

Offering Circular



(Incorporated in England under the Building Societies Act 1986)

£40,000,000
12 $\frac{1}{8}$ per cent. Undated Mandatorily Convertible
Subordinated Notes
convertible into
12 $\frac{1}{8}$ per cent. Permanent Interest Bearing Shares

Application has been made to The International Stock Exchange of the United Kingdom and the Republic of Ireland Limited (the "London Stock Exchange") for the issue of £40,000,000 12 $\frac{1}{8}$ per cent. Undated Mandatorily Convertible Subordinated Notes (the "Notes") of Coventry Building Society (the "Society") to be admitted to the Official List of the London Stock Exchange.

Application has also been made to the London Stock Exchange for the £40,000,000 12 $\frac{1}{8}$ per cent. Permanent Interest Bearing Shares (the "PIBS"), comprising 40,000 PIBS of £1,000 each, of the Society to be admitted to the Official List of the London Stock Exchange with effect from the Conversion Date (as defined in Condition 7 of the Notes).

The Notes will have no final maturity date and may be redeemed only in the event of a winding up of the Society, subject as provided herein. The Notes will be mandatorily converted into PIBS with effect from and including the Conversion Date.

Neither the Trust Deed constituting the Notes nor the Notes will contain any negative pledge, restriction on the conduct or on the transfer of the business of the Society or any event of default other than that set out in Condition 9(a) of the Notes. The Conditions of the Notes will not include, *inter alia*, a cross default provision. Attention is also drawn to the description under "Certain Provisions of the Building Societies Act and the Building Societies Commission" of the ways in which a building society can, without the consent of Noteholders, transfer its rights and obligations to another building society or convert into a company pursuant to the relevant legislation.

The Notes will be issued in registered form on or about 9th June, 1992.

Issue Price: 100.749 per cent.

The PIBS will be deferred shares in the Society for the purposes of section 119 of the Building Societies Act 1986 and will not be protected investments for the purposes of payments out of the Building Societies Investor Protection Fund. Attention is drawn to certain risk factors set out on page 3.

The PIBS will not be withdrawable at the option of the PIBS holders and will be repayable only in certain limited circumstances as described in "Special Conditions of Issue of the PIBS—Repayment".

Kleinwort Benson Limited

The date of this Offering Circular is 28th May, 1992.

This document comprises listing particulars given in compliance with the listing rules made by the London Stock Exchange for the purpose of giving information with regard to the Society, the Notes and the PIBS. The Directors of the Society, whose names appear on pages 22 and 23, accept responsibility for the information contained in this document. To the best of the knowledge and belief of the Directors (who have taken all reasonable care to ensure that such is the case), the information contained in this document is in accordance with the facts and does not omit anything likely to affect the import of such information.

No person is authorised to give any information or to make any representation not contained herein and any information or representation not contained herein must not be relied upon as having been authorised by the Society or Kleinwort Benson Limited. Neither the delivery of this document nor any subscription, sale or purchase made in connection herewith shall, under any circumstances, constitute a representation or create any implication that there has been no change in the affairs of the Society since the date hereof.

Copies of this document have been delivered to the Registrar of Companies in England and Wales for registration in accordance with section 149 of the Financial Services Act 1986.

The Notes and the PIBS have not been and will not be registered under the United States Securities Act of 1933 and may not be offered, sold or delivered, directly or indirectly, in the United States or to U.S. persons otherwise than in accordance with applicable U.S. securities laws and regulations.

This document does not constitute an offer of, or an invitation by or on behalf of the Society or Kleinwort Benson to subscribe for or purchase, any of the Notes and/or the PIBS, when issued. The distribution of this document and the offering of the Notes and the PIBS in certain jurisdictions may be restricted by law. Persons into whose possession this document comes are required by the Society and Kleinwort Benson to inform themselves about and to observe any such restrictions. For a further description of certain restrictions on offering and sales of the Notes and the PIBS and on distribution of this document, see "Marketing Arrangements" below.

The information contained in this document is intended for sophisticated investors capable of understanding the nature of the Notes and the PIBS and the risks attaching to them. Accordingly, attention is drawn to certain risk factors set out on page 3.

Kleinwort Benson may over-allot or effect transactions on the London Stock Exchange which will stabilise or maintain the market price of the Notes at a level which might not otherwise prevail on that exchange and such stabilising, if commenced, may be discontinued at any time.

In this document, unless otherwise specified or the context otherwise requires, references to "pounds", "penny", "sterling" and "£" are to the currency of Great Britain and Northern Ireland (the "United Kingdom") and to the "Act" are to the Building Societies Act 1986, which expression shall include, where applicable, any statutory modification or re-enactment thereof or any statutory instrument, order or regulation made thereunder or under any such statutory modification or re-enactment.

TABLE OF CONTENTS

	<i>Page</i>
Risk Factors	3
Conditions of the Notes	4
Special Conditions of Issue of the PIBS	11
Certain Provisions of the Building Societies Act and the Building Societies Commission	15
Coventry Building Society	17
Financial Summary	20
Consolidated Capitalisation and Indebtedness	21
Use of Proceeds	21
Board of Directors	22
Financial Statements	24
United Kingdom Taxation	50
Marketing Arrangements	52
General Information	53

RISK FACTORS

Investors should be aware that the Notes are undated and subordinated and that the terms of the PIBS vary considerably from the terms of ordinary building society share accounts. They should particularly note that:

- (a) the principal amount of the Notes and, when issued, the PIBS is not repayable and the PIBS are not withdrawable and accordingly the only way that the Notes and, when issued, the PIBS may be realised is by a sale at such price and on such terms as may from time to time be available in the market (which may mean that the investor does not recoup his investment);
- (b) in a winding up or dissolution of the Society, the claims of the PIBS holders will rank behind all other creditors of the Society and the claims of members holding shares (other than deferred shares) as to principal and interest;
- (c) claims in respect of the Notes will be subordinated to the claims of all unsubordinated creditors of the Society including, so long as the Society is a building society, members holding shares (other than deferred shares) of the Society in respect of principal and interest and all subordinated creditors of the Society except those ranking *pari passu* with, or junior to, the Notes;
- (d) neither the PIBS nor the Notes are protected investments for the purposes of the Building Societies Investor Protection Fund;
- (e) payments in respect of the Notes are conditional, as described in "Conditions of the Notes — Status and Subordination", on, *inter alia*, the Society being solvent at the time of payment and satisfying prescribed levels of capital;
- (f) interest in respect of the PIBS will not be payable where to make payment would result in the Society's capital falling below prescribed levels if the Directors of the Society resolve that such interest should not be paid or where the Society has not paid interest in respect of deposits or shares (other than deferred shares);
- (g) if the Society does not make an interest payment in respect of the PIBS in accordance with paragraph (f) above such interest will be cancelled; and
- (h) subject as provided in Condition 7 of the Notes, the Notes will be mandatorily converted into PIBS with effect from and including the Conversion Date (as defined in Condition 7 of the Notes). If a resolution is not passed implementing the New Rules, the Notes will remain outstanding as perpetual, unsecured and subordinated obligations of the Society for which there may or may not develop an established secondary market.

CONDITIONS OF THE NOTES

The following is the text of the Conditions of the Notes which (except for the paragraphs in italics and subject to amendment) will be endorsed on each certificate in respect of the Notes:

The £40,000,000 12½ per cent. Undated Mandatorily Convertible Subordinated Notes (the "Notes", which expression in these Conditions, unless the context otherwise requires, shall include any further notes issued pursuant to Condition 14 and forming a single series with the Notes) of Coventry Building Society (the "Society") are constituted by a trust deed (the "Trust Deed") dated 9th June, 1992 and made between the Society and The Law Debenture Trust Corporation p.l.c. (the "Trustee", which expression shall include any successor thereto) as trustee for the holders of the Notes (the "Noteholders"). The issue of the Notes was authorised by resolutions of the Board of Directors of the Society passed on 15th April, 1992 and 20th May, 1992. The statements in these Conditions include summaries of, and are subject to, the detailed provisions of the Trust Deed. Copies of the Trust Deed and the registrar's agreement (the "Registrar's Agreement") dated 9th June, 1992 and made between the Society, The Royal Bank of Scotland plc as initial registrar (the "Registrar", which expression shall include any successor thereto) and the Trustee are available for inspection during normal business hours at the principal office of the Trustee, being at the date hereof at Princes House, 95 Gresham Street, London EC2V 7LY, and at the specified office of the Registrar. The Noteholders are entitled to the benefit of, are bound by, and deemed to have notice of, all the provisions of the Trust Deed and the Registrar's Agreement applicable to them.

1. Form and Denomination

- (a) The Notes are in registered form and are issued fully-paid and will be transferable in principal amounts of £1,000.
- (b) The Society, the Registrar and the Trustee may (to the fullest extent permitted by applicable laws) treat the registered holder of any Note as the absolute owner for all purposes and accordingly shall not, except as ordered by a court of competent jurisdiction or as required by statute, be bound to recognise any trust or equitable or other claim to or interest in or charge on or security over such Note whether or not it shall have express or other notice thereof nor be held responsible for omitting or neglecting to recognise any such claim.

2. Transfer

- (a) The Notes may be transferred by the transferor depositing the certificate in respect of the Notes to be transferred at the specified office of the Registrar, with a form of transfer in any form approved by the Society duly completed and signed by or on behalf of the transferor. Subject as provided herein, the Registrar will, within 14 London business days of such deposit (or such longer period as may be required to comply with any applicable fiscal or other laws or regulations), send by mail (at the risk of the transferee) to such address as the transferee may request a new certificate in respect of the Notes transferred. In the case of the transfer of some only of the Notes represented by a certificate, a new certificate in respect of the balance of the Notes not transferred will be so sent (at the risk of the transferor) to the transferor.
- (b) Notes may be registered in the names of one or more persons jointly but no Note may be registered in the name of more than four joint holders. In the case of joint holdings, that joint holder who is named first in the register in respect of the Note shall be the representative joint holder (the "Representative Joint Holder") thereof and, except where inconsistent with the subject or context, references to a Noteholder or the holder of a Note shall, in the case of a joint holding, be construed as references to the Representative Joint Holder thereof.
- (c) Registration of transfers will be effected without charge by, or on behalf of, the Society or the Registrar, but subject to the payment of any stamp duty, tax or other governmental charge that may be imposed in relation to the transfer or registration.

3. Status and Subordination

- (a) The Notes and all amounts payable in respect thereof are direct, unsecured and subordinated obligations of the Society, conditional as described below, and rank and will rank *pari passu*

without any preference among themselves. The claims of the Trustee and the Noteholders against the Society in respect of the Notes are and will be subordinated to:

- (i) the claims of all unsubordinated creditors of the Society, including, so long as the Society is a building society, members holding shares other than deferred shares (as defined in the Trust Deed) in the Society as regards the principal and interest due in respect of those shares;
 - (ii) the claims of creditors of the Society whose claims are, or are expressed to be, subordinated to all unsubordinated creditors of the Society, including, so long as the Society is a building society, members holding shares other than deferred shares in the Society as regards the principal and interest due in respect of those shares, but not further or otherwise; and
 - (iii) the claims (save those mentioned below) of other subordinated creditors of the Society, but are not and will not be subordinated to and rank and will rank *pari passu* and rateably with or, as the case may be, ahead of:
 - (iv) so long as the Society is a building society, the claims of members holding deferred shares in the Society;
 - (v) so long as the Society is a building society, the claims of members holding shares other than deferred shares in the Society except as regards the principal and interest due in respect of those shares; and
 - (vi) the claims of subordinated creditors of the Society which rank or are expressed to rank *pari passu* with, or junior to, the claims of the Trustee and/or the Noteholders against the Society in respect of the Notes.
- (b) No amount of principal or interest in respect of the Notes shall be payable except on satisfaction of the following conditions and to the extent that:
- (i) the Society could make payment of such amount and still be solvent;
 - (ii) either (A) if, at the time for payment of such amount, the Society is a building society, the Board of Directors of the Society has not certified to the Trustee that it is of the opinion that there is, or, immediately after the making of the payment of the full amount which would but for this paragraph (b) be due and payable at such time, there would be, a failure by the Society to satisfy the first criterion of prudential management set out in section 45(3) of the Building Societies Act 1986 (the "Act") or (B) if, at the time for payment of such amount, the Society has transferred the whole of its business to a successor pursuant to sections 97 to 102 of the Act, a dividend has been declared or paid on any class of share capital of the successor in the six months immediately preceding such time for payment or, where the time for payment shall fall on or prior to the Interest Payment Date (as defined in Condition 4) following such transfer, either a dividend has been declared or paid since such transfer on any class of share capital of the successor or any payment of principal or interest in respect of the Notes has been made by the Society, in each case in the six months immediately preceding the time for such payment; and
 - (iii) the Society can make such payment, in whole or in part, rateably with payments in respect of Other *Pari Passu* Claims (as defined below) then payable,

Provided that in a winding up of the Society in England the conditions referred to in sub-paragraphs (b)(ii) and (iii) shall not apply.

(c) For the purposes of these Conditions:

- (i) the Society shall be solvent if (A) in the case of any determination as to solvency falling to be made prior to an order being made or an effective resolution being passed for the winding up of the Society, it is able to pay its debts as they fall due, and (B) in any case, its Assets exceed its Liabilities (each as defined below) and for these purposes a report as to the solvency of the Society by two Directors of the Society or (in certain circumstances described in the Trust Deed) the auditors of the Society or (if applicable) its liquidator shall, in the absence of proven error, be treated and accepted by the Society, the Trustee and the Noteholders as correct and sufficient evidence thereof;

- (ii) "Assets" means the total assets of the Society and "Liabilities" means the total liabilities of the Society in respect of the claims to which the claims of the Trustee and/or the Noteholders against the Society in respect of the Notes are expressed to be subordinated in paragraph (a) above, all as shown by the then latest published audited balance sheet of the Society, but adjusted for contingencies and for subsequent events, all valued in such manner as the two Directors, the auditors or the liquidator (as the case may be) referred to in sub-paragraph (c)(i) above may determine; and
- (iii) "Other Pari Passu Claims" means claims of creditors of the Society which are subordinated so as to rank (to the satisfaction of the Trustee) *pari passu* with the claims of the Trustee and the Noteholders against the Society in respect of the Notes.
- (d) If, and to the extent that, the payment of interest is prohibited under sub-paragraph (b) above, such interest will be cancelled and Noteholders will have no rights in respect of the cancelled interest.

N.B. See also the provisions of Condition 13 in the event of a transfer of the business of the Society to a successor under sections 97 to 102 of the Act.

4. Interest

The Notes bear interest from and including 9th June, 1992 (the "Issue Date") at the rate of 12½ per cent. per annum (less tax where appropriate) payable, subject as provided in Condition 3, in arrear on:

- (i) 1st September, 1992 in respect of the period from and including the Issue Date to and excluding 1st September, 1992 amounting to £27.90 (less tax where appropriate) per Note; and
- (ii) thereafter by equal half-yearly instalments on 1st March and 1st September in each year (each an "Interest Payment Date").

