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the COVENTRY
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COVENTRY'S RECORD-BREAKING PERFORMANCE SHOWS THAT BUILDING SOCIETIES CAN CONTINUE TO THRIVE

Coventry, the UK's third largest building society, has today announced its financial results for the year ended 31 December 2009. Highlights include**:**

Strong financials

- Record operating profit before impairments and exceptional items of £75.0 million (2008 - £71.7 million).
- Profit before tax of £56.2 million (2008 - £26.4 million).
- Profit after tax of £43.5 million (2008 - £18.8 million).

Record market share

- Gross mortgage lending of over £2.7 billion, representing 15% of all new lending by building societies (source – BSA).
- Net mortgage lending of £919 million, equivalent to 8% of all net lending undertaken across the market as a whole (source - CML).
- Continued lending made possible by strong funding position.
- Retail savings balances grew by £833 million in 2009 and have increased by £5 billion (61%) in last three years.
- Completed oversubscribed £350 million 10 year unsecured loan note issuance to wholesale investors in October 2009.
- Over 270,000 new accounts opened during the year.

Strong, stable and efficient

- Cost to mean assets ratio of only 0.38%, the lowest level reported by a UK building society.
- Mortgage balances 2.5% or more in arrears around one third of industry average (source – FSA).
- Loan loss provisions amongst the lowest of any large UK lender.
- All growth is organic and lending is concentrated in low risk, residential sectors. The Society has never purchased a mortgage book or undertaken second charge or commercial lending.
- Core tier 1 ratio of 27.9%, the highest reported by any large building society.
- Retained strong credit ratings throughout 'credit crunch' - Fitch (A) and Moody's (A3).
- 100% of mortgages funded by retail savings, capital and reserves.

Focus on mutual values

- Over 95% of variable rate retail savings balances have seen an increase in interest rate relative to the Bank of England base rate since 2008, delivering annualised interest benefits to members of £70 million.
- Coventry had too few complaints to feature in either of the Financial Ombudsman Service referral tables published in September 2009 and February 2010.
- £3.4 million donated to the Poppy Appeal since October 2008 as part of extended programme of community and charitable activities.

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 Coventry has performed extremely strongly in what has undoubtedly been a very difficult environment.

Our performance is based upon the consistent application of a simple and traditional building society model. We have been successful in attracting and retaining savings balances and have maintained our track record of growth with responsible lending. These results confirm Coventry Building Society to be one of the most resilient mortgage lenders in the UK and show that building societies are alive and well in 2010.

Record share of mortgage market

The Society's strength is its ability to execute this simple business model without recourse to new or increased levels of risk. This has meant that we have avoided the pitfalls that have limited lending at some of our competitors.

As a result, I can report that we have increased our market share further over the record levels achieved in 2008. New mortgage lending exceeded £2.7 billion, 15% of that undertaken by building societies. Mortgage balances grew by £919 million, equivalent to 8% of the total net mortgage lending undertaken in the UK.

This growth has come in sectors that are both low risk and at attractive margins and will help support future financial performance. The average loan to value (LTV) ratio on new advances made in 2009 was 51%.

Strong funding position

The strength of our funding position, both retail and wholesale, has been critical in enabling us to continue lending. Savings balances increased by a further £833 million building on from the outstanding performance reported in 2007 and 2008. As a result, all of our loan book is funded by retail savings, reserves and capital.

The Society continues to be an attractive home for institutional investors. Despite the restrictions in the wholesale markets, we continue to attract significant deposits from institutional investors and local authorities. This was highlighted in October 2009 when we were able to complete a £350 million 10 year unsecured loan note issuance, in a deal that was heavily oversubscribed. This deal was executed without the need for a Government guarantee under the Credit Guarantee Scheme. Coventry is one of two building societies to have secured such long term funding since the onset of the financial crisis in 2007.

Continuing low arrears

Coventry remains a prudent lender. We have elected to retain full control of the mortgage origination and underwriting process and have never purchased a loan book from a third party. In addition to robust underwriting, we do not undertake commercial or second charge lending whilst loans to credit impaired borrowers, all of which is in 'light' or 'near prime' categories, total only £67 million, representing less than 0.5% of our assets.

The benefits of this consistently conservative approach can be seen in an arrears performance that is much better than that reported by most larger mortgage lenders.

At 31 December 2009, only 0.80% of mortgage balances were 2.5% or more in arrears, very substantially lower than industry norms. At the time of the latest available data (30 September 2009), Coventry's arrears were only 33% of the average of all lenders.

The high quality of our assets is reflected in the very modest charges required for loan impairment. As in 2008, these are certain to be amongst the lowest loan impairment losses reported by any larger UK lender.

