Coventry Building Society

Interim financial report
for the period ended 30 June 2012

Contents

IFRS RESULTS

This condensed consolidated interim financial report for the six months ended 30 June 2012 has been prepared in accordance with the Disclosure and Transparency Rules of the Financial Services Authority and with IAS 34 Interim Financial Reporting as adopted by the EU. The interim financial report should be read in conjunction with the annual financial statements for the year ended 31 December 2011, which have been prepared in accordance with IFRS as adopted by the EU.

FORWARD LOOKING STATEMENTS

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

GOING CONCERN

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

HIGHLIGHTS

Coventry Building Society has today announced record profits during the six months ended 30 June 2012. The Society's share of the mortgage market was also a record with net mortgage lending equivalent to 45% of the UK market.

Strong business performance

- Profit before tax increased by 17% to £52.8 million.
- Mortgage assets increased by £1.8 billion to £21.0 billion.
- New mortgage lending increased by 33% to £2.5 billion.
- Net mortgage lending was £1.3 billion, equivalent to 45% of all net mortgage lending in the UK.
- Savings balances increased by £300 million, to a record £19.3 billion.

Strong, stable and efficient

- Maintained strong 'A' credit ratings throughout 'credit crunch' – Fitch (A) and Moody's (A3).
- Core tier 1 ratio of 21.9%, the highest reported by any UK building society.
- Cost to mean assets ratio just 0.37%, the lowest level reported by a UK building society and less than half the average[1] reported by all UK building societies in 2011.
- Impairment charges just £4.3 million from a loan book totalling in excess of £21.0 billion.
- No direct exposure to either sovereign debt or banks of Portugal, Ireland, Italy, Greece or Spain.

Member and community focused, with high levels of staff engagement

- The largest high street bank or building society never to appear in Financial Ombudsman (FOS) tables of complaints.
- Over £6.7 million raised for the Royal British Legion's Poppy Appeal since October 2008.
- Awarded Gold status by Investors in People, just one of two large banks or building societies to have reached this standard.

[1] Source: BSA

INTERIM MANAGEMENT REPORT: CHIEF EXECUTIVE'S REVIEW

Coventry continues to make strong progress, building on the excellent record established since the onset of the credit crisis.

In the first half of 2012 we achieved record profits whilst our net mortgage lending was equivalent to 45% of the market as a whole. In spite of fierce competition, savings balances grew further to a record £19.3 billion. Further evidence of the Society's continued strength can be found in our credit ratings, and Coventry is now the only rated UK high street bank or building society not to have been downgraded by any rating agency in any of the last three years.

I remain confident that the Society is well positioned to continue to prosper in what is still an uncertain economic environment.

Record profits

The strength of our business model is underlined by the consistency of both our strategy and our financial results.

In the first half of 2012, net interest income increased by £8.1 million (9%), reflecting the benefits of recent growth.

Over many years, we have taken care to make sure that borrowers can afford their mortgage, and this is reflected in both arrears and impairment charges that are very much lower than for the industry as a whole. At 30 June 2012, only 0.80% of mortgage balances were 2.5% or more in arrears, and impairment charges totalled just £4.3 million from a loan book of £21.0 billion.

The caution we exercise in our lending decisions is reflected equally in the care we take to control our costs. With a cost to mean assets ratio of 0.37%, Coventry has maintained its position as the UK's most cost-efficient building society.

Improved income, low costs and low impairment charges combined to produce a profit before tax of £52.8 million, an increase of 17% over the first half of 2011.

Record share of the mortgage market

Throughout the financial crisis, we have sustained a consistent appetite for new mortgage lending and market conditions continue to favour our business model. Gross mortgage advances totalled £2.5 billion, representing 3.8% of new mortgages in the UK and just over 18% of all mortgage lending undertaken by building societies and mutual banks.

This continued market presence is in contrast to the position of some of our competitors. Excluding the impact of those assets acquired from the UK businesses of the Bank of Ireland, mortgage balances grew by £1.3 billion or 7%. This was equivalent to 45% of all net mortgage lending in the UK and means that since the start of 2010, Coventry has accounted for approaching one quarter of UK net mortgage lending.

Mortgage growth underpinned by strong funding capability

The Society's ability to maintain its mortgage lending is based on the strength of its funding. Savings balances increased by a further £300 million to £19.3 billion, bringing the total growth achieved since the crisis began in 2007 to over £11.0 billion.

This retail funding capability is reinforced by continuing and cost-effective access to wholesale funding markets. May 2012 saw our first public residential mortgage backed securitisation issue, which raised £800 million of stable, term funding at attractive pricing. This follows successful issuances of long term unsecured bonds in 2009 and 2010 (total: £750 million) and covered bonds totalling over £1.2 billion issued in 2011.

