

## PROSPECTUS SUPPLEMENT



### **Coventry Building Society**

*(Incorporated in England under the Building Societies Act 1986)*

*as Issuer*

This Prospectus Supplement (the "**Prospectus Supplement**") is supplemental to and must be read in conjunction with the Prospectus dated 18 September 2009 relating to the Euro Medium Term Note Programme (the "**Prospectus**") prepared by Coventry Building Society (the "**Society**") in connection with the applications made for Notes to be admitted to listing on the Official List of the Financial Services Authority (in its capacity as competent authority for the purposes of Part VI of the Financial Services and Markets Act 2000 (the "**FSA**")), and to trading on the Regulated Market of the London Stock Exchange plc (the "**London Stock Exchange**").

This Prospectus Supplement constitutes a supplement for the purposes of Directive 2003/71/EC (the "**Prospectus Directive**") and a supplementary prospectus for the purposes of section 87G of the Financial Services and Markets Act 2000 (the "**FSMA**"). Terms defined in the Prospectus shall have the same meaning when used in this Prospectus Supplement.

To the extent that there is any inconsistency between any statement in this Prospectus Supplement and any other statement in, or incorporated by reference in, the Prospectus, the statements in this Prospectus Supplement will prevail.

The purpose of this Prospectus Supplement is (i) to disclose that on 5 March 2010 the Society published its Annual Report and Audited Consolidated Accounts for the year ended 31 December 2009, a copy of which has been filed with the FSA and, by virtue of this Prospectus Supplement, is incorporated in, and forms part of, the Prospectus (documents which are themselves incorporated by reference in the Annual Report and Audited Consolidated Accounts shall not be incorporated in, or form part of the Prospectus) (ii) to disclose that on 23 March 2010, the Society issued a press release via the Regulatory News Service headed "*Coventry Building Society announces merger with Stroud & Swindon Building Society*", a copy of which is annexed hereto; and (iii) to make certain amendments to the Prospectus.

#### **Amendments to the Prospectus**

The Prospectuses is amended as follows:

*The section entitled "Coventry Building Society" commencing on page 59 of the Prospectus is deleted in its entirety and replaced with the following:*

## "COVENTRY BUILDING SOCIETY

### **Introduction**

Coventry Building Society is the third largest building society in the United Kingdom based on asset size with assets as at 31 December 2009 of £18,402 million. The Society operates a regional network of 48 branches and has nearly 1.2 million investing members and 250,000 borrowers (over a third of whom also have an investment account with the Society).

### **The Society**

The Society was originally founded in 1884 and in its present form was created 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 +44 24 7655 5255.

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

The Society is incorporated under the Building Societies Act 1986 and operates in accordance with the Act, regulations made thereunder and the 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. In 2007 the Society launched a subsidiary lending business, Godiva Mortgages Limited. Borrowers from Godiva Mortgages do not become members of the Society by virtue of this borrowing. As at 31 December 2009 Godiva Mortgages Limited had assets of £2,680 million. Godiva Mortgages Limited is the Society's only material subsidiary. For the avoidance of doubt all other figures quoted in this section are the consolidated numbers for the group (i.e. the Society and Godiva Mortgages).

### **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 Aviva. As at 31 December 2009 loans fully secured on residential property represented 98.89 per cent. of its business assets.

### *Mortgage lending activities*

The Society currently has 1.13 per cent. of the UK mortgage stock<sup>1</sup>. In 2009 the Society made mortgage and other loan advances of £2.7 billion, with a net increase in lending of £0.9 billion. The corresponding figures for 2008 were advances of £3.1 billion and a net increase in lending of £1.3 billion.

### *Personal savings activities*

The Society's main source of funding continues to be the retail savings market. Shares held principally by individuals amounted to £13,219 million at the end of 2009, representing 71.8 per cent. of total liabilities and equity.

