Coventry Building Society

Interim financial report
for the period ended 30 June 2011

the COVENTRY
TLC not PLC

Contents

IFRS RESULTS

This condensed consolidated interim financial report for the six months ended 30 June 2011 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 2010, 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, the UK's third largest building society, reports that in the first half of 2011 it has achieved record profits with net mortgage lending equivalent to 25% of the UK market.

Strong financials

- Underlying profit before tax increased by 10% to £51.1 million[1] (2010: £46.5 million).
- Profit before tax of £45.0 million (2010: £43.5 million).

Record market share

- Net mortgage lending of £846 million, equivalent to 25% of all net mortgage lending in the UK (source: CML).
- Gross mortgage advances exceeded £1.9 billion, representing 3% of mortgage lending in the UK and around 19% of all lending undertaken by mutual lenders (sources: CML and BSA).
- Retail savings balances increased to a record £17.7 billion.
- Inaugural public covered bond issuance of £750 million completed in April.

Consistent outperformance throughout credit crunch

- In the four years since 30 June 2007:
  - Total assets grew by £9.7 billion (75.1%) (excluding Stroud & Swindon, £7.2 billion, 55.3%).
  - Mortgage balances increased by £7.8 billion (73.2%) (excluding Stroud & Swindon, £5.9 billion, 55.4%).
  - Savings balances rose £9.2 billion (108.5%), funding comfortably the substantial growth in mortgages (excluding Stroud & Swindon, £7.0 billion, 82.0%).

Strong, stable and efficient

- Cost to assets ratio just 0.37%[2], the lowest level reported by a UK building society.
- Mortgage balances 2.5% or more in arrears less than 44% of industry average on the basis of latest available data (source: FSA).
- No provisions were required to be raised as a result of the court ruling in respect of the sale of Payment Protection Insurance.
- Negligible exposure (£8.5 million) to Irish banks and no exposure to Portugal, Italy, Greece and Spain.
- Core tier 1 ratio increased to 24.1% (December 2010: 22.0%), the highest reported by any UK building society.
- Maintained strong 'A' credit ratings throughout 'credit crunch' – Fitch (A) and Moody's (A3) – with ratings recently affirmed.

1 Underlying profit is defined as operating profit after impairments and before exceptional items.

2 Cost to assets ratio has been calculated on the basis of the average of the 2011 and 2010 total assets.

INTERIM MANAGEMENT REPORT: CHIEF EXECUTIVE'S REVIEW

Coventry Building Society continues to perform extremely strongly. Underlying profit before tax increased by 10% to £51.1 million, during a period in which the Society's net mortgage lending was equivalent to 25% of the market as a whole. Retail balances also increased to a new record level and the Society's strong funding position was supported by a successful debut in the covered bond market, raising £750 million from institutional investors. These excellent results demonstrate Coventry's consistent strength in what remains an uncertain environment.

Excellent financial performance

The Society's competitive advantage rests in its ability to execute a simple, member-focused business model without taking on higher levels of risk.

Most importantly, we have been able to maintain a consistent level of lending at modest loan to value ratios and to low risk borrowers. The increase in margins available for new mortgages means that our ability to continue to lend has helped support profitability.

This can be seen in the Society's robust and consistent financial performance. In the first half of 2011, net interest income increased by a further £10.0 million (12.6%) to £89.6 million, reflecting the benefits of our recent growth.

We retain a high quality mortgage book, with mortgage arrears significantly below those for the industry as a whole. At 30 June 2011, only 0.79% of mortgage balances were 2.5% or more in arrears. Impairment charges totalled just £4 million from a loan book of £18.4 billion.

The Society is equally committed to reducing risk in its own investments. In recent months the emerging sovereign debt crisis in the Eurozone has highlighted concerns of contagion across UK financial services. The Society took steps as long ago as 2008 to reduce its exposure to certain economies and as a result just £8.5 million of deposits are placed with Irish institutions. We have no exposure to Portuguese, Italian, Greek or Spanish banks, the other countries most often associated with these issues.

Improved income, low costs and low impairment provisions combined to produce an increase in underlying profit to £51.1 million.

Record share of the mortgage market

Throughout the financial crisis, we have maintained a consistent appetite for new mortgage lending, with mortgage assets increasing by another 4.9% during the first half year, a rate of growth broadly in line with the long-term performance established over the past 10 years.

