



Coventry Building Society

(Incorporated in England under the Building Societies Act 1986)

£3,000,000,000 **(excluding Deposit Notes)** **Euro Medium Term Note Programme**

Under the Euro Medium Term Note Programme described in this Prospectus (the “Programme”), Coventry Building Society (the “Issuer”, or the “Society” which expressions shall include any successor or substitute (see Condition 12)), subject to compliance with all relevant laws, regulations and directives, may from time to time issue Euro Medium Term Notes (the “Notes” which expression shall include Senior Notes, Deposit Notes and Subordinated Notes (each as defined herein)). The aggregate nominal amount of Notes (other than Deposit Notes) outstanding will not at any time exceed £3,000,000,000 (or the equivalent in other currencies and subject to increase as provided herein).

Application has been made to the Financial Services Authority (the “FSA”) in its capacity as competent authority (the “UK Listing Authority”) under the Financial Services and Markets Act 2000 (“FSMA”) for Notes issued under the Programme for the period of 12 months from the date of this Prospectus 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”) and for such Notes to be admitted to trading on the London Stock Exchange’s Regulated Market (the “Market”). References in this Prospectus to Notes being “listed” (and all related references) shall (other than as specified in the section headed “United Kingdom Taxation”) mean that such Notes 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 Directive 2004/39/EC of the European Parliament and of the Council on markets in financial instruments. However, unlisted Notes may also be issued pursuant to the Programme. The relevant Final Terms (as defined under the section headed “Overview of the Programme”) in respect of the issue of any Notes will specify whether or not such Notes will be listed on the Official List and admitted to trading on the Market (or any other stock exchange).

In the case of any Notes which are to be admitted to trading on a regulated market within the European Economic Area or offered to the public in a Member State of the European Economic Area in circumstances which require the publication of a prospectus under the Prospectus Directive (2003/71/EC), the minimum specified denomination shall be €50,000 (or its equivalent in any other currency as at the date of issue of the Notes).

Notes issued under the Programme may be rated or unrated (in each case as specified in the applicable Final Terms). A 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.

Prospective investors should have regard to the factors described under the section headed “Risk Factors” in this Prospectus. For a discussion of “Risk Factors”, see page 12 below.

Arranger
HSBC

Dealers

Barclays Capital
Commerzbank
The Royal Bank of Scotland

BNP PARIBAS
HSBC

This Prospectus comprises a prospectus for the purposes of Article 5.4 of Directive 2003/71/EC (the “Prospectus Directive”) and for the purpose of giving information with regard to the Issuer, its material subsidiary, Godiva Mortgages (together, the “Group”) and the Notes, which according to the particular nature of the Notes, is necessary to enable investors to make an informed assessment of the assets and liabilities, financial position, profit and losses and prospects of the Issuer. The Issuer accepts responsibility for the information contained in this Prospectus. To the best of the knowledge of the Issuer (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.

The Issuer accepts responsibility for the information referred to in the footnotes on page 63 and 66 and confirms that such information has been accurately reproduced. So far as the Issuer is aware and is able to ascertain from information published by the sources specified herein, no facts have been omitted which would render the reproduced information inaccurate or misleading.

This Prospectus has been prepared on the basis that any offer of Notes in any Member State of the European Economic Area which has implemented the Prospectus Directive (each, a “Relevant Member State”) will be made pursuant to an exemption under the Prospectus Directive, as implemented in that Relevant Member State, from the requirement to publish a prospectus for offers of Notes. Accordingly any person making or intending to make an offer in that Relevant Member State of Notes which are the subject of an offering contemplated in this Prospectus as completed by final terms in relation to the offer of those Notes may only do so in circumstances in which no obligation arises for the Issuer or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive, in each case, in relation to such offer.

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

Each Series (as defined under “Overview of the Programme”) of Notes in bearer form will be represented on issue by a temporary global note in bearer form (each a “temporary Global Note”) or a permanent global note in bearer form (each a “permanent Global Note”) (temporary Global Notes and permanent Global Notes are referred to collectively as “Global Notes” and each as a “Global Note”). If the Global Notes are stated in the applicable Final Terms to be issued in new global note (“NGN”) form, the Global Notes will be delivered on or prior to the original issue date of the relevant Series or Tranche, as applicable, to a common safekeeper (the “Common Safekeeper”) for Euroclear Bank S.A./N.V. (“Euroclear”) and Clearstream Banking, *société anonyme* (“Clearstream, Luxembourg”). Notes in registered form will be represented by registered certificates (each a “Certificate”), one Certificate being issued in respect of each Noteholder’s entire holding of Registered Notes of one Series. Registered Notes issued in global form will be represented by registered global certificates (“Global Certificates”). If a Global Certificate is held under the New Safekeeping Structure (the “NSS”), the Global Certificate will be delivered on or prior to the original issue date of the relevant Series or Tranche, as applicable, to a Common Safekeeper for Euroclear and Clearstream, Luxembourg.

Global Notes which are not issued in NGN form (“Classic Global Notes” or “CGNs”) and Global Certificates which are not held under the NSS will be deposited on the issue date of the relevant Series or Tranche, as applicable, with a common depositary on behalf of Euroclear and Clearstream, Luxembourg (the “Common Depositary”).

The provisions governing the exchange of interests in Global Notes for other Global Notes and definitive Notes are described in “Summary of Provisions Relating to the Notes while in Global Form”.

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 Notes and, if given or made, such information or representation must not be relied upon as having been authorised by the

Issuer or any of the Dealers or the Arranger (each as defined in “Overview of the Programme”). 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 Issuer since the date hereof or the date upon which this Prospectus has been most recently amended or supplemented or that there has been no adverse change in the financial position of the Issuer since the date hereof or the date upon which this Prospectus has been most recently amended or supplemented or that any other information supplied in connection with the Programme is correct as of any time subsequent to the date on which it is supplied or, if different, the date indicated in the document containing the same.

The distribution of this Prospectus and the offering or sale of the Notes in certain jurisdictions may be restricted by law. Persons into whose possession this Prospectus comes are required by the Issuer, the Dealers and the Arranger to inform themselves about and to observe any such restriction. The Notes have not been and will not be registered under the United States Securities Act of 1933, as amended (the “Securities Act”). Notes in bearer form and Notes in registered form which are exchangeable for Notes in bearer form are subject to U.S. tax law requirements. Subject to certain exceptions, Notes 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 Notes and on distribution of this Prospectus, see “Subscription and Sale”.

This Prospectus does not constitute an offer of, or an invitation by or on behalf of the Issuer or the Dealers to subscribe for, or purchase, any Notes.

To the fullest extent permitted by law, none of the Dealers or the Arranger accepts any responsibility for the contents of this Prospectus or for any other statement, made or purported to be made by, or on behalf of, the Arranger or a Dealer in connection with the Issuer or the issue and offering of the Notes. The Arranger and each Dealer accordingly disclaims all and any liability whether arising in tort or contract or otherwise (save as referred to above) which it might otherwise have in respect of this Prospectus or any such statement. Neither this Prospectus nor any other financial statements are intended to provide the basis of any credit or other evaluation and should not be considered as a recommendation by any of the Issuer, the Arranger or the Dealers that any recipient of this Prospectus or any other financial statements should purchase the Notes. Each potential purchaser of Notes should determine for itself the relevance of the information contained in this Prospectus and its purchase of Notes should be based upon such investigation as it deems necessary. None of the Dealers or the Arranger undertakes to review the financial condition or affairs of the Issuer during the life of the arrangements contemplated by this Prospectus nor to advise any investor or potential investor in the Notes of any information coming to the attention of any of the Dealers or the Arranger.

In connection with any Tranche of Senior Notes or Subordinated Notes (as defined in “Overview of the Programme”), one or more of the Dealers may act as stabilising manager (each a “Stabilising Manager”). The identity of the Stabilising Manager(s) will be disclosed in the relevant Final Terms. References in the next paragraph to “the issue of any Tranche” are to each Tranche in relation to which one or more Stabilising Manager(s) is appointed.

In connection with the issue of any Tranche (as defined in “Overview of the Programme”), the Dealer or Dealers (if any) named as the Stabilising Manager(s) (or any person acting on behalf of any Stabilising Manager(s)) in the applicable Final Terms may over-allot Notes or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail. However, there is no assurance that the Stabilising Manager(s) (or any person acting on behalf of any Stabilising Manager) 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 relevant Tranche 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 relevant Tranche and 60 days after the date of the allotment of the relevant Tranche. Any stabilisation action or over-allotment must be conducted by the relevant Stabilising Manager(s) (or any person acting on behalf of any Stabilising Manager(s)) in accordance with all applicable laws and rules.

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 “€” and “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, references to “yen” are to the currency of Japan 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 modifications or re-enactment.

DOCUMENTS INCORPORATED BY REFERENCE

This Prospectus should be read and construed in conjunction with the Terms and Conditions contained on pages 17 to 44 of the Prospectus dated 20 September 2007, the Terms and Conditions contained on pages 20 to 48 of the Prospectus dated 18 September 2008 and the Terms and Conditions contained on pages 22 to 50 of the Prospectus dated 18 September 2009, each relating to Coventry Building Society’s £3,000,000,000 (excluding Deposit Notes) Euro Medium Term Note Programme, the audited consolidated annual financial statements of the Issuer for the financial years ended 31 December 2008 and 2009, respectively, (together in each case with the audit report thereon and the annual business statement and the directors’ report in respect of each such year) and the unaudited consolidated financial statements of the Issuer for the six months ended 30 June 2010, 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 incorporated in, and form part of this Prospectus, save that any statement contained in a document which is incorporated by reference herein shall 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). Any statement so modified or superseded shall not, except as so modified or superseded, constitute a part of this Prospectus. Any documents themselves incorporated by reference in the documents incorporated by reference in this Prospectus shall not form part of this Prospectus.

The information incorporated by reference in the Annual Report & Accounts of the Issuer for the financial years ended 31 December 2008 and 2009 is available as follows:

Information incorporated by reference	Reference
Audited consolidated financial statements for the financial year ended 31 December 2008	Annual Report & Accounts 2008 (“AR 2008”) pages 28 - 31
Notes to the audited consolidated financial statements	AR 2008 pages 32 - 69
Independent auditors’ report	AR 2008 pages 26 - 27
Annual business statement	AR 2008 pages 70 - 74
Directors’ report	AR 2008 pages 8 - 16
Audited consolidated financial statements for the financial year ended 31 December 2009	Annual Report & Accounts 2009 (“AR 2009”) pages 30 - 33
Notes to the audited consolidated financial statements	AR 2009 pages 34 - 75
Independent auditors’ report	AR 2009 pages 28 - 29
Annual business statement	AR 2009 pages 76 - 80
Directors’ report	AR 2009 pages 9 - 18

Copies of documents incorporated by reference in this Prospectus (i) can be viewed on the website of the Regulatory News Service operated by the London Stock Exchange at <http://www.londonstockexchange.com/exchange/prices-and-news/news/market-news/market-news-home.html> and (ii) may be obtained from the registered office of the Issuer.

SUPPLEMENTAL PROSPECTUS

If at any time the Issuer shall be required to prepare a supplemental prospectus pursuant to section 87(G) of the FSMA, the Issuer will prepare and make available an appropriate amendment or supplement to this Prospectus or a further prospectus which, in respect of any subsequent issue of Senior Notes or Subordinated Notes to be listed on the Official List and admitted to trading on the Market shall constitute a supplemental prospectus as required by the UK Listing Authority and section 87 of the FSMA.

The Issuer has given an undertaking to the Dealers that if at any time during the duration of the Programme there is a significant new factor, mistake or material inaccuracy relating to information contained in this Prospectus which is capable of affecting the assessment of any Notes whose inclusion in this Prospectus or removal is necessary for the purpose of allowing an investor to make an informed assessment of the assets and liabilities, financial position, profits and losses and prospects of the Issuer, and the rights attaching to the Senior Notes and the Subordinated Notes, the Issuer shall prepare an amendment or supplement to this Prospectus or publish a replacement prospectus for use in connection with any subsequent offering of the Senior Notes and the Subordinated Notes and shall supply to each Dealer such number of copies of such supplement hereto as such Dealer may reasonably request.

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OVERVIEW OF THE PROGRAMME

The following overview is qualified in its entirety by the remainder of this Prospectus.

Issuer	Coventry Building Society
Description	Euro Medium Term Note Programme
Size	Other than in respect of Deposit Notes, up to £3,000,000,000 (or the equivalent in other currencies at the date of issue) aggregate nominal amount of Notes outstanding at any one time. The Issuer may increase the size of the Programme in accordance with the terms of the Dealer Agreement.
Arranger	HSBC Bank plc
Dealers	Barclays Bank PLC BNP PARIBAS Commerzbank Aktiengesellschaft HSBC Bank plc The Royal Bank of Scotland plc The Issuer may from time to time terminate the appointment of any dealer under the Programme or appoint additional dealers either in respect of one or more Tranches or in respect of the whole Programme. References in this Prospectus to “Permanent Dealers” are to the persons listed above as Dealers and to such additional persons that are appointed as dealers in respect of the whole Programme (and whose appointment has not been terminated) and references to “Dealers” are to all Permanent Dealers and all persons appointed as a dealer in respect of one or more Tranches.
Trustee	HSBC Corporate Trustee Company (UK) Limited
Issuing and Paying Agent	HSBC Bank plc
Method of Issue	The Notes will be issued on a syndicated or non-syndicated basis. The Notes will be issued in series (each a “Series”) having one or more issue dates and on terms otherwise identical (or identical other than in respect of the first payment of interest), the Notes of each Series being intended to be interchangeable with all other Notes of that Series. Each Series may be issued in one or more tranches (each a “Tranche”) on the same or different issue dates. The specific terms of each Tranche (which will be completed, where necessary, with the relevant terms and conditions and, save in respect of the issue date, issue price, first payment of interest and nominal amount of the Tranche, will be identical to the terms of other Tranches of the same Series) will be completed in final terms to this Prospectus (the “Final Terms”).
Issue Price	Notes may be issued at their nominal amount or at a discount or premium to their nominal amount. Partly Paid Notes may be issued, the issue price of which will be payable in two or more instalments.
Form of Notes	Each Series of Notes may be issued:

- (i) in bearer form and in registered form (“Exchangeable Series”);
- (ii) in bearer form (“Bearer Series”); or
- (iii) in registered form (“Registered Series”).

Notes in bearer form (“Bearer Notes”) comprised in an Exchangeable Series (“Exchangeable Bearer Notes”) are exchangeable for Notes in registered form (“Registered Notes”) and Registered Notes comprised in an Exchangeable Series (“Exchangeable Registered Notes”) are exchangeable for Exchangeable Bearer Notes.

Registered Notes comprised in a Registered Series may not be exchanged for Bearer Notes and Bearer Notes comprised in a Bearer Series may not be exchanged for Registered Notes.

Each Tranche of Bearer Series and Bearer Notes comprised in a Tranche of an Exchangeable Series will be represented on issue by a temporary Global Note if (i) definitive Notes are to be made available to Noteholders following the expiry of 40 days after their issue date or (ii) such Notes have an initial maturity of more than one year and are being issued in compliance with the D Rules (as defined in “Overview of the Programme — Selling Restrictions”), otherwise each Tranche of a Bearer Series and Bearer Notes comprised in a Tranche of an Exchangeable Series will be represented by a permanent Global Note. Registered Notes will be represented by Certificates, one Certificate being issued in respect of each Noteholder’s entire holding of Registered Notes of one Series. Certificates representing Registered Notes that are registered in the name of nominees or a common nominee for one or more clearing systems are referred to as “Global Certificates”.

Clearing Systems

Clearstream, Luxembourg, Euroclear and, in relation to any Tranche, such other clearing system as may be agreed between the Issuer, the Issuing and Paying Agent, the Trustee and the relevant Dealer.

Initial Delivery of Notes

On or before the issue date for each Tranche, if the relevant Global Note is an NGN or the relevant Global Certificate is held under the NSS, such Global Note or Global Certificate will be delivered to a Common Safekeeper for Euroclear and Clearstream, Luxembourg. On or before the issue date for each Tranche, if the relevant Global Note is a CGN or the relevant Global Certificate is not held under the NSS, the Global Note representing Bearer Notes or Exchangeable Bearer Notes or the Global Certificate representing Registered Notes or Exchangeable Registered Notes may be deposited with a Common Depositary for Euroclear and Clearstream, Luxembourg. Global Notes which are in CGN form or Global Certificates which are not held under the NSS may also be deposited with any other clearing system or may be delivered outside any clearing system provided that the method of such delivery has been agreed in advance by the Issuer, the Issuing and Paying Agent, the Trustee and the relevant Dealer.

	Registered Notes that are to be credited to one or more clearing systems on issue will be registered in the name of nominees or a common nominee for such clearing systems.
Currencies	Subject to compliance with all relevant laws, regulations and directives, Notes may be issued in any currency agreed between the Issuer and the relevant Dealers.
Maturities	Subject to compliance with all relevant laws, regulations and directives, (i) the Senior Notes may have any maturity in excess of one month, (ii) the Deposit Notes may have any maturity between one month and five years and (iii) the Subordinated Notes may have any maturity in excess of five years and one day.
Denomination	Definitive Notes will be in such denominations as may be specified in the relevant Final Terms, subject to compliance with all applicable laws and regulations, save that (i) in the case of any Notes which are to be admitted to trading on a regulated market within the European Economic Area or offered to the public in an EEA State in circumstances which require the publication of a prospectus under the Prospectus Directive, the minimum specified denomination of each Note shall be €50,000 (or its equivalent in any other currency as at the date of issue of the Notes); and (ii) in the case of Deposit Notes, the minimum specified denomination will be £50,000 (or, if not denominated in Sterling, its equivalent in the currency in which it is denominated at the time when the Deposit Note is issued).
Fixed Rate Notes	Fixed interest will be payable in arrear on the date or dates in each year specified in the relevant Final Terms.
Floating Rate Notes	<p>Floating Rate Notes will bear interest determined separately for each Series as follows:</p> <ul style="list-style-type: none"> (i) on the same basis as the floating rate under a notional interest rate swap transaction in the relevant Specified Currency governed by an agreement incorporating the 2006 ISDA Definitions, as published by the International Swaps and Derivatives Association, Inc.; or (ii) by reference to LIBOR, LIBID, LIMEAN or EURIBOR (or such other benchmark as may be specified in the relevant Final Terms) as adjusted for any applicable margin. <p>Interest periods will be specified in the relevant Final Terms.</p>
Zero Coupon Notes	Zero Coupon Notes may be issued at their nominal amount or at a discount to it and will not bear interest.
Dual Currency Notes	Payments (whether in respect of principal or interest and whether at maturity or otherwise) in respect of Dual Currency Notes will be made in such currencies, and based on such rates of exchange, as may be specified in the relevant Final Terms. Payments of principal in the case of Deposit Notes must be expressed as a fixed sum.

Index Linked Notes	<p>In the case of Senior Notes and Subordinated Notes, payments of principal in respect of Index Linked Redemption Notes or of interest in respect of Index Linked Interest Notes will be calculated by reference to such index and/or formula as may be specified in the relevant Final Terms.</p> <p>In the case of Deposit Notes, payments of interest in respect of Index Linked Interest Notes will be calculated by reference to such index and/or formula as the Issuer and the relevant Dealer(s) may agree (as indicated in the applicable Final Terms). Payments in respect of principal may not be calculated by reference to any such index and/or formula.</p>
Interest Periods and Interest Rates	The length of the interest periods for the Notes and the applicable interest rate or its method of calculation may differ from time to time or be constant for any Series. Notes may have a maximum interest rate, a minimum interest rate, or both. The use of interest accrual periods permits the Notes to bear interest at different rates in the same interest period. All such information will be set out in the relevant Final Terms.
Redemption	The relevant Final Terms will specify the basis for calculating the redemption amounts payable.
Redemption by Instalments	The Final Terms issued in respect of each issue of Notes that are redeemable in two or more instalments will set out the dates on which, and the amounts in which, such Notes may be redeemed.
Other Notes	Terms applicable to high interest Notes, low interest Notes, step-up Notes, step-down Notes, reverse dual currency Notes, optional dual currency Notes, partly paid Notes and any other type of Note that the Issuer, the Trustee and any Dealer or Dealers may agree to issue under the Programme will be set out in the relevant Final Terms and any Supplemental Prospectus.
Optional Redemption	The Final Terms issued in respect of each issue of Notes will state whether such Notes may be redeemed prior to their stated maturity at the option of the Issuer (either in whole or in part) and/or the holders, and if so the terms applicable to such redemption.
Status of Notes	The Senior Notes and the Deposit Notes will constitute unsubordinated and unsecured obligations of the Issuer and Subordinated Notes will constitute subordinated obligations of the Issuer all as described in “Terms and Conditions of the Notes — Status”.
Negative Pledge	Applicable to Senior Notes and Deposit Notes only. See “Terms and Conditions of the Notes — Negative Pledge”.
Cross Default	Applicable to Senior Notes and Deposit Notes only. See “Terms and Conditions of the Notes — Events of Default — Senior Notes and Deposit Notes”.
Early Redemption	Except as provided in “Optional Redemption” above, Notes will be redeemable at the option of the Issuer prior to maturity

only for tax reasons. See “Terms and Conditions of the Notes Redemption, Purchase and Options”.

Rating

Notes issued under the Programme may be rated or unrated (in each case as specified in the applicable Final Terms). A 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.

Withholding Tax

All payments of principal and interest in respect of the Notes, Receipts and Coupons will be made free and clear of withholding taxes of the United Kingdom unless required by law. In that event, the Issuer will, subject to customary exceptions, pay such additional amounts as will result in the payment to the Noteholders, Receiptholders or Couponholders of the amounts which would otherwise have been receivable in respect of the Notes, Receipts and Coupons had no withholding or deduction been made, all as described in “Terms and Conditions of the Notes — Taxation”.

Governing Law

English.

Listing

The Notes may be admitted to the Official List and admitted to trading on the Market and/or admitted to listing, trading and/or quotation by any other listing authority, stock exchange or exchanges and/or quotation system as may be agreed between the Issuer and the relevant Dealer and set out in the relevant Final Terms. As specified in the relevant Final Terms, a Series of Notes may be unlisted.

Selling Restrictions

United States, Public Offer Selling Restriction under the Prospectus Directive (in respect of Notes having a specified denomination of less than €50,000 (or its equivalent in any other currency as at the date of issue of the Notes)), United Kingdom and Japan. See “Subscription and Sale”.

The Issuer is Category 2 for the purposes of Regulation S under the Securities Act.

The Notes will be issued in compliance with U.S. Treas. Reg. §1.163-5(c)(2)(i)(D) (the “D Rules”) unless (i) the relevant Final Terms states that Notes are issued in compliance with U.S. Treas. Reg. §1.163-5(c)(2)(i)(C) (the “C Rules”) or (ii) the Notes are issued other than in compliance with the D Rules or the C Rules but in circumstances in which the Notes will not constitute “registration required obligations” under the United States Tax Equity and Fiscal Responsibility Act of 1982 (“TEFRA”), which circumstances will be referred to in the relevant Final Terms as a transaction to which TEFRA is not applicable.

RISK FACTORS

The Issuer believes that the following factors may affect its ability to fulfil its obligations under Notes issued under the Programme. All of these factors are contingencies which may or may not occur and the Issuer is not in a position to express a view on the likelihood of any such contingency occurring.

Factors which the Issuer believes may be material for the purpose of assessing the market risks associated with Notes issued under the Programme are also described below.

The Issuer believes that the factors described below represent the principal risks inherent in investing in Notes issued under the Programme, but the Issuer may be unable to pay interest, principal or other amounts on or in connection with any Notes for other reasons and the Issuer does not represent that the statements below regarding the risks of holding any Notes are exhaustive. Prospective investors should also read the detailed information set out elsewhere in this Prospectus (including any documents incorporated by reference herein) and reach their own views prior to making any investment decision.

Factors that may affect the Issuer's ability to fulfil its obligations under Notes issued under the Programme

Legal Ranking of Notes

Senior Notes and Deposit Notes currently rank ahead of retail member deposits in the legal structure of a building society and retail member deposits rank ahead of subordinated liabilities. In the event of a demutualisation of the Issuer, obligations to current United Kingdom retail member depositors will rank *pari passu* with obligations to Senior and Deposit Noteholders.

Demutualisation and consequences of the Building Societies Act for Noteholders

The Society's Board is committed to maintaining the mutual status of the Society. Notwithstanding the above, subject to confirmation by the FSA, the Society's members and its directors determine whether it remains a building society or if it demutualises (save in circumstances where the FSA makes a direction under section 42B of the Building Societies Act 1986 (the "Act") or HM Treasury makes an order under the Banking Act 2009 which results in a demutualisation taking place).

The Act includes provisions under which a building society may demutualise by transferring the whole of its business to a company. In addition, the Building Society Act (as modified by the Mutual Societies (Transfers) Order 2009 (the "Mutual Transfers Order") made under section 3 of the Building Societies (Funding) and Mutual Societies (Transfers) Act 2007 (the "2007 Act")) includes provisions under which a Building Society may transfer the whole of its business to the subsidiary of another mutual society (as defined in section 3 of the 2007 Act). At present, the claims of depositors and other unsubordinated creditors of the Issuer would rank ahead of share accounts (which term excludes any deferred shares) and the members' rights to any surplus in the event of a liquidation of the Issuer and the claims of subordinated creditors of the Issuer would rank behind share accounts but ahead of members' rights to any surplus in the event of a liquidation of the Issuer. If, however, the Issuer transfers its business to a specially formed company or an existing company (as defined in the Act), all the liabilities of the Issuer which immediately prior thereto were classified as share accounts will thereafter rank at least *pari passu* with all other unsecured and unsubordinated liabilities of the Issuer's successor.

Under section 90B of the Act (which was inserted by the 2007 Act), HM Treasury may, by order, make provision for the purpose of ensuring that, on the winding up, or dissolution by consent, of a building society, any assets available for satisfying the society's liabilities to creditors (other than liabilities in respect of subordinated deposits; liabilities in respect of preferential debts; or any other category of liability which HM Treasury specifies in the order for these purposes) or to shareholders (other than liabilities in respect of deferred shares) are applied in satisfying those liabilities *pari passu*. The power to make an order under section 90B of the Act is exercisable by statutory instrument but may not be

made unless a draft of it has been laid before and approved by a resolution of each House of Parliament. No such order has been made as at the date of this Prospectus.

Following a transfer of business to a company by the Issuer the obligations under the Notes will become obligations of any transferee entity and rank (i) in priority to both the rights of the holders of the equity share capital in the company to any repayment of capital or surplus on a liquidation and any obligations of the company (whether or not created prior to such transfer) expressed to rank junior to such Notes, (ii) equally with other unsecured and unsubordinated creditors (including inter-bank lenders and retail depositors) and (iii) behind any statutorily preferential creditors.

