NEWS RELEASE

1 March 2013

COVENTRY BUILDING SOCIETY ANNOUNCES STRONG RESULTS

Coventry Building Society, the UK's third largest building society, has announced its results for the year ended 31 December 2012.

Strong business performance

- Profit before tax increased by 49% to £88.5 million.
- Mortgage assets increased by £2.8 billion to £22.0 billion.
- New mortgage lending increased by 29% to £5.1 billion.
- Net mortgage lending was £2.3 billion, equivalent to 31% of all net mortgage lending in the UK (source: CML).
- Savings balances increased by £1.1 billion to £20.1 billion.

Strong, stable and efficient

- Maintained strong 'A' credit ratings throughout 'credit crunch' – Fitch (A) and Moody's (A3).
- Core tier 1 ratio of 23.2%, the highest reported by any top 10 building society or mutual lender.
- Cost to mean assets ratio of 0.38%, the lowest level reported by a UK building society.
- Impairment charges just £9.6 million from a loan book totalling in excess of £22.0 billion.

Doing the right things for our members

- Average savings rate[1] paid to members was 2.83%.
- The Society reported the highest average savings rate[1] of any top 10 building society or mutual lender over the five year period 2007-2011.
- From 6 April 2013 the Society will raise its variable easy access cash ISA rate to 2.50% AER[2] - benefiting a quarter of a million ISA customers and meaning that no Coventry saver will earn less than 2.50% AER on any cash ISA.
- From 2013 the Society will not take any fee when referring members to Aviva for investment advice.
- The Society does not use sales incentive schemes or sales targets for any individual member of staff, and has not had any such incentive since 2010.
- During the whole of 2012, the Financial Ombudsman asked for the outcome on a complaint referred to it for review to be changed on just six occasions.
- The Society's market-leading[3] cash ISA was in the national press 'best buy' tables for 41 weeks during 2012, and the Junior ISA has been a 'best buy' account from its launch on 6 April.
- Mortgages offered by the Society were in the national press 'best buy' tables for 48 weeks of the year.

Community focused, with high levels of staff engagement

- Total community investment rose to a new record amount of £2.3 million including £1.9 million donated to The Royal British Legion's Poppy Appeal.
- Awarded 'Gold' status by Investors in People, and is one of the first high street banks or building societies to have reached this standard.

For more information or additional comment please contact:

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David Stewart, Chief Executive, commented on the results:

"I am pleased to report that in 2012, Coventry Building Society once again delivered both a robust financial performance and genuinely member-focused service.

We continued to grow our mortgage assets whilst retaining the quality of lending that protects individual members and the Society alike. We helped homeowners and, most importantly, we have done the right thing for our savers.

We have reported the highest average rate[1] to savers of all large building societies since 2007 and whilst we do not yet have comparative figures for 2012, our average savings rate rose during the year to 2.83%. We increased the average rates we paid on ISAs and, from 6 April, will take what we believe to be a unique step of raising easy access variable ISA rates further to 2.50% AER. Every one of our quarter of a million ISA customers will be paid at least this best buy[4] rate. Whilst no guarantee can be made of long-term rates, as a mutual organisation owned by its savers and borrowers, we believe this is the right thing to do and we are pleased to be able to take a lead in supporting savers in this difficult environment.

This is made possible by not only our financial strength, built on years of consistent and sustainable performance, but also by our focus on our members and balancing the needs of savers and borrowers.

I believe the Society remains well positioned to continue to support members in what will be a challenging economic environment.

Record share of the mortgage market
In 2012 gross mortgage advances increased by 29% to £5.1 billion, representing 3.6% of new mortgages in the UK. This represents a market share that is four times greater than at the onset of the credit crisis in 2007.

This performance resulted in growth of mortgage balances of £2.8 billion or 15%. Once the impact of those assets acquired from the UK businesses of the Bank of Ireland is excluded, this was equivalent to 31% of all net mortgage lending in the UK and means that Coventry has accounted for over 23% of UK net mortgage lending since the start of 2010.

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 54%.

Doing the right thing for savers
Sometimes the objective of a building society is seen primarily to be that of helping people buy homes. But this is just one half of the story. We also exist to provide a secure home for people's savings and in these challenging times there can be no more important objective than to support savers.

In the latter half of 2012, overall market savings rates began to decline, in part as a result of the cheaper source of funds available via the Funding for Lending Scheme. The Society has tried hard to protect new and existing savers, and I am particularly proud of our consistent record in providing value to our savings members. Whether over the five year period 2007-2011, the three year period 2009-2011 or 2011 alone, Coventry reported the highest average savings rate[1] of any top 10 building society or mutual lender.

