



Coventry Building Society

(incorporated in England under the Building Societies Act 1986)

£120,000,000

6.092 per cent. Permanent Interest Bearing Shares

Issue Price: 100 per cent.

Coventry Building Society (the “Society”) will issue £120,000,000 6.092 per cent. Permanent Interest Bearing Shares (the “PIBS”) comprising 120,000 PIBS of £1,000 each at an issue price of 100 per cent. of their principal amount.

Application has been made to the Financial Services Authority (the “FSA”) in its capacity as competent authority under the Financial Services and Markets Act 2000 (the “UK Listing Authority” and “FSMA”, respectively) for the PIBS to be admitted to the official list of the UK Listing Authority (the “Official List”) and to the London Stock Exchange plc (the “London Stock Exchange”) for the PIBS to be admitted to trading on the London Stock Exchange’s Gilt Edged and Fixed Interest Market (the “Market”). References in this Prospectus to PIBS being “listed” (and all related references) shall mean that such PIBS have been admitted to trading on the Market and have been admitted to the Official List. The Market is a regulated market for the purposes of the Investment Services Directive 93/22/EC.

Attention is drawn to the description in “*Certain Provisions of the Act and Requirements of the Supervisory Authority*” of the ways in which a building society can, without the consent of holders of permanent interest bearing shares, amalgamate with or transfer its rights and obligations to another building society or a company pursuant to the relevant legislation.

It is anticipated that the PIBS will be issued in registered form on 29 June 2006, conditionally upon the PIBS being admitted to the Official List and to trading on the Market, which in each case is expected to occur on 29 June 2006. The listing of the PIBS will be expressed as a percentage of their principal amount.

The PIBS will be deferred shares in the Society for the purposes of Section 119 of the Building Societies Act 1986, as amended (the “Act”), and will not be protected deposits for the purposes of the Financial Services Compensation Scheme established under the FSMA.

The PIBS will not be withdrawable at the option of the PIBS holders (as defined in “*Special Conditions of Issue of the PIBS - General*”) and will be repayable only at the option of the Society on 29 June 2016 or any Interest Payment Date (as defined in “*Special Conditions of Issue of the PIBS – Interest*”) thereafter or in certain limited circumstances, as described in “*Special Conditions of Issue of the PIBS – Repayment*”, in each case subject to the consent of the FSA, as supervisory authority.

The PIBS are expected to be rated Baa1 by Moody’s Investors Service, Inc. (“Moody’s”) and A- by Fitch Ratings Limited (“Fitch”). Moody’s define a Baa1 rating as medium-grade obligations subject to moderate credit risk and which may possess certain speculative characteristics. The modifier 1 indicates a high-range ranking within the Baa generic rating category. Fitch define a A- rating as denoting a low expectation of credit risk. The capacity for payment of financial commitments is considered strong. This capacity may, nevertheless, be more vulnerable to changes in circumstances or in economic conditions than is the case for higher ratings. The modifier – indicates a low-range ranking within the A generic rating category. A credit rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.

The information contained in this Prospectus is intended for sophisticated investors capable of understanding the nature of the PIBS and the risks attaching to them. There are fundamental differences between the PIBS and ordinary share accounts and deposit products of building societies. A number of these differences significantly increase the risk element involved in investing in the PIBS. Accordingly, attention is drawn to certain characteristics of the PIBS as described in “Risk Factors”.

Barclays Capital

The Royal Bank of Scotland

26 June 2006

This Prospectus comprises a prospectus for the purposes of Article 5.3 of Directive 2003/71/EC (the “Prospectus Directive”) and for the purpose of giving information with regard to the Society and the PIBS. The Society accepts responsibility for the information contained in this Prospectus. To the best of the knowledge of the Society, which has taken all reasonable care to ensure that such is the case, the information contained in this Prospectus is in accordance with the facts and does not omit anything likely to affect the import of such information.

This Prospectus is to be read in conjunction with all documents which are deemed to be incorporated herein by reference (see “*Documents Incorporated by Reference*” below).

No person has been authorised to give any information or to make any representation other than those contained in this Prospectus in connection with the issue or sale of the PIBS and, if given or made, such information or representation must not be relied upon as having been authorised by the Society or any Manager (as defined in “*Marketing Arrangements*”). Neither the delivery of this Prospectus nor any sale made in connection herewith shall, under any circumstances, create any implication that there has been no change in the affairs of the Society since the date hereof or that there has been no adverse change in the financial position of the Society since the date hereof.

The distribution of this Prospectus and the offering or sale of the PIBS in certain jurisdictions may be restricted by law. Persons into whose possession this Prospectus comes are required by the Society and the Managers to inform themselves about and to observe any such restrictions. The PIBS have not been and will not be registered under the United States Securities Act of 1933, as amended (the “Securities Act”). Subject to certain exceptions, PIBS may not be offered, sold or delivered within the United States or to U.S. persons. For a description of certain restrictions on offers and sales of PIBS and on distribution of this Prospectus, see “*Marketing Arrangements*”.

This Prospectus does not constitute an offer of, or an invitation by or on behalf of the Society or the Managers to subscribe for, or purchase, any PIBS.

The Managers have not separately verified the information contained in this Prospectus. The Managers do not make any representation, express or implied, or accept any responsibility, with respect to the accuracy or completeness of any of the information in this Prospectus. This Prospectus is not intended to provide the basis of any credit or other evaluation and should not be considered as a recommendation by any of the Society or the Managers that any recipient of this Prospectus should purchase the PIBS. Each potential purchaser of PIBS should determine for itself the relevance of the information contained in this Prospectus and its purchase of PIBS should be based upon such investigation as it deems necessary. The Managers do not undertake to review the financial condition or affairs of the Society during the life of the arrangements contemplated by this Prospectus nor to advise any investor or potential investor in the PIBS of any information coming to the attention of the Managers.

In connection with the issue of the PIBS, The Royal Bank of Scotland plc (the “Stabilising Manager”) (or any person acting on its behalf) may over-allot PIBS (provided that the aggregate principal amount of PIBS allotted does not exceed 105 per cent. of the aggregate principal amount of the PIBS) or effect transactions with a view to supporting the market price of the PIBS at a level higher than that which might otherwise prevail. However, there is no assurance that the Stabilising Manager (or any person acting on its behalf) will undertake stabilisation action. Any stabilisation action may begin on or after the date on which adequate public disclosure of the final terms of the offer of the PIBS is made and, if begun, may be ended at any time, but it must end no later than the earlier of 30 days after the issue date of the PIBS and 60 days after the date of the allotment of the PIBS.

In this Prospectus, unless otherwise specified or the context otherwise requires, references to “pounds”, “penny”, “sterling”, and “£” are to the currency of the United Kingdom, references to “euro” are to the single currency of those member states of the European Union participating in the Third Stage of European Economic and Monetary Union from time to time and references 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. Terms used in this Prospectus shall, unless otherwise defined, or as the context otherwise requires, have the same meanings as are given to them in the Act or, as the case may be, the Rules of the Society (the “Rules”) or the Memorandum of the Society (the “Memorandum”).

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DOCUMENTS INCORPORATED BY REFERENCE

This Prospectus should be read and construed in conjunction with the audited annual financial statements of the Society for the financial years ended 31 December 2005 and 2004 (together in each case with the audit report thereon and the annual business statement and the directors' report in respect of each such year), which have been previously published or are published simultaneously with this Prospectus and which have been approved by the FSA or filed with it. Such documents shall be deemed to be incorporated in, and form part of, this Prospectus, save that (i) any statement contained in a document which is deemed to be incorporated by reference herein shall be deemed to be modified or superseded for the purpose of this Prospectus to the extent that a statement contained herein modifies or supersedes such earlier statement (whether expressly, by implication or otherwise) and (ii) any documents which are incorporated by reference therein shall not constitute a part of this Prospectus. Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Prospectus.

Copies of documents deemed to be incorporated by reference in this Prospectus can be viewed on the website of the Regulatory News Service operated by the London Stock Exchange at <http://www.londonstockexchange.com/en-gb/pricesnews/marketnews/> and may be obtained free of charge from the registered office of the Society.

SUMMARY

This summary must be read as an introduction to this Prospectus and any decision to invest in the PIBS should be based on a consideration of this Prospectus as a whole, including the documents incorporated herein by reference. Following the implementation of the relevant provisions of the Prospectus Directive (Directive 2003/71/EC) in each Member State of the European Economic Area no civil liability will attach to the Society in any such Member State solely on the basis of this summary, including any translation thereof, unless it is misleading, inaccurate or inconsistent when read together with the other parts of this Prospectus. Where a claim relating to the information contained in this Prospectus is brought before a court in a Member State of the European Economic Area, the plaintiff may, under the national legislation of the Member State where the claim is brought, be required to bear the costs of translating this Prospectus before the legal proceedings are initiated.

Description of the Society

The Society was formed as a result of a merger between Coventry Economic Building Society and Coventry Provident Building Society on 30 June 1983. The Society is incorporated under the Act. The Society is an authorised building society for the purposes of the Act and is authorised and regulated by the FSA.

As at 31 December 2005 based on its asset value the Society was the fifth largest building society in the United Kingdom with assets of £11.1 billion. During the year ended 31 December 2005 the Society had, on average, 1220 employees.

The Society operates in accordance with the Act, regulations made thereunder and the Society's Memorandum and Rules. The Society is a mutual organisation with both retail investors and borrowers having membership. The principal purpose of the Society is to make loans that are secured on residential property and are funded substantially by its members. The Society concentrates on its core business of personal savings, residential mortgage lending and related insurances and loans.

The Society obtains funds from the retail market through personal savings and deposit accounts and also raises funds in the wholesale market.

Funds are advanced mainly to borrowers on the security of first mortgages on freehold and leasehold property. As at 31 December 2005 loans fully secured on residential property represented 98.93% of its business assets.

Ernst & Young LLP, Registered Auditors (authorised and regulated by the FSA for designated investment business) have audited, and rendered an unqualified audit report on, the audited annual financial statements of the Society for the financial years ended 31 December 2005 and 31 December 2004 which are incorporated by reference herein.

Risk Factors

Investors should understand the risks of investing in the PIBS before they make their investment decision. They should make their own independent decision to invest in the PIBS and decide whether an investment in such PIBS is appropriate or proper based upon their own judgement and upon advice from such advisors as they consider necessary.

Investors should be aware that the PIBS are undated and subordinated and that the terms of the PIBS vary considerably from the terms of ordinary share accounts and deposit products of building societies. They should particularly note the following characteristics of the PIBS that are described in "**Risk Factors**":

- (a) Permanence – the PIBS will not be withdrawable at the option of the PIBS holders;
- (b) Liquidity – there is no guarantee that the investor will be able to liquidate its investment in the PIBS;
- (c) Capital value of investment – there is a real chance that the investor will make a capital loss;

- (d) Subordination – the PIBS are subordinated to all other liabilities of the Society other than liabilities in respect of other deferred Shares;
- (e) Investor protection – the PIBS are not protected deposits for the purpose of the Financial Services Compensation Scheme;
- (f) Payments of interest may be missed – interest will not be payable if it would result in the Society’s capital falling below prescribed levels and the Board passes a resolution cancelling or, as the case may require, reducing interest as more fully explained in “*Special Conditions of Issue of the PIBS - Interest*”;
- (g) Interest may not be paid in cash – payments of interest may not be made in cash where the Board passes a resolution in certain circumstances, as more fully explained in “*Special Conditions of Issue of the PIBS - Interest*” and such interest payment will instead be settled by delivery of further PIBS to the PIBS holders as described therein;
- (h) Rights – the rights of PIBS holders are markedly different to shareholders in a company with, for example, each PIBS holder only having one vote at a general meeting of the Society, irrespective of the number of PIBS it holds;
- (i) Amalgamation of the Society and transfer of its engagements – if the Society amalgamates with another society or transfers all or part of its engagements the PIBS will not become payable but will become deferred shares in that other society;
- (j) Credit ratings may not reflect all risks – the credit ratings may not reflect the potential impact of all risks relating to structure, market and other factors;
- (k) Taxation of Interest – interest will be paid without withholding or deduction for United Kingdom tax under current United Kingdom taxation laws but this could change;
- (l) No limitation on issuing debt or senior or *pari passu* securities – there is no restriction on the amount of debt which the Society may issue that ranks senior to the PIBS and no limitation on the amount of other securities which the Society may issue that rank senior to, or *pari passu* with the PIBS;
- (m) Legal investment considerations may restrict certain investments - each potential investor should consult its legal advisors to determine whether and to what extent they are subject to legal investment laws and regulations or review or regulation by certain authorities;
- (n) European Monetary Union - if the United Kingdom joins the European Monetary Union there is no assurance that this would not adversely affect investors in the PIBS; and
- (o) Change of law - no assurance can be given as to the impact of any possible judicial decision or change to English law or administrative practice after the date of this Prospectus.

