NEWS RELEASE

26 February 2016

COVENTRY BUILDING SOCIETY REPORTS STRONG RESULTS

Coventry Building Society has today announced its results for the year ended 31 December 2015. Highlights include:

Robust financial performance

- Profit before tax increased by 7% to £216.0 million (2014: £201.8 million).
- Cost to mean asset ratio was 0.42%[1], the lowest reported by a UK building society (2014: 0.42%).
- At 31 December 2015, only 0.24% of mortgage balances were 2.5% or more in arrears (2014: 0.40%).
- Common Equity Tier 1 (CET 1) ratio of 29.4% remains the highest reported by any top 20 UK mortgage lender.
- Leverage ratio of 4.0% (on an end-point basis), comfortably above the regulatory minimum requirement[2].
- Maintained strong 'A' credit ratings – Fitch (A) with Moody's improving its rating from A3 to A2 in June.

Growth in mortgage and savings balances

- New mortgage lending increased by 8% to £8.0 billion.
- Mortgage assets increased by £2.5 billion (9%) to £29.4 billion, five times the rate of market growth[3].
- Savings balances grew by £2.0 billion (8%) to £25.4 billion.

Doing the right thing for members and the community

- At the end of 2015 our average savings rate was 1.97% compared to a market average of 1.11%[4].
- Consumer champion, Fairer Finance, awarded the Society its Gold Ribbon and rated it top in both mortgages and savings based on customer happiness, trust, complaint handling and transparency in its review of major financial services brands.
- Moneywise Customer Service Awards rated the Society the 'Most Trusted Savings Account Provider' in 2015.
- Coventry cash ISAs have been in the national press best buy tables every week for over three years.
- Mortgages offered by the Society have been in the national press best buy tables every week for over two years.
- The Financial Ombudsman asked for the outcome of a complaint referred to it for review to be changed on just 11 occasions, representing 7% of referred cases compared with over 50% for all financial services providers[5].
- Employee engagement increased to 88% which is 15% higher than the average in the financial services sector[6].
- The Society has donated £12.6 million to The Royal British Legion's Poppy Appeal since October 2008.

1. Administrative expenses, depreciation and amortisation/Average total assets.
2. Applicable to organisations with retail deposits in excess of £50 billion.
3. Source: Bank of England.
4. Weighted calculation comparing the Society balance mix of accounts to market mix as quoted by Bank of England (December 2015 data) for interest bearing sight deposits, interest bearing time deposits and Cash ISAs (excludes non-interest bearing current accounts, notes and coins and corporate/PNFC deposits).
5. Source: Financial Ombudsman Service – latest published data, as at 25 February 2016.
6. Financial services sector benchmark used by an independent third party.

NEWS RELEASE

Commenting, Mark Parsons, Coventry Building Society Chief Executive said:

"Coventry Building Society is a mutual organisation with a long and proud heritage. It is also a competitive and professional financial services provider that must meet the expectations of its modern membership. These expectations reflect the speed and choice which advances in technology have made possible. But they also reflect the need for security and trust that have been the basis of our relationship with members since the Society's formation in 1884.

This is the context for our 2015 performance and I am pleased to report another successful year for the Society.

The highlights are a performance that is financially strong and which maintains a successful record of growth based on low risk and low cost operations. This is, of course, important, and we are pleased to report strong results. However, it is as important that these results are achieved by doing the right things for our members, whether new to the Society or those who have been with us for many years.

We describe this as 'Putting Members First'.

Central to this is providing long-term value to members. It continues to be a tough time for savers and in a low interest rate environment it is important that we provide competitive savings products not just today, but reliably and sustainably into the future.

We are achieving this. At the end of 2015 our average savings rate was 1.97% compared to a market average of 1.11%[1]. Furthermore, at the end of 2015 our average variable rate on cash ISAs was nearly two and a half times the market average[2].

