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1 March 2012

COVENTRY BUILDING SOCIETY ANNOUNCES STRONG GROWTH IN 2011
Society accounts for over 18% of net mortgage lending in the UK

Coventry, the UK's third largest building society, has announced its results for the year ended 31 December 2011. Highlights include:

Strong financial performance
- Record operating profit before impairments and exceptional items of £94.5 million (2010: £85.0 million).
- Record underlying profit[1] before tax, which increased by 12% to £84.6 million (2010: £75.3 million).

Record market share
- Share of both mortgage and retail savings stock increased further, each to record levels.
- Retail savings balances grew by £1.4 billion to £19.0 billion (2010: £17.6 billion).
- Gross mortgage advances of £4.0 billion, representing around 17% of all mortgage advances by building societies and mutual lenders (source: BSA).
- Net mortgage lending of £1.7 billion, equivalent to 18.3% of all net mortgage lending in the UK (source: CML).
- Exceptionally strong funding position evidenced by Coventry's inaugural sterling covered bond issuance of £750 million in April 2011 and first euro covered bond of €650 million in October 2011.

Sustained outperformance throughout financial downturn
- Since 31 December 2006, over the five years which have been affected by the credit crunch:
  - Coventry achieved the highest organic growth in mortgage and savings market share of any top ten building society.
  - The Society has reported strong profits together with organic mortgage and savings growth in each and every year.
  - Total assets grew by £12.2 billion (99%).
  - Mortgage balances increased by £9.2 billion (93%).
  - Savings balances rose £10.8 billion (130%), funding comfortably the substantial growth in mortgages.
  - Wholesale funds in excess of £2 billion successfully raised from third party investors during exceptionally difficult market conditions.

For more information or additional comment please contact:

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'A' rated, class leading efficiency

- Maintained strong 'A' credit ratings throughout credit crunch - Fitch (A) and Moody's (A3).
- Core tier 1 ratio at 22.8%, the highest reported by any building society or major high street bank.
- Cost to mean assets ratio of only 0.37%, the lowest level ever reported by a UK building society.
- Retail savings, capital and reserves equivalent to 104% of mortgages.
- Negligible exposure to Irish banks (just £3.4 million as at 1 March 2012) and no exposure to financial institutions from the following eurozone countries: Portugal, Italy, Greece and Spain.
- No exposure to any sovereign debt from any of the above countries.

High quality mortgage book and very low impairments

- Average loan to value of mortgage book, as adjusted for house price changes, is 50%.
- On the basis of latest available data[2], mortgage balances 2.5% or more in arrears were just 44% of the industry average (source: FSA).
- Impairment charges in 2011 of less than £10 million from a mortgage book of £19.2 billion.
- No provisions required as a result of the court ruling in respect of the sale of Payment Protection Insurance.

Member focused

- Over 400,000 customers opened new accounts with the Society in 2011.
- Coventry is the largest high street bank or building society never to appear in Financial Ombudsman Service (FOS) tables of complaints – because too few complaints have been referred to FOS for inclusion.
- Low net interest margin maintained for the benefit of members and made possible by cost efficiency and low impairment charges. Consistent value illustrated by:
    - Average rate paid on cash ISAs in excess of 2%, compared to a market average of 0.61% (source:BSA).
    - 94% of savings balances paid interest in excess of the Bank of England Base Rate.
    - Lowest standard variable rate of immediate peer group[3].
- Awards received in 2011 include 'Best Building Society' (Your Mortgage), 'Overall Best Savings Provider' (MoneyNet) and 'Best Regional Branch Network' (Your Money).

Strong support for local and national charities

- £5.6 million donated to The Royal British Legion's Poppy Appeal since October 2008.
- 260 local and national charities and community groups supported in 2011.

1 Underlying profit is defined as 'Operating profit after impairment and before exceptional items'.

2 30 September 2011.

3 Peer group of larger building societies defined as building societies with reported assets of between £5 billion and £50 billion.