Acquisition of UK mortgage assets

In June 2012, we completed the purchase of a £0.5 billion loan book comprising UK buy-to-let mortgages originated by Bank of Ireland's UK businesses. The book is seasoned, and performing well, with an average indexed loan to value ratio of 53%.

Strong and secure

Coventry continues to be one of the most highly rated banks or building societies in the UK, being 'A' rated by both Fitch (A) and Moody's (A3). In fact, Coventry is now the only high street bank or building society not to have been downgraded by either of these agencies over the last three years.

At 21.9%, the Society's Core tier 1 ratio remains the highest reported by any building society, illustrating the high quality of assets.

Treating members fairly

As a building society, we have an over-riding duty to treat members fairly and ensure that the products we provide are suitable for their needs. This is reflected in the low level of complaints received and our willingness to put things right if mistakes are made. I am pleased to note once again that Coventry has yet to feature in any of the tables published by the Financial Ombudsman Service. We are, by some considerable distance, the largest UK mortgage lender not to have been listed.

I am also pleased that the Society continues to be recognised independently and in the first half of 2012 we once again featured strongly in numerous financial services awards.

Our services to intermediaries received a ‘five star’ rating from FTadvisor.com, whilst Moneynet named Coventry ‘Overall Best Savings’ and ‘Best Overall Current Account’ provider.

In addition, Coventry featured more frequently than all other high street banks and building societies in the 2012 MoneyWise Customer Service Awards, for categories in which the Society was eligible. The Society was shortlisted in 11 different categories, and was awarded ‘Best Savings Provider - Consistency of Rates’.

Outlook

The environment in which we operate remains uncertain and challenging. During 2012 the sovereign debt crisis in Europe has intensified further whilst public confidence in financial services has fallen to new depths.

Whilst I understand and support the need for more robust regulation, this now represents a very considerable burden to institutions such as Coventry. I expect this to intensify further in the months and years ahead.

However, Coventry is built on solid foundations and I believe we have the right strategy for these conditions. Our prudent business model ensures that we are well placed to prosper even if economic conditions deteriorate further.

Equally important, our truly member-focused ethos will help us to gain new customers as the value of trust and fair dealing becomes more important.

The last five years have perhaps been the most successful in the Society’s history. I look forward to building on this strong performance during the second half of 2012 and in future years.

PRINCIPAL RISKS AND UNCERTAINTIES

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

The principal risks and uncertainties affecting the Society were reported on page 21 of the Annual Report and Accounts as at 31 December 2011. These risks are defined as credit, market, liquidity and operational risk, which are common to most financial services firms in the UK. These risks continue to affect the Society as at 30 June 2012, and there have been no material changes to the Society's approach to risk management during the first half of the year.

There have been however a number of significant events during the period, many continuing themes from pre-2012, which could impact the second half of 2012, which are categorised as:

- Depressed economic conditions
- Eurozone sovereign debt crisis
- Banking sector operational events
- Regulatory reforms
- Bank of England liquidity operations

These risks and uncertainties and how the Society is mitigating them are summarised below:

Depressed economic conditions
Following on from worse than expected economic growth, many economists are now looking at the prospects for the Bank Base Rate remaining at current levels for longer than was anticipated at the start of the year. This has the potential to increase structural risks for financial institutions.

In its assessment of the economic environment, the Society has always taken a prudent approach to anticipated rate rises. Even against a prolonged projected flat base rate assessment, the Society continues to generate strong profits with no diminution of capital. The Society is conscious of the inherent risks to mortgage customers currently enjoying relatively low rates who could suffer from rate shock in the event that base rate pushes up. To this end the Society only lends to those customers who it believes can afford repayments even at higher rates and adopts a supportive approach to those few that do experience difficulties. The Society also continues to ensure that it has a class-leading proportion of administered rate savings and mortgages giving it greater flexibility than many of its peers to control customers' rates and thereby manage these risks.

The ability to manage such a large proportion of both the mortgage and savings book also provides management with a number of credible options in the event of an upward or downward movement in Base Rate.

Credit risk associated with the Society's mortgage book remains very low as evidenced by some of the lowest arrears rates in the industry. The credit risks faced by the Society are further mitigated by the low indexed LTV of the mortgage book, which stands at 51%.

Eurozone sovereign debt crisis
Since the start of the year speculation on a eurozone fall-out has continued to escalate although sentiment over whether the situation has fundamentally worsened is somewhat mixed. The risks to UK banks and building societies arise from redenomination risk, credit risk and wider economic impacts.