Risk Factors relating to the Issuer

Rating downgrade of the sector or Issuer may have an adverse effect on the marketability and liquidity of the Notes

If sentiment towards the financial institutions operating in the United Kingdom residential mortgage market (including the Issuer) were to deteriorate, or if the ratings of the sector were to be adversely affected, this may have a materially adverse impact on the Issuer. In addition, such change in sentiment or reduction in ratings could result in an increase in the costs and a reduction in the availability of wholesale market funding across the financial services sector which could have a material adverse effect on the liquidity and funding of all UK financial services institutions, possibly including the Issuer.

UK residential housing market

The UK residential mortgage market performance is closely correlated to the UK economic cycle. As well as fluctuations at a national level, the UK residential mortgage market is subject to significant regional variations.

The housing market in the UK is currently sluggish with low transaction volumes and little movement in house prices. GDP growth has started to recover following the recession in 2009 but growth is forecast to remain slow for the foreseeable future. Historically low interest rates have supported the housing market and consumers during the downturn in the economy. Uncertainty about the future direction of prices and lower risk appetite by lenders has reduced market size although the mortgage market continues to grow in absolute terms. Any increase in unemployment may lead to an increase in the number of loan delinquencies and property repossessions. Any fall in house prices may result in an increase in lending not fully protected by a charge on the property and the Issuer could incur losses on these loans should the charged property be the subject of a repossession although the number of delinquencies suffered by the Issuer continues to be significantly better than the industry average (based on available data published by the CML) and the averaged indexed loan-to-value of this back book is around 50 per cent. A worsening of the economic downturn could also increase the Issuer's cost of funding if the risk assessment of the Issuer's core business changes.

Competition in the UK personal financial services markets may adversely affect the Issuer's operations

Developments in the Issuer's industry and increased competition could have a material adverse effect on its operations. The Issuer operates in an increasingly competitive UK personal financial services market. The Issuer competes mainly with other providers of personal finance services, including banks, building societies and insurance companies.

The Issuer believes that the UK mortgage market is a mature market and is becoming a commoditised market primarily driven by price. Within the market some major lenders are using aggressive pricing to attract new business. Historically, increased competition has resulted in downward pressure on the industry's spread between deposit and loan rates and further increases in competition may negatively affect the Issuer's income and the benefit it is able to return to its members.

Operational Risk

The Issuer's business is dependent on the ability to process a very large number of transactions efficiently and accurately. Operational risk and losses can result from fraud, errors by employees, failure to document transactions properly or to obtain proper internal authorisation, failure to comply with regulatory requirements and conduct of business rules, equipment failures, natural disasters or the failure of external systems, for example, those of the Issuer's suppliers or counterparties. Although the Issuer has implemented risk controls and loss mitigation actions, and substantial resources are devoted to developing efficient procedures and to staff training, it is not possible to implement procedures which are fully effective in controlling each of the operational risks noted above. Notwithstanding anything in this risk factor, this risk factor should not be taken as implying that either the Issuer or the Group will be unable to comply with its obligations as a building society with securities admitted to the Official List or as a supervised firm regulated by the FSA.

Management of Financial Risks

The Issuer's success as a financial institution depends on its ability to manage and control its financial risk, which includes liquidity, market and credit risk. The Issuer is exposed to liquidity risk as a result of mismatches in cash flows from balance sheet assets and liabilities and off-balance sheet financial instruments and changes in market sentiment. The Issuer has market risk exposure as a result of changes in interest rates, foreign currency prices, asset prices or other financial contracts. Credit risk is the risk that a customer or counterparty is unable to meet its obligations to the Issuer as they fall due. If the Issuer fails to manage and control these risks, the Issuer could become unable to meet its obligations, including those under the Notes, possibly resulting in a material adverse effect to the Issuer's business and reputation.

Market and Liquidity Risk and borrower credit quality

The performance of financial markets may cause changes in the value of the Issuer's investment and trading portfolios. The Issuer has implemented risk management methods to mitigate and control these and other market risks to which the Issuer is exposed and exposures are constantly measured and monitored. However, it is difficult to predict with accuracy changes in economic or market conditions and to anticipate the effects that such changes could have on the Issuer's financial performance and business operations.

Risks arising from changes in credit quality and the recoverability of loans and amounts due from counterparties are inherent in our business. Adverse changes in the credit quality of the Issuer's borrowers and counterparties or a further general deterioration in the UK or global economic conditions, including such changes or deterioration arising from systemic risks in the financial systems, could affect the recoverability and value of assets and require an increase in the impairment provision for bad and doubtful debts and other provisions.

Rates have fallen consistently since July 2007 to record lows and are likely to stay at a low level for the foreseeable future. However, the Issuer recognises a cycle of rising and falling mortgage interest rates, resulting in borrowers with a mortgage loan subject to a variable rate of interest or with a mortgage loan for which the related interest rate adjusts following an initial fixed rate or low introductory rate, as applicable, being exposed to increased monthly payments as and when the related mortgage interest rate adjusts upward (or, in the case of a mortgage loan with an initial fixed rate or low introductory rate, at the end of the relevant fixed or introductory period). Future increases in borrowers' required monthly payments, which (in the case of a mortgage loan with an initial fixed rate or low introductory rate) may be compounded by any further increase in the related mortgage interest rate during the relevant fixed or introductory period, ultimately may result in higher delinquency rates and losses in the future.

Borrowers seeking to avoid these increased monthly payments by refinancing their mortgage loans may no longer be able to find available replacement loans at comparably low interest rates. Recent declines in housing prices and/or any further declines in housing prices may also leave borrowers

with insufficient equity in their homes to permit them to refinance. These events, alone or in combination, may contribute to higher delinquency rates and losses.

To a large extent the recent rapid fall in the bank base rate has served to protect borrowers from payment shock at the end of initial fixed rate mortgage terms. Given the Issuer's forecast that the base rate will remain very low for an extended period, the Issuer believes that this situation is likely to continue for at least the next twelve months, and potentially for significantly longer. However, there is a risk that cannot be discounted that the economy will re-inflate at an accelerated pace, necessitating rapid rises in bank base rate and/or rises sooner than the Issuer had forecasted. This would inevitably result in higher mortgage rates, so that borrowers who are currently on low back-book or initial deals could find themselves subject to higher rates in the future. The current uncertainties in the UK, European and world economies make forecasting the future path of interest rates very difficult.

Risks relating to the Banking Act 2009

Under the Banking Act 2009 (the "Banking Act"), substantial powers have been granted to HM Treasury, the Bank of England and the FSA (together, the "Authorities") as part of the special resolution regime (the "SRR"). These powers may be used to deal with and stabilise UK-incorporated institutions with permission to accept deposits pursuant to Part IV of the FSMA and building societies (within the meaning of Section 119 of the Building Societies Act 1986) so authorised (each a "relevant entity") that are in financial difficulty. The SRR consists of three stabilisation options: (i) private sector transfer of all or part of the business of the relevant entity; (ii) transfer of all or part of the business of the relevant entity to a "bridge bank" established by the Bank of England; and (iii) temporary public ownership (nationalisation) of the relevant entity. The Banking Act also provides for two new insolvency and administration procedures for relevant entities.

The Authorities have been granted wide powers under the Banking Act and the following paragraphs set out some of the possible consequences of the exercise of those powers under the SRR.

The SRR may be triggered prior to insolvency of the Issuer

The purpose of the stabilising options is to address the situation where all or part of a business of a relevant entity has encountered, or is likely to encounter, financial difficulties. Accordingly, the stabilisation options may only be exercised if the FSA is satisfied that a relevant entity (such as the Issuer) (a) is failing, or is likely to fail, to satisfy the threshold conditions set out in Schedule 6 to the FSMA which are required to retain its FSA authorisation to accept deposits; and (b) having regard to timing and other relevant circumstances, it is not reasonably likely that (ignoring the stabilising options) action will be taken that will enable the relevant entity to satisfy those threshold conditions. It is therefore possible that one of the stabilisation options could be exercised prior to the point at which any application for an insolvency or administration order with respect to the relevant entity could be made.

Various actions may be taken in relation to any securities issued by the Issuer (including the Notes) without the consent of the holders thereof

If the Issuer were made subject to the SRR, HM Treasury or the Bank of England may take various actions in relation to any securities issued by the Issuer (including the Notes) without the consent of the holders thereof, including (among other things):

- (i) transferring the Notes free from any restrictions on transfer and free from any trust, liability or encumbrance;
- (ii) delisting the Notes;
- (iii) converting the Notes into another form or class (for example, into equity securities);

- (iv) disapplying any termination or acceleration rights or events of default under the terms of the Notes which would be triggered by the transfer; or
- (v) where property is held on trust, removing or altering the terms of such trust.

Accordingly, there can be no assurance that the taking of any such actions would not adversely affect the rights of Noteholders and/or adversely affect the price or value of their investment or that the ability of the Issuer to satisfy its obligations under the Trust Deed and the Notes would be unaffected. In such circumstances, Noteholders may have a claim for compensation under one of the compensation schemes currently existing under, or contemplated by, the Banking Act if any action is taken in respect of the Notes. However, there can be no assurance that Noteholders would thereby recover compensation promptly and equal to any loss actually incurred.

Contractual arrangements between the Issuer, its group companies and/or the bridge bank or private sector purchaser may be created, modified or cancelled

If the Issuer were made subject to the SRR and a partial transfer of the Issuer's business to another entity were effected, the transfer may directly affect the Issuer and/or its group companies by creating, modifying or cancelling their contractual arrangements with a view to ensuring the provision of such services and facilities as are required to enable the bridge bank or private sector purchaser to operate the transferred business (or any part of it) effectively. For example, the transfer may (among other things) (i) require group companies to support and co-operate with the bridge bank or private sector purchaser; (ii) cancel or modify contracts or arrangements between the Issuer or the transferred business and a group company; or (iii) impose additional obligations on the Issuer under new or existing contracts. There can be no assurance that the taking of any such actions would not adversely affect the ability of the Issuer to satisfy its obligations under the Trust Deed and the Notes.

A partial transfer of the Issuer's business may result in a concentration of risk

If the Issuer were made subject to the SRR and a partial transfer of the Issuer's business to another entity were effected, the quality of the assets and the quantum of the liabilities not transferred and remaining with the Issuer (which may include the Notes) may result in a deterioration in the creditworthiness of the Issuer and increase the risk that the Issuer may eventually become subject to administration or insolvency proceedings pursuant to the Banking Act.

If a partial transfer were effected, under the terms of which the liabilities under the Notes were not transferred, Noteholders may have a claim for compensation under one of the compensation schemes currently existing under, or contemplated by, the Banking Act (including pursuant to The Banking Act 2009 (Third Party Compensation Arrangements for Partial Property Transfers) Regulations 2009). However, there can be no assurance that Noteholders would thereby recover compensation promptly and equal to any loss actually incurred.

Building Societies (Financial Assistance) Order 2010

On 7 April 2010 the UK Building Societies (Financial Assistance) Order 2010 came into force in exercise of certain powers under the Banking Act for the purpose of modifying the application of the Act in specified circumstances to facilitate the provision to a building society of relevant financial assistance (including the giving of guarantees or indemnities or any other kind of financial assistance (actual or contingent)) by certain 'qualifying persons'. Qualifying institutions for this purpose include HM Treasury, the Bank of England, another central bank of a member state of the European Economic Area, the European Central Bank, or any person acting for or on behalf of any of such institution or providing financial assistance to a building society on the basis of financial assistance from such an institution. Most significantly, the UK Building Societies (Financial Assistance) Order 2010 would permit any qualifying institution to provide such assistance to the Issuer without it counting for the purpose of the 50 per cent. limit on its non-member funding. It would also permit the Issuer to create a floating charge over its assets in favour of a qualifying institution in respect of that assistance.

Financial Services Compensation Scheme

The Financial Services and Markets Act 2000 established the Financial Services Compensation Scheme ("FSCS") which pays compensation to eligible customers of authorised financial services firms which are unable, or are likely to be unable, to pay claims against them.

Following the Government's transfer on 29 September 2008 under the Banking (Special Provisions) Act 2008 of Bradford and Bingley's UK and Isle of Man retail deposit business to Abbey National plc a claim was triggered against the FSCS. Further claims have been triggered by the failure of various Icelandic banks, London Scottish Bank plc and the transfer of certain assets and liabilities of the Dunfermline Building Society to Nationwide Building Society. As a result, the Issuer, in common with all regulated UK deposit takers, is subject to significantly increased FSCS levies, based on their respective shares of the UK deposit market. These increases are required to enable the FSCS to repay the Bank of England's loans made to the FSCS to meet such claims. The increased levies are also required to fund the accrued interest on the FSCS's loan from the Bank of England until such time as the loans are fully repaid. The FSCS levy may have a material impact on the Issuer. As at 31 December 2009, the Issuer had made cumulative charges and provisions of £13.4 million to cover the cost of the FSCS levy for 2008/9, 2009/10 and 2010/11.

International Financial Reporting Standards

The Issuer 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.

Future legislative and regulatory changes

The Issuer conducts its business subject to ongoing regulation by the FSA, which oversees the sale of residential mortgages, commercial lending and general insurance products. The regulatory regime requires the Issuer to be in compliance across many aspects of activity, including the training, authorisation and supervision of personnel, systems, processes and documentation. The FSA, and other bodies such as the Financial Services Ombudsman, could impose additional regulations on current and past dealings with retail customers. As a result, the Issuer may be required to incur costs to apply these regulations to the business, including costs relating to advice given to retail customers that purchased endowment policies used to repay mortgage loans. If the Issuer 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.

Following the economic downturn and dislocation of the financial markets that began in August 2007 and significantly worsened in 2008 the banking and financial services sector has been under heavy scrutiny. Following the formation of the coalition government in May 2010 the Chancellor of the Exchequer announced that the government will be reforming the regulatory regime currently in place for banks and financial institutions and that a new levy, applicable to all major banks and building societies, will be imposed from January 2011.

At this point it is impossible to predict how and the extent to which the foregoing recently announced changes will impact on the operations, business results, financial condition or prospects of the Issuer. Accordingly, the Issuer cannot be assured that any changes to the existing regulatory regime arising from the implementation of any of the foregoing matters or any other regulatory changes that may be proposed will not have a material adverse effect on its operations, business, results, financial condition or prospects of the Issuer. Based on the current exclusion of FSCS covered deposits and a £20 billion threshold however, the Issuer will fall outside of the bank levy criteria. Final details of the bank levy will be announced after a consultation period.

Factors which are material for the purpose of assessing the market risks associated with Notes issued under the Programme

Notes may not be a suitable investment for all investors

Each potential investor in any Notes must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

- (i) have sufficient knowledge and experience to make a meaningful evaluation of the relevant Notes, the merits and risks of investing in the relevant Notes and the information contained or incorporated by reference in this Prospectus or any applicable supplement;
- (ii) have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the relevant Notes and the impact such investment will have on its overall investment portfolio;
- (iii) have sufficient financial resources and liquidity to bear all of the risks of an investment in the relevant Notes, including where principal or interest is payable in one or more currencies, or where the currency for principal or interest payments is different from the potential investor's currency;
- (iv) understand thoroughly the terms of the relevant Notes and be familiar with the behaviour of any relevant indices and financial markets; and
- (v) be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, Interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

Some Notes are complex financial instruments and such instruments may be purchased as a way to reduce risk or enhance yield with an understood, measured, appropriate addition of risk to their overall portfolios. A potential investor should not invest in Notes which are complex financial instruments unless it has the expertise (either alone or with the help of a financial adviser) to evaluate how the Notes will perform under changing conditions, the resulting effects on the value of such Notes and the impact this investment will have on the potential investor's overall investment portfolio.

Risks related to the structure of a particular issue of Notes

A wide range of Notes may be issued under the Programme. A number of these Notes may have features which contain particular risks for potential investors. Set out below is a description of certain such features:

Notes subject to optional redemption by the Issuer

An optional redemption feature is likely to limit the market value of Notes. During any period when the Issuer may elect to redeem Notes, the market value of those Notes generally will not rise substantially above the price at which they can be redeemed. This also may be true prior to any redemption period.

The Issuer may be expected to redeem Notes when its cost of borrowing is lower than the Interest rate on the Notes. At those times, an investor generally would not be able to reinvest the redemption proceeds at an effective interest rate as high as the interest rate on the Notes being redeemed and may only be able to do so at a significantly lower rate. Potential investors should consider reinvestment risk in light of other investments available at that time.

Index Linked Notes and Dual Currency Notes

The Issuer may issue Notes with principal or interest determined by reference to an index or formula, to changes in the prices of securities or commodities, to movements in currency exchange rates or other factors (each, a "Relevant Factor"). In addition, the Issuer may issue Notes with principal or

interest payable in one or more currencies which may be different from the currency in which the Notes are denominated. Potential investors should be aware that:

- (i) the market price of such Notes may be volatile;
- (ii) they may receive no interest;
- (iii) payment of principal or interest may occur at a different time or in a different currency than expected;
- (iv) the amount of principal payable at redemption may be less than the nominal amount of such Notes or even zero;
- (v) a Relevant Factor may be subject to significant fluctuations that may not correlate with changes in interest rates, currencies or other indices;
- (vi) if a Relevant Factor is applied to Notes in conjunction with a multiplier greater than one or contains some other leverage factor, the effect of changes in the Relevant Factor on principal or interest payable likely will be magnified; and
- (vii) the timing of changes in a Relevant Factor may affect the actual yield to investors, even if the average level is consistent with their expectations. In general, the earlier the change in the Relevant Factor, the greater the effect on yield.

Partly-paid Notes

The Issuer may issue Notes where the issue price is payable in more than one instalment. Failure to pay any subsequent instalment could result in an investor losing all of its investment.

Variable rate Notes with a multiplier or other leverage factor

Notes with variable interest rates can be volatile investments. If they are structured to include multipliers or other leverage factors, or caps or floors, or any combination of those features or other similar related features, their market values may be even more volatile than those for securities that do not include those features.

Inverse Floating Rate Notes

Inverse Floating Rate Notes have an interest rate equal to a fixed rate minus a rate based upon a reference rate such as LIBOR. The market values of such Notes typically are more volatile than market values of other conventional floating rate debt securities based on the same reference rate (and with otherwise comparable terms). Inverse Floating Rate Notes are more volatile because an increase in the reference rate not only decreases the interest rate of the Notes, but may also reflect an increase in prevailing interest rates, which further adversely affects the market value of these Notes.

Fixed/Floating Rate Notes

Fixed/Floating Rate Notes may bear interest at a rate that the Issuer may elect to convert from a fixed rate to a floating rate, or from a floating rate to a fixed rate. The Issuer's ability to convert the interest rate will affect the secondary market and the market value of such Notes since the Issuer may be expected to convert the rate when it is likely to produce a lower overall cost of borrowing. If the Issuer converts from a fixed rate to a floating rate, the spread on the Fixed/Floating Rate Notes may be less favourable than then prevailing spreads on comparable Floating Rate Notes tied to the same reference rate. In addition, the new floating rate at any time may be lower than the rates on other Notes. If the Issuer converts from a floating rate to a fixed rate, the fixed rate may be lower than then prevailing rates on its Notes.

Notes issued at a substantial discount or premium

The market values of securities issued at a substantial discount or premium to their nominal amount tend to fluctuate more in relation to general changes in interest rates than do prices for conventional interest bearing securities. Generally, the longer the remaining term of the securities, the greater the price volatility as compared to conventional interest-bearing securities with comparable maturities.

The Issuer's obligations under Subordinated Notes are subordinated

The Issuer's obligations under Subordinated Notes will be unsecured and subordinated and will rank junior in priority to the claims of Senior Creditors (as defined in "Terms and Conditions of the Notes" herein). Although Subordinated Notes may pay a higher rate of interest than comparable Notes which are not subordinated, there is a real risk that an investor in Subordinated Notes will lose all or some of his investment should the Issuer become insolvent.

Risks related to Notes generally

Set out below is a brief description of certain risks relating to the Notes generally:

Modification, waivers and substitution

The Terms and Conditions of the Notes contain provisions for calling meetings of Noteholders to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Noteholders including Noteholders who did not attend and vote at the relevant meeting and Noteholders who voted in a manner contrary to the majority.

The Terms and Conditions of the Notes also provide that the Trustee may, without the consent of Noteholders, agree to (i) any modification of, or to the waiver or authorisation of any breach or proposed breach of, any of the provisions of Notes in the circumstances described in Condition 11 of the Terms and Conditions of the Notes or (ii) the substitution of another company as principal debtor under any Notes in place of the Issuer, in the circumstances described in Condition 12 of the Terms and Conditions of the Notes.

European Monetary Union

If the United Kingdom joins the European Monetary Union prior to the maturity of the Notes, there is no assurance that this would not adversely affect investors in the Notes. It is possible that prior to the maturity of the Notes 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 Notes denominated in Sterling may become payable in euro (ii) the law may allow or require such Notes to be redenominated into Euro and additional measures to be taken in respect of such Notes; 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 Notes 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 Notes.

EU Savings Directive

On 3 June 2003, the European Council of Economics and Finance Ministers adopted a directive on the taxation of savings income (the "Savings Directive"). Under the Savings Directive member states of the European Union (each a "Member State") are required, from 1 July 2005, to provide to the tax authorities of another Member State details of payments of interest (or similar income) paid by a person within its jurisdiction to or collected by such person for, an individual resident or certain limited types of entity established in that other Member State. However, for a transitional period, Luxembourg and Austria may instead (unless during that period they elect otherwise) operate a withholding system in relation to such payments (subject to a procedure whereby, on meeting certain

conditions, the beneficial owner of the interest or other income may request that no tax be withheld), deducting tax at rates rising over time to 35 per cent. (the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries). As from 1 January 2010, Belgium has changed to the provision of information system (rather than a withholding system).

A number of non-EU countries and certain dependent or associated territories of certain Member States have agreed to adopt similar measures (either provision of information or transitional withholding) in relation to payments made by a person within its jurisdiction to, or collected by such a person for, an individual resident or certain limited types of entity established in a Member State. In addition, the Member States have entered into provision of information or transitional withholding arrangements with certain of those dependent or associated territories in relation to payments made by a person in a Member State to, or collected by such a person for, an individual resident or certain limited types of entity established in one of those territories.

Investors should note that the European Commission has announced proposals to amend the Savings Directive. If implemented, the proposed amendments would, *inter alia*, extend the scope of the Savings Directive to (i) payments made through certain intermediate structures (whether or not established in a Member State) for the ultimate benefit of an EU resident individual, and (ii) a wider range of income similar to interest. The European Parliament approved an amended version of this proposal on 24 April 2009. Investors who are in any doubt as to their position should consult their professional advisers.

If a payment were to be made or collected through a Member State which has opted for a withholding system, or through another country that has adopted similar measures, and an amount of or in respect of tax were to be withheld from that payment, neither the Issuer nor any Paying Agent nor any other person would be obliged to pay additional amounts with respect to any Note, Receipt or Coupon as a result of the imposition of such withholding tax. The Issuer is required, in accordance with Condition 7(e), to maintain (to the extent reasonably practicable) a Paying Agent in a Member State that will not be obliged to withhold or deduct tax pursuant to any law implementing the Savings Directive or any other Directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000.

Change of law

The Terms and Conditions of the Notes are based on English law in effect as at the date of issue of the relevant Notes. 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 issue of the relevant Notes.

Integral multiples of less than €50,000

In relation to any issue of Notes which have a denomination consisting of the minimum Specified Denomination of €50,000 plus a higher integral multiple of another smaller amount, it is possible that the Notes may be traded in amounts in excess of €50,000 (or its equivalent) that are not integral multiples of €50,000 (or its equivalent). In such a case a Noteholder who, as a result of trading such amounts, holds a principal amount of less than the minimum Specified Denomination will not receive a definitive Note in respect of such holding (should definitive Notes be printed) and would need to purchase a principal amount of Notes such that it holds an amount equal to one or more Specified Denominations.

Risks related to the market generally

Set out below is a brief description of certain market risks, including liquidity risk, exchange rate risk, interest rate risk and credit risk:

The secondary market generally

Notes may have no established trading market when issued, and one may never develop. If a market does develop, it may not be liquid. Therefore, investors may not be able to sell their Notes easily or at prices that will provide them with a yield comparable to similar investments that have a developed secondary market. This is particularly the case for Notes that are especially sensitive to interest rate, currency or market risks, are designed for specific investment objectives or strategies or have been structured to meet the investment requirements of limited categories of investors. These types of Notes generally would have a more limited secondary market and more price volatility than conventional debt securities. Illiquidity may have a severely adverse effect on the market value of Notes.

Further deterioration in wholesale funding markets may have an adverse effect on the Issuer

Since mid 2007, the wholesale funding markets and international debt capital markets have experienced (and continue to experience) significant disruptions. This has resulted in an increase in the cost of wholesale market funding and a decrease in its availability across the financial services sector. Whilst short-term unsecured money-market funding has remained available, the residential mortgage securitisation and covered bond markets were effectively closed to new external issuances of securities, and remain subdued. However, during this period, the Issuer has continued to manage its funding requirements successfully through a combination of raising new funds from the wholesale market, government support facilities (such as the Special Liquidity Scheme (as defined below) and Credit Guarantee Scheme (as defined below)) and rolling over existing funding as it matures.

Whilst various governments, including the UK government, have taken substantial measures to ease the crisis in liquidity, there can be no assurance that these measures will succeed in materially improving the liquidity position of major UK banks and building societies in the long term. In addition, the availability and the terms on which any such measures will continue to be made available in the longer term are uncertain. The Issuer has availed itself of certain measures made available by the UK government to financial institutions. The Issuer does not expect that there will be any extension or renewal of the UK government's 2008 Special Liquidity Scheme (the "Special Liquidity Scheme") (which was closed for new transactions in January 2009) or the UK governments Credit Guarantee Scheme (the "Credit Guarantee Scheme") (which was closed for new issuance in February 2010 and is only available for certain refinancing of debt that was issued pursuant to the Credit Guarantee Scheme). Throughout the course of the next year the Issuer will face a refinancing concentration arising from the maturity of Special Liquidity Scheme transactions and Credit Guarantee Scheme issuances that have been undertaken. Over the same period a number of other UK banks and building societies that have availed themselves of the same measures will also be seeking to refinance their obligations under the Special Liquidity Scheme and the Credit Guarantee Scheme. Accordingly, this may affect the Issuer's ability to access wholesale funding arrangements on satisfactory market terms in order to meet its continuing funding requirements and could have a material impact on the Issuer's liquidity. The Issuer expects to mitigate the impact of this refinancing concentration by seeking funds from alternative sources. However, there can be no assurance that such mitigation efforts will be successful. The Issuer's available funding options are regularly reviewed by the FSA. If such funding options are not successful in mitigating the impact of this refinancing concentration in 2011, the Issuer could face liquidity restraints.

