

18 August 2010

COVENTRY BUILDING SOCIETY ANNOUNCES RECORD RESULTS

Coventry, the UK's third largest building society, has today announced its results for the six months ended 30 June 2010. Highlights include:

Strong financials

- Underlying profit before tax increased by 40% to £46.5 million.¹
- Profit before tax increased by 20% to £43.5 million.
- A further £971,000 to be donated to the Poppy Appeal, bringing total donations since October 2008 to significantly above £3.5 million.

Record market share

- Net mortgage lending of £751 million, equivalent to 31% of all net mortgage lending in the UK. (source: Bank of England).
- Gross mortgage advances of £1.6 billion, representing 18% of all mortgage advances by building societies and mutual banks. (source: BSA).
- Retail savings balances grew by £1.7 billion (13%) during the first half of 2010.
- Net retail receipts equivalent to 8% of net retail receipts of all UK banks and building societies. (source: BSA).

Consistent outperformance throughout credit crunch

- In three years since 30 June 2007:
 - Total assets grew by £6.5 billion (50%).
 - Mortgage balances increased by £4.2 billion (39%).
 - Savings balances rose £6.4 billion (76%), funding comfortably the substantial growth in mortgages.

Strong, stable and efficient

- Cost to mean assets ratio of only 0.37% (2009 first half year: 0.39%), the lowest level reported by a UK building society.
- Cost to income ratio reduced to 40.5% (2009 first half year: 45.4%).
- On the basis of latest available data, mortgage balances 2.5% or more in arrears remain less than 40% of industry average (source: FSA).
- Retail savings, capital and reserves equivalent to 106% of mortgages.
- Core tier 1 ratio of 26.9%, the highest reported by any building society.
- Maintained strong 'A' credit ratings throughout 'credit crunch' - Fitch (A) and Moody's (A3).
- Merger with Stroud & Swindon will complete on 1 September 2010. Integration plans are on track.

¹ Underlying profit is defined as operating profit before exceptional items.

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 the Society continues to perform well. Underlying profit before tax increased by 40% to £46.5 million, during a period in which the Society’s net mortgage lending was equivalent to 31% of the market as a whole. These excellent results maintain our record of strong performance since the onset of the credit crisis in 2007.

Excellent financial performance

We have been able to do this because Coventry’s simple business model was equipped to cope with the events of the past three years.

In particular, we have remained very much open for business, lending at modest loan to value ratios and to low risk borrowers. The increase in margins available for new mortgages means that our ability to continue to lend has helped support profitability.

This can be seen in the Society’s robust and consistent financial performance. In the first half of 2010, net interest income increased by a further £16 million (25%) to £79.6 million, reflecting the benefits of our recent growth.

We continue to pay close attention to costs. Coventry remains the UK’s most efficient building society as evidenced by a management expenses ratio of 0.37% of average assets (2009 first half year: 0.39%). The cost to income ratio for the first half of 2010 reduced to just 40.5%.

We retain a high quality mortgage book, with mortgage arrears significantly below those for the industry as a whole. At 30 June 2010, just 0.79% of mortgage balances were 2.5% or more in arrears. This represents a slight fall from the position at the end of 2009. Impairment charges are certain to remain amongst the lowest levels reported by any of the larger UK lenders.

Improved income, low costs and low impairment provisions combined to produce an increase in profit before tax of 20% to £43.5 million.

Record share of the mortgage market

The Society’s strength is its ability to execute this simple business model without recourse to new or increased levels of risk.

Throughout the financial crisis, our appetite for new mortgage lending has remained relatively unchanged, with mortgage assets increasing by 6% during the first half year, a rate of growth broadly in line with the long-term performance established over the past 10 years. However, this lending is being undertaken during a period in which a number of institutions have been forced to withdraw capacity from the market. As a result the Society’s share of the total mortgage market increased further over the record levels achieved in both 2009 and 2008. Mortgage balances grew by £751m, equivalent to 31% of all new lending undertaken in the UK.

Gross advances totalled £1.6 billion, representing 18% of new lending undertaken by building societies and mutual banks. The average loan to value ratio on advances made in 2010 was 54%.

Exceptional growth in savings

The Society's mortgage growth was funded by an even larger rise in savings balances. Although the cost of acquiring and retaining savings has increased significantly in relation to base rate, limited competition for mortgages means this cost is now reflected adequately in the margins available on new lending.

During 2010, acquisition of new savings has accelerated further over the outstanding performance reported in each of the last three financial years. Saving balances increased by £1.7 billion, more than double the growth in mortgages, and bringing the increase since 30 June 2007 to £6.4 billion, or 76%.

Capital

It is unsurprising given the events of the last three years, that increased attention is being paid to the capital position of mortgage lenders. At 26.9% Coventry's core tier 1 ratio is the highest reported by any large building society, illustrating clearly the high quality of assets and the low risk nature of our operations.

Looking ahead, the primary source of capital for building societies will be retained earnings. These results confirm the Society's ability to generate the capital required to support further significant growth.

Protecting members

Our commitment is to restrict profits to the levels required to maintain financial strength, and we continue to take decisions that limit profitability in the interests of members.

Many building society members rely on interest from savings accounts to supplement their income. The reduction in the Bank of England base rate to 0.5% has undoubtedly put pressure on many of our older savers in particular.

We have tried hard to mitigate the impact of base rate reductions for as many 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. In fact, over 95% of the balances held in variable rate savings accounts on 1 November 2008 have seen interest rates improve relative to base rate. We estimate that the benefit provided to members from these improvements relative to base rate is already in excess of £100 million.