Redenomination risk is that risk that in the event that the Euro ceases to trade, previously matched foreign exchange positions, designated in Euros, become unmatched when these are exchanged for an alternative currency (valued against a local currency equivalent). Redenomination risk is therefore a form of foreign currency related market risk.

The Society has very little redenomination risk with all euro denominated exposure held in highly rated UK, Dutch or German counterparties, the predominance being UK entities.

There is no direct credit risk from the eurozone sovereign debt crisis as the Society does not hold any sovereign securities other than those of the UK and supranational institutions.

Secondary credit risks may be heightened from the limited support offered to banks by the Sovereign which in turn could lead to bail-in type measures. The Society's credit risks have continued to be managed down as credit lines with European counterparts have been reduced. This has included cutting credit lines to a number of banks. The Society's analysis of counterparty risk extends to risks from bail-in as well as from credit default events.

Banking sector operational events
Since the start of the year there have been significant operational events predominantly impacting the larger UK based banks. The risk is that these events further weaken an already troubled banking sector although the Society has thus far not experienced any adverse secondary impacts. To the extent that any reduction in trust may lead institutions to offer increased savings rates there could ultimately be more business risk; however the Society has to date successfully grown its savings book in times of wider market stress.

With regard to the highest profile events the Society is not a market maker and therefore has no means or incentive to modify market rates such as LIBOR and does not therefore have exposure to the reputational risk impacts seen in some of the UK banks. In addition the use of a single core platform with real time synchronised disaster recover capability mitigates against the risk of prolonged system downtime recently experienced by a major bank.

Regulatory reforms
The agenda of regulatory reform continues to be congested. At the start of the year it was anticipated that the capital requirements regulation would be released in its final form in June for implementation in January 2013. The final regulation has now been delayed until the autumn, and with a number of points still fluid, this has reduced the time available to digest the final version of this European based regulation.

However, the Society's programme of work to extend its financial and capital reporting in line with the Capital Requirements Directive (CRD) IV package against the draft guidelines remains on track to deliver ahead of the regulatory requirements.

Contentious elements of the CRD IV draft package still to be determined include: the level of leverage ratio; the details and powers around bank bail-ins; and provisions for a Building Society eligible capital instrument.

The leverage ratio was intended by Europe to be a backstop but in assuming that the risk on a balance sheet is directly proportionate to the size of a balance sheet ignores, and therefore penalises, the inherent strength within the balance sheets of many low risk building societies. This has been partially recognised by the European Parliament's Economic and Monetary Affairs Committee which has looked to amend the text on the leverage ratio, requiring different ratios for different business models, with a starting calibration of 1.5% for low-risk banking models (as would be anticipated for the Society). If the ratio were maintained at 3% it would prove a challenge if the Society's current levels of growth were to be sustained over an extended period absent a Basel III compliant mutual capital instrument.

The CRD IV package still has a number of unanswered questions around the level of bail-in likely to be required by banks and building societies issuing debt. This includes some of the fundamental considerations such as the point of entry, eligibility, and the hierarchy of claims. These considerations are also included within a recent consultation from Her Majesty's Treasury, on the 'Future of Building Societies' which is looking to align legislative proposals for ring-fenced banks with the Building Societies Act and which will extend to bail-in requirements.

Also on the agenda are regulatory reforms relating to the mortgage market (Mortgage Market Review – 'MMR'), and also the distribution of retail financial products (Retail Distribution Review – 'RDR'). Both have the potential to significantly alter the manner in which lenders and intermediaries interact with their customers and uncertainties remain concerning both the impact they will have on the market place, and in the case of the MMR, the final form of any proposals. The Society is closely monitoring the development of these reforms.

Bank of England liquidity operations
In recent months the Bank of England has announced two repo auctions to ensure that UK financial institutions have sufficient access to funding that allows them to fulfil both their liquidity requirement and which promotes growth in lending to customers. The Extended Collateral Term Repo (ECTR) is a monthly repo auction which utilises collateral prepositioned with the Bank of England's Discount Window Facility (DWF), and provides cash over a duration of six months. The auctions therefore provide a means of managing medium term liquidity without the need for self issued covered bonds or mortgage backed securities, which makes them potentially more efficient.

The 'Funding for Lending' auctions provide Treasury bills over a four year period, with the collateral common to that of the ECTR, being eligible for the DWF. With the issue of Treasury bills, this scheme is likely to help banks and building societies reduce their holdings with the Bank of England, using the cash to finance mortgage growth and replacing liquidity held as cash with liquidity held in Treasury bills.