David Stewart, Chief Executive, commented on the results:

"I am pleased to report that the Society has maintained its track record of consistent and strong performance. I believe that Coventry's success in serving the interests of its members throughout the financial crisis whilst remaining financially strong, secure and growing, stands comparison with that of any large bank or building society.

In 2011 the Society once again reported strong profitability, with underlying profit increasing by over 12%. This rise in sustainable profits was achieved through continued growth in responsible mortgage lending funded by another exceptional performance in attracting and retaining retail balances. Importantly, it was achieved whilst continuing to offer value to savings and borrowing customers, as evidenced by the low net interest margin which has remained stable and under control throughout the financial crisis.

In 2011, as in the two previous years, the Society was also able to source competitive funds from the wholesale markets and executed two notable debut transactions by launching both sterling and euro covered bonds. The success of these issuances is testament to the financial strength of the Society and the confidence that institutional investors have in the capability of Coventry Building Society to prosper in what are undeniably challenging conditions.

Record share of the mortgage market

The housing market in 2011 remained subdued with the slight tempering in organisations' lending criteria failing to reverse the continued restriction in overall lending capacity and a drop in public confidence as economic conditions deteriorated.

The strength of our business model is underlined by the consistency of both our strategy and our performance. The Society has maintained a rate of organic growth which has been broadly unchanged for over ten years, and the ability to continue this prudent growth rate in a reduced market has resulted in a substantial increase in our market share.

Gross advances totalled £4.0 billion, representing 2.8% of all mortgage advances in the UK and around 17% of all lending undertaken by building societies and mutual lenders. Coventry's share of new mortgage lending has more than trebled since 2006, the year immediately before the onset of the financial crisis in 2007. In 2011, as in 2009 and 2010, I expect us to be one of the UK's top ten mortgage lenders.

Net lending in the year totalled £1.7 billion, equivalent to over 18% of all net mortgage lending undertaken in the UK. To put this into context, Coventry accounted for around 1% of total mortgage stock at the end of 2006. Because of our consistent organic growth, this share has increased by around 67%, and is now at the highest point in the Society's history.

It is worth highlighting that this increase in market share does not reflect a material change in the amount of annual lending being undertaken by the Society. Rather it reflects the sustainability of our business model and the fact that Coventry has simply been relatively unaffected by the remarkable events of the past few years.

Most importantly our lending remains sustainable and prudent. We have avoided those high risk sectors that have resulted in significant losses elsewhere. Coventry has not undertaken commercial or second charge lending, and our exposure to unsecured lending is insignificant.

The result is an arrears performance that continues to be much better than the average reported by the industry, and impairment charges in 2011 were just under £10 million from a mortgage book totalling £19.2 billion. Once again, I am confident that this will be one of the lowest charges reported by any large mortgage lender.

These low losses reflect continuing low levels of arrears and high levels of protection afforded by the low loan to value (LTV) nature of our lending. The average LTV of our mortgage book, as adjusted for house price changes, is 50% and once again our activity in 2011 was concentrated in sectors that have been shown to be resilient during a time of economic stress.

Coventry mortgage balances that were 2.5% or more in arrears on 31 December 2011 totalled just 0.79% (2010: 0.82%). At the time of the latest available published data (30 September 2011), Coventry's arrears were 44% of the industry average.

Unrivalled savings growth underpins unique funding strength
The Society's ability to maintain its mortgage lending is based on the strength of its funding.

Since the credit crisis began in 2007, and during a period of intense competition, the Society has proven its ability to attract and retain retail deposits, recording the largest organic growth in market share for savings of any top ten building society. In 2011, we reached a new record in overall savings held at the Society of £19.0 billion, with balances rising by £1.4 billion.

The strength of Coventry's retail position is matched by an equally strong comparative performance in accessing wholesale funds. In 2011, as in 2009 and 2010, the Society attracted significant long-term and competitively priced investment from institutional investors. This year's performance was notable in adding covered bonds to previously unsecured issuances, and doing so in both sterling and euro denominations. In April a sterling covered bond took £750 million, whilst the October euro covered bond reached €650 million, a deal that was completed successfully despite the speculation about the stability of the eurozone.