As at 31 December 2009, wholesale market funding represented 24.2 per cent of the Issuer's overall funding, one of the lowest of any comparable lender. 100 per cent. of mortgages are funded by retail savings, capital and reserves and the Issuer continues to grow retail savings in excess of that needed to fund mortgage growth.

Disruptions in the wholesale funding markets may potentially have an adverse effect on the Issuer and no assurance can be given as to the occurrence or non-occurrence of such disruptions in the future.

Exchange rate risks and exchange controls

The Issuer will pay principal and interest on the Notes in the Specified Currency. This presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in a currency or currency unit (the "Investor's Currency") other than the Specified Currency. These include the risk that exchange rates may significantly change (including changes due to devaluation of the Specified Currency or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency may impose or modify exchange controls. An appreciation in the value of the Investor's Currency relative to the Specified Currency would decrease (1) the Investor's Currency equivalent yield on the Notes, (2) the Investor's Currency equivalent value of the principal payable on the Notes and (3) the Investor's Currency equivalent market value of the Notes.

Government and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate. As a result, investors may receive less interest or principal than expected, or no interest or principal.

Interest rate risks

Investment in Fixed Rate Notes involves the risk that subsequent changes in market interest rates may adversely affect the value of Fixed Rate Notes.

Credit ratings may not reflect all risks

One or more independent credit rating agencies may assign credit ratings to an issue of Notes. The ratings 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 Notes. A credit rating is not a recommendation to buy, sell or hold securities and may be revised or withdrawn by the rating agency at any time.

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 advisers to determine whether and to what extent (1) Notes are legal investments for it, (2) Notes can be used as collateral for various types of borrowing and (3) other restrictions apply to its purchase or pledge of any Notes. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of Notes under any applicable risk-based capital or similar rules.

TERMS AND CONDITIONS OF THE NOTES

The following is the text of the terms and conditions that, subject to amendment and as supplemented or varied in accordance with the provisions of Part A of the relevant Final Terms, shall be applicable to the Notes in definitive form (if any) issued in exchange for the Global Note(s) representing each Series. Either (i) the full text of these terms and conditions together with the relevant provisions of Part A of the Final Terms or (ii) these terms and conditions as so amended, supplemented or varied (and subject to simplification by the deletion of non-applicable provisions), shall be endorsed on such Bearer Notes or on the Certificates relating to such Registered Notes. All capitalised terms that are not defined in these Conditions will have the meanings given to them in Part A of the relevant Final Terms. Those definitions will be endorsed on the definitive Notes or Certificates, as the case may be. References in the Conditions to “Notes” are to the Notes of one Series only, not to all Notes that may be issued under the Programme.

The Notes are constituted by an amended and restated trust deed dated 3 September 2010 (as amended and/or supplemented from time to time) (the “Trust Deed”) between the Issuer and HSBC Corporate Trustee Company (UK) Limited (the “Trustee”, which expression shall include all persons for the time being the trustee or trustees under the Trust Deed) as trustee for the Noteholders (as defined below). These terms and conditions (the “Conditions”) include summaries of, and are subject to, the detailed provisions of the Trust Deed, which includes the form of the Bearer Notes, Certificates, Receipts, Coupons and Talons referred to below. An Agency Agreement (as amended, restated or supplemented as at the Issue Date, the “Agency Agreement”) dated 3 September 2010 has been entered into in relation to the Notes between the Issuer, the Trustee, HSBC Bank plc as initial issuing and paying agent and registrar and the other agents named in it. The issuing and paying agent, the other paying agents, the registrar, the transfer agents and the calculation agent(s) for the time being (if any) are referred to below respectively as the “Issuing and Paying Agent”, the “Paying Agents” (which expression shall include the Issuing and Paying Agent), the “Registrar”, the “Transfer Agents” (which expression shall include the Registrar) and the “Calculation Agent(s)”. Copies of the Trust Deed and the Agency Agreement are available for inspection during usual business hours and upon reasonable notice at the specified offices of the Paying Agents and the Transfer Agents.

The Noteholders, the holders of the interest coupons (the “Coupons”) relating to interest bearing Notes in bearer form and, where applicable in the case of such Notes, talons for further Coupons (the “Talons”) (the “Couponholders”) and the holders of the receipts for the payment of instalments of principal (the “Receipts”) relating to Notes in bearer form in respect of which the principal is payable in instalments are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Trust Deed and are deemed to have notice of those provisions applicable to them of the Agency Agreement and the relevant Final Terms.

1 Form, Denomination and Title

Each Series (as defined below) of Notes is issued (i) in bearer form and in registered form (“Exchangeable Series”), (ii) in bearer form (“Bearer Series”) or (iii) in registered form (“Registered Series”). Bearer Notes (as defined below) will be issued in the Specified Denomination(s) shown hereon. Registered Notes (as defined below) will be issued in multiples of the Specified Denomination shown hereon provided that in the case of any Notes admitted to trading on a regulated market within the European Economic Area or offered to the public in a Member State of the European Economic Area in circumstances which require the publication of a prospectus under the Prospectus Directive (2003/71/EC), the minimum Specified Denomination shall be €50,000 (or its equivalent in any other currency as at the date of issue of the relevant Notes).

Notes in bearer form (“Bearer Notes”) comprised in an Exchangeable Series (“Exchangeable Bearer Notes”) are exchangeable for Notes in registered form (“Registered Notes”) and Registered Notes comprised in an Exchangeable Series (“Exchangeable Registered Notes”) are exchangeable for Exchangeable Bearer Notes.

This Note is a Fixed Rate Note, a Floating Rate Note, a Zero Coupon Note, an Index Linked Interest Note, an Index Linked Redemption Note, an Instalment Note, a Dual Currency Note or a Partly Paid Note, a combination of any of the foregoing or any other kind of Note, depending upon the interest and Redemption/Payment Basis shown hereon. This Note is a Deposit Note or is a Subordinated Note if so indicated in the applicable Final Terms.

Bearer Notes are serially numbered and are issued with Coupons (and, where appropriate, a Talon) attached, save in the case of Zero Coupon Notes in which case references to interest (other than in relation to interest due after the Maturity Date), Coupons and Talons in these Conditions are not applicable. Instalment Notes are issued with one or more Receipts attached.

Registered Notes are represented by registered certificates ("Certificates") and, save as provided in Condition 2(c), each Certificate shall represent the entire holding of Registered Notes by the same holder.

Title to the Bearer Notes and the Receipts, Coupons and Talons shall pass by delivery. Title to the Registered Notes shall pass by registration in the register that the Issuer shall procure to be kept by the Registrar in accordance with the provisions of the Agency Agreement (the "Register"). Except as required by applicable law, the holder (as defined below) of any Note, Receipt, Coupon or Talon shall be deemed to be and may be treated as its absolute owner for all purposes whether or not it is overdue and regardless of any notice of ownership, trust or an interest in it, any writing on it (or on the Certificate representing it) or its theft or loss (or that of the related Certificate) and no person shall be liable for so treating the holder.

In these Conditions, "Noteholder" means the bearer of any Bearer Note and the Receipts relating to it or the person in whose name a Registered Note is registered (as the case may be), "holder" (in relation to a Note, Receipt, Coupon or Talon) means the bearer of any Bearer Note, Receipt, Coupon or Talon or the person in whose name a Registered Note is registered (as the case may be) and capitalised terms have the meanings given to them hereon, the absence of any such meaning indicating that such term is not applicable to the Notes.

2 Exchanges of Exchangeable Bearer Notes and Transfers of Registered Notes

(a) Exchange of Exchangeable Bearer Notes

Subject as provided in Condition 2(g), Exchangeable Bearer Notes may be exchanged for the same nominal amount of Exchangeable Registered Notes at the request in writing of the relevant Noteholder and upon surrender of each Exchangeable Bearer Note to be exchanged, together with all unmatured Receipts, Coupons and Talons relating to it, at the specified office of any Transfer Agent; provided that Exchangeable Bearer Notes surrendered in exchange for Exchangeable Registered Notes during the period from and including the Record Date in respect of any Interest Payment Date up to and including such Interest Payment Date will not be required to be surrendered with the Coupon relating to the interest payable on such Interest Payment Date.

Interest on an Exchangeable Registered Note issued in exchange for an Exchangeable Bearer Note will accrue as from the Interest Payment Date immediately preceding the date of surrender as aforesaid or, if none, the Interest Commencement Date, except where issued in respect of an Exchangeable Bearer Note surrendered during the period from and including the Record Date in respect of an Interest Payment Date up to and including such Interest Payment Date, in which event interest shall accrue as from such last mentioned Interest Payment Date.

Bearer Notes of one Specified Denomination may not be exchanged for Bearer Notes of another Specified Denomination. Bearer Notes that are not Exchangeable Bearer Notes may not be exchanged for Registered Notes.

(b) Exchange of Exchangeable Registered Notes

Subject as provided in Condition 2(g), Exchangeable Registered Notes may be exchanged for the same nominal amount of Exchangeable Bearer Notes at the request in writing of the relevant Noteholder and upon surrender of the Certificate representing such Exchangeable Registered Notes to be exchanged at the specified office of any Transfer Agent.

Interest on an Exchangeable Registered Note to be exchanged for Exchangeable Bearer Notes will cease to accrue as from the Interest Payment Date immediately preceding the date of surrender as aforesaid or, if none, the Interest Commencement Date, except where the date of such surrender falls in the period from and including the Record Date in respect of an Interest Payment Date up to and including such Interest Payment Date, in which event interest will cease to accrue as from such last-mentioned Interest Payment Date.

Where relevant, Exchangeable Bearer Notes issued in exchange for Exchangeable Registered Notes will be issued together with all Coupons in respect of all Interest Payment Dates falling after the date of such surrender as aforesaid or, if such surrender falls during the period from and including the Record Date in respect of an Interest Payment Date up to and including such Interest Payment Date, with Coupons in respect of all Interest Payment Dates falling after such Interest Payment Date, together with any Talons maturing after such date and any Receipts in respect of Instalment Amounts due after such date.

Registered Notes that are not Exchangeable Registered Notes may not be exchanged for Bearer Notes.

(c) Transfer of Registered Notes

Subject as provided in Conditions 2(g) and (h), Registered Notes may be transferred in whole or in part in a multiple of a Specified Denomination upon the surrender (at the specified office of the Registrar or any Transfer Agent) of the Certificate representing such Registered Notes to be transferred, together with the form of transfer endorsed on such Certificate, (or another form of transfer substantially in the same form and containing the same representations and certifications (if any), unless otherwise agreed by the Issuer), duly completed and executed and any other evidence as the Registrar or Transfer Agent may reasonably require. In the case of a transfer of part only of a holding of Registered Notes represented by one Certificate, a new Certificate shall be issued to the transferee in respect of the part transferred and a further new Certificate in respect of the balance of the holding not transferred shall be issued to the transferor.

(d) Exercise of Options or Partial Redemption in respect of Registered Notes

In the case of an exercise of an Issuer's or Noteholders' option in respect of, or a partial redemption of, a holding of Registered Notes represented by a single Certificate, a new Certificate shall be issued to the holder to reflect the exercise of such option or in respect of the balance of the holding not redeemed. In the case of a partial exercise of an option resulting in Registered Notes of the same holding having different terms, separate Certificates shall be issued in respect of those Notes of that holding that have the same terms. New Certificates shall only be issued against surrender of the existing Certificates to the Registrar or any Transfer Agent. In the case of a transfer of Registered Notes to a person who is already a holder of Registered Notes, a new Certificate representing the enlarged holding shall only be issued against surrender of the Certificate representing the existing holding.

(e) Delivery of New Certificates

Each new Certificate to be issued pursuant to Conditions 2(a), (b), (c) or (d) shall be available for delivery within three business days of receipt of the request for exchange, form of transfer or Exercise Notice (as defined in Condition 6(e)) or surrender of the Certificate for exchange.

Delivery of the new Certificate(s) shall be made at the specified office of the Transfer Agent or of the Registrar (as the case may be) to whom delivery or surrender of such request for exchange, form of transfer, Exercise Notice or Certificate shall have been made or, at the option of the holder making such delivery or surrender as aforesaid and as specified in the relevant request for exchange, form of transfer, Exercise Notice or otherwise in writing, be mailed by uninsured post at the risk of the holder entitled to the new Certificate to such address as may be so specified, unless such holder requests otherwise and pays in advance to the relevant Transfer Agent the costs of such other method of delivery and/or such insurance as it may specify. In this Condition 2(e), "business day" means a day, other than a Saturday or Sunday, on which banks are open for business in the place of the specified office of the relevant Transfer Agent or the Registrar (as the case may be).

(f) Exchange Free of Charge

Exchange and transfer of Notes and Certificates on registration, transfer, exercise of an option or partial redemption shall be effected without charge by or on behalf of the Issuer, the Registrar or the Transfer Agents, but upon payment of any tax or other governmental charges that may be imposed in relation to it (or the giving of such indemnity as the Registrar or the relevant Transfer Agent may require).

(g) Closed Periods

No Noteholder may require the transfer of a Registered Note to be registered or an Exchangeable Bearer Note or Exchangeable Registered Note to be exchanged (i) during the period of 15 days ending on the due date for redemption of, or payment of any Instalment Amount in respect of, that Note, (ii) during the period of 15 days prior to any date on which Notes may be called for redemption by the Issuer at its option pursuant to Condition 6(d), (iii) after any such Note has been called for redemption or (iv) during the period of seven days ending on (and including) any Record Date (as defined in Condition 7(b)(ii)).

(h) Regulations

All transfers of Registered Notes and entries on the Register will be made subject to the detailed regulations concerning transfers of Registered Notes scheduled to the Agency Agreement. The regulations may be changed by the Issuer, with the prior written approval of the Trustee and the Registrar. A copy of the current regulations will be made available by the Registrar to any holder of a Registered Note upon request.

3 Status

(a) Status of Senior Notes and Deposit Notes

The Senior Notes and the Deposit Notes (being those Notes that specify their status as Senior or Deposit) and the Receipts and Coupons relating to them are direct, unconditional and (subject to Condition 4) unsecured obligations of the Issuer and (subject as provided above) rank and will rank *pari passu*, without any preference among themselves, equally with all other outstanding unsecured and unsubordinated deposits with and loans to the Issuer, present and future, other than such deposits or loans which are given priority pursuant to applicable statutory provisions.

(b) Status of Subordinated Notes

The Subordinated Notes (being those Notes that specify their status as Subordinated) and the Receipts and Coupons relating to them constitute direct and unsecured obligations of the Issuer and rank and will rank without any preference among themselves, at least equally with all other subordinated obligations of the Issuer from time to time outstanding but will rank ahead of the

holders of any subordinated obligations whose claims are expressed to rank behind the Notes, the Receipts or the Coupons, as the case may be, and, for the avoidance of doubt, ahead of all claims in respect of any Deferred Shares (as defined below) in the Issuer.

In the event of the winding up of the Issuer, the claims of the Trustee, the Noteholders, the Receiptholders and Couponholders against the Issuer in respect of the Notes, the Receipts or the Coupons, as the case may be, will be subordinated, as provided in the Trust Deed, to the Senior Claims. In such event, the claims of the Noteholders, the Receiptholders and the Couponholders against the Issuer will become due and payable and capable of proof in such winding up, but only to the extent that assets will remain available in such winding up after all Senior Claims on the Issuer have been satisfied in full or full provision therefor has been made. Accordingly, no payments of amounts due in respect of the Notes, Receipts and the Coupons will be made to the Noteholders, the Receiptholders and the Couponholders following the commencement of the winding up of the Issuer except where all sums due from the Issuer in respect of all Senior Claims are paid in full or full provision has been made therefor. Any amounts paid to the Trustee in the winding up of the Issuer will be held on trust for distribution in satisfaction of the Senior Claims to the extent (if any) not fully paid and thereafter in or towards payment of the amounts due under the Notes, the Receipts or the Coupons, as the case may be.

“Deferred Shares” means deferred shares within the meaning of the Building Societies Act 1986 (as amended) (the “Act” which includes, where applicable, any statutory modification thereof or re enactment thereof or any statutory instrument, order or regulations made thereunder);

“Senior Claims” means the claims of all creditors of the Issuer (including, without limiting the generality of the foregoing, all contingent and prospective claims, all claims in respect of deposits with or loans to the Issuer and all claims to interest thereon which are admitted to proof in the winding up of the Issuer but excluding all claims in respect of Subordinated Indebtedness and, for the avoidance of doubt, all claims in respect of Deferred Shares); and

“Subordinated Indebtedness” means the aggregate of (a) the indebtedness of the Issuer under the Notes and Coupons and (b) all other indebtedness of the Issuer which is subordinated in the event of the winding up of the Issuer to the Senior Claims.

(c) No Set-off

Subject to applicable law, no holder of Subordinated Notes may exercise or claim any right of set-off in respect of any amount owed to it by the Issuer arising under or in connection with the Subordinated Notes, the relative Receipts or Coupons and each Noteholder, Couponholder and Receiptholder of any Subordinated Note shall, by virtue of being the holder of any such Subordinated Note, Receipt or Coupon, be deemed to have waived all such rights of set-off, both before and during any winding-up, liquidation or administration of the Issuer. Notwithstanding the provision of the foregoing sentence, if any of the said rights and claims of any Noteholder, Receiptholder or Couponholder of Subordinated Notes against the Issuer is discharged by set-off, such Noteholder, Receiptholder or Couponholder of Subordinated Notes will immediately pay an amount equal to the amount of such discharge to the Issuer or, in the event of winding-up of the Issuer the liquidator of the Issuer and accordingly such discharge will be deemed not to have taken place.

N.B. Attention is drawn to “Certain Provisions of the Building Societies Act 1986 (as amended) and the Supervisory Authority” elsewhere in this Prospectus.

4 Negative Pledge

(a) Restriction

So long as any of the Senior Notes or, as the case may be, Deposit Notes, Receipts or Coupons remains outstanding (as defined in the Trust Deed) the Issuer will neither create nor have outstanding any mortgage, lien pledge, charge or other security interest (other than Permitted Security Interests) upon the whole or any part of its undertaking or assets, present or future (including any uncalled capital), to secure any Loan Stock, or any guarantee of or indemnity in respect of any Loan Stock without at the same time or prior thereto securing the Senior Notes or, as the case may be, Deposit Notes, Receipts and Coupons equally and rateably therewith to the satisfaction of the Trustee or providing such other security or other arrangements for the Senior Notes or, as the case may be, Deposit Notes, Receipts and Coupons as the Trustee in its absolute discretion shall deem to be not materially less beneficial to the holders of the Senior Notes or, as the case may be, the Deposit Notes or which shall be approved by an Extraordinary Resolution (as defined in the Trust Deed) of the holders of the Senior Notes, or, as the case may be, the Deposit Notes.

(b) Definitions

For the purposes of this Condition

“Government Entities” means any body, agency, ministry, department, authority, statutory corporation or other entity of or pertaining to a member state of the European Economic Area or the government thereof or any political subdivision, municipality or local government thereof (whether autonomous or not);

“Loan Stock” means indebtedness which is in the form of, or represented or evidenced by, bonds, notes, debentures, loan stock or other securities which for the time being are, or are intended to be or are capable of being, quoted, listed, dealt in or traded on any stock exchange, over-the-counter or other established securities market (whether or not initially distributed by way of private placement), but excluding any such indebtedness which has a stated maturity not exceeding one year; and

“Permitted Security Interest” means a lien arising by operation of law or any security interest created by the Issuer over the whole or any part of its present or future assets or revenues where such assets or revenues are comprised only of the following (or are otherwise qualifying collateral for issues of covered bonds (howsoever described) pursuant to any relevant contractual arrangements); (i) mortgage receivables; or (ii) receivables against Government Entities; or (iii) asset-backed securities backed by any of the assets under (i) or (ii); or (iv) any other assets permitted by English law (in force as at the date on which agreement is reached to issue the first Tranche of the relevant Series) to collateralise covered bonds, in each case provided that the creation of such security interest is pursuant to the relevant contractual arrangements or, as the case may be, specific provisions of the laws of England and Wales relating to covered bonds (howsoever described) applicable at the time of creation of such security interest.

5 Interest and other Calculations

(a) Interest on Fixed Rate Notes

Each Fixed Rate Note bears interest on its outstanding nominal amount from the Interest Commencement Date at the rate per annum (expressed as a percentage) equal to the Rate of Interest, such interest being payable in arrear on each Interest Payment Date.

The amount of interest payable shall be determined in accordance with Condition 5(h).

(b) Interest on Floating Rate Notes and Index Linked Interest Notes

(i) Interest Payment Dates

Each Floating Rate Note and Index Linked Interest Note bears interest on its outstanding nominal amount from the Interest Commencement Date at the rate per annum (expressed as a percentage) equal to the Rate of Interest, such interest being payable in arrear on each Interest Payment Date. The amount of interest payable shall be determined in accordance with Condition 5(h). Such Interest Payment Date(s) is/are either shown hereon as Specified Interest Payment Dates or, if no Specified Interest Payment Date(s) is/are shown hereon, Interest Payment Date shall mean each date which falls the number of months or other period shown hereon as the Specified Period after the preceding Interest Payment Date or, in the case of the first Interest Payment Date, after the Interest Commencement Date.

(ii) Business Day Convention

If any date referred to in these Conditions that is specified to be subject to adjustment in accordance with a Business Day Convention would otherwise fall on a day that is not a Business Day, then, if the Business Day Convention specified is (A) the Floating Rate Business Day Convention, such date shall be postponed to the next day that is a Business Day unless it would thereby fall into the next calendar month, in which event (x) such date shall be brought forward to the immediately preceding Business Day and (y) each subsequent such date shall be the last Business Day of the month in which such date would have fallen had it not been subject to adjustment, (B) the Following Business Day Convention, such date shall be postponed to the next day that is a Business Day, (C) the Modified Following Business Day Convention, such date shall be postponed to the next day that is a Business Day unless it would thereby fall into the next calendar month, in which event such date shall be brought forward to the immediately preceding Business Day or (D) the Preceding Business Day Convention, such date shall be brought forward to the immediately preceding Business Day.

(iii) Rate of Interest for Floating Rate Notes

The Rate of Interest in respect of Floating Rate Notes for each Interest Accrual Period shall be determined in the manner specified hereon and the provisions below relating to either ISDA Determination or Screen Rate Determination shall apply, depending upon which is specified hereon.

(A) ISDA Determination for Floating Rate Notes

Where ISDA Determination is specified hereon as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Accrual Period shall be determined by the Calculation Agent as a rate equal to the relevant ISDA Rate plus or minus (as indicated hereon) the Margin (if any). For the purposes of this sub-paragraph (A), "ISDA Rate" for an Interest Accrual Period means a rate equal to the Floating Rate that would be determined by the Calculation Agent under a Swap Transaction under the terms of an agreement incorporating the ISDA Definitions and under which:

- (x) the Floating Rate Option is as specified hereon;
- (y) the Designated Maturity is a period specified hereon; and
- (z) the relevant Reset Date is the first day of that Interest Accrual Period unless otherwise specified hereon.

For the purposes of this sub-paragraph (A), “Floating Rate”, “Calculation Agent”, “Floating Rate Option”, “Designated Maturity”, “Reset Date” and “Swap Transaction” have the meanings given to those terms in the ISDA Definitions.

(B) Screen Rate Determination for Floating Rate Notes

- (x) where Screen Rate Determination is specified hereon as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Accrual Period will, subject as provided below, be either:

- (1) the offered quotation; or
- (2) the arithmetic mean of the offered quotations,

(expressed as a percentage rate per annum) for the Reference Rate which appears or appear, as the case may be, on the Relevant Screen Page as at either 11.00 a.m. (London time in the case of LIBOR or Brussels time in the case of EURIBOR) on the Interest Determination Date in question as determined by the Calculation Agent. If five or more of such offered quotations are available on the Relevant Screen Page, the highest (or, if there is more than one such highest quotation, one only of such quotations) and the lowest (or, if there is more than one such lowest quotation, one only of such quotations) shall be disregarded by the Calculation Agent for the purpose of determining the arithmetic mean of such offered quotations.

If the Reference Rate from time to time in respect of Floating Rate Notes is specified in the applicable Final Terms as being other than LIBOR or EURIBOR, the Rate of Interest in respect of such Notes will be determined as provided in the applicable Final Terms.

- (y) if the Relevant Screen Page is not available or if, sub-paragraph (x)(1) applies and no such offered quotation appears on the Relevant Screen Page or if sub-paragraph (x)(2) above applies and fewer than three such offered quotations appear on the Relevant Screen Page in each case as at the time specified above, subject as provided below, the Calculation Agent shall request, if the Reference Rate is LIBOR, the principal London office of each of the Reference Banks or, if the Reference Rate is EURIBOR, the principal Euro-zone office of each of the Reference Banks, to provide the Calculation Agent with its offered quotation (expressed as a percentage rate per annum) for the Reference Rate if the Reference Rate is LIBOR, at approximately 11.00 a.m. (London time), or if the Reference Rate is EURIBOR, at approximately 11.00 a.m. (Brussels time) on the Interest Determination Date in question. If two or more of the Reference Banks provide the Calculation Agent with such offered quotations, the Rate of Interest for such Interest Accrual Period shall be the arithmetic mean of such offered quotations as determined by the Calculation Agent; and
- (z) if paragraph (y) above applies and the Calculation Agent determines that fewer than two Reference Banks are providing offered quotations, subject as provided below, the Rate of Interest shall be the arithmetic mean of the rates per annum (expressed as a percentage) as communicated to (and at the request of) the Calculation Agent by the Reference Banks or any two or more of them, at which such banks were offered, if the Reference Rate is LIBOR, at approximately 11.00 a.m. (London time) or, if the Reference Rate is EURIBOR, at approximately 11.00 a.m. (Brussels time) on the relevant Interest Determination Date, deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate by leading

banks in, if the Reference Rate is LIBOR, the London inter-bank market or, if the Reference Rate is EURIBOR, the Euro-zone inter-bank market, as the case may be, or, if fewer than two of the Reference Banks provide the Calculation Agent with such offered rates, the offered rate for deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate, or the arithmetic mean of the offered rates for deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate, at which, if the Reference Rate is LIBOR, at approximately 11.00 a.m. (London time) or, if the Reference Rate is EURIBOR, at approximately 11.00 a.m. (Brussels time), on the relevant Interest Determination Date, any one or more banks (which bank or banks is or are in the opinion of the Trustee and the Issuer suitable for such purpose) informs the Calculation Agent it is quoting to leading banks in, if the Reference Rate is LIBOR, the London inter-bank market or, if the Reference Rate is EURIBOR, the Euro-zone inter-bank market, as the case may be, provided that, if the Rate of Interest cannot be determined in accordance with the foregoing provisions of this paragraph, the Rate of Interest shall be determined as at the last preceding Interest Determination Date (though substituting, where a different Margin, Rate Multiplier or Maximum or Minimum Rate of Interest is to be applied to the relevant Interest Accrual Period) from that which applied to the last preceding Interest Accrual Period, the Margin, Rate Multiplier or Maximum or Minimum Rate of Interest relating to the relevant Interest Accrual Period, in place of the Margin, Rate Multiplier or Maximum or Minimum Rate of Interest relating to that last preceding Interest Accrual Period.