Each Note will cease to bear interest from the date of repayment pursuant to Condition 3 or, if earlier, the Conversion Date. The interest payment in respect of a period of less than a half-year will be calculated on the basis of the number of days elapsed and a year of 365 days and rounding the resultant figure to the nearest penny (half a penny being rounded upwards).

5. Payments

All payments in respect of the Notes will be made by sterling cheque or warrant drawn on a bank in the United Kingdom and posted, and made payable, to the holder of the Note appearing in the register of the Noteholders (the "Register") at the close of business on the date (the "Record Date") being the fifteenth day before the relevant due date at his address shown in the Register on the Record Date. Upon application of the holder to the specified office of the Registrar, not less than ten days before the due date for any payment in respect of the Notes, the payment may be made by transfer on the due date to an account with a bank in the United Kingdom.

6. Redemption and Purchase

N.B. In order that the Notes may be treated as supplementary capital of the Society for the purposes of the Building Societies (Supplementary Capital) Order 1988 made under the Act or as capital designated as perpetual subordinated debt (as referred to in the Bank of England Notice to institutions authorised under the Banking Act 1987 BSD/1990/2 of December 1990 as replaced, amended or supplemented from time to time), no purchase of Notes by, or on behalf of, the Society or any Subsidiary (as defined in the Trust Deed), may be made without the prior consent of the Building Societies Commission so long as the Society or any substituted principal debtor is a building society or of the Bank of England if the Society or any substituted principal debtor is or becomes an authorised institution under the Banking Act 1987, such consent being referred to herein and in the Trust Deed as the "Requisite Consent".

- (a) The Society shall not be at liberty to redeem the Notes.

- (b) The Society or any Subsidiary may at any time purchase Notes in the open market or otherwise at any price provided that the Requisite Consent for the relevant purchase has been obtained prior to making any such purchase. In the case of purchases by tender, tenders must be available to all Noteholders alike. All Notes which are purchased by or on behalf of the Society or any Subsidiary (except purchases made in the ordinary course of business of a dealer in securities) or which are repaid will forthwith be cancelled and accordingly may not be either reissued or resold.

7. Conversion to PIBS

- (a) On the first Interest Payment Date (the "Conversion Date") after (i) the registration by the central office of the Registry of Friendly Societies of the new rules of the Society (the "New Rules") in a form appropriate to permit, in accordance with the Building Societies (Designated Capital Resources) (Permanent Interest Bearing Shares) Order 1991 as replaced, amended or supplemented from time to time (the "Order"), the issue by the Society of deferred shares classified as permanent interest bearing shares or, if later, (ii) the date notified by the Society to the Registry of Friendly Societies as the date on which the Society intends the New Rules to take effect (expected to be in July 1993), and (iii) the Building Societies Commission has authorised the redemption and conversion of the Notes into fully-paid 12½ per cent. permanent interest bearing shares (the "PIBS") of the Society and subject as provided below and to the Society not having transferred its business to a successor in accordance with sections 97 to 102 of the Act the Notes will convert into PIBS by becoming immediately repayable at par on terms that the redemption proceeds are automatically applied in paying up the PIBS in full subject to and in accordance with the Trust Deed. The special conditions of issue of the PIBS will be in the form set out in the Trust Deed with such modifications as may be approved by the Trustee or the Noteholders in accordance with Condition 12.
- (b) No transfer of Notes shall be registered during the period beginning on the fifteenth day before the Conversion Date and ending on the Conversion Date (both inclusive).
- (c) The registration of the Noteholders in the Register will be cancelled as from the Conversion Date, the Notes will be cancelled and the Society will register, or procure the registration of, each registered holder of a Note as the registered holder of a PIBS of £1,000 principal amount in a register of members of the Society. The Society will give the Noteholders not less than 21 nor more than 30 days' notice of the conversion in accordance with Condition 11 specifying the Conversion Date and the period during which transfers of Notes may not be made in accordance with paragraph (b) above. The Society will also send a PIBS certificate to the registered holder of a PIBS by mail within one month of the Conversion Date at the risk of the person entitled thereto together with instructions for the disposal of the certificates in respect of the Notes.
- (d) The Notes will not convert into PIBS if the Conversion Date does not occur on or before 1st September, 1994.

8. Unclaimed Interest

Any amount representing interest in respect of which no cheque or warrant has been cashed and no payment claimed shall cease to be payable after twelve years from the due date and shall revert to the Society.

9. Event of Default and Enforcement

- (a) If a default is made in the payment of any interest in respect of the Notes or any of them for a period of fourteen days or more after any date upon which such interest is due and payable (because all the conditions to such payment set out in Condition 3 are satisfied) the Trustee at its discretion may institute proceedings in England (but not elsewhere) for the winding up of the Society.
- (b) No remedy against the Society, other than the institution of proceedings for the winding up in England of the Society or the proving or claiming in any winding up of the Society, shall be available to the Trustee or the Noteholders for the recovery of amounts owing in respect of the Notes or under the Trust Deed (other than the Trustee's remuneration or expenses). For the avoidance of doubt, no payment of principal in respect of the Notes may be made by the Society nor may the Trustee accept the same otherwise than during or after the winding up of the Society.

- (c) Without prejudice to paragraph (b) above or to its rights under paragraph (a) above, the Trustee may, at its discretion and without further notice, institute such proceedings against the Society as it may think fit to enforce any obligation, condition or provision binding on the Society under the Notes or the Trust Deed (other than any obligation for the payment of any principal or interest in respect of the Notes), provided that the Society shall not as a consequence of such proceedings be obliged to pay any sum or sums representing or measured by reference to principal or interest in respect of the Notes sooner than the same would otherwise have been payable by it.
- (d) The Trustee shall not be bound to institute proceedings as referred to in paragraph (a) or (c) above to enforce the obligations of the Society under the Trust Deed or the Notes unless (i) it shall have been so directed by an Extraordinary Resolution of the Noteholders or so requested in writing by the holders of at least one-third in principal amount of the Notes then outstanding and (ii) it shall have been indemnified to its satisfaction.
- (e) No Noteholder shall be entitled to institute any of the proceedings referred to in paragraph (a) or (c) above, or to prove or claim in any winding up of the Society, except that if the Trustee, having become bound to proceed against the Society as aforesaid, fails to do so, or, being able to prove or claim in any winding up of the Society, fails to do so, in each case within a reasonable period and such failure is continuing, then any such holder may, on giving an indemnity satisfactory to the Trustee, in the name of the Trustee (but not otherwise), himself institute such proceedings and/or prove or claim in any winding up of the Society to the same extent (but not further or otherwise) that the Trustee would have been entitled so to do in respect of his Notes.

10. Covenants of the Society

The Society has covenanted in the Trust Deed that:

- (i) so long as it remains a building society and any of the Notes is outstanding it will not issue any shares which are by their terms deferred or subordinated other than deferred shares;
- (ii) it will propose and recommend to the members of the Society at the Annual General Meeting of the Society due to take place on 28th April, 1993 (or any adjourned such meeting) a special resolution to adopt the New Rules; and
- (iii) it will procure, after the date on which the New Rules take effect but not less than 40 days prior to the Conversion Date, the issue of a legal opinion addressed to the Society by Clifford Chance, or other legal advisers acceptable to the Society and the Trustee, confirming, *inter alia*, that the New Rules are in a form appropriate to permit, in accordance with the Order, the issue of the PIBS and that the PIBS when issued will comply with the terms of the Order.

A breach of any of the covenants of the Society described above (or any other covenants on the part of the Society contained in the Trust Deed) will not, by reason only of such breach, constitute an event of default or result in the Society being obliged to pay any sum or sums representing or measured by reference to principal or interest in respect of the Notes sooner than the same would otherwise be payable by it.

11. Notices

All notices to the Noteholders will be sent by prepaid post and shall be deemed to have been given forty-eight hours after their mailing by first-class post.

12. Meetings of Noteholders, Modification and Waiver

- (a) The Trust Deed contains provisions for convening meetings of Noteholders to consider any matter affecting their interests, including the modification by Extraordinary Resolution of these Conditions or the provisions of the Trust Deed. The quorum at any such meeting for passing an Extraordinary Resolution will be one or more persons holding or representing a clear majority in principal amount of the Notes for the time being outstanding, or at any adjourned such meeting one or more persons being or representing Noteholders whatever the principal amount of the Notes so held or represented, except that, at any meeting the business of which includes the modification

- (3) The claims of PIBS holders in a winding up or dissolution of the Society will be for the principal amount of their PIBS together, subject to Condition 3, with interest accrued to but excluding the date of repayment after all sums due from the Society to Creditors have been paid in full. PIBS holders will not be entitled to any share in any final surplus upon a winding up or dissolution of the Society.
- (4) The Society may, having obtained prior Relevant Supervisory Consent and, for so long as the PIBS are listed on The International Stock Exchange of the United Kingdom and the Republic of Ireland Limited (the "London Stock Exchange"), subject to and in accordance with the requirements from time to time of the London Stock Exchange, purchase any PIBS. In the case of purchases by tender, tenders shall be made available to all PIBS holders alike.

For the purposes of these Conditions, "Relevant Supervisory Consent" means consent to the relevant purchase given by the Building Societies Commission.

- (5) All PIBS repaid or purchased by the Society as aforesaid shall be cancelled forthwith and such PIBS may not be reissued or resold.

5. Payments

All payments in respect of the PIBS will be made by sterling cheque or warrant drawn on a bank in the United Kingdom and posted and made payable to the PIBS holder appearing in the register of members of the Society at the close of business on the fifteenth day before the relevant due date (the "Record Date") at his address shown in the register of members of the Society on the Record Date. Upon application of the PIBS holder to the Society, in the form from time to time prescribed by the Society, not less than ten days before the due date for any payment in respect of a PIBS, the payment may be made by transfer on the due date to a sterling account with a bank in the United Kingdom.

6. Succession and Transfers

- (1) Upon an amalgamation by the Society with another building society under section 93 of and Schedule 16 to the Act or a transfer of its engagements to any extent to another building society under section 94 of and Schedule 16 to the Act, the PIBS shall be deferred shares in the transferee building society without any alteration in their terms.
- (2) Upon a transfer by the Society of the whole of its business to a successor in accordance with section 97 of the Act the successor will, in accordance with section 100(2)(a) of the Act, assume as from the vesting date a liability (subject to this paragraph (2)) to every qualifying member of the Society as in respect of a deposit made with the successor corresponding in amount to the value of the qualifying shares held by the member in the Society.

The liability assumed by the successor in respect of each PIBS shall be as in respect of a non-transferable subordinated deposit carrying the same rate of interest as the PIBS (each a "Deposit").

Each Deposit will be applied on behalf of the holder in the subscription of a principal amount of perpetual subordinated bonds of the successor equivalent to the principal amount of the Deposit carrying the same rate of interest as the PIBS (the "Bonds").

In the case of a transfer by the Society of the whole of its business to a company which is an existing company (as defined in the Act) the application of each Deposit will occur on the vesting date (or as soon as reasonably practicable thereafter). In the case of a transfer by the Society of the whole of its business to a company which is a specially formed company (as defined in the Act) the application of each Deposit will occur either automatically on the date occurring five years after the vesting date (or as soon as reasonably practicable thereafter) or earlier subject to such conditions as the board of directors of the successor may require, including the receipt of a certificate in such form as they may reasonably require from the holder of any Deposit, that the effect of the allotment of the Bonds would not be that more than the permitted proportion (as defined in section 101 of the Act) of the total indebtedness of the successor on its debentures would be held by, or by nominees for, the holder of each Deposit. The form of the certificate required will be sent to holders of PIBS prior to the vesting date.

of certain of these Conditions and/or certain provisions of the Trust Deed, the necessary quorum for passing an Extraordinary Resolution will be one or more persons holding or representing not less than two-thirds, or at any adjourned such meeting not less than one-third, in principal amount of the Notes for the time being outstanding and except also that, at any meeting the business of which includes any direction or authority to the Trustee to institute proceedings for the winding up of the Society, the necessary quorum for passing an Extraordinary Resolution will be one or more persons holding or representing not less than two-thirds, or at any adjourned such meeting not less than one-half, in principal amount of the Notes for the time being outstanding. An Extraordinary Resolution passed at any meeting of Noteholders will be binding on all Noteholders, whether or not they are present at the meeting.

- (b) The Trustee may agree, without the consent of the Noteholders, to any modification (subject to certain exceptions) of, or to the waiver or authorisation of any breach or proposed breach of, any of these Conditions or any of the provisions of the Trust Deed (including modification of the special conditions of issue of the PIBS) and modification of the form of the New Rules which is not, in the opinion of the Trustee, materially prejudicial to the interests of the Noteholders or to any modification thereof which is of a formal, minor or technical nature or is made to correct a manifest error. If the Building Societies Commission exercises its powers under section 45(5) of the Act specifying as a description of capital resources of building societies shares other than deferred shares which are by their terms deferred or subordinated, then any modification to these Conditions and the Trust Deed permitting the Society to issue such shares shall be deemed not to be materially prejudicial to the interests of the Noteholders provided that such shares will rank after the Notes, and the Trustee will agree to any such modification requested by the Society.
- (c) If the Building Societies Commission exercises its powers under section 45(5) of the Act specifying conditions or requirements (the "Requirements") to be satisfied for building society perpetual subordinated debt to be aggregated with building society reserves and the Notes do not satisfy the Requirements then the Trustee will, provided the modifications are, in the opinion of the Trustee, not materially prejudicial to the interests of the Noteholders, agree with the Society, without the consent of the Noteholders, to such modifications (the "Modifications") to these Conditions and the Trust Deed as are necessary, in the opinion of the Society, for the Notes to satisfy the Requirements.

In deciding whether the Modifications are or are not materially prejudicial to the interests of the Noteholders:

- (i) the Trustee shall not take into account whether undated subordinated issues are commercially available at that time or the terms of any other undated subordinated issues;
 - (ii) amendments to the subordination provisions of the Notes shall not by themselves be regarded as materially prejudicial provided that the ranking of the Notes is not adversely affected; and
 - (iii) insertion of provisions into these Conditions restricting the creation of subordinated debt ranking junior to the Notes shall not by itself be regarded as materially prejudicial to the interests of the Noteholders.
- (d) Any such modification, waiver or authorisation shall be binding on the Noteholders and, unless the Trustee agrees otherwise, shall be notified to the Noteholders by the Society as soon as practicable thereafter in accordance with Condition 11.

13. Substitution

If the Society shall:

- (i) amalgamate with one or more building societies under section 93 of the Act or transfer all or some of its engagements (where such engagements include its liability as principal debtor under the Trust Deed and the Notes) to another building society under section 94 of the Act; or
- (ii) transfer its business to a successor in accordance with sections 97 to 102 of the Act,

the successor will, pursuant to such sections, automatically be substituted in place of the Society as principal debtor under the Trust Deed and the Notes without any prior approval thereof being required from the Noteholders or the Trustee and references to the Society herein shall be construed accordingly.