Our ability to do this, whilst maintaining a very competitive mortgage portfolio, is underpinned by the high quality of our mortgage lending, which results in extremely low impairment charges, as well as low cost operations. We continue to lead the sector in cost-efficiency, with our management expense ratio of 0.42%[3] remaining significantly lower than that of our peers[4].

We also strive to keep things simple, transparent and easy to use. To help achieve this we have commenced a four year technology programme that will deliver improved processes and systems, and provide our members with enhanced service options.

The evidence of our progress is shown by the views of members themselves. Whether calling about a savings account or visiting our branches, over 95% of members are satisfied with the service they receive with 9 out of 10 saying they would recommend us to friends or family[5].

However, Putting Members First also recognises that we can get it wrong sometimes, and when this happens our aim is to put things right as simply and quickly as possible. Our commitment to this is shown by our record with the Financial Ombudsman Service, which overturned just 7% of Coventry cases it saw in 2015, compared with over 50% for the industry as a whole[6].

In 2015 the consumer organisation Fairer Finance independently assessed the performance of the largest financial service brands in terms of customer happiness, trust, complaint handling and transparency. It rated us No.1 for both savings and mortgages.

Trust is not only built on value and service, it also requires confidence in our financial strength and stability. Coventry Building Society remains a low risk financial services organisation. To illustrate this, since 2010, we have provided nearly 250,000 new mortgages, making losses on just 22 of them.

We continue to make an appropriate level of profit in order to maintain our capital strength whilst returning value to members in the form of competitive savings and mortgage rates.

In 2015, we increased profit before tax to £216.0 million, adding £150.9[7] million to reserves. This increased our Common Equity Tier 1 ratio to 29.4% and our leverage ratio to 4.0%.

Our commitment to Putting Members First is based on, and delivered by our people. In our 2015 employee opinion survey, 98% of respondents agreed that the Society is 'committed to member satisfaction'– with 0% disagreeing. Overall employee engagement rose from 84% to 88% –the highest score recorded by the Society. Our engaged and motivated employees are what make the difference.

I believe the high level of engagement is not only based on doing the right things for our members but on the support we are able to give local and national causes. In 2015 we once again saw increasing employee involvement in fundraising and volunteering with nearly 200 community organisations benefiting from the skills and consideration of our people.

The outcome of all these drivers is a successful, member focused Society that is growing in a sustainable manner. Our mortgage balances have grown by 9% in 2015, five times the rate of market growth[8] and our savings balances by 8%.

The story of Coventry Building Society is the consistency of our performance, achieved in 2015's competitive market but also throughout the recent years of financial crisis and economic downturn. However, the real achievement has been to deliver this performance in the right way, by Putting Members First."

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1. Weighted calculation comparing the Society balance mix of accounts to market mix as quoted by Bank of England (December 2015 data) for interest bearing sight deposits, interest bearing time deposits and Cash ISAs (excludes non-interest bearing current accounts, notes and coins and corporate/PNFC deposits).
2. Source: Bank of England. Average quoted interest rate on all variable rate cash ISAs including bonus accounts as at 31 December 2015.
3. Administrative expenses, depreciation and amortisation/Average total assets.
4. Top 10 buildings societies, latest published data, as at 25 February 2016.
5. Source: 14,716 branch customers and 18,313 savings contact centre customers in 2015.
6. Source: Financial Ombudsman Service – latest published data, as at 25 February 2016..
7. Profit after tax including Additional Tier 1 capital distribution (net of tax).
8. Source: Bank of England.

Financial Review
Income Statement
Overview

Statutory profit before tax has increased by 7% to £216.0 million. Whilst the Society does not aim to maximise profit, it is the key source of capital to protect members' interests and to support growth. In this context, both underlying and statutory profit measures have increased in 2015. This continues a track record of sustainable profitability that has seen the Society achieve strong levels of profit throughout the financial crisis.