As a result of the reduction in the overall capacity of the market the Society's share of all mortgage lending has increased significantly in the last 4 years. Mortgage balances grew by £846 million, equivalent to 25.5% of all net lending undertaken in the UK.

Gross advances totalled £1,913 million, representing 3% of all mortgage advances in the UK and around 19% of all lending undertaken by building societies and mutual banks. The average loan to value (LTV) ratio on advances made to date in 2011 is 53.6% and the average LTV ratio for our book as a whole, after accounting for changes in house prices, is below 50%.

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

Mortgage growth underpinned by strong funding capability

Coventry's performance in the retail savings market since the onset of the credit crisis is unrivalled. Excluding the impact of mergers, savings balances have increased by £7.0 billion since 30 June 2007, funding comfortably our organic mortgage growth of £5.9 billion. We remain confident of our ability to grow our savings balances further, notwithstanding competitive market conditions.

The strength of the Society's retail funding position is reinforced by continued and cost-effective access to wholesale funding markets, made possible by our strong credit ratings. April 2011 saw our first public covered bond issue when we raised £750 million at pricing that was more advantageous for our members than that achieved in similar deals at the same time. This follows oversubscribed issuances of long term unsecured bonds in both 2010 and 2009.

Protecting members

Capital

The Society's purpose is to protect the interests of its members. This takes many forms but at its most basic, and of particular importance during periods of economic turmoil, is providing financial security and stability.

At 24.1%, Coventry's core tier 1 ratio increased again and is easily the highest reported of any large UK building society.

The need to generate and safeguard capital is one of the most important lessons of the credit crisis. It remains pre-eminent during a period of extreme market volatility which includes potential changes to financial regulation and continued debate about the respective value of different types of capital instruments. Above all, Coventry is committed to protecting the interests of its members and it is this prudence that has enhanced the Society's financial strength and underscores a conservative approach to mergers and acquisitions.

The Society continues to stand out in the sector as one of the most highly rated building societies in the UK. Coventry is 'A' rated by the two credit rating agencies that rate the sector generally, Fitch (A) and Moody's (A3), and has been so throughout the credit crisis. On this subject, we were pleased to receive confirmation on 3 August that Moody's upgraded the Society's underlying Bank Financial Strength Rating, which is now one of the highest ratings allocated to any UK bank or building society. As a result of this update, Coventry's long term debt/deposits rating of A3 is affirmed as stable and the Society will no longer be part of Moody's forthcoming review that considers the impact of reduced systemic support on 14 UK banks and building societies.

Treating members fairly

Whilst reassuring to members, our financial strength is not being achieved at their expense. We continue to take decisions that limit profitability in members' interests and to make sure that the products we offer are appropriate for their needs.

During the first half of 2011, the court case concerning Payment Protection Insurance (PPI) was completed and a number of banks and building societies have identified millions, in some cases, billions of pounds in additional provisions to cover the mis-selling of these products.

I am pleased to report that Coventry Building Society has not been required to raise any provision as a result of this ruling. It is another example of the Society taking long term decisions in the interest of its members to ensure that products are fit for purpose and that the sales process is focused on the needs of the individual member. For example, the Society never sold single premium PPI policies, a product structure that gave rise to significant claims elsewhere.

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

This member-focused approach extends to all aspects of the Society's activities. It is why we have yet to appear in any of the Financial Ombudsman Services tables of referred complaints and why we believe we have the lowest number of complaints per member of any large bank or building society.

Enhancing services
The Society continues to develop the capability to improve services to existing and future members. A particular focus during 2011 has been to invest in systems and people to improve further the service provided by our award winning call centre. This work is on schedule for completion before the end of the year, following which, we hope to deliver a service that is truly best in class.

During the first half of 2011 a great deal of work has been undertaken to integrate the former Stroud & Swindon systems with those of Coventry. This work will enable the combined membership to use all the Society's products and services including a fully integrated network of 92 branches and agencies across the Midlands and south-west of England. In addition it will extend the provision of online banking, current account and card functionality to the former Stroud & Swindon members.

This work is proceeding well and is ahead of schedule.

Northern Rock
The board will continue to examine additional opportunities that may benefit members, and recently Coventry's financial strength allowed us to consider if we should bid for Northern Rock. However, after careful consideration, the board concluded that to do so would not be in the interest of our members at this time.