The impact of these schemes on the retail market remains to be seen, and much will depend on the take up by larger financial institutions. However it does have the potential to impact the pricing of mortgage and saving products should the overall cost of funding fall.

Since the start of the year, the Society has concluded its pre-positioning of whole loan securities with the Bank of England. This was established to provide a further secure funding route (via the DWF) in the event of an extreme stress. The loans that are now prepositioned with the Bank of England provide an efficient route by which the Society's can access either of the two schemes.

Further information on the Society's approach to risk management can be found on page 20 of the Annual Report and Accounts as at 31 December 2011.

CONSOLIDATED INCOME STATEMENT
FOR THE PERIOD ENDED 30 JUNE 2012

	Notes	Period to 30 June 2012 (Unaudited) £m	Period to 30 June 2011 (Unaudited) £m	Year ended 31 December 2011 (Audited) £m
Interest receivable and similar income	3	435.4	366.4	730.0
Interest payable and similar charges	4	(337.7)	(276.8)	(562.5)
Net interest income		97.7	89.6	167.5
Fees and commission income		7.4	7.5	15.0
Fees and commission expense		(1.8)	(1.0)	(1.9)
Other operating income		1.2	0.5	0.9
Net gains/(losses) from derivative financial instruments		0.7	(0.4)	0.5
Total income		105.2	96.2	182.0
Administrative expenses	5	(42.3)	(37.0)	(78.9)
Amortisation of intangible assets		(1.8)	(1.8)	(3.5)
Depreciation of property, plant and equipment		(2.9)	(2.3)	(5.1)
Operating profit before impairments and exceptional items		58.2	55.1	94.5
Impairment losses on loans and advances to customers	6	(4.3)	(4.0)	(9.9)
Operating profit after impairments and before exceptional items		53.9	51.1	84.6
Provision for FSCS levies	7	-	(0.7)	(13.4)
Integration and merger related costs		-	(5.0)	(10.7)
Operating profit after impairments and exceptional items		53.9	45.4	60.5
Charitable donation to Poppy Appeal		(1.1)	(0.4)	(1.0)
Profit before tax		52.8	45.0	59.5
Taxation		(13.0)	(11.3)	(12.9)
Profit for the financial period		39.8	33.7	46.6

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE PERIOD ENDED 30 JUNE 2012

	Period to 30 June 2012 (Unaudited) £m	Period to 30 June 2011 (Unaudited) £m	Year ended 31 December 2011 (Audited) £m
Profit for the financial period	39.8	33.7	46.6
Other comprehensive income			
Actuarial gain on defined benefit pension plan	-	-	(4.3)
Tax on actuarial gain on defined benefit pension plan	-	-	1.1
Effect of tax rate change on other items through the general reserve	(0.1)	-	-
Available-for-sale investments:			
Valuation gains taken to equity	39.4	24.7	177.0
Amounts transferred to the income statement*	(28.0)	(24.4)	(157.4)
Tax on items taken directly to or transferred from equity	(2.8)	(0.1)	(5.2)
Other comprehensive income for the period, net of tax	8.5	0.2	11.2
Total comprehensive income for the period, net of tax	48.3	33.9	57.8

*Where a hedging relationship exists, this amount is transferred to 'Net gains/(losses) from derivative financial instruments', with other amounts being recognised within 'interest receivable and similar income'

The notes on pages 13 to 18 form part of this consolidated interim financial report.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2012

	Notes	30 June 2012 (Unaudited) £m	30 June 2011 (Unaudited) £m	31 December 2011 (Audited) £m
Assets				
Cash in hand and balances with the Bank of England		1,399.9	814.0	1,607.0
Loans and advances to credit institutions		434.0	173.7	388.3
Debt securities	8	2,682.5	2,964.3	2,846.3
Other liquid assets		-	20.0	0.5
		4,516.4	3,972.0	4,842.1
Non-current assets held for sale		-	3.9	2.5
Loans and advances to customers	9	21,035.4	18,431.6	19,240.0
Hedge accounting adjustment		80.1	39.5	68.7
Derivative financial instruments		249.6	99.1	259.7
Intangible assets		9.1	10.7	9.5
Property, plant and equipment		31.1	30.2	32.8
Investment properties		5.3	5.7	5.7
Pension benefit surplus		5.2	7.8	3.9
Deferred tax assets		10.3	17.1	14.5
Prepayments and accrued income		8.8	8.3	7.2
Total assets		25,951.3	22,625.9	24,486.6
Liabilities				
Shares	10	19,271.2	17,672.7	18,964.1
Deposits from banks		822.9	865.1	510.9
Other deposits		10.5	17.5	23.0
Amounts owed to other customers		468.8	550.0	549.3
Debt securities in issue	11	3,647.5	2,315.1	2,863.8
Hedge accounting adjustment		226.0	67.8	201.5
Derivative financial instruments		399.1	138.0	336.0
Current tax liabilities		12.2	8.8	5.1
Deferred tax liabilities		2.9	4.7	3.0
Accruals and deferred income		50.0	9.9	16.1
Other liabilities		8.9	9.1	19.8
Provisions for liabilities and charges	7	19.4	15.4	20.3
Pension benefit obligations		-	2.1	-
Subordinated liabilities	12	58.1	68.1	68.2
Subscribed capital	13	161.3	161.3	161.3
Total liabilities		25,158.8	21,905.6	23,742.4
Equity				
General reserve		787.6	738.2	747.9
Available-for-sale reserve		4.9	(17.9)	(3.7)
Total liabilities and equity		25,951.3	22,625.9	24,486.6

