	1.3	1.1	1.1
Finance leases	0.6	0.6	1.0	1.0
Other creditors	2.5	2.6	3.0	3.0
	18.9	2,661.3	11.5	2,812.6
Other liabilities falling due after more than one year but in less than five years:				
Finance leases	0.4	0.4	0.6	0.6
	19.3	2,661.7	12.1	2,813.2

33. PROVISIONS FOR LIABILITIES AND CHARGES

	Group 2009	Society 2009	Group 2008	Society 2008
At 1 January	15.7	15.7	4.4	4.4
Charge for FSCS levy	2.0	2.0	11.4	11.4
Release in the year	(2.9)	(2.9)	-	-
Provisions utilised	(4.7)	(4.7)	(0.1)	(0.1)
At 31 December	10.1	10.1	15.7	15.7

The charge for the year of £2.0 million (2008 – £11.4 million) relates to amounts payable to the FSCS (see note 14).

Other provisions have been made in respect of circumstances that may give rise to various customer claims. It is expected that the liability will mainly crystallise over the next five years.

34. SUBORDINATED LIABILITIES

	Group 2009	Society 2009	Group 2008	Society 2008
	£m	**£m**	£m	£m
Subordinated liabilities owed to note holders are as follows:				
Fixed rate subordinated notes 2015	**30.0**	**30.0**	30.0	30.0
Fixed rate subordinated notes 2015	**25.2**	**25.2**	25.2	25.2
Fixed rate subordinated notes 2022	**15.5**	**15.5**	15.5	15.5
	70.7	**70.7**	70.7	70.7

All the subordinated liabilities are denominated in sterling.

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

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.

35. SUBSCRIBED CAPITAL

Subscribed capital owed to permanent interest holding members is as follows:

	Group 2009	Society 2009	Group 2008	Society 2008
Permanent interest bearing shares	**161.2**	**161.2**	161.1	161.1

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 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.

36. GENERAL RESERVE

	Group 2009	Society 2009	Group 2008	Society 2008
Movements in general reserves were as follows:				
As at 1 January	**574.9**	**572.7**	559.2	559.1
Actuarial loss on defined benefit pension plan (net of tax at 28% (2008 – 28.5%))	**(2.4)**	**(2.4)**	(3.1)	(3.1)
Net profit for the financial year	**43.5**	**39.2**	18.8	16.7
At 31 December	**616.0**	**609.5**	574.9	572.7

37. AVAILABLE-FOR-SALE RESERVE

	Group 2009	Society 2009	Group 2008	Society 2008
Movements in available-for-sale reserves were as follows:				
As at 1 January	**(23.8)**	**(23.8)**	(3.9)	(3.9)
Fair value losses taken to reserves (net of tax at 28% (2008 – 28.5%))	**(8.0)**	**(8.0)**	(19.9)	(19.9)
At 31 December	**(31.8)**	**(31.8)**	(23.8)	(23.8)

Fair value losses taken to reserves is reported net of £24.0 million (2008 – nil) of fair value gains which were recycled through the income statement during the year.

38. FINANCIAL COMMITMENTS

	Group 2009	Society 2009	Group 2008	Society 2008
	£m	**£m**	£m	£m
Undrawn lifetime mortgage loan facilities	**55.0**	**4.0**	29.0	1.1
Other undrawn loan facilities	**1.0**	**1.0**	3.5	3.5
	56.0	**5.0**	32.5	4.6

Lifetime mortgage loan facilities

Subject to the satisfaction of previously agreed loan to value ratios, the Group is committed to £55.0 million (2008 - £29.0 million) of undrawn loans (Society £4.0 million, 2008 - £1.1 million) relating to its lifetime mortgage product.

Subsidiary companies

To the extent that they were incurred before 11 June 1996, and until such liabilities either become remote or disappear altogether, the Society has an obligation under the Building Societies Act 1986 to discharge the liabilities of its subsidiary undertakings insofar as they are unable to do so out of their own assets. There are no significant contingent liabilities in this respect.

39. CAPITAL AND LEASING COMMITMENTS

Capital commitments

In both this and the previous year all capital expenditure contracted for has been provided for in the Accounts.

Leasing commitments

At the balance sheet date future minimum lease payments under non-cancellable operating leases relating to land and buildings were as follows:

	Group 2009	Society 2009	Group 2008	Society 2008
Amounts falling due:				
Within one year	**2.3**	**2.3**	2.4	2.4
Between one and five years	**7.3**	**7.3**	7.9	7.9
After five years	**4.7**	**4.7**	5.2	5.2
	14.3	**14.3**	15.5	15.5
At the balance sheet date, future minimum subleasing payments receivable under non-cancellable subleases	**0.7**	**0.7**	0.9	0.9
Lease payments recognised as an expense in the period	**2.7**	**2.7**	2.7	2.7

NOTES TO THE ACCOUNTS
(continued)

40. FINANCIAL INSTRUMENTS

Use of financial instruments
The risks of the organisation are managed on a Group basis and therefore all risk disclosures in this note have been presented on a consolidated basis. The term 'Group' is used in the remainder of this note to cover the activities of both Group and Society.