In the case of a substitution of an entity other than a building society in accordance with (ii) above, the Society shall procure that the successor will execute a deed supplemental to the Trust Deed in such form as shall, to the satisfaction of the Trustee, ensure that these Conditions and/or the Trust Deed shall be varied or supplemented so as to contain such other provisions as the Trustee may reasonably require provided that:

- (A) no such variations or supplements will be made which would or might cause any of the Notes to be excluded from the financial resources of the successor considered appropriate by the Bank of England for the purposes of paragraph 4(2) of schedule 3 to the Banking Act 1987; and
- (B) such variations or supplements are limited to dealing with matters arising out of the procedure by which the transfer takes place and the constitution of the successor, including a provision which ensures that the rights of the Noteholders are subordinated or postponed to the claims of the holders of qualifying shares (as defined in section 100(3) or (4) of the Act) in the Society in respect of the claims arising by virtue of section 100(2) (a) or (b) respectively of the Act and to the claims of other unsubordinated creditors of such successor.

In addition, notwithstanding (B) but subject to (A) above, if the successor is an authorised institution under the Banking Act 1987 these Conditions and/or the Trust Deed shall be varied or supplemented in any way in which the Trustee may reasonably require and to which the Bank of England consents.

N.B. Attention is drawn to "Certain Provisions of the Building Societies Act and the Building Societies Commission" below.

14. Further Issues

The Society shall be at liberty from time to time without the consent of the Noteholders to create and issue further notes or bonds upon such terms as to interest, conversion, redemption, premium, ranking and otherwise as the Society may at the time of the issue thereof determine. Any such further notes if they are to form a single series with the Notes shall be constituted by a deed supplemental to the Trust Deed.

15. Indemnification of the Trustee

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility in certain circumstances.

16. Registrar

- (a) The Society has appointed The Royal Bank of Scotland plc at its specified office at P.O. Box 435, Owen House, 8 Bankhead Crossway North, Edinburgh EH11 4BR as the Registrar. The Registrar will send a certificate to the holder of each Note by mail within one month of the Issue Date and, thereafter, following a transfer, in accordance with Condition 2(a), in each case at the risk of the person entitled thereto. No temporary documents of title will be issued.
- (b) The Society reserves the right, subject to the approval of the Trustee, to vary or terminate the appointment of the Registrar and to appoint another Registrar. Notice of any such termination or appointment and of any change in the specified office of the Registrar will be given to the Noteholders promptly by the Society in accordance with Condition 11.

17. Governing Law

The Trust Deed, the Notes and the Registrar's Agreement are governed by, and will be construed in accordance with, English law.

SPECIAL CONDITIONS OF ISSUE OF THE PIBS

The following are the special conditions of issue of the PIBS in the form in which they will appear on the reverse of each PIBS certificate:

PIBS (as defined below) holders are entitled to the benefit of, are bound by and are deemed to have notice of the Rules (as defined below) of the Society (as defined below). The PIBS are also issued subject to, and with the benefit of, these special conditions of issue (the "Conditions").

1. General

- (1) The "Society" means Coventry Building Society.
- (2) "PIBS" means the 12 $\frac{1}{8}$ per cent. Permanent Interest Bearing Shares of the Society and, unless the context otherwise requires, includes any further deferred shares issued pursuant to Condition 9 and forming a single series with the PIBS.
- (3) "PIBS holder" means the sole registered holder or the representative jointholder (the first named holder in respect of the joint holding of a PIBS)
- (4) Terms defined in the Rules of the Society (the "Rules") will, unless the context otherwise requires, have the same meanings when used in these Conditions.
- (5) **The PIBS:**
 - (a) **are deferred shares for the purposes of the Building Societies Act 1986 (the "Act");**
 - (b) **are not protected investments for the purposes of payments out of the Building Societies Investor Protection Fund provided for under the Act;**
 - (c) **are not withdrawable; and**
 - (d) **are permanent interest bearing shares for the purposes of the Rules.**
- (6) The expressions "Creditors" and "Relevant Supervisory Consent" shall have the meanings given thereto in Conditions 4(2) and 4(4) respectively.
- (7) Upon a transfer of a PIBS the Society will procure that the new PIBS holder is issued with a PIBS Certificate within 14 days after the lodgement of the instrument of transfer.

2. Form and Denomination

The PIBS are in registered form and transferable in accordance with the Rules in amounts and integral multiples of £1,000.

3. Interest

- (1) The PIBS bear interest from and including the date of issue thereof at the rate of 12 $\frac{1}{8}$ per cent. per annum (less tax where appropriate) payable, subject as provided below, in arrear by equal half-yearly instalments on 1st March and 1st September in each year.

Each half-yearly period is referred to as an "Interest Period". Interest on the PIBS is non-cumulative as described below.

The interest payment in respect of a period of less than a half-year will be calculated on the basis of the number of days elapsed and a year of 365 days and rounding the resultant figure to the nearest penny (half a penny being rounded upwards).

- (2) Interest in respect of the PIBS shall not be paid or credited in respect of any Interest Period if the Society has at any time before the date for payment of the interest cancelled the payment of any interest or dividend upon:

- (a) any other shares of any class (other than deferred shares (as defined in the Act)) of the Society; or
- (b) any deposit with the Society,

which falls, in accordance with the terms of the share or deposit, to be paid or credited at any time before the end of the relevant Interest Period.

For the purposes of this paragraph (2):

- (a) where the Society has deferred or suspended any payment it shall be taken to have cancelled the payment for so long as the payment remains outstanding; and
- (b) a payment is to be taken to fall to be paid or credited in circumstances where it would have so fallen but for any provisions relating thereto entitling the Society to cancel, defer or suspend payment.

If, and to the extent that, the payment or crediting of interest is prohibited under this paragraph (2), interest in respect of the PIBS will be cancelled and PIBS holders will have no rights in respect of the cancelled interest.

- (3) Interest in respect of the PIBS shall not be paid or credited for any Interest Period specified by the Board, if the Board is of the opinion that:

- (a) there has been a failure by the Society to satisfy the first criterion of prudent management set out in section 45(3) of the Act and such failure is then continuing; or
- (b) the payment or crediting of the interest or, as the case may be, the payment or crediting in full of the interest would cause or contribute to such a failure by the Society,

and in such case the Board passes a resolution cancelling or, as the case may require, reducing the interest to such extent as may be necessary to secure that there will be no failure to satisfy the first criterion of prudent management and on the passing of the resolution the PIBS holder shall cease to have any right to the interest for that period so cancelled or, as the case may be, any interest other than the reduced amount payable in accordance with that resolution.

- (4) Any amount representing interest in respect of which no cheque or warrant has been cashed and no payment claimed shall cease to be payable after twelve years from the due date and shall revert to the Society.

4. Repayment

- (1) The PIBS constitute permanent non-withdrawable deferred shares in the Society and have no specified final maturity.
- (2) The PIBS will become repayable on the date that an instrument or order is made or an effective resolution is passed for the winding up or, otherwise than by virtue of section 93(5), section 94(10), section 97(9) or section 97(10) of the Act, dissolution of the Society but only if and subject to the condition that all sums due from the Society to Creditors claiming in the winding up or dissolution have been paid in full.

For the purposes of these Conditions, "Creditors" means all creditors (including all subordinated creditors) of the Society and members holding shares (other than deferred shares) as regards the principal and interest due in respect of those shares.

The terms of each Deposit and the terms and conditions of the Bonds will be such as to secure in the opinion of the Board that they will be:

- (i) subordinated debt (as defined in the Building Societies (Designated Capital Resources) (Permanent Interest Bearing Shares) Order 1991) and;
- (ii) treated as capital designated perpetual subordinated debt (as referred to in the Bank of England Notice to institutions authorised under the Banking Act 1987 BSD/1990/2 of December 1990 as replaced, amended or supplemented from time to time) or its equivalent (if any) as determined by the auditors of the Society for the purposes of capital adequacy regulations made from time to time by the Bank of England.

The terms of the Deposits and the terms and conditions of the Bonds will, not later than the time at which notice is given to members of resolutions to be proposed to approve such transfer, be available for inspection by PIBS holders at the principal office of the Society at that time and, subject as provided above, will be determined by the Board in its absolute discretion.

- (3) The Society undertakes to procure that any amalgamation or transfer referred to in paragraph (1) or (2) above will comply with the provisions of paragraph (1) or, as the case may be, (2) above.

7. Variations of these Conditions

- (1) These Conditions may only be varied by the Society with the consent in writing of the holders of three-quarters in principal amount of the PIBS for the time being outstanding, or with the sanction of a resolution passed at a separate meeting of the PIBS holders held in accordance with Condition 8 by a majority of three-quarters in principal amount of such holders voting in person or by proxy at such meeting.
- (2) The Society undertakes not to initiate any change to the Rules that is both (a) inconsistent with the provisions of these Conditions and (b) materially prejudicial to the interests of the PIBS holders.
- (3) These Conditions do not limit the rights of members to change the Rules.

Any amendment to the Rules that is both (a) inconsistent with the provisions of these Conditions and (b) materially prejudicial to the interests of the PIBS holders, shall not limit any rights of PIBS holders to bring an action for breach of contract against the Society in circumstances where the Society is in breach of these Conditions nor afford the Society any defence to any claim made in any such action.

8. Meetings of PIBS Holders

All the provisions of the Rules relating to general meetings of the Society or to proceedings at general meetings shall apply, mutatis mutandis, to every separate meeting of PIBS holders except that:

- (a) the necessary quorum at any such meeting shall be two persons holding or representing by proxy at least one third in principal amount of the PIBS;
- (b) PIBS holders shall, on a poll, have one vote in respect of every £1,000 principal amount of PIBS held by them; and
- (c) a poll may be demanded by any one PIBS holder whether present in person or by proxy.

9. Further Issues

The Society shall be at liberty from time to time without the consent of the PIBS holders to create and issue further deferred shares either:

- (1) ranking *pari passu* in all respects (or in all respects save for the first payment of interest thereon) and so that the same shall be consolidated and form a single series with the outstanding deferred shares of any series (including the PIBS); or
- (2) upon such other special terms of issue as the Society may at the time of issue determine provided that the Society shall not issue any deferred shares ranking ahead of the PIBS.

CERTAIN PROVISIONS OF THE BUILDING SOCIETIES ACT AND THE BUILDING SOCIETIES COMMISSION

Amalgamation

Section 93 of the Act permits a building society to amalgamate with one or more building societies by establishing a building society as their successor. Amalgamation requires approval by special resolutions of the members of each amalgamating society and by borrowing members' resolutions (as defined in Schedule 2 of the Act) of the borrowing members of each amalgamating society and confirmation by the Building Societies Commission (the "BSC"). The Act provides that on the date specified by the central office of the Registry of Friendly Societies (the "Central Office") all the property, rights and liabilities (which would include the Notes and, when issued, the PIBS) of each of the societies shall by virtue of the Act be transferred to and vested in the successor, whether or not otherwise capable of being transferred or assigned.

Transfer of Engagements

Section 94 of the Act permits a building society to "transfer its engagements to any extent" to another building society which undertakes to fulfil such engagements. A transfer requires approval by special resolutions of the members of the transferor society and the transferee society, and by borrowing members' resolutions of the borrowing members of the transferor society and the transferee society. However, the resolutions of the transferee society are not required if the BSC consents to the transfer proceedings by a resolution of its board of directors only. The transfer must be confirmed by the BSC. The Act provides that on the date specified by the Central Office and to the extent provided in the instrument of transfer, the property, rights and liabilities of the transferor society shall by virtue of the Act be transferred to and vested in the transferee society, whether or not otherwise capable of being transferred or assigned. In the event of a transfer of all or part of the property and/or all or some of the liabilities of the Society the PIBS would, pursuant to their terms, become deferred shares in the transferee without any alteration of their terms.

Conversion

Sections 97 to 102 of the Act permit a building society to transfer the whole of its business to a company which has been specially formed by the society wholly or partly for the purpose of assuming and conducting the society's business in its place or is an existing company which is to assume and conduct the society's business in its place. The transfer must be approved by special resolution of the members and by a borrowing members' resolution and the society must obtain the confirmation of the BSC to the transfer and its terms. If the BSC confirms the transfer then the Act provides that on the vesting date (as defined in the Act) all the property, rights and liabilities (which would include the Notes) of the society making the transfer, whether or not capable of being transferred or assigned, shall by virtue of the Act and in accordance with transfer regulations (then in force) be transferred to and vested in the successor. Pursuant to section 100(2)(a) of the Act the PIBS would be converted into deposits with the successor. The terms of the PIBS provide that the deposits will be subordinated and will be applied in the subscription of perpetual subordinated bonds of the successor subject as provided therein.

Where, in connection with any transfer, rights are to be conferred on members of the society to acquire shares in priority to other subscribers, the right is restricted to investing members of the society who have held their shares throughout the period of two years expiring on a qualifying day specified by the society in the transfer agreement. Also, all investing members' shares (including PIBS) are, as explained above, converted into deposits with the successor. If the transfer is to a company specially formed by the society, shareholders of the society who were eligible to vote on the transfer, are members on the qualifying day specified in the transfer agreement and who retain a deposit with the successor, must be given rights to a priority liquidation distribution (as defined by the Act) should the successor be wound up. These rights are protected by the successor granting a charge over its property or undertaking. On any such transfer, investing members of the society who were members on the qualifying date but not entitled to vote on the transfer resolution will receive a cash bonus equal to their notional share of reserves of the society. If the transfer is to an existing company, any distribution of funds (apart from the statutory cash bonus referred to above) may only be made to certain investing members of the society who have held their shares for at least two years expiring on a qualifying day specified by the society in the transfer agreement.

The society may, as a result of an amalgamation, transfer of engagements or transfer of business as described above, be replaced, as the principal debtor under all or some of the Notes and the PIBS, by an entity substantially different in nature from the society at present or with a substantially different capital position. In all cases the confirmation of the BSC is required before any such change can take place.

General

The BSC is required to have regard to the position of the Noteholders and the PIBS holders pursuant to the provisions of section 1(4) of the Act which requires it to promote the protection by each building society of the investments of that building society's "shareholders and depositors", for which purpose the expression "shareholders" includes PIBS holders (if issued) and the expression "depositors" includes the Noteholders.

COVENTRY BUILDING SOCIETY

1. History and Description of the Society

Coventry Building Society (the "Society") is a building society incorporated under the Building Societies Act 1986 ("the Act"). The Society was formed as a result of the merger of Coventry Economic Building Society and Coventry Provident Building Society in 1983.

Coventry Economic Building Society was established in 1884 and was party to one previous merger, in 1976, with The Stourbridge Lye and District Permanent Building Society.

Coventry Provident Building Society (formerly Coventry Provident Mutual Building Society) was formed in 1963 as a result of the merger of Coventry Provident Building Society and Coventry Mutual Building Society.

At 31st December, 1991, the Society and its subsidiaries (the "Group") was the sixteenth largest United Kingdom building society in terms of consolidated assets and operated from 68 branches. During the years ended 31st December, 1989, 1990 and 1991, the average number of persons employed by the Society was 663, 760 and 835 respectively.

At 31st December, 1991, the Group had approximately 495,000 investment accounts and 86,000 mortgage accounts. Total assets at that date were £2,369.9 million, of which loans secured by mortgage were £1,928.4 million.