(iv) *Rate of Interest for Index Linked Interest Notes*

The Rate of Interest in respect of Index Linked Interest Notes for each Interest Accrual Period shall be determined in the manner specified hereon and interest will accrue by reference to an Index or Formula as specified hereon.

(c) Zero Coupon Notes

Where a Note, the Interest Basis of which is specified to be Zero Coupon, is repayable prior to the Maturity Date and is not paid when due, the amount due and payable prior to the Maturity Date shall be the Early Redemption Amount of such Note. As from the Maturity Date, the Rate of Interest for any overdue principal of such a Note shall be a rate per annum (expressed as a percentage) equal to the Amortisation Yield (as defined in Condition 6(b)(i)).

(d) Dual Currency Notes

In the case of Dual Currency Notes, if the rate or amount of interest falls to be determined by reference to a Rate of Exchange or a method of calculating the Rate of Exchange, the rate or amount of interest payable shall be determined in the manner specified hereon.

(e) Partly Paid Notes

In the case of Partly Paid Notes (other than Partly Paid Notes which are Zero Coupon Notes), interest will accrue as aforesaid on the paid-up nominal amount of such Notes and otherwise as specified hereon.

(f) Accrual of Interest

Interest shall cease to accrue on each Note on the due date for redemption unless, upon due presentation, payment is improperly withheld or refused, in which event interest shall continue

to accrue (as well after as before judgment) at the Rate of Interest in the manner provided in this Condition 5 to the Relevant Date (as defined in Condition 8).

(g) Margin, Maximum/Minimum Rates of Interest, Instalment Amounts and Redemption Amounts, Rounding

- (i) If any Margin is specified hereon (either (x) generally, or (y) in relation to one or more Interest Accrual Periods), an adjustment shall be made to all Rates of Interest, in the case of (x), or the Rates of Interest for the specified Interest Accrual Periods, in the case of (y), calculated in accordance with Condition 5(b) above by adding (if a positive number) or subtracting (if a negative number) the absolute value of such Margin subject always to the next paragraph.
- (ii) If any Maximum or Minimum Rate of Interest, Instalment Amount or Redemption Amount is specified hereon, then any Rate of Interest, Instalment Amount or Redemption Amount shall be subject to such maximum or minimum, as the case may be.
- (iii) For the purposes of any calculations required pursuant to these Conditions (unless otherwise specified), (x) all percentages resulting from such calculations shall be rounded, if necessary, to the nearest one hundred-thousandth of a percentage point (with halves being rounded up), (y) all figures shall be rounded to seven significant figures (with halves being rounded up) and (z) all currency amounts that fall due and payable shall be rounded to the nearest unit of such currency (with halves being rounded up), save in the case of yen, which shall be rounded down to the nearest yen. For these purposes "unit" means the lowest amount of such currency that is available as legal tender in the country of such currency.

(h) Calculations

The amount of interest payable per Calculation Amount in respect of any Note for any Interest Accrual Period shall be equal to the product of the Rate of Interest, the Calculation Amount specified hereon and the Day Count Fraction for such Interest Accrual Period, unless an Interest Amount (or a formula for its calculation) is applicable to such Interest Accrual Period, in which case the amount of interest payable per Calculation Amount in respect of such Note for such Interest Accrual Period shall equal such Interest Amount (or be calculated in accordance with such formula). Where any Interest Period comprises two or more Interest Accrual Periods, the amount of interest payable per Calculation Amount in respect of such Interest Period shall be the sum of the Interest Amounts payable in respect of each of those Interest Accrual Periods. In respect of any other period for which interest is required to be calculated, the provisions above shall apply save that the Day Count Fraction shall be for the period for which interest is required to be calculated.

(i) Determination and Publication of Rates of Interest, Interest Amounts, Final Redemption Amounts, Early Redemption Amounts, Optional Redemption Amounts and Instalment Amounts

The Calculation Agent shall, as soon as practicable on each Interest Determination Date, or such other time on such date as the Calculation Agent may be required to calculate any rate or amount, obtain any quotation or make any determination or calculation, determine such rate and calculate the Interest Amounts for the relevant Interest Accrual Period, calculate the Final Redemption Amount, Early Redemption Amount, Optional Redemption Amount or Instalment Amount, obtain such quotation or make such determination or calculation, as the case may be, and cause the Rate of Interest and the Interest Amounts for each Interest Accrual Period and the relevant Interest Payment Date and, if required to be calculated, the Final Redemption Amount, Early Redemption Amount, Optional Redemption Amount or any Instalment Amount to be notified to the Trustee, the Issuer, each of the Paying Agents, the Noteholders, any other

Calculation Agent appointed in respect of the Notes that is to make a further calculation upon receipt of such information and, if the Notes are listed on the official list (the “Official List”) of the FSA (the “UK Listing Authority”) in its capacity as competent authority under the Financial Services and Markets Act 2000 (the “FSMA”) or on any stock exchange or other relevant authority and the rules of the UK Listing Authority, such stock exchange or other relevant authority, as the case may be, so require, the UK Listing Authority, such stock exchange or other relevant authority, as soon as possible after their determination but in no event later than (i) the commencement of the relevant Interest Period, if determined prior to such time, in the case of notification to such exchange of a Rate of Interest and Interest Amount, or (ii) in all other cases, the fourth Business Day after such determination. Where any Interest Payment Date or Interest Period Date is subject to adjustment pursuant to Condition 5(b)(ii), the Interest Amounts and the Interest Payment Date so published may subsequently be amended (or appropriate alternative arrangements made with the prior consent of the Trustee by way of adjustment) without notice in the event of an extension or shortening of the Interest Period. If the Notes become due and payable under Condition 10, the accrued interest and the Rate of Interest payable in respect of the Notes shall nevertheless continue to be calculated as previously in accordance with this Condition but no publication of the Rate of Interest or the Interest Amount so calculated need be made unless the Trustee otherwise requires. The determination of any rate or amount, the obtaining of each quotation and the making of each determination or calculation by the Calculation Agent(s) shall (in the absence of manifest error) be final and binding upon all parties.

(j) Determination or Calculation by Trustee

If the Calculation Agent does not at any time for any reason determine or calculate the Rate of Interest for an Interest Accrual Period or any Interest Amount, Instalment Amount, Final Redemption Amount, Early Redemption Amount or Optional Redemption Amount, the Trustee shall do so (or shall appoint an agent on its behalf to do so) (but without any liability accruing to the Trustee as a result) and such determination or calculation shall be deemed to have been made by the Calculation Agent. In doing so, the Trustee shall apply the foregoing provisions of this Condition, with any necessary consequential amendments, to the extent that, in its opinion, it can do so, and, in all other respects it shall do so in such manner as it shall deem fair and reasonable in all the circumstances.

(k) Definitions

In these Conditions, unless the context otherwise requires, the following defined terms shall have the meanings set out below:

“Business Day” means:

- (i) in the case of a currency other than euro, a day (other than a Saturday or Sunday) on which commercial banks and foreign exchange markets settle payments in the principal financial centre for such currency; and/or
- (ii) in the case of euro, a day on which the TARGET system is operating (a “TARGET Business Day”); and/or
- (iii) in the case of a currency and/or one or more Additional Business Centres a day (other than a Saturday or a Sunday) on which commercial banks and foreign exchange markets settle payments in such currency in the Additional Business Centre(s) or, if no currency is indicated, generally in each of the Additional Business Centres;

“Day Count Fraction” means, in respect of the calculation of an amount of interest on any Note for any period of time (from and including the first day of such period to but excluding the last) (whether or not constituting an Interest Period or Interest Accrual Period, the “Calculation Period”):

- (i) if "Actual/Actual" or "Actual/Actual—ISDA" is specified hereon, the actual number of days in the Calculation Period divided by 365 (or, if any portion of that Calculation Period falls in a leap year, the sum of (A) the actual number of days in that portion of the Calculation Period falling in a leap year divided by 366 and (B) the actual number of days in that portion of the Calculation Period falling in a non-leap year divided by 365);
- (ii) if "Actual/365 (Fixed)" is specified hereon, the actual number of days in the Calculation Period divided by 365;
- (iii) if "Actual/365 (Sterling)" is specified hereon, the actual number of days in the Calculation Period divided by 365 or, in the case of an Interest Payment Date falling in a leap year, 366;
- (iv) if "Actual/360" is specified hereon, the actual number of days in the Calculation Period divided by 360;
- (v) if "30/360", "360/360" or "Bond Basis" is specified hereon, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

"Y₁" is the year, expressed as a number, in which the first day of the Calculation Period falls;

"Y₂" is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"M₁" is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

"M₂" is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"D₁" is the first calendar day, expressed as a number, of the Calculation Period, unless such number would be 31, in which case D₁ will be 30; and

"D₂" is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless such number would be 31 and D₁ is greater than 29, in which case D₂ will be 30;

- (vi) if "30E/360" or "Eurobond Basis" is specified hereon, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

"Y₁" is the year, expressed as a number, in which the first day of the Calculation Period falls;

"Y₂" is the year expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"M₁" is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

"M₂" is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"D₁" is the first calendar day, expressed as a number, of the Calculation Period unless such number would be 31, in which case D₁ will be 30; and

"D₂" is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless such number would be 31, in which case D₂ will be 30;

- (vii) if "30E/360 (ISDA)" is specified hereon, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

"Y₁" is the year, expressed as a number, in which the first day of the Calculation Period falls;

"Y₂" is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"M₁" is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

"M₂" is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"D₁" is the first calendar day, expressed as a number, of the Calculation Period, unless (i) that day is the last day of February or (ii) such number would be 31, in which case D₁ will be 30; and

"D₂" is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless (i) that day is the last day of February but not the Maturity Date or (ii) such number would be 31, in which case D₂ will be 30;

- (viii) if "Actual/Actual — ICMA" is specified hereon:

- (a) if the Calculation Period is equal to or shorter than the Determination Period during which it falls, the number of days in the Calculation Period divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Periods normally ending in any year; and
- (b) if the Calculation Period is longer than one Determination Period, the sum of:
 - (x) the number of days in such Calculation Period falling in the Determination Period in which it begins divided by the product of (1) the number of days in such Determination Period and (2) the number of Determination Periods normally ending in any year; and
 - (y) the number of days in such Calculation Period falling in the next Determination Period divided by the product of (1) the number of days in such Determination Period and (2) the number of Determination Periods normally ending in any year,

where:

“Determination Date” means the date(s) specified as such hereon or, if none is so specified, each Interest Payment Date;

“Determination Period” means the period from and including a Determination Date in any year to but excluding the next Determination Date; and

“Effective Date” means, with respect to any Floating Rate to be determined on an Interest Determination Date, the date specified as such hereon or, if none is so specified, the first day of the Interest Accrual Period to which such Interest Determination Date relates;

“Euro-zone” means the region comprised of member states of the European Union that adopt the single currency in accordance with the Treaty establishing the European Community, as amended;

“Interest Accrual Period” means the period beginning on (and including) the Interest Commencement Date and ending on (but excluding) the first Interest Period Date and each successive period beginning on (and including) an Interest Period Date and ending on (but excluding) the next succeeding Interest Period Date;

“Interest Amount” means:

- (i) in respect of an Interest Accrual Period, the amount of interest payable per Calculation Amount for that Interest Accrual Period and which, in the case of Fixed Rate Notes, and unless otherwise specified hereon, shall mean the Fixed Coupon Amount or Broken Amount specified hereon as being payable on the Interest Payment Date ending the Interest Period of which such Interest Accrual Period forms part; and
- (ii) in respect of any other period, the amount of interest payable per Calculation Amount for that period;

“Interest Commencement Date” means the Issue Date or such other date as may be specified hereon;

“Interest Determination Date” means, with respect to a Rate of Interest and Interest Accrual Period, the date specified as such hereon or, if none is so specified, (i) the first day of such Interest Accrual Period if the Specified Currency is Sterling or (ii) the day falling two Business Days in London for the Specified Currency prior to the first day of such Interest Accrual Period if the Specified Currency is neither Sterling nor euro or (iii) the day falling two TARGET Business Days prior to the first day of such Interest Accrual Period if the Specified Currency is euro;

“Interest Period” means the period beginning on (and including) the Interest Commencement Date and ending on (but excluding) the first Interest Payment Date and each successive period beginning on (and including) an Interest Payment Date and ending on (but excluding) the next succeeding Interest Payment Date;

“Interest Period Date” means each Interest Payment Date unless otherwise specified hereon;

“ISDA Definitions” means the 2006 ISDA Definitions, as published by the International Swaps and Derivatives Association, Inc., unless otherwise specified hereon;

“Rate of Interest” means the rate of interest payable from time to time in respect of this Note and that is either specified or calculated in accordance with the provisions hereon;

“Reference Banks” means, in the case of a determination of LIBOR, the principal London office of four major banks in the London inter-bank market and, in the case of a determination of EURIBOR, the principal Euro-zone office of four major banks in the Euro-zone inter-bank market, in each case selected by the Calculation Agent or as specified hereon;

“Reference Rate” means the rate specified as such hereon;

"Relevant Screen Page" means such page, section, caption, column or other part of a particular information service as may be specified hereon;

"Specified Currency" means the currency specified as such hereon or, if none is specified, the currency in which the Notes are denominated; and

"TARGET System" means the Trans-European Automated Real-Time Gross Settlement Express Transfer (known as TARGET2) System which was launched on 19 November 2007 or any successor thereto.

(I) Calculation Agent

The Issuer shall procure that there shall at all times be one or more Calculation Agents if provision is made for them hereon and for so long as any Note is outstanding (as defined in the Trust Deed). Where more than one Calculation Agent is appointed in respect of the Notes, references in these Conditions to the Calculation Agent shall be construed as each Calculation Agent performing its respective duties under the Conditions. If the Calculation Agent is unable or unwilling to act as such or if the Calculation Agent fails duly to establish the Rate of Interest for an Interest Period or Interest Accrual Period or to calculate any Interest Amount, Instalment Amount, Final Redemption Amount, Early Redemption Amount or Optional Redemption Amount, as the case may be, or to comply with any other requirement, the Issuer shall (with the prior approval of the Trustee) appoint a leading bank or financial institution engaged in the interbank market (or, if appropriate, money, swap or over-the-counter index options market) that is most closely connected with the calculation or determination to be made by the Calculation Agent (acting through its principal London office or any other office actively involved in such market) to act as such in its place. The Calculation Agent may not resign its duties without a successor having been appointed as aforesaid.

6 Redemption, Purchase and Options

In the case of redemption of Subordinated Notes (save for final redemption on the relevant Maturity Date in accordance with Condition 6(a)(ii)), the FSA requires to be notified by the Issuer one month (or such other period, longer or shorter, as the FSA may then require or accept) before the date of the proposed repayment providing details of how it will meet its Capital Resources Requirement after such repayment and the FSA must have raised no objection thereto (if required), where:

"Capital Regulations" means, at any time, the regulations, requirements, guidelines and policies relating to capital adequacy then in effect of the FSA;

"Capital Resources Requirement" has the meaning given to such term in the Capital Regulations and shall include any successor term from time to time equivalent thereto as agreed between the Issuer and the Trustee; and

"FSA" means the Financial Services Authority or such other governmental authority in the United Kingdom (or, if the Issuer becomes domiciled in a jurisdiction other than the United Kingdom, in such other jurisdiction) having primary supervisory authority with respect to the Issuer.

(a) Redemption by Instalments and Final Redemption

- (i) Unless previously redeemed, purchased and cancelled as provided in this Condition 6 or the relevant Instalment Date (being one of the dates so specified hereon) is extended pursuant to any Issuer's or Noteholder's option in accordance with Condition 6(d) or 6(e), each Note that provides for Instalment Dates and Instalment Amounts shall be partially redeemed on each Instalment Date at the related Instalment Amount specified hereon. The outstanding nominal amount of each such Note shall be reduced by the Instalment Amount (or, if such Instalment Amount is calculated by reference to a proportion of the nominal amount of such Note, such proportion) for all purposes with effect from the related Instalment Date, unless payment of the Instalment Amount is improperly

withheld or refused on presentation of the related Receipt, in which case, such amount shall remain outstanding until the Relevant Date relating to such Instalment Amount.

- (ii) Unless previously redeemed, purchased and cancelled as provided below or its maturity is extended pursuant to any Issuer's or Noteholder's option in accordance with Condition 6(d) or 6(e), each Note shall be finally redeemed on the Maturity Date specified hereon at its Final Redemption Amount (which, unless otherwise provided hereon, is its nominal amount) or, in the case of a Note falling within paragraph (i) above, its final Instalment Amount.

(b) Early Redemption

(i) Zero Coupon Notes

- (A) The Early Redemption Amount payable in respect of any Zero Coupon Note, the Early Redemption Amount of which is not linked to an index and/or a formula, upon redemption of such Note pursuant to Condition 6(c) or upon it becoming due and payable as provided in Condition 10 shall be the amortised face amount ("Amortised Face Amount") (calculated as provided below) of such Note unless otherwise specified hereon.
- (B) Subject to the provisions of sub-paragraph (C) below, the Amortised Face Amount of any such Note shall be the scheduled Final Redemption Amount of such Note on the Maturity Date discounted at a rate per annum (expressed as a percentage) equal to the Amortisation Yield (which, if none is shown hereon, shall be such rate as would produce an Amortised Face Amount equal to the issue price of the Notes if they were discounted back to their issue price on the Issue Date) compounded annually.
- (C) If the Early Redemption Amount payable in respect of any such Note upon its redemption pursuant to Condition 6(c) or upon it becoming due and payable as provided in Condition 10 is not paid when due, the Early Redemption Amount due and payable in respect of such Note shall be the Amortised Face Amount of such Note as defined in sub-paragraph (A) above, except that such sub-paragraph shall have effect as though the date on which the Note becomes due and payable were the Relevant Date. The calculation of the Amortised Face Amount in accordance with this sub-paragraph shall continue to be made (both before and after judgment) until the Relevant Date, unless the Relevant Date falls on or after the Maturity Date, in which case the amount due and payable shall be the scheduled Final Redemption Amount of such Note on the Maturity Date together with any interest that may accrue in accordance with Condition 5(c).

Where such calculation is to be made for a period of less than one year, it shall be made on the basis of the Day Count Fraction shown hereon.

(ii) Other Notes

The Early Redemption Amount payable in respect of any Note (other than Notes described in (i) above), upon redemption of such Note pursuant to Condition 6(c) or upon it becoming due and payable as provided in Condition 10, shall be the Final Redemption Amount unless otherwise specified hereon.

(c) Redemption for Taxation Reasons

If the Issuer satisfies the Trustee immediately before the giving of such notice referred to below that (i) as a result of any change in or amendment to the laws or regulations of the United Kingdom or of any political sub-division of, or any authority in, or of, the United Kingdom having power to tax, or any change in the application or official interpretation of such laws or

regulations, which change or amendment becomes effective on or after the date on which agreement is reached to issue the first Tranche of the relevant Series, on the next Interest Payment Date the Issuer would be required to pay additional amounts as described under Condition 8 and (ii) such obligation cannot be avoided by the Issuer taking reasonable measures available to it, the Issuer may, at its option (but subject to obtaining the Requisite Consent in the case of Subordinated Notes) having given not less than 30 nor more than 60 days' notice to the Noteholders in accordance with Condition 15 (which notice shall be irrevocable) redeem all, but not some only, of the Notes on any Interest Payment Date (if this Note is either a Floating Rate Note or an Index Linked Note) or at any time (if this Note is neither a Floating Rate Note nor an Index Linked Note) at their Early Redemption Amount (as described in Condition 6(b) above) (together with interest accrued to the date fixed for redemption). Prior to the publication of any notice of redemption pursuant to Condition 6(c), the Issuer shall deliver to the Trustee a certificate signed by two Directors of the Issuer stating that the relevant requirements referred to above will apply on the next Interest Payment Date and the Trustee shall be entitled to accept such certificate as sufficient evidence of the satisfaction of the conditions precedent set out above, in which event it shall be conclusive and binding on Noteholders and Couponholders.

As used herein, the term "Requisite Consent" means the prior written consent, so long as the issuer or any substituted principal debtor is a building society or is or has become an authorised person under the FSMA (or any statutory modification or re-enactment thereof or any statutory instrument order or regulations made thereunder), of the Supervisory Authority (as defined below) (so long as the Issuer or any substituted principal debtor is required by the Supervisory Authority to obtain such consent). In these Conditions "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.

(d) Redemption at the Option of the Issuer

If Call Option is specified hereon, the Issuer may, on giving not less than 15 nor more than 30 days' irrevocable notice to the Noteholders (or such other notice period as may be specified hereon) (but subject to obtaining the Requisite Consent in the case of Subordinated Notes) redeem all or, if so provided, some of the Notes on any Optional Redemption Date. Any such redemption of Notes shall be at their Optional Redemption Amount together with interest accrued to the date fixed for redemption. Any such redemption or exercise must relate to Notes of a nominal amount at least equal to the Minimum Redemption Amount to be redeemed specified hereon and no greater than the Maximum Redemption Amount to be redeemed specified hereon.

All Notes in respect of which any such notice is given shall be redeemed, or the Issuer's option shall be exercised, on the date specified in such notice in accordance with this Condition.

In the case of a partial redemption or a partial exercise of an Issuer's option, the notice to Noteholders shall also contain the certificate numbers of the Notes to be redeemed or in respect of which such option has been exercised, which shall have been drawn in such place as the Trustee may approve and in such manner as it deems appropriate, subject to compliance with any applicable laws and stock exchange requirements. Where the Notes are listed on the Official List of the UK Listing Authority or any stock exchange or other relevant authority and the rules of the UK Listing Authority, such stock exchange or other relevant authority, as the case may be, so require, the Issuer shall, once in each year in which there has been a partial redemption of the Notes, cause to be published in a leading newspaper of general circulation as specified by the UK Listing Authority such stock exchange, a notice specifying the aggregate nominal amount of Notes outstanding and a list of the Notes drawn for redemption but not surrendered.

(e) Redemption at the Option of Noteholders

If Put Option is specified hereon, the Issuer shall, at the option of the holder of any such Note (other than a Subordinated Note), upon the holder of such Note giving not less than 15 nor more than 30 days' irrevocable notice to the Issuer (or such other notice period as may be specified hereon) redeem such Note on the Optional Redemption Date(s) at its Optional Redemption Amount together with interest accrued to the date fixed for redemption.

To exercise such option the holder must deposit (in the case of Bearer Notes) such Note (together with all unmatured Receipts and Coupons and unexchanged Talons) with any Paying Agent or (in the case of Registered Notes) the Certificate representing such Note(s) with the Registrar or any Transfer Agent at its specified office, together with a duly completed option exercise notice ("Exercise Notice") in the form obtainable from any Paying Agent, the Registrar or any Transfer Agent (as applicable) within the notice period. No Note or Certificate so deposited and option exercised may be withdrawn (except as provided in the Agency Agreement) without the prior consent of the Issuer.

(f) Partly Paid Notes

Partly Paid Notes will be redeemed, whether at maturity, early redemption or otherwise, in accordance with the provisions of this Condition and the provisions specified hereon.

(g) Purchases

The Issuer and any of its Subsidiaries (as defined in the Trust Deed) (subject to obtaining the Requisite Consent in the case of Subordinated Notes) may at any time purchase Notes (provided that all unmatured Receipts and Coupons and unexchanged Talons relating thereto are attached thereto or surrendered therewith) in the open market or otherwise at any price.

(h) Cancellation

All Notes purchased by or on behalf of the Issuer or any of its Subsidiaries (except in the case of a purchase made in the ordinary course of business of a dealer in securities) shall forthwith be surrendered for cancellation, in the case of Bearer Notes, by surrendering each such Note together with all unmatured Receipts and Coupons and all unexchanged Talons to the Issuing and Paying Agent and, in the case of Registered Notes, by surrendering the Certificate representing such Notes to the Registrar and, in each case, if so surrendered, shall, together with all Notes redeemed by the Issuer, be cancelled forthwith (together with all unmatured Receipts and Coupons and unexchanged Talons attached thereto or surrendered therewith). Any Notes so surrendered for cancellation may not be reissued or resold and the obligations of the Issuer in respect of any such Notes shall be discharged.

7 Payments and Talons

(a) Bearer Notes

Payments of principal and interest in respect of Bearer Notes shall, subject as mentioned below, be made against presentation and surrender of the relevant Receipts (in the case of payments of Instalment Amounts other than on the due date for redemption and provided that the Receipt is presented for payment together with its relative Note), Notes (in the case of all other payments of principal and, in the case of interest, as specified in Condition 7(f)(vi)) or Coupons (in the case of interest, save as specified in Condition 7(f)(ii)), as the case may be, at the specified office of any Paying Agent outside the United States by a cheque payable in the relevant currency drawn on, or, at the option of the holder, by transfer to an account denominated in such currency with a Bank. "Bank" means a bank in the principal financial

centre for such currency or, in the case of euro, in a city in which banks have access to the TARGET System.

(b) Registered Notes

- (i) Payments of principal (which for the purposes of this Condition 7(b) shall include final Instalment Amounts but not other Instalment Amounts) in respect of Registered Notes shall be made against presentation and surrender of the relevant Certificates at the specified office of any of the Transfer Agents or of the Registrar and in the manner provided in paragraph (ii) below.
- (ii) Interest (which for the purpose of this Condition 7(b) shall include all Instalment Amounts other than final Instalment Amounts) on Registered Notes shall be paid to the person shown on the Register at the close of business on the fifteenth day before the due date for payment thereof (the "Record Date"). Payments of interest on each Registered Note shall be made in the relevant currency drawn on a Bank and mailed to the holder (or to the first named of joint holders) of such Note at its address appearing in the Register. Upon application by the holder to the specified office of the Registrar or any Transfer Agent before the Record Date and, subject as provided in paragraph (a) above, such payment of interest may be made by transfer to an account in the relevant currency maintained by the payee with a Bank.

(c) Payments in the United States

Notwithstanding the foregoing, if any Bearer Notes are denominated in U.S. dollars, payments in respect thereof may be made at the specified office of any Paying Agent in New York City in the same manner as aforesaid if (i) the Issuer shall have appointed Paying Agents with specified offices outside the United States with the reasonable expectation that such Paying Agents would be able to make payment of the amounts on the Notes in the manner provided above when due, (ii) payment in full of such amounts at all such offices is illegal or effectively precluded by exchange controls or other similar restrictions on payment or receipt of such amounts and (iii) such payment is then permitted by United States law, without involving, in the opinion of the Issuer, any adverse tax consequence to the Issuer.