In addition, attention is also drawn to the following factors, that are described in “Risk Factors”, that may affect the Society’s ability to fulfil its obligations under the PIBS:

- (a) United Kingdom Housing Market - one of the Society’s primary activities is mortgage lending in the United Kingdom with loans secured against residential property;
- (b) Personal Financial Services Market - developments in this market and increased competition could have an adverse effect on the Society’s financial position;
- (c) Financial Risk - control of financial risk is one of the most important risk factors for financial institutions;
- (d) Accounting standards - the Society has adopted new accounting standards for reporting periods after 1 January 2005 that may have a significant impact on the presentation on its financial statements;
- (e) Regulation - the Society is regulated by the FSA; and

- (f) Capital Requirements Directive - the Basel Committee has issued proposals for reform of the 1988 Capital Accord which places enhanced emphasis on market discipline and sensitivity to risk.

Description of the PIBS

General

The Society will issue £120,000,000 6.092 per cent. PIBS, comprising 120,000 PIBS of £1,000 each, at an issue price of 100 per cent. of their principal amount.

The PIBS will be deferred shares in the Society for the purposes of section 119 of the Act and will not be protected deposits for the purposes of the Financial Services Compensation Scheme established under the FSMA.

Form and Denomination

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

PIBS Register

The Society will appoint Computershare Investor Services PLC (the “**Registrar**”) to act as registrar in respect of the PIBS under the terms of an Agreement for the Provision of Registry Services (the “**Registrar’s Agreement**”) to be dated 29 June 2006 and made between the Society and the Registrar.

Pursuant to the Registrar’s Agreement, the Society shall procure that the Registrar maintains the PIBS Register, in which shall be entered the name and address of each PIBS holder.

Interest

The PIBS bear interest from and including 29 June 2006 to but excluding the Reset Date (as defined in “*Special Conditions of Issue of the PIBS - Interest*”) at the rate of 6.092 per cent. per annum payable, subject as set out in Condition 4, in arrear on 29 June and 29 December in each year, commencing 29 December 2006. Thereafter the PIBS bear interest at the rate equal to 3 month sterling LIBOR plus 2.19 per cent. per annum as more fully described in Condition 4, payable, subject as set out in Condition 4, in arrear on 29 March, 29 June, 29 September and 29 December in each year, commencing 29 September 2016, each such date subject to adjustment in accordance with the business day convention specified in Condition 4. Interest on the PIBS is non-cumulative.

Repayment

The PIBS constitute permanent non-withdrawable deferred shares (as defined in the Act) in the Society and have no specified final maturity.

The Society may, subject to having obtained Relevant Supervisory Consent (as defined in “*Special Conditions of Issue of the PIBS - Redemption*”), elect to repay all, but not some only, of the PIBS on 29 June 2016 or on any Interest Payment Date thereafter at their principal amount together, subject to Conditions 4(3)(a) and 4(3)(b), with any interest accrued to but excluding the date of repayment.

Up to the Reset Date (as defined in “*Special Conditions of Issue of the PIBS - Interest*”) if, *inter alia*, as a result of any change in or proposed change in, or amendment to or proposed amendment to, the laws of the United Kingdom or any political subdivision or authority thereof having power to tax, the Society reasonably believes that the Society will not obtain full relief for the purposes of United Kingdom corporation tax for interest paid in respect of the PIBS, the Society may, subject to certain conditions being met as more fully explained in “*Special Conditions of Issue of the PIBS - Redemption*” (including having obtained Relevant Supervisory Consent) elect to repay all, but not some only, of the PIBS at their principal amount together, subject to Conditions 4(3)(a) and 4(3)(b), with any interest accrued to but excluding the date of repayment.

Up to the Reset Date if the Supervisory Authority (as defined in “*Special Conditions of Issue of the PIBS - Interest*”) determines that the PIBS can no longer qualify as Tier 1 Capital (as defined in “*Special Conditions of Issue of the PIBS - Redemption*”) as a result of a change in applicable regulations, the Society may, subject to having obtained Relevant Supervisory Consent, elect to repay all, but not some only, of the PIBS at any time at the higher of their principal amount and the Call Redemption Price (as defined in “*Special Conditions of Issue of the PIBS - Redemption*”) together, subject to Conditions 4(3)(a) and 4(3)(b), with any interest accrued to but excluding the date of repayment.

Payments

Payments in respect of the PIBS will be made by sterling cheque drawn on a bank or building society in the United Kingdom, posted on the business day immediately preceding the relevant due date and made payable to the PIBS holders (in the case of a joint holding of PIBS, the Representative Joint Shareholder) appearing in the PIBS Register in respect of the PIBS of which it is the holder at the close of business on the fifteenth day before the relevant due date (the “**Record Date**”) at the addresses shown in the PIBS Register on the Record Date.

Tax

All payments in respect of the PIBS shall be made without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature (“**Taxes**”) imposed or levied by or on behalf of the United Kingdom or any political subdivision or any authority thereof or therein having power to tax, unless the withholding or deduction of the Taxes is required by law.

For a description of certain applicable United Kingdom taxation considerations see “*United Kingdom Taxation*”.

Succession and transfers

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 become deferred shares in the amalgamated or transferee building society (as appropriate) without any alteration in their terms.

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 Condition 8(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 as further described in “*Special Conditions of Issue of the PIBS - Succession and transfers*”.

Governing law

The rights and obligations in respect of the PIBS are governed by, and shall be construed in accordance with, English law. The courts of England are to have exclusive jurisdiction to settle any disputes which may arise out of or in connection with the PIBS and accordingly any legal action or proceedings arising out of or in connection with the PIBS may only be brought in such courts.

Rating

The PIBS are expected to be rated Baa1 by Moody’s and A- by Fitch.

Listing and admission to trading

Application has been made to the UK Listing Authority for the PIBS to be admitted to the Official List of the UK Listing Authority and to the London Stock Exchange for the PIBS to be admitted to trading on the London Stock Exchange’s Gilt Edged and Fixed Interest Market.

Selling Restrictions/Marketing Arrangements

There are restrictions on the sale of PIBS and the distribution of offering material in the United States, the United Kingdom and the European Economic Area. The Managers have agreed with the Society, subject to the satisfaction of certain conditions, to subscribe for the PIBS.

Use of Proceeds

The proceeds will be used by the Society in its general business operations. The proceeds will be treated for capital adequacy purposes as Tier 1 capital.

Expenses

The overall cost of the issue of the PIBS by the Society, including all commissions and expenses, is estimated to amount to approximately £820,000 (exclusive of VAT).

Documents Available for Inspection

The Rules and Memorandum of the Society and the published audited annual financial statements of the Society for the financial years ended 31 December 2005 and 31 December 2004 will be available for inspection at the registered office of the Society as further described in "*General Information*". This Prospectus and any documents incorporated herein can also be viewed on the website of the Regulatory News Service operated by the London Stock Exchange at <http://www.londonstockexchange.com/en-gb/pricesnews/marketnews/>.

RISK FACTORS

Investors should understand the risks of investing in the PIBS before they make their investment decision. They should make their own independent decision to invest in the PIBS and decide whether an investment in such PIBS is appropriate or proper based upon their own judgement and upon advice from such advisors as they consider necessary.

Factors which are material for the purpose of assessing the risks associated with the PIBS

Investors should be aware that the PIBS are undated and subordinated and that the terms of the PIBS vary considerably from the terms of ordinary share accounts and deposit products of building societies. They should particularly note the following characteristics of the PIBS:

(a) Permanence

The PIBS will not be withdrawable at the option of the PIBS holders and will be repayable only at the option of the Society on 29 June 2016 or any Interest Payment Date (as defined in “*Special Conditions of Issue of the PIBS — Interest*”) thereafter or in certain limited circumstances, as described in “*Special Conditions of Issue of the PIBS — Repayment*”, in each case subject to having obtained the consent of the FSA, which expression shall include any successor body performing for the time being the same or similar functions in relation to building societies in the United Kingdom. The FSA has complete discretion as to whether to give consent to a proposed election by the Society to repay the PIBS. There is no right to repayment unlike a normal investment account where the Society must return the capital investment (plus any accrued interest) to the investor as and when demanded (subject to the stated period of notice and other terms applicable to the relevant account).

(b) Liquidity

In order to realise its capital investment in the PIBS, an investor must either go to an established secondary market or look to make a private sale. There is **no guarantee that the investor will be able to liquidate its investment in the PIBS** for cash as the future liquidity of the secondary market is not guaranteed and/or as the investor may be unable to find any potential private purchasers. Therefore, there is a risk that an investor may not be able to realise its investment in the PIBS when it wishes to do so.

(c) Capital value of investment

As the capital value of the PIBS will vary with market interest rates, the market perception of the value of the Society and the availability of purchasers, there is a **real chance that the investor may make a capital loss** when it comes to sell its PIBS.

(d) Subordination

The PIBS are subordinated to all other liabilities of the Society other than liabilities in respect of other deferred Shares (as defined in the Rules). The PIBS and other deferred Shares rank *pari passu* without any preference among themselves. 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 so defined) as to principal and interest. Investors should be aware that this subordination is a primary factor behind the higher interest rate that is paid on the PIBS when compared to other investment products. The higher interest rate reflects the fact that there is a higher risk involved with an investment in the PIBS.

If there are insufficient assets to repay all Members the amounts paid up on their Shares, no repayments shall be made in respect of any deferred Shares until after all other Members have been repaid in full. In addition, in the event of a winding-up or dissolution of the Society, following payment in full of the Society’s creditors and repayment to Members (including PIBS holders) of the

amount of their Shares according to their priority under their respective terms, the Society has determined that the PIBS holders will not be entitled to any share in any final surplus.

(e) Investor protection

Unlike normal building society investment products, the PIBS are not protected deposits for the purposes of the Financial Services Compensation Scheme established under the FSMA.

(f) Payments of interest may be missed

Interest in respect of the PIBS will not be payable where payment would result in the Society not complying with its Applicable Regulatory Capital Requirements (as defined in “*Special Conditions of Issue of the PIBS — Interest*”) including the Society’s capital falling below prescribed levels where the Board passes a resolution cancelling or, as the case may require, reducing interest as more fully explained in “*Special Conditions of Issue of the PIBS — Interest*”. Interest for missed payments is not cumulative and in such circumstances, such interest will be cancelled and each PIBS holder shall cease to have any right to the interest for that period so cancelled.

(g) Payments of interest may not be made in cash

Interest in respect of the PIBS will not be payable in cash where the Board passes a resolution cancelling or requiring a reduction in the interest payable for any reason other than to avoid the Society being in non-compliance with its Applicable Regulatory Capital Requirements, as more fully explained in “*Special Conditions of Issue of the PIBS*”. In such circumstances, the interest payment will be made by delivery to the PIBS holder of such number of further PIBS to which each PIBS holder shall, in the opinion of an independent investment bank, be entitled, based on the market value of the relevant interest payment at such time. The Board may pass any such resolution at any time and in the event that it does pass any such resolution, PIBS holders will not be entitled to any compensation in respect of payments not made in cash.

Interest on the PIBS is not cumulative.

(h) Rights

The rights of the PIBS holders are markedly different from those of shareholders in a company, for example, as to voting rights and protection of minorities. For example, as indicated in “*Overview of Certain Provisions of the Rules of the Society and the Act relating to the PIBS — Meetings*”, each PIBS holder only has one vote at a general meeting of the Society, irrespective of the number of PIBS it holds, whereas shareholders at a general meeting of a company would normally have one vote on a poll for each share held.