The notes on pages 13 to 18 form part of this consolidated interim financial report.

CONSOLIDATED STATEMENT OF CHANGES IN MEMBERS' INTERESTS
FOR THE PERIOD ENDED 30 JUNE 2012

	General reserve £m	Available-for-sale reserve £m	Total £m
As at 1 January 2012 (Audited)	747.9	(3.7)	744.2
Profit for the financial period	39.8	-	39.8
Effect of tax rate change on other items through the general reserve	(0.1)	-	(0.1)
Net movement in Available-for-sale reserve (net of tax)	-	8.6	8.6
As at 30 June 2012 (Unaudited)	787.6	4.9	792.5

	General reserve £m	Available-for-sale reserve £m	Total £m
As at 1 January 2011 (Audited)	704.5	(18.1)	686.4
Profit for the financial period	33.7	-	33.7
Net movement in Available-for-sale reserve (net of tax)	-	0.2	0.2
As at 30 June 2011 (Unaudited)	738.2	(17.9)	720.3

	General reserve £m	Available-for-sale reserve £m	Total £m
As at 1 January 2011 (Audited)	704.5	(18.1)	686.4
Profit for the financial year	46.6	-	46.6
Actuarial loss on defined benefit pension plan (net of tax)	(3.2)	-	(3.2)
Net movement in Available-for-sale reserve (net of tax)	-	14.4	14.4
As at 31 December 2011 (Audited)	747.9	(3.7)	744.2

The notes on pages 13 to 18 form part of this consolidated interim financial report.

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE PERIOD ENDED 30 JUNE 2012

	Notes	Period to 30 June 2012 (Unaudited) £m	Period to 30 June 2011 (Unaudited) £m	Year ended 31 December 2011 (Audited) £m
Cash flows from operating activities				
Profit before tax		52.8	45.0	59.5
Adjustments for:				
Non-cash items included in profit before tax	14	3.5	(33.8)	59.8
Changes in operating assets	14	(1,778.5)	(773.4)	(1,565.8)
Changes in operating liabilities	14	591.0	(425.8)	472.2
Interest paid on subordinated liabilities		(2.6)	(2.5)	(5.1)
Interest paid on subscribed capital		(6.1)	(6.1)	(12.2)
Taxation		(4.7)	(11.3)	(19.7)
Net cash flows from operating activities		(1,144.6)	(1,207.9)	(1,011.3)
Cash flows from investing activities				
Purchase of investment securities		(2,313.9)	(3,961.7)	(7,276.7)
Sale and maturity of investment securities		2,514.6	3,884.9	7,468.8
Sale of properties		3.6	-	-
Purchase of property, plant and equipment		(1.1)	(5.4)	(8.8)
Purchase of intangible fixed assets		(1.4)	(1.4)	(3.1)
Net cash flows from investing activities		201.8	(83.6)	180.2
Cash flows from financing activities				
Repurchase of subordinated liabilities		(10.0)	-	(45.0)
Maturity of debt securities		(510.0)	(25.0)	-
Issue of securities		1,300.0	747.6	1,316.5
Net cash flows from financing activities		780.0	722.6	1,271.5
Net (decrease)/increase in cash		(162.8)	(568.9)	440.4
Cash and cash equivalents at start of period		1,978.2	1,537.8	1,537.8
Cash and cash equivalents at end of period	14	1,815.4	968.9	1,978.2

The notes on pages 13 to 18 form part of this consolidated interim financial report.

NOTES TO THE INTERIM FINANCIAL REPORT

1 REPORTING PERIOD

These results have been prepared as at 30 June 2012 and show the financial performance for the period from, and including, 1 January 2012 to this date.

