NEWS RELEASE

COVENTRY BUILDING SOCIETY ANNOUNCES EXCELLENT HALF YEAR RESULTS

The Coventry, the UK's third largest building society, has today announced its interim results for the six months ended 30 June 2009.

Highlights include:

Strong financials

- Operating profit before impairment and exceptional items was £40.1 million (2008 first half year: £38.3 million).
- Profit before tax of £36.2 million (2008 first half year: £35.5 million).
- Profit after tax was £31.1 million (2008 first half year: £25.1 million).

Stable platform

- Cost to mean asset ratio of only 0.39%, the lowest level reported by a UK building society.
- Credit quality remains high – accounts more than six months in arrears around one third of CML average – and loan loss provisions amongst the lowest of any larger UK lender.
- All growth is organic and lending is concentrated in low risk, residential sectors. The Society has never purchased a mortgage book and has no exposure to second charge or commercial lending.
- Strong capital position – tier 1 ratio of 39.2% without Basel II transitional floors and 12.1% with Basel II transitional floors.
- Retained strong credit ratings since onset of 'credit crunch' with both Fitch (A) and Moody's (A3).

Increased market share

- Gross mortgage advances of £1.3 billion, almost double our natural market share.
- Net mortgage lending of £338 million, representing 12.7% of net lending undertaken across the market as a whole.
- 99% of loan book funded by retail savings, reserves and capital.

David Stewart, Chief Executive, commented on the results:

“I believe these are excellent results, in particular as we have been operating in some of the most difficult market conditions imaginable.

We continue to report substantial profits and with a high quality mortgage book backed by strong capital ratios, these results demonstrate that Coventry Building Society remains one of the UK’s strongest building societies.

Continued mortgage lending

Throughout the credit crisis the Society has remained active in the mortgage market and last year Coventry was one of the ten largest lenders in the UK for the first time in its history. Although we have reduced the amount of new mortgage lending from that undertaken in the comparable period in 2008, our market share is still almost double what would be expected given our size.

In the first half of 2009, gross advances totalled £1.3 billion (2008: £1.9 billion). At £338 million, the Coventry’s net lending was equivalent to 12.7% of that undertaken across the market as a whole as many of our competitors were compelled to shrink their balance sheets. The average loan to value (LTV) ratio on new advances made in 2009 was 53%.

Continuing low arrears

This performance was made possible by the strength of our funding position and by the very high quality of mortgage lending undertaken in previous years. Our consistently robust underwriting procedures mean that arrears levels remain low and as a result profitability has not been undermined by spiralling credit losses in the way that we have seen at some other institutions.

At 30 June 2009, only 1.06% of mortgages were more than three months in arrears, a figure that compares extremely favourably with the Council of Mortgage Lenders’ (CML) average of 2.43%. This favourable position is also reflected in six months arrears levels, where our rate of 0.50% is around one third of the market average.

In common with others, we have undertaken buy-to-let business and at 30 June 2009 our buy-to-let portfolio totalled £2.9 billion, representing around 22% of our mortgage book. However, we have not experienced the problems reported elsewhere. We have negligible exposure to the higher risk city centre flat and loan portfolio markets and insisted from the start that all buy-to-let borrowers had substantial deposits in place.

As a result of these measures, the Coventry’s buy-to-let mortgages continue to perform exceptionally well, and very substantially better than industry norms. At 30 June 2009, just 0.68% of buy-to-let cases were more than three months in arrears – only 27% of the CML average of 2.49%.

Our low levels of arrears, in both the owner occupied and buy-to-let sectors, are reflected in the modest provisions required for loan impairment. At £7.9 million, impairment losses for the half year represented only 0.05% of the closing stock of loans and advances to customers. Once again, these are certain to be amongst the lowest losses reported by any larger UK mortgage lender.

Capital

It is unsurprising given the events of the last two years, that increased attention is being paid to the capital position of financial institutions.

At 12.1%, the Coventry's current tier 1 ratio is amongst the highest in our peer group. Perhaps of even greater significance, this capital is held against a particularly high quality loan book.

The FSA granted Coventry permission to use the Basel II Internal Ratings Based (IRB) approach to credit risk and capital management from 1 January 2008. This permission reflects our detailed understanding of our loan book and the control of our credit risk profile. The extent to which lenders approved for the IRB approach are able to set capital levels using Basel II is restricted due to the imposition of transitional floors on capital levels held. The Coventry would have a tier 1 ratio of 39.2% without this transitional floor, illustrating the low risk nature of our lending.

Solid credit ratings

Our strong trading performance and robust capital position is reflected by the independent assessment of credit rating agencies. Coventry retains 'A' grade ratings from both Fitch (A) and Moody's (A3).

Protecting Members

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

We have done all we could to mitigate the impact of base rate reductions for as many of our members as possible, consistent with maintaining the financial strength and security of Coventry Building Society. Over the most recent cycle of base rate cuts that began in October 2008, no variable rate savings account was reduced by more than the cut in base rate. In fact, over 95% of balances in our variable rate savings accounts have seen interest rates improved relative to base rate. We estimate that the annualised benefit provided to members from these improvements relative to base rate is in excess of £70 million.

