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COVENTRY BUILDING SOCIETY ANNOUNCES RECORD RESULTS

Coventry, the UK's third largest building society, reports that in the first half of 2011 it has achieved record profits with net mortgage lending equivalent to 25% of the UK market.

Strong financials

- Underlying profit before tax increased by 10% to £51.1 million[1] (2010: £46.5 million).
- Profit before tax of £45.0 million (2010: £43.5 million).

Record market share

- Net mortgage lending of £846 million, equivalent to 25% of all net mortgage lending in the UK (source: CML).
- Gross mortgage advances exceeded £1.9 billion, representing 3% of mortgage lending in the UK and around 19% of all lending undertaken by mutual lenders (sources: CML and BSA).
- Retail savings balances increased to a record £17.7 billion.
- Inaugural public covered bond issuance of £750 million completed in April.

Consistent outperformance throughout credit crunch

- In the four years since 30 June 2007:
  - Total assets grew by £9.7 billion (75.1%) (excluding Stroud & Swindon, £7.2 billion, 55.3%).
  - Mortgage balances increased by £7.8 billion (73.2%) (excluding Stroud & Swindon, £5.9 billion, 55.4%).
  - Savings balances rose £9.2 billion (108.5%), funding comfortably the substantial growth in mortgages (excluding Stroud & Swindon, £7.0 billion, 82.0%).

Strong, stable and efficient

- Cost to assets ratio just 0.37%[2], the lowest level reported by a UK building society.
- Mortgage balances 2.5% or more in arrears less than 44% of industry average on the basis of latest available data (source: FSA).
- No provisions were required to be raised as a result of the court ruling in respect of the sale of Payment Protection Insurance.
- Negligible exposure (£8.5 million) to Irish banks and no exposure to Portugal, Italy, Greece and Spain.
- Core tier 1 ratio increased to 24.1% (December 2010: 22.0%), the highest reported by any UK building society.
- Maintained strong 'A' credit ratings throughout 'credit crunch' – Fitch (A) and Moody's (A3) – with ratings recently affirmed.

1 Underlying profit is defined as operating profit after impairments and before exceptional items.

2 Cost to assets ratio has been calculated on the basis of the average of the 2011 and 2010 total assets.

For more information or additional comment please contact:

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

David Stewart, Chief Executive, commented on the results:

"Coventry Building Society continues to perform extremely strongly. Underlying profit before tax increased by 10% to £51.1 million, during a period in which the Society's net mortgage lending was equivalent to 25% of the market as a whole. Retail balances also increased to a new record level and the Society's strong funding position was supported by a successful debut in the covered bond market, raising £750 million from institutional investors. These excellent results demonstrate Coventry's consistent strength in what remains an uncertain environment.

Excellent financial performance

The Society's competitive advantage rests in its ability to execute a simple, member-focused business model without taking on higher levels of risk.

Most importantly, we have been able to maintain a consistent level of 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 2011, net interest income increased by a further £10.0 million (12.6%) to £89.6 million, reflecting the benefits of our recent growth.

We retain a high quality mortgage book, with mortgage arrears significantly below those for the industry as a whole. At 30 June 2011, only 0.79% of mortgage balances were 2.5% or more in arrears. Impairment charges totalled just £4 million from a loan book of £18.4 billion.

The Society is equally committed to reducing risk in its own investments. In recent months the emerging sovereign debt crisis in the Eurozone has highlighted concerns of contagion across UK financial services. The Society took steps as long ago as 2008 to reduce its exposure to certain economies and as a result just £8.5 million of deposits are placed with Irish institutions. We have no exposure to Portuguese, Italian, Greek or Spanish banks, the other countries most often associated with these issues.

Improved income, low costs and low impairment provisions combined to produce an increase in underlying profit to £51.1 million.

Record share of the mortgage market

Throughout the financial crisis, we have maintained a consistent appetite for new mortgage lending, with mortgage assets increasing by another 4.9% during the first half year, a rate of growth broadly in line with the long-term performance established over the past 10 years.

As a result of the reduction in the overall capacity of the market the Society's share of all mortgage lending has increased significantly in the last 4 years. Mortgage balances grew by £846 million, equivalent to 25.5% of all net lending undertaken in the UK.

Gross advances totalled £1,913 million, representing 3% of all mortgage advances in the UK and around 19% of all lending undertaken by building societies and mutual banks. The average loan to value (LTV) ratio on advances made to date in 2011 is 53.6% and the average LTV ratio for our book as a whole, after accounting for changes in house prices, is below 50%.

Mortgage growth underpinned by strong funding capability
Coventry's performance in the retail savings market since the onset of the credit crisis is unrivalled. Excluding the impact of mergers, savings balances have increased by £7.0 billion since 30 June 2007, funding comfortably our organic mortgage growth of £5.9 billion. We remain confident of our ability to grow our savings balances further, notwithstanding competitive market conditions.