2. Form, Status and Ownership

The Society is incorporated under the Act for an unlimited duration. It operates in accordance with the Act, regulations made thereunder and the Society's registered Rules and Memorandum. *The Society is a building society within the meaning of the Act and is registered with the Central Office of the Registry of Friendly Societies in London, Register Number 148B.* The affairs of the Society are conducted and managed by a Board of Directors who are elected and who serve in accordance with the Rules and Memorandum. The Board is responsible to the members for the proper conduct of the affairs of the Society and appoints and supervises executives who are responsible to the Board for the daily management of the Society.

The Society is a mutual organisation, with both retail investors and borrowers having membership. A member is entitled to vote (subject to certain conditions). It is therefore possible for one person to have both an investing member's vote and a borrowing member's vote. A PIBS holder who is an investing member other than by virtue of his holding a PIBS will only have one investing member's vote in the Society.

3. Business of the Society

(a) Mortgage lending business

The principal purpose of the Society, as stated in Clause 2 of its Memorandum, is to raise, primarily by the subscriptions of the members of the Society, a stock or fund for making to them advances secured on land for their residential use.

The Society obtains funds from the retail market through personal savings and deposit accounts and raises funds in the wholesale money markets. It advances funds so raised mainly to borrowers on the security of first mortgages on freehold and leasehold property.

The Society offers a variety of savings accounts and investment products to personal customers.

The Society is based in Coventry and has a strong regional identity. The branch network operates throughout the greater Midlands area bounded by Oxfordshire, South Yorkshire, the Black Country and Bedfordshire. The heartland is defined as the area within a 20 mile radius of Coventry in which the Society operates 44 branches.

The Group's assets consist principally of residential mortgage loans. At 31st December, 1991, the Group's advances to residential borrowers totalled £1,903.1 million. Other advances secured on land totalled £25.3 million.

Applications for mortgage loans may be submitted to any one of the Society's branches or directly to the Society's principal office. The Society follows a strict procedure prior to making an offer of advance which includes an inspection and valuation of the property by a qualified valuer. The Society follows a conservative policy in respect of the level of mortgage indemnity guarantee insurance requested for loans advanced in seeking to obtain, where possible, the maximum level of cover available. Where an advance exceeds 75 per cent. of the lower of valuation and cost of the property, the Society obtains additional protection through the use of mortgage indemnity guarantee insurance up to a maximum of 95 per cent. of the lower of valuation and cost, the maximum permitted loan.

Lending in respect of commercial mortgages represents only a small proportion of total mortgage lending. At 31st December, 1991, total non-residential lending (Class 2 mortgage assets) represented 1.3 per cent. of total commercial assets.

In the year ended 31st December, 1991, the Group's new mortgage advances totalled approximately £526 million which represented an increase of 18.3 per cent. over the previous year. The number of mortgages completed in the year was 17,387.

(b) Loan loss experience on mortgage lending

Historically, the Society's losses on lending have been minimal. However, high interest rates and the deepening recession in 1990 and 1991 have resulted in a greater number of borrowers being unable to meet their mortgage repayment commitments. In view of the poor state of the housing market, the Society has felt it necessary and prudent to make year end provisions amounting to £10.2 million to meet potential losses on the mortgage book. Actual losses sustained during 1991 amounted to £3.6 million and the income expenditure charge was £9.9 million.

The existing policy for providing for mortgage losses adopted by the Society is, in the belief of the Society, in line with current best practice as identified in the letter to the Chief Executives of all authorised building societies dated 4th December, 1991, issued by the Building Societies Commission.

(c) Other business

The Society's strategy has focussed on its core business and has not diversified away from activities traditionally carried out by building societies.

Other areas of business include:

Estate Agency

The Society provides an estate agency service through its wholly owned subsidiary company Coventry Property Services Limited. The business was launched in 1989 from a 'cold start' by means of a single branch in Coventry City Centre, building upon the Society's customer base and reputation in its heartland. A second branch was opened in Nuneaton, Warwickshire in 1991. The Society remains strategically committed to estate agency so as to protect its mortgage base. Future expansion will take place in geographic locations where the Society has a strong presence, when opportunities arise and market conditions are favourable.

Life Assurance

When appropriate, the Society offers relevant life assurance products to its customers in its capacity as an appointed representative of Commercial Union Marketing Group.

Unsecured personal loans

The Society arranges unsecured personal loans through its branch network. These loans are provided by Chartered Trust plc a member of the Standard Chartered Group. The Society takes no credit risk on this activity, but receives a commission based on the volume of business arranged.

Foreign exchange and travellers cheques

The Society acts as an agent for American Express Europe Limited offering foreign exchange and travellers cheque issuance facilities to its customers. This activity is a source of commission earnings and has no credit or balance sheet implications for the Society.

(d) Sources of Income

The principal source of income for the Group is interest earned on mortgage advances. In the year ended 31st December, 1991, this income totalled £220 million.

Income from the Group's liquid assets generated £40 million in that year. In addition, commissions, fees and other income generated £8.3 million for the year.

(e) Non Retail Funding Activities

Savings from the personal sector are the primary source of funds for building societies. However, the Society has taken significant steps to raise funds from the wholesale money markets principally in the form of certificates of deposit, time deposits and bank loans.

The breakdown of wholesale and retail funding of the Society at 31st December, 1991 was as follows:

	(millions of pounds)
Certificates of deposit	111.7
Amounts owed to banks	61.8
<i>Subordinated liabilities</i>	20.2
Other deposit and loans	211.2
Shares	1,844.3
Total	<u>2,249.2</u>

FINANCIAL SUMMARY

The following is a summary of the Group's audited consolidated income and expenditure accounts for the three years ended 31st December, 1991:

<i>Years ended 31st December,</i>			
	<i>Group 1991</i>	<i>Group 1990</i>	<i>Group 1989</i>
	<i>(in millions of pounds)</i>		
Interest receivable	260.0	259.4	182.7
Interest payable	(213.4)	(218.6)	(150.6)
Net interest receivable	46.6	40.8	32.1
Other income and charges	8.3	7.0	6.2
Management expenses	(23.7)	(19.9)	(15.9)
Provision for loans advances and guarantees	(9.9)	(3.9)	(0.2)
Profit on ordinary activities before tax	21.3	24.0	22.2
Tax on profit on ordinary activities	(6.9)	(8.6)	(7.7)
Profit for the financial year	<u>14.4</u>	<u>15.4</u>	<u>14.5</u>

The following is a summary of the Group's audited consolidated balance sheets as at the end of each of the three years ended 31st December, 1991:

<i>Years ended 31st December,</i>			
	<i>Group 1991</i>	<i>Group 1990</i>	<i>Group 1989</i>
	<i>(in millions of pounds)</i>		
Assets:			
Liquid assets	418.0	399.5	306.1
Commercial assets:			
Advances secured on residential property	1,903.1	1,575.6	1,299.7
Other advances secured on land	25.3	27.8	26.4
Other commercial assets	0.4	0.5	0.5
Fixed assets	18.2	16.7	12.2
Other assets	4.9	2.1	1.0
Total assets	<u>2,369.9</u>	<u>2,022.2</u>	<u>1,645.9</u>
Liabilities and reserves:			
Shares, deposits and loans:			
Retail funds and deposits	1,847.2	1,676.1	1,389.3
Non-retail funds and deposits	381.8	206.6	159.0
Other liabilities	14.9	27.9	21.6
Subordinated liabilities	20.2	20.2	—
Total liabilities	<u>2,264.1</u>	<u>1,930.8</u>	<u>1,569.9</u>
Reserves:			
General reserve	105.2	90.8	75.4
Revaluation reserve	0.6	0.6	0.6
Total liabilities and reserves	<u>2,369.9</u>	<u>2,022.2</u>	<u>1,645.9</u>

Note: The figures have been extracted from the audited accounts of the Group and have been rounded to one place of decimals for presentational purposes.

CONSOLIDATED CAPITALISATION AND INDEBTEDNESS

The following table is a summary of the Group's audited consolidated shareholders' funds and indebtedness as at 31st December, 1990 and 31st December, 1991:

	<u>1991</u>	<u>1990</u>
	<i>(in millions of pounds)</i>	
Shareholders' Funds:		
Shares	1,844.3	1,672.2
General Reserve.....	105.2	90.8
Revaluation Reserve	0.6	0.6
Total Shareholders' Funds	<u>1,950.1</u>	<u>1,763.6</u>
Indebtedness:		
Deposits and loans from banks.....	61.8	28.8
Other deposits and loans	211.2	110.1
Certificates of deposit	111.7	71.6
Other liabilities and provisions	14.9	27.9
Subordinated liabilities	20.2	20.2
Total Indebtedness	<u>419.8</u>	<u>258.6</u>
Total Capitalisation	<u><u>2,369.9</u></u>	<u><u>2,022.2</u></u>

Save for the issue of the Notes (which have not been reflected above), at the date of this Offering Circular there has been no material change in the capitalisation and indebtedness of the Society and its subsidiaries since 31st December, 1991.

So far as is known to the Society no persons, directly or indirectly or jointly and severally, exercise or could exercise control over the Society or are interested, directly or indirectly, in 3 per cent. or more of the Society's shares.

No shares of the Society or any of its subsidiaries is under option or has been agreed to be put under option to any person.

Subordinated liabilities referred to above comprise the £20,000,000 Subordinated Floating Rate Notes 2000 together with accrued interest thereon which will rank immediately ahead of the Notes and the PIBS.

USE OF PROCEEDS

The proceeds of the issue of the Notes (estimated to amount to approximately £39,702,075) will be used by the Society for its general funding purposes.

BOARD OF DIRECTORS

The names of the Directors of the Society, their responsibilities within the Society, their business occupation and other principal directorships as at the date of this Offering Circular are given below. The business address of each of the Directors is that of the Society given at the back of this document.

<i>Name</i>	<i>Responsibilities within the Society</i>	<i>Business Occupation and Other Directorships</i>
Ian Newell Smith*	Chairman	Solicitor Coventry Mogas Services Limited Coventry Mogas Services (North East) Limited The Helen Ley Home
Philip James White*	Deputy Chairman	Company Director Auldyn Stud Limited Coventry Property Services Limited Mercia Sound Limited Midland Radio plc Midland Radio Holdings plc Simms Metals Limited
David Lovell Burbidge MA (Oxon), DL*	Director	Company Director H. Burbidge & Son Limited Richard Burbidge Limited
Patrick Bernard Forde BCom, FCA, FCBSI*	Director	Retired Building Society Chief Executive Coventry Polytechnic (Governor) Coventry Property Services Limited Coventry Cover Limited Coventry Estate Agency Services Limited Coventry Financial Services Limited Coventry Homefinders Limited Coventry Home Owner's Centre Limited Coventry Housing Developments Limited Coventry Property Directory Limited Coventry Securities and Investments Limited Economic Estate Agency Services Limited Economic Financial Services Limited Economic Home Owner's Centre Limited Economic Housing Developments Limited Economic Securities and Investments Limited Godiva Financial Services Limited Godiva Home Owner's Centre Limited Godiva Housing Developments Limited Godiva Property Directory Limited Godiva Securities and Investments Limited The Property Directory Limited
Barry Gillitt MA (Cantab), FCA, FTII*	Director	Chartered Accountant/Farmer Coventry Diocesan Board of Finance Limited Coventry Property Services Limited Gillitt Properties Limited Hatton Farms Limited InterAid International Inter Aid Limited Mercia Sound Limited Midland Radio Holdings plc Sirenella Property Co. Limited Wood Street Garage Limited

<i>Name</i>	<i>Responsibilities within the Society</i>	<i>Business Occupation and Other Directorships</i>
Timothy Denis Morris MA (Cantab), DL*	Director	Company Director Bargain Hunter Limited Birmingham Chamber of Industry & Commerce Birmingham Hippodrome Limited Birmingham Hippodrome Theatre Trust Limited Cambridge Newspapers Limited Contract Newspapers Limited CPU Conferences Limited Creative Printing and Advertising Co. Limited Glamorgan Gem Limited Herts & Essex Newspapers Limited Herts & Essex Typographics Limited HIL Limited Iliffe Newspapers Limited J. H. Lake & Co. Limited Lefpalm Limited Midland United Newspapers Limited Packet Newspapers (Cornwall) Limited Property South West Limited Public Art Commissions Agency (Trustee) Reuters Founders Share Company Limited Royal Opera House Ballet Board South Hams Newspapers Limited The Burton Daily Mail Limited The Derbyshire Advertiser Limited The Royal Ballet (Governor) West Country Publishing Limited West Midlands Press Limited West of England Newspapers Limited West of England Publications Limited Westridge Holdings Limited Yattendon Holdings plc Yattendon Investment Trust plc Yattendon Pension Trustees Limited YIT Pension Trustees Limited
Martin Howard Ritchley FCA	Director & Chief Executive	<i>Building Society Chief Executive</i> Coventry Property Services Limited Coventry Cover Limited Coventry Estate Agency Services Limited Coventry Financial Services Limited Coventry Homefinders Limited Coventry Home Owner's Centre Limited Coventry Housing Developments Limited Coventry Property Directory Limited Coventry Securities and Investments Limited Economic Estate Agency Services Limited Economic Financial Services Limited Economic Home Owner's Centre Limited Economic Housing Developments Limited Economic Securities and Investments Limited Godiva Financial Services Limited Godiva Home Owner's Centre Limited Godiva Housing Developments Limited Godiva Property Directory Limited Godiva Securities and Investments Limited The Property Directory Limited St. Joseph's School Kenilworth

* Non-executive director

The Financial Statements, Annual Business Statement and Directors' Report set out on pages 24 to 49 have been extracted from audited accounts of the Group for the year ended 31st December, 1991 (save for the figures for 1989 which have been extracted from the audited accounts of the Group for the year ended 31st December, 1989)

FINANCIAL STATEMENTS
GROUP INCOME AND EXPENDITURE ACCOUNT

	<i>Notes</i>	<i>Group 1991</i>	<i>Group 1990</i>	<i>Group 1989</i>
		<i>£000</i>	<i>£000</i>	<i>£000</i>
Interest receivable	2	259,937	259,380	182,721
Interest payable	3	(213,370)	(218,561)	(150,644)
Net interest receivable		46,567	40,819	32,077
Other income and charges	4	8,311	6,968	6,201
Management expenses	5	(23,708)	(19,974)	(15,941)
Provisions for loans, advances and guarantees	9	(9,875)	(3,863)	(161)
Profit on ordinary activities before tax	10	21,295	23,950	22,176
Tax on profit on ordinary activities	11	(6,890)	(8,558)	(7,648)
Profit for the financial year	20	<u>14,405</u>	<u>15,392</u>	<u>14,528</u>

GROUP BALANCE SHEET

	<i>Notes</i>	<i>Group 1991</i>	<i>Group 1990</i>	<i>Group 1989</i>
		<i>£000</i>	<i>£000</i>	<i>£000</i>
Assets				
Liquid assets	12	418,008	399,535	306,096
Commercial assets				
Advances secured on residential property		1,903,098	1,575,601	1,299,660
Other advances secured on land		25,320	27,756	26,386
Other commercial assets	13	418	540	543
Fixed assets	14	18,191	16,672	12,244
Other assets	15	4,877	2,097	1,017
Total assets		<u>2,369,912</u>	<u>2,022,201</u>	<u>1,645,946</u>
Liabilities and Reserves				
Shares, deposits and loans				
Retail funds and deposits	16	1,847,241	1,676,050	1,389,316
Non retail funds and deposits	17	381,791	206,617	158,993
Other liabilities	18	14,869	27,880	21,586
Subordinated liabilities	19	20,163	20,211	—
Total liabilities		<u>2,264,064</u>	<u>1,930,758</u>	<u>1,569,895</u>
Reserves				
General reserve	20	105,241	90,836	75,444
Revaluation reserve		607	607	607
Total liabilities and reserves		<u>2,369,912</u>	<u>2,022,201</u>	<u>1,645,946</u>

The notes on pages 27 to 36 form part of these Accounts.