Outlook

I expect market conditions to remain challenging throughout the remainder of 2009 and in 2010. The impact of very low interest rates and the ongoing seizure of the financial markets means that downward pressure on margins is likely to persist.

www.thecoventry.co.uk
Coventry Building Society. Registered Office: Economic House, PO Box 9, High Street, Coventry CV1 5QN.
We monitor and record phone calls.

Nevertheless, Coventry Building Society remains well placed to meet the challenges. We are well funded, and our low cost base, solid capital position and strong asset quality will help mitigate the worst impact of the economic conditions. I am sure we have the right business model for these difficult times, and I continue to be confident for the future."

ends

Notes to editors

- Full details of the results for the half year ended 30 June 2009 are attached.
- Coventry Building Society is the third largest building society in the UK with assets of £17.6 billion.

Group Income Statement	Half Year Ended 30.06.09 £m	Year Ended 31.12.08 £m	Half Year Ended 30.06.08 £m
Net interest income	63.6	116.2	58.2
Other income and charges	8.7	18.4	9.5
Net gains from derivatives	1.2	1.8	4.0
Total income	**73.5**	**136.4**	**71.7**
Management expenses	(33.4)	(64.7)	(33.4)
Operating profit before impairments and exceptional items	**40.1**	**71.7**	**38.3**
Impairment losses on loans and advances to customers	(7.9)	(8.4)	(2.8)
Operating profit before exceptional items	**32.2**	**63.3**	**35.5**
Release/(charge) of provision for FSCS levies	3.0	(11.4)	-
Release/(charge) of provision for impairment of debt securities	1.0	(23.9)	-
Profit after impairments and exceptional items	**36.2**	**28.0**	**35.5**
Charitable donation to Poppy Appeal	-	(1.6)	-
Profit for the year before tax	**36.2**	**26.4**	**35.5**
Taxation	(5.1)	(7.6)	(10.4)
Profit for the financial year	**31.1**	**18.8**	**25.1**

Group Statement of Recognised Income and Expense	Half Year Ended 30.06.09 £m	Year Ended 31.12.08 £m	Half Year Ended 30.06.08 £m
Profit for the financial year	**31.1**	**18.8**	**25.1**
Actuarial loss on defined benefit pension plan	-	(4.3)	-
Tax on actuarial loss on defined benefit pension plan	-	1.2	-
Fair value movements taken to reserves	(44.2)	(27.8)	(12.8)
Tax on fair value movements taken to reserves	12.4	7.9	3.7
Net expense recognised directly in reserves	**(31.8)**	**(23.0)**	**(9.1)**
Total recognised (expense) and income	**(0.7)**	**(4.2)**	**16.0**

Group Balance Sheet

	As at 30.06.09 £m	As at 31.12.08 £m	As at 30.06.08 £m
Assets			
Liquid assets	3,852.0	3,873.2	3,563.8
Derivative financial instruments	65.2	160.6	54.4
Loans and advances to customers	13,500.0	13,172.8	12,650.5
Hedge accounting adjustment	68.6	96.4	(36.2)
Tangible and intangible fixed assets	33.7	34.7	30.2
Other assets	31.5	26.7	21.6
Total assets	**17,551.0**	**17,364.4**	**16,284.3**
Liabilities			
Shares	12,539.9	12,386.1	11,221.0
Borrowings	4,082.2	4,052.5	4,199.3
Derivative financial instruments	106.2	93.9	21.3
Other liabilities	40.2	49.0	39.5
Subordinated liabilities	71.0	70.7	71.0
Subscribed capital	161.1	161.1	160.9
Total liabilities	**17,000.6**	**16,813.3**	**15,713.0**
Equity			
Reserves	550.4	551.1	571.3
Total liabilities and equity	**17,551.0**	**17,364.4**	**16,284.3**

Group Cash Flow Statement

	Half Year Ended 30.06.09 £m	Year Ended 31.12.08 £m	Half Year Ended 30.06.08 £m
Cash flows from operating activities	(1.1)	1,038.2	550.3
Cash flows from investing activities	(108.7)	(956.1)	(512.1)
Net (decrease)/increase in cash	**(109.8)**	**82.1**	**38.2**
Cash and cash equivalents at start of period	360.5	278.4	278.4
Cash and cash equivalents at end of period	**250.7**	**360.5**	**316.6**

Key Ratios

	Half Year Ended 30.06.09 %	Year Ended 31.12.08 %	Half Year Ended 30.06.08 %
Asset growth	1.07	16.47	9.22
Growth in loans and advances to customers	2.48	11.74	7.31
Tier 1 capital ratio – Basel I (1)	-	-	9.62
Tier 1 capital ratio – Basel II with transitional floor (2)	12.05	10.45	-
Tier 1 capital ratio – Basel II without transitional floor (3)	39.24	35.16	-
Net interest margin	0.73	0.72	0.75
Management expenses to mean assets	0.39	0.40	0.43
Operating profit before exceptional items to mean assets	0.37	0.39	0.46
Profit before tax to mean assets	0.42	0.16	0.46

(1) Tier 1 ratio based on Basel I risk-weighted assets.
(2) Tier 1 ratio under Basel II with transitional floor of 80% (2008: 90%) of Basel I risk-weighted assets.
(3) Tier 1 ratio based on Basel II risk-weighted assets without the impact of the transitional floor.

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