2 BASIS OF PREPARATION

This condensed consolidated financial report for the six months ended 30 June 2012 has been prepared in accordance with the Disclosure and Transparency Rules of the Financial Services Authority and with IAS 34 Interim Financial Reporting as adopted by the EU. The interim financial report does not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the annual financial statements for the year ended 31 December 2011, which have been prepared in accordance with IFRS as adopted by the EU.

The accounting policies adopted by the Society in the preparation of its 2012 interim financial report and those which the Society currently expects to adopt in its Annual Report and Accounts for the year ended 31 December 2012 are consistent with those disclosed in the Annual Report and Accounts for the year ended 31 December 2011, copies of which are available at http://www.coventrybuildingsociety.co.uk/pdfs/RepAcc_11.pdf. Additional accounting standards that became applicable during the interim period did not have a significant impact on the Society's Income Statement or Statement of Financial Position. The IASB has issued further pronouncements, however, the Society does not expect adoption of any of these pronouncements to have a significant impact on its results.

IFRS is subject to ongoing review and endorsement by the EU or possible amendment by interpretive guidance from the International Accounting Standards Board and is therefore subject to change. In addition, practice may develop with regard to interpretation and application of the standards or further standards may be introduced with the option for early adoption. We will update the reporting of future results for any such changes should they occur. The Society's full year Annual Report and Accounts for 2012 may be prepared in accordance with different accounting policies to those used in this document.

The preparation of financial statements requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results ultimately may differ from these estimates. Details of the critical accounting estimates will be provided in the 2012 Annual Report and Accounts.

NOTES TO THE INTERIM FINANCIAL REPORT (CONTINUED)

3 INTEREST RECEIVABLE AND SIMILAR INCOME

	Period to 30 June 2012 (Unaudited) £m	Period to 30 June 2011 (Unaudited) £m	Year ended 31 December 2011 (Audited) £m
On loans fully secured on residential property	394.8	363.1	730.5
On other loans	1.7	2.3	3.9
	396.5	365.4	734.4
Interest and other income on debt securities	70.7	43.1	77.7
Interest and other income on other liquid assets	3.5	2.4	5.8
Net expense from hedging instruments	(35.3)	(44.5)	(87.9)
Total	435.4	366.4	730.0

4 INTEREST PAYABLE AND SIMILAR CHARGES

	Period to 30 June 2012 (Unaudited) £m	Period to 30 June 2011 (Unaudited) £m	Year ended 31 December 2011 (Audited) £m
Bank and customer			
Subordinated liabilities	2.5	2.5	5.1
Other	3.7	6.7	11.6
Debt securities in issue	88.5	48.4	95.5
Other borrowed funds			
On shares held by individuals	269.0	248.7	511.5
On other shares	-	-	0.1
On subscribed capital	6.1	6.1	12.2
Net income on hedging instruments	(32.1)	(35.6)	(73.5)
Total	337.7	276.8	562.5

5 ADMINISTRATIVE EXPENSES

	Period to 30 June 2012 (Unaudited) £m	Period to 30 June 2011 (Unaudited) £m	Year ended 31 December 2011 (Audited) £m
Employee costs			
Wages and salaries	21.6	18.1	42.4
Social security costs	2.1	1.7	4.2
Pension costs			
Defined benefit plan	1.0	0.6	(0.3)
Defined contribution plan	0.4	0.4	0.8
	25.1	20.8	47.1
Other expenses	17.2	16.2	31.8
Total	42.3	37.0	78.9

NOTES TO THE INTERIM FINANCIAL REPORT (CONTINUED)

6 IMPAIRMENT PROVISIONS ON LOANS AND ADVANCES TO CUSTOMERS

	Period to 30 June 2012 (Unaudited) £m	Period to 30 June 2011 (Unaudited) £m	Year ended 31 December 2011 (Audited) £m
Impairment charge for the period	4.3	4.0	9.9
Impairment provision at the end of the period			
Loans fully secured on residential property	19.6	19.0	19.9
Other loans	1.5	1.5	1.2
Total	21.1	20.5	21.1

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

7 PROVISIONS FOR LIABILITIES AND CHARGES

	30 June 2012 (Unaudited) £m	30 June 2011 (Unaudited) £m	31 December 2011 (Audited) £m
At 1 January	20.3	15.9	15.9
Charge for the period	-	0.7	13.6
Provision utilised	(0.9)	(1.2)	(9.2)
At end of period	19.4	15.4	20.3

As at 30 June 2012 a provision of £18.5 million (30 June 2011: £11.1 million, 31 December 2011: £18.5 million) was held for amounts payable to the Financial Services Compensation Scheme (FSCS). Revisions to estimates of amounts payable to the FSCS resulted in a £nil charge for the period ended 30 June 2012 (30 June 2011 - £0.7 million charge, 31 December 2011 - £13.4 million charge).