SOCIETY INCOME AND EXPENDITURE ACCOUNT

	<i>Notes</i>	<i>Society 1991</i>	<i>Society 1990</i>	<i>Society 1989</i>
		<i>£000</i>	<i>£000</i>	<i>£000</i>
Interest receivable.....	2	259,937	259,380	182,721
Interest payable.....	3	(213,370)	(218,561)	(150,644)
Net interest receivable		46,567	40,819	32,077
Other income and charges.....	4	7,918	6,653	6,093
Management expenses	5	(22,905)	(19,244)	(15,529)
Provisions for loans, advances and guarantees.....	9	(9,875)	(3,863)	(161)
Profit on ordinary activities before tax	10	21,705	24,365	22,480
Tax on profit on ordinary activities	11	(7,032)	(8,701)	(7,748)
Profit for the financial year	20	14,673	15,664	14,732

SOCIETY BALANCE SHEET

	<i>Notes</i>	<i>Society 1991</i>	<i>Society 1990</i>	<i>Society 1989</i>
		<i>£000</i>	<i>£000</i>	<i>£000</i>
Assets				
Liquid assets	12	417,984	399,504	306,089
Commercial assets				
Advances secured on residential property		1,903,098	1,575,601	1,299,660
Other advances secured on land		25,320	27,756	26,386
Other commercial assets.....	13	1,631	1,332	1,067
Fixed assets	14	17,755	16,371	11,919
Other assets	15	4,831	2,077	999
Total assets		2,370,619	2,022,641	1,646,120
Liabilities and Reserves				
Shares, deposits and loans				
Retail funds and deposits.....	16	1,847,241	1,676,050	1,389,316
Non retail funds and deposits	17	381,791	206,617	158,993
Other liabilities.....	18	14,832	27,844	21,556
Subordinated liabilities	19	20,163	20,211	—
Total liabilities		2,264,027	1,930,722	1,569,865
Reserves:				
General reserve	20	105,985	91,312	75,648
Revaluation reserve.....		607	607	607
Total liabilities and reserves		2,370,619	2,022,641	1,646,120

The notes on pages 27 to 36 form part of these Accounts.

**GROUP STATEMENT OF SOURCE AND
APPLICATION OF FUNDS**

	<i>Audited Accounts</i> <i>Years Ended 31st December</i>		
	<i>Group</i> <i>1991</i>	<i>Group</i> <i>1990</i>	<i>Group</i> <i>1989</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>
Source of Funds:			
Increase in free capital (see below)	11,636	33,531	11,941
Advances and loans repaid by borrowers	202,335	164,916	134,207
Net receipts from retail funds and deposits	171,191	286,734	289,939
Net receipts from non retail funds and deposits	175,174	47,624	91,655
Increase in other operating liabilities	—	5,425	6,353
Decrease in other commercial assets	122	3	—
Total source of funds	560,458	538,233	534,095
Application of Funds:			
Increase in liquid assets	18,473	93,439	80,251
Advances and loans made to borrowers	526,146	444,794	453,807
Decrease in other operating liabilities	15,839	—	—
Increase in other commercial assets	—	—	37
Total application of funds	560,458	538,233	534,095
Increase in Free Capital			
Source of Funds			
Profit on ordinary activities after tax	14,405	15,392	14,528
Adjustment for items not involving the movement of funds:			
Depreciation of tangible fixed assets	2,684	2,177	1,458
Profit on disposal of fixed assets	(34)	(52)	(444)
Movement in general provision for loans, advances and guarantees	(1,250)	2,567	108
Funds generated from operations	15,805	20,084	15,650
Funds from other sources:			
Disposal of tangible fixed assets	82	138	608
Issue of subordinated loan capital	—	20,000	—
	15,887	40,222	16,258
Application of funds			
Purchase of tangible fixed assets	(4,251)	(6,691)	(4,317)
Increase in Free Capital	11,636	33,531	11,941

Free Capital represents gross capital and general loss provision, less fixed assets.

The notes on pages 27 to 36 form part of these Accounts.

NOTES TO THE ACCOUNTS

1. Accounting policies

a) Accounting convention

The Accounts are prepared under the historical cost convention modified to include certain freehold premises at valuation and in accordance with applicable accounting standards.

b) Basis of consolidation

The consolidated Income and Expenditure Account and Balance Sheet incorporate the Accounts of the Society and its trading subsidiary company, both of which are made up to 31st December. Uniform accounting policies are used throughout the Group.

c) Deferred taxation

Deferred corporation tax is provided using the liability method on all material timing differences which are not expected to continue for the foreseeable future. These arise owing to the allocation of certain items of income and expenditure to different periods for tax purposes from those to which they are allocated in the Accounts.

d) Tangible fixed assets and depreciation

Depreciation is provided on a straight line basis over the anticipated useful life of the asset as follows:

Leasehold premises	Over the remaining term of the lease
Equipment, fixtures, fittings and vehicles	3 to 8 years

No provision is made for depreciation of freehold buildings as, in the opinion of the Directors, their residual value, based on cost or valuation, will at least equal their book value.

e) Other securities

Investments in other securities are shown at their cost to the Society, adjusted to exclude accrued interest at the date of purchase. A similar adjustment is also made on realisation.

f) Provision for losses on loans, advances and guarantees

Specific provision is made against all properties in possession and against accounts which are three months or more in arrears where it is considered that there is a probability of a loss being incurred. For each mortgage account, the potential loss is calculated by comparing the estimated sale value of the property with the current balance on the mortgage account after allowing for amounts recoverable under mortgage indemnity policies.

A general provision is also made in relation to the risk of further losses arising from uncertain market conditions.

The amount charged to the Income and Expenditure Account represents losses written off during the year together with the movement in provisions between the start and end of the year. Interest charged to mortgage accounts after properties are taken into possession, where it is considered to be irrecoverable, is written off against interest receivable on secured advances.

g) Pension costs

The cost of providing retirement pensions and related benefits is charged to the Income and Expenditure Account over the periods benefiting from the employees' services. The difference between the charge to the Income and Expenditure Account and the contributions paid to the scheme is shown as an asset or liability in the Balance Sheet.

h) Hedging of mortgage products

The Society uses various financial instruments for the purposes of reducing interest rate risk. These currently include interest rate swaps, caps and floors. The premiums paid and received in respect of caps and floors are amortised evenly over the lives of the contracts to which they relate. Similarly, arrangement fees applicable to hedged mortgage products are apportioned over the relevant hedging period. The interest flows attributable to hedging contracts are included in interest payable on non-retail funds and deposits on an accruals basis.

NOTES TO THE ACCOUNTS CONTINUED

	1991 Group £000	1991 Society £000	1990 Group £000	1990 Society £000
2. Interest receivable				
<i>Interest receivable comprises interest on:</i>				
Secured advances	219,836	219,836	218,119	218,119
Other lending:				
Loans to associated bodies	15	15	15	15
Fixed-interest liquid assets:				
Interest	39,001	39,001	40,715	40,715
Net profits (losses) arising	-	-	(5)	(5)
	39,001	39,001	40,710	40,710
Other liquid assets:				
Interest	1,085	1,085	536	536
	<u>259,937</u>	<u>259,937</u>	<u>259,380</u>	<u>259,380</u>
3. Interest payable				
<i>Interest payable comprises interest on:</i>				
Retail funds and deposits	188,614	188,614	201,864	201,864
Non-retail funds and deposits	22,250	22,250	15,704	15,704
Subordinated loan capital	2,506	2,506	993	993
	<u>213,370</u>	<u>213,370</u>	<u>218,561</u>	<u>218,561</u>
4. Other income and charges				
<i>Other income and charges comprise:</i>				
Commissions receivable	5,643	5,593	5,244	5,222
Commissions payable	(201)	(201)	(263)	(263)
Other financial income	234	234	-	-
Other operating income	2,635	2,292	1,987	1,694
	<u>8,311</u>	<u>7,918</u>	<u>6,968</u>	<u>6,653</u>

NOTES TO THE ACCOUNTS CONTINUED

	1991 Group £000	1991 Society £000	1990 Group £000	1990 Society £000
5. Management expenses				
Management expenses comprise:				
Staff costs:				
Wages and salaries	9,249	8,899	7,355	7,104
Social security costs	821	792	658	636
Other pension costs	483	461	404	381
	<hr/>	<hr/>	<hr/>	<hr/>
	10,553	10,152	8,417	8,121
Depreciation	2,684	2,592	2,177	2,117
Other expenses	10,471	10,161	9,380	9,006
	<hr/>	<hr/>	<hr/>	<hr/>
	23,708	22,905	19,974	19,244
	<hr/>	<hr/>	<hr/>	<hr/>

1991 £000	1990 £000
--------------	--------------

6. Directors' emoluments

Included in management expenses are emoluments of the Society's Directors which comprise:

For services as Directors	80	76
For executive services	88	82
Pension contributions for executive Director	9	11
	<hr/>	<hr/>
	177	169
	<hr/>	<hr/>

The emoluments of the Chairmen *were £3,870 and £12,220 respectively (1990 Chairman £17,000). The emoluments (excluding pension contributions) of the highest paid full-time Director amounted to £88,193 (1990 £67,735).

The total numbers of Directors receiving emoluments (excluding pension contributions) in the following ranges were:

	1991	1990
£10,001-£15,000	5	4
£15,001-£20,000	1	1
£25,001-£30,000	-	1
£65,001-£70,000	-	1
£85,001-£90,000	1	-

*Mr. I. N. Smith was elected Chairman of the Society on 15th May, 1991 in succession to Mr. B. Gillitt.

NOTES TO THE ACCOUNTS CONTINUED

7. Staff

The average number of persons employed during the year was as follows:

	1991 Group		1991 Society		1990 Group		1990 Society	
	Full-time	Part-time	Full-time	Part-time	Full-time	Part-time	Full-time	Part-time
Principal and administrative offices	297	14	276	10	261	6	241	3
Branch offices	383	141	379	140	353	140	353	140
	<u>680</u>	<u>155</u>	<u>655</u>	<u>150</u>	<u>614</u>	<u>146</u>	<u>594</u>	<u>143</u>

8. Pension scheme

The Group operates a pension scheme for employees and executive Directors. The scheme provides benefits based on final pensionable salary with assets held in a separate trustee administered fund.

The total pension cost (Note 5) is assessed in accordance with the advice of a qualified actuary on the basis of valuations using the projected unit method. The last valuation was carried out at 31st December, 1989 when the market value of the assets of the scheme amounted to £12.0 million. The valuation indicated that the actuarial value of the assets was sufficient to cover 119% of the benefits which had accrued to members at the valuation date. The excess of assets over liabilities is being amortised over a period of 12 years. The main assumptions used in the valuation were:

- (i) an investment return of 1% per annum in excess of projected salary increases.
- (ii) an investment return of 4.5% per annum in excess of projected discretionary pension increases.

NOTES TO THE ACCOUNTS CONTINUED

9. Provisions for loans, advances and guarantees

Provisions for loans, advances and guarantees have been deducted from secured advances as follows:

	Advances secured on residential property £000	Other advances secured on land £000	Total provisions £000
At 1st January, 1991:			
Specific	762	435	1,197
General	1,750	1,000	2,750
Charge for the year	9,886	(11)	9,875
Amounts written off	(3,255)	(335)	(3,590)
	<hr/>	<hr/>	<hr/>
At 31st December, 1991	9,143	1,089	10,232
	<hr/>	<hr/>	<hr/>
Being:			
Specific	8,043	689	8,732
General	1,100	400	1,500
	<hr/>	<hr/>	<hr/>
At 31st December, 1991	9,143	1,089	10,232
	<hr/>	<hr/>	<hr/>

Interest considered to be irrecoverable amounting to £3.3 million (1990 £538,000), charged to mortgage accounts after properties were taken into possession, has been written off against interest receivable on secured advances.

10. Profit on ordinary activities before tax

	1991 Group £000	1991 Society £000	1990 Group £000	1990 Society £000
The profit on ordinary activities before tax is stated after crediting/(charging):				
Rents receivable	136	136	107	107
Auditors' remuneration	(89)	(81)	(85)	(73)

11. Taxation

Corporation tax on the profit for the year comprises:

	1991 Group £000	1991 Society £000	1990 Group £000	1990 Society £000
Current taxation at 33¼% (1990 35%)	7,613	7,750	9,346	9,489
Deferred taxation at 33% (1990 35%)	(330)	(330)	(788)	(788)
Overprovision in respect of prior year	(393)	(388)	—	—
	<hr/>	<hr/>	<hr/>	<hr/>
	6,890	7,032	8,558	8,701
	<hr/>	<hr/>	<hr/>	<hr/>

No provision for deferred taxation has been made in respect of gains arising on the disposal of certain premises where elections for rollover relief have been made. In the event of this liability crystallizing the taxation liability would amount to £105,000 (1990 £110,000).