Outlook

It remains difficult to predict what will happen to the UK economy in the forthcoming months. Earlier this year interest rate rises were being confidently predicted by many with potentially more than one increase expected before the end of 2011.

The sovereign debt crisis in Europe and an uncertain recovery from recession has altered these predictions considerably.

We anticipate that interest rates will remain subdued by historical standards for some time despite continued inflationary pressure. The financial markets are likely to remain restricted and lending volumes will be constrained as a result. The housing market will continue to be depressed with volumes and prices kept low for the foreseeable future.

However, as I said at the end of 2010, this is not a new situation. The economic environment, whilst continuing to bring new challenges, has been difficult for an extended period of time. During this time the Society has achieved record results, has continued to lend, has increased savings balances significantly and remained strongly profitable.

Our experience over the last four years gives me confidence that we have the right business model to succeed and that the current environment continues to present opportunities for the Society to grow. I look forward to reporting further progress as we move towards 2012.

Principal risks and uncertainties

The principal risks and uncertainties affecting the Society were reported on page 17 of the Annual Report and Accounts as at 31 December 2010. These risks continue to affect the Society as at 30 June 2011.

CONSOLIDATED INCOME STATEMENT FOR THE PERIOD ENDED 30 JUNE 2011

	Notes	Period to 30 June 2011 (Unaudited) £m	Period to 30 June 2010 (Unaudited) £m	Year ended 31 December 2010 (Audited) £m
Interest receivable and similar income	3	**366.4**	276.2	599.5
Interest payable and similar charges	4	**(276.8)**	(196.6)	(453.5)
Net interest income		**89.6**	79.6	146.0
Fees and commissions receivable		**7.5**	7.6	15.9
Fees and commissions payable		**(1.0)**	(0.5)	(1.5)
Other operating income		**0.5**	0.2	0.6
Net losses from derivative financial instruments		**(0.4)**	(0.9)	(0.7)
Total income		**96.2**	86.0	160.3
Administrative expenses	5	**(37.0)**	(31.3)	(68.0)
Amortisation of intangible fixed assets		**(1.8)**	(1.4)	(3.0)
Depreciation of property, plant and equipment		**(2.3)**	(2.1)	(4.3)
Operating profit before impairments and exceptional items		**55.1**	51.2	85.0
Impairment losses on loans and advances to customers	6	**(4.0)**	(6.8)	(11.8)
Release of provision for impairment of debt securities		**-**	2.1	2.1
Operating profit after impairment and before exceptional items		**51.1**	46.5	75.3
Charge of provision for FSCS levies	7	**(0.7)**	-	(5.6)
Stroud & Swindon integration and merger related costs		**(5.0)**	(2.0)	(11.2)
Operating profit after impairments and exceptional items		**45.4**	44.5	58.5
Gain on business combination		**-**	-	43.8
Charitable donation to Poppy Appeal		**(0.4)**	(1.0)	(1.7)
Profit before tax		**45.0**	43.5	100.6
Taxation		**(11.3)**	(12.6)	(15.7)
Profit for the financial period		**33.7**	30.9	84.9

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

CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME FOR THE PERIOD ENDED 30 JUNE 2011

	Period to 30 June 2011 (Unaudited) £m	Period to 30 June 2010 (Unaudited) £m	Year ended 31 December 2010 (Audited) £m
Profit for the financial period	**33.7**	30.9	84.9
Other comprehensive income			
Actuarial gain on defined benefit pension plans	**-**	-	5.0
Tax on actuarial gain on defined benefit pension plans	**-**	-	(1.4)
Available-for-sale investments:			
Valuation gains taken to equity	**24.7**	55.3	52.1
Amounts transferred to the income statement	**(24.4)**	(45.7)	(33.1)
Tax on items taken directly to or transferred from equity	**(0.1)**	(2.6)	(5.3)
Other comprehensive income for the period, net of tax	**0.2**	7.0	17.3
Total comprehensive income for the period, net of tax	**33.9**	37.9	102.2

The notes on pages 11 to 16 form part of this consolidated interim financial report.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2011