### *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 2009 was 0.38 per cent. This was one of the lowest levels of any major building society; the corresponding figure for 2008 was 0.40 per cent<sup>2</sup>.

## **Financial position and liability management**

### *Capital base*

The Society is well capitalised and had a Core Tier 1 capital ratio of 27.90 per cent. at the end of 2009.

In 1992, the Society issued £40 million of undated convertible subordinated notes which were converted mandatorily into permanent interest bearing shares ("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 £30 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.

On 29 June 2006 the Society issued a further £120 million of PIBS.

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

At the end of 2009 and 2008 the consolidated capital ratios of the Society, as calculated for the purposes of the Act, were as follows:

---

<sup>1</sup> Source: Council of Mortgage Lenders.

<sup>2</sup> Source: Butler's Building Society Guide, 2009.

	<i>As at 31<sup>st</sup> December</i>	
	<b>2009</b>	<b>2008</b>
	%	%
Gross capital ratio	4.68	4.76
Free capital ratio	4.51	4.58
Core Tier 1 Capital Ratio	27.90	26.76

Core Tier 1 Capital Ratio is the sum of general reserves less intangible assets, the defined pension asset and deductions from Tier 1 capital, divided by risk weighted assets.

#### *Non-share (“wholesale”) funding*

As at 31 December 2009 the Society obtained 24.2 per cent. of its funding from sources other than shares held by individuals.

#### *Wholesale funding as at 31 December 2009*

	<u>£ millions</u>
Amounts owed to credit institutions	1,370
Debt securities in issue	1,970
Other deposits and loans	<u>874</u>
Total	<u>4,214</u>

#### *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 2009*

<u>£ millions</u>	<u>%</u>
4,165	23.9 as a percentage of shares, deposits and loans, and debt securities in issue

#### **Recent developments**

The Society is committed to retaining its building society status and 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. Multi-channel distribution enables customers to transact with the Society face to face, via telephone, internet or post. Initiatives for savers and borrowers include the following:

#### *Borrowers*

- Competitive traditional residential sector mortgage products as well as a wide range of other competitive products including offset mortgages and low LTV buy to let mortgages
- Existing borrowers have access to new business mortgages.

- Privilege rate loyalty discount for borrowers who have been on the same mortgage scheme for five years.

#### *Savers*

- Competitive product set which offers traditional fixed rate bonds, instant access accounts, ISAs, children's accounts, which are available through branch, telephone and internet channels.
- Recent innovations include postal products and other products designed specifically for both families and those aged 50 and over. In addition, the Society's "Coventry First" account offers money management facilities which include a debit card.

Business results for 2009 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 £2.7 billion for 2009. Net lending totalled £0.9 billion.

With a management expense ratio of 0.38 per cent. of average assets, the Society remains amongst the most efficient financial institutions in the country.

Profits for the full year before tax and exceptional items totalled £58.0 million, despite operating on one of the narrowest interest margins in the sector. After making a provision for FSCS levies (due to the failure of other institutions) and the release for impairment of debt securities (due to an exposure to the failed Icelandic bank Kaupthing which was fully written down in the Society's 2008 annual accounts) the Society achieved pre-tax profits of £56.2 million. Capital, reserves and subordinated liabilities of £816.1 million enabled the Society to achieve a gross capital ratio of 4.68 per cent.

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 the 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:

<i>Name</i>	<i>Role</i>
David Stewart	Chief Executive
Robert Huelin Green	Finance Director
Philip Leslie Vaughan	Chief Operating Officer
Colin Terence Franklin	Sales and Marketing Director
Julian Martin James Atkins	Head of Human Resources
Rachel Cecilia Haworth	Head of Marketing & Communications
Darin John Landon	Head of Sales
John Lowe	Deputy Finance Director
Nailesh Kantilal Rambhai	Secretary & Solicitor
Sally Anne Wrigglesworth	Head of Customer Service
Sheryl Arlene Francis Lawrence	Head of Risk