NOTES TO THE ACCOUNTS CONTINUED

	1991 Group £000	1991 Society £000	1990 Group £000	1990 Society £000
12. Liquid assets				
Liquid assets comprise:				
Cash in hand and with banks:				
Cash in hand	7,218	7,194	12,911	12,880
Bank deposits	244,680	244,680	244,419	244,419
Bank certificates of deposit	44,552	44,552	50,195	50,195
	296,450	296,426	307,525	307,494
Other securities:				
Issued by public bodies	56,900	56,900	55,504	55,504
Issued by other borrowers	64,658	64,658	36,506	36,506
	121,558	121,558	92,010	92,010
	418,008	417,984	399,535	399,504
Liquid assets are repayable as follows:				
Cash in hand and with banks repayable:				
On demand	7,218	7,194	12,911	12,880
In not more than three months	246,637	246,637	227,893	227,893
In more than three months but not more than one year	42,595	42,595	66,721	66,721
	296,450	296,426	307,525	307,494
Other securities repayable:				
In not more than one year	112,929	112,929	82,345	82,345
In more than one year	8,629	8,629	9,665	9,665
	121,558	121,558	92,010	92,010
	418,008	417,984	399,535	399,504
13. Other commercial assets				
Other commercial assets comprise:				
Shares held in associated bodies (Note 22)	1	1	1	1
Loans to associated bodies (Note 22)	417	1,630	539	1,331
	418	1,631	540	1,332

NOTES TO THE ACCOUNTS CONTINUED

	Land and buildings			Equipment fixtures fittings & vehicles £000	Total £000
	Freehold £000	Long leasehold £000	Short leasehold £000		
14. Fixed assets					
Tangible fixed assets comprise:					
Group:					
Cost or valuation					
Valuation 1973	1,211	-	-	-	1,211
Cost at 1.1.91	7,748	6	3,454	12,595	23,803
Additions at cost	200	-	(25)	4,076	4,251
Disposals at cost	-	-	-	(140)	(140)
Cost or valuation at 31.12.91	9,159	6	3,429	16,531	29,125
Depreciation					
At 1.1.91	-	1	818	7,523	8,342
Depreciation for the year	-	-	193	2,491	2,684
Depreciation on disposals	-	-	-	(92)	(92)
Depreciation at 31.12.91	-	1	1,011	9,922	10,934
Net book value at 31.12.91	9,159	5	2,418	6,609	18,191
Net book value at 31.12.90	8,959	5	2,636	5,072	16,672
Society:					
Cost or valuation					
Valuation 1973	1,211	-	-	-	1,211
Cost at 1.1.91	7,748	6	3,262	12,375	23,391
Additions at cost	200	-	-	3,819	4,019
Disposals at cost	-	-	-	(125)	(125)
Cost or valuation at 31.12.91	9,159	6	3,262	16,069	28,496
Depreciation					
At 1.1.91	-	1	802	7,428	8,231
Depreciation for the year	-	-	186	2,406	2,592
Depreciation on disposals	-	-	-	(82)	(82)
Depreciation at 31.12.91	-	1	988	9,752	10,741
Net book value at 31.12.91	9,159	5	2,274	6,317	17,755
Net book value at 31.12.90	8,959	5	2,460	4,947	16,371

NOTES TO THE ACCOUNTS CONTINUED

	1991 Group £000	1991 Society £000	1990 Group £000	1990 Society £000
15. Other assets				
Other assets comprise:				
Deferred taxation arising from other timing differences	330	330	788	788
Other debtors and prepayments	4,547	4,501	1,309	1,289
	<u>4,877</u>	<u>4,831</u>	<u>2,097</u>	<u>2,077</u>
16. Retail funds and deposits				
Retail funds and deposits are repayable on demand and comprise:				
Shares	1,842,460	1,842,460	1,670,432	1,670,432
Deposits	4,781	4,781	5,618	5,618
	<u>1,847,241</u>	<u>1,847,241</u>	<u>1,676,050</u>	<u>1,676,050</u>
17. Non-retail funds and deposits				
Non-retail funds and deposits comprise:				
Amounts owed to banks	61,815	61,815	28,741	28,741
Certificates of deposit	111,702	111,702	71,587	71,587
Other deposits and loans	206,435	206,435	104,496	104,496
Shares	1,839	1,839	1,793	1,793
	<u>381,791</u>	<u>381,791</u>	<u>206,617</u>	<u>206,617</u>
Non-retail funds and deposits are repayable as follows:				
On demand	3,906	3,906	3,075	3,075
In not more than three months	272,447	272,447	190,027	190,027
In more than three months but not more than one year	98,324	98,324	13,515	13,515
In more than one year but not more than five years	7,114	7,114	—	—
	<u>381,791</u>	<u>381,791</u>	<u>206,617</u>	<u>206,617</u>

NOTES TO THE ACCOUNTS CONTINUED

	1991 Group £000	1991 Society £000	1990 Group £000	1990 Society £000
18. Other liabilities				
Other liabilities comprise:				
Income tax	2,012	2,012	16,594	16,594
Corporation tax	7,692	7,692	9,372	9,372
Amounts payable to associated bodies	100	100	47	47
Other tax and social security	246	239	267	257
Other creditors and accruals	4,819	4,789	1,600	1,574
	14,869	14,832	27,880	27,844

19. Subordinated liabilities

Subordinated loan capital is in the form of Floating Rate Notes maturing in the year 2000 with interest payable at a margin over London Inter Bank Offer Rate. Total subordinated liabilities of £20,163,000 in the Balance Sheet at 31st December, 1991 include accrued interest of £163,000.

	1991 Group £000	1991 Society £000
20. General reserve		
At 1st January	90,836	91,312
Profit for the financial year	14,405	14,673
	105,241	105,985
At 31st December		

21. Directors' loans

Advances secured on residential property include eleven loans made to Directors and persons connected with them as defined by Section 70 of the Building Societies Act 1986, the balances on which totalled £467,341 at 31st December, 1991. Normal commercial terms apply to all of these loans.

In accordance with Section 68 of the Act, the Society maintains a register of loans falling within Section 65, made to Directors and connected persons. A statement containing requisite particulars of such transactions may be inspected by members at the Society's Annual General Meeting or at the principal office of the Society during the period fifteen days prior to the Annual General Meeting.

NOTES TO THE ACCOUNTS CONTINUED

22. Associated bodies

The following companies are registered in England and operate within the United Kingdom:

(i) Subsidiary companies

The Society holds 20 £1 ordinary shares in Coventry Property Services Limited, a wholly owned subsidiary. The Society also has nineteen other wholly owned subsidiary companies (none of which traded during the year) details of which are included in Section 5 of the Annual Business Statement.

(ii) Direct associated bodies

The Society has membership rights in Funds Transfer Sharing Limited, a company limited by guarantee. The Society holds 3,601 'B' shares of £1 each in Nexus Payment Systems International Limited (Nexus) which represents 1.8% of the issued ordinary share capital. During the year the Society disposed of 3,748 shares giving rise to a profit of £234,000 which has been included as other financial income. Nexus provides the Society with electronic funds transmission services.

The Society also has membership rights in LINK Interchange Network Limited, a company limited by guarantee. The company operates the LINK network of automated teller machines in the United Kingdom.

The results of the direct associated bodies have been excluded from the Group Accounts as, in the opinion of the Directors, they would not be material.

23. Guarantees and other financial commitments

Contingent liabilities

The Society has a contingent liability in respect of contributions to the Building Societies Investor Protection Fund provided for under the Building Societies Act 1986.

The Society has an obligation under the Building Societies Act 1986 to discharge the liabilities of its subsidiary companies insofar as they are unable to do so out of their own assets.

Capital commitments

Capital commitments at 31st December, 1991, for which no provision has been made in the accounts, were as follows:

	1991 Group £000	1991 Society £000	1990 Group £000	1990 Society £000
Contracted for	78	78	2,906	2,906
Authorised but not contracted for	2,948	705	2,899	2,899

Operating leases

Payments committed at the end of the year in respect of the next financial year under leases of land and buildings were:

	1991 Group £000	1991 Society £000	1990 Group £000	1990 Society £000
Commitments expiring:				
Within the next year	20	20	23	23
Within two to five years	82	82	137	137
After five years	833	833	521	521
	935	935	681	681

ANNUAL BUSINESS STATEMENT FOR THE YEAR ENDED 31ST DECEMBER 1991

1. Statutory ratios and percentages

Part 1	%	Statutory Limits %
A. Non-retail funds and deposits as a percentage of shares, deposits and loans	18.17	40.00
B. Deposits and loans as a percentage of shares, deposits and loans	18.30	50.00
C. Advances secured on residential property as a percentage of total commercial assets	98.56	N/A
D. Advances secured on land, other than residential property, as a percentage of total commercial assets	1.31	N/A
E. Commercial assets, other than advances secured on land, as a percentage of total commercial assets	0.13	10.00
F. Commercial assets, other than advances secured on residential property, as a percentage of total commercial assets	1.44	20.00

Part 2

	1991 £000
Non-retail funds and deposits as used in ratio A comprise:	
Amounts owed to banks	61,000
Certificates of deposit	110,000
Other deposits and loans	203,646
Subordinated loan capital	20,000
Shares	1,839
	<hr/>
Total non-retail funds and deposits excluding accrued interest	396,485
	<hr/>
Shares, deposits and loans as used in ratios A and B comprise:	
Non-retail funds	396,485
Retail deposits	4,781
Retail shares	1,780,977
	<hr/>
Total shares, deposits and loans excluding accrued interest	2,182,243
	<hr/>

ANNUAL BUSINESS STATEMENT CONTINUED

	1991 £000
Deposits and loans as used in ratio B comprise:	
Retail deposits	4,781
Amounts owed to banks	61,000
Certificates of deposit	110,000
Other deposits and loans	203,646
Subordinated loan capital	20,000
	<hr/>
Total deposits and loans excluding accrued interest	399,427
	<hr/>
Total commercial assets, as used in ratios C, D, E and F comprise:	
Advances secured on residential property	1,903,098
Other advances secured on land	25,320
Other commercial assets	2,554
	<hr/>
	1,930,972
	<hr/>
Other commercial assets as used in ratio E comprise:	
Shares held in associated bodies	1
Loans to associated bodies	1,630
Other commercial assets included in fixed assets*	923
	<hr/>
	2,554
	<hr/>
* In calculating the statutory ratios and percentages, the Building Societies (Business Premises) Order, 1987 requires premises to be classified as other commercial assets where less than 30% is occupied for the Society's business purposes.	
Commercial assets, other than advances secured on residential property, as used in ratio F comprise:	
Advances secured on non-residential property	25,320
Other commercial assets	2,554
	<hr/>
	27,874
	<hr/>

The above amounts have been derived from the Society's Balance Sheet.

ANNUAL BUSINESS STATEMENT CONTINUED

	1991 %	1990 %
2. Other percentages		
A. As percentages of share, deposit and loan liabilities:		
Gross capital	5.65	5.92
Free capital	4.90	5.18
B. Liquid assets as a percentage of total assets	17.64	19.76
C. Profit after taxation as a percentage of:		
Mean reserves	14.60	18.38
Mean total assets	0.66	0.84

The above percentages have been prepared from the Group Balance Sheet. Gross capital represents total reserves and subordinated loan capital. Free capital represents gross capital and general loss provision, less fixed assets. Share, deposit and loan liabilities represent the total of retail and non-retail borrowings. Mean reserves are the average of the 1990 and 1991 reserves. Mean total assets are the average of the 1990 and 1991 total assets.

3. Average rates	Average balance outstanding £000	Interest earned/ paid £000	Average yield/rate %
Assets			
Liquid assets	408,772	40,086	9.81
Secured advances	1,765,888	219,836	12.45
Liabilities			
Retail funds and deposits	1,761,646	188,614	10.71
Non-retail funds and deposits	294,204	22,250	7.56

The figures shown above are taken from the Group Accounts and represent the major categories of interest bearing assets and liabilities. The average balance represents the amount obtained by halving the aggregate of the relevant asset or liability as stated in the Balance Sheet at the beginning and end of the financial year. Interest earned and interest paid represent the amounts shown in the Income and Expenditure Account in respect of each category of asset or liability. Details of interest earned/paid are shown in Notes 2 and 3 to the Accounts. Average yield and average rate paid represent the amounts of interest earned or paid as a percentage of the average balance outstanding.

ANNUAL BUSINESS STATEMENT CONTINUED

4. Information relating to Directors and other officers

Part 1 — Directors

Name (Date of Birth)	Occupation	Other Directorships	Date of appointment as Director
I. N. Smith (Chairman) (27.7.1933)	Solicitor	Coventry Mogas Services Limited Coventry Mogas Services (North East) Limited The Helen Ley Home	1.7.1973
P. B. Forde (Deputy Chairman) (25.2.1930)	Retired Building Society Chief Executive	Coventry Polytechnic (Governor) Coventry Property Services Limited All of Coventry Building Society's other subsidiary companies detailed in Section 5	1.7.1973
D. L. Burbidge (15.10.1943)	Company Director	H. Burbidge & Son Limited Richard Burbidge Limited	10.3.1981
B. Gillitt (25.3.1932)	Chartered Accountant/ Farmer	Coventry Diocesan Board of Finance Limited Coventry Property Services Limited Gillitt Properties Limited Harton Farms Limited InterAid International Inter Aid Limited Mercia Sound Limited Midland Radio Holdings plc Sirenella Property Co. Limited Wood Street Garage Limited	1.1.1980
T. D. Morris (15.02.1935)	Company Director	Bargain Hunter Limited Birmingham Chamber of Industry & Commerce Birmingham Hippodrome Limited Birmingham Hippodrome Theatre Trust Limited Cambridge Newspapers Limited Contract Newspapers Limited CPU Conferences Limited Creative Printing and Advertising Co. Limited Glamorgan Gem Limited Herts & Essex Newspapers Limited Herts & Essex Typographics Limited HIL Limited Iliffe Newspapers Limited J. H. Lake & Co. Limited	15.5.1991

(continued on page 25)

ANNUAL BUSINESS STATEMENT CONTINUED

Part 1 — Directors (continued)

Name (Date of Birth)	Occupation	Other Directorships	Date of appointment as Director
T. D. Morris (<i>continued</i>)		Lefpalm Limited Midland United Newspapers Limited Packet Newspapers (Cornwall) Limited Property South West Limited Public Art Commissions Agency (Trustee) Reuters Founders Share Company Limited Royal Opera House Ballet Board South Hams Newspapers Limited The Burton Daily Mail Limited The Derbyshire Advertiser Limited <i>The Royal Ballet (Governor)</i> West Country Publishing Limited West Midlands Press Limited West of England Newspapers Limited West of England Publications Limited Westridge Holdings Limited Yattendon Holdings plc Yattendon Investment Trust plc Yattendon Pension Trustees Limited YIT Pension Trustees Limited	
M. H. Ritchley (1.7.1946)	Building Society Chief Executive	Coventry Property Services Limited All of Coventry Building Society's other subsidiary companies detailed in Section 5 St. Joseph's School Kenilworth	1.6.1985
P. J. White (2.12.1929)	Company Director	Auldyn Stud Limited Coventry Property Services Limited Mercia Sound Limited Midland Radio plc Midland Radio Holdings plc Simms Metals Limited	1.1.1980

Documents may be served on the above named Directors at:

Seymour Smith Box & Sharpe, Solicitors, Queens House, Queens Road, Coventry CV1 3JN.

On 26th February, 1990 the Society entered into a service contract with Mr. M. H. Ritchley, the Chief Executive. The contract expires on 1st July, 2006, Mr. Ritchley's sixtieth birthday, and enables the Society to give three years' notice of termination.

