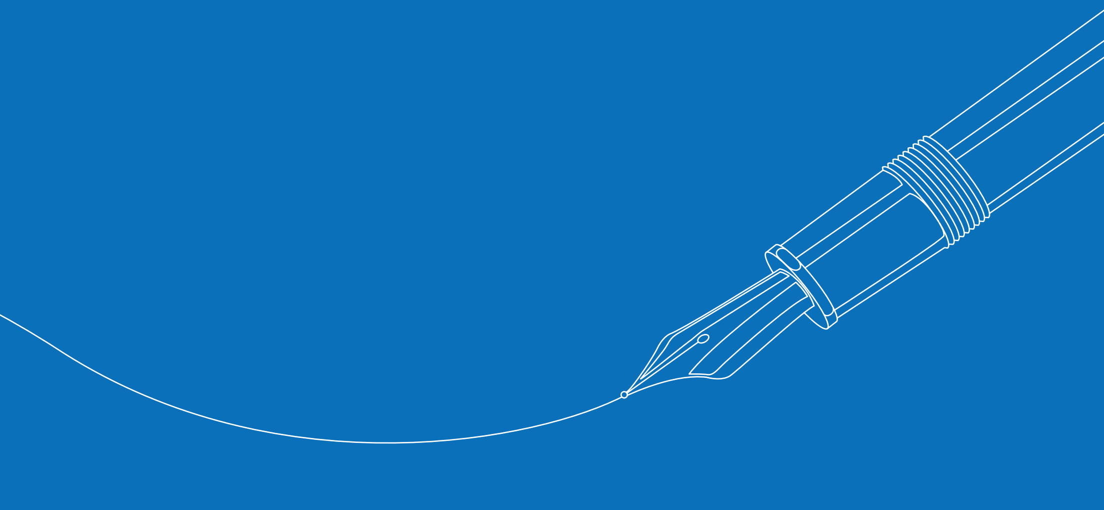
SUMMARY FINANCIAL STATEMENT

2011



the COVENTRY
TLC not PLC

SUMMARY
FINANCIAL STATEMENT 2011

The directors are pleased to present the Summary Financial Statement for the year ended 31 December 2011.

SUMMARY
DIRECTORS' REPORT

The Society continues to prosper in what is a difficult environment for mortgage lenders, reporting excellent results for the year.

PERFORMANCE HIGHLIGHTS INCLUDE:

Excellent financial performance in 2011

- 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, 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).

Sustained outperformance throughout financial downturn

- In the five years since the start of the credit crunch, Coventry Building Society:
  - Has achieved the highest organic growth in mortgage <u>and</u> savings market share of any top ten building society.
  - Is the only top ten building society to have grown assets and shown a profit each year.
  - Is the only top ten UK building society to record organic mortgage and savings growth each year.

'A' rated, class-leading efficiency

- Maintained strong 'A' credit ratings throughout credit crunch - Fitch (A) and Moody's (A3). Coventry was not included in the Moody's statement which downgraded 12 UK banks and building societies in October 2011.
- Core tier 1 ratio at 22.8%, the highest reported by any top ten building society, or top ten mortgage lender.
- Cost to mean assets ratio of only 0.37%, the lowest level reported by a UK building society.
- Retail savings, capital and reserves equivalent to 104% of mortgages.

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 were 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.

Providing value to members

- 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 the 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 receive interest in excess of the Bank of England Base Rate.
  - Lowest standard variable rate of 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 the partnership began in 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.

PERFORMANCE HIGHLIGHTS 2011

Strongly profitable

£84.6m

Profit before FSCS levy and merger related items increased by 12% over 2010.

(Operating profit after impairment and before exceptional items)

Net interest margin

0.72%

Just 0.72%, reflecting the benefit to members of sector leading cost-efficiency.

(Net interest income/Average total assets)

The most cost-efficient society

0.37%

Spending just 37p for every £100 of assets, Coventry is the most cost-efficient building society reported in the UK.

(Administrative expenses/Average total assets)

Very low impairments

0.05%

Amongst the lowest level reported by any major bank or building society.

(Impairment losses on loans and advances to customers/Average loans and advances to customers)

Increased lending

£4.0bn

Gross mortgage lending equivalent to 17% of all mortgage advances by building societies and mutual lenders.

Supporting homeowners

£1.7bn

Net mortgage lending equivalent to 18% of total growth in mortgage balances in the UK.

Record mortgage market share

£19.2bn

Coventry's share of total UK mortgage stock has increased by two thirds since 2006.