### **Board of Directors**

<i>Name (Date of Birth)</i>	<i>Date of appointment</i>	<i>Occupation</i>	<i>Other Directorships as Director</i>
D A Harding (Chairman) 29 July 1947	1 October 1996	Company Director	RT Group plc (In Members' Voluntary Liquidation) Enterprise Inns plc The Royal Mint The Royal Mint Limited
D Stewart 18 August 1965	11 February 2002	Building Society Chief Executive	All of the Society's subsidiary companies detailed in sections 4 and 5 of the Annual Business Statement of the Society's Annual Report & Accounts 2009
F B Smith 3 January 1959	1 December 2002	Solicitor	Derwent Insurance Limited Severn Trent European Finance Limited S.a.r.l. Severn Trent European Placement SA Severn Trent Holdings NV Severn Trent Luxembourg Finance SA Severn Trent Luxembourg Holdings SA Severn Trent Luxembourg Overseas Finance SA Severn Trent Luxembourg Overseas Holdings SA Severn Trent MIS Trustees Limited Severn Trent Pension Scheme Trustees Limited Severn Trent PIF Trustees Limited Severn Trent SSPS Trustees Limited
I Pickering (Chairman of the Audit Committee)	1 September 2005	Company Director	Electrocab Limited Bedford Hospital NHS Trust Member of the Council of Cranfield

16 October 1955			University Member of the Auditing Practices Board of the Financial Reporting Council
R. H. Green 23 May 1968	2 May 2006	Building Society Finance Director	Coventry Cyrenians All of the Society's subsidiary companies detailed in sections 4 and 5 of the Annual Business Statement of the Society's Annual Report & Accounts 2009
B P Blow (Deputy Chairman and Chairman of the Remuneration Committee) 2 June 1949	1 February 2007	Company Director	Harvard International plc Trustmarque Group Limited Trustmarque Acquisitions Limited Trustmarque Intermediary Limited Trustmarque Solutions Limited Birmingham Hippodrome Limited Birmingham Hippodrome Theatre Trust Limited Bridget Blow Consulting Limited Kensington Green (Management) Limited Birmingham Chamber of Industry and Commerce Member of the Council of Birmingham University
R. D. Burnell 8 April 1950	1 September 2008	Company Director	Thomas Cook Group plc Clarence Mansions Management Company Limited
I.S. Geden 8 July 1953	1 September 2008	Company Director	The Police Mutual
C.T. Franklin 15 June 1955	7 July 2009	Building Society Sales & Marketing Director	Godiva Mortgages Limited Safe Home Income Plans Limited
P.L. Vaughan 15 August 1964	7 July 2009	Building Society Chief Operating Officer	Corporate Transformations Limited

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

The Executive Directors have service contracts which enable 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. None of these, other than Godiva Mortgages Limited, are carrying on a business.

Coventry Financial Services Limited  
Coventry Property Services Limited  
Godiva Financial Services Limited  
Godiva Housing Developments Limited  
Godiva Mortgages Limited  
Godiva Savings Limited  
Godiva Securities and Investments Limited

The Society also has an interest in Coventry Building Society Covered Bonds LLP which gives rise to risks and rewards that are in substance no different than if it was a subsidiary undertaking.

**External auditors**

Ernst & Young LLP (Chartered Accountants) of 1 More London Place, London SE1 2AF have audited without qualification the financial statements contained in the Annual Report and Accounts of the Society for the years ended 31 December 2008 and 2009."

Save as disclosed in this Prospectus Supplement, no significant new factor, material mistake or inaccuracy relating to information included in the Prospectuses has arisen since the publication of the Prospectus.

Investors should be aware of their rights under Section 87Q(4) of the FSMA.

The Society accepts responsibility for the information contained in this Prospectus Supplement. To the best of the knowledge and belief of the Society (which has taken all reasonable care to ensure that such is the case) the information contained in this Prospectus Supplement is in accordance with the facts and does not omit anything likely to affect the import of such information.