	Notes	30 June 2011 (Unaudited) £m	30 June 2010 (Unaudited) £m	31 December 2010 (Audited) £m
Assets				
Cash in hand and balances with the Bank of England		**814.0**	977.4	1,444.2
Loans and advances to credit institutions		**173.7**	226.3	193.4
Debt securities	8	**2,964.3**	3,186.0	2,864.0
Other liquid assets		**20.0**	-	30.3
		3,972.0	4,389.7	4,531.9
Non-current assets held for sale		**3.9**	-	3.9
Loans and advances to customers	9	**18,431.6**	14,837.5	17,573.7
Hedge accounting adjustment		**39.5**	83.3	40.6
Derivative financial instruments		**99.1**	68.8	73.4
Deferred tax assets		**17.1**	1.9	19.4
Prepayments and accrued income		**8.3**	6.3	6.1
Property, plant and equipment		**30.2**	24.3	28.1
Intangible assets		**10.7**	10.5	12.2
Investment properties		**5.7**	-	5.8
Pension benefit surplus		**7.8**	7.5	7.2
Total assets		**22,625.9**	19,429.8	22,302.3
Liabilities				
Shares	10	**17,672.7**	14,886.5	17,634.3
Hedge accounting adjustment		**24.5**	17.6	3.3
Deposits from banks		**865.1**	1,590.6	1,315.4
Other deposits		**17.5**	23.5	34.1
Amounts owed to other customers		**550.0**	752.2	645.2
Derivative financial instruments		**138.0**	133.3	139.4
Debt securities in issue	11	**2,358.4**	1,166.0	1,551.3
Current tax liabilities		**8.8**	14.4	10.1
Deferred tax liabilities		**4.7**	5.1	5.6
Accruals and deferred income		**9.9**	7.0	12.1
Other liabilities		**9.1**	9.6	16.6
Provisions for liabilities and charges	7	**15.4**	10.0	15.9
Pension benefit obligations		**2.1**	-	3.1
Subordinated liabilities	12	**68.1**	30.7	68.2
Subscribed capital	13	**161.3**	161.2	161.3
Total liabilities		**21,905.6**	18,807.7	21,615.9
Equity				
General reserve		**738.2**	646.9	704.5
Available-for-sale reserve		**(17.9)**	(24.8)	(18.1)
Total liabilities and equity		**22,625.9**	19,429.8	22,302.3

The notes on pages 11 to 16 form part of this consolidated interim financial report.

CONSOLIDATED STATEMENT OF CHANGES IN MEMBERS' INTERESTS
FOR THE PERIOD ENDED 30 JUNE 2011

	General Reserve £m	Available-for-sale reserve £m	Total £m
As at 1 January 2011	**704.5**	**(18.1)**	**686.4**
Profit for the financial period	**33.7**	**-**	**33.7**
Available-for-sale investments:			
Valuation gains taken to equity	**-**	**24.7**	**24.7**
Amounts transferred to the income statement	**-**	**(24.4)**	**(24.4)**
Tax on items taken directly to or transferred from equity (26.5%)	**-**	**(0.1)**	**(0.1)**
As at 30 June 2011	**738.2**	**(17.9)**	**720.3**

	General Reserve £m	Available-for-sale reserve £m	Total £m
As at 1 January 2010	616.0	(31.8)	584.2
Profit for the financial period	30.9	-	30.9
Available-for-sale investments:			
Valuation gains taken to equity	-	55.3	55.3
Amounts transferred to the income statement	-	(45.7)	(45.7)
Tax on items taken directly to or transferred from equity (28%)	-	(2.6)	(2.6)
As at 30 June 2010	646.9	(24.8)	622.1

	General Reserve £m	Available-for-sale reserve £m	Total £m
As at 1 January 2010	616.0	(31.8)	584.2
Profit for the financial year	84.9	-	84.9
Actuarial gain on defined benefit plans	5.0	-	5.0
Tax on actuarial gain on defined benefit plans (27%)	(1.4)	-	(1.4)
Available-for-sale investments:			
Valuation gains taken to equity	-	52.1	52.1
Amounts transferred to the income statement	-	(33.1)	(33.1)
Tax on items taken directly to or transferred from equity (28%)	-	(5.3)	(5.3)
As at 31 December 2010	704.5	(18.1)	686.4

The notes on pages 11 to 16 form part of this consolidated interim financial report.