Deposits are accepted from customers at both fixed and floating interest rates for various periods. The Group earns interest margin on these deposits by investing in mortgages.

The Group holds derivative financial instruments for the purposes of managing the risks associated with its various fixed and capped rate assets and liabilities and its foreign currency transactions. In accordance with its treasury policy, and the Building Societies Act 1986, the Group holds derivative financial instruments only for risk management and not for speculative or trading purposes.

The Group's policy is to manage its exposure to these risks within prudent limits. It does this through a combination of matching assets and liabilities with off-setting interest rate or exchange rate characteristics and by the use of derivative financial instruments such as interest rate swaps, forward rate agreements, interest rate options, cross currency interest rate swaps and foreign exchange contracts.

The accounting policy for derivatives and hedge accounting is described in the Accounting Policies note.

Control and monitoring procedures
The ALCO sets limits over the use of derivative products for managing exposure to interest rates and foreign exchange rates, sets Group non-retail credit policy and regularly monitors and reviews exposures. The ALCO reports through the Risk Management Committee to the board.

The Credit Risk and Lending Committee sets Group retail credit policy and regularly monitors and reviews exposures in this area. The Credit Risk and Lending Committee reports through the Risk Management Committee to the board.

The principal risks the Group faces are interest rate, credit, foreign currency and liquidity risk. Each risk, and the control procedures surrounding its management, are described in detail in the Risk Management Report and summarised below.

Interest rate risk
The value of income arising from the Group's assets and liabilities may change adversely as a result of changes in interest rates. This exposure is managed on a continuous basis, within prudent limits set by the board. It does this using a combination of derivative instruments and balance sheet structure by matching assets and liabilities with complementary characteristics. Given that the Group does not hold a trading book, the outright interest rate risk arises mainly from the ALCO's decision to invest the Group's reserves according to a specified maturity profile.

The Group evaluates the impact on margin of various interest rate scenarios to monitor interest rate risk. The Group uses basis point sensitivity analysis to assess the change in the value of the Group's balance sheet net worth against a 100 basis point (1.0%) parallel shock to interest rates.

Details of this sensitivity analysis are set out opposite. The limits around these scenarios have been set by the ALCO.

40. FINANCIAL INSTRUMENTS (continued)

The following table shows the impact on net worth through the reporting period:

	+100bps 2009	-100bps 2009	+100bps 2008	-100bps 2008
	£m	**£m**	£m	£m
Impact on equity reserves	**(39.8)**	**38.7**	(14.6)	15.5
Impact on profit and loss	**5.4**	**(1.6)**	2.1	(5.2)

All exposures include investment of the Group's reserves.

Interest rate risk exposure to the potential impact of such shifts is maintained within an envelope of exposures over the next five years, consistent with the corporate plan approved by the board. The sensitivity on equity is calculated by re-measuring the fair values of all available-for-sale assets for the effects of the assumed changes in interest rates, and the impact on the income statement arises from the assumed changes in the interest rate relating to floating rate assets and liabilities. The total sensitivity is based on the assumption that there are parallel shifts in the yield curve. In the table above, the values represent the positive and negative impacts on equity and profit and loss faced by the Society due to the effect of a rate shock.

Other interest rate risk exposures, such as basis risk (the risk of loss arising from changes in the relationship between interest rates which have similar but not identical characteristics – such as LIBOR and Bank of England Base Rate) and prepayment risk (the risk of loss arising from early repayment of fixed rate mortgages and loans) are also monitored.

The following table sets out the carrying amount of the Group's financial instruments that are exposed to interest rate risk and the expected interest reset date of those instruments.