(d) Payments subject to Fiscal Laws

All payments are subject in all cases to any applicable fiscal or other laws, regulations and directives, but without prejudice to the provisions of Conditions 8 and 10. No commission or expenses shall be charged to the Noteholders or Couponholders in respect of such payments.

(e) Appointment of Agents

The Issuing and Paying Agent, the Paying Agents, the Registrar, the Transfer Agents and the Calculation Agent initially appointed by the Issuer and their respective specified offices are listed below. Subject as provided in the Agency Agreement the Issuing and Paying Agent, the Paying Agents, the Registrar, the Transfer Agents and the Calculation Agent act solely as agents of the Issuer and do not assume any obligation or relationship of agency or trust for or with any Noteholder or Couponholder. The Issuer reserves the right at any time with the prior approval of the Trustee to vary or terminate the appointment of the Issuing and Paying Agent, any other Paying Agent, the Registrar, any Transfer Agent or the Calculation Agent(s) and to appoint additional or other Paying Agents or Transfer Agents, provided that the Issuer shall at all times maintain (i) an Issuing and Paying Agent, (ii) a Registrar in relation to Registered Notes, (iii) a Transfer Agent in relation to Registered Notes, (iv) one or more Calculation Agent(s) where the Conditions so require, (v) Paying Agents having specified offices in at least two major European cities, including London, so long as the Notes are listed on the Official List of the FSA and admitted to trading on the London Stock Exchange plc's Regulated Market, (vi) such other

agents as may be required by any other stock exchange on which the Notes may be listed in each case, as approved by the Trustee and (vii) to the extent reasonably practicable a Paying Agent with a specified office in a European Union Member State that will not be obliged to withhold or deduct tax pursuant to European Council Directive 2003/48/EC or any other Directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000 on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive.

In addition, the Issuer shall forthwith appoint a Paying Agent in New York City in respect of any Bearer Notes denominated in U.S. dollars in the circumstances described in Condition 7(c) above.

Notice of any such change or any change of any specified office shall promptly be given to the Noteholders.

(f) Unmatured Coupons and Receipts and unexchanged Talons

- (i) Upon the due date for redemption of Bearer Notes which comprise Fixed Rate Notes (other than Dual Currency Notes or Index Linked Notes) such Notes should be surrendered for payment together with all unmaturing Coupons (if any) relating thereto, failing which an amount equal to the face value of each missing unmaturing Coupon (or, in the case of payment not being made in full, that proportion of the amount of such missing unmaturing Coupon that the sum of principal so paid bears to the total principal due) shall be deducted from the Final Redemption Amount, Early Redemption Amount or Optional Redemption Amount, as the case may be, due for payment. Any amount so deducted shall be paid in the manner mentioned above against surrender of such missing Coupon within a period of 10 years from the Relevant Date for the payment of such principal (whether or not such Coupon has become void pursuant to Condition 9).
- (ii) Upon the due date for redemption of any Bearer Note comprising a Floating Rate Note, Dual Currency Interest Note or Index Linked Note, unmaturing Coupons relating to such Note (whether or not attached) shall become void and no payment shall be made in respect of them.
- (iii) Upon the due date for redemption of any Bearer Note, any unexchanged Talon relating to such Note (whether or not attached) shall become void and no Coupon shall be delivered in respect of such Talon.
- (iv) Upon the due date for redemption of any Bearer Note that is redeemable in instalments, all Receipts relating to such Note having an Instalment Date falling on or after such due date (whether or not attached) shall become void and no payment shall be made in respect of them.
- (v) Where any Bearer Note that provides that the relative unmaturing Coupons are to become void upon the due date for redemption of those Notes is presented for redemption without all unmaturing Coupons, and where any Bearer Note is presented for redemption without any unexchanged Talon relating to it, redemption shall be made only against the provision of such indemnity as the Issuer may reasonably require.
- (vi) If the due date for redemption of any Note is not a due date for payment of interest, interest accrued from the preceding due date for payment of interest or the Interest Commencement Date, as the case may be, shall only be payable against presentation (and surrender, if appropriate) of the relevant Bearer Note or Certificate representing it, as the case may be. Interest accrued on a Note that only bears interest after its Maturity Date shall be payable on redemption of such Note against presentation of the relevant Note or Certificate representing it, as the case may be.

(g) Talons

On or after the Interest Payment Date for the final Coupon forming part of a Coupon sheet issued in respect of any Bearer Note, the Talon forming part of such Coupon sheet may be surrendered at the specified office of the Issuing and Paying Agent in exchange for a further Coupon sheet (and if necessary another Talon for a further Coupon sheet) (but excluding any Coupons that may have become void pursuant to Condition 9).

(h) Non-Business Days

If any date for payment in respect of any Note, Receipt or Coupon is not a business day, the holder shall not be entitled to payment until the next following business day nor to any interest or other sum in respect of such postponed payment. In this paragraph, "business day" means a day (other than a Saturday or a Sunday) on which banks and foreign exchange markets are open for business in the relevant place of presentation, in such jurisdictions as shall be specified as "Additional Financial Centres" hereon and:

- (i) (in the case of a payment in a currency other than euro) where payment is to be made by transfer to an account maintained with a bank in the relevant currency, on which foreign exchange transactions may be carried on in the relevant currency in the principal financial centre of the country of such currency; or
- (ii) (in the case of a payment in euro) which is a TARGET Business Day.

8 Taxation

All payments of principal and interest in respect of the Notes, the Receipts and the Coupons by or on behalf of the Issuer shall be made free and clear of, and without withholding or deductions for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature ("Taxes") imposed, levied, collected, withheld or assessed by or on behalf of the United Kingdom, or any political sub-division of, or any authority in, or of, the United Kingdom having power to tax, unless such withholding or deduction is required by law. In that event, the Issuer shall pay such additional amounts as may be necessary in order that the net amounts received after the withholding or deduction shall equal the respective amounts which would have been receivable in respect of the Notes, the Receipts or the Coupons, as the case may be, in the absence of the withholding or deduction, except that no such additional amounts shall be payable in relation to any payment in respect of any Note, Receipt or Coupon:

(a) Other connection

To, or to a third party on behalf of, a holder who is liable to the Taxes in respect of such Note, Receipt or Coupon by reason of his having some connection with the United Kingdom other than the mere holding of the Note, Receipt or Coupon.

(b) Presentation more than 30 days after the Relevant Date

Presented (or in respect of which the Certificate representing it is presented) for payment more than 30 days after the Relevant Date (as defined below) except to the extent that the holder of it would have been entitled to such additional amounts on presenting it for payment on the last day of such period of 30 days (assuming that day to have been a business day for the purpose of Condition 7(h)).

(c) Payment to individuals

Where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC or any other Directive implementing the conclusions of ECOFIN Council meeting of 26-27 November 2000

on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive.

(d) Payment by another Paying Agent

Presented for payment by or on behalf of a holder who would have been able to avoid such withholding or deduction by presenting the relevant Note, Receipt or Coupon to another Paying Agent in a Member State of the European Union.

As used in these Conditions, “Relevant Date” in respect of any Note, Receipt or Coupon means the date on which payment in respect of it first becomes due or (if any amount of the money payable is improperly withheld or refused) the date on which payment in full of the amount outstanding is made or (if earlier) the date seven days after that on which notice is duly given to the Noteholders that, upon further presentation of the Note (or relative Certificate), Receipt or Coupon being made in accordance with the Conditions, such payment will be made, provided that payment is in fact made upon such presentation. References in these Conditions to (i) “principal” shall be deemed to include any premium payable in respect of the Notes, all Instalment Amounts, Final Redemption Amounts, Early Redemption Amounts, Option Redemption Amounts, Amortised Face Amounts and all other amounts in the nature of principal payable pursuant to Condition 6 or any amendment or supplement to it, (ii) “interest” shall be deemed to include all Interest Amounts and all other amounts payable pursuant to Condition 5 or any amendment or supplement to it and (iii) “principal” and/or “interest” shall be deemed to include any additional amounts that may be payable under this Condition or any undertaking given in addition to or in substitution for it under the Trust Deed.

9 Prescription

Claims against the Issuer for payment in respect of the Notes, Receipts and Coupons (which, for this purpose, shall not include Talons) shall be prescribed and become void unless made within 10 years (in the case of principal) or five years (in the case of interest) from the appropriate Relevant Date in respect of them.

10 Events of Default

Senior Notes and Deposit Notes and Enforcement

The Trustee at its discretion may, and if so requested in writing by the holders of at least one-quarter in principal amount of the Notes then outstanding or if so directed by an Extraordinary Resolution of the Noteholders shall (subject in each case to being indemnified to its satisfaction), give notice to the Issuer that the Notes are, and they shall accordingly thereby forthwith become, immediately due and repayable at their principal amount, together with accrued interest as provided in the Trust Deed, in any of the following events (each an “Event of Default”):

- (a) if default is made in the payment of any interest or principal due in respect of the Notes or any of them and the default continues for a period of 14 days or more (in the case of interest) or seven days or more (in the case of principal); or
- (b) if the Issuer fails to perform or observe any of its other obligations under the Notes or the Trust Deed and (except in any case where the Trustee considers the failure to be incapable of remedy when no continuation or notice as is hereinafter mentioned will be required) the failure continues for the period of 30 days (or such longer period as the Trustee may permit) next following the service by the Trustee on the Issuer of notice requiring the same to be remedied; or
- (c) if any payment in respect of the principal of or any premium or interest on any indebtedness for monies borrowed having an outstanding aggregate principal amount of at least £10,000,000 (or its equivalent in any other currency or currencies) of the Issuer

or any Subsidiary is not made on its due date (or by the expiry of any applicable grace period) or any such indebtedness of the Issuer or any Subsidiary becomes due and payable prior to its stated maturity by reason of default or if any guarantee of or indemnity in respect of any such payment in respect of any such indebtedness of any third party by the Issuer or any Subsidiary is not honoured when due and called upon; or

- (d) if an administrative or other receiver or an administrator or other similar official is appointed in relation to the Issuer or any Material Subsidiary or in relation to the whole or a material part of the assets of any of them or if an encumbrancer takes possession of the whole or any material part of the assets of the Issuer or any Material Subsidiary or a distress of execution is levied or enforced upon or sued out against the whole or any material part of the assets of the Issuer or any Material Subsidiary and, in any such case, is not discharged within 60 days; or
- (e) if, except for the purposes of or pursuant to a Permitted Transfer (as defined below):
 - (1) the Issuer stops payment to its creditors generally or ceases to carry on the whole or substantially the whole of its business; or
 - (2) the Supervisory Authority presents a petition for the winding up of the Issuer or an effective resolution, instrument of dissolution or award for dissolution is passed, entered into or made or an order is made or an effective resolution is passed for the winding up or the dissolution of the Issuer or the Issuer is wound up or dissolved in any other manner; or
 - (3) an order is made pursuant to the Act the effect of which is to prevent the Issuer from accepting the deposit of, or otherwise borrowing, any money or from accepting any payment representing the whole or any part of the amount due by way of subscription for a share in the Issuer, other than a payment which fell due before the making of the said order; or
 - (4) the Issuer ceases to be an authorised person to carry on a deposit-taking business for the purposes of the FSMA or the registration of the Issuer as a building society is suspended or cancelled or the Issuer requests any such suspension or cancellation; or
 - (5) the Issuer amalgamates with, or transfers the whole or a material part of its engagements or its business to, another person; or
 - (6) the Issuer gives notice in writing pursuant to the FSMA that it wishes to renounce its authorisation to accept the deposit of, or otherwise borrow, any money; or
- (f) if, except for the purposes of a reconstruction or amalgamation the terms of which have previously been approved in writing by the Trustee or by an Extraordinary Resolution of the Noteholders or for the purposes of a solvent winding up where the assets of a Material Subsidiary attributable directly or indirectly to the Issuer are distributed to any one or more of the Issuer and the other Material Subsidiaries:
 - (1) a Material Subsidiary stops payment to its creditors generally or ceases to carry on the whole or substantially the whole of its business; or
 - (2) an order is made by any competent court or resolution is passed for the winding up or dissolution of any Material Subsidiary,

provided, in the case of any Event of Default other than those described in subparagraphs (a) and (e)(2) above, the Trustee shall have certified to the Issuer that the Event of Default is, in its opinion, materially prejudicial to the interests of the Noteholders.

For the purposes of this Condition 10:

- (g) a “Material Subsidiary” shall mean any Subsidiary of the Issuer whose total assets (attributable to the Issuer) are equal to 10 per cent. or more of the consolidated general reserve (attributable to the Issuer) of the Issuer and its Subsidiaries, all as more particularly defined in the Trust Deed; and
- (h) a “Permitted Transfer” shall mean:
 - (1) an amalgamation of the Issuer and one or more other building societies under section 93 of the Act;
 - (2) a transfer by the Issuer of all or substantially all (being 90 per cent. or more of the Issuer’s engagements including its obligations under the Notes, the Trust Deed and the Agency Agreement) or (on terms which have previously been approved by the Trustee in writing or by an Extraordinary Resolution of the Noteholders) any smaller part of its engagements under section 94 of the Act;
 - (3) a transfer by the Issuer of its business to a company under sections 97 to 102 of the Act;
 - (4) an alteration in the status of the Issuer by virtue of any statute or statutory provision which alters, or permits the alteration of, the status of building societies generally or building societies which meet specified criteria to that of an authorised person under the FSMA or to a body which is regulated on a similar basis to an authorised person under the FSMA; or
 - (5) any other reconstruction or amalgamation or transfer to a subsidiary of another mutual society pursuant to the 2007 Act, in each case the terms of which have previously been approved by the Trustee in writing or by an Extraordinary Resolution of the Noteholders.

The Trustee shall not be bound to take any action to enforce the obligations of the Issuer under the Trust Deed or the Notes, Receipts and Coupons, unless (i) it shall have been so directed by an Extraordinary Resolution or so requested in writing by Noteholders holding at least 25 per cent. in principal amount of the Notes outstanding and (ii) it shall have been indemnified to its satisfaction. No Noteholder or Couponholder may proceed directly against the Issuer unless the Trustee, having become bound to proceed, fails to do so within a reasonable period and such failure is continuing.

Subordinated Notes and Enforcement

- (a) In the event of default being made for a period of 14 days or more in the payment of any principal or interest due on the Subordinated Notes or any of them, in each case as and when the same ought to be paid, the Trustee may, in order to enforce the obligations of the Issuer under the Trust Deed, the Subordinated Notes, Receipts and Coupons, at its discretion and after notice to the Issuer, institute proceedings for the recovery of the moneys then due provided that the Issuer shall not by virtue of the institution of any such proceedings (other than proceedings for the winding up of the Issuer) be obliged to pay any sum or sums representing principal or interest in respect of the Subordinated Notes, Receipts or Coupons sooner than the same would otherwise have been payable by it.
- (b) The Trustee may institute such proceedings against the Issuer as it may think fit to enforce any obligation, condition or provision binding on the Issuer under the Trust Deed or the Subordinated Notes, Receipts or Coupons (other than any obligation for the payment of any principal or interest in respect of the Subordinated Notes, Receipts or Coupons) provided that the Issuer shall not by virtue of the institution of any such proceedings (other than proceedings for the winding up of the Issuer) be obliged to pay any sum or sums representing principal or

interest in respect of the Subordinated Notes, Receipts or Coupons sooner than the same would otherwise have been payable by it.

- (c) In the event of the cancellation of the Issuer's registration under the Act (except pursuant to Section 103(1)(a) of the Act), the commencement of the winding up of the Issuer or the commencement of the dissolution of the Issuer (except in any such case a winding up or dissolution for the purpose of a reconstruction or amalgamation or the substitution in place of the Issuer of a Successor in Business (as defined in the Trust Deed) the terms of which have previously been approved in writing by the Trustee or by an Extraordinary Resolution or as a result of an amalgamation pursuant to Section 93 of the Act or a transfer of engagements pursuant to Section 94 of the Act or a transfer of its business pursuant to Section 97 of the Act), the Trustee at its discretion may give notice to the Issuer that the Subordinated Notes are, and they shall accordingly thereby forthwith become, immediately due and repayable at their nominal amount together with accrued interest (if any) as provided in the Trust Deed.
- (d) The Trustee shall not be bound to take any of the actions referred to above to enforce the obligations of the Issuer under the Trust Deed and the Subordinated Notes, Receipts and Coupons, unless (i) it shall have been so directed by an Extraordinary Resolution or so requested in writing by Noteholders holding at least one-quarter in nominal amount of the Subordinated Notes then outstanding and (ii) it shall have been indemnified to its satisfaction. No Noteholder, Receiptholder or Couponholder may proceed directly against the Issuer unless the Trustee, having become bound so to proceed, fails to do so within a reasonable time and such failure is continuing.

11 Meetings of Noteholders, Modification, Waiver and Substitution

(a) Meetings of Noteholders

The Trust Deed contains provisions for convening meetings of Noteholders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution (as defined in the Trust Deed) of a modification of any of these Conditions or any provisions of the Trust Deed. Such a meeting may be convened by Noteholders holding not less than 10 per cent. in nominal amount of the Notes for the time being outstanding. The quorum for any meeting convened to consider an Extraordinary Resolution shall be one or more persons holding or representing a clear majority in principal amount of the Notes for the time being outstanding, or at any adjourned meeting one or more persons being or representing Noteholders whatever the principal amount of the Notes held or represented, unless the business of such meeting includes consideration of proposals, *inter alia*, (i) to amend the dates of maturity or redemption of the Notes, any Instalment Date or any date for payment of interest or Interest Amounts on the Notes, (ii) to reduce or cancel the principal amount of, or any Instalment Amount of, or any premium payable on redemption of, the Notes, (iii) to reduce the rate or rates of interest in respect of the Notes or to vary the method or basis of calculating the rate or rates of interest or amount of interest or the basis for calculating any Interest Amount in respect of the Notes, (iv) if a Minimum and/or a Maximum Rate of Interest, Instalment Amount or Redemption Amount is shown hereon, to reduce any such Minimum and/or Maximum, (v) to vary any method of, or basis for, calculating the Final Redemption Amount, the Early Redemption Amount or the Optional Redemption Amount, including the method of calculating the Amortised Face Amount, (vi) to vary the currency or currencies of payment or denomination of the Notes, or (vii) to modify the provisions concerning the quorum required at any meeting of Noteholders or the majority required to pass the Extraordinary Resolution, in which case the necessary quorum shall be one or more persons holding or representing not less than two thirds, or at any adjourned meeting not less than one third, in principal amount of the Notes for the time being outstanding. Any Extraordinary Resolution duly passed shall be binding on Noteholders (whether or not they were present at the meeting at which such resolution was passed) and on all Couponholders.

These Conditions may be amended, modified or varied in relation to any Series of Notes by the terms of the relevant Final Terms in relation to such Series.

(b) Modification

The Trustee may agree, without the consent of the Noteholders or Couponholders, to (i) any modification of any of the provisions of the Trust Deed that is, in its opinion, of a formal, minor or technical nature or is made to correct a manifest error, and (ii) any other modification (except as mentioned in the Trust Deed), and any waiver or authorisation of any breach or proposed breach, of any of the provisions of the Trust Deed that is in the opinion of the Trustee not materially prejudicial to the interests of the Noteholders. Any such modification, authorisation or waiver shall be binding on the Noteholders and the Couponholders and, if the Trustee so requires, such modification shall be notified to the Noteholders as soon as practicable.

The Trust Deed contains, in addition, provisions permitting the Trustee to agree in respect of Notes denominated or payable in, or which contain provisions for any payment in, a Relevant Currency, without consent of the Noteholders or Couponholders, on or after the Specified Date (as defined below) in respect of such Relevant Currency to such modifications to Notes and the Trust Deed in order to facilitate payment in euro at the euro equivalent of the Relevant Currency payment amount and, where appropriate, associated reconventioning, redenomination and related matters as may be proposed by the Issuer (and confirmed by an independent financial institution approved by the Trustee to be in conformity with then applicable market conventions). For these purposes, "Relevant Currency" means a currency of a member state of the European Community, as amended (the "Relevant Member State") which is not as at the relevant Issue Date then participating in the third stage of economic and monetary union pursuant to the treaty establishing the European Community (the "Treaty") and "Specified Date" in respect of a Relevant Currency means the date on which the Relevant Member State participates in the third stage of European economic and monetary union pursuant to the Treaty or otherwise participates in European economic and monetary union in a similar manner.

(c) Entitlement of the Trustee

In connection with the exercise of its functions (including but not limited to those referred to in this Condition) the Trustee shall have regard to the interests of the Noteholders as a class and shall not have regard to the consequences of such exercise for individual Noteholders or Couponholders and the Trustee shall not be entitled to require, nor shall any Noteholder or Couponholder be entitled to claim, from the Issuer any indemnification or payment in respect of any tax consequence of any such exercise upon individual Noteholders or Couponholders except to the extent already provided for in Condition 8 or any undertaking given in addition to, or in substitution for, Condition 8 pursuant to the Trust Deed.

12 Substitution

- (i) If the Issuer shall amalgamate with one or more other building societies under section 93 of the Act or transfer all or substantially all (being 90 per cent. or more of the Issuer's engagements including its obligations under the Notes, the Trust Deed and the Agency Agreement) of its engagements to another building society under section 94 of the Act or transfer its business to a successor in accordance with sections 97 to 102D of the Act (as modified by the Mutual Societies (Transfers Order) 2009 (the "Mutual Transfers Order") or any other order made in the future by HM Treasury under section 3 of the Building Societies (Funding) and Mutual Societies (Transfers) Act 2007 (the "2007 Act")), the successor will, pursuant to such provisions, automatically be substituted in place of the Issuer as principal debtor under the Trust Deed, the Notes, Receipts and Coupons without prior approval thereof being required from the

Noteholders, the Couponholders, the Receiptholders or the Trustee, provided that in the case of Subordinated Notes:

- (a) in the case of a proposed transfer in accordance with section 97 of the Act (as modified by the Mutual Transfer Order) and other such applicable provisions, either (1) the Issuer satisfies the Trustee that the successor will be or (as the case may be) remain an authorised person under the FSMA (or any statutory modification or re-enactment thereof) or (2) such transfer is approved by an Extraordinary Resolution of the Noteholders;
 - (b) in connection with such transfer, any variation or supplement to the Conditions must not be one which would or might cause any of the financial resources derived by the Issuer from the issue of the Notes to which the Trust Deed relates and which comprise lower tier two capital (within the meaning of the "General Prudential Sourcebook" produced by the FSA (as amended, supplemented or updated from time to time), or any applicable successor thereto) to be excluded from the financial resources considered appropriate by the Supervisory Authority for the purposes of paragraph 4(1) of Schedule 6 to the FSMA; and
 - (c) the circumstances in which such variation or supplement may take place are limited to dealing with matters arising out of the procedure by which the transfer takes place and the constitution of the transferee, which variation or supplement shall be effected by the execution of a trust deed supplemental to the Trust Deed and shall bind any successor as fully as if the successor had been named in the Trust Deed as principal debtor in place of the Issuer. A memorandum of any such supplemental trust deed shall be endorsed by the Trustee on the Trust Deed and by the Issuer on the duplicate of the Trust Deed.
- (ii) Without prejudice to paragraph (i) above and subject as provided in the Trust Deed, the Trustee may agree, without the consent of the Noteholders, Receiptholders or Couponholders, if it is satisfied that so to do would not be materially prejudicial to the interests of the Noteholders, to the transfer of the Issuer's business to a subsidiary of another mutual society pursuant to the 2007 Act or the substitution of either a Successor in Business to the Issuer (as defined in the Trust Deed) or a Subsidiary of the Issuer or a subsidiary of a Successor in Business to the Issuer, not being in any such case a building society formed by the amalgamation of the Issuer and one or more other building societies pursuant to section 93 of the Act or a building society to which the Issuer has transferred its engagements pursuant to section 94 of the Act or the successor in accordance with sections 97 to 102D of the Act (as modified by the Mutual Transfer Order) or other applicable provisions of the Act, in place of the Issuer as principal debtor under the Trust Deed, the Notes, Receipts and Coupons, provided that in the case of a substitution of a company which is a Subsidiary of the Issuer or a subsidiary of Successor in Business to the Issuer, the obligations of such substitute in respect of the Trust Deed, the Notes, Receipts and Coupons shall be guaranteed by the Issuer or the Successor in Business to the Issuer, as the case may be, in such form as the Trustee may require and provided further that (in the case of Subordinated Notes) the obligations of such Successor in Business to the Issuer or Subsidiary of the Issuer or subsidiary of a Successor in Business to the Issuer, as the case may be, and any such guarantee shall be subordinated on a basis considered by the Trustee to be equivalent to that in respect of the Issuer's obligations in respect of the Notes, Receipts and Coupons.
- (iii) Any substitution referred to in paragraphs (i) and (ii) above shall be binding on the Noteholders, the Receiptholders and the Couponholders and, unless the Trustee agrees otherwise, shall be notified to the Noteholders by the Issuer as soon as practicable thereafter in accordance with the Conditions.

13 Replacement of Notes, Certificates, Receipts, Coupons and Talons

If a Note, Certificate, Receipt, Coupon or Talon is lost, stolen, mutilated, defaced or destroyed, it may be replaced, subject to applicable laws, regulations and stock exchange regulations, at the specified office of the Issuing and Paying Agent (in the case of Bearer Notes, Receipts, Coupons or Talons) and of the Registrar (in the case of Certificates) or such other Paying Agent or Transfer Agent, as the case may be, as may from time to time be designated by the Issuer for the purpose and notice of whose designation is given to Noteholders, in each case on payment by the claimant of the expenses incurred in connection therewith and on such terms as to evidence and indemnity (which may provide, *inter alia*, that if the allegedly lost, stolen or destroyed Note, Certificate, Receipt, Coupon or Talon is subsequently presented for payment or, as the case may be, for exchange for further Coupons, there shall be paid to the Issuer on demand the amount payable by the Issuer in respect of such Notes, Certificates, Receipts, Coupons or further Coupons) and otherwise as the Issuer may reasonably require. Mutilated or defaced Notes, Certificates, Receipts, Coupons or Talons must be surrendered before replacements will be issued.

