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COVENTRY BUILDING SOCIETY CONTINUES TO SUPPORT SAVERS DURING A YEAR OF STRONG FINANCIAL PERFORMANCE

Coventry Building Society has today announced its results for the year ended 31 December 2013. Highlights include:

Robust financial performance

- Underlying profit[1] increased by 62% to £144.7 million.
- Profit before tax was £132.1 million (2012: £91.1 million).
- Cost to mean asset ratio was 0.39%, the lowest reported by a UK building society.
- Impairment charges just £6.3 million from a loan book of £24.1 billion, reflecting the Society's low risk lending both before and during the credit crisis.
- Core Tier 1 ratio of 24.3% remains the highest reported by any top 10 building society.
- Maintained strong 'A' credit ratings throughout the credit crunch – Fitch (A) and Moody's (A3).

Growth in mortgage and savings balances

- New mortgage lending increased by 16% to £5.9 billion.
- Mortgage assets increased by £2.1 billion to £24.1 billion.
- Net mortgage lending equivalent to 19% of all net mortgage lending in the UK[2].
- Savings balances up by £1.2 billion to £21.3 billion.

Doing the right thing for members and the community

- Average savings rate paid to members over 2013 was 2.40%[3].
- The Society reported the highest average savings rate of any top 10 building society or mutual lender over the six year period 2007-2012[3].
- As at 31 December 2013:
    - Average rate paid to ISA savers was 2.67%[4].
    - 95% of savings balances earned a rate of at least 1.50%[5], three times Base Rate.
    - 85% of all variable rate savings balances earned equal to or more than the equivalent best buy rate available from any major UK bank or building society[6].
    - No Coventry ISA saver earned less than 2.00% and 98% earned equal to or more than 2.50%.
- The Society's Online Saver accounts were in the best buy tables for 51 weeks in 2013, Coventry cash ISAs have appeared in best buy tables for 100 consecutive weeks and the Junior ISA has been a best buy account since its launch on 6 April 2012[7].
- The Society does not use sales incentive schemes or sales targets for any individual member of staff.
- Total community investment rose to £2.3 million, including £1.6 million donated to The Royal British Legion's Poppy Appeal and £200,000 to Cancer Research UK from the Society's market leading charitable savings accounts.

For more information or additional comment please contact:

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David Stewart, Chief Executive, commented on the results:

'Our results for 2013 demonstrate that Coventry Building Society remains in good shape, continuing the track record of strong financial performance and genuinely member-focused service established before the onset of the current financial crisis.

The last twelve months have seen a number of notable market developments, some of which have helped the performance of mortgage lenders generally. The improved availability of mortgage finance to borrowers is a welcome development, though banks and building societies must remain mindful of the need to lend responsibly.

Less welcome has been the impact of these unprecedented conditions on savers. As well as helping homeowners, Coventry Building Society is equally focused on doing the right thing for its saving members.

The Society's performance in delivering the best possible outcome for savers is clear - we have reported the highest average interest rate of any top 10 building society or mutual lender over the six year period 2007-2012[3]. Following our decision on 6 April 2013 to increase the rate on our existing easy access, variable rate ISA accounts to 2.50%, no Coventry ISA saver now earns less than 2.00% and the average rate we pay on ISAs is 2.67%[4]. Of the Society's ISA balances, 98% earned equal to or more than 2.50% at 31 December 2013.

This positive approach extends to our non ISA savers. At 31 December 2013, 95% of Coventry savings balances earned a rate of at least three times the Bank of England Base Rate[5]. Indeed, 85% of all variable rate savings balances earned equal to or more than the equivalent best buy rate available from any major UK bank or building society[6].

This is made possible, through not only our financial strength built on years of consistent and sustainable performance but because, as a traditional mutual building society, we are clear in our responsibilities to both our borrowing and saving members.

Record mortgage lending
Gross mortgage advances increased by £800 million to £5.9 billion, a new record for the Society, and a total which represents around a four-fold increase on the Society's market share at the end of 2006[2], the last full year before the onset of the financial crisis. Mortgage balances increased by £2.1 billion or 10%. Coventry accounts for 20% of mortgage growth in the UK over the four years since the end of 2009[2].

Doing the right thing for savers
Although encouraged by news of economic growth, we are acutely aware this remains a very difficult time for savers. The problems faced by the many people who rely on interest from relatively modest savings to supplement their income during retirement is particularly acute.

In this difficult environment for savers, we have sought to pay all Coventry members very competitive rates.

Our unique approach to ISAs has not only seen an increase in the rate paid to existing easy access, variable rate cash ISA members during 2013, but a Coventry cash ISA has been in the best buy tables for 100 consecutive weeks. Our Junior ISA has been a best buy account since it was launched in April 2012[7].

We also work hard to ensure that our accounts are not only competitive but also fair and transparent. The rate we pay on each member's account is shown online, and updated for changes to balance, and none of our savings products are restricted to new members, offering existing members the same opportunities to save.