(i) Amalgamation of the Society and transfer of its engagements

If the Society amalgamates with, or transfers all or part of its engagements to, another building society, the PIBS will not become repayable as a consequence thereof, but will become deferred shares in that other society.

If the Society transfers the whole of its engagements to any other body, the transfer will incorporate arrangements to secure that the PIBS are effectively converted into perpetual subordinated debt of that body, and do not become repayable other than at the option of that body on 29 June 2016 or any Interest Payment Date thereafter or in certain limited circumstances, as described in “*Special Conditions of Issue of the PIBS — Repayment*”, in each case subject to the consent of the FSA.

(j) Credit ratings may not reflect all risks

The credit rating assigned to the PIBS by Moody’s and Fitch may not reflect the potential impact of all risks related to structure, market, additional factors discussed above and other factors that may

affect the value of the PIBS. A credit rating is not a recommendation to buy, sell or hold securities and may be revised or withdrawn by the relevant rating agency at any time.

(k) Taxation of interest

The PIBS will be listed on a recognised stock exchange (within the meaning of Section 841 of the Income and Corporation Taxes Act 1988) and therefore under current United Kingdom taxation law interest may be paid without withholding or deduction for United Kingdom tax. Nevertheless, United Kingdom tax may be withheld or deducted if there is a change of law or if the PIBS cease to be listed on a recognised stock exchange.

(l) No limitation on issuing debt or senior or *pari passu* securities

There is no restriction on the amount of debt which the Society may issue which ranks senior to the PIBS or on the amount of securities which the Society may issue which rank senior to, or *pari passu* with, the PIBS. The issue of any such debt or securities may reduce the amount recoverable by PIBS holders in the event of a winding-up of the Society and/or may increase the likelihood of a cancellation of payments under the PIBS.

(m) Legal investment considerations may restrict certain investments

The investment activities of certain investors are subject to legal investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal advisors to determine whether and to what extent (1) PIBS are legal investments for it, (2) PIBS can be used as collateral for various types of borrowing and (3) other restrictions apply to its purchase or pledge of any PIBS. Financial institutions should consult their legal advisors or the appropriate regulators to determine the appropriate treatment of PIBS under any applicable risk-based capital or similar rules.

(n) European Monetary Union

If the United Kingdom joins the European Monetary Union there is no assurance that this would not adversely affect investors in the PIBS. It is possible that the United Kingdom may become a participating Member State and that the euro may become the lawful currency of the United Kingdom. In that event (i) all amounts payable in respect of any PIBS denominated in sterling may become payable in euro (ii) the law may allow or require the PIBS to be re-denominated into euro and additional measures to be taken in respect of such PIBS; and (iii) there may no longer be available published or displayed rates for deposits in sterling used to determine the rates of interest on such PIBS or changes in the way those rates are calculated, quoted and published or displayed. The introduction of the euro could also be accompanied by a volatile interest rate environment, which could adversely affect investors in the PIBS.

(o) Change of law

The conditions of the PIBS are based on English law in effect as at the date of this Prospectus. No assurance can be given as to the impact of any possible judicial decision or change to English law or administrative practice after the date of this Prospectus.

Factors that may affect the Society's ability to fulfil its obligations under the PIBS

Investors' attention is also drawn to the following factors that may affect the Society's ability to fulfil its obligations under the PIBS. Most of these factors are contingencies which may or may not occur and the Society is not in a position to express a view on the likelihood of any such contingency occurring. The Society does not represent that the statements below are exhaustive. Prospective investors should also read the detailed information set out elsewhere in this Prospectus and reach their own views prior to making any investment decision:

(a) United Kingdom Housing Market

One of the Society's primary activities is mortgage lending in the United Kingdom with loans secured against residential property. A downturn in the United Kingdom economy could have a negative effect on the housing market particularly if this results in an increased level of unemployment or significantly higher interest rates. Property prices may fall and could result in losses being incurred by lenders on loans that have defaulted. This could have consequences for the Society's funding costs and credit ratings if there were deemed to be a material deterioration in the quality of the mortgage portfolio.

(b) Personal Financial Services Market

The United Kingdom housing and savings markets are competitive. Developments in this market and increased competition could have an adverse effect on the Society's financial position.

(c) Financial Risk

Control of financial risk is one of the most important risk factors for financial institutions. Financial risk includes credit, liquidity, operational and market risk. Failure to control these risks can result in material adverse effects on the Society's financial performance and reputation.

(d) International Financial Reporting Standards

The Society has adopted International Financial Reporting Standards for reporting periods beginning after 1 January 2005. These standards are, in a number of ways, different from previously existing generally accepted accounting principles in the United Kingdom and their implementation may have a significant effect on the presentation of the Society's financial statements.

(e) Regulation

The Society is regulated by the FSA. The FSA regulates the sale of residential mortgages and general insurance products. The regulatory regime requires the Society to be compliant across many aspects of activity, including the training, authorisation and supervision of personnel, systems, processes and documentation. If the Society fails to be compliant with relevant regulations, there is a risk of an adverse impact on the business due to sanctions, fines or other action imposed by the regulatory authorities.

The FSA and other bodies could impose further regulations or obligations in relation to current and past dealing with retail customers. As a result, the Society may incur costs in complying with these regulations or obligations relating to the Society's business, including potential compensation and costs relating to sales advice given to retail customers.

(f) Capital Requirements Directive

The Basel Committee has issued proposals for reform of the 1988 Capital Accord and has proposed a framework, which places enhanced emphasis on market discipline and sensitivity to risk. The Capital Requirements Directive is the EU Directive which implements the Revised Basel Framework. It will introduce a supervisory framework in the EU reflecting the rules on capital measurement and

capital standards set out in the Revised Basel Framework. The Society cannot predict the precise effects of the potential changes that might result from implementation of the proposals on its own financial performance. Prospective investors in the PIBS should consult their own advisors as to the consequences for them of the potential application of the Revised Basel Framework.

OVERVIEW OF CERTAIN PROVISIONS OF THE RULES OF THE SOCIETY AND THE ACT RELATING TO THE PIBS

The rights and restrictions attaching to the PIBS will be governed by the Rules, certain provisions of the Act and the “*Special Conditions of Issue of the PIBS*” (the “**Conditions**”) herein. Set out below is an overview of the key provisions of the Rules and certain provisions of the Act insofar as they might affect the rights of the PIBS holders, together with certain explanatory notes which are italicised. Terms defined in the Rules will, unless the context otherwise requires, have the same meanings when used in this overview.

1 General

The Person whose name is entered in the PIBS Register (as defined below) as the PIBS holder is a Shareholding Member of the Society.

Each PIBS holder and all Persons claiming through it or on its behalf or under the Rules, shall be bound by the Rules and by the Memorandum.

2 Register

The Society shall maintain a register for the purposes of the PIBS (the “**PIBS Register**”), in which shall be entered the name and address of each PIBS holder.

Transfers and other documents or instructions relating to or affecting the title to any PIBS shall also be recorded in the PIBS Register. No charge shall be made in respect of any entry in the PIBS Register. The PIBS Register shall be maintained at the Principal Office, or at such other place as the board of directors of the Society (the “**Board**”) considers appropriate.

The Society has appointed Computershare Investor Services PLC, The Pavilions, Bridgwater Road, Bristol BS13 8AE as its registrar for the PIBS issue.

3 PIBS Certificate

Each PIBS holder, within one month after becoming entered in the PIBS Register as the PIBS holder, shall, if it shall make a written request to the Society at the time of applying to be so entered, be supplied by the Society with a share certificate issued under the common seal of the Society in respect of PIBS (a “**PIBS Certificate**”) (which shall not be the property of the Society).

Each PIBS holder entered into the records of the Society who has not previously requested to be supplied by the Society with a PIBS Certificate shall within one month after making a written request to the Society be supplied by the Society with a PIBS Certificate.

Save as aforesaid, nothing in the Rules requires a PIBS to be evidenced by a PIBS Certificate or other written instrument.

Notwithstanding these provisions of the Rules regarding the issue of PIBS Certificates, the Society will procure that a PIBS Certificate is issued to all PIBS holders who hold their PIBS in certificated form, regardless of whether or not one is requested, within 14 days after the issue or lodgement of any instrument of transfer of PIBS. The PIBS will also be capable of being held in uncertificated form.

4 Replacement of a PIBS Certificate

A PIBS holder losing its PIBS Certificate shall immediately give notice in writing of such loss to the Society at its Principal Office. If a PIBS Certificate is damaged or alleged to have been lost, stolen or destroyed, a new PIBS Certificate representing the same PIBS shall be issued to that PIBS holder upon request, subject to delivery up of the old PIBS Certificate or (if alleged to have been lost, stolen or destroyed) subject to compliance with such conditions as to evidence and indemnity as the Board may think fit and to payment of any exceptional expenses of the Society incidental to its investigation of the evidence of such alleged loss,

theft or destruction. Where a holder of a certificated PIBS has sold part of its holding it will be entitled to a PIBS Certificate for the balance without charge.

Notice to be given by a PIBS holder of the loss of its PIBS Certificate shall be given to the Registrar in addition to the Society. The Registrar shall be able to set conditions as to evidence and indemnity as set out above in addition to the Board and payment of any exceptional costs of the Registrar shall also be payable in addition to those of the Society, in the circumstances set out above.

5 Transfers

A PIBS holder may transfer its PIBS to any Person and, pursuant to the Rules, no fee shall be charged in respect of a transfer. No transfer of PIBS shall be valid unless made in a form approved by the Board and until registered in the PIBS Register. The Board shall have power to implement any procedures as it thinks fit for the transfer of PIBS and for the regulation of those procedures and to permit PIBS to be transferred other than by a written instrument.

The registration of transfers of the PIBS may be suspended at such times and for such periods as the Board may determine, but not for more than 30 days in the year, and notice of such suspension shall be given by advertisement in at least one national daily newspaper.

A fully paid PIBS shall be free from all liens in respect of liabilities to the Society.

Two or more Persons may jointly hold a PIBS. No PIBS shall be issued to the holders, or be held by them at any time, as tenants in common.

The Society may decline to issue any PIBS, or register any transfer of PIBS, to more than four Persons jointly. Joint PIBS holders shall be entitled to choose the order in which they are named in the records of the Society.

6 Meetings

As Members of the Society, the PIBS holders will, subject to the provisions of the Rules, be entitled to receive notice of, propose resolutions at, attend, be counted in a quorum and vote, or appoint a proxy, at general meetings of the Society.

A PIBS holder is entitled to vote on a resolution (whether an Ordinary Resolution or Special Resolution or a Shareholding Members' Resolution, but not a Borrowing Members' Resolution) if:

- (a) being an Individual, he is not a minor on the voting date or, where he is voting by proxy, on the date of the meeting at which the resolution is intended to be moved;
- (b) in the case of a joint Shareholding, it is the Representative Joint Shareholder;
- (c) it was entered in the PIBS Register as the PIBS holder:
 - (i) at the end of the last Financial Year before the voting date; or
 - (ii) if the voting falls during that part of the Financial Year which follows the conclusion of the Annual General Meeting commenced in that year, at the beginning of the period of 56 days immediately preceding the voting date for Members voting in person at a special general meeting or a postal ballot,as the case may be; and
- (d) it has not ceased to be a PIBS holder at any time between the time referred to in (c)(i) and (ii) above (as applicable) and the voting date.

At a general meeting of the Society, each PIBS holder will have one vote regardless of the principal amount of PIBS held by that PIBS holder or whether the PIBS holder is otherwise a Member of the Society.

7 Winding-up and dissolution

Upon the winding-up of the Society, or upon it being dissolved by consent, if there are insufficient assets to repay all Members the amounts paid up on their Shares, no repayments shall be made in respect of any deferred Share (including the PIBS) until after all other Members have been repaid in full.