14 Further Issues

The Issuer may from time to time without the consent of the Noteholders or Couponholders create and issue further securities either having the same terms and conditions as the Notes in all respects (or in all respects except for the first payment of interest on them) and so that such further issue shall be consolidated and form a single series with the outstanding securities of any series (including the Notes) or upon such terms as the Issuer may determine at the time of their issue. References in these Conditions to the Notes include (unless the context requires otherwise) any other securities issued pursuant to this Condition and forming a single series with the Notes. Any further securities forming a single series with the outstanding securities of any series (including the Notes) constituted by the Trust Deed or any deed supplemental to it shall, and any other securities may (with the consent of the Trustee), be constituted by the Trust Deed. The Trust Deed contains provisions for convening a single meeting of the Noteholders and the holders of securities of other series where the Trustee so decides.

15 Notices

Notices to the holders of Registered Notes shall be mailed to them at their respective addresses in the Register and deemed to have been given on the fourth weekday (being a day other than a Saturday or a Sunday) after the date of mailing. Notices to the holders of Bearer Notes shall be valid if published in a daily newspaper of general circulation in the United Kingdom (which is expected to be *The Financial Times*). If in the opinion of the Trustee any such publication is not practicable, notice shall be validly given if published in another leading daily English language newspaper with general circulation in the United Kingdom. Any such notice shall be deemed to have been given on the date of such publication or, if published more than once or on different dates, on the first date on which publication is made, as provided above.

Couponholders shall be deemed for all purposes to have notice of the contents of any notice given to the holders of Bearer Notes in accordance with this Condition.

16 Indemnification of the Trustee

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility, including provisions relieving it from taking proceedings to enforce repayment unless indemnified to its satisfaction, in addition, the Trustee is entitled to enter into business transactions with the Issuer and any entity related to the Issuer without accounting for any profit.

17 Contracts (Rights of Third Parties) Act 1999

No person shall have any right to enforce any term or condition of the Notes under the Contracts (Rights of Third Parties) Act 1999 except to the extent (if any) that the Notes expressly provide for such Act to apply to any of their terms.

18 Governing Law

The Trust Deed, the Notes, the Receipts, the Coupons and the Talons and any non-contractual obligations arising out of or in connection with them 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 Trust Deed, the Notes, the Receipts, the Coupons and the Talons and accordingly any legal action or proceedings arising out of or in connection with the Trust Deed, the Notes, the Receipts, the Coupons and the Talons may only be brought in such courts.

SUMMARY OF PROVISIONS RELATING TO THE NOTES WHILE IN GLOBAL FORM

Initial Issue of Notes

If the Global Notes or the Global Certificates are stated in the applicable Final Terms to be issued in NGN form or to be held under the NSS (as the case may be), such Global Notes or Global Certificates will be delivered on or prior to the original issue date of the Tranche to a Common Safekeeper. Depositing the Global Notes or the Global Certificates with the Common Safekeeper does not necessarily mean that the Notes will be recognised as eligible collateral for Eurosystem monetary policy and intra-day credit operations by the Eurosystem either upon issue, or at any or all times during their life. Such recognition will depend upon satisfaction of the Eurosystem eligibility criteria.

Global Notes which are issued in CGN form and Global Certificates which are not held under the NSS may be delivered on or prior to the original issue date of the Tranche to a Common Depositary.

If the Global Note is a CGN, upon the initial deposit of a Global Note with a Common Depositary or registration of Registered Notes in the name of any common nominee for Euroclear and Clearstream, Luxembourg and delivery of the relative Global Certificate to the Common Depositary, Euroclear or Clearstream, Luxembourg will credit each subscriber with a nominal amount of Notes equal to the nominal amount thereof for which it has subscribed and paid. If the Global Note is an NGN, the nominal amount of the Notes shall be the aggregate amount from time to time entered in the records of Euroclear or Clearstream, Luxembourg. The records of such clearing system shall be conclusive evidence of the nominal amount of Notes represented by the Global Note and a statement issued by such clearing system at any time shall be conclusive evidence of the records of the relevant clearing system at that time.

Notes that are initially deposited with the Common Depositary may also be credited to the accounts of subscribers with (if indicated in the relevant Final Terms) other clearing systems through direct or indirect accounts with Euroclear and Clearstream, Luxembourg held by such other clearing systems. Conversely, Notes that are initially deposited with any other clearing system may similarly be credited to the accounts of subscribers with Euroclear, Clearstream, Luxembourg or other clearing systems.

Relationship of Accountholders with Clearing Systems

Each of the persons shown in the records of Euroclear, Clearstream, Luxembourg or any other permitted clearing system ("Alternative Clearing System") as the holder of a Note represented by a Global Note or a Global Certificate must look solely to Euroclear, Clearstream, Luxembourg or such Alternative Clearing System (as the case may be) for its share of each payment made by the Issuer to the bearer of such Global Note or the holder of the underlying Registered Notes (as the case may be) and in relation to all other rights arising under the Global Notes or Global Certificates, subject to and in accordance with the respective rules and procedures of Euroclear, Clearstream, Luxembourg, or such Alternative Clearing System (as the case may be). Such persons shall have no claim directly against the Issuer in respect of payments due on the Notes for so long as the Notes are represented by such Global Note or Global Certificate and such obligations of the Issuer will be discharged by payment to the bearer of such Global Note or the holder of the underlying Registered Notes, as the case may be, in respect of each amount so paid.

1 Exchange

(a) Temporary Global Notes

Each temporary Global Note will be exchangeable, free of charge to the holder, on or after its Exchange Date:

- (i) if the relevant Final Terms indicates that such Global Note is issued in compliance with the C Rules or in a transaction to which TEFRA is not applicable (as to which, see

“Overview of the Programme-Selling Restrictions”), in whole, but not in part, for the Definitive Notes defined and described below; and

- (ii) otherwise, in whole or in part upon certification as to non-U.S. beneficial ownership in the form set out in the Agency Agreement for interests in a permanent Global Note or, if so provided in the relevant Final Terms, for Definitive Notes.

Each temporary Global Note that is also an Exchangeable Bearer Note will be exchangeable for Registered Notes in accordance with the Conditions in addition to any permanent Global Note or Definitive Notes for which it may be exchangeable and, before its Exchange Date, will also be exchangeable in whole or in part for Registered Notes only.

(b) Permanent Global Notes

Each permanent Global Note will be exchangeable, free of charge to the holder, on or after its Exchange Date in whole but not, except as provided under paragraph 1(d) below, in part for Definitive Notes or, in the case of 1(d) below, Registered Notes:

- (i) by the Issuer giving notice to the Noteholders, the Issuing and Paying Agent and the Trustee if the Issuer would suffer a material disadvantage in respect of the Notes as a result of a change in the laws or regulations (taxation or otherwise) or in change in interpretation thereof, of the jurisdiction of the Issuer which would not be suffered were the Notes in definitive form and a certificate to such effect is given to the Trustee;
- (ii) if the permanent Global Note is an Exchangeable Bearer Note, by the holder giving notice to the Issuing and Paying Agent of its election to exchange the whole or a part of such Global Note for Registered Notes; and
- (iii) if the permanent Global Note is held on behalf of Euroclear or Clearstream, Luxembourg or an Alternative Clearing System and any such clearing system is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or in fact does so or
- (iv) if principal in respect of any Notes is not paid when due, by the holder giving notice to the Issuing and Paying Agent of its election for such exchange.

In the event that a Global Note is exchanged for Definitive Notes, such Definitive Notes shall be issued in Specified Denomination(s) only. A Noteholder who holds a principal amount of less than the minimum Specified Denomination will not receive a definitive note in respect of such holding and would need to purchase a principal amount of Notes such that it holds an amount equal to one or more Specified Denominations.

(c) Permanent Global Certificates

If the Final Terms states that the Notes are to be represented by a permanent Global Certificate on issue, the following will apply in respect of transfers of Notes held in Euroclear or Clearstream, Luxembourg or an Alternative Clearing System. These provisions will not prevent the trading of interests in the Notes within a clearing system whilst they are held on behalf of such clearing system, but will limit the circumstances in which the Notes may be withdrawn from the relevant clearing system.

Transfers of the holding of Notes represented by any Global Certificate pursuant to Condition 2(b) may only be made in part:

- (i) if the relevant clearing system is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so; or
- (ii) if principal in respect of any Notes is not paid when due; or

(iii) with the consent of the Issuer,

provided that, in the case of the first transfer of part of a holding pursuant to paragraph 1(c)(i) or (ii) above, the Registered Holder has given the Registrar not less than 30 days' notice at its specified office of the Registered Holder's intention to effect such transfer.

(d) Partial Exchange of Permanent Global Notes

For so long as a permanent Global Note is held on behalf of a clearing system and the rules of that clearing system permit, such permanent Global Note will be exchangeable in part on one or more occasions (i) for Registered Notes if the permanent Global Note is an Exchangeable Bearer Note and the part submitted for exchange is to be exchanged for Registered Notes, or (ii) for Definitive Notes (a) if principal in respect of any Notes is not paid when due or (b) if so provided in, and in accordance with, the Conditions (which will be set out in the relevant Final Terms) relating to Partly Paid Notes.

(e) Delivery of Notes

If the Global Note is a CGN, on or after any due date for exchange, the holder of a Global Note may surrender such Global Note or, in the case of a partial exchange, present it for endorsement to or to the order of the Issuing and Paying Agent. In exchange for any Global Note, or the part thereof to be exchanged, the Issuer will (i) in the case of a temporary Global Note exchangeable for a permanent Global Note, deliver, or procure the delivery of, a permanent Global Note in an aggregate nominal amount equal to that of the whole or that part of a temporary Global Note that is being exchanged or, in the case of a subsequent exchange, endorse, or procure the endorsement of, a permanent Global Note to reflect such exchange or (ii) in the case of a Global Note exchangeable for Definitive Notes or Registered Notes, deliver, or procure the delivery of, an equal aggregate nominal amount of duly executed and authenticated Definitive Notes and/or Certificates, as the case may be or if the Global Note is an NGN, the Issuer will procure that details of such exchange be entered pro rata in the records of the relevant clearing system. In this Prospectus, "Definitive Notes" means, in relation to any Global Note, the definitive Bearer Notes for which such Global Note may be exchanged (if appropriate, having attached to them all Coupons and Receipts in respect of interest or Instalment Amounts that have not already been paid on the Global Note and a Talon). Definitive Notes will be security printed and Certificates will be printed in accordance with any applicable legal and stock exchange requirements in or substantially in the form set out in the Schedules to the Trust Deed. On exchange in full of each permanent Global Note, the Issuer will, if the holder so requests, procure that it is cancelled and returned to the holder together with the relevant Definitive Notes.

(f) Exchange Date

"Exchange Date" means, in relation to a temporary Global Note, the day falling after the expiry of 40 days after its issue date and, in relation to a permanent Global Note, a day falling not less than 60 days, or in the case of an exchange for Registered Notes five days, or in the case of failure to pay principal in respect of any Notes when due 30 days, after that on which the notice requiring exchange is given and on which banks are open for business in the city in which the specified office of the Issuing and Paying Agent is located and in the city in which the relevant clearing system is located.

2 Amendment to Conditions

The temporary Global Notes, permanent Global Notes and Global Certificates contain provisions that apply to the Notes that they represent, some of which modify the effect of the terms and conditions of the Notes set out in this Prospectus. The following is a summary of certain of those provisions:

(a) Payments

No payment falling due after the Exchange Date will be made on any Global Note unless exchange for an interest in a permanent Global Note or for Definitive Notes or Registered Notes is improperly withheld or refused. Payments on any temporary Global Note issued in compliance with the D Rules before the Exchange Date will only be made against presentation of certification as to non-U.S. beneficial ownership in the form set out in the Agency Agreement. All payments in respect of Notes represented by a Global Note in CGN Form will be made against presentation for endorsement and, if no further payment falls to be made in respect of the Notes, surrender of that Global Note to or to the order of the Issuing and Paying Agent or such other Paying Agent as shall have been notified to the Noteholders for such purpose. If the Global Note is a CGN, a record of each payment so made will be endorsed on each Global Note, which endorsement will be prima facie evidence that such payment has been made in respect of the Notes. Condition 8(e) will apply to the Definitive Notes only. If the Global Note is an NGN or if the Global Certificate is held under the NSS, the Issuer shall procure that details of each such payment shall be entered *pro rata* in the records of the relevant clearing system and in the case of principal, the nominal amount of the Notes recorded in the records of the relevant clearing system and represented by the Global Note or the Global Certificate will be reduced accordingly. Payments under an NGN will be made to its holder. Each payment so made will discharge the Issuer's obligations in respect thereof. Any failure to make the appropriate entries in the records of the relevant clearing system shall not affect such discharge.

For the purpose of any payments made in respect of a Global Note, the relevant place of presentation shall be disregarded in the definition of "business day" set out in Condition 7(h).

All payments in respect of Notes represented by a Global Certificate will be made to, or to the order of, the person whose name is entered on the Register at the close of business on the Clearing System Business Day immediately prior to the date for payment (the Record Date), where "Clearing System Business Day" means Monday to Friday inclusive except 25 December and 1 January.

(b) Prescription

Claims against the Issuer in respect of Notes that are represented by a permanent Global Note will become void unless it is presented for payment within a period of 10 years (in the case of principal) and five years (in the case of interest) from the appropriate Relevant Date (as defined in Condition 8).

(c) Meetings

For the purposes of any meeting of Noteholders the holder of a permanent Global Note shall be treated as having one vote in respect of each integral currency unit of the Specified Currency of the Notes. All holders of Registered Notes are entitled to one vote in respect of each integral currency unit of the Specified Currency of the Notes comprising such Noteholder's holding, whether or not represented by a Global Certificate.

(d) Cancellation

Cancellation of any Note represented by a permanent Global Note that is required by the Conditions to be cancelled (other than upon its redemption) will be effected by reduction in the nominal amount of the relevant permanent Global Note.

(e) Purchase

Notes represented by a permanent Global Note may only be purchased by the Issuer or any of its subsidiaries if they are purchased together with the rights to receive all future payments of interest and Instalment Amounts (if any) thereon.

(f) Issuer's Option

Any option of the Issuer provided for in the Conditions of any Notes while such Notes are represented by a permanent Global Note shall be exercised by the Issuer giving notice to the Noteholders within the time limits set out in and containing the information required by the Conditions, except that the notice shall not be required to contain the serial numbers of Notes drawn in the case of a partial exercise of an option and accordingly no drawing of Notes shall be required. In the event that any option of the Issuer is exercised in respect of some but not all of the Notes of any Series, the rights of accountholders with a clearing system in respect of the Notes will be governed by the standard procedures of Euroclear and/or Clearstream, Luxembourg (to be reflected in the records of Euroclear and Clearstream, Luxembourg as either a pool factor or a reduction in nominal amount, at their discretion) or any other Alternative Clearing System (as the case may be).

(g) Noteholders' Option

Any option of the Noteholders provided for in the Conditions of any Notes while such Notes are represented by a permanent Global Note may be exercised by the holder of the permanent Global Note giving notice to the Issuing and Paying Agent within the time limits relating to the deposit of Notes with a Paying Agent set out in the Conditions substantially in the form of the notice available from any Paying Agent, except that the notice shall not be required to contain the serial numbers of the Notes in respect of which the option has been exercised, and stating the nominal amount of Notes in respect of which the option is exercised and at the same time, where the permanent Global Note is a CGN, presenting the permanent Global Note to the Issuing and Paying Agent, or to a Paying Agent acting on behalf of the Issuing and Paying Agent, for notation. Where the Global Note is an NGN or where the relevant Global Certificate is held under the NSS, the Issuer shall procure that details of such exercise shall be entered pro rata in the records of the relevant clearing system and the nominal amount of the Notes recorded in those records will be reduced accordingly.

(h) NGN nominal amount

Where the Global Note is an NGN, the Issuer shall procure that any exchange, payment, cancellation, exercise of any option or any right under the Notes, as the case may be, in addition to the circumstances set out above shall be entered in the records of the relevant clearing systems and upon any such entry being made, in respect of payments of principal, the nominal amount of the Notes represented by such Global Note shall be adjusted accordingly.

(i) Trustee's Powers

In considering the interests of Noteholders while any Global Note is held on behalf of, or Registered Notes are registered in the name of any nominee or common nominee for, a clearing system, the Trustee may have regard to any information provided to it by such clearing system or its operator as to the identity (either individually or by category) of its accountholders with entitlements to such Global Note or Registered Notes and may consider such interests as if such accountholders were the holders of the Notes represented by such Global Note or Global Certificate.

(j) Notices

So long as any Notes are represented by a Global Note and such Global Note is held on behalf of a clearing system, notices to the holders of Notes of that Series may be given by delivery of the relevant notice to that clearing system for communication by it to entitled accountholders in substitution for publication as required by the Conditions or by delivery of the relevant notice to the holder of the Global Note.

(k) Partly Paid Notes

The provisions relating to Partly Paid Notes are not set out in this Prospectus, but will be contained in the relevant Final Terms and thereby in the Global Notes. While any instalments of the subscription moneys due from the holder of Partly Paid Notes are overdue, no interest in a Global Note representing such Notes may be exchanged for an interest in a permanent Global Note or for Definitive Notes (as the case may be). If any Noteholder fails to pay any instalment due on any Partly Paid Notes within the time specified, the Issuer may forfeit such Notes and shall have no further obligation to their holder in respect of them.

USE OF PROCEEDS

The net proceeds of the issue of the Notes will be used by the Society in its general business operations.

CERTAIN PROVISIONS OF THE BUILDING SOCIETIES ACT 1986 (AS AMENDED) AND 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 resolution passed by the shareholding members of each amalgamating society and a borrowing members’ resolution passed by the borrowing members of each amalgamating society. Confirmation by the Supervisory Authority is also required. The Act provides that on the date specified by the Supervisory Authority all of the property, rights and liabilities (which would include the Notes) of each of the societies shall by virtue of the Act be transferred to and vested in the successor, whether or not otherwise capable of being transferred or assigned.

Transfer of Engagements

Section 94 of the Act permits a building society to “transfer its engagements to any extent” to another building society which undertakes to fulfil such engagements. A transfer requires a shareholding resolution passed by the shareholding members of the transferor society and the transferee society, and a borrowing members’ resolution passed by the borrowing members 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 proceedings 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.

Transfer of business to a commercial company

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 shareholding members’ resolution, in accordance with Schedule 2, paragraph 30(2)-(5) of the Act, passed by the shareholding members and by a borrowing members’ resolution passed by the 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 Notes) of the society making the transfer, whether or not capable of being transferred or assigned, shall by virtue of the Act and in accordance with transfer regulations (then in force) be transferred to and vested in the successor.

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 in the society throughout the period of two years expiring on a qualifying day specified in the transfer agreement. Also, all investing members’ shares are converted into deposits with the successor. If the transfer is to a company specially formed by the society, shareholders of the society who were eligible to vote on the transfer, are members on the qualifying day specified in the transfer agreement and who retain a deposit with the successor, must be given rights to a priority liquidation distribution (as defined by the Act) should the successor be wound up. These rights are protected by the successor granting a charge over its property or undertaking.

On any such transfer, investing members of the society who were members on the qualifying date but not entitled to vote on the transfer resolution will receive a cash bonus equal to their notional share of 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 investing members of the society who have held their shares for two years expiring on a qualifying day specified in the transfer agreement.

The society may, as a result of an amalgamation, transfer of engagements or transfer of business as described above, be replaced, as the principal debtor under all or some of the Notes, 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.

The Building Societies (Funding) and Mutual Societies (Transfers) Act 2007 (the “2007 Act”)

The 2007 Act received Royal Assent on 23 October 2007 and amongst other things, contains enabling provisions which give wide powers to the UK Treasury to make secondary legislation in relation to the transfer of the whole of the business of a building society, friendly society, industrial and provident society, mutual insurance company or an equivalent European mutual to a subsidiary of another such society (whether or not the same type).

Under section 90B of the Act (which was inserted by the 2007 Act), HM Treasury may, by order, make provision for the purpose of ensuring that, on the winding up of a, or dissolution by consent, of a building society any assets available for satisfying the society’s liabilities to creditors (other than liabilities in respect of subordinated deposits; liabilities in respect of preferential debts; or any other category of liability which HM Treasury specifies in the order for these purposes) or to shareholders (other than the liabilities in respect of deferred shares) are applied in satisfying those liabilities *pari passu*. The power to make an order under section 90B of the Act is exercisable by statutory instrument but may not be made unless a draft of it has been laid before each of the Houses of Parliament. No such order has been made as of the date of this Prospectus.

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 merged with Stroud & Swindon Building Society ("Stroud & Swindon") on 1 September 2010 (see "Merger with Stroud & Swindon" below for further details). All figures in this section (other than those found under "Merger with Stroud & Swindon" below) are extracted from the audited consolidated annual financial statements of the Society for the year ended 31 December 2009 and accordingly do not reflect the merger with Stroud & Swindon. 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 and, more recently, as a result of a merger between Coventry Building Society and Stroud & Swindon on 1 September 2010 (see "Merger with Stroud & Swindon" below for further details of this merger). The Society's 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).

On 11 May 2010 the Society announced that it had agreed terms for a merger with the Stroud & Swindon Building Society. This merger consolidated the Society's position as the third largest building society in the UK and was approved by the members of the Stroud & Swindon and the FSA later in the year. The merger became effective 1 September 2010. See "Merger with Stroud & Swindon" below for further details.

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

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.¹

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 FSA. 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.

¹ Source: Butler's Building Society Guide, 2009

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:

	<i>As at 31st December</i>	
	2009	2008
	%	%
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 and PIBS 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

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

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

<i>£ millions</i>	%
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 recoveries received on 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.

Merger with Stroud & Swindon Building Society

On 23 March 2010 the Society announced that it had agreed the terms of a merger with Stroud & Swindon. At that time Stroud & Swindon was the 11th largest building society in the United Kingdom. Following approval of the merger by the members of Stroud & Swindon on 16 June 2010 and by the FSA on 3 August 2010, the merger became effective on 1 September 2010.

Following the merger, the Society retained the name "Coventry Building Society" and continues to be based in Coventry. The newly enlarged Society has a combined network of 92 branches and agencies across the Midlands and the South West. Based on the financial statements of Stroud & Swindon (the "Stroud & Swindon Financial Statements") and the Society for the financial year ended 31 December 2009, total membership of the newly enlarged Society would have been approximately 1.5 million members as at 31 December 2009 and the overall asset size of the organisation would have been £21.1 billion.

The Stroud & Swindon Financial Statements were audited and published on 2 March 2010. A copy of the Stroud & Swindon Financial Statements is annexed to this Prospectus.

Interim Results

On 18th August, 2010 Coventry Building Society issued its interim results. Selected financial highlights as of 30 June 2010 are as follows:

- Underlying profit² before tax increased by 40 per cent. to £46.5 million (30 June 2009: £33.2 million).
- Profit before tax increased by 20 per cent. to £43.5 million (30 June 2009: £36.2 million).
- Net mortgage lending of £751 million, equivalent to 31 per cent. of all net mortgage lending in the UK.³
- Gross mortgage advances of £1.6 billion, representing 18 per cent. of all mortgage advances by building societies and mutual banks.⁴
- Retail savings balances grew by £1.7 billion (13 per cent.) during the first half of 2010.
- Net retail receipts equivalent to 8 per cent. of net retail receipts of all UK banks and building societies.⁵
- Cost to mean assets ratio of 0.37 per cent (30 June 2009: 0.39 per cent.), the lowest level reported by a UK building society.
- Cost to income ratio reduced to 40.5 per cent. (30 June 2009: 45.4 per cent.).
- On the basis of latest available data, mortgage balances 2.5 per cent. or more in arrears remain less than 40 per cent. of industry average.⁶
- Retail savings, capital and reserves equivalent to 106 per cent. of mortgages.
- Core tier 1 ratio of 26.9 per cent., the highest reported by any building society.⁷

Stroud & Swindon did not publish interim results. In accordance with the requirements of the Building Societies Act, KPMG LLP, the auditors of the Stroud & Swindon, are preparing cessation accounts for the Stroud & Swindon. These were not available at the time of publication of this prospectus.

Based on available management information, the Society can confirm there has been no material adverse change in the financial position of Stroud & Swindon between 31 December 2009 and the effective date of the merger.

Going forward, the Society will prepare audited financial statements for the financial years ending 31 December in each year on a consolidated basis which take into account the enlargement of the Society as a result of the merger with Stroud & Swindon.

2. Underlying profit is defined as operating profit before exceptional items.

3. Source: Bank of England

4. Source: Building Societies Association

5. Source: Building Societies Association

6. Source: FSA

7. Based on published figures available on 18 August 2010

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 of the Board and of the Board Risk Committee) 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>Name (Date of Birth)</i>	<i>Date of appointment</i>	<i>Occupation</i>	<i>Other Directorships as Director</i>
I Pickering (Chairman of the Audit Committee) 16 October 1955	1 September 2005	Company Director	Electrocab Limited Bedford Hospital NHS Trust Member of the Council of Cranfield 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 5 June 1955	7 July 2009	Building Society Sales & Marketing Director	Godiva Mortgages Limited Safe Home Income Plans Limited ITL Mortgages Limited Five Valleys Property Trading Company 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 entered into 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 following direct, wholly owned subsidiaries were acquired as part of the merger with Stroud and Swindon and are carrying on a business:

ITL Mortgages Limited
Five Valleys Property Trading Company Limited
Stroud & Swindon Funding Company
Stroud & Swindon Funding Company (No.2) 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 consolidated annual financial statements of the Society for the years ended 31 December 2008 and 2009.

UNITED KINGDOM TAXATION

The comments below are of a general nature based on current United Kingdom law and United Kingdom Her Majesty's Revenue and Customs ("HMRC") practice, which may be subject to change, sometimes with retrospective effect. They do not necessarily apply where the income is deemed for tax purposes to be the income of any other person. They relate only to the position of persons who are the absolute beneficial owners of their Notes and Coupons and may not apply to certain classes of persons such as dealers or certain professional investors. Noteholders should be aware that the particular terms of issue of any Tranche of Notes as specified in the relevant Final Terms may affect the tax treatment of that and other Tranches of that or another Series of Notes. The comments assume that there will be no substitution of the Issuer and do not consider the tax consequences of any such substitution. The comments below deal primarily with certain United Kingdom withholding tax issues which arise on payments of interest in respect of the Notes. They are not exhaustive and they do not address any other United Kingdom taxation implications of acquiring, holding or disposing of Notes and Coupons. *Any Noteholders and Couponholders who are in doubt as to their personal tax position should consult their professional advisers.* In particular, Noteholders and Couponholders should be aware that they may be liable to taxation under the laws of other jurisdictions in relation to payments in respect of the Notes even if such payments may be made without withholding or deduction for or on account of taxation under the laws of the United Kingdom. The following is a general guide for information purposes and should be treated with appropriate caution. It is not intended as tax advice and it does not purport to describe all of the tax considerations that may be relevant to a prospective purchaser.