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE PERIOD ENDED 30 JUNE 2011

	Notes	**Period to 30 June 2011 (Unaudited) £m**	Period to 30 June 2010 (Unaudited) £m	Year ended 31 December 2010 (Audited) £m
Cash flows from operating activities				
Profit before tax		**45.0**	43.5	100.6
Adjustments for:				
Non-cash items included in profit before tax	14	**(33.8)**	6.0	(5.0)
Changes in operating assets	14	**(773.4)**	(621.4)	(1,235.6)
Changes in operating liabilities	14	**(425.8)**	935.7	1,545.7
Interest paid on subordinated liabilities		**(2.5)**	(0.3)	(3.9)
Interest paid on subscribed capital		**(6.1)**	(6.1)	(12.3)
Taxation		**(11.3)**	5.7	(7.1)
Net cash flows from operating activities		**(1,207.9)**	363.1	382.4
Cash flows from investing activities				
Purchase of investment securities		**(3,961.7)**	(2,540.3)	(5,687.0)
Sale and maturity of investment securities		**3,884.9**	2,928.4	6,796.2
Purchase of property, plant and equipment		**(5.4)**	(0.9)	(5.6)
Purchase of intangible fixed assets		**(1.4)**	(2.0)	(3.1)
Cash and cash equivalents acquired on transfer of engagements		**-**	-	10.8
Net cash flows from investing activities		**(83.6)**	385.2	1,111.3
Cash flows from financing activities				
Repurchase of subordinated liabilities		**-**	(40.0)	(55.0)
Maturity of debt securities		**(25.0)**	-	(629.0)
Issue of securities		**747.6**	-	400.0
Net cash flows from financing activities		**722.6**	(40.0)	(284.0)
Net (decrease)/increase in cash		**(568.9)**	708.3	1,209.7
Cash and cash equivalents at start of period		**1,537.8**	328.1	328.1
Cash and cash equivalents at end of period	14	**968.9**	1,036.4	1,537.8

The notes on pages 11 to 16 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 2011 and show the financial performance for the period from, and including, 1 January 2011 to this date.

2 BASIS OF PREPARATION

This condensed consolidated financial report for the six months ended 30 June 2011 has been prepared in accordance with the Disclosure and Transparency Rules of the Financial Services Authority and with IAS 34 Interim Financial Reporting as adopted by the EU. This interim financial report should be read in conjunction with the annual financial statements for the year ended 31 December 2010, 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 2011 interim financial report and those which the Society currently expects to adopt in its Annual Report and Accounts for the year ended 31 December 2011 are consistent with those disclosed in the Annual Report and Accounts for the year ended 31 December 2010, copies of which are available at http://www.coventrybuildingsociety.co.uk/pdfs/RepAcc_10.pdf. The accounting policies and disclosures adopted reflect the Society's current view of best practice and no new standards or interpretations have since been adopted.

IFRS is subject to ongoing review and endorsement by the EU or possible amendment by interpretive guidance from the International Accounting Standards Board and is therefore subject to change. In addition, practice may develop with regard to interpretation and application of the standards or further standards may be introduced with the option for early adoption. We will update the reporting of future results for any such changes should they occur. The Society's full year Annual Report and Accounts for 2011 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 2011 Annual Report and Accounts.

NOTES TO THE INTERIM FINANCIAL REPORT (CONTINUED)

3 INTEREST RECEIVABLE AND SIMILAR INCOME

	Period to 30 June 2011 (Unaudited) £m	Period to 30 June 2010 (Unaudited) £m	Year ended 31 December 2010 (Audited) £m
On loans fully secured on residential property	**363.1**	303.3	635.6
On other loans	**2.3**	2.5	5.2
	365.4	305.8	640.8
Interest and other income on debt securities	**43.1**	26.2	59.4
Interest and other income on other liquid assets	**2.4**	2.0	4.4
Net expense from hedging instruments	**(44.5)**	(57.8)	(105.1)
Total	**366.4**	276.2	599.5

4 INTEREST PAYABLE AND SIMILAR CHARGES

	Period to 30 June 2011 (Unaudited) £m	Period to 30 June 2010 (Unaudited) £m	Year ended 31 December 2010 (Audited) £m
Bank and customer			
Subordinated liabilities	**2.5**	1.7	3.9
Other	**6.7**	8.7	21.4
Debt securities in issue	**48.4**	12.4	43.8
Other borrowed funds			
On shares held by individuals	**248.7**	192.1	423.1
On other shares	**-**	0.1	0.1
On subscribed capital	**6.1**	6.1	12.3
Net income on hedging instruments	**(35.6)**	(24.5)	(51.1)
Total	**276.8**	196.6	453.5