Statutory and underlying profit are set out in the summarised Income Statement below:

Year to 31 December 2015	Statutory profit £m	Financial Services Compensation Scheme levy £m	Movements on derivatives and hedge accounting £m	Underlying profit £m
Net interest income	363.9	–	–	363.9
Other income	5.4	–	–	5.4
Losses on derivatives and hedge accounting	(0.3)	–	0.3	–
Total income	369.0	–	0.3	369.3
Management expenses	(137.4)	–	–	(137.4)
Impairment credit	1.9	–	–	1.9
Provisions	(15.8)	14.1	–	(1.7)
Charitable donation to Poppy Appeal	(1.7)	–	–	(1.7)
Profit before tax	216.0	14.1	0.3	230.4

Year to 31 December 2014	Statutory profit £m	Financial Services Compensation Scheme levy £m	Movements on derivatives and hedge accounting £m	Underlying profit £m
Net interest income	341.3	–	–	341.3
Other income	8.2	–	–	8.2
Losses on derivatives and hedge accounting	(0.7)	–	0.7	–
Total income	348.8	–	0.7	349.5
Management expenses	(124.6)	–	–	(124.6)
Impairment charge	(5.4)	–	–	(5.4)
Provisions	(15.3)	15.3	–	–
Charitable donation to Poppy Appeal	(1.7)	–	–	(1.7)
Profit before tax	201.8	15.3	0.7	217.8

Net interest income

Net interest income at £363.9 million is £22.6 million higher than the previous year, primarily as a result of growth in mortgage assets offset by a slight decrease in the net interest margin. The increase in net interest income was a key driver in the increase in both underlying and statutory profit before tax. The Society's net interest margin has decreased marginally by 4 basis points to 1.11% in the year to 31 December 2015.

	Year to 2015 £m	Year to 2014 £m
Net interest income	363.9	341.3
Average total assets	32,696	29,766
	%	%
Net interest margin	1.11	1.15

This is as a result of increased competition for mortgage customers and the impact that this has had on new business margins and redemption levels. The Board has taken the decision not to seek to recover all of this reduction from reducing the interest paid on savings accounts. The Board believes that there will be a further decrease in the net interest margin in future years as a consequence of continuing competition in the mortgage market and the need to refinance borrowings from the Bank of England's Funding for Lending Scheme (FLS).

Savings rates paid to existing account holders have continued to fall across the industry during the year and, although the Society has taken selective action to reduce rates on some of its accounts, it has not done so to the same extent as many of its competitors. The Board therefore continues to manage the net interest margin to deliver value to members through both attractive savings rates and competitive mortgage products.

For example, at the end of the year, over 95% of variable rate cash ISA balances paid at least 1.7% which is double the average market rate of 0.85%[1]. Furthermore, a Coventry ISA product has been in the national press best buy tables every week for over three years.

In addition, as at the end of 2015 over 80% of the Society's variable rate balances, paid at least three times the Bank of England Base Rate.

This translates to an additional £66.0 million[2] of interest received by members compared with average market rates of interest. This demonstrates the delivery of a key strategic goal.

The Board continues to balance achieving this goal with the need to protect the overall financial strength of the Society and meet increasing capital requirements by bolstering reserves through retained profits, providing assurance and security to all members (see Regulatory capital section).

Other income

Other income is not a strategic priority for the Society, which remains focused on the provision of savings and mortgage products.

Other income has reduced to £5.4 million (2014: £8.2 million). The primary driver for this decrease was the decision to remove booking fees on mortgage applications in the year. This was partially offset by a £0.8 million profit on the sale of investment properties.

Derivatives and hedge accounting

The Society uses derivative financial instruments to manage various aspects of risk and in doing so complies with the Building Societies Act 1986, which limits the use of derivatives to the reduction of risk (hedging) arising from changes in interest rates, exchange rates or other market indices.

Even though the Society uses derivatives exclusively for risk management purposes, Income Statement volatility arises due to the accounting ineffectiveness of designated hedges. The Board believes that this volatility arises from application of the accounting rules rather than because of economic reality and consequently it is excluded from underlying profit.