This continuing commitment to savers helped savings balances to grow by a further £1.2 billion to £21.3 billion.

Financial strength enhanced by record profits

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). At 24.3%, the Society's Core Tier 1 ratio remains the highest reported by any top 10 building society.

This position is the product of our consistent financial performance, underpinned by the focused execution of a prudent strategy that has proved its resilience in the most difficult of environments.

Our approach to lending is simple; we have always taken great care to lend responsibly so that our borrowers will be able to afford their mortgage even in more adverse economic conditions.

The result is an impairment charge that remains very much lower than those reported by other major lenders. At 31 December 2013, only 0.57% of mortgage balances were 2.5% or more in arrears, and impairment charges during the year totalled just £6.3 million from a loan book of over £24.1 billion.

Cost efficiency is key to our strategy, and Coventry remains comfortably the UK's most cost-effective building society with a cost to mean asset ratio of 0.39%.

Notwithstanding the deliberate decisions taken to protect savers and the low risk nature of our assets, the cost to income ratio benchmarks vary favourably with our competitors at 41%.

Improved income, low costs and low impairment charges combined to produce an increase in underlying profit before tax[1] of 62% to £144.7 million. Profit before tax grew by £41.0 million to £132.1 million.

Committed to fair treatment

The importance of treating customers fairly continues to be emphasised in the media as well as by regulators and by other policy makers. Unfortunately, 2013 saw fresh reports which indicate that the industry has yet to meet the standards that consumers deserve.

I sincerely hope that the industry's reputation will improve as new ways of thinking and working are put in place.

Most of all, those of us who work in financial services must continue to challenge the way we do things and how we treat consumers. There is no room for complacency.

However, I do believe that at Coventry we have long put our customers at the heart of our business, taking account of their interests when taking decisions. It was this philosophy that led us to largely move away from even modest individual sales incentive schemes more than five years ago. Today, no Coventry member of staff has sales targets, let alone sales incentives.

www.thecoventry.co.uk
Coventry Building Society. Registered Office: Economic House, PO Box 9, High Street, Coventry CV1 5QN.

This focus on doing the right things is supported by continued investment in our services and in listening to our members.

Our Coventry based call centre has won awards at the European Call Centre & Customer Service Awards twice in the last four years, including Best Banking & Financial contact centre. Given this accolade, it is perhaps understandable that independently undertaken surveys placed it as the highest scoring financial services centre for customer satisfaction in two out of the last three years.

Customer advocacy scores (the degree to which a customer will recommend you to friends and family) amongst our branch network customers are exceptionally strong. Throughout 2013, the score was 86%. 99% of more than 20,000 customers surveyed reported that they were satisfied with their visit to the branch.

This commitment to improving service is shown by the low number of complaints received by the Society and, equally, by our track record in resolving these in favour of our members. In the five years, since the Financial Ombudsman Service (FOS) first started publishing details of complaints it receives in 2009, just 39 complaints referred to and reviewed by FOS were changed in favour of the complainant.

Committed staff supporting the communities in which we work
At its core, getting our service right depends on employing knowledgeable and motivated members of staff.

The Society works hard to recruit and retain individuals who understand and are keen to put into practice the values of the organisation. It is particularly encouraging that, in the annual employee opinion survey, staff expressed a clear understanding of the Society's aims and values and were extremely supportive of them. At 86%, our Employee Engagement index was significantly higher than the benchmark group of other financial services organisations.

This extends not only to the Society's work on behalf of members, but also on behalf of the wider community.

I am pleased to report that we continue to increase the support we give local and national charities, both through our organisational expertise and the enthusiasm and skill of members of staff. Through a combination of fundraising, volunteering and affinity activities the total community investment supported by the Society in 2013 was £2.3 million.

A key part of this activity has taken place at a local level with many successful community partnerships now established between branches, head office teams and community groups. Further support continues to be provided through Coventry Building Society Charitable Foundation. In 2014, I expect total donations to the Foundation to reach £1 million since its inception in 1998, whilst donations to the Poppy Appeal since 2008 are set to top £10 million.

Summary
I noted at the outset that 2013 was another year of strong performance.

Coventry Building Society exists to serve the interests of its members. I believe the decisions we have taken have matched this commitment. In delivering competitive interest rates to savers and borrowers, and meeting their service expectations, Coventry has also remained financially secure and grown stronger through a global credit crisis.

This has not been without challenge. Over the period of the financial crisis, the environment in which we operate has become more complex and, in some ways, more hostile. Notwithstanding recent improvements in economic data, it is clear to me that significant challenges remain.

However, at a time when many elements of the financial services sector continue to fall short of public expectation, our success shows that focusing on the needs of members and remaining a strong and profitable organisation are not mutually exclusive.