The strength of the Society's retail funding position is reinforced by continued and cost-effective access to wholesale funding markets, made possible by our strong credit ratings. April 2011 saw our first public covered bond issue when we raised £750 million at pricing that was more advantageous for our members than that achieved in similar deals at the same time. This follows oversubscribed issuances of long term unsecured bonds in both 2010 and 2009.

Protecting members

Capital
The Society's purpose is to protect the interests of its members. This takes many forms but at its most basic, and of particular importance during periods of economic turmoil, is providing financial security and stability.

At 24.1%, Coventry's core tier 1 ratio increased again and is easily the highest reported of any large UK building society.

The need to generate and safeguard capital is one of the most important lessons of the credit crisis. It remains pre-eminent during a period of extreme market volatility which includes potential changes to financial regulation and continued debate about the respective value of different types of capital instruments. Above all, Coventry is committed to protecting the interests of its members and it is this prudence that has enhanced the Society's financial strength and underscores a conservative approach to mergers and acquisitions.

The Society continues to stand out in the sector as one of the most highly rated building societies in the UK. Coventry is 'A' rated by the two credit rating agencies that rate the sector generally, Fitch (A) and Moody's (A3), and has been so throughout the credit crisis. On this subject, we were pleased to receive confirmation on 3 August that Moody's upgraded the Society's underlying Bank Financial Strength Rating, which is now one of the highest ratings allocated to any UK bank or building society. As a result of this update, Coventry's long term debt/deposits rating of A3 is affirmed as stable and the Society will no longer be part of Moody's forthcoming review that considers the impact of reduced systemic support on 14 UK banks and building societies.

Treating members fairly
Whilst reassuring to members, our financial strength is not being achieved at their expense. We continue to take decisions that limit profitability in members' interests and to make sure that the products we offer are appropriate for their needs.

During the first half of 2011, the court case concerning Payment Protection Insurance (PPI) 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.

I am pleased to report that Coventry Building Society has not been required to raise any provision as a result of this ruling. It is another example of the Society taking long term decisions in the interest of its members to ensure that products are fit for purpose and that the sales process is focused on the needs of the individual member. For example, the Society never sold single premium PPI policies, a product structure that gave rise to significant claims elsewhere.

This member-focused approach extends to all aspects of the Society's activities. It is why we have yet to appear in any of the Financial Ombudsman Services tables of referred complaints and why we believe we have the lowest number of complaints per member of any large bank or building society.

Enhancing services
The Society continues to develop the capability to improve services to existing and future members. A particular focus during 2011 has been to invest in systems and people to improve further the service provided by our award winning call centre. This work is on schedule for completion before the end of the year, following which, we hope to deliver a service that is truly best in class.

During the first half of 2011 a great deal of work has been undertaken to integrate the former Stroud & Swindon systems with those of Coventry. This work will enable the combined membership to use all the Society's products and services including a fully integrated network of 92 branches and agencies across the Midlands and south-west of England. In addition it will extend the provision of online banking, current account and card functionality to the former Stroud & Swindon members.

This work is proceeding well and is ahead of schedule.

Northern Rock
The board will continue to examine additional opportunities that may benefit members, and recently Coventry's financial strength allowed us to consider if we should bid for Northern Rock. However, after careful consideration, the board concluded that to do so would not be in the interest of our members at this time.

Outlook
It remains difficult to predict what will happen to the UK economy in the forthcoming months. Earlier this year interest rate rises were being confidently predicted by many with potentially more than one increase expected before the end of 2011.

The sovereign debt crisis in Europe and an uncertain recovery from recession has altered these predictions considerably.

We anticipate that interest rates will remain subdued by historical standards for some time despite continued inflationary pressure. The financial markets are likely to remain restricted and lending volumes will be constrained as a result. The housing market will continue to be depressed with volumes and prices kept low for the foreseeable future.

However, as I said at the end of 2010, this is not a new situation. The economic environment, whilst continuing to bring new challenges, has been difficult for an extended period of time. During this time the Society has achieved record results, has continued to lend, has increased savings balances significantly and remained strongly profitable.

Our experience over the last four years gives me confidence that we have the right business model to succeed and that the current environment continues to present opportunities for the Society to grow. I look forward to reporting further progress as we move towards 2012."

Forward Looking Statements

Certain statements in this announcement are forward looking. The Society believes that the expectations reflected in these forward looking statements are reasonable based on the information available at the time of this announcement. However, we can give no assurance that these expectations will prove to be an accurate reflection of actual results. Because these statements involve risks and uncertainties, actual results may differ materially from those expressed or implied by these forward looking statements. We undertake no obligation to update any forward looking statements whether as a result of new information, future events or otherwise.