We have done this whilst maintaining the lowest standard variable rate of any of our peer group of larger building societies¹. The Society's ability to report strong profits and compete for new business whilst providing long term value for existing members underlines the resilience of our business model.

Stroud & Swindon

These figures exclude the forthcoming increase in mortgage and savings balances that will occur on 1 September 2010, following completion of the merger with Stroud & Swindon.

Our work in preparation for this date has progressed well.

¹ Peer group of larger building societies defined as building societies with reported assets of between £5 billion and £40 billion.

Outlook

Although Coventry is performing well, we are not complacent. Certainly the environment in which we operate is volatile and will remain so.

The impact of forthcoming regulatory changes, including those affecting capital and liquidity, will no doubt bring new challenges, whilst we must remain alert to the possibility of a significant deterioration in the housing market and the wider economy. Nevertheless, prevailing market conditions continue to help our competitive position. The Society's performance is strong and we retain the flexibility to adjust margins should the operating environment deteriorate.

From the very start of the credit crunch, it was my belief that Coventry had the right business model for these difficult times. Subsequent events have shown this to be the case and I remain confident of further progress in 2010 and beyond."

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Notes to editors

- Summary details of the results for the half year ended 30 June 2010 are attached.
- Copies of the consolidated interim financial report for the half year ended 30 June 2010 can be found at www.coventrybuildingsociety.co.uk/aboutus/financial.aspx
- Coventry Building Society is the third largest building society in the UK with assets of £19.4 billion.

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Group Income Statement	Half Year Ended 30.06.10 £m	Half Year Ended 30.06.09 £m	Year Ended 31.12.09 £m
Net interest income	79.6	63.6	125.0
Other income and charges	7.3	8.7	17.0
Net (losses)/gains from derivatives	(0.9)	1.2	1.3
Total income	86.0	73.5	143.3
Management expenses	(34.8)	(33.4)	(68.3)
Operating profit before impairments and exceptional items	51.2	40.1	75.0
Impairment losses on loans and advances to customers	(6.8)	(7.9)	(19.9)
Release of provision for impairment of debt securities	2.1	1.0	1.5
Release of provisions	-	-	2.9
Operating profit before exceptional items	46.5	33.2	59.5
Stroud & Swindon merger related costs	(2.0)	-	-
Release/(charge) of provision for FSCS levies	-	3.0	(2.0)
Profit after impairments and exceptional items	44.5	36.2	57.5
Charitable donation to Poppy Appeal	(1.0)	-	(1.3)
Profit for the period before tax	43.5	36.2	56.2
Taxation	(12.6)	(5.1)	(12.7)
Profit for the financial period	30.9	31.1	43.5

Group Statement of Other Comprehensive Income	Half Year Ended 30.06.10 £m	Half Year Ended 30.06.09 £m	Year Ended 31.12.09 £m
Profit for the financial period	30.9	31.1	43.5
Actuarial loss on defined benefit pension plan	-	-	(3.3)
Tax on actuarial loss on defined benefit pension plan	-	-	0.9
Fair value movements taken to reserves	9.6	(44.2)	(11.1)
Tax on fair value movements taken to reserves	(2.6)	12.4	3.1
Other comprehensive income for the period, net of tax	7.0	(31.8)	(10.4)
Total comprehensive income for the period, net of tax	37.9	(0.7)	33.1

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Group Balance Sheet	As at 30.06.10 £m	As at 30.06.09 £m	As at 31.12.09 £m
Assets			
Liquid assets	4,389.7	3,852.0	4,165.4
Derivative financial instruments	68.8	65.2	29.3
Loans and advances to customers	14,837.5	13,500.0	14,074.7
Hedge accounting adjustment	83.3	68.6	76.1
Tangible and intangible fixed assets	34.8	33.7	35.4
Other assets	15.7	31.5	21.1
Total assets	19,429.8	17,551.0	18,402.0
Liabilities			
Shares	14,904.1	12,539.9	13,218.8
Borrowings	3,532.3	4,082.2	4,214.3
Derivative financial instruments	133.3	106.2	108.9
Other liabilities	46.1	40.2	43.9
Subordinated liabilities	30.7	71.0	70.7
Subscribed capital	161.2	161.1	161.2
Total liabilities	18,807.7	17,000.6	17,817.8
Equity			
Reserves	622.1	550.4	584.2
Total liabilities and equity	19,429.8	17,551.0	18,402.0

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Group Cash Flow Statement	Half Year Ended 30.06.10 £m	Half Year Ended 30.06.09 £m	Year Ended 31.12.09 £m
Cash flows from operating activities	363.1	(1.1)	24.7
Cash flows from investing activities	385.2	(108.7)	(403.7)
Cash flows from financing activities	(40.0)	-	346.6
Net increase/(decrease) in cash	708.3	(109.8)	(32.4)
Cash and cash equivalents at start of period	328.1	360.5	360.5
Cash and cash equivalents at end of period	1,036.4	250.7	328.1

Key Ratios	Half Year Ended 30.06.10 %	Half Year Ended 30.06.09 %	Year Ended 31.12.09 %
Asset growth	5.59	1.07	5.98
Growth in loans and advances to customers	5.42	2.48	6.85
Net interest margin	0.85	0.73	0.70
Management expenses to mean assets	0.37	0.39	0.38
Profit before tax to mean assets	0.46	0.42	0.31
Core tier 1 capital ratio	26.9	27.4	27.9