At 31 December 2009	**Three months or less**	**More than three months less than six months**	**More than six months less than one year**	**More than one year less than five years**	**More than five years**	**Non-interest bearing**	**Total**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
Assets							
Liquid assets	**2,341**	**460**	**274**	**610**	**452**	**28**	**4,165**
Loans and advances to customers	**8,715**	**592**	**491**	**3,777**	**478**	**22**	**14,075**
Fixed assets	**-**	**-**	**-**	**-**	**-**	**35**	**35**
Other assets and adjustments	**-**	**-**	**-**	**-**	**-**	**127**	**127**
Total assets	**11,056**	**1,052**	**765**	**4,387**	**930**	**212**	**18,402**
Liabilities and equity							
Shares	**(8,789)**	**(56)**	**(790)**	**(3,473)**	**-**	**(111)**	**(13,219)**
Deposits, amounts owed to customers and debt securities	**(3,106)**	**(162)**	**(58)**	**(526)**	**(350)**	**(12)**	**(4,214)**
Other liabilities and adjustments	**-**	**-**	**-**	**-**	**-**	**(153)**	**(153)**
Subordinated liabilities	**-**	**-**	**-**	**-**	**(71)**	**-**	**(71)**
Subscribed capital	**-**	**-**	**-**	**-**	**(161)**	**-**	**(161)**
Reserves	**-**	**-**	**-**	**-**	**-**	**(584)**	**(584)**
Total liabilities and equity	**(11,895)**	**(218)**	**(848)**	**(3,999)**	**(582)**	**(860)**	**(18,402)**
Derivative financial instruments	**913**	**(590)**	**147**	**(454)**	**25**	**(41)**	**-**
Interest rate sensitivity gap	**74**	**244**	**64**	**(66)**	**373**	**(689)**	**-**

NOTES TO THE ACCOUNTS
(continued)

40. FINANCIAL INSTRUMENTS (continued)

Interest rate risk (continued)

At 31 December 2008	Three months or less	More than three months less than six months	More than six months less than one year	More than one year less than five years	More than five years	Non-interest bearing	Total
	£m	£m	£m	£m	£m	£m	£m
Assets							
Liquid assets	3,446	51	72	300	2	2	3,873
Loans and advances to customers	7,613	555	991	3,673	315	26	13,173
Fixed assets	-	-	-	-	-	35	35
Other assets and adjustments	-	-	-	-	-	283	283
Total assets	11,059	606	1,063	3,973	317	346	17,364
Liabilities and equity							
Shares	(6,614)	(2,253)	(1,745)	(1,499)	(23)	(252)	(12,386)
Deposits, amounts owed to customers and debt securities	(3,758)	(70)	(97)	(64)	-	(64)	(4,053)
Other liabilities and adjustments	-	-	-	-	-	(143)	(143)
Subordinated liabilities	-	-	-	-	(71)	-	(71)
Subscribed capital	-	-	-	-	(161)	-	(161)
Reserves	-	-	-	-	-	(550)	(550)
Total liabilities and equity	(10,372)	(2,323)	(1,842)	(1,563)	(255)	(1,009)	(17,364)
Derivative financial instruments	83	860	598	(1,721)	180	-	-
Interest rate sensitivity gap	770	(857)	(181)	689	242	(663)	-

Credit risk

Credit risk is the risk that customers or counterparties will be unable to meet their financial obligations to the Society as they fall due. Impairment provisions are provided for losses that have been incurred at the balance sheet date (see note 13).

The Credit Risk and Lending Committee, a sub-committee of the Risk Management Committee, is responsible for approving and monitoring the Group's retail credit exposures. The Credit Risk and Lending Committee reviews and approves lending policy and sets limits on credit exposures within the overall parameters set by the board. In addition, the Ratings Committee reviews and approves the credit scoring systems used by the Group. The minutes of the Credit Risk and Lending Committee and Ratings Committee are presented to the Risk Management Committee. The minutes of the Risk Management Committee are presented to the board.

The ALCO, a sub-committee of the Risk Management Committee, is responsible for approving and monitoring the Group's non-retail credit exposures. It does this through the review and approval of the Group's lending policy and the setting of limits on credit exposures to individual counterparties and across countries and industrial sectors.

The minutes of the ALCO are presented to the Risk Management Committee and to the board. The minutes of the Risk Management Committee are also presented to the board.

40. FINANCIAL INSTRUMENTS (continued)

Credit risk (continued)

The Group adopts a responsible approach to lending. The credit quality of borrowers is assessed before loans are approved to ensure that the servicing of the loan falls within the customer's capacity to repay. This assessment process utilises automated credit scoring systems for decisions on small advances and multiple external ratings methodologies to inform the decision on individual large values. Actual retail exposures against limits are monitored monthly; non-retail exposures are monitored daily.

Maximum credit risk exposure at 31 December 2009 approximates to the carrying value for all assets and loan commitments.

Of the £14,074.7 million 'loans and advances to customers', £13,991.3 million (99.4%) (2008 - 99.2%) is fully secured on residential property and land. Only £83.4 million (0.6%) (2008 - 0.8%) is therefore unsecured and this is comprised of personal loans.

The average current loan to value ratio of the Group's loans and advances to customers is 51% (2008 - 53%).

Outstanding balances for customers classed as 'credit impaired' represent only 0.48% (2008 - 0.58%) of the Group's loans and advances to customers.