Upon the winding-up of the Society, or upon it being dissolved by consent, any surplus remaining after payment in full of the Society's creditors and repayment to Members (including PIBS holders) of the amount of their Shares (together with interest due thereon) according to their priority under their respective terms and conditions of issue, shall be applied as follows:

- (a) up to 20 per cent. to holders of all or some of the deferred Shares in the Society (including the PIBS). The proportion (if any) of such 20 per cent. to which any particular issue of deferred Shares (including the PIBS) is entitled shall be set forth in the terms and conditions of issue of that issue of deferred Shares (*see note below which describes the way in which the Society has determined the exercise of this discretion*); and
- (b) the remainder among Qualifying Members (other than holders of deferred Shares (including the PIBS)) in proportion to the value of their Shareholdings.

For the purposes of these provisions of the Rules, "**Qualifying Members**" means Persons who hold on the date of commencement of the dissolution or winding-up, and have held throughout the period of two years up to that date, Shares to the value of not less than £100.

The Society has determined that, in exercising its discretion regarding the distribution of any surplus on a winding-up or dissolution of the Society referred to in sub-paragraph 7(a) above, no proportion of any final surplus will be paid to PIBS holders.

8 Disputes and legal proceedings

Subject to the provisions of Section 1 of the Courts and Legal Services Act 1990, Section 85 of and Schedule 14 to the Act provide that no court other than the High Court of Justice in England shall have jurisdiction to hear and determine disputes between a building society and a member or a representative of a member in that capacity in respect of any rights or obligations arising from the rules of a building society or the Act. Pursuant to Section 1 of the Courts and Legal Services Act 1990, the High Court and County Courts Jurisdiction Order 1991 No. 724 has been made which empowers the High Court to transfer cases over which it has jurisdiction to the County Court.

9 Unclaimed interest

In certain circumstances set out in the Rules, the Society shall be entitled to sell for the best price reasonably obtainable any PIBS in respect of which no interest has been claimed during a period of 12 years. The Society must first give written notice to the UK Listing Authority of its intention to sell the PIBS if the PIBS are at that time admitted to the Official List. The Society shall be obliged to account (as debtor and not as trustee) to the PIBS holder or any other Person entitled to the PIBS for the net proceeds of sale of the PIBS.

SPECIAL CONDITIONS OF ISSUE OF THE PIBS

The following are the special conditions of issue of the PIBS in the form in which, subject to the removal of the wording in italics which does not form part of the special conditions, they will appear on the reverse of each PIBS Certificate:

The PIBS holders (as defined below) 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 (as defined below) are also issued subject to, and with the benefit of, these special conditions of issue (the “**Conditions**” and each a “**Condition**”). In the event of inconsistency between the Rules and these Conditions, the Rules will prevail (unless otherwise provided in the Rules).

1 General

- (1) The “**Society**” means Coventry Building Society.
- (2) The “**PIBS**” means £120,000,000 6.092 per cent. Permanent Interest Bearing Shares of the Society and, unless the context otherwise requires, includes any further permanent interest bearing shares issued pursuant to Condition 4(3)(b) or Condition 11 and forming a single series with the PIBS.
- (3) “**PIBS holder**” means a Person whose name is entered in the PIBS Register as the holder of PIBS or, in the case of a joint holding of PIBS, the first person whose name is entered in the PIBS Register in respect of the joint holding of the PIBS.
- (4) “**PIBS Register**” means the records of the Society maintained for the purposes of the PIBS.
- (5) “**Registrar**” means Computershare Investor Services PLC or such other registrar appointed by the Society from time to time in respect of the PIBS.
- (6) Terms defined in the Rules of the Society for the time being (the “**Rules**”) will, unless the context otherwise requires, have the same meanings when used in these Conditions.
- (7) The PIBS:
 - (a) are deferred shares for the purposes of Section 119 of the Building Societies Act 1986, as amended (the “**Act**”);
 - (b) are not protected deposits for the purpose of the Financial Services Compensation Scheme established under the Financial Services and Markets Act 2000 (the “**FSMA**”);
 - (c) are not withdrawable; and
 - (d) are permanent interest bearing shares for the purposes of the Rules.
- (8) The expressions “**Creditors**” and “**Relevant Supervisory Consent**” shall have the meanings given thereto in Condition 5.
- (9) Upon a transfer of PIBS by a PIBS holder 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 if it holds its PIBS in certificated form. The PIBS Certificate will be made available at the offices of the Registrar.
- (10) The PIBS may be held jointly by up to four Persons.
- (11) Rights to Conversion Benefits to which a PIBS holder may become entitled by reason of its holding of PIBS shall not be required to be assigned to a charity nominated by the Society pursuant to any scheme for charitable assignment established by the Society for the time being. In the event that a PIBS holder is a Member of the Society other than by reason of its holding of PIBS and has made a declaration to assign any Conversion Benefits to a charity, that assignment declaration shall not apply to Conversion Benefits derived from its holding of PIBS. If there is a conflict between these Conditions and any other provisions for the assignment of Conversion Benefits to which a Member is

subject, then these Conditions shall prevail in relation to Conversion Benefits derived from PIBS held by any PIBS holder, whenever the assignment of Conversion Benefits is made. For these purposes, “**Conversion Benefits**” shall mean any benefits under the terms of any future transfer of the Society’s business to a company and, if the Society merges with any other building society, “**Society**” shall, after the date of such merger, extend to such other society.

2 Form and denomination

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

3 PIBS Register

- (1) The Society has appointed the Registrar to act as registrar in respect of the PIBS under the terms of the Registrar’s Agreement to be dated 29 June 2006 and made between the Society and the Registrar. PIBS holders are deemed to have notice of all the provisions of the Registrar’s Agreement applicable to them.
- (2) Pursuant to the Registrar’s Agreement, the Society shall procure that the Registrar maintains the PIBS Register, in which shall be entered the name and address of each PIBS holder. Each PIBS holder shall notify the Registrar immediately of any change of name or address and shall produce such evidence of change of name or address as the Registrar may reasonably require.
- (3) A PIBS holder must provide the Registrar with a written order containing such instructions and other information as the Society and the Registrar may require to complete, execute and deliver a PIBS Certificate to such PIBS holder. On receipt of such documents, the Society shall instruct the Registrar to arrange for the authentication of, and the Registrar to deliver to, or to the order of, the person or persons named in such written order of a PIBS Certificate, registered in the name or names requested by such person or persons.
- (4) Transfers and other documents or instructions relating to, or affecting the title of, any PIBS shall be recorded in the PIBS Register. No charge shall be made in respect of any entry in the PIBS Register. The PIBS Register shall be maintained at the principal office of the Registrar or at such other place as the Society and the Registrar shall agree.
- (5) The Society shall procure that the Registrar shall, on behalf of the Society, issue a PIBS Certificate in respect of each holding of all PIBS held by each PIBS holder (or, in the case of a joint holding of PIBS, the Representative Joint Shareholder) within 14 days after one is requested.
- (6) No person shall have any right to enforce any term or condition of the PIBS under the Contracts (Rights of Third Parties) Act 1999.

4 Interest

- (1) The PIBS bear interest from and including 29 June 2006 (the “**Issue Date**”) to but excluding the Reset Date at the rate of 6.092 per cent. per annum payable, subject as set out below, in arrear on 29 June and 29 December in each year (each a “**Fixed Interest Payment Date**”), commencing 29 December 2006. Thereafter the PIBS bear interest at a rate calculated in accordance with paragraph (2) below (each a “**Rate of Interest**”) payable, subject as set out below, in arrear by quarterly instalments on 29 March, 29 June, 29 September and 29 December in each year, commencing on 29 September 2016 (each a “**Floating Rate Interest Payment Date**” and together with the Fixed Interest Payment Date, the “**Interest Payment Date**”). The period from and including the Issue Date to but excluding the first Interest Payment Date and each successive period from and including one Interest Payment Date to but excluding the next succeeding Interest Payment Date is called an “**Interest Period**”. If any Interest Payment Date falling after the Reset Date would otherwise fall on a date which is not a business day, it will be postponed to the next business day. Interest on the PIBS is non-cumulative.

From and including the Issue Date to but excluding the Reset Date, where it is necessary to calculate an amount of interest in respect of any PIBS for a period which is not an Interest Period, such interest shall be calculated on the basis of the actual number of days in the period from (and including) the most recent Interest Payment Date (or, if none, the Issue Date) to (but excluding) the date on which the relevant interest is payable, divided by the product of (a) the actual number of days in the period from (and including) such Interest Payment Date (or, if none, the Issue Date) to (but excluding) the next (or first) scheduled Interest Payment Date and (b) two.

- (2) (a) The Rate of Interest payable in respect of the PIBS from and including the Reset Date will be the Screen Rate (as defined below) plus the Margin (the “**Floating Rate of Interest**”) as determined by such leading bank or investment banking firm in London as shall be appointed by the Society (the “**Agent Bank**”). If on any Interest Determination Date (as defined below) the Screen Rate is unavailable, the Agent Bank will request the Reference Banks to provide it with the rate at which deposits in sterling are offered by each of them to prime banks in the London interbank market for three months at approximately 11.00 a.m. (London time) on the Interest Determination Date in question.
- (b) If on any Interest Determination Date, the Screen Rate is unavailable and at least two of the Reference Banks provide such rates to the Agent Bank, the Floating Rate of Interest for the Interest Period shall be the arithmetic mean (rounded if necessary to the fifth decimal place, with 0.000005 being rounded upwards) as established by the Agent Bank of such rates, plus the Margin.
- (c) If on any Interest Determination Date the Screen Rate is unavailable and fewer than two rates are provided to the Agent Bank as requested, the Floating Rate of Interest for the Interest Period will be the arithmetic mean of the rates quoted by major banks in the London interbank market selected by the Agent Bank, at approximately 11.00 a.m., London time, on the Interest Determination Date in question for loans in sterling to leading European banks for a period of three months commencing on the first day of such Interest Period, plus the Margin. If the Floating Rate of Interest cannot be determined in accordance with the above provisions, the Floating Rate of Interest shall be the Floating Rate of Interest determined as at the last preceding Interest Determination Date.
- (d) After the Reset Date, whenever it is necessary to compute an amount of interest in respect of any PIBS for a period other than an Interest Period, such interest shall be calculated on the basis of the actual number of days in such period divided by 365 or, in the case of an Interest Payment Date falling in a leap year, 366.
- (e) As soon as practicable after 11.00 a.m. (London time) on each Interest Determination Date, the Agent Bank shall determine the Floating Rate of Interest for the relevant Interest Period and calculate the amount of interest payable on each £1,000 principal amount of PIBS on each Interest Payment Date (the “**Floating Interest Amount**”). The Floating Interest Amount shall be determined by applying the Floating Rate of Interest to each £1,000 principal amount of PIBS, multiplying the sum by the actual number of days in the Interest Period concerned divided by 365 or, in the case of an Interest Payment Date falling in a leap year, 366 and rounding the resultant figure to the nearest pence (half a penny being rounded upwards). The Society shall cause the Floating Rate of Interest and the Floating Interest Amount for each Interest Period and the relevant Interest Payment Date to be notified to the Registrar as soon as practicable after their determination and calculation and shall procure that the Registrar gives notice thereof to the PIBS holders.
- (f) The Society may from time to time appoint any leading bank or investment banking firm in London (as determined by the Society) as the Agent Bank in substitution for any existing Agent Bank. In the event of the appointed office of the Agent Bank being unable or unwilling to continue to act as the Agent Bank, the Society shall forthwith appoint the London office of such other leading bank or investment banking firm in London to act as such in its place. The Agent

Bank may not resign its duties or be removed without a successor having been appointed as aforesaid.

- (g) All notifications, opinions, advice, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained for the purposes of this Condition 4(2) by the Agent Bank shall (in the absence of wilful default, bad faith or manifest error) be binding on the Society, the Agent Bank, the Registrar and all PIBS holders and (in the absence as aforesaid) no liability shall attach to the Agent Bank in connection with the exercise or non-exercise of their powers, duties and discretions.

- (h) For the purpose of these Conditions:

“business day” means a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealings in foreign exchange and foreign currency deposits) in London.

“Interest Determination Date” means, in respect of any Interest Period commencing on or after the Reset Date, the first day of each Interest Period.

“Margin” means 2.19 per cent. per annum.

“Reference Banks” means the principal London office of each of four major banks engaged in the London interbank market selected by the Agent Bank.

“Reset Date” means 29 June 2016.