Growth in member savings

£1.4bn

Growth in 2011 represents double the Society's natural market share.

Record savings market share

£19.0bn

Record share of total UK savings, increasing balances by over 130% since 2006.

Fully funded loans

104%

All loans funded by savings and reserves.

Capital resources

£974m

Member reserves and other capital resources increased by £58m, providing security to members.

(Equity, subordinated liabilities and subscribed capital)

The highest capital ratio

22.8%

The highest core tier 1 ratio reported by any major high street bank or building society.

PRESCRIBED STATEMENT

The Summary Financial Statement is a summary of information in the audited Annual Report & Accounts, Directors' Report and Annual Business Statement, all of which will be available to members and depositors free of charge on demand at every office of Coventry Building Society from 5 April 2012. The auditors' report in relation to the full financial statements was not qualified in any respect.

Approved by the Board of directors on 29 February 2012.

David Harding	**David Stewart**	**John Lowe**
Chairman	Chief Executive	Finance Director

BUSINESS REVIEW

In 2011 the economic environment was challenged by weakening growth stemming from the ongoing sovereign debt crisis in the UK and abroad. Contrary to previous expectations, the Bank of England maintained Base Rate at 0.50% and resorted to further Quantitative Easing in order to support a recovery. However, the growth rate turned negative in the final quarter of the year, and prospects in 2012 remain uncertain.

Overall lending capacity remained restricted, house prices were static with underlying values affected by a rate of inflation that was significantly above target. Activity levels were similar to those experienced during the worst of the initial credit crisis.

However, the Board is pleased to report that Coventry Building Society once again recorded an outstanding performance, a track record of success that predates the onset of the financial crisis in 2007 and shows the Society to be one of the most resilient lenders and strongest savings institutions in the UK.

Underlying profit before tax increased by 12% to a record £84.6 million, in a year in which the Society's net mortgage lending was equivalent to over 18% of the total mortgage market.

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 lending capacity and a drop in public confidence as economic conditions deteriorated.

The strength of the Society's business model is shown in the consistency of both its strategy and performance, which is in sharp contrast to many competitors. Uniquely amongst larger building societies, the Society has maintained a rate of organic growth which has been consistent for over ten years. The ability to continue this prudent growth rate in a reduced market has resulted in a substantial increase in 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, the Society expects to remain one of the UK's top ten mortgage lenders.

Once again the Society grew overall mortgage balances with net lending in the year of £1.7 billion, equivalent to over 18% of all net lending undertaken in the UK. To put this into context, Coventry accounted for around 1% of total mortgage stock at the end of 2006. As a result of this consistent 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. Rather it reflects the sustainability of the business model and the fact that Coventry has simply been relatively unaffected by the remarkable events of the past few years. In doing so, the Society has been able to make a meaningful contribution to the economy as a whole.

Most importantly, the lending undertaken remains sustainable and prudent. The Society has avoided consistently those high risk sectors that have resulted in significant losses elsewhere. Coventry has not undertaken commercial or second charge lending, and 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, this is certain to be one of the lowest charges reported by any large mortgage lender.

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, 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, and its record in attracting new retail savings balances is second to none. Since the credit crisis began in 2007, Coventry has recorded the largest organic growth in its savings market share of any top ten building society.

In 2011, a new record in savings balances held at the Society of £19.0 billion was reached, an increase in the year of £1.4 billion. This has been achieved despite increasing competition which means that the cost of acquiring and retaining savings remains high in relation to the Bank of England Base Rate.

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 funding 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 during the height of the speculation about the stability of the eurozone.

It should also be noted, whilst considering the strength of the Society's funding position, that success in attracting and retaining retail savings brings costs as well as rewards. The Financial Services Compensation Scheme continues to make demands based on the scale of retail deposits and recent strong growth has brought about a disproportionate increase in this cost. The Board has provided £13.4 million as an estimated contribution to the Scheme to meet the cost of failed organisations.

STRONG AND SECURE

The strength of the Society's position and its 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 of these agencies (Fitch 'A', Moody's 'A3'). During 2011, as adjustments were made to the degree of systemic support assumed to be provided by the state to a number of financial institutions, Moody's upgraded the Society's underlying Bank Financial Strength Rating and at 31 December 2011, amongst all UK high street banks and building societies, just one bank has been allocated a higher rating, according to this measure. As a result, Coventry was excluded in the Moody's rating action in October which resulted in various ratings for 12 banks and building societies being downgraded.