The Group's number of customers in arrears as a percentage of loans and advances to customers compared to the Council of Mortgage Lenders' (CML) data is shown below:

	2009		2008	
	Group	**CML***	Group	CML
	%	**%**	%	%
Greater than three months	**1.18**	**2.38**	0.87	1.88
Greater than six months	**0.55**	**1.40**	0.30	0.87
Greater than one year	**0.12**	**0.60**	0.05	0.25
In possession	**0.06**	**0.14**	0.11	0.21

*Council of Mortgage Lenders' data (as at 31 December 2009)

The table below provides further information by payment due status:

	2009		2008	
	£m	**%**	£m	%
Not impaired				
Neither past due nor impaired	**13,376.7**	**95.04**	12,581.1	95.51
Past due up to three months but not impaired	**484.5**	**3.44**	443.5	3.37
Impaired				
Past due over three to six months	**104.4**	**0.74**	83.2	0.63
Past due over six months or in litigation	**96.6**	**0.69**	45.4	0.34
In possession	**12.5**	**0.09**	19.6	0.15
	14,074.7	**100.00**	13,172.8	100.00

The Group has no exposure to commercial property lending.

£12.5 million (2008 - £16.3 million) of collateral is held against loan repossession cases which are classified in 'loans and advances to customers' in the balance sheet.

40. FINANCIAL INSTRUMENTS (continued)

Credit risk – treasury liquidity book

	Exposure value by Moody's rating Aaa–Aa3	A1–A3	Baa1-Baa3	Unrated	Total
	£m	£m	£m	£m	£m
Central banks and sovereigns	1,080.6	-	-	-	1,080.6
Financial institutions	2,141.1	273.4	120.0	170.2	2,704.7
Mortgage-backed securities	380.1	-	-	-	380.1
Total	3,601.8	273.4	120.0	170.2	4,165.4

Unrated institutions are all smaller building societies and local authorities.

Foreign currency risk

Foreign currency risk arises as a result of the Group's activities in raising funds and making investments in foreign currencies. This is done to ensure wholesale funds are obtained cost effectively across a wide pool of potential providers, but exposes the Group to the risk of an appreciation in the value of foreign currency denominated liabilities or a deterioration in the value of the foreign currency denominated assets.

The risk is managed through the use of currency swaps and foreign currency forward contracts and also, where appropriate, by the matching of foreign currency liabilities with assets denominated in the same currency.

After taking into account the effects of cross currency swaps, the Group has no material net exposure to foreign exchange risk fluctuations or changes in foreign currency interest rates. The ALCO sets limits on the level of exposure by currency which are monitored daily.

House price risk

The Society engages external consultants to regularly stress test the risk related to the 'no negative equity' guarantee in the Society's lifetime mortgage portfolio. These results are monitored by the ALCO. The stress tests confirm that, for a range of future house price scenarios, the risk to the profitability of that portfolio over its life due to the 'no negative equity' guarantee is not significant.

Liquidity risk

Liquidity risk is the risk that the Group has insufficient funds to meet its financial obligations as they fall due. This could manifest itself in extreme scenarios such as an inability to raise new wholesale funding to replace existing funding as it matures, or a run on retail funds.

The objective of the board is to ensure that the Group holds sufficient liquidity of an appropriate nature to meet any sudden adverse cash flows. In order to meet this objective, the Group pursues a risk averse approach to the management of liquidity, reflecting the board's appetite for liquidity risk which is that, under both a moderate stress and highly stressed scenario, the Group should be able to meet projected cash outflows using existing resources and stabilise the situation by taking appropriate management action.

The risk is managed principally by the holding of cash and other easily realisable liquid assets. The minimum ratio of these liquid assets to the Group's liabilities is set by statute and adherence to this is monitored by FSA. Day-to-day management of the Group's liquidity position is the responsibility of the treasury function and is monitored by the ALCO and through the Risk Management Committee by the board. The board is responsible for setting limits over the level and composition of liquidity balances.

The Group maintains a portfolio of highly marketable and diverse assets that can be easily liquidated in the event of an unforeseen interruption of cash flow. In addition, the Group maintains a statutory deposit with the Bank of England which at the year end was £14.6 million (2008 - £14.5 million). The liquidity position is assessed and managed under a variety of scenarios, giving due consideration to stress factors relating to both the market in general and specifically to the Group. The liquidity ratio measures the Group's liquid assets as a percentage of the Group's shares and borrowings. The ratio during the year was as follows:

40. FINANCIAL INSTRUMENTS (continued)

Liquidity risk (continued)	Group 2009	Group 2008
	%	%
Liquidity ratio	**23.9**	23.6

For each material class of financial liability the contractual maturity analysis is provided in notes 27 to 32. In practice, customer deposits will be repaid later than on the contractual date on which the repayment can be required.