Cost efficiency

Coventry remains the UK's most cost efficient building society, as evidenced by a management expenses ratio of 0.38% of average assets (2008 - 0.40%).

Capital

It is unsurprising given the events of the last two years, that increased attention is being paid to the capital position of mortgage lenders.

FSA granted Coventry permission to use the Basel II Internal Ratings Based approach to credit risk and capital management from 1 January 2008. This permission reflects our detailed understanding of our loan book and the control of our credit risk profile.

At 27.9%, Coventry's core tier 1 ratio is the highest reported by any large building society, illustrating clearly the high quality of our assets and the low risk nature of our operations.

Solid credit ratings

Our consistent trading performance, high quality loan book and robust capital position is reflected by the independent assessment of credit rating agencies. Throughout the 'credit crunch', Coventry has been allocated 'A' grade ratings by both Fitch (A) and Moody's (A3).

Protecting Members

Many building society members rely on interest from savings accounts to supplement their income. Like all building societies, the dramatic reduction in the Bank of England base rate has put pressure on the margins we can earn. Moreover, very low interest rates have undoubtedly made it difficult for many of our older savers in particular.

We have tried hard to mitigate the impact of base rate reductions for as many of our members as possible, consistent with maintaining the financial strength and security of Coventry Building Society. Over the most recent cycle of base rate cuts that began in October 2008, no variable rate savings account has been reduced by more than the cut in base rate. The action we have taken since 2008 on our variable rate savings accounts has meant that over 95% of our balances have seen an increase in their rate relative to base rate. The annualised benefit of this action is an additional £70 million of interest paid to our members based upon the balances held at 1 January 2009.

This action illustrates our continued commitment to restricting profit to the levels required to maintain our financial strength. The fact that we have been able to report strong profits and compete for new business whilst taking these decisions underlines the resilience of our business model.

Improving service

It is satisfying to report that the Society won many awards in 2009. It is perhaps unsurprising that our mortgage and savings performance continues to be recognised frequently in light of the elevated market share we have secured over the last two to three years.

However, I was especially pleased that the Society also won a number of accolades for its service. The Customer Contact Association (CCA) assesses customer service across many industries and in 2009 named the Society's telephone team 'Best Call Centre in Europe' for medium and large businesses. In doing so, the CCA also named one of our telephone agents both 'Advisor of the Year' and 'Overall Professional of the Year'. This was the first time the overall award had ever been given to an advisor, as opposed to team leader, manager or director.

Our back office operations were also recognised. The Customer Service Centre won the 'Contact Centre Innovation Award for Back Office Operations' from the Professional Planning Forum reflecting work we have undertaken on flexibility, planning and efficiency.

Of course, we do get things wrong from time to time and receive justified complaints as a result. However, in keeping with our building society values, we aim to resolve these complaints quickly, professionally and fairly. This brings me to one further example of independent review that is worthy of note as it explains a great deal about the Society and the approach we take to customer service.

In September 2009, the Financial Ombudsman Service (FOS) published details of the complaints that it receives. Approximately 130 financial organisations that had more than 30 complaints referred to FOS during the six months to 30 June 2009 were included. This exercise was repeated on 25 February 2010 for the six months to 31 December 2009 when 155 organisations were listed.

I am pleased to report Coventry did not feature in either of the tables because we did not have sufficient complaints.

Supporting the community

The mutual tradition also encourages strong links with local communities and Coventry has continued to expand its activities in this area.

Overall the number of staff involved in volunteering and fund-raising has increased significantly and the beneficial effects are clear for the Society as well as the groups we are supporting.

I am particularly proud of the work that is supported by the Coventry Building Society Charitable Foundation. The Foundation makes grants to small local community and charitable groups. Over £650,000 has been donated in the 11 years since the Foundation was established.

We also support a corporate charity. Between April 2008 and April 2009, our staff raised £77,000 for Macmillan Cancer Relief. We have made a strong start in support of this year's partner, Help the Aged/Age Concern, and I hope to report a similarly pleasing result next year.

I should also mention the ongoing partnership with The Royal British Legion. We have extended our popular 'Poppy' product range by adding Poppy Save and by following the initial Poppy Bond launched in 2008 with a two year version. As a result, we donated £1.6 million to the Poppy Appeal in relation to accounts held in 2008, and in February 2010 we were able to present a further cheque for £1.8 million. This brings the total support provided to the Poppy Appeal since we launched the first Poppy Bond in October 2008 to £3.4 million. I am grateful to all our members and staff who have helped make this possible.