“Screen Rate” means, in respect of any Interest Period, the rate for three month deposits in Sterling which appears on Telerate Page 3750 (or such replacement page on that service which displays that information) at 11.00 a.m. (London time) on the Interest Determination Date for that Interest Period.

- (3) (a) If, on any day within the 30 days preceding a scheduled Interest Payment Date, the Board:
- (i) after consultation with the Supervisory Authority (as defined below) and having taken appropriate legal advice, is of the opinion that on the relevant date, the Society is, or payment of the relevant interest payment would result in the Society being, or there is a reasonable likelihood that payment of the relevant interest payment would in the foreseeable future result in the Society being, in non-compliance with its Applicable Regulatory Capital Requirements; and
 - (ii) passes a resolution cancelling or, as the case may require, reducing the interest to such extent as may be necessary to secure that, in the opinion of the Board (after consultation with the Supervisory Authority and having taken appropriate legal advice), such payment would not cause or contribute to such non-compliance,

then the Society shall, as soon as practicable, give notice to all PIBS holders of such resolution in accordance with Condition 12, and such interest payment or part thereof, as the case may be, shall not be made. On the passing of a resolution cancelling or reducing an interest payment, each 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.

For the purpose of these Conditions:

“Applicable Regulatory Capital Requirements” means any requirements contained in Capital Regulations for the maintenance of capital from time to time applicable to the Society.

“Capital Regulations” means at any time the regulations, requirements, guidelines and policies relating to capital adequacy then in effect of the Supervisory Authority.

“**Supervisory Authority**” means the Financial Services Authority (or any successor body performing for the time being the same or similar functions in relation to building societies (or, in the event that the Society transfers its business to a company under Section 97 of the Act, companies of that nature) in the United Kingdom).

- (b) If, in circumstances other than as set out in Condition 4(3)(a) above, on any day within the 30 days preceding a scheduled Interest Payment Date, the Board passes a resolution cancelling or requiring a reduction in the interest payable on such Interest Payment Date, then the Society shall:
- (i) as soon as practicable, give notice to all PIBS holders of such resolution in accordance with Condition 12 and that such interest payment (or part of it) shall not be made in cash;
 - (ii) appoint an independent investment bank or financial institution (the “**Independent Investment Bank**”), contact details of which shall be included in the notice to determine, as at a date no later than 10 days preceding the Interest Payment Date or, where the Board passes the relevant resolution later than such date, on the day which is two business days following the passing of such resolution (the “**Scrip Determination Date**”), the number of further PIBS (“**Payment PIBS**”) required to be issued; and
 - (iii) unless prevented for legal, regulatory or other reasons, make such interest payment by the delivery in accordance with this Condition 4(3)(b) of the Payment PIBS to, or to the order of, the PIBS holders on such Interest Payment Date.

The number of Payment PIBS required to be issued in accordance with the above will be such number of PIBS as, in the determination of the Independent Investment Bank, will on the Scrip Determination Date have a market value of not less than the relevant interest payment (or part of it) not to be made in cash. The Independent Investment Bank shall owe no client duties to the holders of the PIBS. To the extent that any PIBS holder’s entitlement to Payment PIBS does not result in a round number of Payment PIBS, such holder’s entitlement shall be rounded up to the nearest whole Payment PIBS.

Whilst Condition 4(3)(b) entitles the Society in its sole discretion to cancel, in whole or in part, any scheduled interest payment to be made in cash (as required by current policy of the Supervisory Authority) and instead to make such interest payment by the delivery of Payment PIBS, it is the Society’s intention not to cancel any part of a scheduled interest payment to be made in cash other than in the circumstances described in Condition 4(3)(a).

- (c) If the Board passes a resolution cancelling or requiring a reduction in the interest payment on an Interest Payment Date pursuant to Condition 4(3)(b) and the Society is unable, whether for legal, regulatory or other reasons, to issue Payment PIBS, then:
- (i) the Society shall not pay any interest or dividend on any other class of deferred shares (as defined in the Act) of the Society (other than any class of deferred shares the terms of which do not provide for the Board to be able to cancel any interest or dividend payment at its discretion), for a period of 12 months following the passing of such resolution; and
 - (ii) the Society shall, as soon as reasonably practicable notify each stock exchange on which it has any securities (including the PIBS) for the time being listed, of the passing of the resolution by the Board (together with a list of the Board members and their titles) and the cancellation (in whole or in part) of the relevant interest payment.
- (4) Any amount representing principal of or interest on a PIBS in respect of which no cheque has been cashed and no payment claimed shall cease to be payable after 12 years from the due date and shall revert to the Society.

5 Repayment

- (1) The PIBS constitute permanent non-withdrawable deferred shares (as defined in the Act) in the Society and have no specified final maturity.
- (2) The Society may, having obtained Relevant Supervisory Consent (as defined below) and having given not less than 30 nor more than 60 days' notice to the PIBS holders in accordance with the Conditions, which notice shall be irrevocable, elect to repay all, but not some only, of the PIBS on 29 June 2016 or on any Interest Payment Date thereafter at their principal amount together, subject to Conditions 4(3)(a) and 4(3)(b), with any interest accrued to but excluding the date of repayment.
- (3) 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 Shareholding Members (other than holders of deferred shares (including the PIBS)) as regards the principal and interest due in respect of their Shares.

“Relevant Supervisory Consent” means consent by the Supervisory Authority to the relevant repayment or (as referred to in Condition 5(8)) purchase.

- (4) The claims of the PIBS holders in a winding-up or dissolution of the Society will be for the principal amount of their PIBS together, subject to Condition 4, with interest accrued to but excluding the date of repayment after all sums due from the Society to Creditors have been paid in full. The PIBS holders will not be entitled to any share in any final surplus upon a winding-up or dissolution of the Society.
- (5) Up to the Reset Date if, as a result of any change in or proposed change in, or amendment to or proposed amendment to, the laws of the United Kingdom or any political subdivision or authority thereof having power to tax, or any change in or proposed change in the application of official or generally published interpretation of such laws, or any interpretation or pronouncement by any relevant tax authority that provides for a position with respect to such laws or regulations that differs from the previously generally accepted position in relation to similar transactions or which differs from any specific written confirmation given by a tax authority in respect of the PIBS, which change becomes, or would become, effective, or in the case of a change or proposed change in law if such change is enacted (or, in the case of a proposed change, is expected to be enacted) by Act of Parliament or made by statutory instrument, on or after 29 June 2006, the Society reasonably determines (and in making such determination the Society shall obtain an appropriate legal opinion, a copy of which it shall provide to the Registrar) that the Society will not obtain full relief for the purposes of United Kingdom corporation tax for interest payable in respect of the PIBS including, for the avoidance of doubt, where the payment of interest is to be satisfied by the issue of Payment PIBS pursuant to Condition 4 or, as a result of the PIBS being in issue, the Society may be unable to claim or surrender losses as group relief, and such requirement or circumstance cannot be avoided by the Society taking such measures as it (acting in good faith) deems appropriate, then the Society may, subject to having obtained Relevant Supervisory Consent (as defined above) and having given not less than 30 nor more than 60 days' notice to the PIBS holders in accordance with the Conditions, which notice shall be irrevocable, redeem at any time all, but not some only of the PIBS.
- (6) Up to the Reset Date if the Supervisory Authority determines that securities of the nature of, and including, the PIBS can no longer qualify as Tier 1 Capital as a result of a change in applicable regulations, then the Society may (subject to having obtained Relevant Supervisory Consent), having given not less than 30 nor more than 60 days' notice to the PIBS holders in accordance with the Conditions, which notice shall be irrevocable, redeem at any time all, but not some only, of the PIBS.

- (7) If the Society elects to redeem the PIBS pursuant to Condition 5(5) above, it shall redeem each PIBS at their principal amount, together, subject to Conditions 4(3)(a) and 4(3)(b), with any interest accrued to but excluding the date of repayment. If the Society elects to redeem the PIBS pursuant to Condition 5(6) above, it shall redeem each PIBS at the higher of their principal amount and the Call Redemption Price, together, subject to Conditions 4(3)(a) and 4(3)(b), with any interest accrued to but excluding the date of repayment.

For the purposes of these Conditions:

“**Call Redemption Price**” means, in respect of each PIBS, the price, expressed as a percentage (rounded to four decimal places, 0.00005 being rounded upwards), at which the gross redemption yield (as calculated by the Independent Investment Bank on the basis set out by the United Kingdom Debt Management Office in the paper “*Formulae for calculating Gilt Prices from Yields*” page 4, section One: Price/Yield Formulae “*Conventional Gilts; Double-dated and Undated Gilts with Assumed (or Actual) Redemption on a Quasi-Coupon Date*” (published 8 June 1998 (as supplemented, amended or replaced from time to time)) on the PIBS, if they were to be purchased at such price on the third dealing day prior to the date fixed for redemption, would be equal to the gross redemption yield on such dealing day of the Reference Gilt plus 0.775 per cent. on the basis of the middle market price of the Reference Gilt prevailing at 11.00 a.m. (London time) on such dealing day as determined by the Independent Investment Bank.

“**Reference Gilt**” means, in relation to any calculation of the Call Redemption Price, the 4.75 per cent. United Kingdom Treasury Stock due 2015, or if such security is no longer in issue, such other United Kingdom government security as the Independent Investment Bank may, with the advice of the Reference Dealers, determine to be appropriate for determining the Call Redemption Price.

“**Reference Dealers**” means three brokers of gilts and/or gilt-edged market makers selected by the Independent Investment Bank in consultation with the Society, or such other three persons operating in the gilt-edged market as are selected by the Independent Investment Bank in consultation with the Society.

“**Tier 1 Capital**” has the meaning given to it in the Supervisory Authority’s Interim Prudential Sourcebook for Building Societies (as amended, supplemented or updated from time to time) or any successor publication replacing such guide, or is issued capital of the Society regardless of name or designation which is otherwise treated as issued Tier 1 capital by the Supervisory Authority.

- (8) The Society may, having obtained prior Relevant Supervisory Consent and, for so long as the PIBS are admitted to the official list maintained by the competent authority designated under Part VI of the FSMA (the “**UK Listing Authority**”, which expression shall include any body appointed to perform such functions under any successor legislation), and admitted to trading on the London Stock Exchange plc’s Gilt Edged and Fixed Interest Market (the “**Market**”), subject to and in accordance with the requirements from time to time of the UK Listing Authority and the London Stock Exchange plc, purchase any of the PIBS.
- (9) All PIBS repaid or purchased by the Society as aforesaid shall be cancelled forthwith and such PIBS may not be reissued or resold.

6 Payments

All payments in respect of the PIBS will be made by sterling cheque drawn on a bank or building society in the United Kingdom, posted on the business day immediately preceding the relevant due date and made payable to the PIBS holders (in the case of a joint holding of PIBS, the Representative Joint Shareholder) appearing in the PIBS Register in respect of the PIBS of which it is the holder at the close of business on the fifteenth day before the relevant due date (the “**Record Date**”) at the addresses shown in the PIBS Register on the Record Date. In relation to payments of interest only, upon application of the PIBS holder (or in the case of a joint holding of PIBS, the Representative Joint Shareholder) to the Society, in the form from time to time prescribed by the Society, not less than 10 days before the due date for any interest payment in respect

of its PIBS, the interest payment may be made by transfer on the due date or, if the due date is not a business day, on the immediately following business day to a sterling account with a bank or building society in the United Kingdom.

All payments in respect of the PIBS shall be made without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature (“**Taxes**”) imposed or levied by or on behalf of the United Kingdom or any political subdivision or any authority thereof or therein having power to tax, unless the withholding or deduction of the Taxes is required by law.

For a description of applicable United Kingdom taxation considerations see “United Kingdom Taxation”.

7 Replacement of PIBS Certificates

A PIBS holder who has lost a PIBS Certificate shall immediately give notice in writing of such loss to the Society at its Principal Office and to the Registrar at its specified office. If a PIBS Certificate is damaged or alleged to have been lost, stolen or destroyed, a new PIBS Certificate representing the same PIBS shall be issued by the Registrar, on behalf of the Society, to the PIBS holder upon request, subject to delivery up of the old PIBS Certificate or (if alleged to have been lost, stolen or destroyed) subject to compliance with such conditions as to evidence and indemnity as the Society and the Registrar may think fit and to payment of any exceptional expenses of the Society and the Registrar incidental to its investigation of the evidence of such alleged loss, theft or destruction. The new PIBS Certificate will be made available at the offices of the Registrar.