I hope that the recent economic recovery is sustained. There can be no room for complacency. But should it stall, I believe that the Society remains well placed to maintain its position as a trustworthy, successful and growing organisation, holding firm to its values of prudence and fairness.

Notes to editors

- Summary details of the results for the year ended 31 December 2013 are attached.
- Coventry Building Society is the third largest building society in the UK with assets of £28.3 billion.

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[1] Underlying profit before tax, equates to statutory profit before tax adjusted for a charge of £15.4 million (2012: £7.6 million) in respect of the Financial Services Compensation Scheme (FSCS) and a £2.8 million gain (2012: £0.1 million gain) on net gains from derivative financial instruments.
[2] Source: Bank of England.
[3] Average rate estimate based upon interest payable on shares divided by average of opening and closing shares balances, as disclosed in latest published Annual Report & Accounts.
[4] Weighted average interest rate by balances held in cash ISAs at 31 December 2013.
[5] As at 31 December 2013. Excludes Coventry Current/MoneyManager and Offset accounts.
[6] As at 31 December 2013. Average deposit assumed as follows: Variable - £10,000 and ISAs £5,760. Excludes competitor products with restricted availability (e.g. existing customers only, Sharia accounts or reliant on maintaining or opening another product with the same provider) and Coventry Current/MoneyManager and Offset accounts. Source: Moneyfacts data.
[7] Best buy tables published in the National Press.

Group Income Statement	2013 £m	2012* £m
Net interest income	253.1	186.9
Other income and charges	9.3	12.5
Net gains from derivative financial instruments	2.8	0.1
Total income	**265.2**	**199.5**
Management expenses	(108.9)	(98.6)
Impairment losses on loans and advances to customers	(6.3)	(9.6)
Provisions for liabilities and charges	(0.9)	-
Provision for FSCS levies	(15.4)	(7.6)
Charitable donation to Poppy Appeal	(1.6)	(1.9)
Operating profit before exceptional item	**132.1**	**81.8**
Gain on pension curtailment	-	9.3
Profit before tax	**132.1**	**91.1**
Taxation	(30.8)	(21.6)
Profit for the financial year	**101.3**	**69.5**

Group Statement of Comprehensive Income	2013 £m	2012* £m
Profit for the financial year	**101.3**	**69.5**
Other comprehensive income		
Remeasurement of defined benefit pension plan:		
Remeasurement of defined benefit pension plan	(10.8)	(5.0)
Taxation	2.0	1.0
Available-for-sale investments:		
Net movement on Available–for-sale investments	(3.2)	(6.7)
Taxation	0.7	0.8
Cash flow hedges		
Net movement on Cash flow hedges	(9.5)	-
Taxation	2.0	-
Other comprehensive income for the year, net of tax	(18.8)	(9.9)
Total comprehensive income for the year, net of tax	**82.5**	**59.6**

Reconciliation of underlying profit	2013 £m	2012* £m
Statutory profit before tax	132.1	91.1
Net gains from derivative financial instruments	(2.8)	(0.1)
Provision for FSCS levies	15.4	7.6
Gain on pension curtailment	-	(9.3)
Underlying profit	**144.7**	**89.3**

* Restated following the implementation of International Financial Reporting Interpretations Committee (IFRIC) 21 *Levies*

Group Balance Sheet	2013 £m	2012* £m
Assets		
Liquid assets	3,887.4	4,476.1
Loans and advances to customers	24,117.1	22,018.9
Hedge accounting adjustment	(8.4)	86.8
Derivative financial instruments	191.2	279.6
Fixed and other assets	66.0	72.4
Total assets	**28,253.3**	**26,933.8**
Liabilities		
Shares	21,311.7	20,110.5
Borrowings	5,438.5	5,050.1
Hedge accounting adjustment	89.5	240.4
Derivative financial instruments	213.6	411.2
Other liabilities	85.3	89.6
Subordinated liabilities	58.2	58.1
Subscribed capital	161.5	161.4
Total liabilities	**27,358.3**	**26,121.3**
Equity		
Reserves	895.0	812.5
Total liabilities and equity	**28,253.3**	**26,933.8**

Group Cash Flow Statement	2013 £m	2012* £m
Cash flows from operating activities	(609.2)	(1,770.3)
Cash flows from investing activities	524.4	537.7
Cash flows from financing activities	279.8	1,131.0
Net increase/(decrease) in cash	195.0	(101.6)
Cash and cash equivalents at start of period	1,876.6	1,978.2
Cash and cash equivalents at end of period	**2,071.6**	**1,876.6**

Key Ratios	2013 %	2012* %
Asset growth	4.9	10.0
Growth in loans and advances to customers	9.5	14.4
Net interest margin	0.92	0.73
Management expenses to mean assets	0.39	0.38
Core tier 1 capital ratio	24.3	23.6

* Restated following the implementation of International Financial Reporting Interpretations Committee (IFRIC) 21 *Levies*