Included above are other provisions made in respect of circumstances that may give rise to various customer claims.

8 DEBT SECURITIES

	30 June 2012 (Unaudited) £m	30 June 2011 (Unaudited) £m	31 December 2011 (Audited) £m
Available-for-sale:			
Government investment securities	1,725.3	1,528.2	1,781.4
Analysis of transferable debt securities			
Listed	598.4	960.5	786.5
Unlisted	358.8	475.6	278.4
Total	2,682.5	2,964.3	2,846.3

NOTES TO THE INTERIM FINANCIAL REPORT (CONTINUED)

9 LOANS AND ADVANCES TO CUSTOMERS

	30 June 2012 (Unaudited) £m	30 June 2011 (Unaudited) £m	31 December 2011 (Audited) £m
Loans fully secured on residential property	20,963.6	18,349.4	19,163.4
Other loans			
Loans fully secured on land	10.5	13.0	11.4
Other loans	61.3	69.2	65.2
	71.8	82.2	76.6
Total	21,035.4	18,431.6	19,240.0

Other loans incorporate £0.8 million (30 June 2011 - £0.9 million, 31 December 2011 - £0.9 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.

During June 2012, a wholly owned subsidiary of the Society, ITL Mortgages Limited, acquired a £0.5 billion portfolio of Buy-to-Let (BTL) mortgages from the Bank of Ireland. Acquired loans and receivables are recognised at fair value at the acquisition date. This fair value becomes the opening amortised cost for these assets.

The acquisition of the portfolio has been accounted for as an acquisition under International Accounting Standard 39 *Financial Instruments: Recognition and Measurement*. IAS 39 permits the rebuttal of the presumption that the cash price paid represents the fair value of an acquired portfolio. The standard alternatively allows the fair value of an acquired portfolio to be calculated using a valuation technique based on observable market data and other inputs. The Society has accordingly valued the portfolio based upon its yield and expected behavioural life using a discount rate derived from observable market data. The fair value of the portfolio calculated in this way is higher than the cash price paid. The resulting gain on the acquisition of the portfolio will be recognised over future periods.

10 SHARES

	30 June 2012 (Unaudited) £m	30 June 2011 (Unaudited) £m	31 December 2011 (Audited) £m
Held by individuals	19,263.3	17,664.3	18,956.0
Other shares	7.9	8.4	8.1
Total	19,271.2	17,672.7	18,964.1

11 DEBT SECURITIES IN ISSUE

On 2 May 2012, the Society launched its inaugural Residential Mortgage Backed Securitisation in Sterling raising £800 million repayable in 2050 at a rate of three month GBP LIBOR plus 1.7% per annum. The securitisation, which was issued through Leofric No.1 plc has a call date in 2016.

During February 2012, the Society also issued £500 million from its Covered Bonds programme, repayable in 2015 at a rate of three month GBP LIBOR plus 1.6% per annum.

Transaction costs incurred are amortised over the expected life of the underlying instrument.

During the period, the Society redeemed Medium-Term-Notes (MTNs) equivalent to £510 million, which matured in April and May 2012.

NOTES TO THE INTERIM FINANCIAL REPORT (CONTINUED)

12 SUBORDINATED LIABILITIES

	30 June 2012 (Unaudited) £m	30 June 2011 (Unaudited) £m	31 December 2011 (Audited) £m
Subordinated liabilities owed to note holders are as follows:			
Fixed rate subordinated notes 2016 - 12.25%	7.5	7.3	7.0
Fixed rate subordinated notes 2017 - 8.37%	-	10.1	10.0
Fixed rate subordinated notes 2021 - 6.12%	10.1	10.2	10.1
Fixed rate subordinated notes 2022 - 6.469%	15.0	15.0	15.5
Fixed rate subordinated notes 2026 - 6.33%	10.2	10.2	10.2
Fixed rate subordinated notes 2032 - 7.54%	15.3	15.3	15.4
Total	58.1	68.1	68.2

All subordinated liabilities are denominated in sterling. The notes are repayable at the dates stated, or earlier at the option of the Society, with the prior consent of the FSA.

On 3 June 2012 the Society, with the consent of the FSA, redeemed early the £10 million 8.37% subordinated loan due 3 June 2017 at par.

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.