The following is an analysis of gross contractual cash flows payable under financial liabilities:

At 31 December 2009	Repayable on demand	Up to three months	More than three months less than six months	More than six months less than one year	More than one year less than five years	More than five years	Total
	£m	£m	£m	£m	£m	£m	£m
Liabilities							
Shares	12,836	1	1	1	414	-	13,253
Deposits, amounts owed to customers and debt securities	95	1,645	1,041	67	995	441	4,284
Other liabilities and adjustments	116	8	7	13	8	1	153
Cross currency swaps	-	1	1	1	11	3	17
Subordinated liabilities	-	-	-	4	17	85	106
Subscribed capital	-	2	4	6	49	162	223
Total liabilities	13,047	1,657	1,054	92	1,494	692	18,036
Undrawn loan facilities	56	-	-	-	-	-	56
Leasing commitments	-	-	1	1	7	5	14

At 31 December 2008	Repayable on demand	Up to three months	More than three months less than six months	More than six months less than one year	More than one year less than five years	More than five years	Total
	£m	£m	£m	£m	£m	£m	£m
Liabilities							
Shares	12,386	-	-	-	-	-	12,386
Deposits, amounts owed to customers and debt securities	25	2,297	87	179	1,523	92	4,203
Other liabilities and adjustments	101	7	7	13	14	1	143
Cross currency swaps	-	1	1	3	9	-	14
Subordinated liabilities	-	-	-	4	16	85	105
Subscribed capital	-	2	4	6	49	160	221
Total liabilities	12,512	2,307	99	205	1,611	338	17,072
Undrawn loan facilities	33	-	-	-	-	-	33
Leasing commitments	-	-	1	1	8	6	16

40. FINANCIAL INSTRUMENTS (continued)

Liquidity risk (continued)
Repayments of shares which are subject to notice are treated as if the notice were to be given immediately. In practice, deposits in the form of fixed bonds, notice accounts, regular savings accounts and some other transactional accounts are held by customers over the longer term and for this reason the table does not reflect the expected cash flows indicated by the Society's deposit retention history.

The tables on the previous page exclude cash flows beyond five years (other than the repayment of principal) that relate to subscribed capital.

Capital management
The Society's approach to capital management is detailed in the Directors' Report.

Fair values
Set out below is a comparison by category of carrying amounts and fair value of all the Group's non-derivative financial instruments, that are carried in the financial statements.

Group	2009 Carrying amount	2009 Fair value	2008 Carrying amount	2008 Fair value
	£m	£m	£m	£m
Financial assets				
Cash	302.2	302.2	247.0	247.0
Debt securities – available-for-sale:				
Government investment securities	778.4	778.4	109.8	109.8
Analysis of transferable debt securities				
Listed	1,486.0	1,486.0	1,286.3	1,286.3
Unlisted	1,273.6	1,273.6	1,759.7	1,759.7
	3,538.0	3,538.0	3,155.8	3,155.8
Loans and advances at amortised cost				
Loans and advances to credit institutions	325.5	325.6	470.4	485.0
Loans and advances to customers	14,074.7	15,161.6	13,172.8	14,067.0
	14,400.2	15,487.2	13,643.2	14,552.0
Financial liabilities at amortised cost				
Shares	13,218.8	13,629.9	12,386.1	12,527.1
Deposits, amounts owed to customers and debt securities	4,214.3	4,233.3	4,052.5	4,040.6
Subordinated liabilities	70.7	79.3	70.7	81.4
Permanent interest bearing shares	161.2	205.6	161.1	215.3

40. FINANCIAL INSTRUMENTS (continued)

Fair values (continued)

Society	2009 Carrying amount	2009 Fair value	2008 Carrying amount	2008 Fair value
	£m	£m	£m	£m
Financial assets				
Cash	300.0	300.0	245.1	245.1
Debt securities – available-for-sale:				
Government investment securities	778.4	778.4	109.8	109.8
Analysis of transferable debt securities				
Listed	1,486.0	1,486.0	1,286.3	1,286.3
Unlisted	1,273.6	1,273.6	1,759.7	1,759.7
	3,538.0	3,538.0	3,155.8	3,155.8
Loans and advances at amortised cost				
Loans and advances to credit institutions	325.2	325.6	470.4	485.0
Loans and advances to customers	11,397.2	12,685.2	11,202.9	11,963.4
	11,722.4	13,010.8	11,673.3	12,448.4
Financial liabilities at amortised cost				
Shares	13,218.8	13,629.9	12,386.1	12,527.1
Deposits, amounts owed to customers and debt securities	4,214.3	4,233.3	4,052.5	4,040.6
Subordinated liabilities	70.7	79.3	70.7	81.4
Permanent interest bearing shares	161.2	205.6	161.1	215.3

Determination of fair value and fair value hierarchy

The Society uses the following hierarchy for determining and disclosing the fair value of financial instruments:

- Level 1: quoted prices in active markets for the same instrument;
- Level 2: quoted prices in active markets for similar assets or liabilities or other valuation techniques for which all significant inputs are based on observable market data; and
- Level 3: valuation techniques for which any significant input is not based on observable market data.