Interest

In relation to Notes which carry a right to interest that are and continue to be listed on a recognised stock exchange within the meaning of section 1005 Income Tax Act 2007 (the "Income Tax Act"), payments of interest may be made without withholding or deduction for or on account of United Kingdom income tax (the "quoted Eurobond exemption"). The London Stock Exchange is a recognised stock exchange for these purposes. Notes will be treated as listed on the London Stock Exchange if they are and continue to be included in the Official List by the United Kingdom Listing Authority and are admitted to trading on the London Stock Exchange's Regulated Market. Notes which are to be listed on a stock exchange in a country outside the United Kingdom will be treated as listed on a recognised stock exchange if they are admitted to trading on an exchange designated as a recognised stock exchange in that country by an order made by the Commissioners for HMRC and they are officially listed by a competent authority in that country, in accordance with provisions corresponding to those generally applicable in European Economic Area states.

In the case of Notes (including Deposit Notes) that are "qualifying certificates of deposit" within the meaning of section 985 of the Income Tax Act, interest or dividends may be paid without withholding or deduction for or on account of United Kingdom income tax in any event.

In all other cases, interest will generally (subject to certain other exemptions which may be available in certain limited circumstances) be paid under deduction of United Kingdom income tax at the basic rate (currently 20 per cent.) subject to the availability of other reliefs or to any direction to the contrary from HMRC in respect of such relief as may be available pursuant to the provisions of any applicable double taxation treaty.

Certain payments on Notes may constitute "dividends" within the meaning of section 889 of the Income Tax Act. Save to the extent that amounts may be paid without withholding or deduction in respect of Notes that are "qualifying certificates of deposit" as outlined above and save to the extent such "dividends" fall within the quoted Eurobond exemption, such "dividends" will, generally (subject to certain other exemptions which may be available in certain limited circumstances) be paid under deduction of income tax at the basic rate (currently 20 per cent.) subject to the availability of other reliefs or to any direction to the contrary from HMRC in respect of such relief as may be available pursuant to the provisions of any applicable double taxation treaty.

Where Notes are to be, or may fall to be, redeemed at a premium as opposed to being issued at a discount, then any such element of premium or part thereof may constitute a payment of interest. Payments of interest are subject to United Kingdom withholding tax and reporting requirements as outlined in this United Kingdom Taxation section.

Notes may be issued at an issue price of less than 100 per cent. of their principal amount. Any discount element on any such Notes should not generally constitute interest for United Kingdom withholding tax purposes and therefore should not be subject to any United Kingdom withholding tax (as applicable to interest). Such discount element may, however, be subject to reporting requirements as outlined in this United Kingdom Taxation section under "Provision of Information" below.

Where interest has been paid under deduction of United Kingdom income tax, Noteholders who are not resident in the United Kingdom might be able to recover all or part of the tax deducted if there is an appropriate provision under an applicable double taxation treaty.

The references to "interest" in this section headed United Kingdom Taxation above mean "interest" as understood in United Kingdom tax law. The statements in this United Kingdom Taxation section do not take any account of any different definitions of "interest" or "principal" which may prevail under any other law or which may be created by the terms and conditions of the Notes or any related documentation. Noteholders should seek their own professional advice as regards the withholding tax treatment of any payment on the Notes which does not constitute "interest" or "principal" as those terms are understood in United Kingdom tax law.

Provision of Information

Persons in the United Kingdom: (i) paying interest to or receiving interest on behalf of another person; or (ii) paying amounts due on the redemption of Notes which constitute deeply discounted securities as defined in Chapter 8 of Part 4 of the Income Tax (Trading and Other Income) Act 2005 to or receiving such amounts on behalf of another person, may in certain cases, be required to provide certain information to HMRC concerning the payment and the identity of the payee or person entitled to the interest or, as the case may be, the amount payable on redemption and, in certain circumstances, such information may be passed to tax authorities in other countries. However, in relation to amounts payable on redemption of such Notes in these circumstances, HMRC published guidance indicates that HMRC will not exercise its power to obtain information where such amounts are paid or received on or before 5 April 2011.

For these purposes interest includes any dividend in respect of a share in a building society. These provisions apply whether or not interest has been paid subject to withholding or deduction for or on account of United Kingdom income tax and whether or not the Noteholder is resident in the United Kingdom for United Kingdom taxation purposes.

EU Savings Directive

The EU has adopted the EC Council Directive 2003/48/EC on the taxation of savings income. The Savings Directive requires that, from 1 July 2005, Member States provide to the tax authorities of other Member States details of payments of interest and other similar income paid by a person within its jurisdiction to, or collected by such a person for, an individual resident or certain limited types of entity established in another Member State, except that Austria and Luxembourg may instead impose a withholding system for a transitional period unless during such period they elect otherwise (subject to a procedure whereby, on meeting certain conditions, the beneficial owner of the interest or other income may request that no tax be withheld), deducting tax at rates rising over time to 35 per cent. (the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries). As from 1 January 2010, Belgium has changed to the provision of information system (rather than a withholding system).

A number of non-EU countries and certain dependent or associated territories of certain Member States have agreed to adopt similar measures (either provision of information or transitional

withholding) in relation to payments made by a person within its jurisdiction to, or collected by such a person for, an individual resident or certain limited types of entity established in a Member State. In addition, the Member States have entered into provision of information or transitional withholding arrangements with certain of those dependent or associated territories in relation to payments made by a person in a Member State to, or collected by such a person for, an resident individual or certain limited types of entity established in one of those territories.

Investors should note that the European Commission has announced proposals to amend the Savings Directive. If implemented, the proposed amendments would, inter alia, extend the scope of the Savings Directive to (i) payments made through certain intermediate structures (whether or not established in a Member State) for the ultimate benefit of an EU resident individual, and (ii) a wider range of income similar to interest. The European Parliament approved an amended version of this proposal on 24 April 2009. Investors who are in any doubt as to their position should consult their professional advisers.

SUBSCRIPTION AND SALE

Summary of Dealer Agreement

Subject to the terms and on the conditions contained in an amended and restated dealer agreement dated 3 September 2010 (as further amended and/or supplemented from time to time, (the “Dealer Agreement”) between the Issuer, the Permanent Dealers and the Arranger, the Notes will be offered on a continuous basis by the Issuer to the Permanent Dealers. However, the Issuer has reserved the right to sell Notes directly on its own behalf to Dealers that are not Permanent Dealers. The Notes may be resold at prevailing market prices, or at prices related thereto, at the time of such resale, as determined by the relevant Dealer. The Notes may also be sold by the Issuer through the Dealers, acting as agents of the Issuer. The Dealer Agreement also provides for Notes to be issued in syndicated Tranches that are jointly and severally underwritten by two or more Dealers.

The Issuer will pay each relevant Dealer a commission as agreed between them in respect of Notes subscribed by it. The Issuer has agreed to reimburse the Arranger for its expenses incurred in connection with the establishment of the Programme and the Dealers for certain of their activities in connection with the Programme. The commissions in respect of an issue of Notes on a syndicated basis will be stated in the relevant Final Terms.

The Issuer has agreed to indemnify the Dealers against certain liabilities in connection with the offer and sale of the Notes. The Dealer Agreement entitles the Dealers to terminate any agreement that they make to subscribe Notes in certain circumstances prior to payment for such Notes being made to the Issuer.

Selling Restrictions

United States

The Notes 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.

Notes in bearer form having a maturity of more than one year are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a United States person, except in certain transactions permitted by U.S. tax regulations. Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code and regulations thereunder.

Each Dealer has represented and agreed that, except as permitted by the Dealer Agreement, it has not offered, sold or delivered and will not offer, sell or deliver the Notes of any identifiable Tranche, (i) as part of their distribution at any time or (ii) otherwise until 40 days after completion of the distribution of such Tranche as determined, and certified to the Issuer, by the relevant Dealer, or in the case of Notes issued on a syndicated basis, the Lead Manager, 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 Notes during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Notes within the United States or to, or for the account or benefit of, U.S. persons.

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

Public Offer Selling Restriction under the Prospectus Directive

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a “Relevant Member State”), each Dealer has represented and agreed that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the “Relevant Implementation Date”) it has not made and will not make an offer of Notes which are the subject of the offering contemplated by this Prospectus as completed by the final terms in relation thereto to the public in that Relevant Member State except that it may, with effect from and including the Relevant Implementation Date, make an offer of such Notes to the public in that Relevant Member State:

- (a) at any time 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) at any time 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;
- (c) at any time to fewer than 100 natural or legal persons (other than qualified investors as defined in the Prospectus Directive) subject to obtaining the prior consent of the relevant Dealer or Dealers nominated by the Issuer for any such offer; or
- (d) at any time in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of Notes referred to in (a) to (d) above shall require the Issuer or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

For the purposes of this provision, the expression an “offer of Notes to the public” in relation to any Notes 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 Notes to be offered so as to enable an investor to decide to purchase or subscribe the Notes, 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.

United Kingdom

Each Dealer has represented and agreed that:

- (i) it has only communicated or caused to be communicated and will only communicate or cause to be communicated any 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 any Notes in circumstances in which section 21(1) of the FSMA would not, if it was not an authorised person, apply to the Issuer; and
- (ii) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Notes in, from or otherwise involving the United Kingdom.

Japan

The Notes have not been and will not be registered under the Financial Instruments and Exchange Act of Japan (the “Financial Instruments and Exchange Act”). Accordingly, each Dealer has represented and agreed that it has not, directly or indirectly, offered or sold and will not, directly or indirectly, offer or sell any Notes in Japan or to, or for the benefit of, any resident of Japan or to others for re-offering or re-sale, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan

except pursuant to an exemption from the registration requirements of, and otherwise in compliance with the Financial Instruments and Exchange Act and other relevant laws and regulations of Japan. As used in this paragraph, “resident of Japan” means any person resident in Japan, including any corporation or other entity organised under the laws of Japan.

General

These selling restrictions may be modified by the agreement of the Issuer and the Dealers following a change in a relevant law, regulation or directive. Any such modification will be set out in the Final Terms issued in respect of the issue of Notes to which it relates or in a supplement to this Prospectus.

No action has been taken in any jurisdiction that would permit a public offering of any of the Notes, or possession or distribution of this Prospectus or any other offering material or any Final Terms, in any country or jurisdiction where action for that purpose is required.

Each Dealer has agreed that it shall, to the best of its knowledge, comply with all relevant laws, regulations and directives in each jurisdiction in which it purchases, offers, sells or delivers Notes or has in its possession or distributes this Prospectus, any other offering material or any Final Terms, in all cases at its own expense.

FORM OF FINAL TERMS

FINAL TERMS DATED [●] COVENTRY BUILDING SOCIETY

Issue of [Aggregate Nominal Amount of Tranche] [Title of Notes]
under the £3,000,000,000 (excluding Deposit Notes) Euro Medium Term Note Programme

Part A — Contractual Terms

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions set forth in the Prospectus dated 3 September 2010 [and the supplemental Prospectus dated [●] which [together] constitute[s] a prospectus for the purposes of the Prospectus Directive (Directive 2003/71/EC) (the “Prospectus Directive”). This document constitutes the Final Terms of the Notes described herein for the purposes of Article 5.4 of the Prospectus Directive and must be read in conjunction with such Prospectus [as so supplemented]. Full information on the Issuer and the offer of the Notes is only available on the basis of the combination of these Final Terms and the Prospectus [as so supplemented]. [The Prospectus [and the supplemental Prospectus] [is] [are] available for viewing [at [website] [and] during normal business hours at [address] [and copies may be obtained from [address].]

The following alternative language applies if the first tranche of an issue which is being increased was issued under a Prospectus with an earlier date.

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions (the “Conditions”) set forth in the Prospectus dated [●] [and the supplemental Prospectus dated [●]. This document constitutes the Final Terms of the Notes described herein for the purposes of Article 5.4 of the Prospectus Directive (Directive 2003/71/EC) (the “Prospectus Directive”) and must be read in conjunction with the Prospectus dated [●] [and the supplemental Prospectus dated [●], which [together] constitute[s] a prospectus for the purposes of the Prospectus Directive, save in respect of the Conditions which are extracted from the Prospectus dated [●] [and the supplemental Prospectus dated [●] and are attached hereto. Full information on the Issuer and the offer of the Notes is only available on the basis of the combination of these Final Terms and the Prospectuses dated [●] and 3 September 2010 [and the supplemental Prospectuses dated [●] and [●]. [The Prospectuses [and the supplemental Prospectuses] are available for viewing [at [website] [and] during normal business hours at [address] [and copies may be obtained from [address].]

[Include whichever of the following apply or specify as “Not Applicable” (N/A). Note that the numbering should remain as set out below, even if “Not Applicable” is indicated for individual paragraphs or sub- paragraphs. Italics denote guidance for completing the Final Terms.]

[When completing final terms or adding any other final terms or information consideration should be given as to whether such terms or information constitute “significant new factors” and consequently trigger the need for a supplement to the Prospectus under Article 16 of the Prospectus Directive.]

1 Issuer: Coventry Building Society

2 [(i)] Series Number: [●]

[(ii)] Tranche Number: [●]

(If fungible with an existing Series, details of that Series, including the date on which the Notes become fungible).]

3 Specified Currency or Currencies: [●]

- 4 Aggregate Nominal Amount of Notes: ☐
- [(i)] Series: ☐
- [(ii)] Tranche: ☐
- 5 Issue Price: ☐ per cent. of the Aggregate Nominal Amount [plus accrued interest from *[insert date]* (if applicable)]
- 6 (i) Specified Denominations: ☐
- (ii) Calculation Amount: ☐
- 7 (i) Issue Date: ☐
- (ii) Interest Commencement Date: *[Specify/Issue Date/Not Applicable]*
- 8 Maturity Date: *[Specify date or (for Floating Rate Notes) Interest Payment Date falling in or nearest to the relevant month and year]*
- 9 Interest Basis: ☐ per cent. Fixed Rate
- [[specify reference rate] +/- ☐ per cent. Floating Rate]*
- [Zero Coupon]*
- [Index Linked Interest]*
- [Other (specify)]*
- (further particulars specified below)*
- 10 Redemption/Payment Basis: *[Redemption at par]*
- [Index Linked Redemption]*
- [Dual Currency]*
- [Partly Paid]*
- [Instalment]*
- [Other (specify)]*
- (N.B. If the Final Redemption Amount is other than 100 per cent. of the nominal value, the Notes will constitute derivative securities for the purposes of the Prospectus Directive and the requirements of Annex XII to the Prospectus Directive Regulation No.809/2004 will apply and the Issuer will prepare and publish a supplement to the Prospectus)*
- 11 Change of Interest or Redemption/Payment Basis: *[Specify details of any provision for convertibility of Notes into another interest or redemption/payment basis]*
- 12 Put/Call Options: *[Investor Put]*
- [Issuer Call]*
- [(further particulars specified below)]*

- | | |
|----|---|
| 13 | <p>[(i)] Status of the Notes: [Senior/[Dated/Perpetual]/Subordinated/Deposit]</p> <p>[(ii)] [Date [Board] approval for issuance of Notes obtained:] [●]</p> <p><i>(N.B. Only relevant where Board (or similar) authorisation is required for the particular tranche of Notes)</i></p> |
| 14 | Method of distribution: [Syndicated/Non-syndicated] |

Provisions Relating to Interest (if any) Payable

- | | | |
|----|--------------------------------|--|
| 15 | Fixed Rate Note Provisions: | <p>[Applicable/Not Applicable]</p> <p><i>(If not applicable, delete the remaining subparagraphs of this paragraph)</i></p> <p>(i) Rate[(s)] of Interest: [●] per cent. per annum [payable [annually/semi-annually/quarterly/monthly/other (<i>specify</i>)] in arrear]</p> <p>(ii) Interest Payment Date(s): [●] in each year [adjusted in accordance with [<i>specify Business Day Convention and any applicable Business Centre(s) for the definition of “Business Day”</i>]/not adjusted]</p> <p>(iii) Fixed Coupon Amount[(s)]: [●] per Calculation Amount</p> <p>(iv) Broken Amount(s): [●] per Calculation Amount payable on the Interest Payment Date falling [in/on] [●]</p> <p>(v) Day Count Fraction: [30/360/Actual/Actual (ICMA/ISDA)/other]</p> <p>(vi) Determination Dates: [●] in each year (<i>insert regular interest payment dates, ignoring issue date or maturity date in the case of a long or short first or last coupon. N.B. only relevant where Day Count Fraction is Actual/Actual (ICMA)</i>)</p> <p>(vii) Other terms relating to the method of calculating interest for Fixed Rate Notes: [Not Applicable/give details]</p> |
| 16 | Floating Rate Note Provisions: | <p>[Applicable/Not Applicable]</p> <p><i>(If not applicable, delete the remaining subparagraphs of this paragraph)</i></p> <p>(i) Interest Period(s): [●]</p> <p>(ii) Specified Interest Payment Dates: [●]</p> <p>(iii) First Interest Payment Date [●]</p> <p>(iv) Business Day Convention: [Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/other (<i>give details</i>)]</p> <p>(v) Interest Period Date: [●]</p> <p><i>(Not applicable unless different from Interest Payment Date)</i></p> |

- (vi) Business Centre(s): [●]
- (vii) Manner in which the Rate(s) of Interest is/are to be determined: [Screen Rate Determination/ISDA/Determination/other (*give details*)]
- (viii) Calculation Agent responsible for calculating the Rate(s) of Interest and/or Interest Amount(s): [●]
- (ix) Screen Rate Determination:
- Reference Rate: [●]
 - Interest Determination Date(s): [●]
 - Relevant Screen Page: [●]
- (x) ISDA Determination: [●]
- Floating Rate Option: [●]
 - Designated Maturity: [●]
 - Reset Date: [●]
- (xi) Margin(s): [+/-] [●] per cent. per annum
- (xii) Minimum Rate of Interest: [●] per cent. per annum
- (xiii) Maximum Rate of Interest: [●] per cent. per annum
- (xiv) Day Count Fraction: [●]
- (xv) Fall back provisions, rounding provisions, denominator and any other terms relating to the method of calculating interest on Floating Rate Notes, if different from those set out in the Conditions: [●]
- 17 Zero Coupon Note Provisions: [Applicable/Not Applicable]
(*If not applicable, delete the remaining sub-paragraphs of this paragraph*)
- (i) Amortisation Yield: [●] per cent. per annum
 - (ii) Any other formula/basis of determining amount payable: [●]
- 18 Index-Linked Interest Note/other variable linked interest Note Provisions: [Applicable/Not Applicable]
(*If not applicable, delete the remaining sub-paragraphs of this paragraph*)
- (i) Index/Formula/other variable: [●]
 - (ii) Calculation Agent responsible for calculating the interest due: [●]

- (iii) Provisions for determining Coupon where calculated by reference to Index and/or Formula and/or other variable: [●]
- (iv) Interest Determination Date(s): [●]
- (v) Provisions for determining Coupon where calculation by reference to Index and/or Formula and/or other variable is impossible or impracticable or otherwise disrupted: [●]
- (vi) Interest Period(s): [●]
- (vii) Specified Interest Payment Dates: [●]
- (viii) Business Day Convention: [Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/other *(give details)*]
- (ix) Business Centre(s): [●]
- (x) Minimum Rate of Interest: [●] per cent. per annum
- (xi) Maximum Rate of Interest: [●] per cent. per annum
- (xii) Day Count Fraction: [●]
- 19 Dual Currency Note Provisions: [Applicable/Not Applicable]
(If not applicable, delete the remaining sub-paragraphs of this paragraph)
 - (i) Rate of Exchange/method of calculating Rate of Exchange: [*give details*]
 - (ii) Calculation Agent, if any, responsible for calculating the principal and/or interest due: [●]
 - (iii) Provisions applicable where calculation by reference to Rate of Exchange impossible or impracticable: [●]
 - (iv) Person at whose option Specified Currency(ies) is/are payable: [●]

Provisions Relating to Redemption

- 20 Call Option [Applicable/Not Applicable]
(If not applicable, delete the remaining sub-paragraphs of this paragraph)
 - (i) Optional Redemption Date(s): [●]

- (ii) Optional Redemption Amount(s) of each Note and method, if any, of calculation of such amount(s): [●] per Calculation Amount
- (iii) If redeemable in part:
- (a) Minimum Redemption Amount: [●] per Calculation Amount
- (b) Maximum Redemption Amount: [●] per Calculation Amount
- (iv) Notice Period: [●]
- 21 Put Option: [Applicable/Not Applicable]
(It not applicable, delete the remaining sub-paragraphs of this paragraph)
- (i) Optional Redemption Date(s): [●]
- (ii) Optional Redemption Amount(s) of each Note and method, if any, of calculation of such amount(s): [●] per Calculation Amount
- (iii) Notice Period: [●]
- 22 Final Redemption Amount of each Note: [●] per Calculation Amount
(N.B. If the Issuer issues Notes under the Programme where the principal being returned to investors is determined by the performance of an underlying entity, the Notes will constitute derivative securities for the purpose of the Prospectus Directive and the requirements of Annex XII to the Prospectus Directive Regulation No.809/2004 will apply and the Issuer will prepare and publish a supplement to the Prospectus)
- 23 Early Redemption Amount
- Early Redemption Amount(s) per Calculation Amount payable on redemption for taxation reasons or on event of default or other early redemption and/or the method of calculating the same (if required or if different from that set out in the Conditions): [●]

General Provisions Applicable to the Notes

- 24 Form of Notes: Bearer Notes:

[Temporary Global Note exchangeable for a Permanent Global Note which is exchangeable for Definitive Notes in the limited circumstances specified in the Permanent Global Note]

[Temporary Global Note exchangeable for Definitive Notes on [●] days' notice*]

[Permanent Global Note exchangeable for Definitive Notes in the limited circumstances specified in the Permanent Global Note]

Registered Notes:

[Global Certificate registered in the name of a nominee for [a common depositary for Euroclear and Clearstream, Luxembourg/a common safekeeper for Euroclear and Clearstream, Luxembourg (that is, held under the NSS)]]

- | | | |
|----|---|--|
| 25 | New Global Note: | [Yes] [No] |
| 26 | Financial Centre(s) or other special provisions relating to payment dates: | <i>[Not Applicable/give details. Note that this paragraph relates to the date and place of payment, and not interest period end dates, to which sub-paragraph 15(ii), 16(iv) and 18(ix) relates]</i> |
| 27 | Talons for future Coupons or Receipts to be attached to definitive Notes (and dates on which such Talons mature): | [Yes/No. <i>If yes, give details</i>] |
| 28 | Details relating to Partly Paid Notes: amount of each payment comprising the Issue Price and date on which each payment is to be made and consequences (if any) of failure to pay, including any right of the Issuer to forfeit the Notes and interest due on late payment: | [Not Applicable/give details] |
| 29 | Details relating to Instalment Notes: amount of each instalment, date on which each payment is to be made: | [Not Applicable/give details] |
| 30 | Redenomination, renominatisation and reconventioning provisions: | [Not Applicable/Condition 11(b) applies] |
| 31 | Other final terms: | [Not Applicable/give details]

<i>(When adding any other final terms consideration should be given as to whether such terms constitute a "significant new factor" and consequently trigger the need for a supplement to the Prospectus under Article 16 of the Prospectus Directive)</i> |

* If a Global Note is exchangeable for Definitive Notes at the option of the Noteholders, the Notes shall be tradeable only in principal amounts of at least the Specified Denomination (or if more than one Specified Denomination, the lowest Specified Denomination) provided in paragraph 6 and multiples thereof.

Distribution

- | | | |
|----|---------------------------------------|---|
| 32 | (i) If syndicated, names of Managers: | [Not Applicable/ <i>give names</i>] |
| | (ii) Stabilising Manager(s) (if any): | [Not Applicable/ <i>give names</i>] |
| 33 | If non-syndicated, name of Dealer: | [Not Applicable/ <i>give names</i>] |
| 34 | U.S. Selling Restrictions | Reg. S Compliance Category 2; TEFRA C/TEFRA D/TEFRA not applicable. |
| 35 | Additional selling restrictions: | [Not Applicable/ <i>give names</i>] |

[Purpose of Final Terms

These Final Terms comprise the final terms required for issue and admission to trading on the London Stock Exchange plc's Regulated Market of the Notes described herein pursuant to the £3,000,000,000 (excluding Deposit Notes) Euro Medium Term Note Programme of Coventry Building Society.]

Responsibility

The Issuer accepts responsibility for the information contained in these Final Terms. [●] has been extracted from [●]. [The Issuer confirms that such information has been accurately reproduced and that, so far as it is aware, and is able to ascertain from information published by [●], no facts have been omitted which would render the reproduced information inaccurate or misleading.]

Signed on behalf of the Issuer:

By: _____

Duly authorised

PART B — OTHER INFORMATION

1 Listing

- (i) Admission to trading: [Application has been made by the Issuer (or on its behalf) for the Notes to be admitted to trading on [●] with effect from [●]] [Application is expected to be made by the Issuer (or on its behalf) for the Notes to be admitted to trading on [●] with effect from [●]] [Not Applicable]

(Where documenting a fungible issue, need to indicate that original Notes are already admitted to trading)

- (ii) Estimate of total expenses related to admission to trading: [●]

2 Ratings

Ratings: The Notes to be issued have been rated:

[Name of rating agency(ies) [●]]

(The above disclosure should reflect the rating allocated to Notes of the type being issued under the Programme generally or, where the issue has been specifically rated, that rating)

3 [Interests of Natural and Legal Persons involved in the [Issue/Offer]

[Need to include a description of any interest, including conflicting ones, that is material to the issue/offer, detailing the persons involved and the nature of the interest. May be satisfied by the inclusion of the following statement:

“Save as discussed in “Subscription and Sale”, so far as the Issuer is aware, no person involved in the offer of the Notes has an interest material to the offer.”]

[(When completing this paragraph, consideration should be given as to whether such matters described constitute “significant new factors” and consequently trigger the need for a supplement to the Prospectus under Article 16 of the Prospectus Directive.)]

4 Reasons for the offer, Estimated Net Proceeds and Total Expenses

- (i) Reasons for the offer: [●]

(See “Use of Proceeds” wording in Prospectus – if reasons for offer different from making profit and/or hedging certain risk will need to include those reasons here)

- (ii) Estimated net proceeds: [●]

(If proceeds are intended for more than one use will need to split out and present in order of priority. If proceeds insufficient to fund all proposed uses state amount and sources of other funding)

- [(iii) Estimated total expenses: [●]

(If the Notes are derivative securities for which Annex XII of the Prospectus Directive Regulation applies it is] only necessary to include disclosure of net proceeds and total expenses at (ii) and (iii) above where disclosure is included at (i) above)]

5 [Fixed Rate Notes only — Yield

Indication of yield: [●]

The yield is calculated at the Issue Date on the basis of the Issue price. It is not an indication of future yield.]

