NEWS RELEASE

1 March 2011

Coventry Building Society announces record mortgage market share – 19% of net mortgage lending in the UK.

Today, Coventry Building Society, the UK's third largest building society, has announced record breaking results for the year ending 31 December 2010. Highlights include:

Record profits

- Operating profit before impairments and exceptional items of £85.0 million (2009: £75.0 million).
- Underlying profit before tax increased by 27% to £75.3 million[1].
- Profit before tax was £100.6 million (2009: £56.2 million).

Highest ever market share

- Gross mortgage lending of £3.5 billion (2009: £2.7 billion).
- 17.1% of all mortgage advances by building societies and mutual lenders (source: BSA).
- Net mortgage lending of £1.6 billion (excluding balances acquired as a result of the Stroud & Swindon merger) (2009: £0.9 billion).
- 19.0% of all net mortgage lending in the UK (source: CML).
- Retail savings balances grew by £2.2 billion (excluding balances acquired as a result of Stroud & Swindon merger) (2009: £0.8 billion).
- Mortgage assets increased by a further £1.9 billion and savings balances by £2.2 billion following completion of the merger with Stroud & Swindon on 1 September 2010.

Financially strong, class-leading efficiency

- Lowest cost to mean asset ratio reported by a UK building society at only 0.37% (2009: 0.38%).
- Including former Stroud & Swindon mortgages, only 0.82% of mortgage balances were 2.5% or more in arrears (2009: 0.93%, including Stroud & Swindon).
- Retail savings and capital resources equivalent to 106% of mortgage balances.

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

For more information or additional comment please contact:

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- Core Tier 1 ratio of 22.0%, the highest reported by any building society.
- Integration of Stroud & Swindon operation proceeding ahead of schedule.

David Stewart, Chief Executive, commented on the results:

“I am pleased to report that Coventry has again recorded a very strong performance, a track record that has been largely unaffected by the onset of the financial crisis in 2007.

We also have a track record of supporting mortgage intermediaries. Not only were we the first lender to commit to no dual pricing, a commitment made at the very start of the credit crisis in 2007, but we have backed this up with a unique set of meaningful pledges.

In 2010, we are again grateful for the support received from all types of mortgage advisors. This support has been instrumental in helping us achieve a record market share, with Coventry accounting for 19% net mortgage lending in the UK.

I hope our partnership with intermediaries goes from strength to strength and we will work hard to repeat the success of 2010, a year in which our approach was recognised in a number of awards, including those from Personal Touch, Sesame and Pink.”

Member focused

The Society’s ability to prosper in a difficult environment is based on an unambiguous responsibility to act in the interests of our members. This tempers risk-taking and encourages a long-term view. It supports fairness and sustainable levels of profitability. It also underlines the need for budget restraint and efficiency whilst striving to meet the service expectations of the membership.

Our strength is the ability to execute this simple building society model without recourse to new or increased levels of risk.

As a result, we have avoided the pitfalls that have affected many of our competitors and maintained a consistent presence in the mortgage market, lending at modest loan to value ratios to low risk borrowers, funded by continuing growth in retail savings balances.

The consistency with which we have pursued this strategy can be seen in the organic growth we have reported over many years, as well as by the record market share achieved during the years of the credit crunch.

Record share of mortgage market

In 2010 we achieved a record share of the mortgage market for the third consecutive year.

Gross advances totalled £3.5 billion, equivalent to 17.1% of all new lending undertaken by building societies and mutual banks and 2.6% of all new mortgage lending in the UK. Mortgage balances grew by £1.6 billion, equivalent to 19.0% of all net lending undertaken in the UK. These figures exclude £1.9 billion of mortgage balances added on 1 September following the merger with Stroud & Swindon.

At a time when the financial services industry is being much criticised for its unwillingness or inability to lend, this performance stands out.

In terms of new lending, in 2009, Coventry was the eighth largest lender in the UK and one of two building societies to feature in the UK's top ten lenders. We expect to have consolidated these positions in 2010.

Prudent and responsible lending

Coventry Building Society is a prudent lender. We have avoided those high risk lending sectors that have resulted in significant losses. Coventry did not undertake commercial or second charge lending and, even after the merger with Stroud & Swindon, our exposure to unsecured and credit impaired lending is insignificant.

We have continued this strategy throughout 2010, focusing much of our lending in high quality, low loan to value (LTV) sectors, whilst also supporting first time buyers, with the provision of market leading products for existing members and their families.

The benefits of this consistently conservative approach can be seen in our arrears performance that remains much better than that reported by most large mortgage lenders, and the significant equity retained by many of our borrowers. The average LTV ratio, as indexed for movement in house prices, is 50%.

Just 0.73% of Coventry's mortgage balances were 2.5% or more in arrears on 31 December 2010, down from 0.80% in 2009. At the time of the latest available published data (30 September 2010), Coventry's arrears were 39% of the average of all lenders.