40. FINANCIAL INSTRUMENTS (continued)

31 December 2009	Level 1	Level 2	Level 3	Total fair value
	£m	£m	£m	£m
Financial assets				
Derivative financial instruments				
Interest rate caps	-	3.8	-	3.8
Interest rate swaps	-	24.0	-	24.0
Cross currency interest rate swaps	-	1.5	-	1.5
	-	29.3	-	29.3
Debt securities – available-for-sale:				
Government investment securities	778.4	-	-	778.4
Analysis of transferable debt securities				
Listed	1,486.0	-	-	1,486.0
Unlisted	-	1,273.6	-	1,273.6
	2,264.4	1,273.6	-	3,538.0
Financial liabilities				
Derivative financial instruments				
Interest rate swaps	-	108.9	-	108.9
	-	108.9	-	108.9

Financial instruments recorded at fair value
The following is a description of the determination of fair value for financial instruments which are recorded at fair value using valuation techniques. These incorporate the Society's estimate of assumptions that a market participant would make when valuing the instruments.

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

Financial investments – available-for-sale
Market and counterparty prices have been used to determine the fair values of listed debt securities and permanent interest bearing shares. The fair values of all other instruments have been calculated using valuation models which use discounted cash flow analysis which incorporates observable market data including the use of prevailing interest rates to discount expected future cash flows.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

41. RELATED PARTY TRANSACTIONS

ULTIMATE CONTROLLING PARTY

The Group is controlled by Coventry Building Society registered in England and Wales, which is also considered to be the ultimate parent.

TRANSACTIONS WITH RELATED PARTIES

	2009	2008
Aggregate loans and deposits of directors	**£000**	£000
Loans payable by directors to the Society		
Loans outstanding at 1 January	**1,040.5**	1,085.3
Loans issued during the year (including existing loans on appointment as director)	**234.7**	-
Loan repayments during the year (net of interest)	**(70.1)**	(44.8)
Loans outstanding at 31 December	**1,205.1**	1,040.5
Deposits payable by the Society		
Deposits outstanding at 1 January	**2,021.1**	1,969.4
Deposits issued during the year	**361.3**	505.0
Deposit repayments during the year (net of interest)	**(92.2)**	(453.3)
Deposits outstanding at 31 December	**2,290.2**	2,021.1
Net interest income/(expense)		
Interest receivable	**26.6**	55.1
Interest payable	**(61.2)**	(96.2)
	(34.6)	(41.1)

41. RELATED PARTY TRANSACTIONS (continued)

TRANSACTIONS WITH KEY MANAGEMENT PERSONNEL

Transactions with key management personnel are on the same terms and conditions applicable to members and other employees within the Society.

In accordance with Section 68 of the Act, the Society maintains a register of loans falling within Section 65 made to directors and connected persons. A statement containing requisite particulars of such transactions may be inspected by members at the Society's AGM or at the Registered Office of the Society during the period 15 days prior to the AGM.

The directors are considered to be the only 'key management' for the purposes of the related party transactions disclosures under IAS 24.

TRANSACTIONS WITH GROUP COMPANIES

Transactions with Group companies arise in the normal course of business. Interest on outstanding loans and deposits accrues at a transfer price rate agreed between the Society and its subsidiaries.

The Society has made unsecured loans of £702.8 million (2008 - £1,041.2 million) to its wholly owned operating subsidiary Godiva Mortgages Limited during the year. Total loans to this subsidiary amounted to £2,671.2 million (2008 - £1,968.4 million) at the year end, on which £95.9 million (2008 - £88.8 million) interest was earned. Management recharges totalled £1.7 million (2008 - £1.6 million).

The Society also had loans repaid of £158.8 million (2008 – loans made of £2,801.1 million) from its subsidiary Coventry Building Society Covered Bonds LLP (see note 23) during the year. Total loans to this subsidiary amounted to £2,642.3 million (2008 - £2,801.1 million) at the year end, on which £109.0 million (2008 – £58.9 million) interest was earned.