5 ADMINISTRATIVE EXPENSES

	Period to 30 June 2011 (Unaudited) £m	Period to 30 June 2010 (Unaudited) £m	Year ended 31 December 2010 (Audited) £m
Employee costs			
Wages and salaries	**18.1**	15.3	34.7
Social security costs	**1.7**	1.5	3.4
Pension costs			
Defined benefit plans	**0.6**	0.5	1.2
Defined contribution plans	**0.4**	0.3	0.7
	20.8	17.6	40.0
Other expenses			
Finance lease charges	**0.2**	0.2	0.4
Other	**16.0**	13.5	27.6
Total	**37.0**	31.3	68.0

NOTES TO THE INTERIM FINANCIAL REPORT (CONTINUED)

6 IMPAIRMENT PROVISIONS ON LOANS AND ADVANCES TO CUSTOMERS

	Period to 30 June 2011 (Unaudited) £m	Period to 30 June 2010 (Unaudited) £m	Year ended 31 December 2010 (Audited) £m
Impairment charge for the period	**4.0**	6.8	11.8
Impairment provision at the end of the period			
Loans fully secured on residential property	**19.0**	19.9	19.7
Other loans	**1.5**	2.5	1.4
Total	**20.5**	22.4	21.1

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

7 PROVISIONS FOR LIABILITIES AND CHARGES

	30 June 2011 (Unaudited) £m	30 June 2010 (Unaudited) £m	31 December 2010 (Audited) £m
At 1 January	**15.9**	10.1	10.1
Acquired on transfer of engagement	**-**	-	0.8
Charge for the period	**0.7**	-	9.8
Release in the period	**-**	-	-
Provision utilised	**(1.2)**	(0.1)	(4.8)
At end of period	**15.4**	10.0	15.9

Revisions to estimates of amounts payable to the Financial Services Compensation Scheme resulted in a £0.7 million charge for the period ended 30 June 2011 (30 June 2010 - £nil charge, 31 December 2010 - £5.6 million charge).

Included above is a restructuring provision relating to the merger with Stroud & Swindon Building Society. Revisions to the provision resulted in a £nil charge for the period ended 30 June 2011 (30 June 2010 - £nil, 31 December 2010 - £4.2 million charge, which is included within 'Stroud & Swindon integration and merger related costs' in the income statement). Other provisions have been made in respect of circumstances that may give rise to various customer claims.

8 DEBT SECURITIES

	30 June 2011 (Unaudited) £m	30 June 2010 (Unaudited) £m	31 December 2010 (Audited) £m
Available-for-sale:			
Government investment securities	**1,528.2**	772.5	1,019.4
Analysis of transferable debt securities			
Listed	**960.5**	1,369.8	1,165.2
Unlisted	**475.6**	1,043.7	679.4
Total	**2,964.3**	3,186.0	2,864.0

NOTES TO THE INTERIM FINANCIAL REPORT (CONTINUED)

9 LOANS AND ADVANCES TO CUSTOMERS

	30 June 2011 (Unaudited) £m	30 June 2010 (Unaudited) £m	31 December 2010 (Audited) £m
Loans fully secured on residential property	**18,349.4**	14,758.2	17,485.7
Other loans			
Loans fully secured on land	**13.0**	0.1	14.5
Other loans	**69.2**	79.2	73.5
	82.2	79.3	88.0
Total	**18,431.6**	14,837.5	17,573.7

Other loans incorporate £0.9 million (30 June 2010 - £1.2 million, 31 December 2010 - £1.0 million) of loans that are fully secured on residential property and that were made to corporate bodies such as Housing Associations prior to 1 July 1998, the date upon which the Society adopted the powers of the Building Societies Act 1997.

10 SHARES

	30 June 2011 (Unaudited) £m	30 June 2010 (Unaudited) £m	31 December 2010 (Audited) £m
Held by individuals	**17,664.3**	14,878.4	17,626.5
Other shares	**8.4**	8.1	7.8
Total	**17,672.7**	14,886.5	17,634.3

11 DEBT SECURITIES IN ISSUE

In April 2011, the Society issued its inaugural public Covered Bond in sterling raising £750 million repayable in 2018 at a rate of 4.625% per annum. Transaction costs incurred are amortised over the life of the underlying instrument.