Arrears levels at Stroud & Swindon were somewhat higher, but even so, combined 2.5% arrears levels totalled only 0.82% (2009: 0.93%). At the time of the latest available published data (30 September 2010) combined arrears were 44% of the industry average. The performance of Stroud & Swindon mortgage assets is in line with the assumptions made at the time of the merger.

These low arrears are naturally reflected in impairment charges that remain much smaller than for the industry as a whole. In 2010, impairment charges totalled just £11.8 million from a loan book in excess of £17.5 billion. Once again, these are certain to be amongst the lowest reported by any large UK lender.

Exceptional growth in savings

The strength of the Society's funding position, both retail and wholesale, has been critical in enabling us to continue lending.

Despite a fiercely competitive market we have continued to grow retail deposits cost-effectively, offering long-term value to members across a comprehensive portfolio. The Society's fair approach has helped retain existing balances, whilst our growth shows that we have the competitive strength to reward new and existing members. It is still the case that over 95% of variable savings rates have improved relative to Bank of England base rate since it began its drop to 0.5% in October 2008.

We opened 385,000 savings accounts in 2010 and as a result savings balances grew by over £4.4 billion, of which £2.2 billion was acquired through the merger with Stroud & Swindon. This brings the total organic growth since 30 June 2007, the reporting date immediately before the onset of the credit crunch, to £7.0 billion or 82%. If Stroud & Swindon balances are included, this total increases to £9.2 billion.

The strength of the Society's performance in 2010 is particularly highlighted by the fact that total savings balances held by NS&I and other banks and building societies fell by £1.4 billion in that period.

It is worth noting that our award-winning approach to Treating Customers Fairly saw improving interest rates paid to more than 185,000 former Stroud & Swindon savings members as accounts were aligned with better paying Coventry accounts from 1 September 2010.

I am also pleased to report that the Society continues to be an attractive home for institutional investors. On 28 September 2010, we were able to complete a £400 million 12 year unsecured loan note issuance, building on the £350 million 10 year note issued in 2009.

Sector leading cost efficiency

We continue to control costs closely and in 2010 we reduced our management expenses ratio for the fifteenth consecutive year. At 0.37% of average assets, this ratio confirms that Coventry remains the UK's most cost efficient building society.

Strong and sustainable profits

The result is a very strong financial performance. Notwithstanding the fact that, in the interest of members, we continue to operate on a net interest margin of just 0.72%, underlying profit before tax increased by 27% to a record £75.3 million. After accounting for the impact of the merger with Stroud & Swindon, the Society reported profit before tax of £100.6 million (2009: £56.2 million).

With the primary source of capital for building societies being retained earnings, the Society's profits confirm our ability to generate the capital necessary to support growth and protect the interests of members. Coventry's core tier 1 ratio of 22.0% remains the highest reported by any building society.

The ability to maintain sustainable profitability whilst protecting members' interest underlines the strength of the Society and the relevance of the traditional mutual model to a modern financial sector.

Quality of service

At a time when the financial services industry remains under the spotlight, it is important to work hard to earn and retain the trust of members.

We continue to invest in the services we provide and in addition to nearing the end of an extensive upgrade programme for all Coventry branches, we will have completed the refurbishment of the former Stroud & Swindon branches in the first part of 2011. Similar initiatives are being taken to expand the customer service centre to ensure service is maintained as the Society grows.

The Society was recognised by a number of independent service awards, including the consumer based Moneywise Customer Service Awards in which Coventry either won or was highly commended more times than any other building society or high street bank. The Society was named eleven times including in the three categories of Most Trusted Mortgage Provider, Most Trusted Savings Provider and Most Trusted Current Account Provider. We were also the highest placed building society in the Which? Money customer satisfaction survey.

The quality of service is reflected by consistently low levels of complaints. The Financial Services Authority requires financial organisations to publish the number of complaints they receive above a threshold of 500 in a six monthly period. In 2010, we believe Coventry had the lowest incidence of complaints per customer reported by any large bank or building society. Indeed, on average customers of the top five High Street banks were as much as 20 times more likely to complain than Coventry members.

Finally, I can confirm that Coventry has not featured in any of the four, six monthly tables of complaints published by the Financial Ombudsman Service (FOS) because our volume of complaints are too low to be reported. We are the largest mortgage lender to be able to make this claim.

It is particularly pleasing to make these statements during a period in which we have achieved record market share, processing large volumes of mortgage and savings accounts.

Supporting the Community

Four years of economic turmoil continue to create difficulties for many people in the communities in which we work.

It is right that the Society continues to support these communities and it is the case that in 2010 this support was extended to more groups than in any previous year. Over 150 organisations were supported through fund-raising, by direct volunteering or by using the skills and resources present at the Society. The merger with Stroud & Swindon has extended the same community commitment to more people across a wider geographical area.