Although we won't know the equivalent position in 2012 until all societies have reported, the fact that our average saving rate increased in 2012 to 2.83% is noteworthy.

As the year drew to an end, the impact on market savings rates of cheaper funding became increasingly marked. In January we took the unprecedented decision amongst major high street banks and building societies to raise the rate on all existing variable cash ISAs to 2.50% AER – equivalent to the best buy[4] easy access variable ISA rate at the time - from the start of the new tax year.

The strength of our portfolio and our focus on providing attractive reinvestment offers for existing members meant we continued to attract and retain retail savings balances.

This has resulted in increased savings balances of £1.1 billion in 2012, and a new overall record for balances held at the Society of £20.1 billion. In the six years since the onset of the credit crisis, total savings balances held at the Society have increased by £11.9 billion (145%).

Our success in growing retail savings is matched by continuing and cost-effective access to wholesale funding markets. In 2012 we issued our first public residential mortgage backed securitisation, which raised £800 million of stable, term funding at attractive pricing. We also took the opportunity later in the year to return to the euro market, successfully achieving a €500 million unsecured euro issuance. This followed successful issuances of long-term unsecured bonds in 2009 and 2010 (total: £750 million).

Robust financial performance
The strength of this performance, underpinned by the focused execution of a consistent strategy, is shown by our financial results.

A central part of this is the quality of our lending and this is reflected in both arrears and impairment charges that are very much lower than for the industry as a whole. At 31 December 2012, only 0.72% of mortgage balances were 2.5% or more in arrears, and impairment charges totalled just £9.6 million from a loan book of £22.0 billion.

The Society has also maintained its focus on the management of costs and remains comfortably the UK's most cost-efficient building society with a cost to mean assets ratio of 0.38%.

Improved income, low costs and low impairment charges combined to produce a profit before tax of £88.5 million, an increase of 49% on 2011.

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 major high street bank or building society not to have been downgraded by any rating agency over the last three years.

At 23.2%, the Society's core tier 1 ratio remains the highest reported by any top 10 building society or mutual lender.

Treating members fairly
I have already highlighted the challenges, particularly for savers, presented by the current environment and how we have worked hard to deliver fair value and competitive products to our members. This is also

highlighted by the Society's differentiated approach to the Retail Distribution Review, and an uncompromising approach to meeting members' needs.

Competitive savings products
Coventry has a strong track record in providing attractive rates to savers. This is especially important in the cash ISA market where the average ISA rate offered by the Society not only went up in 2012 but was also nearly four times the market average (source: Bank of England). In addition, our 60 Day Notice ISA topped the national press 'best buy' tables for 41 weeks and the Junior ISA has done the same from the day it was launched in April 2012.

It is also worth noting that the average rate of interest received by savers on the Society's fixed rate ISA products is higher than that received on fixed rate non-ISA products.

Balancing the needs of savers and borrowers
We are equally committed to our borrowers and to supporting responsibly the housing market. In addition to the strength of our savings portfolio, our mortgage products were in the national press 'best buy' tables for all but four weeks of the year. This is reflected in the consistent provision of new mortgages at levels significantly above our historic market share throughout the financial crisis.

Paying for advice
As the financial services industry moves to a new model of paying for investment advice there is a risk that some customers could be disenfranchised by the requirement to pay relatively high upfront fees. From 2013, the Society has taken what is possibly the unique position of electing not to receive a either a referral fee or ongoing fee when introducing Aviva's advisory service to members. Nor, in fact, will our staff have any inducement to make a referral.

Our aim is to give our members the best possible opportunity to maximise the returns on their savings and investments and, by minimising both upfront and ongoing charges on these investments, we have tried to ensure that members' money is working as hard as possible for them.

Sales incentives
Consumer organisations have exposed the pressure to sell experienced by some staff in the industry. The Society does not use sales incentives, or in fact sales targets, for any of its staff. What makes the Society different is that this is not a recent development, having moved away from even modest individual bonus schemes as long ago as 2008 and from all such incentives in 2010.

Low complaints
Although the speculative approach of Claims Management Companies with regard to Payment Protection Insurance (PPI) has led to an increase in the number of complaints received, the Society continues to experience relatively few complaints. Those that we do receive we try to put right. This proactive approach had kept us out of the Financial Ombudsman Service (FOS) tables of complaints since they were introduced in 2009. The impact of PPI complaints changed this in the latter half of 2012 with the Society having 31 complaints adjudicated by FOS, of which an altered outcome was requested in 3 cases. The fact that just 6 complaints, from a total of well over 1.5 million members, had an outcome altered by the Ombudsman across the whole of 2012 is testimony to the Society's commitment to 'Putting Members First'.