16 April 2010



## ANNEX

# NEWS RELEASE



**23 March 2010**

## **Coventry Building Society announces merger with Stroud & Swindon Building Society**

Coventry Building Society, the UK's 3rd largest building society, has announced today that it has agreed merger terms with Stroud & Swindon Building Society, the UK's 11th largest building society.

The expanded society will be called Coventry Building Society and will be based in Coventry. Total membership will increase from over 1.2 million to around 1.5 million, and the overall asset size will increase from £18.4 billion to £21.1 billion.

Coventry Building Society, which recently announced excellent results for 2009, is one of the strongest building societies in the UK. Since the onset of the credit crunch, it has continued to report substantial profits and its strong funding and capital position has enabled it to grow throughout the economic downturn.

Coventry's financial strength will deliver an immediate benefit for many Stroud & Swindon members. It is expected that approximately two thirds of a total of 251,000 savings accounts will see interest rates improved on completion of the merger to match equivalent products offered by Coventry.

In addition, those borrowing members currently paying or linked to Stroud & Swindon's residential Standard Variable Rate (SVR) of 5.99% will benefit from a substantial reduction in their mortgage payments as they move onto Coventry's lower SVR of 4.74%. This is one of the lowest SVRs currently being offered by any UK building society. As this rate is variable there is no guarantee as to what it will be in the future.

There will be no changes to the terms of the subordinated debt securities of £52 million currently in issue by Stroud & Swindon Building Society.

David Stewart, Chief Executive of Coventry Building Society, said "Coventry's performance over the last 3 years has demonstrated the strength of our traditional building society model. I believe that the merger with Stroud & Swindon Building Society will help us build on recent successes and bring the benefits of our prudent and member-focussed approach to a wider membership."

John Sutherland, Chief Executive of Stroud & Swindon Building Society, said "Today's announcement is excellent news for Stroud & Swindon members who have the opportunity to join one of the UK's strongest and most profitable building societies. In considering a number of options, we believe that Coventry Building Society's commitment to long term member value, fairness, strategic prudence and

---

For more information or additional comment please contact:

Ed Gascoigne-Pees, Financial Dynamics. Tel. 07884 001 949 Email: Ed.Gascoigne-Pees@fd.com

[www.thecoventry.co.uk](http://www.thecoventry.co.uk)

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

We monitor and record phone calls.

## NEWS RELEASE

local communities, provides Stroud & Swindon members with the best possible future. We strongly recommend Stroud & Swindon members to vote in favour of the merger.”

The merger is subject to the approval of eligible Stroud & Swindon Building Society members and confirmation by the Financial Services Authority (FSA). The FSA has given consent to Coventry Building Society approving the merger by board resolution.

**Ends**

### Notes to editors

- The expanded society will be called Coventry Building Society, managed by the Coventry board and executive team and headquartered in Coventry. Glyn Smith of the Stroud & Swindon Building Society board will join the Coventry board as a non-executive director subject to FSA approval. Members of Coventry Building Society will have the opportunity to vote on this appointment at the first AGM following merger as part of Coventry's normal election procedures.
- The merger will be subject to approval by eligible members of Stroud & Swindon Building Society at a Special General Meeting and confirmation by the FSA.
- No bonus payment will be made to members of either Coventry or Stroud & Swindon in respect of the merger.
- Stroud & Swindon traditional residential mortgage customers who are currently paying, or linked to, Stroud & Swindon's residential Standard Variable Rate (SVR) of 5.99% will move to Coventry's SVR currently 4.74%. There will be no change to Stroud & Swindon's Buy-To-Let Base Rate, Stroud & Swindon's Commercial Base Rate or the variable rates of its subsidiary business, ITL Mortgages Limited as a direct consequence of the merger. As these rates are all variable there is no guarantee as to what they will be in the future.
- Stroud & Swindon members will benefit from having access to Coventry Building Society's wider product range and attractive pricing, including the immediate improvement in rate on approximately two thirds of Stroud & Swindon's 251,000 savings accounts to match better rates currently being offered on equivalent Coventry accounts.
- The enlarged society will have a combined network of 91 branches and agencies across the Midlands and South West
- No branches or agencies will be closed as a result of the merger and all Stroud & Swindon branch and agency staff will be retained.
- The responsibilities of Stroud & Swindon's head office will be transferred to Coventry over an 18 month period.
- No directors or officers of either Stroud & Swindon Building Society or Coventry Building Society will receive a bonus as a result of the merger.
- Members will retain separate maximum £50,000 depositor protection (per individual) under the Financial Services Compensation Scheme until 30 December 2010.