ANNUAL BUSINESS STATEMENT CONTINUED

Part 2 — Other officers of the Society

Name	Occupation	Directorships
B. S. Day	General Manager	Coventry Property Services Limited
M. R. Edwards	Secretary & Solicitor	None
J. A. Thomson	General Manager	Coventry Property Services Limited Funds Transfer Sharing Limited LINK Interchange Network Limited
P. H. Webb	General Manager	Coventry Property Services Limited Funds Transfer Sharing Limited (Alternate Director) LINK Interchange Network Limited (Alternate Director)

5. Associated bodies not carrying on a business

At 31st December, 1991 the Society held shares in the following direct wholly owned subsidiary companies:

	Share capital issued £	Percentage owned directly by Society %
Coventry Cover Limited	20	100
Coventry Estate Agency Services Limited	20	100
Coventry Financial Services Limited	20	100
Coventry Homefinders Limited	20	100
Coventry Home Owner's Centre Limited	20	100
Coventry Housing Developments Limited	20	100
Coventry Property Directory Limited	20	100
Coventry Securities and Investments Limited	20	100
Economic Estate Agency Services Limited	20	100
Economic Financial Services Limited	20	100
Economic Home Owner's Centre Limited	20	100
Economic Housing Developments Limited	20	100
Economic Securities and Investments Limited	20	100
Godiva Financial Services Limited	20	100
Godiva Home Owner's Centre Limited	20	100
Godiva Housing Developments Limited	20	100
Godiva Property Directory Limited	20	100
Godiva Securities and Investments Limited	20	100
The Property Directory Limited	20	100

At the same date, the authorised share capital of Economic Financial Services Limited was £20 million. The authorised share capital of each of the other subsidiary companies was £100.

6. New activities

The Society has not exercised any new powers during the year.

DIRECTORS' REPORT FOR THE YEAR ENDED 31ST DECEMBER 1991

The Directors have pleasure in submitting their one hundred and eighth Annual Report, the audited Accounts and Annual Business Statement of Coventry Building Society and its subsidiaries for the year ended 31st December, 1991.

In accordance with the provisions of the Building Societies Act 1986, this document has not been circulated to members but is available on demand at any office of the Society. A Summary Financial Statement is being sent to all members entitled to receive it in accordance with the requirements of the Act.

Business objective and principal activities

The business objective of Coventry Building Society continues to be the provision of mortgage finance mainly for the purchase or improvement of residential property and the provision of related personal financial services. The Society raises its funds to finance such activities through its range of personal investment accounts and from the wholesale money markets.

In accordance with Section 75 of the Building Societies Act 1986, the Board confirms that none of the activities carried on during the year was outside the powers of the Society.

Results

ASSETS

The total assets of the Group at 31st December, 1991 amounted to £2,369.9 million, an increase of £347.7 million. This represented growth of 17.19% confirming the Society's position in the top twenty as one of the country's leading building societies.

LIQUID ASSETS

As at 31st December, 1991 the Group's liquid assets in the form of cash and investments totalled £418 million, representing 17.64% of total assets.

COMMERCIAL ASSETS

Despite the severity of the economic recession and the depressed state of the housing market, the Society advanced a record £526.1 million during 1991 compared with £444.8 million during 1990. The number of advances executed was 17,387 compared with 16,145 for 1990. At the end of the year, there were 86,409 mortgage accounts, the balances on which totalled £1,928.4 million. Of this total £25.3 million related to non-residential mortgages representing 1.31% of commercial assets. This compared with £27.8 million, or 1.73% of commercial assets, at the end of 1990.

At the end of the year there were 978 mortgages where repayments were twelve months or more in arrear. The arrears amounted to £12.1 million, or 0.63% of mortgage balances.

The deepening recession continued to cause some borrowers difficulties in meeting their repayments. As a consequence, the Society, in common with other lenders, has experienced a deteriorating arrears position, although the first signs of an improvement were seen in the latter part of 1991. The Society recognised at an early stage the problems caused by the recession and has made considerable efforts to assist borrowers experiencing difficulties to remain in their homes. Nevertheless, there has inevitably been a significant increase in the number of properties taken into possession. Actual losses sustained during 1991 amounted to £3.6 million. In addition, the Directors consider it prudent to increase substantially the provision for mortgage losses to £10.2 million at 31st December, 1991. The specific provision reflects the potential losses on all mortgages three months or more in arrears, taking into account the estimated decline in the value of the properties which may have occurred since the advances were originally completed and amounts recoverable under mortgage indemnity policies. A further provision to cover other losses which may occur has also been made. Details are included in Notes 1(f) and 9 to the Accounts.

DIRECTORS' REPORT CONTINUED

FIXED ASSETS

Changes in fixed assets during the year are detailed in Note 14 to the Accounts.

SHARES, DEPOSITS AND LOANS

Net retail receipts from shareholders and depositors totalled £171.2 million during 1991. Retail balances totalled £1,847.2 million as at 31st December, 1991. In addition, the Society increased its non-retail funds by £175.2 million to total £381.8 million at 31st December, 1991. Non-retail funds represented 18.17% of share, deposit and loan liabilities at the end of the year, well below the statutory limit of 40%.

The number of shareholders' and depositors' accounts totalled over 495,000 at 31st December, 1991.

PROFIT AND CAPITAL

The pre-tax profit of the Group for the year amounted to £21.3 million after making a charge of £9.9 million for potential mortgage losses. Profit after tax amounted to £14.4 million which represented a reduction of less than £1 million on the comparable figure for 1990.

The profit of £14.4 million was added to reserves which totalled £105.8 million at 31st December, 1991.

At the same date, the Group's gross capital totalled £125.8 million, made up of total reserves of £105.8 million and subordinated loan capital of £20.0 million.

The Group's capital ratios expressed as percentages of total share, deposit and loan liabilities were as follows:

Gross capital (i.e. total reserves plus subordinated loan capital)	5.65%
Free capital (i.e. gross capital plus general loss provision, less fixed assets)	4.90%

CHARITABLE CONTRIBUTIONS

The Group made direct contributions totalling £1,583 to various charities during the year. In addition, the Society participated in a number of major charity appeals by allowing its branch offices to be used as collection points for public donations.

A major charitable initiative was undertaken by the Society and Coventry Property Services Limited in conjunction with the Snowball Appeal. The initiative involved the refurbishment of the 'Snowball House' using materials and services donated by local suppliers and interest free finance provided by the Society during the conversion period. The project was a tremendous success, raising £13,000 for the Snowball Charity, emphasising the Society's commitment to the community.

Premises

During 1991 the Society relocated three branch offices to new premises in New Inn Hall Street, Oxford, Regent Street, Rugby and High Street, Banbury. A new financial services office was opened at the Merry Hill Centre, near Dudley.

The Society's programme of branch refurbishment has continued with schemes completed at London Road, Headington, Oxford, Trinity Street, Coventry and Abbey Street, Nuneaton. At each location the premises have been doubled in size.

The Society's existing administrative headquarters building in High Street, Coventry was completed and first occupied in 1978. Since that time, the assets of the Society have increased from £245 million to the present £2,370 million. As a consequence of this growth, it proved necessary to acquire additional rented accommodation at West Orchard House, Coventry to satisfy the Society's administrative requirements. Accordingly, the Society's administration is now undertaken from two office locations in the centre of Coventry.

DIRECTORS' REPORT CONTINUED

Since the year end, a freehold site has been acquired in Manor House Drive, Coventry by the Society's wholly owned subsidiary company, Godiva Home Owner's Centre Limited. Whilst there is no immediate intention to develop this city centre site, the land has been purchased with a view to the future construction of a new administrative headquarters building. The acquisition of this freehold site provides scope for future expansion and secures the Society's future within the centre of the city in which it has been located for more than a century.

Interest rates

The year 1991 has seen a sustained trend of reducing interest rates. As a consequence, five reductions were made in the Society's basic mortgage rate from 14.50% at the start of the year to 11.50% by the end of the year. A further reduction to 10.99% has been made since the year end to apply to new mortgages from 24th January, 1992 and to existing mortgages from 9th March, 1992 or later depending upon the terms of individual mortgage contracts.

The appropriate changes were made to the Society's investment rates during 1991 to ensure that these remained competitive. Details of these have already been advertised in branch offices, published in the press and will be communicated to investors with the annual statements in April.

At 31st December, 1991 the following rates of interest applied to the Society's principal investment products:

	Gross rate
Investment Account	2.50%
Bonus Account	6.25%
TESSA Account	11.55%
MoneyMaker Account	2.50% to 8.80%
Instant Option Account	7.50% to 11.55%
Three Year Bond	10.40% to 11.55%

The rates of interest applicable to the Three Year Bond, MoneyMaker and Instant Option accounts are determined by the balance invested. Monthly income facilities are available on the Three Year Bond, MoneyMaker, Instant Option and TESSA accounts to produce identical compounded annual equivalent rates of interest.

A further reduction in the Society's investment rates took effect on 9th February, 1992.

New activities and developments

1991 was one of the most difficult years the housing market has ever experienced. The deepening recession brought with it increasing unemployment and the lack of confidence in the economic outlook was reflected in the stagnation of the property market. Inevitably, there was intense competition in the mortgage finance market.

Against this background, Coventry Building Society achieved remarkable results in 1991. Advances totalled a record £526 million, a success which was built principally upon the Society's ability to launch innovative and competitive mortgage products.

During the year, one fixed rate and six capped rate mortgage products were launched, which proved extremely popular and enabled the Society to attract substantial volumes of business from the limited activity which was taking place in the market. These products were developed using financial hedging instruments and took advantage of opportunities created by the market's expectation of lower interest rates. It is clear that fixed and capped rate mortgage products will play an increasingly important role in lending, by providing certainty in relation to repayments, particularly in the early life of a mortgage. Accordingly, the Society will continue to look for future opportunities to introduce similar products to provide benefits for borrowers, whilst maintaining the prudent lending policies which have consistently been pursued.

DIRECTORS' REPORT CONTINUED

Whilst the Society's success in 1991 was primarily attributable to its hedged mortgage products, it nevertheless responded to the demand from borrowers who prefer variable rate mortgages by offering a discount of up to 2½% for the first six months of the loan.

The Society welcomes the initiatives announced by the Government at the end of 1991 to stimulate the housing market, to facilitate the direct payment of income support to lenders in relation to the mortgage interest of those borrowers who are unemployed, and to promote mortgage rescue schemes. The Society has consistently recognised its responsibility to do all it can to assist borrowers facing financial difficulties and is, therefore, actively participating in these initiatives.

There was also intense competition during 1991 for retail savings, not only from other financial institutions, but also from National Savings and privatisation share issues. This competition and the impact of a far from buoyant economy, meant that the Society placed greater reliance upon non-retail sources to fund its lending programme. Nevertheless, the Society remains committed to the retail savings market and is determined to maintain the competitiveness of its product portfolio.

The Society launched its TESSA Account on 1st January, 1991 providing investors with the opportunity to save up to £9,000 over five years and earn interest completely free of tax. As an introductory offer, the Society announced a special 1% bonus on all TESSA accounts opened by the end of February, 1991. The product has been enthusiastically received by the Society's members and more than 14,000 accounts have been opened.

The important changes announced in the 1990 Budget in the way that banks and building societies account for income tax on the interest paid to investors came into effect on 6th April, 1991. From that date, the Society has been able to pay interest gross to those investors able to certify that they are not liable to income tax. More than 90,000 investors have so far registered for payment of interest gross.

The transition to the new taxation system had important implications to which the Society was able to respond for the benefit of investors. First, the Premier Account was introduced, aimed at non-taxpayers, enabling them to accrue interest until early in the fiscal year 1991/92 and thereby receive it gross. Secondly, the Society introduced the 'Plus' versions of its Three Year Bond, MoneyMaker and Option accounts which provided for interest to be capitalised on 31st March each year. This enabled the Society to pay a higher rate of interest until 31st March, 1991 because its liability for income tax was restricted to the composite rate. The financial implications of the transition to the new taxation system disappeared on 6th April, 1991 and consequently, the 'Plus' versions of the Society's principal accounts were withdrawn.

In September, 1991, the Society responded to competition in the market by making changes to the 90 Day Option Account. Until then, withdrawals were conditional upon ninety days' notice or a penalty equivalent to ninety days' interest unless a balance of £5,000 remained in the account. This condition was removed and the account renamed Instant Option Account.

In February, 1992, the Society introduced a new 90 Day Account. The account pays a highly competitive 10.00% for balances of £1,000 or more rising to 10.65% for amounts over £25,000 and 11.00% for amounts over £40,000. Withdrawals are available either at ninety days' notice or immediately, subject to a penalty equivalent to ninety days' interest.

The Society has also launched a limited issue Fixed Rate Bond paying an attractive 10.50% fixed until 31st March, 1995. In a period of economic uncertainty, the Bond is particularly attractive to investors who depend upon building society interest for their income. A monthly income version is available at a fixed rate of 10.00%.

DIRECTORS' REPORT CONTINUED

The Society remains committed to offering competitive retail products so as to attract sufficient funds to meet its lending programme. The Investment and MoneyMaker accounts already offer facilities enabling salaries to be credited by means of the WageEarner and PaySave schemes, as well as access to the LINK automated teller machine network by means of the Society's CashLink card. Direct debits and standing orders enable members to make regular payments from Investment and MoneyMaker accounts thereby providing a comprehensive money management service.

The Society's estate agency subsidiary, Coventry Property Services Limited, operated in a severely depressed property market which has adversely affected trading conditions. In May, 1991, Coventry Property Services opened an office in Nuneaton, initially in conjunction with the Society's operations whilst the existing branch was expanded and refurbished.

Coventry Property Services has consolidated its presence in the residential estate agency market in Coventry and the surrounding area. It is now contributing to the Group's performance by providing a regular flow of new mortgage business.

The Society is committed to its traditional role as a building society and will continue to develop products and services to meet the needs of members, so that it can compete effectively in the financial services market, thus ensuring its future success.

Associated bodies

The Group Accounts include the results of the Society's wholly owned subsidiary, Coventry Property Services Limited. Details of the Society's other nineteen wholly owned subsidiaries (none of which traded during the year) are included in Section 5 of the Annual Business Statement. The availability of these other subsidiary companies will enable the Group to introduce new products and services to members as business opportunities arise.

The Society also has three direct associated bodies, namely Funds Transfer Sharing Limited, Nexus Payment Systems International Limited and LINK Interchange Network Limited. Details are contained in Note 22 to the Accounts.

Staff

It is the Society's policy to keep all members of staff aware of financial and commercial matters as far as is practicable through its management structure. A regular newspaper is also produced to inform staff of developments within the Society. In addition, the Society's employees are represented by a recognised trade union whose representatives attend regular meetings with management to discuss matters likely to affect staff interests.

The Society's policy is to give full and fair consideration to applications for employment made by disabled persons, having regard to their particular aptitudes and abilities, and to ensure that any disabled person who is in employment with the Society receives, so far as is practicable, the same opportunities for training, career development and promotion as other employees.

DIRECTORS' REPORT CONTINUED

Directors

The Directors of the Society at the end of the year and at the date of this report were as follows:

I. N. Smith (Chairman)	T. D. Morris
P. B. Forde (Deputy Chairman)	M. H. Ritchley (Chief Executive)
D. L. Burbidge	P. J. White
B. Gillitt	

Mr. T. D. Morris was appointed to the Board on 15th May, 1991. He retires under Rule 32 and, being eligible, offers himself for re-election in accordance with that Rule. Mr. Morris's extensive business experience has already proved invaluable to the Board.

All of the other Directors held office for the entire year.

Mr. I. N. Smith was elected Chairman of the Society on 15th May, 1991 in succession to Mr. B. Gillitt.