NOTES TO THE INTERIM FINANCIAL REPORT (CONTINUED)

12 SUBORDINATED LIABILITIES

	30 June 2011 (Unaudited) £m	30 June 2010 (Unaudited) £m	31 December 2010 (Audited) £m
Subordinated liabilities owed to note holders are as follows:			
Fixed rate subordinated notes 2015 - 5.875%	**-**	5.6	-
Fixed rate subordinated notes 2015 - 5.25%	**-**	10.1	-
Fixed rate subordinated notes 2016 - 12.25%	**7.3**	-	7.0
Fixed rate subordinated notes 2017 - 8.37%	**10.1**	-	10.0
Fixed rate subordinated notes 2021 - 6.12%	**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
Fixed rate subordinated notes 2032 - 7.54%	**15.3**	-	15.4
Total	**68.1**	30.7	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.

During the year ended 31 December 2010 the Society, with the consent of the FSA, redeemed early £25.0 million of the 5.25% subordinated loan due on 8 November 2015 and £30.0 million of the 5.875% subordinated loan due on 16 December 2015. The Society acquired subordinated liabilities maturing in 2016, 2017, 2021, 2026 and 2032 as a result of the merger with Stroud & Swindon Building Society.

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 2011 (Unaudited) £m	30 June 2010 (Unaudited) £m	31 December 2010 (Audited) £m
Subscribed capital owed to permanent interest holding members is as follows:			
Permanent interest bearing shares	**161.3**	161.2	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 2011 (Unaudited) £m	Period to 30 June 2010 (Unaudited) £m	Year ended 31 December 2010 (Audited) £m
Non-cash items included in profit before tax			
Net increase in impairment provisions	**4.0**	6.8	11.8
Depreciation and amortisation	**4.1**	3.5	7.3
Interest on subordinated liabilities	**2.5**	0.3	3.9
Interest on subscribed capital	**6.1**	6.1	12.3
(Decrease)/increase in fair value adjustment of hedged risk	**(30.1)**	33.5	9.0
Other non-cash movements	**(20.4)**	(44.2)	(5.5)
Gain on business combinations	**-**	-	(43.8)
	(33.8)	6.0	(5.0)
Changes in operating assets			
Decrease in loans to credit institutions and other liquid assets	**90.4**	131.8	378.8
Increase in loans and advances to customers	**(861.9)**	(751.9)	(1,621.5)
(Increase)/decrease in prepayments and accrued income	**(1.3)**	(0.7)	1.5
(Increase)/decrease in other assets	**(0.6)**	(0.6)	5.6
	(773.4)	(621.4)	(1,235.6)
Changes in operating liabilities			
Increase in shares	**11.4**	1,630.1	2,113.2
(Decrease)/increase in deposits and other borrowings	**(562.0)**	121.5	(396.7)
Increase/(decrease) in debt securities in issue	**109.8**	(844.1)	(212.9)
Increase in accruals and deferred income	**24.7**	37.9	63.9
Decrease in other liabilities	**(9.7)**	(9.7)	(21.8)
	(425.8)	935.7	1,545.7

	30 June 2011 (Unaudited) £m	30 June 2010 (Unaudited) £m	31 December 2010 (Audited) £m
Cash and cash equivalents			
Cash and balances with the Bank of England	**798.5**	962.9	1,427.9
Due from other banks	**170.4**	73.5	109.9
Total	**968.9**	1,036.4	1,537.8

Cash and cash equivalents excludes the balance which the Society is required to maintain with the Bank of England which, at 30 June 2011, amounted to £15.5 million (30 June 2010 - £14.5 million, 31 December 2010 - £16.3 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 were reported on page 17 of the Annual Report and Accounts as at 31 December 2010. These risks continue to affect the Society as at 30 June 2011.

A full list of the Board of Directors can be found in the 2010 Annual Report and Accounts.

Signed on behalf of the Board by

John Lowe
Finance Director
4 August 2011

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 2011 which comprises the Consolidated Income Statement, Consolidated Statement of Other Comprehensive Income, Consolidated Statement of Financial Position, Consolidated Statement of Changes in Members Interests, Consolidated Statement of Cash Flows and the related explanatory notes 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 2011 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
4 August 2011

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 2010 has been extracted from the Annual Accounts for that year. The Annual Accounts for the year ended 31 December 2010 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.