We have worked to build sustained partnerships on many levels. Of particular note must be our ongoing relationship with The Royal British Legion, first launched in October 2008. In 2010, we donated a further £1.7 million to bring the total amount raised by 31 December 2010 to well over £4.5 million.

It is equally the case that our three year partnership with Age UK, formed from the merger of Age Concern and Help the Aged, goes from strength to strength. As we enter our third year we have raised, with the support of our members, over £85,000 for the charity, but equally importantly have helped raise awareness of the issues facing the UK's elderly. I should also mention that we presented more than £70,000 to the Children in Need appeal in 2010, raised by Coventry staff and members.

Outlook

It is still impossible to predict what will happen to the UK economy in 2011. Not only are there serious issues to face at home as attempts to reduce the budget deficit are implemented, but the international situation remains uncertain.

The future path of interest rates is hard to predict. Most likely they will remain low by historic standards, despite inflationary pressure, and restrictions in the financial markets will continue with attendant downward pressure on margins. The housing market is likely to remain depressed in terms of volumes and prices.

This is not a new situation. Rather it is one which we have experienced over the past four years, during which time the Society has continued to lend, has significantly increased savings balances and remained strongly profitable.

Our aim is to make sufficient but not excessive profits and we continue to set our mortgage and savings rates accordingly, operating on a modest net interest margin in the interests of members. We do this whilst retaining the flexibility to respond effectively if market conditions change.

I remain confident that Coventry has the right business model to maintain its consistent record of achievement and remains well placed to report further progress in 2011 and beyond for the benefit of current and future members."

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Notes to editors

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Summary details of the results for the year ended 31 December 2010 are attached

Coventry Building Society is the third largest building society in the UK with assets of £22.3 billion

Group Income Statement	**2010** **£m**	**2009** **£m**
Net interest income	146.0	125.0
Other income and charges	15.0	17.0
Net (losses)/gains from derivative financial instruments	(0.7)	1.3
Total income	**160.3**	**143.3**
Management expenses	(75.3)	(68.3)
Operating profit before impairments and exceptional items	**85.0**	**75.0**
Impairment losses on loans and advances to customers	(11.8)	(19.9)
Release of provision for impairment of debt securities	2.1	1.5
Release of provisions	-	2.9
Operating profit after impairments and before exceptional items	**75.3**	**59.5**
Provision for FSCS levies	(5.6)	(2.0)
Stroud & Swindon integration and merger related costs	(11.2)	-
Operating profit after impairments and exceptional items	**58.5**	**57.5**
Gain on business combination	43.8	-
Charitable donation to Poppy Appeal	(1.7)	(1.3)
Profit before tax	**100.6**	**56.2**
Taxation	(15.7)	(12.7)
Profit for the financial year	**84.9**	**43.5**

Group Statement of Other Comprehensive Income	**2010** **£m**	**2009** **£m**
Profit for the year	**84.9**	**43.5**
Actuarial gain/(loss) on defined benefit pension plans	5.0	(3.3)
Tax on actuarial gain/loss on defined benefit pension plans	(1.4)	0.9
Fair value movements taken to reserves	19.0	(11.1)
Tax on fair value movements taken to reserves	(5.3)	3.1
Other comprehensive income for the year, net of tax	**17.3**	**(10.4)**
Total comprehensive income for the year, net of tax	**102.2**	**33.1**

Group Balance Sheet	2010 £m	2009 £m
Assets		
Liquid assets	4,531.9	4,165.4
Derivative financial instruments	73.4	29.3
Loans and advances to customers	17,573.7	14,074.7
Hedge accounting adjustment	40.6	76.1
Tangible and intangible fixed assets	46.1	35.4
Other assets	36.6	21.1
Total assets	**22,302.3**	**18,402.0**
Liabilities		
Shares	17,637.6	13,218.8
Borrowings	3,546.0	4,214.3
Derivative financial instruments	139.4	108.9
Other liabilities	63.4	43.9
Subordinated liabilities	68.2	70.7
Subscribed capital	161.3	161.2
Total liabilities	**21,615.9**	**17,817.8**
Equity		
Reserves	686.4	584.2
Total liabilities and equity	**22,302.3**	**18,402.0**

Group Cash Flow Statement	2010 £m	2009 £m
Cash flows from operating activities	382.4	24.7
Cash flows from investing activities	1,111.3	(403.7)
Cash flows from financing activities	(284.0)	346.6
Net increase/(decrease) in cash	**1,209.7**	**(32.4)**
Cash and cash equivalents at start of year	328.1	360.5
Cash and cash equivalents at end of year	**1,537.8**	**328.1**

Key Ratios	2010 %	2009 %
Asset growth	21.2	6.0
Growth in loans and advances to customers (excluding balances transferred from Stroud & Swindon)	11.4	6.9
Net interest margin	0.72	0.70
Management expenses to mean assets	0.37	0.38
Cost to income ratio	47.0	47.7
Profit before tax to mean assets	0.49	0.31
Core tier 1 capital ratio	22.0	27.9

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