At the end of 1991, no Director had any interest in shares in, or debentures of, any associated body of the Society.

The Directors retiring by rotation are Mr. P. J. White, Mr. B. Gillitt and Mr. P. B. Forde who, being eligible, offer themselves for re-election in accordance with Rule 33.

Further details of the Society's Directors are shown in Section 4 of the Annual Business Statement.

Auditors

Ernst & Young have expressed their willingness to continue as auditors and a resolution proposing their re-appointment will be submitted at the Annual General Meeting.

Conclusion

The Directors are grateful for the continued support of members and also wish to record their appreciation of the valued services of the management and staff and the loyal support given by the agents.

Signed on behalf of the Board,

I. N. Smith,
Chairman.

19th February, 1992.



AUDITORS' REPORT TO THE MEMBERS OF COVENTRY BUILDING SOCIETY

We have audited the Accounts on pages 8 to 20 in accordance with Auditing Standards. In our opinion the Accounts give a true and fair view of the state of affairs of the Society and of the Group at 31st December, 1991, of the Income and Expenditure of the Society and of the Group for the year then ended, and of the manner in which the business of the Group was financed and in which the Group's financial resources were used during the year.

We have examined the Annual Business Statement on pages 21 to 26 other than the details of Directors and officers upon which we are not required to report. In our opinion the information which we have examined gives a true representation of those matters referred to therein.

We have examined the Directors' Report on pages 1 to 6. In our opinion the information given therein is consistent with the accounting records and the Annual Accounts.

In our opinion the Accounts, the Annual Business Statement and the Directors' Report have each been prepared so as to conform with the requirements of Part VIII of the Building Societies Act 1986 and the regulations made thereunder.

Ernst & Young,
Chartered Accountants,
Registered Auditor.

Birmingham,
19th February, 1992.

Note: The page references in the above report refer to those contained in the Report and Accounts for the Society for the year ended 31st December, 1991.

UNITED KINGDOM TAXATION

The following is a summary of the Society's understanding of current law and practice in the United Kingdom relating to the taxation of the Notes and the PIBS. The summary relates only to the position of persons who are the absolute beneficial owners of their Notes or PIBS and the interest on them and some aspects do not apply to certain classes of taxpayer (such as dealers). **Prospective Noteholders and PIBS holders who are in any doubt as to their tax position or who may be subject to tax in a jurisdiction other than the United Kingdom should seek their own professional advice.**

A. TAXATION OF THE NOTES

1. On payment of interest on the Notes an amount must be withheld by the Society on account of United Kingdom income tax at the basic rate (currently 25 per cent.). Certain classes of taxpayer (such as tax exempt investors and individuals whose taxable income is below their personal allowance) may be able to reclaim all or part of any tax deducted. Holders of Notes who are not resident in the United Kingdom may be able to recover all or part of the tax deducted pursuant to the provisions of an applicable double taxation convention and may be able to make an individual claim to the relevant tax authorities for payment of interest gross. Notwithstanding that interest is received net of a basic rate income tax deduction, holders of the Notes who are (a) individuals or (b) companies carrying on a trade in the United Kingdom through a branch or agency may, depending on the circumstances, be liable to pay further United Kingdom tax on the interest received.
2. The Notes are within the accrued income scheme. Accordingly, a disposal of Notes by a Noteholder who is resident or ordinarily resident in the United Kingdom, or who carries on a trade in the United Kingdom through a branch or agency to which the Notes are attributable, may give rise to a charge to tax on income in respect of an amount representing interest on the Notes which has accrued since the preceding interest payment date. However, the accrued income scheme does not apply, *inter alia*, to individuals who do not hold securities with a nominal value of more than £5,000 at any time in both the year of assessment in which the relevant interest period on the Notes ends and the preceding year of assessment.
3. The conversion of the securities will constitute a transfer of securities for the purposes of the accrued income scheme. The application of the accrued income scheme to the conversion of securities is unclear but the Inland Revenue have confirmed that in the circumstances of this issue no charge to tax will arise. However holders of PIBS will be chargeable to tax on the whole amount of the interest received on the next interest payment date following conversion.
4. The Notes will constitute "qualifying corporate bonds" within the meaning of section 117 of the Taxation of Chargeable Gains Act 1992. Accordingly, a disposal by a Noteholder will not give rise to a chargeable gain or an allowable loss for the purposes of the United Kingdom taxation of capital gains.
5. No United Kingdom stamp duty or stamp duty reserve tax is payable on the issue of the Notes or on their redemption. However, the Inland Revenue have stated that United Kingdom stamp duty will be payable on a transfer of the Notes (currently at the rate of $\frac{1}{2}$ per cent. of the consideration paid). Stamp duty reserve tax may be payable on an agreement to transfer the Notes which is not effected by a duly stamped transfer.
6. The rules allowing certain United Kingdom resident individual investors to receive building society interest gross on certification that such investors are unlikely to be liable to pay any amount by way of income tax for the year in which the interest is paid do not apply to interest paid on the Notes.

B. TAXATION OF THE PIBS

1. On payment of interest on the PIBS an amount must be withheld by the Society on account of United Kingdom income tax at the basic rate (currently 25 per cent.). Certain classes of taxpayer (such as tax exempt investors and individuals whose taxable income is below their personal allowance) may be able to reclaim all or part of any tax deducted. Holders of PIBS who are not resident in the United Kingdom may be able to recover all or part of the tax deducted pursuant to

the provisions of an applicable double taxation convention and may be able to make an individual claim to the relevant tax authorities for payment of interest gross. Notwithstanding that interest is received net of a basic rate income tax deduction, holders of the PIBS who are (a) individuals or (b) companies carrying on a trade in the United Kingdom through a branch or agency may, depending on the circumstances, be liable to pay further United Kingdom tax on the interest received.

2. PIBS are within the accrued income scheme. Accordingly, a disposal of PIBS by a PIBS holder who is resident or ordinarily resident in the United Kingdom, or who carries on a trade in the United Kingdom through a branch or agency to which the PIBS are attributable, may give rise to a charge to tax on income in respect of an amount representing interest on the PIBS which has accrued since the preceding interest payment date. However, the accrued income scheme does not apply, *inter alia*, to individuals who do not hold securities with a nominal value of more than £5,000 at any time in both the year of assessment in which the relevant interest period on the PIBS ends and the preceding year of assessment.
3. The PIBS will constitute "qualifying corporate bonds" within the meaning of section 117 of the Taxation of Chargeable Gains Act 1992. Accordingly, a disposal by a PIBS holder will not give rise to a chargeable gain or an allowable loss for the purposes of the United Kingdom taxation of capital gains.
4. No United Kingdom stamp duty or stamp duty reserve tax is payable on the issue or transfer of the PIBS or on their redemption.
5. The rules allowing certain United Kingdom resident individual investors to receive building society interest gross on certification that such investors are unlikely to be liable to pay any amount by way of income tax for the year in which the interest is paid do not apply to interest paid on PIBS.

MARKETING ARRANGEMENTS

Kleinwort Benson Limited has agreed pursuant to a placing agreement dated 28th May, 1992 (the "Placing Agreement") as agent of the Society to procure subscribers for, or itself subscribe, the Notes. The issue of the Notes has been underwritten by Kleinwort Benson Limited. Kleinwort Benson Limited as agent of the Society has sent placing letters (the "Placing Letters") to various institutions who have agreed, subject to certain conditions, to subscribe for £40,000,000 principal amount of the Notes at an issue price of 100.749 per cent. of the principal amount of the Notes. In connection with the placing the Society has agreed with Kleinwort Benson Limited to pay a placing fee of 1¼ per cent. of the principal amount of the Notes subscribed pursuant to the Placing Letters respectively sent out by them and reimburse certain expenses of Kleinwort Benson Limited.

The Notes and the PIBS have not been and will not be registered under the U.S. Securities Act of 1933 (the "Securities Act") and may not be offered or sold within the United States or to the U.S. persons otherwise than in accordance with applicable U.S. securities laws and regulations. Each subscriber has agreed that it will not offer or sell a Note or a PIBS within the United States or to U.S. persons otherwise than in accordance with applicable U.S. securities laws and regulations.

In addition, until 40 days after the commencement of the offering, an offer or sale of Notes within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act.

All applicable provisions of the Financial Services Act 1986 with respect to anything done in relation to the Notes and the PIBS in, from or otherwise involving the United Kingdom must be complied with. Any document received in connection with the issue of the Notes or the PIBS, other than any document which consists of or of part of listing particulars, supplementary listing particulars or any other document required or permitted to be published by listing rules under Part IV of the Financial Services Act 1986, may be issued or passed on in the United Kingdom only to a person who is of a kind described in Article 9(3) of the Financial Services Act 1986 (Investment Advertisements) (Exemptions) Order 1988 or to whom the advertisement may otherwise lawfully be issued or passed on.

Save for having obtained approval of this document by the London Stock Exchange pursuant to listing rules made under Part IV of the Financial Services Act 1986 and having delivered copies thereof to the Registrar of Companies in England and Wales, no action has been or will be taken by the Society or Kleinwort Benson Limited that would, or is intended to, permit a public offer of the Notes or the PIBS in any country or jurisdiction where action for that purpose is required. The Notes and the PIBS may not be, directly or indirectly, offered or sold in any country or jurisdiction where action for that purpose is required. Accordingly, the Notes and the PIBS may not, directly or indirectly, be offered or sold and neither this Offering Circular nor any other circular, prospectus, form of application, advertisement or other material may be distributed in or from, or published in, any country or jurisdiction, except under circumstances that will result in compliance with any applicable laws and regulations.

Neither the Society nor Kleinwort Benson Limited represents that the Notes or the PIBS may at any time lawfully be sold in or from any jurisdiction (other than in or from the United Kingdom) in compliance with any applicable registration requirements or pursuant to an exception available thereunder or assumes any responsibility for facilitating such sales.

GENERAL INFORMATION

Material Change

There has been no significant change in the financial or trading position of the Group or any material adverse change in the prospects of the Group since 31st December, 1991, being the date to which the latest published audited accounts were made up.

Litigation

There are no legal or arbitration proceedings pending or threatened against the Group which may have, or have had during the past twelve months, a significant effect on the financial position of the Society and its subsidiaries taken as a whole.

Auditors

The consolidated accounts of the Society for the three years ended 31st December, 1991 have been audited in accordance with United Kingdom auditing standards by Ernst & Young, Chartered Accountants, Windsor House, 3 Temple Row, Birmingham B2 5LA. The auditors have given and have not withdrawn their consent to the issue of this Offering Circular with their report to members included in the form and context in which it appears.

Documents for Inspection

Copies of the following documents may be inspected at the offices of Clifford Chance, Royex House, Aldermanbury Square, London EC2V 7LD, during usual business hours on any week day (Saturdays and public holidays excepted) during the period of 14 days from the date of this document:

- (i) the Rules and the Memorandum of the Society;
- (ii) the consolidated audited accounts of the Group for each of the years ended 31st December, 1990 and 1991;
- (iii) drafts (subject to modification) of the Trust Deed and the Registrar's Agreement;
- (iv) the Placing Agreement;
- (v) the consent of Ernst & Young referred to above;
- (vi) the Director's service contract referred to below; and
- (vii) the Material Contracts referred to below.

Expenses

The overall cost of the issue of the Notes by the Society, including all commissions and expenses, is estimated to amount to £597,525.

Material Contracts

The Group has entered into the following material contracts (other than in the ordinary course of business) within the two years immediately preceding the date of this document:

- (i) the Placing Agreement dated 28th May, 1992 between Kleinwort Benson and the Society; and
- (ii) the outstanding £20,000,000 Subordinated Floating Rate Note facility maturing in the year 2000.

Directors' Interests

The Directors of the Society have no interest in any transactions which are or were unusual in their nature or conditions or significant to the business of the Group and which were effected by the Society during the current or immediately preceding financial year or were effected by the Society during an earlier financial year and remain in any respect outstanding or unperformed.

The Directors of the Society have no interests in any securities of the Society or any subsidiary of the Society which have been notified under section 324 or section 328 of the Companies Act 1985 or are required to be registered under section 325 of that Act.

Neither any Director of the Society nor any child, stepchild (in each case under the age of 18) nor spouse of any Director of the Society has any interest in any Notes or any other debentures of the Society.

Guarantees and Loans

At 31st December, 1991 advances secured on residential property include eleven loans made to Directors of the Society and persons connected with them as defined by Section 70 of the Building Societies Act 1986, the balances on which totalled £467,341 at 31st December, 1991. Normal commercial terms apply to all of these loans. No guarantees have been provided by the Group for the benefit of any Director of the Society.

Employee Schemes

There are no existing schemes involving the Directors or any employees of the Society or any of its subsidiaries in any capital of the Society or any of its subsidiaries.

Amounts Payable to the Directors

It is estimated that an aggregate of £195,000 will be payable to Directors of the Society in respect of the financial year ending 31st December, 1992.

Directors' Service Contracts

The Society's Chief Executive, Mr M.H. Ritchley, has a service contract expiring on 1st July, 2006, his sixtieth birthday. His salary is reviewed annually on 1st January and the current salary is £81,048. This contract enables the Society to give three years' notice of termination. Save as aforesaid, there are no service contracts existing or proposed between the Directors and the Society or any of its subsidiaries.

Registrar

The Society intends to appoint The Royal Bank of Scotland plc (the "Registrar") at its specified office at P.O. Box 435, Owen House, 8 Bankhead Crossway North, Edinburgh EH11 4BR, to maintain the register of Noteholders and, when issued, PIBS holders at such specified office. It is intended that the Registrar will act as agent of the Society for the purposes of maintaining the register of Noteholders and, when issued, PIBS holders, accepting instructions for, and effecting, transfers of Notes and PIBS, issuing certificates in respect of Notes and PIBS certificates to new Noteholders and, following conversion, PIBS holders, receiving requests for the replacement of, and replacing, defaced, damaged, stolen, worn-out, lost or destroyed certificates in respect of Notes and PIBS certificates and making payments in respect of the Notes and, when issued, the PIBS as they fall due.

REGISTERED OFFICE OF THE SOCIETY

Economic House,
P.O. Box 9,
High Street,
Coventry, CV1 5QN

REGISTRAR

The Royal Bank of Scotland plc,
P.O. Box 435,
Owen House,
8 Bankhead Crossway North,
Edinburgh EH11 4BR

TRUSTEE

The Law Debenture Trust Corporation p.l.c.,
Princes House,
95 Gresham Street,
London EC2V 7LY

LEGAL ADVISERS

To the Society

Clifford Chance,
Royex House,
Aldermanbury Square,
London EC2V 7LD

*To the Manager and Underwriter and
to the Trustee*

Linklaters & Paines,
Barrington House,
59-67 Gresham Street,
London EC2V 7JA

AUDITORS

Ernst & Young,
Windsor House,
3 Temple Row,
Birmingham B2 5LA

MANAGER AND UNDERWRITER

Kleinwort Benson Limited,
20 Fenchurch Street,
London EC3P 3DB

SPONSOR FOR LISTING

Kleinwort Benson Securities Limited,
20 Fenchurch Street,
London EC3P 3DB