Coventry's credit ratings, when compared with both other building societies and the much larger banking groups, demonstrate the resilience of its business model and, in particular, the strength in execution that has characterised performance over recent years.

The Society's position is reinforced further 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 the high quality of assets and low risk nature of operations. The fact that the Society has remained strongly profitable in each year of the financial crisis demonstrates its continued ability to generate additional capital to support future growth.

Costs continue to be controlled closely and the Board is pleased to report the lowest cost to mean asset ratio of any building society at 0.37%. This careful control of costs has enabled the Society to remain financially strong despite the low margins on which it operates. At 0.72%, the Society's net interest margin remains low in comparison to competitors and reflects the value of the mortgage and savings products provided.

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, it is important to stress that financial strength is not being achieved at their expense. In fact, the Board continues to take decisions that limit profitability in the interests of our members. In particular, the Society aims to provide long-term value across its portfolio for the benefit of savers and borrowers alike.

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 interest rates improve relative to the Bank Base Rate, and the rate paid on 94% of saving balances is in excess of Base Rate. This has helped to protect hundreds of thousands of Coventry savers from the full impact of the unprecedented low interest rates. For example, the average interest rate paid on cash ISAs is over 2%, compared to a market average of 0.61%.

This has been done whilst maintaining the lowest standard variable rate of any of its 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 the business model and the Board's commitment to operate in line with mutual values.

Treating members fairly

As well as financial security and the provision of fair long-term value in savings and mortgages, the Board has 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.

Coventry Building Society has not needed to make any provision as a result of this ruling. It is another example of decisions being taken to ensure that products are fit for purpose and that the advice 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 the Society receives amongst the lowest number of complaints per customer of any large bank or building society and why it has too few cases referred to feature in tables published by the Financial Ombudsman Service.

It is also why the Society continued to win numerous awards, including in 2011 'Best Building Society' (Your Mortgage), 'Best Regional Branch Network' (Your Money) and 'Overall Best Savings Provider' (MoneyNet).

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

Enhancing services

The Society continues to develop the capability to improve services to existing and future members.

During 2011 the programme to integrate fully the former Stroud & Swindon systems with those of Coventry was completed. This work was finished by the end of September 2011, just over 12 months from the date of merger. It was completed on schedule with minimal disruption to members and during a period in which record market share was being achieved. This demonstrates very clearly the operational efficiency of the Society, the flexibility and competence of staff, and the commitment to 'Putting Members First' that drives decision-making at Coventry.

The outcome is an extended and refurbished branch network, which in 2011 was recognised as the 'Best Regional Branch Network' in the UK, 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 we 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 Board'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 consistent success achieved 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 treating members fairly that stands comparison with any major bank or building society.

This record illustrates why the Board is unanimous in its strong view that Coventry should remain an independent, mutual building society, run in the interests of its members.

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

David Harding
Chairman

David Stewart
Chief Executive

SUMMARY

FINANCIAL STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2011

RESULTS FOR THE YEAR	Group 2011 £m	Society 2011 £m	Group 2010 £m	Society 2010 £m
Net interest income	167.5	131.3	146.0	120.7
Other income and charges	14.0	12.9	15.0	14.2
Net gains/(losses) from derivative financial instruments	0.5	0.5	(0.7)	(0.7)
Total income	182.0	144.7	160.3	134.2
Administrative expenses	(87.5)	(84.5)	(75.3)	(72.9)
Operating profit before impairments and exceptional items	94.5	60.2	85.0	61.3
Impairment losses on loans and advances to customers	(9.9)	(6.3)	(11.8)	(8.9)
Release of provision for impairment of debt securities	-	-	2.1	2.1
Operating profit after impairments and before exceptional items	84.6	53.9	75.3	54.5
Provision for FSCS levies	(13.4)	(13.4)	(5.6)	(5.6)
Integration and merger related costs	(10.7)	(10.7)	(11.2)	(11.2)
Operating profit after impairments and exceptional items	60.5	29.8	58.5	37.7
Gain on business combination	-	-	43.8	70.7
Charitable donation to Poppy Appeal	(1.0)	(1.0)	(1.7)	(1.7)
Profit before tax	59.5	28.8	100.6	106.7
Taxation	(12.9)	(5.0)	(15.7)	(10.0)
Profit for the financial year	46.6	23.8	84.9	96.7