13 SUBSCRIBED CAPITAL

	30 June 2012 (Unaudited) £m	30 June 2011 (Unaudited) £m	31 December 2011 (Audited) £m
Subscribed capital owed to permanent interest holding members is as follows:			
Permanent interest bearing shares	161.3	161.3	161.3

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

NOTES TO THE INTERIM FINANCIAL REPORT (CONTINUED)

14 NOTES TO THE CASH FLOW STATEMENT

	Period to 30 June 2012 (Unaudited) £m	Period to 30 June 2011 (Unaudited) £m	Year ended 31 December 2011 (Audited) £m
Non-cash items included in profit before tax			
Net increase in impairment provisions	4.3	4.0	9.9
Depreciation and amortisation	4.7	4.1	10.9
Interest on subordinated liabilities	2.5	2.5	5.1
Interest on subscribed capital	6.1	6.1	12.2
(Increase)/decrease in fair value adjustment of hedged risk	(1.9)	(30.1)	5.0
Profit on sale of properties	(0.7)	-	-
Other non-cash movements	(11.5)	(20.4)	16.7
	3.5	(33.8)	59.8
Changes in operating assets			
(Increase)/decrease in loans to credit institutions and other liquid assets	(1.1)	90.4	111.6
Increase in loans and advances to customers	(1,799.7)	(861.9)	(1,676.2)
Increase in prepayments and accrued income	(1.4)	(1.3)	(0.2)
Increase in other assets	23.7	(0.6)	(1.0)
	(1,778.5)	(773.4)	(1,565.8)
Changes in operating liabilities			
Increase in shares	260.2	11.4	1,331.5
Increase/(decrease) in deposits and other borrowings	219.7	(562.0)	(910.6)
Increase in debt securities in issue	5.7	109.8	25.4
Increase in accruals and deferred income	68.1	24.7	35.0
Increase/(decrease) in other liabilities	37.3	(9.7)	(9.1)
	591.0	(425.8)	472.2

	30 June 2012 (Unaudited) £m	30 June 2011 (Unaudited) £m	31 December 2011 (Audited) £m
Cash and cash equivalents			
Cash and balances with the Bank of England	1,382.4	798.5	1,591.1
Due from other banks	433.0	170.4	387.1
Total	1,815.4	968.9	1,978.2

Cash and cash equivalents excludes the balance which the Society is required to maintain with the Bank of England which, at 30 June 2012, amounted to £17.5 million (30 June 2011 - £15.5 million, 31 December 2011 - £15.9 million). 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 loans and advances to credit institutions.

RESPONSIBILITY STATEMENT

The directors confirm that this interim financial report has been prepared in accordance with IAS 34 as adopted by the EU. The half year management report includes a fair review of the important events that have occurred during the first six months of the financial year and their impact on the condensed set of financial statements, as required by the Disclosure and Transparency Rules (DTR 4.2.7). The principal risks and uncertainties affecting the Society are reported on page six of the Interim Financial Report in addition to those reported on page 21 of the Annual Report and Accounts as at 31 December 2011. These risks continue to affect the Society as at 30 June 2012.

A full list of the Board of Directors can be found in the 2011 Annual Report and Accounts.

Signed on behalf of the Board by

John Lowe
Finance Director
9 August 2012

INDEPENDENT REVIEW REPORT TO COVENTRY BUILDING SOCIETY

Introduction

We have been engaged by the Society to review the condensed set of financial statements in the interim financial report for the six months ended 30 June 2012 which comprises the Consolidated Income Statement, Consolidated Statement of Comprehensive Income, Consolidated Statement of Financial Position, Consolidated Statement of Changes in Members' Interests, Consolidated Statement of Cash Flows and the related explanatory notes 1 to 14. We have read the other information contained in the interim financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

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

Directors' Responsibilities

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

As disclosed in note 2, the annual financial statements of the Society are prepared in accordance with IFRSs as adopted by the European Union. The condensed set of financial statements included in this interim financial report has been prepared in accordance with International Accounting Standard 34, "Interim Financial Reporting", as adopted by the European Union.

Our Responsibility

Our responsibility is to express to the Society a conclusion on the condensed set of financial statements in the interim financial report based on our review.

Scope of Review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of consolidated financial statements in the interim financial report for the six months ended 30 June 2012 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure and Transparency Rules of the United Kingdom's Financial Services Authority.

Ernst & Young LLP
London
9 August 2012

OTHER INFORMATION

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

The financial information for the year ended 31 December 2011 has been extracted from the Annual Accounts for that year. The Annual Accounts for the year ended 31 December 2011 have been filed with the Financial Services Authority. The Auditors' report on these Annual Accounts was unqualified.

A copy of the interim financial report is placed on the website of Coventry Building Society. The directors are responsible for the maintenance and integrity of the information on the Society's website. Information published on the internet is accessible in many countries with different legal requirements. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.