8 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 become deferred shares in the amalgamated or transferee building society (as appropriate) 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 Condition 8(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 so assumed by the successor in respect of each PIBS shall be the same as the liability in respect of a non-transferable subordinated deposit carrying the same rate of interest as the PIBS ranking behind any undated subordinated debt previously issued by the Society (each a “**Subordinated Deposit**”). Each Subordinated Deposit will be applied on the vesting date (or as soon as reasonably practicable thereafter), on behalf of the PIBS holder, in the subscription of a principal amount of undated subordinated bonds of the successor ranking behind any undated subordinated debt previously issued by the Society or its successor (the “**Bonds**”) equivalent to the principal amount of the Subordinated Deposit and carrying the same Rate of Interest as the PIBS.

The terms of each Subordinated 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 treated as capital designated perpetual subordinated debt (as referred to in Chapter CA of the Interim Prudential Sourcebook for Banks 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 Applicable Regulatory Capital Requirements.

The terms of the Subordinated 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 the PIBS holders at the Principal Office of the Society and the specified office of the Registrar 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 Condition 8(1) or (2) above will comply with the provisions of Condition 8(1) or, as the case may be, (2) above.

9 Variations of these Conditions

- (1) These Conditions may only be varied by the Society with the consent in writing of the PIBS holders holding not less than 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 10.
- (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 in that capacity.
- (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 in that capacity shall not limit any rights of any PIBS holder 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.

10 Meetings of the PIBS holders

- (1) The Society alone may at any time convene a separate meeting of the PIBS holders. Every meeting shall be held at such place as the Society may approve.
- (2) At least 21 clear days' notice, calculated from the final date for the receipt of proxies under Condition 10(11), specifying the hour, date and place of the meeting shall be given to the PIBS holders entered in the PIBS Register 35 days prior to the date specified for the meeting by sending it by post to the addresses shown in the PIBS Register. The notice shall specify generally the nature of the business to be transacted at the meeting and the terms of any resolution to be proposed to alter these Conditions.
- (3) Any person (who may, but need not, be a PIBS holder) nominated in writing by the Society shall be entitled to take the chair at every meeting but if no nomination is made or if at any meeting the person nominated shall not be present within 15 minutes after the time appointed for holding the meeting, the PIBS holders present shall choose one of their number who is present to be chairman.
- (4) At any meeting one or more persons present in person or by proxy and holding or representing in aggregate not less than one-third of the principal amount of the PIBS for the time being outstanding shall form a quorum for the transaction of business and no business (other than the choosing of a chairman) shall be transacted at any meeting unless the requisite quorum shall be present at the commencement of business. Every question submitted to the meeting (other than the choosing of a chairman which will be decided by a simple majority) shall be decided by a poll of one or more persons present and holding PIBS or being proxies and representing in aggregate not less than three-quarters of the principal amount of the PIBS represented at such meeting voting in favour of such question.
- (5) If within half an hour after the time appointed for any meeting a quorum is not present, the meeting shall stand adjourned for such period, being not less than 14 days nor more than 42 days and at such place as may be appointed by the chairman and if at the adjourned meeting a quorum shall not be present within half an hour from the time appointed for the adjourned meeting, the PIBS holders present in person or by proxy at the adjourned meeting shall be a quorum.
- (6) Notice of any adjourned meeting shall be given in the same manner as notice of an initial meeting but as if 10 were substituted for 21 in Condition 10(2).

- (7) A poll shall be taken in such manner as the chairman directs and the result of the poll shall be deemed to be the resolution of the meeting.
- (8) The chairman may with the consent of (and shall if directed by a resolution of) the meeting adjourn any meeting from time to time and from place to place but no business shall be transacted at any adjourned meeting other than business left unfinished or not reached at the meeting from which the adjournment took place.
- (9) Any director or officer of the Society and its professional advisors may attend and speak at any meeting of the PIBS holders. Save as provided in this Condition, no person shall be entitled to attend and speak nor shall any person be entitled to vote at any such meeting unless it is a PIBS holder or is a proxy thereof.
- (10) At any meeting every PIBS holder who is present in person or by proxy shall have one vote, irrespective of the principal amount of the PIBS so held or in respect of which it is a proxy.
- (11) A PIBS holder entitled to attend a separate meeting of the Society:
 - (a) may appoint one Person (whether a PIBS holder or not) as its proxy to attend and, on a resolution, to vote at such meeting instead of him; and
 - (b) may direct the proxy how to vote at the meeting.

A proxy shall be appointed by an instrument in writing which shall be in such form and include such declarations as the Board may from time to time determine. The instrument shall enable the PIBS holder appointing the proxy to direct him how to vote provided that, if the instrument is not in the form specified by the Society or is not signed by the appointer, the appointment of the proxy shall be invalid. The appropriate forms of declaration shall, with such additional or amended wording as the Board may consider appropriate, be used in the case of a body corporate. If the appropriate declaration is not included in the instrument, the appointment of the proxy shall be invalid. The instrument appointing a proxy or a representative shall be deposited at the Principal Office not less than two clear days before the day appointed for holding the meeting, or adjourned meeting, and in default the instrument shall be treated as invalid. The instrument appointing a proxy shall be deemed to confer authority to demand or join in demanding a poll but, save as provided by this Condition 10(11), a proxy shall have no right to speak at the meeting. A vote given in accordance with the terms of an instrument of proxy shall be valid notwithstanding the previous death or mental disorder of the appointer or revocation of the proxy or of the authority under which the proxy was executed, or the transfer of a PIBS in respect of which the proxy is given, provided that no intimation in writing of such death, mental disorder, revocation or transfer shall have been received by the Society at its Principal Office before the commencement of the meeting or adjourned meeting at which the proxy is used.

- (12) Any resolution passed at a meeting duly convened and held in accordance with these provisions shall be binding upon all the PIBS holders whether or not present at the meeting and whether or not voting and each of them shall be bound to give effect to the resolution accordingly and the passing of any resolution shall be conclusive evidence of the circumstances justifying the passing of the resolution. Notice of any resolution duly passed by the PIBS holders shall be given in writing to each PIBS holder by the Society within 14 days of the passing of the resolution, provided that the non-publication of the notice shall not invalidate the resolution.
- (13) Minutes of all resolutions and proceedings at every meeting shall be made and duly entered in books to be from time to time provided for that purpose by the Society and any minutes purporting to be signed by the chairman of the meeting at which resolutions were passed or proceedings conducted shall be conclusive evidence of the matters contained in the minutes and, until the contrary is proved, every meeting in respect of the proceedings of which minutes have been so made and signed shall be deemed to have been duly held and convened and all resolutions passed or proceedings had to have been duly passed or conducted.

- (14) The accidental omission to send notice of a separate meeting or to send any document required to be sent with the notice or otherwise before the meeting to, or the non-receipt of notice of a separate meeting or any such document as aforesaid by, any person entitled to receive notices or documents shall not invalidate the proceedings at that meeting.

11 Further issues

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

- (a) 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 permanent interest bearing shares of any series (including the PIBS); or
- (b) 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 permanent interest bearing shares ranking ahead of the PIBS.

12 Notices

All notices regarding the PIBS shall be valid if sent by post to the PIBS holders at their respective addresses in the PIBS Register. Any such notice shall be deemed to have been given on the second day following the mailing of such notice.

13 Governing law

The rights and obligations in respect of the PIBS are governed by, and shall be construed in accordance with, English law. The courts of England are to have exclusive jurisdiction to settle any disputes which may arise out of or in connection with the PIBS and accordingly any legal action or proceedings arising out of or in connection with the PIBS may only be brought in such courts.

CERTAIN PROVISIONS OF THE ACT AND REQUIREMENTS OF THE SUPERVISORY AUTHORITY

In this section, “**Supervisory Authority**” means the FSA and any successor organisation responsible for the supervision of building societies or authorised persons under the FSMA in the United Kingdom.

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 a shareholding members’ resolution passed by the shareholding members of each amalgamating society and a borrowing members’ resolution (each as defined in Schedule 2 to the Act) passed by the borrowing members of each amalgamating society and confirmation of amalgamation by the Supervisory Authority. The Act provides that on the date specified by the Supervisory Authority all of the property, rights and liabilities (which, in the case of the Society, would include 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. In the event of such an amalgamation by the Society with another building society, the PIBS would, pursuant to their terms, become deferred shares in the successor without any alteration of their terms.

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 a shareholding members’ resolution and a borrowing members’ resolution of each of the transferor society and the transferee society. However, the resolutions of the transferee society are not required if the Supervisory Authority consents to the transfer proceeding by a resolution of its board of directors only. The transfer must be confirmed by the Supervisory Authority. The Act provides that on the date specified by the Supervisory Authority 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 (including the PIBS) of the Society, the PIBS would, pursuant to their terms, become deferred shares in the transferee without any alteration of their terms.

Transfer of business

Sections 97 to 102D 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 a requisite shareholders’ resolution, in accordance with Schedule 2, paragraph 30(2)-(5) of the Act, passed by shareholding members and by a borrowing members’ resolution passed by borrowing members and the society must obtain the confirmation of the Supervisory Authority to the transfer and its terms. If the Supervisory Authority confirms the transfer then the Act provides that on the vesting date (as defined in the Act) all of the property, rights and liabilities (which would include the PIBS) of the transferor society, whether or not capable of being transferred or assigned, shall by virtue of the Act and in accordance with the 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 undated 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. On any transfer, investing members of the society who were members on the qualifying date but not entitled to vote on the requisite shareholders’ resolution will receive a statutory cash bonus equal to their

notional share of the 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. No distribution of funds (apart from the statutory cash bonus referred to above) may be made, and restrictions are imposed on the issue by the successor of negotiable instruments acknowledging rights to shares, if the transfer is to a company specially formed by the society.

General

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 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 Supervisory Authority is required before any such change can take place.

COVENTRY BUILDING SOCIETY

Introduction

The Society is the fifth largest building society in the United Kingdom based on asset size with assets as at 31 December 2005 of £11,090 million. The Society operates a regional network of 48 branches and has over 770,000 investing members and 110,000 borrowing members.

The Society

The Society was formed as a result of a merger between Coventry Economic Building Society and Coventry Provident Building Society on 30 June 1983. Its registered office and principal place of business is Economic House, High Street, Coventry – telephone number 08457 665522.

The Society operates exclusively in the United Kingdom and has a branch network in the central region, with its heartland in Coventry and Warwickshire. Mortgage, savings and related products are offered through the post, by telephone and via the internet to customers both inside and outside the branch operating area.

The Society is incorporated under the Act and operates in accordance with the Act, regulations made thereunder and the Society's Rules and Memorandum. The Society is an authorised building society for the purposes of the Act and is authorised and regulated by the FSA under firm reference number 150892. The affairs of the Society are conducted and managed by a Board of Directors who are elected and 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 day to day management.

The Society is a mutual organisation with both retail investors and borrowers having membership.

Eligibility to vote at General Meetings is governed by the Act and by the Society's Rules.

Business

General

The principal purpose of the Society, as stated in clause 3 of its Memorandum, is making loans which are secured on residential property and are funded substantially by its members.

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

The Society concentrates on its core business of personal savings, residential mortgage lending and related insurances and loans. It is an appointed introducer of Norwich Union. As at 31 December 2005 loans fully secured on residential property represented 98.93% of its business assets.

Mortgage lending activities

The Society currently has 0.93% of the UK mortgage stock¹. In 2005 the Society made mortgage and other loan advances of £3,009 million, with a net increase in lending of £1,326 million. The corresponding figures for 2004 were advances of £2,198 million and a net increase in mortgage lending of £409 million.

Personal savings activities

The Society's main source of funding continues to be the retail savings market. Shares held principally by individuals amounted to £7,455 million at the end of 2005, representing 67% of total assets and 0.76% UK market share².

¹ Source: based on table A5.3 of the Bank of England Monetary and Financial Statistics, December 2006.