Management expenses

Management expenses for 2015 were £137.4 million (2014: £124.6 million). The increase is a reflection of the growth of the Society, the costs of servicing a larger membership, continuing investment in the Society's core IT infrastructure and the Society's response to ongoing regulatory requirements.

There has been significant growth in employee costs in 2015, in order to provide additional resource to comply with new regulations and also to improve the quality of service offered to members. The Society continues to invest in ensuring that its core IT infrastructure and systems are robust and secure, and are able to support increased functionality and methods of distribution, including developments in online services. This is an area where investment is likely to increase. Depreciation and amortisation of property, plant and equipment and intangibles have also increased to £12.9 million (2014: £12.3 million). During the year, the Society acquired additional premises in Coventry to support its continued growth.

Despite the absolute increase in management expenses, the Society's ratio of costs to mean total assets has remained unchanged at 0.42%. For over 10 years the Society has achieved the lowest reported cost to mean asset ratio of all UK building societies and expects to retain this position comfortably for 2015.

Continuing cost pressure is expected, arising from sustained levels of investment in technology, increased regulation and organic growth. The Society has also commenced a four year technology investment programme that will provide members with a broader choice of products and transform the way they interact with us, such as opening and servicing their accounts, as well as improving our internal processes and systems. The Society's ability to grow whilst retaining control of costs continues to represent a significant competitive advantage.

Impairment credit

There was a net release of incurred loss provision of £1.9 million in 2015 (2014: £5.4 million charge). This release is a reflection of improving economic conditions, including moderate house price growth, prolonged low interest rates, falling unemployment, and wage increases outstripping increases in the cost of living.

The Society has a strong record of low impairments, reflecting the success of its low risk lending strategy which has always been a key element of its business model. Other than as a result of small books acquired as part of the merger with Stroud & Swindon in 2010, the Society has never undertaken commercial lending or second charge lending and its exposure to unsecured lending is negligible with no new lending of this type since 2009.

Provisions

The £15.8 million provision for liabilities and charges comprises £14.1 million for the Financial Services Compensation Scheme (FSCS) levy and £1.7 million for Payment Protection Insurance (PPI). The £15.3 million charge in the prior year is in respect of the FSCS levy only. The Society pays levies to the FSCS based on its share of protected deposits and such levies are excluded from underlying profit.

The PPI charge in the year reflects a small increase in the amount settled per case, and the impact of the proposed introduction of a deadline for PPI claims. Provisions for PPI claims continue to be materially lower for the Society than for many other organisations. This is a consequence of the design of the PPI product previously offered by the Society.

Charitable donation to the Poppy Appeal

The Society donated £1.7 million to The Royal British Legion's Poppy Appeal during the year (2014: £1.7 million). The contribution to this appeal since 2008 now totals £12.6 million.

Taxation

The Board strongly believes the Society should contribute its fair share of tax and in 2015 the Corporation Tax charge arising on profits earned was £44.7 million (2014: £43.3 million). This represents an effective rate of tax of 20.7% (2014: 21.5%) which is marginally more than the statutory corporate tax rate of 20.25% (2014: 21.5%). This is due to expenses not deductible for taxation purposes and the impact of the Bank Corporation Tax surcharge on deferred tax balances. The Society's Corporation Tax rate will increase significantly in 2016 as a result of the Bank Corporation Tax surcharge.

Balance sheet

Overview

Mortgage balances have grown by 9% from £27.0 billion to £29.4 billion in the year, primarily funded by an increase in retail funding of £2.0 billion and wholesale funding of £0.7 billion. Equity increased by £0.2 billion and on-balance sheet liquid assets by £0.4 billion.