STATEMENTS OF COMPREHENSIVE INCOME	Group 2011 £m	Society 2011 £m	Group 2010 £m	Society 2010 £m
Profit for the financial year	46.6	23.8	84.9	96.7
Other comprehensive income				
Actuarial (loss)/gain on defined benefit pension plan	(4.3)	(4.3)	5.0	5.0
Tax on actuarial loss/gain on defined benefit pension plan	1.1	1.1	(1.4)	(1.4)
Fair value movements on Available-for-sale assets	19.6	19.6	19.0	19.0
Tax charge on fair value movements taken to reserves	(5.2)	(5.2)	(5.3)	(5.3)
Other comprehensive income for the year, net of tax	11.2	11.2	17.3	17.3
Total comprehensive income for the year, net of tax	57.8	35.0	102.2	114.0

FINANCIAL POSITION AT END OF YEAR	Group 2011 £m	Society 2011 £m	Group 2010 £m	Society 2010 £m
Assets				
Liquid assets	**4,842.1**	**4,766.2**	4,531.9	4,531.5
Loans and advances to customers	**19,240.0**	**14,023.0**	17,573.7	13,523.7
Hedge accounting adjustment	**68.7**	**68.7**	40.6	40.6
Derivative financial instruments	**259.7**	**169.4**	73.4	73.4
Fixed and other assets	**76.1**	**9,820.8**	82.7	7,283.2
Total assets	**24,486.6**	**28,848.1**	22,302.3	25,452.4
Liabilities				
Shares	**18,964.1**	**18,964.1**	17,634.3	17,634.3
Borrowings	**3,947.0**	**3,947.0**	3,528.0	3,528.0
Hedge accounting adjustment	**201.5**	**148.4**	21.3	21.3
Derivative financial instruments	**336.0**	**299.8**	139.4	139.4
Other liabilities	**64.3**	**4,532.6**	63.4	3,208.2
Subordinated liabilities	**68.2**	**68.2**	68.2	68.2
Subscribed capital	**161.3**	**161.3**	161.3	161.3
Total liabilities	**23,742.4**	**28,121.4**	21,615.9	24,760.7
Equity				
Reserves	**744.2**	**726.7**	686.4	691.7
Total liabilities and equity	**24,486.6**	**28,848.1**	22,302.3	25,452.4

KEY FINANCIAL RATIOS	Group 2011 %	Group 2010 %
Core tier 1 capital ratio	**22.8**	22.0
Liquid assets as a percentage of shares and borrowings	**21.1**	21.4
Gross capital as a percentage of shares and borrowings	**4.25**	4.32
Profit for the year as a percentage of average assets	**0.20**	0.42
Management expenses as a percentage of average assets	**0.37**	0.37

The percentages have been calculated from the Group 'Results for the year' and 'Financial position at end of year'. Gross capital represents total reserves, subordinated liabilities and subscribed capital. Shares and borrowings represent the total of shares, amounts owed to credit institutions, amounts owed to other customers and debt securities in issue. Average assets are the average of the 2011 and 2010 total assets.

Core tier 1 capital ratio

The core tier 1 capital ratio measures the Group's core tier 1 capital, which comprises the general reserves adjusted for the defined benefit pension scheme surplus, intangible assets and 50% of the excess of expected losses on loans and advances to customers, calculated on an Internal Ratings Based (IRB) approach, over accounting provisions, as a percentage of its risk-weighted assets. The Group calculates its capital requirement under Basel II using the IRB approach for prime residential and Buy-to-let mortgage exposures (excluding mortgages transferred from the Stroud & Swindon merger), and the standardised approach in calculating the capital requirements for other risk areas.

Liquid assets as a percentage of shares and borrowings

The liquid assets ratio measures the Group's assets held in the form of cash, short-term deposits and debt securities as a percentage of the Group's liabilities to investors. Most of the Group's assets are long-term mortgages, while many of its liabilities to investors are repayable on demand. Liquid assets are required to ensure that the Group can effectively manage this situation. They are generally readily realisable, enabling the Group to meet requests by investors for withdrawals from their accounts, to make new mortgage loans to borrowers and to fund its general business activities.

Gross capital as a percentage of shares and borrowings

The gross capital ratio measures the Group's capital as a percentage of liabilities to investors. The Group's capital consists of profits accumulated since its establishment in the form of reserves together with subordinated liabilities and subscribed capital which cannot be repaid in priority to ordinary investors. Capital provides a financial cushion against unforeseen eventualities that might arise in the Group's business and ensures that investors are properly protected.

Profit for the year as a percentage of average assets

The profit to average assets ratio measures the Group's profit after taxation for the year as a percentage of the average of the Group's 2011 and 2010 total assets. The Group needs to make an appropriate level of profit each year in order to maintain its capital ratios at an appropriate level to protect investors and to satisfy regulatory requirements.