² Source: Calculated using figures published by the Bank of England for year ended 31 December 2005 for outstanding sterling balances of accounts held by UK residents in banks, building societies and national savings (the UK Retail Deposit Market).

Cost control

As a result of its focus on containing costs, the Society's ratio of management expenses to mean total assets as at 31 December 2005 was 0.57%. This was the lowest level of any major building society³; the corresponding figure for 2004 was 0.59%.

Financial position and liability management

Capital base

The Society is well capitalised and had a Tier 1 capital ratio of 9.85% at the end of 2005.

In 1992, the Society issued £40 million of undated convertible subordinated notes which were converted mandatorily into permanent interest bearing shares (the "**Original PIBS**") in September 1993.

On 25 June 2002 the Society issued £15 million of term subordinated debt which is repayable in 2022.

On 16 March 2004 the Society issued £29.8 million of term subordinated debt which is repayable in 2015.

On 8 November 2005 the Society issued £25 million of term subordinated debt which is repayable in 2015.

In each case the issued debt described above is repayable earlier at the option of the Society with prior consent of the FSA. Each of these subordinated debt issues is eligible for inclusion in calculating own funds as Tier 2 capital. The Original PIBS qualify as Tier 1 capital.

At the end of 2005 and 2004 the consolidated capital ratios of the Society, as calculated for the purposes of the Act were as follows:

	As at 31 December	
	2005	2004
	<i>%</i>	<i>%</i>
Gross capital ratio.....	5.70	6.10
Free capital ratio.....	5.54	6.02
Tier 1 capital ratio	9.85	10.91

Tier 1 capital ratio is the sum of general reserves and the Original PIBS, divided by risk weighted assets. This ratio is unaudited financial information which is not contained in the audited annual financial statements of the Society for the financial year ended 31 December 2005.

Non-share ("wholesale") funding

As at 31 December 2005 the Society obtained 28.67% of its funding from sources other than shares held by individuals.

Wholesale funding as at 31 December 2005

	<i>£ millions</i>
Amounts owed to credit institutions	167
Debt securities in issue	1,763
Other deposits and loans	1,055
Total	2,985

³ Source: Butler's Building Society Guide, 2006

Liquidity

Whilst there is no statutory minimum level of liquidity, the Society is required by the FSA to maintain a minimum level of liquidity, having regard to the range and composition of its business. The classes of instruments that may be held by the Society for liquidity purposes are prescribed by the FSA.

Liquidity as at 31 December 2005

£ millions	%
1,952	18.70 as a % of shares, deposits and loans

Recent Developments

The Society is committed to retaining its building society status and since April 1996 has demonstrated this by giving back to its customers the profits it does not need to retain, in the form of better products and services. Initiatives for savers and borrowers include the following:

Borrowers

- Choice of competitive products.
- Extended further the product range through developments to First Time Buyers, Buy to Let, Self Certification, Offset mortgages and unsecured personal loans.
- Privilege rate loyalty discounts for borrowers who have been on the same mortgage scheme for five years.
- Successful implementation of mortgage and general insurance regulation.

Savers

- Interest paid from the day the cheque is received.
- Competitive interest rates.
- Accounts launched for families and those aged 60 and over.
- Privilege ISA rate for members of at least five years standing.
- Introduction of Coventry First “near current” account.

General

- Regularly appearing in press best buy tables.
- Multi-channel distribution, enabling members to transact with the Society face to face, via the telephone, post or internet.

Business results for 2005 reflect the competitive advantage of remaining a building society. With no dividends to pay to outside shareholders, the Society is able to offer highly competitive interest rates to both savers and borrowers, not only to attract new customers but also to ensure that existing customers are retained as well.

Gross advances totalled £3,009 million for the year. Net lending totalled £1,326 million for the year.

With a management expense ratio of 0.57% of average assets, the Society remains amongst the most efficient financial institutions in the country.

Pre-tax profits for the full year totalled £53.7 million, despite operating on one of the narrowest interest margins in the sector. Capital, reserves and subordinated liabilities of £595 million enabled the Society to achieve a gross capital ratio of 5.70%.

The Society’s aim is to maintain a high level of service to all customers, both existing and new, which allows them to take advantage of the Society’s wide range of savings and mortgage products. From 3 November 1998 the Society introduced a new account opening condition requiring every new customer opening a savings account which provides membership of the Society to agree to assign to Coventry Building Society Charitable Foundation any windfall conversion benefits to which they may be entitled. The agreement will continue for a period of five years from the date the account is opened. This action should minimise the effect of speculators and enable the Society to provide the level of service its customers desire. Coventry Building Society Charitable Foundation is a registered charity, a majority of whose trustees are independent of Coventry Building Society. The Foundation provides financial assistance in the form of grants to registered charities, in particular those operating within the Society’s branch network region.

The Society’s determination to remain a building society is built upon the firm belief that this strategy is in the best long term interests of both existing and future members.

Management

The Board of Directors is responsible for the Society’s strategy and policy. The execution of that policy and day to day management is vested with the Executive. The members of the Executive, their roles in relation to the Society and their principal outside activities (if any) of significance to the Society are as follows:

Name	Role	Other principal activities outside of the Society
Martin Howard Ritchley, FCA, FCIB, Hon DBA (Coventry) (retires 1.7.06)	Chief Executive	
John Alistair Thomson, BA, FCMA	Deputy Chief Executive	
David Stewart, BA, ACA	Chief Executive Designate Operations Director	
Robert Huelin Green, BA, ACA	Finance Director	
Martyn Richard Edwards, MA (Oxon) (retires 25.7.06)	Secretary & Solicitor	
Nailesh Kantilal Rambhai, MA (Oxon)	Secretary & Solicitor Designate	
Miles Richard Buttrick, FCCA, FCT	General Manager – Treasury & Risk	Director, Tearfund
Colin T Franklin, FICB, DMS	Head of Sales	
Phil Vaughan	Chief Operating Officer	

Board of Directors

<i>Name (Date of Birth)</i>	<i>Date of appointment</i>	<i>Occupation</i>	<i>Other Directorships as Director</i>
M H Ritchley 1.7.1946 (retires 1.7.06)	1.6.1985	Building Society Chief Executive	Belgrade Theatre Trust (Coventry) Ltd Building Societies Trust Limited CV One Limited The National Farmers Union Mutual Insurance Society Limited The ARC-Addington Fund
J A Thomson 21.1.1949	19.5.1993	Building Society Deputy Chief Executive	All of Coventry Building Society's subsidiary companies detailed in the Annual Report & Accounts 2005 Section 4 Godiva Mortgages Limited Link Interchange Network Limited
R D King 26.10.1943	1.10.1995	Chief Executive of the Road Haulage Association	Roadsafe Limited Road Haulage and Distribution Training Council (RHDTTC)
D A Harding Chairman 29.7.1947	1.10.1996	Company Director	RT Group PLC (In Members' Voluntary Liquidation) Enterprise Inns PLC
R V Wigglesworth 25.4.1940	1.10.1996	Chartered Surveyor	DebtCred
Baroness Shephard of Northwold, 22.1.1940	1.7.1999	Life Peer	Franco British Society
A J Pearce Deputy Chairman 15.10.1944	1.6.2001	Chartered Accountant/Retired Finance Director	None
D Stewart 18.8.1965	11.2.2002	Building Society Chief Executive Designate Building Society Operations Director	All of Coventry Building Society's subsidiary companies detailed in the Annual Report & Accounts 2005 Section 4 Godiva Mortgages Limited Coventry Law Centre Limited

<i>Name (Date of Birth)</i>	<i>Date of appointment</i>	<i>Occupation</i>	<i>Other Directorships as Director</i>
F B Smith 3.1.1959	1.12.2002	Solicitor	Clear Rating Ltd Derwent Insurance Limited Double Serve Ltd Severn Trent Corporate Holdings Plc Severn Trent Enterprises Ltd Severn Trent Overseas Holdings Ltd Severn Trent Water Services Plc Severn Trent Water Share Scheme Trustees Ltd ST Corporate Director Limited
I Pickering 16.10.1955	1.9.2005	Chief Executive – Manganese Bronze Holdings PLC	George Vint And Company Limited Geoview Limited Holyhead Estates Limited London Taxi Exports Limited London Taxi Insurance Agency Limited London Taxis International Finance Limited London Taxis International Limited London Taxi Retail Limited LTF Limited LTI Finance Limited LTI Limited Manganese Bronze Limited Manganese Bronze Holdings PLC Manganese Bronze Components Limited Manganese Bronze Property Service Limited Manganese Bronze Services Limited Mann & Overton Finance Limited Mann & Overton Limited MBC2 Limited MBC3 Limited MBC4 Limited MBC5 Limited

<i>Name (Date of Birth)</i>	<i>Date of appointment</i>	<i>Occupation</i>	<i>Other Directorships as Director</i>
			MBC6 Limited
			MBC7 Limited
			MBC8 Limited
			MBC9 Limited
			MBH Nominees No 1 Limited
			MBH Nominees No 2 Limited
			The Black Cab Company Limited
			The London Taxi Company Limited
			Zingo Limited
R H Green 23.5.1968	2.5.2006	Building Society Finance Director	Godiva Mortgages Limited

The business address of the Directors is Economic House, P.O. Box 9, High Street, Coventry CV1 5QN.

On 16 January 2002 the Society entered into a service contract with Mr. D Stewart, the Chief Executive Designate and the Operations Director. The contract enables the Society to give one year's notice of termination.

On 16 June 2004 the Society entered into a service contract with Mr. M H Ritchley, the Chief Executive. The contract enables the Society to give one year's notice of termination.

On 16 June 2004 the Society entered into a service contract with Mr. J A Thomson, the Deputy Chief Executive. The contract enables the Society to give one year's notice of termination.

On 2 May 2006 the Society entered into a service contract with Mr. R H Green, the Finance Director. The contract enables the Society to give one year's notice of termination.

There are no existing or potential conflicts of interest between any duties owed to the Society by its Directors or members of its Executive and the private interests and/ or other external duties owed by these individuals.

Subsidiaries

The Society has the following direct wholly owned subsidiary companies. As at the date of this Prospectus, none of these are carrying on a business.

Coventry Cover Limited
Coventry Estate Agency Services Limited
Coventry Financial Services Limited
Coventry Homefinders Limited
Coventry Home Owners' Centre Limited
Coventry Housing Developments Limited
Coventry Property Directory Limited
Coventry Property Services Limited
Coventry Securities and Investments Limited
Economic Estate Agency Services Limited
Economic Financial Services Limited
Economic Home Owners' Centre Limited
Economic Housing Developments Limited

Economic Securities and Investments Limited
Godiva Financial Services Limited
Godiva Home Owners' Centre Limited
Godiva Housing Developments Limited
Godiva Mortgages Limited
Godiva Property Directory Limited
Godiva Securities and Investments Limited
The Property Directory Limited

External auditors

Ernst & Young LLP (Chartered Accountants) of No: 1 Colmore Square, Birmingham have audited without qualification the financial statements contained in the audited annual financial statements of the Society for the financial years ended 31 December 2005 and 2004.

There has been no significant change in the financial position nor any material adverse change in the prospects of the Society since 31 December 2005, the date of the last audited financial statements.

With effect from 1 January 2005 the Society has been required to prepare its financial statements in accordance with International Financial Reporting Standards (IFRS). Previously, the Society had prepared its financial statements in accordance with United Kingdom Generally Accepted Accounting Principles.

In preparing the comparative information for 2005 the Society has adjusted amounts previously reported in the audited annual financial statements which had been prepared in accordance with the reporting standards in force at the time. Additional adjustments were made to the balance sheet at 1 January 2005 to reflect the adoption of International Accounting Standard (IAS) 32 and IAS 39. As permitted by IFRS1, the comparative information was not adjusted for the impact of IAS 32 and IAS 39.

REASONS FOR THE ISSUE AND USE OF PROCEEDS

The net proceeds of the issue of the PIBS (estimated to be approximately £119,180,000) will be used by the Society in its general business operations. The proceeds will be treated for capital adequacy purposes as forming part of the Society's Tier 1 regulatory capital.