42. NOTES TO THE CASH FLOW STATEMENTS

	Group 2009	**Society 2009**	Group 2008	Society 2008
	£m	**£m**	£m	£m
Non-cash items included in profit before tax				
Net increase in impairment provisions	**19.9**	**14.3**	32.3	30.2
Depreciation and amortisation	**6.7**	**6.7**	6.0	6.0
Interest on subordinated liabilities	**4.0**	**4.0**	4.0	4.0
Interest on subscribed capital	**12.2**	**12.2**	12.2	12.2
Increase in fair value adjustment of hedged risk	**119.1**	**119.3**	(70.4)	(70.2)
Other non-cash movements	**2.1**	**2.1**	(21.4)	(15.1)
	164.0	**158.6**	(37.3)	(32.9)
Changes in operating assets				
Decrease in loans to credit institutions and other liquid assets	**54.3**	**54.3**	1,678.8	1,678.8
Increase in loans and advances to customers	**(921.8)**	**(208.6)**	(1,356.8)	(318.6)
Decrease/(increase) in prepayments and accrued income	**3.6**	**3.6**	(2.8)	(2.7)
Increase in other assets	**(1.3)**	**(1.3)**	(1.6)	(1.6)
	(865.2)	**(152.0)**	317.6	1,355.9
Changes in operating liabilities				
Increase in shares	**973.5**	**973.5**	2,039.9	2,039.9
Decrease in deposits and other borrowings	**(341.7)**	**(341.7)**	(731.5)	(731.5)
Increase/(decrease) in debt securities in issue	**206.5**	**206.5**	(555.3)	(555.3)
(Decrease)/increase in accruals and deferred income	**(149.7)**	**(149.7)**	6.6	6.7
Increase in other liabilities	**2.5**	**2.3**	2.7	2.7
	691.1	**690.9**	762.4	762.5
Cash and cash equivalents				
Cash and balances with the Bank of England (note 18)	**287.6**	**285.4**	232.5	230.6
Due from other banks (note 19)	**40.5**	**40.5**	128.0	128.0
	328.1	**325.9**	360.5	358.6

Cash and cash equivalents excludes the balance which the Society is required to maintain with the Bank of England which, at 31 December 2009, amounted to £14.6 million (2008 - £14.5 million).

ANNUAL BUSINESS STATEMENT

for the year ended 31 December 2009

1. STATUTORY PERCENTAGES

	2009 %	Statutory limits %
Lending limit	**1.11**	25.00
Funding limit	**24.22**	50.00

The above percentages have been calculated in accordance with the provisions of the Building Societies Act 1986 as amended by the Building Societies Act 1997.

The lending limit measures the proportion of the business assets not in the form of loans fully secured on residential property and is calculated as (X-Y)/X where:

X = business assets, being the total assets of the Group plus loan impairment less liquid assets, intangible fixed assets and property, plant and equipment. The value of X used is the value at 31 December 2009.

Y = the principal value of, and interest accrued on, loans owed to the Group which are fully secured on residential property. The value of Y used is the value at 31 December 2009.

The funding limit measures the proportion of shares and borrowings not in the form of shares held by individuals and is calculated as (X-Y)/X where:

X = shares and borrowings, being the aggregate of:

i). the principal value of, and interest accrued on, shares in the Society;

ii). the principal value of, and interest accrued on, the amounts deposited with the Society by banks, credit institutions and other customers; and

iii). the principal value of, and interest accrued on, the amounts of debt securities of the Society.

Y = the principal value of, and interest accrued on, shares in the Society held by individuals other than bare trustees (or, in Scotland, simple trustees) for bodies corporate or for persons that include bodies corporate.

2. OTHER PERCENTAGES

	2009	2008
	%	%
As a percentage of shares and borrowings:		
Gross capital	**4.68**	4.76
Free capital	**4.51**	4.58
Liquid assets	**23.89**	23.56
As a percentage of mean total assets:		
Profit for the financial year	**0.24**	0.12
Management expenses	**0.38**	0.40

The above percentages have been calculated from the Group Accounts.

'Shares and borrowings' represents the total of shares, deposits from banks, other deposits, amounts owed to other customers and debt securities in issue.

'Gross capital' represents the aggregate of reserves, subordinated liabilities and subscribed capital.

'Free capital' represents the aggregate of gross capital and collective impairment less intangible fixed assets and property, plant and equipment.

'Liquid assets' represent the total of cash in hand and balances with the Bank of England, loans and advances to credit institutions and debt securities.

'Mean total assets' represent the average of the 2009 and 2008 total assets.

'Management expenses' represent the aggregate of administrative expenses, amortisation of intangible fixed assets and depreciation of property, plant and equipment.