### Merger timetable

- Eligible members of Stroud & Swindon Building Society will be asked to vote on the proposed merger at a Special General Meeting expected to be held on 16 June 2010.
- The FSA has given consent to Coventry Building Society approving the merger by a board resolution.
- The merger is expected to be effective on 1 September 2010 and is subject to confirmation by the FSA.

## NEWS RELEASE

---

### **About Coventry Building Society**

Coventry is the third largest building society in the UK and at 31 December 2009 had assets of £18.4 billion. The Society operates nationally through a telephone contact centre, the internet and intermediary services and maintains a network of 48 branches located throughout the Midlands.

Coventry Building Society recently reported extremely strong results for the year ended 31 December 2009. Highlights include:

#### **Strong financials**

- Record operating profit before impairments and exceptional items of £75.0 million (2008 - £71.7 million).
- Profit before tax of £56.2 million (2008 - £26.4 million).

#### **Record market share**

- Gross mortgage lending of over £2.7 billion, representing 15% of all new lending by building societies (source – BSA).
- Net mortgage lending of £919 million, equivalent to 8% of all net lending undertaken across the market as a whole (source - CML).
- Retail savings balances grew by £833 million in 2009 and have increased by £5 billion (61%) in last three years.
- Completed oversubscribed £350 million 10 year unsecured loan note issuance to wholesale investors in October 2009.
- Over 270,000 new accounts opened during the year.

#### **Strong, stable and efficient**

- Cost to mean assets ratio of only 0.38%, the lowest level reported by a UK building society.
- Mortgage balances 2.5% or more in arrears around one third of industry average (source – FSA).
- Loan loss provisions amongst the lowest of any large UK lender.
- Core tier 1 ratio of 27.9%, the highest reported by any large building society.
- Retained strong credit ratings throughout 'credit crunch' - Fitch (A) and Moody's (A3).

#### **Focus on mutual values**

- Over 95% of variable rate retail savings balances have seen an increase in interest rate relative to the Bank of England base rate since 2008, delivering annualised interest benefits to members of £70 million.
- Coventry Building Society had too few complaints to feature in either of the Financial Ombudsman Service referral tables published in September 2009 and February 2010.

Coventry Building Society was advised by Gleacher Shacklock LLP (financial adviser) and Norton Rose LLP (legal adviser) in relation to the merger.

### **About Stroud & Swindon Building Society**

Stroud & Swindon Building Society has assets in excess of £2.7 billion. The Society operates through a branch network of 22 offices and 21 agencies in the South West, complemented by a customer contact centre based in Gloucestershire and its website.

## NEWS RELEASE

---

Stroud & Swindon has today separately announced its financial results for the year ended 31 December 2009. The Society recorded a pre-tax loss of £5.8 million reflecting the low interest rate environment and difficult economic conditions. The Society continues to be well-funded and has robust capital ratios and strong liquidity.

Stroud & Swindon Building Society was advised by Lexicon Partners (financial adviser) and Addleshaw Goddard LLP (legal adviser) in relation to the merger.

**Enquiries:**

Ed Gascoigne-Pees, Financial Dynamics. Tel. 07884 001 949 Email: Ed.Gascoigne-Pees@fd.com