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 PIBS. The summary only relates to the deduction of United Kingdom tax from interest on the PIBS and to certain aspects of the taxation treatment of United Kingdom taxpayers which are the absolute beneficial owners of the PIBS and the interest on them and some aspects do not apply to certain classes of United Kingdom taxpayer (such as dealers and persons connected with the Society). The summary only relates to PIBS issued on the Issue Date and not to any further PIBS issued (whether in accordance with Condition 4(b), Condition 11 or otherwise). The following is a general guide and should be treated with appropriate caution. **Prospective PIBS holders who may be subject to tax in a jurisdiction other than the United Kingdom or who are in any doubt as to their tax position should seek their own professional advice.**

Interest on the PIBS

While the PIBS are and continue to be listed on a "recognised stock exchange" within the meaning of section 841 Income and Corporation Taxes Act 1988 (the "**1988 Act**"), payments of interest on the PIBS may be made without withholding or deduction for or on account of United Kingdom income tax. The London Stock Exchange is a recognised stock exchange. Under Her Majesty's Revenue & Customs ("**HMRC**") published practice, securities will be treated as listed on the London Stock Exchange if they are admitted to the Official List and admitted to trading on the Market.

If the PIBS were to cease to be so listed then interest on the PIBS might fall to be paid under deduction of United Kingdom tax at the lower rate (currently 20 per cent.) unless certain exemptions applied.

United Kingdom corporation tax payers

In general, PIBS holders who are subject to United Kingdom corporation tax will be charged to tax on all returns, profits and gains on, and fluctuations in the value of, the PIBS under the "loan relationships" regime in the Finance Act 1996, broadly in accordance with generally accepted accounting practice as that term is defined for United Kingdom tax purposes (save that authorised unit trusts, open ended investment companies, investment trusts and venture capital trusts will generally not be subject to corporation tax on profits which are capital profits or gains arising from the PIBS).

Other United Kingdom tax payers

Taxation of chargeable gains

The PIBS will constitute "qualifying corporate bonds" within the meaning of section 117 of the Taxation of Chargeable Gains Act 1992. Accordingly, on this basis, a disposal by a PIBS holder of a PIBS will not give rise to a chargeable gain or an allowable loss for the purposes of United Kingdom taxation of chargeable gains.

Accrued Income Scheme

On a disposal of PIBS by an individual PIBS holder who is resident or ordinarily resident in the United Kingdom or carries on a trade, profession or vocation in the United Kingdom through a branch or agency to which the PIBS are attributable, an amount which is treated as representing any interest which has accrued since the preceding interest payment date to the date of disposal may be chargeable to tax as income of the disposing party under the rules of the accrued income scheme as set out in Chapter II of Part XVII of the 1988 Act.

It should be noted that the PIBS constitute "variable rate securities" for the purposes of the accrued income scheme and accordingly, that will impact on the way in which the provisions of the accrued income scheme could apply on a disposal of the PIBS. The provisions referred to above may be applicable in relation to a redemption of the PIBS as well as in relation to other types of disposal. For further information regarding

the application of the accrued income scheme to PIBS, PIBS holders and prospective PIBS holders should seek their own professional advice.

Stamp duty

No United Kingdom stamp duty or stamp duty reserve tax is payable on the issue, transfer or redemption of the PIBS.

Further income tax issues

Interest on the PIBS constitutes United Kingdom source income for tax purposes and, as such, may be subject to income tax by direct assessment even where paid without withholding. However, interest with a United Kingdom source received without deduction or withholding on account of United Kingdom tax will not generally be chargeable to United Kingdom tax in the hands of a PIBS holder (other than certain trustees) who is not resident for tax purposes in the United Kingdom unless that PIBS holder carries on a trade, profession or vocation in the United Kingdom through a United Kingdom branch, agency or permanent establishment in connection with which the interest is received or to which the PIBS are attributable. In addition, there are exemptions for interest received by certain categories of agent (such as some brokers and investment managers). The provisions of an applicable double taxation treaty may also be relevant for such PIBS holders.

Provision of Information

PIBS holders should note that where any interest on the PIBS is paid to them (or to any person acting on their behalf) by the Society or any person in the United Kingdom acting on behalf of the Society (a “**paying agent**”), or is received by any person in the United Kingdom acting on behalf of the relevant PIBS holder (other than solely by clearing or arranging the clearing of a cheque) (a “**collecting agent**”), then the Society, the paying agent or the collecting agent (as the case may be) may, in certain cases, be required to supply to HMRC details of the payment and certain details relating to the PIBS holder (including the PIBS holder’s name and address). These provisions will apply whether or not the interest has been paid subject to withholding or deduction for or on account of United Kingdom income tax and whether or not the PIBS holder is resident in the United Kingdom for United Kingdom taxation purposes. Where the PIBS holder is not so resident, the details provided to HMRC may, in certain cases, be passed by HMRC to the tax authorities of the jurisdiction in which the PIBS holder is resident for taxation purposes.

The provisions referred to above may also apply, in certain circumstances, to payments made on redemption of any PIBS where the amount payable on redemption is greater than the issue price of the PIBS.

EU Savings Directive

Under EC Council Directive 2003/48/EC on the taxation of savings income, each Member State is required, from 1 July 2005, to provide to the tax authorities of other Member States details of payments of interest or other similar income paid by a person within the jurisdiction of the first-mentioned Member State to, or collected by such a person for, an individual resident in that other Member State; however, for a transitional period, Austria, Belgium and Luxembourg may instead apply a withholding system in relation to such payments, deducting tax at rates rising over time to 35 per cent. The transitional period is to terminate at the end of the first full fiscal year following agreement by certain non-EU countries to the exchange of information relating to such payments.

MARKETING ARRANGEMENTS

Barclays Bank PLC and The Royal Bank of Scotland plc (each a “**Manager**” and together, the “**Managers**”) have, pursuant to a subscription agreement dated 26 June 2006 (the “**Subscription Agreement**”), agreed with the Society, subject to the satisfaction of certain conditions to subscribe for the PIBS at the issue price of 100 per cent. of their principal amount. The Society has agreed to pay the Managers a commission of 0.625 per cent. of such principal amount. The Managers are entitled to terminate the Subscription Agreement in certain circumstances prior to payment to the Society. The Society has agreed to indemnify the Managers against certain liabilities in connection with the issue of the PIBS.

The PIBS have not, prior to the date of this Prospectus, been marketed or made available in whole or in part to the public.

The PIBS have not been and will not be registered under the Securities Act, and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in certain transactions exempt from the registration requirements of the Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act (“**Regulation S**”).

Each of the Managers has agreed that, except as permitted by the Subscription Agreement, it will not offer or sell the PIBS (i) as part of its distribution at any time or (ii) otherwise until 40 days after the later of the commencement of the offering and the Closing Date (as defined in the Subscription Agreement), within the United States or to, or for the account or benefit of, U.S. persons, and it will have sent to each dealer to which it sells PIBS during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the PIBS within the United States or to, or for the account or benefit of, U.S. persons. Terms used in this paragraph have the meanings given to them by Regulation S.

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

Each of the Managers has represented and agreed that:

- (a) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of the PIBS in circumstances in which Section 21(1) of the FSMA would not, if the Society was not an authorised person, apply to the Society; and
- (b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the PIBS in, from or otherwise involving the United Kingdom.

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a “**Relevant Member State**”), each of the Managers has represented and agreed that with effect from and including the date on which the Prospectus Directive is implemented in the Relevant Member State (the “**Relevant Implementation Date**”) it has not made and will not make an offer of PIBS to the public in that Relevant Member State prior to the publication of a prospectus in relation to the PIBS which has been approved by the competent authority in that Relevant Member State or, where appropriate, approved in another Relevant Member State and notified to the competent authority in that Relevant Member State, all in accordance with the Prospectus Directive, except that it may, with effect from and including the Relevant Implementation Date, make an offer of PIBS to the public in that Relevant Member State at any time:

- (a) to legal entities which are authorised or regulated to operate in the financial markets or, if not so authorised or regulated, whose corporate purpose is solely to invest in securities;
- (b) to any legal entity which has two or more of (1) an average of at least 250 employees during the last financial year; (2) a total balance sheet of more than €43,000,000 and (3) an annual net turnover of more than €50,000,000, as shown in its last annual or consolidated accounts; or

- (c) in any other circumstances which do not require the publication by the Society of a prospectus pursuant to Article 3 of the Prospectus Directive.

For the purposes of this provision, the expression an “**offer of PIBS to the public**” in relation to any PIBS in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the PIBS to be offered so as to enable an investor to decide to purchase or subscribe the PIBS, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State and the expression “**Prospectus Directive**” means Directive 2003/71/EC and includes any relevant implementing measure in each Relevant Member State.

No action has been or will be taken by the Society or the Managers that would permit a public offer of the PIBS in any country or jurisdiction where action for that purpose is required. 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 PIBS may not, directly or indirectly, be offered or sold and neither this Prospectus 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.

GENERAL INFORMATION

- (1) The issue of the PIBS was authorised by resolutions of the Board of the Society passed on 19 April 2006 and by resolutions of a Sub-Committee of the Board passed on 14 June 2006.
 - (2) There has been no significant change in the financial or trading position of the Society and no material adverse change in the prospects of the Society since 31 December 2005.
 - (3) The Society is not, nor has during the 12 months preceding the date of this Prospectus been, involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Society is aware) which may have, or have had in the recent past, a significant effect on the financial position or profitability of the Society.
 - (4) The overall cost of the issue of the PIBS by the Society, including all commissions and expenses, is estimated to amount to approximately £820,000 (exclusive of VAT).
 - (5) The Society, pursuant to the Registrar's Agreement, will appoint Computershare Investor Services PLC at its specified office at The Pavilions, Bridgwater Road, Bristol BS13 8AE to maintain the PIBS Register at such specified office. It is intended that the Registrar will act as agent of the Society for the purposes of maintaining the PIBS Register, accepting instructions for, and effecting, transfers of PIBS, issuing PIBS Certificates to new PIBS holders, receiving requests for the replacement of, and replacing, defaced, damaged, stolen, worn-out, lost or destroyed PIBS Certificates and making payments in respect of the PIBS as they fall due.
 - (6) No temporary documents of title will be issued by the Society in respect of the PIBS. The Registrar will, from 29 June 2006, commence despatching the PIBS Certificates to all PIBS holders who elect to hold their PIBS in certificated form, at the risk of the persons entitled thereto, by first class post. The ISIN for the PIBS is GB00B177CL57 and the SEDOL number is B177CL5. PIBS will be held and transferred through the CREST System operated by CRESTCo Limited.
 - (7) For the period of 12 months starting on the date on which this Prospectus is made available to the public as required by the prospectus rules of the FSA, the following documents will be available during usual business hours on any weekday (Saturdays, Sundays and public holidays excepted), for inspection at the registered office of the Society:
 - (i) the Rules and Memorandum of the Society; and
 - (ii) the published audited annual financial statements of the Society for the financial years ended 31 December 2005 and 31 December 2004.
- This Prospectus can be viewed on the website of the Regulatory News Service operated by the London Stock Exchange at <http://www.londonstockexchange.com/en-gb/pricesnews/marketnews/>.
- (8) Ernst & Young LLP, Registered Auditors (authorised and regulated by the FSA for designated investment business) have audited, and rendered an unqualified audit report on, the audited annual financial statements of the Society for the years ended 31 December 2005 and 31 December 2004.
 - (10) Payment for the PIBS subscribed by the Managers will be made by telegraphic transfer (or other approved means) to the account nominated by the Society in accordance with the Subscription Agreement.

REGISTERED OFFICE OF THE SOCIETY

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

THE MANAGERS

Barclays Bank PLC
5 The North Colonnade
Canary Wharf
London E14 4BB

The Royal Bank of Scotland plc
135 Bishopsgate
London EC2M 3UR

REGISTRAR

Computershare Investor Services PLC
The Pavilions
Bridgwater Road
Bristol BS13 8AE

AUDITORS OF THE SOCIETY

Ernst & Young LLP
No: 1 Colmore Square
Birmingham B3 2DB

LEGAL ADVISORS

To the Society
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To the Managers
Linklaters
One Silk Street
London EC2Y 8HQ



Coventry Building Society
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