Management expenses as a percentage of average assets

The management expenses ratio measures the Group's administrative expenses (which includes amortisation and depreciation), as a percentage of the average of the Group's total assets during the year. Administrative expenses consist mainly of the costs of employing staff, running systems and other office expenses. They need to be controlled so that the Group operates as efficiently as possible, whilst providing the service that members require.

STATEMENT OF THE AUDITORS TO THE MEMBERS AND DEPOSITORS OF COVENTRY BUILDING SOCIETY

Pursuant to Section 76 of the Building Societies Act 1986, we have examined the Summary Financial Statement of Coventry Building Society for the year ended 31 December 2011 which comprises the 'Results for the year', 'Statement of comprehensive income', 'Financial position at end of year' and 'Key financial ratios', comprising pages 10 to 11, and the directors' emoluments disclosures on page 18.

This statement is made solely to the Society's members and depositors of Coventry Building Society, as a body, in accordance with Section 76 of the Building Societies Act 1986. Our audit work has been undertaken so that we might state to the Society's members and depositors those matters we are required to state to them in an auditor's statement and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Society and the Society's members and depositors as a body, for our audit work, for this statement, or for the opinions we have formed.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The directors are responsible for preparing the Summary Financial Statement in accordance with applicable United Kingdom law.

Our responsibility is to report to you our opinion on the consistency of the summary financial statement within the Summary Financial Statement with the full annual financial statements, the Directors' Remuneration Report and the Directors' Report, and its compliance with the relevant requirements of Section 76 of the Building Societies Act 1986 and the regulations made thereunder.

We also read the Directors' Report contained in the Summary Financial Statement and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the summary financial statement.

BASIS OF OPINION

We conducted our work in accordance with Bulletin 2008/3 issued by the Auditing Practices Board. Our report on the Coventry Building Society's full annual financial statements describes the basis of our opinion on those financial statements, the Directors' Remuneration Report, and the Directors' Report.

OPINION

In our opinion the summary financial statement is consistent with the full annual financial statements, the Directors' Report and the Directors' Remuneration Report of Coventry Building Society for the year ended 31 December 2011 and complies with the applicable requirements of Section 76 of the Building Societies Act 1986, and the regulations made thereunder.

Ernst & Young LLP
Registered Auditors
London

29 February 2012

SUMMARY

DIRECTORS' REMUNERATION REPORT

A full copy of the report is contained in the Annual Report & Accounts. It describes the Society's policy for the remuneration of executive and non-executive directors, who are equally responsible in law for directing the Society's affairs.

Responsibility for the approval and periodic review of the Society's remuneration policy rests with the Board Remuneration Committee. The Committee has ensured that the Society is compliant with the FSA's Remuneration Code, and additional disclosure requirements of the Capital Requirements Directive (CRD3).

SOCIETY REMUNERATION POLICY - PRINCIPLES

The Society's remuneration policy is based on the following key principles:

- the remuneration of directors and other Code Staff (staff who have a material impact on the Society's risk profile), including staff in control functions, is in line with the FSA's Remuneration Code;
- total rewards, subject to satisfactory performance, should be competitive and positioned around the market median for the comparator group;
- incentive plans, performance measures and targets are stretching and aligned with members' interests;
- policy is designed to recruit and retain quality staff at all levels and to ensure that remuneration packages reflect their responsibilities, performance and experience;
- remuneration promotes sound and effective risk management and does not encourage excessive risk taking;
- remuneration strategy is in line with the business strategy, objectives, values and long-term interests of the Society;
- remuneration strategy does not result in conflicts of interests;
- remuneration is consistent with the overall financial stability of the Society and does not present material risk to this stability;
- bonus payments will be limited or withdrawn where individual or business performance does not merit payment of a bonus;
- where staff do not perform to the required standard, underperformance will not be rewarded;
- remuneration of staff in control functions does not affect their independence in any way;
- the performance of all staff is reviewed each year against agreed individual and business objectives. The outcome of this review is taken into account when considering pay decisions; and
- no executive director, senior manager or member of staff is involved in the setting of his or her own remuneration.

REMUNERATION COMMITTEE

The Remuneration Committee consists exclusively of non-executive directors and is chaired by Bridget Blow, Deputy Chairman and Senior Independent Director.

In fulfilling its responsibility the Remuneration Committee has taken full account of industry best practice as advised by the Financial Services Authority and reviewed the remuneration policies of the Society's peer group and other businesses of a similar size and complexity.