	2015 £m	2014 £m
Assets		
Loans and advances to customers	29,411.0	26,959.6
Liquidity	4,375.3	3,950.2
Other	328.1	368.5
Total assets	34,114.4	31,278.3
Liabilities		
Retail funding	25,355.8	23,395.6
Wholesale funding	6,336.0	5,604.3
Subordinated liabilities and subscribed capital	219.8	219.8
Other	551.3	567.7
Total liabilities	32,462.9	29,787.4
Equity		
General reserve	1,222.3	1,061.9
Other equity instruments	396.9	396.9
Other	32.3	32.1
Total equity	1,651.5	1,490.9
Total liabilities and equity	34,114.4	31,278.3
Unencumbered FLS Treasury bills (off-balance sheet liquidity)*	1,142.2	616.3

* Treasury bills (obtained under the FLS quoted at market value above) provide very high quality liquidity but, in accordance with accounting standards, whilst unencumbered, are not recognised on the balance sheet, as the Society does not retain the risk and rewards in relation to these assets.

Loans and advances to customers

The Society's lending strategy for owner-occupier and buy to let mortgages is focused on high quality low loan to value loans within the prime residential market, through competitively priced mortgages. These loans are primarily distributed through UK-wide third party intermediaries, and to a lesser extent through a number of advisors within the Society's network of branches and the Coventry-based contact centre.

In 2015, the Society advanced £8.0 billion of mortgages, an 8% increase over 2014 (2014: £7.4 billion), in line with the market growth in gross mortgage lending[3].

The Society's mortgage balances increased as a result of organic growth by £2.5 billion (2014: £2.8 billion). This resulted in our market share of UK mortgage balances growing to 2.3%3 (2014: 2.1%) in what has been an increasingly competitive mortgage market. The increase in the Society's mortgage balances is after the sale of £0.3 billion non-member buy to let mortgages in the final quarter of the year (for more information, see the Regulatory capital section).

The growth in the mortgage book has been achieved whilst retaining the Society's focus on low risk lending. The result is an overall indexed loan to value of the mortgage book at 31 December 2015 of 48% (simple average), a position that is largely consistent with previous years (2014: 49%).

The result of this responsible lending approach is highlighted by an arrears performance which is significantly better than that of the industry as a whole and impairment charges which are consistently amongst the lowest reported by any top 10 mortgage lender.

As at 31 December 2015, 0.24% of mortgage balances were 2.5% or more in arrears (2014: 0.40%). At the time of the latest published data[4], arrears were 27% of the industry average. At the end of 2015, just 32 properties were in possession (2014: 52) from a total population of nearly 240,000 accounts.

This performance underlines the Society's sustainable commitment to the UK housing market during a period in which new mortgage lending as a whole still remains lower than pre-2008 levels[3].

Liquidity

On-balance sheet liquid assets have increased to £4.4 billion (2014: £4.0 billion). Including unencumbered Treasury bills drawn under the FLS, total liquid assets held have increased by £1.0 billion. Liquid assets continue to be held primarily in deposits at the Bank of England and UK Government securities.

The credit quality of liquid assets remains high with 95% of the portfolio rated Aaa–Aa3 (2014: 94%) and 5% rated A1–A3 (2014: 4%). The Society has no direct exposure to the peripheral Eurozone countries.

As at 31 December 2015, no amounts in the liquid asset portfolio were either past due or impaired and as such no impairment provision has been made.

Of the £4.4 billion liquid assets, £1.6 billion are held as Available-for-sale (AFS) and under IFRS are marked-to-market with any changes in value recorded through other comprehensive income. The non-AFS assets are loans and advances to credit institutions or deposits with the Bank of England. As at 31 December 2015, the balance on the AFS reserve was £2.5 million gain, net of tax (2014: £0.7 million loss, net of tax).

On-balance sheet liquid assets are supplemented by additional high quality off-balance sheet liquid assets which are readily available to meet cash flow requirements. The Liquidity Coverage Ratio at 31 December 2015 was 141%, comfortably above the minimum regulatory requirement.

Retail funding

The Society continues to be predominantly funded by retail savings, which have increased by £2.0 billion to £25.4 billion at 31 December 2015 (2014: £23.4 billion). Our share of the growth in the retail savings market for the year was 2.8%, over 50% higher than our natural share[3].