Strong and secure
Our consistent performance over the years of economic turmoil continues to be independently recognised by Fitch and Moody's credit rating agencies.

The Society is one of the most highly rated building societies in the UK, being 'A' rated by both agencies, (Fitch 'A', Moody's 'A3') and notably was not included in the Moody's statement in the second half of 2011 which resulted in the downgrading of 12 banks and building societies.

The Society's financial strength is reinforced by sector-leading positions in both capital strength and cost-efficiency.

At 22.8%, Coventry's core tier 1 ratio remains the highest reported by any large mortgage lender. This illustrates both the high quality of our assets and the low risk nature of our operations. The fact that the Society has remained strongly profitable in each year of the financial crisis shows our continued ability to generate additional capital to support future growth.

We continue to control costs closely and in 2011 we were pleased to maintain the lowest cost to mean asset ratio of any building society at 0.37%.

Improved income and low costs combined to produce an increase in operating profit before impairments and exceptional items to £94.5 million.

Member focused
Whilst reassuring to members, our financial strength is not being achieved at their expense. We continue to take decisions to limit profitability in the interests of our members.

Around 95% of the variable rate savings products that were in existence at the time the Bank of England Base Rate began its fall from 5.00% in October 2008 to 0.50% in March 2009, have seen their rate improve relative to the Bank Base Rate and none are worse off by this measure. Today, 94% of all savers and current account holders receive an interest rate in excess of Base Rate. This has helped protect hundreds of thousands of Coventry savers from the full impact of unprecedented low interest rates. We have done this whilst maintaining the lowest standard variable rate of any of our peer group[1] of larger building societies.

The Society's ability to report strong profits and compete for new business whilst providing long-term value for existing members underlines the strength of our business model and our commitment to operate in line with our values. It also illustrates our ability to adjust margins should market conditions change.

Treating members fairly
As well as financial security and the provision of fair long-term value in savings and mortgages, we also have an overriding duty to members to provide products that are suitable for their needs.

During the first half of 2011, the court case concerning Payment Protection Insurance 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 needed to make any provision as a result of this ruling. It is another example of the Society taking 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.

This member focused approach extends to all aspects of the Society's activities. It is why we receive amongst the lowest number of complaints per customer of any large bank or building society and why we have too few cases referred to feature in tables published by the Financial Ombudsman Service.

Once again, the Society won a number of awards, including in 2011 'Best Building Society' (Your Mortgage), 'Best Regional Branch Network' (Your Money) and 'Overall Best Savings Provider' (MoneyNet).

Enhancing services
During 2011, we completed the work to integrate fully the former Stroud & Swindon systems with those of Coventry. This work was finished by the end of September 2011, just over 12 months from the date of merger.

The work was completed on schedule with minimal disruption to members and during a period in which record market share was being achieved. It demonstrates very clearly the operational efficiency of the Society, the flexibility and competence of managers and staff, and the commitment to putting members first that drives decision-making at Coventry.

[1] *Peer group of larger building societies defined as building societies with reported assets of between £5 billion and £50 billion.*

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

The outcome is an extended and refurbished branch network, which was awarded the 'Best Regional Branch Network' in the UK during 2011, improved product functionality and access methods for many members, and better value across a number of savings and mortgage products. It also delivers the robust, single IT platform that will underpin cost-efficiency and speed to market in the future.

Outlook

The economic outlook is as uncertain as I can recall. It is imperative that the eurozone is stabilised but the implications for economic growth, both domestically and internationally, as governments address the sovereign debt crisis are potentially far-reaching.

The prediction made previously by many commentators that Base Rate would begin to rise during 2011 has been proved wrong and now the equally confident prediction is that rates will remain extremely low through 2012 and into 2013.