Independent consultants have been commissioned to review the Society's remuneration for senior managers, and for executive and non-executive directors, including the Chairman; Towers Watson provides general salary benchmarking data to the Society, and KPMG LLP has provided advice on matters relating to the remuneration of executive directors and other senior management. In 2011 the Remuneration Committee met four times.

POLICY FOR EXECUTIVE DIRECTORS

Executive directors are employed by the Society and are required to devote substantially the whole of their time to its affairs. The policy of the Board is to recruit and retain high calibre executive directors and to ensure that their remuneration reflects their responsibilities, experience and performance.

The UK Corporate Governance Code (Code) states that "a significant proportion of executive directors' remuneration should be structured so as to link rewards to corporate and individual performance". It continues that performance related elements should be "stretching and designed to promote the long-term success of the company". This means that some bonus arrangements are necessary if the Society is to meet the requirements of the Code.

The Remuneration Committee accepts best practice recommendations and believes that carefully controlled performance related bonuses, which enable a flexible approach to remuneration, are in the best interests of the Society and its members. It enables payments to be aligned accurately to results and ensures that the Society's costs are reduced if for any reason financial performance deteriorates.

The Committee believes that a combination of short and long-term plans supports this objective. However it is essential that these payments are not excessive, and added together they are currently limited to a maximum of 60% of fixed pay. In addition, as described further below, all payments are signed off by the Remuneration Committee who will take account of a number of factors to ensure that remuneration is consistent with and promotes effective risk management and fair treatment of members.

Whilst the Committee accepts that best practice requires that a significant proportion of remuneration should be paid by way of variable, performance related pay, it is alert to the risk of excessive bonus payments and therefore it continues to set the potential for bonuses at levels below those typically available at similar institutions.

The results of the Society's annual benchmarking exercise, together with the Society's remuneration policy, were reviewed by KPMG who confirmed that the potential for variable pay for the executive directors (comprising the annual performance related bonus and the Long Term Incentive Plan) is below market median, as is the level of total remuneration.

The principal elements of the Society's remuneration packages are as follows:

a) Base salary

Base salary levels for all staff are reviewed annually, taking into account comparative data from other building societies, and the performance of the individual and the Society as a whole. The latest review of competitor remuneration found that base salaries for the executive directors remain below median levels relative to other societies of a comparable size.

b) Annual performance related bonus

All eligible staff participate in a discretionary annual performance related bonus scheme. Eligibility is dependent upon satisfactory individual performance. It applies to all staff on the same terms, including executive directors and senior management, but not non-executive directors.

The Remuneration Committee takes account of the financial and non-financial performance of the Society before an annual performance related bonus is calculated. There is no guarantee that a payment will result.

The Society has performed strongly in 2011, exceeding each of its key performance targets. Details of this performance are set out in this Summary Financial Statement, and more comprehensively in the 2011 Annual Report & Accounts which can be obtained on the Society's website or by contacting the Society's call centre or in branches from 5 April 2012.

The overall performance of the Society during 2011 gave rise to a calculated bonus for all 1,749 eligible members of staff, equivalent to 13% of base salary. The bonus percentage payable to each of the executive directors is the same as that payable to all other eligible staff.

c) Long Term Incentive Plan

The Remuneration Committee established the Long Term Incentive Plan (LTIP) to ensure a strong link between the remuneration package of executive directors and senior managers and the interests of members through an assessment of the long-term performance of the Society.

The subsequent provision of the FSA's Remuneration Code confirmed the requirement for part of the variable remuneration to be deferred for certain staff. The Long Term Incentive Plan fulfils this requirement.

In 2011, an LTIP grant was made, whereby the participants are eligible to receive a performance related payment based on the financial performance of the Society over a rolling three year period from 2011-2013. These are accrued in the accounts over the vesting period.

The plan is designed to make payments in the year following the end of the three year period provided that consistent and strong performance is achieved against the three year plan. An on-target performance would provide a 10% of salary payment for executive directors and a 5% of salary payment for other senior management, with a current maximum of 40% (executive directors) or 20% (senior management) for substantial over-performance over the period. This is below the 50% of salary maximum currently permitted under the Society's Rules. There are currently three executive directors and four senior managers that have been awarded grants under one or more of the Society's LTIP schemes.