ANNUAL BUSINESS STATEMENT

(continued)

3. INFORMATION RELATING TO DIRECTORS AND OTHER OFFICERS

Part 1 - Directors

Name (Date of birth)	Occupation	Other directorships	Date of appointment as a director of the Society
David A Harding, JP, BA, MPhil, FCMA (Chairman) (29.07.1947)	Company Director	Enterprise Inns plc RT Group PLC (In Members' Voluntary Liquidation) The Royal Mint The Royal Mint Limited	01.10.1996
Bridget P Blow (Deputy Chairman) (02.06.1949)	Company Director	Birmingham Chamber of Industry and Commerce Birmingham Hippodrome Limited Birmingham Hippodrome Theatre Trust Limited Bridget Blow Consulting Limited Member of the Council of Birmingham University Harvard International plc Kensington Green (Management) Limited Trustmarque Acquisitions Limited Trustmarque Group Limited Trustmarque Intermediary Limited Trustmarque Solutions Limited	01.02.2007
Roger D Burnell, BSc, FCA (08.04.1950)	Company Director	Thomas Cook Group plc Clarence Mansions Management Company Limited	01.09.2008
Colin T Franklin, FCIB, DMS (15.06.1955)	Building Society Sales & Marketing Director	Godiva Mortgages Limited Safe Home Income Plans	07.07.2009
Ian S Geden, FCII (08.07.1953)	Company Director	The Police Mutual	01.09.2008
Robert H Green, BA, ACA (23.05.1968)	Building Society Finance Director	Coventry Cyrenians All of Coventry Building Society's subsidiary companies detailed in Sections 4 and 5	02.05.2006
Ian Pickering, MA (Cantab), FCA (16.10.1955)	Company Director	Electrocab Limited Bedford Hospital NHS Trust Member of the Council of Cranfield University Member of the Auditing Practices Board of the Financial Reporting Council	01.09.2005
Fiona B Smith, LLB (03.01.1959)	Solicitor	Derwent Insurance Limited Severn Trent European Finance Limited S.a.r.l. Severn Trent European Placement SA Severn Trent Holdings NV Severn Trent Luxembourg Finance SA Severn Trent Luxembourg Holdings SA Severn Trent Luxembourg Overseas Finance SA Severn Trent Luxembourg Overseas Holdings SA Severn Trent MIS Trustees Limited Severn Trent Pension Scheme Trustees Limited Severn Trent PIF Trustees Limited Severn Trent SSPS Trustees Limited	01.12.2002
David Stewart, BA, ACA (18.08.1965)	Building Society Chief Executive	All of Coventry Building Society's subsidiary companies detailed in Sections 4 and 5	11.02.2002
Philip L Vaughan, BA, FCMA (15.08.1964)	Building Society Chief Operating Officer	Corporate Transformations Limited	07.07.2009

3. INFORMATION RELATING TO DIRECTORS AND OTHER OFFICERS (continued)

Documents may be served on the above named directors at:
Seymours Solicitors, Queens House, Queens Road, Coventry CV1 3JN.

In 2006 the Society entered into service contracts with David Stewart, the Chief Executive, and Rob Green, the Finance Director. The contracts enable the Society to give one year's notice of termination.

In July 2009 the Society appointed Colin Franklin (Sales and Marketing Director) and Phil Vaughan (Chief Operating Officer) to the board. Service contracts were entered into which are terminable by the individual on six months' notice and by the Society on one year's notice.

Part 2 – The Secretary

Name	Occupation	Directorships
Nailesh K Rambhai, MA (Oxon)	Secretary and Solicitor	Belgrade Theatre Trust (Coventry) Limited Cholmeley Court Limited

Part 3 – Senior management team

Name	Occupation
Julian M J Atkins, BSc, MBA, FCIPD, FCIB	Head of Human Resources
Rachel C Haworth, BA, MCIM	Head of Marketing & Communications
Darin J Landon	Head of Sales
Sheryl A F Lawrence, MBA, LLM, BSc, ACA	Head of Risk
John Lowe, BA (Oxon), ACA	Deputy Finance Director
Sally A Wrigglesworth, MBA, ACIB	Head of Customer Service

4. SUBSIDIARIES CARRYING ON BUSINESS

At 31 December 2009 the Society held shares in the following directly wholly owned subsidiary company, incorporated in England and Wales:

	Share capital issued £	Percentage owned directly by Society %
Godiva Mortgages Limited	20	100

At the same date, the authorised share capital of Godiva Mortgages Limited was £1,000.

The Society also has an interest in Coventry Building Society Covered Bonds LLP which gives rise to risks and rewards that are in substance no different than if it was a subsidiary undertaking. Coventry Building Society Covered Bonds LLP is registered in England and Wales.

ANNUAL BUSINESS STATEMENT
(continued)

5. SUBSIDIARIES NOT CARRYING ON BUSINESS

At 31 December 2009 the Society held shares in the following directly wholly owned subsidiary companies, all of which are incorporated in England and Wales:

	Share capital issued £	Percentage owned directly by Society %
Coventry Financial Services Limited	20	100
Coventry Property Services Limited	20	100
Godiva Financial Services Limited	20	100
Godiva Housing Developments Limited	20	100
Godiva Savings Limited	2	100
Godiva Securities and Investments Limited	20	100

At the same date, the authorised share capital of Godiva Savings Limited was £1,000. The authorised share capital of each of the other subsidiary companies was £100.

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