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Notes to editors

- Summary details of the results for the half year ended 30 June 2011 are attached.
- Copies of the consolidated interim financial report for the half year ended 30 June 2011 can be found at **www.thecoventry.co.uk/financials**
- Coventry Building Society is the third largest building society in the UK with assets of £22.6 billion.

Group Income Statement

	Half Year Ended 30.06.11 £m	Half Year Ended 30.06.10 £m	Year Ended 31.12.10 £m
Net interest income	89.6	79.6	146.0
Other income and charges	7.0	7.3	15.0
Net losses from derivatives	(0.4)	(0.9)	(0.7)
Total income	**96.2**	**86.0**	**160.3**
Management expenses	(41.1)	(34.8)	(75.3)
Operating profit before impairments and exceptional items	**55.1**	**51.2**	**85.0**
Impairment losses on loans and advances to customers	(4.0)	(6.8)	(11.8)
Release of provision for impairment of debt securities	-	2.1	2.1
Operating profit after impairments and before exceptional items	**51.1**	**46.5**	**75.3**
Charge of provision for FSCS levies	(0.7)	-	(5.6)
Stroud & Swindon integration and merger related costs	(5.0)	(2.0)	(11.2)
Operating profit after impairments and exceptional items	**45.4**	**44.5**	**58.5**
Gain on business combination	-	-	43.8
Charitable donation to Poppy Appeal	(0.4)	(1.0)	(1.7)
Profit for the period before tax	**45.0**	**43.5**	**100.6**
Taxation	(11.3)	(12.6)	(15.7)
Profit for the financial period	**33.7**	**30.9**	**84.9**

Group Statement of Other Comprehensive Income

	Half Year Ended 30.06.11 £m	Half Year Ended 30.06.10 £m	Year Ended 31.12.10 £m
Profit for the financial period	**33.7**	**30.9**	**84.9**
Actuarial gain on defined benefit pension plan	-	-	5.0
Tax on actuarial gain on defined benefit pension plan	-	-	(1.4)
Available-for-sale investments:			
Fair value movements taken to reserves	0.3	9.6	19.0
Tax on fair value movements taken to reserves	(0.1)	(2.6)	(5.3)
Other comprehensive income for the period, net of tax	**0.2**	**7.0**	**17.3**
Total comprehensive income for the period, net of tax	**33.9**	**37.9**	**102.2**

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Group Balance Sheet

	As at Half Year Ended 30.06.11 £m	As at Half Year Ended 30.06.10 £m	As at Year Ended 31.12.10 £m
Assets			
Liquid assets	3,972.0	4,389.7	4,531.9
Loans and advances to customers	18,431.6	14,837.5	17,573.7
Hedge accounting adjustment	39.5	83.3	40.6
Derivative financial instruments	99.1	68.8	73.4
Tangible and intangible fixed assets	46.6	34.8	46.1
Other assets	37.1	15.7	36.6
Total assets	**22,625.9**	**19,429.8**	**22,302.3**
Liabilities			
Shares	17,672.7	14,886.5	17,634.3
Hedge accounting adjustment	24.5	17.6	3.3
Borrowings	3,791.0	3,532.3	3,546.0
Derivative financial instruments	138.0	133.3	139.4
Other liabilities	50.0	46.1	63.4
Subordinated liabilities	68.1	30.7	68.2
Subscribed capital	161.3	161.2	161.3
Total liabilities	**21,905.6**	**18,807.7**	**21,615.9**
Equity			
Reserves	720.3	622.1	686.4
Total liabilities and equity	**22,625.9**	**19,429.8**	**22,302.3**

Group Cash Flow Statement

	Half Year Ended 30.06.11 £m	Half Year Ended 30.06.10 £m	Year Ended 31.12.10 £m
Cash flows from operating activities	(1,207.9)	363.1	382.4
Cash flows from investing activities	(83.6)	385.2	1,111.3
Cash flows from financing activities	722.6	(40.0)	(284.0)
Net (decrease)/increase in cash	**(568.9)**	**708.3**	**1,209.7**
Cash and cash equivalents at start of period	1,537.8	328.1	328.1
Cash and cash equivalents at end of period	**968.9**	**1,036.4**	**1,537.8**

Key Ratios

	Half Year Ended 30.06.11 %	Half Year Ended 30.06.10 %	Year Ended 31.12.10 %
Asset growth	1.5	5.6	21.2
Growth in loans and advances to customers (excluding balances transferred from Stroud & Swindon)	4.9	5.4	11.4
Net interest margin	0.80	0.85	0.72
Management expenses to mean assets	0.37	0.37	0.37
Core tier 1 capital ratio	24.1	26.9	22.0

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