As has been the case throughout the financial crisis, the Society has maintained a competitive stance in the retail savings market and has chosen to increase retail funding despite the availability of cheaper wholesale funding. This is a reflection of one of the core objectives; to offer our members an attractive rate of interest and a safe home for their savings.

Despite increased competition in the UK savings market, the Society has maintained competitive savings rates for both new and existing members in both ISA and non-ISA markets. Our growth has been particularly noticeable in the cash ISA market with an account balance growth of 57%. Across all savings products 215,000 new accounts were opened in 2015.

Over 93% of mortgage balances are funded by retail savings or capital.

Wholesale funding

The Society uses wholesale funding to provide diversification by source and term and also to provide value to members through lowering the overall cost of funding.

In 2015, on-balance sheet wholesale funding increased by £0.7 billion with a year-end balance of £6.3 billion (2014: £5.6 billion). During the year, the Society issued a £500 million five year floating rate covered bond, which replaced a maturing bond and subsequently raised an additional £150 million from the same issuance.

Off-balance sheet wholesale funding drawn down through the FLS increased to £2.0 billion (2014: £1.3 billion).

Equity

The Society's equity is predominantly made up of its General reserve and Additional Tier 1 (AT 1) capital (other equity) but also includes the Available-for-sale reserve and cash flow hedge reserve. The Society's total equity increased by £0.2 billion over the year to £1.7 billion (2014: £1.5 billion), driven by profits generated during the period.

Regulatory capital

The Society's capital position on an end-point basis as at 31 December 2015 is summarised in the following table. The increase in CET 1 capital, total Tier 1 capital and total capital is primarily driven by profit after tax of £171.3 million.

Despite a 9% growth in the mortgage book, risk weighted assets have marginally decreased as a result of house price inflation reducing effective risk weights and the transfer of an existing portfolio from a Standardised basis to an Internal Ratings Based basis.

The Society completed a whole loan sale of its beneficial interests in £0.3 billion of non-member buy to let mortgages originated by its subsidiary Godiva Mortgages Limited (Godiva) to a third party in the final quarter of the year. These mortgages have been derecognised from the Group's balance sheet. Similarly, as the Group does not retain any economic interest in the transferred mortgages and has not provided any financing to the third party entity. From a regulatory capital perspective the mortgages are not required to be risk weighted or included as an off-balance sheet exposure in the calculation of the leverage ratio.

The movements described above have resulted in an increase in the Society's CET 1 ratio from 25.4% to 29.4% and in its leverage ratio from 3.9% to 4.0%. At 31 December 2015, and throughout the year, the Society complied in full with all of the regulatory capital requirements that were in force.

	End-point 31 Dec 2015 £m	End-point 31 Dec 2014 £m
Capital resources:		
Common Equity Tier 1 (CET 1) capital	1,167.2	1,011.2
Total Tier 1 capital	1,564.1	1,408.1
Total capital	1,568.4	1,414.2
Risk weighted assets	3,974.6	3,977.2
		%
Capital and leverage ratios:		
Common Equity Tier 1 (CET 1) ratio	29.4	25.4
Leverage ratio*	4.0	3.9

* The leverage ratio is calculated in accordance with the definitions of CRD IV as amended by the European Commission delegated regulation. The calculation reflects constraints in the inclusion of Additional Tier 1 capital in accordance with the FPC's leverage ratio regime regulations.

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1. Source: Bank of England. Average quoted interest rate on all variable rate cash ISAs including bonus as at 31 December 2015.
2. Based on monthly weighted average savings rates and balances versus Bank of England average quoted interest rates for instant access variable non ISA and variable rate cash ISA balances.
3. Source: Bank of England
4. Source: Prudential Regulation Authority - latest available information, as at 30 September 2015.

For more information or additional comment please contact:

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Forward looking statements

Certain statements in this document are forward looking. The Society, defined in this document as Coventry Building Society and its subsidiary undertakings, believes that the expectations reflected in these forward looking statements are reasonable based on the information available at the time of the approval of this report. 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.