Outlook
The environment in which we operate remains challenging. Although aspects of the UK and global economy show signs of recovery, these are uncertain and fragile. For our members the actions taken to stimulate recovery are having an increasing impact and I am concerned that savers will continue to bear an unfair share of this particular burden.

As a mutual organisation, we are required to do what we can to address these issues and balance the needs of savers and borrowers. We have done this because our focus on Putting Members First drives us to do the right things, but this is only made possible by our financial strength, built on prudence and efficiency. I continue to believe we have a sustainable business model, and one which will help us to do the best we can for our members."

Notes to editors

- Summary details of the results for the year ended 31 December 2012 are attached.
- Coventry Building Society is the third largest building society in the UK with assets of £27.0 billion.

[1] Average rate estimate based upon interest payable on shares divided by average of opening and closing shares balances, as disclosed in Annual Report & Accounts.
[2] Annual Equivalent Rate.
[3] Compared to high street banks and building societies (Junior ISA: based on a balance of £3,600 or less, 60 Day Notice ISA based on a balance of £1,000 or less) excluding those with restricted availability (e.g. existing customers only or reliant on maintaining or opening another product with the same provider).
[4] Source: Moneyfacts – as at 28 February 2013.

Group Income Statement	2012 £m	2011 £m
Net interest income	186.9	167.5
Other income and charges	12.5	12.8
Net gains from derivative financial instruments	0.1	0.5
Total income	**199.5**	**180.8**
Management expenses	(98.6)	(86.3)
Operating profit before impairments and exceptional items	**100.9**	**94.5**
Impairment losses on loans and advances to customers	(9.6)	(9.9)
Operating profit after impairments and before exceptional items	**91.3**	**84.6**
Provision for FSCS levies	(10.2)	(13.4)
Gain on pension curtailment	9.3	-
Integration and merger related costs	-	(10.7)
Operating profit after impairments and exceptional items	**90.4**	**60.5**
Charitable donation to Poppy Appeal	(1.9)	(1.0)
Profit before tax	**88.5**	**59.5**
Taxation	(21.0)	(12.9)
Profit for the financial year	**67.5**	**46.6**

Group Statement of Comprehensive Income	2012 £m	2011 £m
Profit for the financial year	**67.5**	**46.6**
Other comprehensive income		
Actuarial loss on defined benefit pension plan	(5.0)	(4.3)
Tax on actuarial loss on defined benefit pension plan	1.0	1.1
Fair value movements on Available-for-sale assets	(6.7)	19.6
Tax charge on fair value movements taken to reserves	0.8	(5.2)
Other comprehensive income for the year, net of tax	**(9.9)**	**11.2**
Total comprehensive income for the year, net of tax	**57.6**	**57.8**

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Group Balance Sheet

	2012 £m	2011 £m
Assets		
Liquid assets	4,476.1	4,842.1
Loans and advances to customers	22,018.9	19,240.0
Hedge accounting adjustment	86.8	68.7
Derivative financial instruments	279.6	259.7
Fixed and other assets	72.4	76.1
Total assets	**26,933.8**	**24,486.6**
Liabilities		
Shares	20,110.5	18,964.1
Borrowings	5,050.1	3,947.0
Hedge accounting adjustment	240.4	201.5
Derivative financial instruments	411.2	336.0
Other liabilities	100.3	64.3
Subordinated liabilities	58.1	68.2
Subscribed capital	161.4	161.3
Total liabilities	**26,132.0**	**23,742.4**
Equity		
Reserves	801.8	744.2
Total liabilities and equity	**26,933.8**	**24,486.6**

Group Cash Flow Statement

	2012 £m	2011 £m
Cash flows from operating activities	(1,770.3)	(1,011.3)
Cash flows from investing activities	537.7	180.2
Cash flows from financing activities	1,131.0	1,271.5
Net (decrease)/increase in cash	**(101.6)**	**440.4**
Cash and cash equivalents at start of period	1,978.2	1,537.8
Cash and cash equivalents at end of period	**1,876.6**	**1,978.2**

Key Ratios

	2012 %	2011 %
Asset growth	10.0	9.8
Growth in loans and advances to customers	14.4	9.5
Net interest margin	0.73	0.72
Management expenses to mean assets	0.38	0.37
Core tier 1 capital ratio	23.2	22.8