The Scheme requires that a certain level of profitability is achieved whilst maintaining the competitiveness of the Society's savings and mortgage products as measured by the interest rates offered. The Remuneration Committee reviews all payments and may amend any payment if it considers it appropriate in light of either the Society's overall performance or economic conditions. In making its assessment the Remuneration Committee may take into account any one or more of the following factors:

- market share;
- customer and member satisfaction;
- health and safety record;
- risk management factors;
- overall financial performance of the Society relative to the performance of other building societies and in light of the market conditions prevailing during the performance period;
- individual performance; and
- any other factors the Remuneration Committee feels are relevant.

All payments under the LTIP are subject to approval by the Remuneration Committee and are not pensionable.

The Society has substantially exceeded each of the targets set in its plans for the period 2009–2011 and, indeed, since the onset of the financial crisis in 2007.

Further information in respect of this performance can be found in this Summary Financial Statement or, in greater detail, in the 2011 Annual Report & Accounts which can be obtained on the Society's website or by contacting the Society's call centre or in branches from 5 April 2012.

The Remuneration Committee considers the Society's performance during a period of continued economic uncertainty which has resulted in significant challenges for all financial institutions, compares favourably with that of all major banks and building societies.

Taking into account the overall performance, the Remuneration Committee approved a payment for each participant equivalent to 15% of base salary at 1 January 2009, for the LTIP 2009-2011.

d) Pension arrangements
Coventry Building Society closed its final salary pension scheme to all new entrants, including senior managers, in December 2001, replacing it with a defined contribution pension scheme.

No special arrangements have been put in place for the executive directors or senior management since this change was implemented and consequently the Finance Director, who joined subsequent to 2002, is an active member of the Society's funded defined contribution pension scheme.

The Sales and Marketing Director, whose long service at the Society pre-dates 2002 by a number of years, continues to be a member of the Society's contributory final salary pension scheme.

David Stewart left the final salary scheme immediately before being appointed Chief Executive in July 2006, and joined the defined contribution scheme.

Full details of executive directors' pension benefits can be found in note 11 to the Accounts.

e) Other benefits
Each executive director is provided with a fully expensed car or a cash alternative, and personal membership of a private medical insurance scheme.

NON-EXECUTIVE DIRECTORS

Non-executive directors are independent of the Society's management and are not required to devote the whole of their time to its affairs.

A committee consisting of the Chairman, Chief Executive, Finance Director and Head of Human Resources has been established to set and review the elements that comprise the remuneration of non-executive directors.

No director takes part in the discussion of his or her own remuneration. Fees of non-executive directors are reviewed annually in light of their responsibilities and comparative information from other building societies, and financial institutions. Consistent with the Society's approach to the remuneration of executive directors, the Society has reviewed fees paid by similar institutions and found that those paid at Coventry are typically below those made elsewhere.

Non-executive directors do not participate in any performance related pay or bonus scheme, pension arrangements or other benefits.

DIRECTORS' SERVICE CONTRACTS

In 2006 the Society entered into a service contract with David Stewart, and is terminable by David Stewart on six months' notice and by the Society on one year's notice.

In 2009 the Society appointed Colin Franklin (Sales and Marketing Director) to the Board. A service contract was entered into, which is terminable by Colin Franklin on six months' notice and by the Society on one year's notice.

In 2010 the Society appointed John Lowe (Finance Director) to the Board. A service contract was entered into, which is terminable by John Lowe on six months' notice and by the Society on one year's notice.

DIRECTORS' EMOLUMENTS

The following information concerning directors' emoluments has been extracted from the Annual Report & Accounts.

	Salary £000	Annual bonus[1] £000	Long Term Incentive Plan[2] £000	Pension contri-butions[4] £000	Increase in accrued pension[4] £000	Taxable benefits £000	2011 Total £000	2010 Total £000
Executive directors:								
David Stewart	335	44[3]	44[3]	58	2	42	**525**	487
John Lowe (appointed 14.10.2010)	215	29	-	19	-	11	**274**	64
Colin Franklin	140	18	20	33	3	14	**228**	228
Rob Green (resigned 14.10.2010)	-	-	-	-	-	-	**-**	242
Phil Vaughan (resigned 28.04.2011)	93	-	-	8	-	7	**108**	275
Total	**783**	**91**	**64**	**118**	**5**	**74**	**1,135**	1,296

1. The performance of the Society during 2011 gave rise to a payment for all 1,749 eligible members of Coventry staff (2010:1,501), including executive directors, equivalent to 13% (2010:11%) of basic salary.
2. Payments made under the Long Term Incentive Plan are in relation to the performance of the three financial years 2009, 2010 and 2011. The Remuneration Committee approved a payment of 15% (2010:15%) of base salary at 1 January 2009 (2010:1 January 2008) to participants in the scheme at that date, reflecting the Group's performance over this period.
3. David Stewart elected to waive £38,000 of his payments in order to help support students from disadvantaged backgrounds to study at Warwick University. Total remuneration accepted was £487,000, unchanged from 2010.
4. David Stewart and John Lowe are active members of the Group's funded defined contribution pension scheme. David Stewart is also a deferred member of the Group's contributory final salary pension scheme, having left the final salary scheme immediately before being appointed Chief Executive in July 2006.