The building society sector

The value of the mutual sector can be seen in its work in local communities and in its contribution to a diverse financial sector, offering consumers choice. It is evident that the current low interest rate environment has a significant impact on organisations that have historically funded lending prudently, using retail savings. However, whilst the events of the past few years have put considerable pressure on a number of financial institutions, including building societies, it has been banks owned by external shareholders that have required massive taxpayer support.

Coventry continues to perform particularly well, and our consistent performance throughout the credit crisis shows our strength. I was pleased to see that a number of other societies have recently also been able to describe their resilience when reporting results for 2009. I continue to believe that mutual lenders will play an important role in the future financial marketplace.

Outlook

There can be little doubt that market conditions will remain challenging throughout 2010. The impact of very low interest rates and the ongoing seizure of financial markets means that downward pressure on margins is likely to persist. The impact of further regulatory changes, including those affecting capital and liquidity, will also bear down on profitability. Nor do we discount the possibility that the recent revival in the housing market and wider economy could reverse sharply.

Nevertheless, in many ways the prevailing market conditions help our competitive position. We continue to earn an adequate return from our assets, we are well funded, we are cost efficient and we are not exposed to the scale of impairment losses faced by some of our competitors. And although there has undoubtedly been a significant increase in the cost of acquiring and retaining retail funding, this is adequately reflected in the market price for new prime mortgage lending.

From the start of the credit crunch, it was the board's belief that the Society had the right business model for these difficult conditions. Subsequent events have shown this to be the case and I continue to believe that Coventry Building Society remains well placed to report further progress in 2010 and beyond."

ends

Notes to editors

- Full details of the results for the year ended 31 December 2009 are attached.
- Coventry Building Society is the third largest building society in the UK with assets of £18.4 billion.
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	2009 £m	2008 £m
Group Income Statement		
Net interest income	125.0	116.2
Other income and charges	17.0	18.4
Net gains from derivatives	1.3	1.8
Total income	**143.3**	**136.4**
Management expenses	(68.3)	(64.7)
Operating profit before impairments and exceptional items	**75.0**	**71.7**
Provisions	(17.0)	(8.4)
Operating profit before exceptional items	**58.0**	**63.3**
Provision for FSCS levies	(2.0)	(11.4)
Release/(charge) of provision for impairment of debt securities	1.5	(23.9)
Profit after impairments and exceptional items	**57.5**	**28.0**
Charitable donation to Poppy Appeal	(1.3)	(1.6)
Profit for the year before tax	**56.2**	**26.4**
Taxation	(12.7)	(7.6)
Profit for the financial year	**43.5**	**18.8**

Group Statement of Other Comprehensive Income	2009 £m	2008 £m
Profit for the financial year	**43.5**	**18.8**
Actuarial loss on defined benefit pension plan	(3.3)	(4.3)
Tax on actuarial loss on defined benefit pension plan	0.9	1.2
Fair value movements on available-for-sale assets taken to reserves	(11.1)	(27.8)
Tax on fair value movements taken to reserves	3.1	7.9
Other comprehensive income for the year	**(10.4)**	**(23.0)**
Total comprehensive income for the year	**33.1**	**(4.2)**

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Group Balance Sheet

	2009 £m	2008 £m
Assets		
Liquid assets	4,165.4	3,873.2
Derivative financial instruments	29.3	160.6
Loans and advances to customers	14,074.7	13,172.8
Hedge accounting adjustment	76.1	96.4
Tangible and intangible fixed assets	35.4	34.7
Other assets	21.1	26.7
Total assets	**18,402.0**	**17,364.4**
Liabilities		
Shares	13,218.8	12,386.1
Borrowings	4,214.3	4,052.5
Derivative financial instruments	108.9	93.9
Other liabilities	43.9	49.0
Subordinated liabilities	70.7	70.7
Subscribed capital	161.2	161.1
Total liabilities	**17,817.8**	**16,813.3**
Equity		
Reserves	584.2	551.1
Total liabilities and equity	**18,402.0**	**17,364.4**

Group Cash Flow Statement

	2009 £m	2008 £m
Cash flows from operating activities	24.7	1,038.2
Cash flows from investing activities	(403.7)	(956.1)
Cash flows from financing activities	346.6	-
Net (decrease)/increase in cash	**(32.4)**	**82.1**
Cash and cash equivalents at start of year	360.5	278.4
Cash and cash equivalents at end of year	**328.1**	**360.5**

Key Ratios

	2009 %	2008 %
Asset growth	6.0	16.5
Growth in loans and advances to customers	6.9	11.7
Core tier 1 capital ratio	27.9	26.8
Net interest margin	0.70	0.72
Management expenses to mean assets	0.38	0.40
Profit before tax to mean assets	0.31	0.16