The Society's responsibility is clear – to protect and serve the interests of members. This guiding principle has established a straightforward business model which remains amongst the most traditional of all building societies.

However, just because it is straightforward its execution is far from simple. The consistency of our performance over many years of economic turmoil demonstrates an understanding of what is required and an ability to deliver it. During this period Coventry has emerged with enhanced financial strength matched by a record of offering good value products and treating members fairly that stands comparison with any major bank or building society.

The recognition that economic conditions may worsen significantly in 2012 shows there is no room for complacency, but I remain confident that Coventry remains well placed to continue to protect members' interests and report further progress in the years ahead."

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Notes to editors

- Summary details of the results for the year ended 31 December 2011 are attached.
- Coventry Building Society is the third largest building society in the UK with assets of £24.5 billion.

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Group Income Statement	2011 £m	2010 £m
Net interest income	167.5	146.0
Other income and charges	14.0	15.0
Net gains/(losses) from derivative financial instruments	0.5	(0.7)
Total income	**182.0**	**160.3**
Management expenses	(87.5)	(75.3)
Operating profit before impairments and exceptional items	**94.5**	**85.0**
Impairment losses on loans and advances to customers	(9.9)	(11.8)
Release of provision for impairment of debt securities	-	2.1
Operating profit after impairment and before exceptional items	**84.6**	**75.3**
Provision for FSCS levies	(13.4)	(5.6)
Integration and merger related costs	(10.7)	(11.2)
Operating profit after impairments and exceptional items	**60.5**	**58.5**
Gain on business combination	-	43.8
Charitable donation to Poppy Appeal	(1.0)	(1.7)
Profit before tax	**59.5**	**100.6**
Taxation	(12.9)	(15.7)
Profit for the financial year	**46.6**	**84.9**

Group Statement of Comprehensive Income	2011 £m	2010 £m
Profit for the financial year	**46.6**	**84.9**
Other comprehensive income		
Actuarial (loss)/gain on defined benefit pension plan	(4.3)	5.0
Tax on actuarial loss/gain on defined benefit pension plan	1.1	(1.4)
Fair value movements on Available-for-sale assets	19.6	19.0
Tax charge on fair value movements taken to reserves	(5.2)	(5.3)
Other comprehensive income for the year, net of tax	**11.2**	**17.3**
Total comprehensive income for the year, net of tax	**57.8**	**102.2**

Group Balance Sheet

	2011 £m	2010 £m
Assets		
Liquid assets	4,842.1	4,531.9
Loans and advances to customers	19,240.0	17,573.7
Hedge accounting adjustment	68.7	40.6
Derivative financial instruments	259.7	73.4
Fixed and other assets	76.1	82.7
Total assets	**24,486.6**	**22,302.3**
Liabilities		
Shares	18,964.1	17,634.3
Borrowings	3,947.0	3,528.0
Hedge accounting adjustment	201.5	21.3
Derivative financial instruments	336.0	139.4
Other liabilities	64.3	63.4
Subordinated liabilities	68.2	68.2
Subscribed capital	161.3	161.3
Total liabilities	**23,742.4**	**21,615.9**
Equity		
Reserves	744.2	686.4
Total liabilities and equity	**24,486.6**	**22,302.3**

Group Cash Flow Statement

	2011 £m	2010 £m
Cash flows from operating activities	(1,011.3)	382.4
Cash flows from investing activities	180.2	1,111.3
Cash flows from financing activities	1,271.5	(284.0)
Net increase in cash	**440.4**	**1,209.7**
Cash and cash equivalents at start of period	1,537.8	328.1
Cash and cash equivalents at end of period	**1,978.2**	**1,537.8**

Key Ratios

	2011 %	2010 %
Asset growth	9.8	21.2
Growth in loans and advances to customers (2010 includes balances of £1.9 billion transferred from Stroud & Swindon)	9.5	24.9
Net interest margin	0.72	0.72
Management expenses to mean assets	0.37	0.37
Core tier 1 capital ratio	22.8	22.0