		2011 £000	2010 £000
Non-executive directors:			
David Harding	(Chairman)	**78**	77
Bridget Blow	(Deputy Chairman, Senior Independent Director and Chair of the Remuneration Committee)	**50**	50
Roger Burnell		**40**	39
Ian Geden		**40**	39
Ian Pickering	(Chair of the Board Risk Committee)	**50**	50
Fiona Smith		**40**	39
Glyn Smith	(appointed 22.09.2010) (Chair of the Audit Committee appointed 01.12.2011)	**41**	11
Total		**339**	305

No pension contributions were made for non-executive directors.

On behalf of the Board
Bridget Blow
Chairman of the Remuneration Committee

FIVE YEAR HIGHLIGHTS
1 JANUARY 2007 TO 31 DECEMBER 2011

Strongly profitable

£309.7m

Profitability remained strong throughout the period, adding significantly to the capital and reserves of the Society.

(Profit before tax for the years ended 2007 to 2011)

Increased mortgage lending

£17.5bn

Continued lending as competitors cut back, increasing the Society's share of the new mortgage lending market from 0.85% to 2.81%. This resulted in the Society becoming a top ten lender for the first time in 2008, a position it has retained in each subsequent year.

Growth in mortgage balances

£9.2bn

The Society's share of UK net lending increased from 0.8% in 2006 to over 18% in both 2010 and 2011. This resulted in the largest reported organic increase in market share of a top ten building society.

Growth in member savings

£10.8bn

Coventry grew organically its share of the total savings market at a faster rate than any other large building society, with savings balances rising to a record £19.0 billion.

Growth in assets

£12.2bn

Coventry is the only top ten building society to grow its assets and report a profit in each of the last five years.

Very low impairments

0.08%

These continue to be amongst the lowest level reported by any major bank or building society.

(Five year average of impairment losses on loans and advances to customers/Five year average loans and advances to customers)

The most cost-efficient society

0.53% to 0.37%

Coventry was the most cost-efficient major building society in each of the last five years, lowering the cost to mean asset ratio from 0.53% to 0.37%. This means we spend 37p for every £100 of assets - the best ever performance reported by any UK building society.

(Administrative expenses/Average total assets)

Strengthened capital

£974m

The Society added £240m to its capital reserves during the period. At 22.8%, Coventry has the highest reported core tier 1 ratio of any major high street bank or building society highlighting financial strength and high quality assets.

(Equity, subordinated liabilities and subscribed capital)

Highly rated

'A' rated

Coventry Building Society is 'A' rated by Moody's (A3) and Fitch (A) and has remained so throughout the period. Its underlying Bank Financial Strength Rating is second only to one high street UK bank and no UK building society is higher rated using this measure.

Committed to communities

£6.5m plus

Over £6.5m has been donated to community and charitable activities, including £5.6m to The Royal British Legion's Poppy Appeal.

Investing in people

Gold

The Society has been assessed by Investors in People at Gold status. Coventry is one of the first retail financial services organisations to have received this recognition.

FOS complaints table

0

Coventry has not appeared in any of the tables of complaints published to date by the Financial Ombudsman Service (FOS), because too few complaints have been referred. It is the largest UK mortgage lender never to have appeared.

This document is available in large print, audio and Braille.

For further details, call into your local branch, visit us at

thecoventry.co.uk

or call our Customer Service Centre on

0845 7665522

Coventry Building Society is authorised and regulated by the Financial Services Authority (FSA reference number 150892).

Coventry Building Society is a full member of the Financial Services Compensation Scheme (FSCS). Your savings are covered by the Scheme up to the current maximum of £85,000 per individual. Further details are available on request from the Society or the FSCS.

Lines open Monday to Friday 8am-8pm, Saturday 9am-5pm, Sunday 10am-4pm. Contact your service provider for details of call charges, as costs may vary. To maintain a quality service, calls made to and from the Society may be monitored and recorded. Information correct at time of going to print (March 2012).

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Registered Office: Economic House, PO Box 9, High Street, Coventry CV1 5QN.

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