6 [Index-Linked or other variable-linked Notes only — Performance of Index/Formula/other Variable and Other Information Concerning the Underlying

Need to include details of where past and future performance and volatility of the index/formula/other variable can be obtained. Where the underlying is an index need to include the name of the index and a description if composed by the Issuer and if the index is not composed by the Issuer need to include details of where the information about the index can be obtained. Where the underlying is not an index need to include equivalent information Include other information concerning the underlying required by Paragraph 4.2 of Annex XII of the Prospectus Directive Regulation.

[(When completing this paragraph, consideration should be given as to whether such matters described constitute “significant new factors” and consequently trigger the need for a supplement to the Prospectus under Article 16 of the Prospectus Directive.)]

The Issuer [intends to provide post-issuance information [specify what information will be reported and where it can be obtained]] [does not intend to provide post-issuance information.]

7 [Dual Currency Notes only — Performance of Rate[s] of Exchange

Need to include details of where past and future performance and volatility of the relevant rate[s] can be obtained.]

[(When completing this paragraph, consideration should be given as to whether such matters described constitute “significant new factors” and consequently trigger the need for a supplement to the Prospectus under Article 16 of the Prospectus Directive.)]

8 Operational Information

Intended to be held in a manner which would allow Eurosystem eligibility:

[Yes] [No].

[Note that the designation “yes” simply means that the Notes are intended upon issue to be deposited with one of the ICSDs as common safekeeper [, and registered in the name of a nominee of one of the ICSDs acting as common safekeeper,][include this text for registered notes]] and does not necessarily mean that the Notes will be recognised as eligible collateral for Eurosystem monetary policy and intra-day credit operations by the Eurosystem either upon issue or at any or all times during their life. Such recognition will depend upon satisfaction of the Eurosystem eligibility

criteria.] *[include this text if “yes” selected in which case Bearer Notes must be issued in NGN form]*

ISIN: ☐

Common Code: ☐

Any clearing system(s) other than Euroclear Bank S.A./N.V. and Clearstream Banking, *société anonyme* and the relevant identification number(s): *[Not Applicable/give name(s), address(es) and number(s)]*

Delivery: Delivery [against/free of] payment

Names and addresses of initial Paying Agent(s): ☐

Names and addresses of additional Paying Agent(s) (if any): ☐

GENERAL INFORMATION

- (1) The listing of the Notes on the Official List will be expressed as a percentage of their nominal amount (exclusive of accrued interest). It is expected that each Tranche of the Notes which is to be admitted to the Official List and to trading on the Market will be admitted separately as and when issued, subject only to the issue of a temporary or permanent Global Note (or one or more Certificates) in respect of each Tranche. The listing of the Programme in respect of the Notes is expected to be granted on or before 9 September 2010. Prior to official listing and admission to trading, however, dealings will be permitted by the London Stock Exchange in accordance with its rules. Transactions will normally be effected for delivery on the third working day after the day of the transaction. However, unlisted Notes or Notes which will be listed on such other stock exchange as the Issuer and the relevant Dealer(s) may agree may be issued pursuant to the Programme.
- (2) The Issuer has obtained all necessary consents, approvals and authorisations in the United Kingdom in connection with the establishment of the Programme. The establishment of the Programme was authorised by a resolution of the Board of Directors passed on 11 April 2001 and the update of the Programme was authorised by a resolution of the Board of Directors passed on 23 June 2010.
- (3) Save as disclosed on page 65 (Merger with Stroud & Swindon Building Society), there has been no significant change in the financial or trading position of the Group since 30 June 2010 and no material adverse change in the prospects of the Issuer since 31 December 2009.
- (4) Neither the Issuer nor any of its subsidiaries has been involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuer is aware) during the 12 months preceding the date of this Prospectus which may have, or have had in the recent past, significant effects on the financial position or profitability of the Issuer or any of its subsidiaries.
- (5) Each Bearer Note having a maturity of more than one year, Receipt, Coupon and Talon and each Exchangeable Registered Note having a maturity of more than one year, will bear the following legend: "Any United States person who holds this obligation will be subject to limitations under the United States income tax laws, including the limitations provided in Sections 165(j) and 1287(a) of the Internal Revenue Code".
- (6) Notes have been accepted for clearance through the Euroclear and Clearstream, Luxembourg systems. The Common Code, the International Securities Identification Number (ISIN) and (where applicable) the identification number for any other relevant clearing system for each Series of Notes will be set out in the relevant Final Terms. The address of Euroclear is 1 Boulevard du Roi Albert, B-1210 Brussels, Belgium and the address of Clearstream, Luxembourg is 42 Avenue JF Kennedy L-1855, Luxembourg. The address of any alternative clearing system will be specified in the applicable Final Terms.
- (7) The issue price and the amount of the relevant Notes will be determined, before filing of the relevant Final Terms of each Tranche, based on then prevailing market conditions. The Issuer does not intend to provide any post-issuance information in relation to any issue of Notes.
- (8) For so long as Notes may be issued pursuant to this Prospectus, the following documents will be available during usual business hours on any weekday (Saturdays and public holidays excepted), for inspection at the registered office of the Issuer:
 - (i) the Trust Deed (which includes the form of the Global Notes, the definitive Bearer Notes, the Certificates, the Coupons, the Receipts and the Talons);
 - (ii) the Rules and Memorandum of the Issuer;

- (iii) the audited consolidated annual financial statements of the Issuer for the years ended 31 December 2008 and 31 December 2009 respectively, (together in each case with the audit report thereon and the annual business statement and the directors' report in respect of each such year);
- (iv) the interim unaudited consolidated financial statements of the Issuer for the six months ended 30 June 2010;
- (v) each Final Terms (save that Final Terms relating to a Note which is neither admitted to trading on a regulated market within the European Economic Area nor offered in the European Economic Area in circumstances where a prospectus is required to be published under the Prospectus Directive will only be available for inspection by a holder of such Note and such holder must produce evidence satisfactory to the Issuer and the Issuing and Paying Agent as to its holding of Notes and identity);
- (vi) a copy of this Prospectus together with any supplement to this Prospectus; and
- (vii) all reports, letters and other documents, balance sheets, valuations and statements by any expert any part of which is extracted or referred to in this Prospectus.

This Prospectus can also be viewed on the website of the Regulatory News Service operated by the London Stock Exchange at <http://www.londonstockexchange.com/exchange/prices-and-news/news/market-news/market-news-home.html>.

- (9) Copies of the latest audited consolidated annual financial statements of the Issuer and the latest interim consolidated financial statements of the Issuer may be obtained, and copies of the Trust Deed will be available for inspection, at the specified offices of each of the Paying Agents during normal business hours and upon reasonable notice, so long as any of the Notes is outstanding.
- (10) Ernst & Young LLP, Registered Auditors (authorised and regulated by the FSA for designated investment business), have audited, and rendered unqualified audit reports on, the consolidated annual financial statements of the Issuer for the years ended 31 December 2008 and 31 December 2009.

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Annual Report & Accounts 2009

Stroud & Swindon
Your Building Society

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Chairman's Statement

Although 2008 will be recorded in history as the year of the financial crisis, in many ways 2009 has been just as challenging for retail funded financial institutions. Unprecedented economic and market conditions have created a complex set of circumstances through which we have had to manage our business.

Our two core markets, mortgages and savings, have contracted by around 60% when compared with 2008, itself a lean year. Falling house prices have had a negative influence on the housing market and purchase and remortgage activity reduced significantly. As a result, a number of building societies have seen a contraction in their balance sheets. The Stroud & Swindon is no exception and in 2009 our mortgage assets declined by 17% to £2.0bn.

With unemployment rising, the mortgage market is experiencing increased arrears, although the low interest rate environment is helping to ameliorate the problem. The Society's level of arrears has increased in line with the market and our mortgage losses for 2009 were £2.6m.

The savings market has become even more competitive, some would say distorted, as financial institutions refinance their businesses in the retail savings, rather than the wholesale market. Savings rates have, however, risen to uneconomic levels, often led by institutions that are fully or partly state owned. Furthermore, the savings market has contracted as consumers have paid down debt in preference to saving. When all these factors are taken in account, our savings balances were 4% below last year's level but in line with expectations.

The fall in base rate to an historic low of 0.50% has also exacerbated matters, resulting in trading margins reducing significantly. The consequences of these factors are that profit levels for most retail funded institutions will be lower in 2009 and some societies will make a loss.

We are not immune to these pressures and in 2009 we recorded a post-tax loss of £4.3m. This result reflects the difficult trading conditions that we are encountering and the costs associated with realigning the Society to meet the demands of a very different financial landscape. Despite this loss, we have actually improved the capital strength of the Society thereby increasing the security of savers' funds. We have also increased our level of liquidity in accordance with new regulatory guidelines.

Looking ahead, the environment in which we compete is unlikely to show significant signs of improvement in the year ahead. From a business perspective we are assuming that low interest rates will continue for most of 2010, house prices will show a slight decline and competition for retail funds will intensify as wholesale money markets remain extremely difficult. It is a very different trading environment from the one in which financial institutions have historically traded and one where there remains a high degree of uncertainty. It remains to be seen how the market will change when the economy moves out of recession.

This year we have seen further changes on the Board with David Hill and Kevin Bounds both leaving the Society. These changes resulted in the Society having to make some temporary appointments. For the last two months of the year I acted as Chief Executive Officer and Chairman and Glyn Smith, one of our non-executive Directors and former Finance Director of the Portman Building Society, assumed the role of Finance Director and will retain this position until a suitable replacement can be found. Although being far from ideal, these temporary arrangements were made with the full support of the Financial Services Authority and the Board.

I am, however, pleased to be able to report that we recruited a new Chief Executive Officer, John Sutherland, who took up his appointment on 15 February 2010. John was previously Executive Director, Sales & Marketing at Nationwide Building Society. He has an extensive knowledge of the financial services market and is a strong supporter of the mutual model.

There is no doubt that it has been a very difficult year in all respects. Our financial performance, although disappointing, was in line with our expectations and reflects the pressures that we have experienced in the mortgage and savings market during 2009. Both our capital strength and liquidity have improved and remain prudent in the current economic climate. It should also be remembered that we have a high level of reserves, profits built up during the good years to cover precisely the adverse conditions that we are now encountering.

Against a difficult trading year and significant changes on the Board, the executive team and staff at the Society have worked immensely hard to maintain the high standards of service that the Society is renowned for. Their unfailing contribution, flexibility and resolve have been outstanding and deserve

special mention, as our results do not reflect the effort that they have made during 2009.

As a building society, our values demand putting the customer first and even in difficult times this remains at the forefront of our minds. The essence of our business revolves around mortgages and retail savings and we are mindful of the importance of maintaining a competitive presence in these markets. Although we are well prepared to meet the challenges that lie ahead, we are not complacent and recognise that we may have to adapt our plans to meet the needs of unpredictable consumer and financial markets.

Whatever the demands may be, our primary objective continues to be to offer members a range of competitive mortgage and savings products with the same high level of service that we have offered over the years. We remain true to the building society ethos and believe that we not only offer members excellent products and services but also the stability and financial security they are seeking.

Laurence James.

Laurence James
Chairman
2 March 2010



Chief Executive's Review

Overview of 2009

2009 remained a difficult year in the financial services industry. The events of 2008 very nearly brought the entire financial system to the point of collapse and many of the factors that created the crisis continued to influence the market throughout 2009.

The mortgage market slowed further in the first half of the year, with demand suppressed by house price decline and the availability of mortgages impacted by the cost and scarcity of both wholesale and retail funding.

The building society sector as a whole faced a range of challenges from the collapse of the Dunfermline Building Society to operating in an unprecedented and extended low interest rate environment. Against this backdrop, the Society focussed on improving its balance sheet strength. The wholesale (interbank) market continued to be depressed during the year, placing even greater emphasis on retail savings and driving up the cost through significant competition. In response, the Society continued its policy of lower lending and maintaining a high level of cash balances (liquidity). As a result, our balance sheet reduced from £3.2bn to £2.7bn year on year.

Although LIBOR (the interbank lending rate) dropped dramatically in the second half of the year, the cost to us of wholesale funding did not decrease by a similar proportion and that, coupled with the cost of competing for savers' money, led to even greater pressure on margin. As a direct consequence, our net interest margin (the difference between the interest we receive on mortgages and cash minus the interest we pay for savings and wholesale deposits) fell from 0.69% to 0.33%.

In view of this continued deterioration, the Group recorded a post-tax loss of £4.3m. However, capital ratios remain strong with our solvency ratio at 15.4% and our core Tier 1 ratio increasing from 9.6% to 10.2%.

Mortgage Lending and Housing Market

The very low lending activity experienced in 2008 reduced even further in 2009. House prices continued to fall in the first half of the year, with house purchases remaining very low. Coupled with this, the remortgage market was also badly hit as lenders continued their policy of only lending to those

with excellent credit histories and high deposits. The second half of the year did, however, see house prices entering positive territory for several months in a row. That, together with more products being made available by lenders wishing to use much more realistic pricing to repair margins, led to a spurt of activity towards the end of the year. Nevertheless, lending in 2009 dropped again year on year.

The Group's gross lending in 2009 was £49m, compared to £365m in 2008. Redemptions activity increased in the latter half of the year as a result of the factors above, with the Group's total mortgage balances reducing by £416m to £1,983m, compared to a reduction of £34m in 2008.

The Society, like many other lenders, has a number of borrowers whose mortgage rate is directly linked to bank base rate (BBR). The BBR currently stands at just 0.50%, the lowest it has ever been. Although this means that these borrowers are benefiting from exceptionally low repayments, this has a negative impact on the Society's margin.

The Society offers a range of fixed, discounted and tracker mortgages. It also operates a wholly owned subsidiary company, ITL Mortgages Ltd. No mortgage books were bought in 2009 and all mortgages underwritten by both the Society and ITL were prime residential loans. Indeed, the proportions of sub-prime and commercial mortgages on the Group balance sheet are very low, around 6% and 1% respectively.

ITL Mortgages, launched in November 2008, is now the Society's intermediary only mortgage lender, providing prime mortgage products through mortgage brokers, utilising newly developed online systems.

Market Failures

2009 was, thankfully, a much less dramatic year in terms of bank failures. Nevertheless, the building society movement was saddened by the demise of the Dunfermline Building Society. Although other societies such as the Chelsea, Derbyshire, Cheshire, Scarborough and Barnsley had all felt unable to continue as independent entities during this crisis, each merged with much larger partner societies and, in most cases, their brands have been maintained. Unfortunately, problems at the Dunfermline were deemed too severe for any larger society to propose a merger in the conventional sense and it was

eventually broken up with the member segments of the business passing to the Nationwide. This marked the first occasion in memory of a society having to be wound down in this manner but, despite this, all savers and borrowers were fully protected by the solution achieved.

Wholesale Market

The credit crunch had already had a severe impact on the willingness of banks to lend to one another and other financial institutions. This situation was exacerbated by the failure of Lehman Brothers in 2008, followed by Bradford & Bingley and the Icelandic banks and the need for urgent Government intervention to rescue Royal Bank of Scotland and Halifax Bank of Scotland. Much publicity has been generated surrounding the pumping of tens of billions of pounds into RBS, Lloyds and others to keep the banking system alive.

The reduction in available funding from the banking sector was compounded by a similar reluctance to lend to the sector from local authorities who had themselves been heavily invested in the Icelandic banks. The situation deteriorated further following the Dunfermline's collapse when the rating agency, Moody's, downgraded the credit ratings of virtually all the major societies, citing the low interest rate environment and a contracting housing market as reasons to view the sector in a negative light. The combination of all these factors led to a reduction in the availability of wholesale funding and an increase in the cost of what could be negotiated. Although LIBOR did eventually fall back to more normal levels, only the largest institutions have benefited from that reduction. Despite the Bank of England's efforts in terms of quantitative easing, pressure on margin remains critical.

Counterparty Credit Policy

The turmoil in the national and international financial markets has certainly brought into sharp focus the need for all banks and building societies to have stringent policies to ensure that any deposits they place with other financial institutions are secure.

The Society's policy ensures that where it places deposits with rated institutions, it will only do so with those holding a minimum Fitch rating of A. Deposits are spread to avoid the risk of concentration in one area. The Society had no deposits with the Icelandic banks.

Retail Savings

Despite the well publicised collapse of the Icelandic banks and others such as Bradford & Bingley, the confidence of savers appears to have returned. Savers seemed to take the losses posted by a number of banks and building societies in 2008 in their stride and the coverage of savers queuing outside branches has not been repeated since the Northern Rock announcement. There is no doubt that this response has arisen as a result of increased customer awareness of the Financial Services Compensation Scheme (FSCS). Indeed, for some considerable time, those with balances above £50,000, the maximum balance protected under the scheme, have been spreading their investments across a wide range of providers. This had the net effect of increasing the overall cost of funding for the Society as any new savings received were often into accounts with the highest interest rates. The impact is still evident with only a small number of savings being made above the £50,000 limit.

The significant decline in wholesale markets has greatly increased the demand for retail savings from virtually all providers and competition for the savers' pound is intense. At the end of the first quarter of 2009, only a handful of accounts were offering rates above 3.5%, yet by the last quarter well over one hundred such opportunities existed. The Society has risen to this challenge by developing a range of savings accounts that have widened the audience available to us and allowed us to attract retail inflow in as cost effective a manner as possible. Our 50+ notice account has been extremely popular and has easily been our best received variable rate account. We also developed a higher paying variant, offered only to existing savers as a reward for their loyalty to us. We successfully utilised the internet to offer a well received range of e-bonds and our adult regular saver account frequently appears in newspaper best buy tables.

The success of these accounts has benefited our savings members and allowed us to maintain our liquidity well above the minimum levels required by the Financial Services Authority (FSA). However, this has come at a cost and our weighted average interest rate (the average of all the interest rates on offer) has increased over the latter part of 2009, placing even greater pressure on our margin.

Chief Executive's Review (continued)

Cost Control

The Society's management expense ratio of 0.64% is well placed in relation to other societies. Immense emphasis has been placed on cost and budget control throughout the business and savings of almost £3m have been achieved in 2009. These savings have been made as a result of a wide range of initiatives. In some cases, IT support contracts have been renegotiated. In others, new suppliers have been identified for existing facilities e.g. our online training system. In some instances, we have completely changed our approach. For example, our branch leaflets were expensive and needed to be reprinted frequently when product terms changed. We now utilise short summary "take ones" to show members the products we have on offer and use print on demand to provide greater detail for those interested. Such a simple change has saved tens of thousands of pounds.

Mortgage Asset Quality

The Group mortgage book comprises lending originated by the Society and loans acquired and originated through ITL Mortgages Ltd, our wholly owned subsidiary. The Society has operated a prudent lending policy for many years with conservative maximum loan to value ratios and loan to income multiples. Indeed, the average loan to value across the residential mortgage book was only 45% as at 31 December 2009. Similarly, the maximum loan to value for Society buy to let loans has never exceeded 75%. Our underwriting process, which includes credit scoring and manual intervention, ensures that both we and the borrower are on a sound footing.

Certain existing portfolios within our ITL subsidiary do have higher arrears than the industry average. The low interest rate environment has, however, meant that returns on one of those portfolios are significantly lower than originally anticipated. This has led to our decision to write off the premium relating to that portfolio.

Our Staff

I, and the Board, recognise the enormous contribution made by all of our staff in yet another very difficult year. In a year when the need to control costs meant that no bonus schemes were in place and a pay freeze was imposed, our staff rose to the challenge and produced the best non-mortgage related income figures ever achieved. We continue to support the development of our people through regular training, including our accredited management development programme.

Outlook

Although house prices rallied in the latter part of 2009, many commentators are predicting the possibility of a "double dip", that is a further drop in the early part of 2010. In addition, unemployment, the largest predictor of mortgage arrears still appears to be on the rise. We see little prospect, therefore, of any significant growth in the mortgage market in 2010. In addition, new legislation being implemented by our regulator, the FSA, whilst intended to de-risk and stabilise the sector in the long term, is likely to drive up the competition for, and therefore the cost of, retail funding even further. In short, 2010 will be another very challenging year.

Against this backdrop, we plan to grow our mortgage lending by a small amount, largely funded by redeeming loans and even this modest growth will help towards margin repair. We will continue to work to rebuild profits. Our capital remains strong and we have plans in place to deliver all that our members would expect from their society.



John Sutherland
Chief Executive
2 March 2010

Business Review

Overview of Financial Performance

2009 was a challenging year with difficult market conditions. The mortgage market continued to slow and, in the light of this, the Society curtailed its mortgage lending and focused on improving its capital strength. The core Tier 1 capital ratio increased from 9.6% to 10.2% - one of the stronger core Tier 1 ratios in the sector. The Society also improved the quality of its liquid assets by commencing a programme of investment in UK Government Treasury bills. Significantly reduced mortgage lending and intense competition for retail funds did, however, impact adversely on margin which, together with impairment losses, resulted in a pre-tax loss of £5.8m after crediting a write-back of FSCS levy of £1.5m.

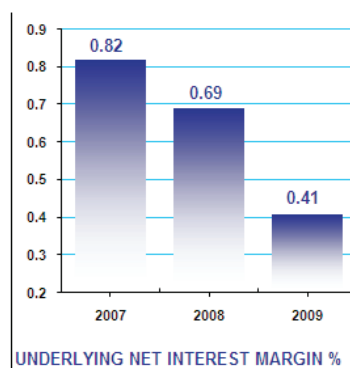
Net Interest Income

The Group's net interest margin, which is broadly the difference between the interest we receive on mortgages and the interest we pay to savers, fell from 0.69% in 2008 to 0.33% in 2009.

The prevailing low interest rate environment, with bank base rate at its lowest ever level at 0.50%, adversely affected net interest income. Margin compression was experienced throughout the sector as a result of paying competitive rates to attract retail funding and assets repricing downwards more quickly than liabilities. The Group also has a significant proportion of its mortgage book on products which are linked to the bank base rate and therefore earning low rates of interest, which is significantly benefiting many of our borrowing members.

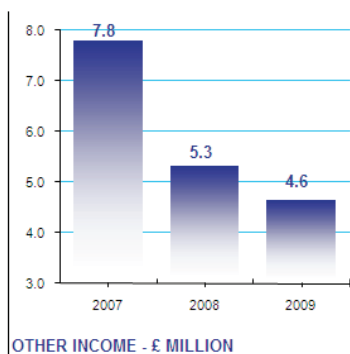
At the same time, the competition for retail funds has benefited our savings members with most accounts paying rates of interest many times higher than the bank base rate.

We took the opportunity to write off the premium that was paid on the acquisition of one of our mortgage books. This was purchased in 2007 and 2008 but has subsequently not performed as anticipated, largely as a result of the low interest rate environment. The write-off will improve the Society's profitability going forward. If the premium had not been written off, net interest margin would have been 0.41%.



Other Income

Other income includes fees and commission receivable and other operating income. Fees and commissions receivable include mortgage product related fees, administration fees and commission earned on insurance policies and investments. During the year the Society acted as an introducer to Aviva for life and investment products, Royal & Sun Alliance for general insurance products and Credit Suisse for the Guaranteed Capital Plus Account. The contraction in mortgage lending activity adversely affected mortgage completion fee income. However, there was a 68% increase in commission earned from investment products, our best result ever in this area. The benefit for our members is an enhanced return from these products in this unprecedented low interest rate environment. Other operating income also includes the rental income from investment properties owned by the Group.

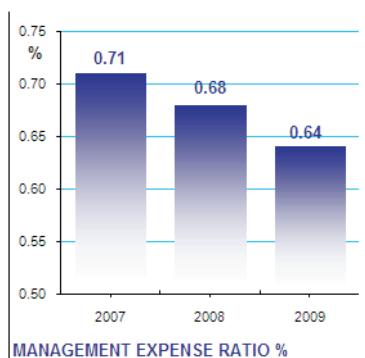


During the year, the Society also took the opportunity to release the equity in two of its freehold branches by entering into sale and leaseback opportunities resulting in a gain of £1.6m.

Business Review (continued)

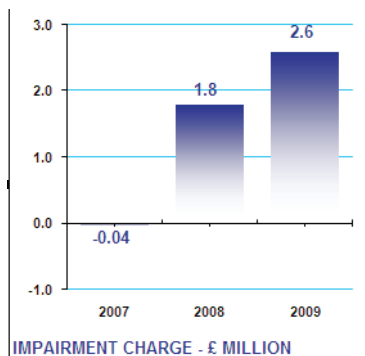
Management Expenses

There was a major review of operations in 2008, resulting in significant efficiency gains in 2009. Management expenses were reduced by £2.8m. This was achieved through a wide range of initiatives, demonstrating the Society's ability to reduce its costs without adversely affecting customer service. As a result, the management expense ratio (management expenses as a percentage of mean total assets) has fallen from 0.68% in 2008 to 0.64%. We will continue to focus on tight cost control and improved efficiencies in 2010.



Impairment

During the year, house prices stabilised compared with the position at 31 December 2008. However, this is still a decline from the peak position in 2007 of 17.2%. Group arrears greater than 1 month fell from £14.8m in 2008 to £10.4m in 2009. Arrears have reduced throughout the year due, in part, to the crystallisation of losses but also as a result of the increased affordability experienced by customers in the low interest rate environment. As a result of the continued economic uncertainty, the Group's impairment charge for the year increased from £1.8m to £2.6m, having also written off £2.0m during 2009. In the light of the prevailing economic conditions in 2009, the level of provisions required is not as high as might have been anticipated.



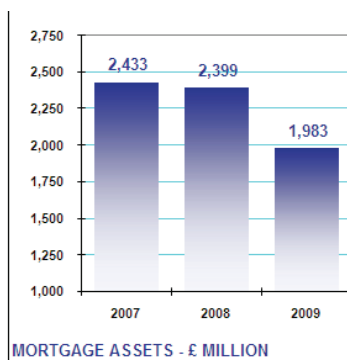
Pension Fund Obligations

The Society operates the Stroud & Swindon Retirement Benefits Plan. This is a defined benefit scheme which was closed to new entrants in 2001.

The valuation of the Plan at 31 December 2009 based on FRS 17 showed a deficit of £3.8m, net of tax, compared with a £0.5m surplus at the end of 2008. The adverse movement relates mainly to movements in asset valuation together with changes to actuarial assumptions. The latest triennial Actuarial Valuation was carried out as at 6 April 2006.

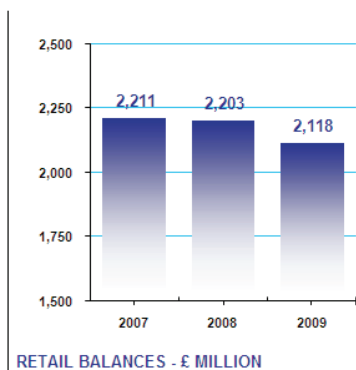
Mortgage Assets

Mortgage lending was curtailed in 2009 in response to market conditions and also in order to protect and improve both our capital and liquidity positions. Gross mortgage lending in 2009 was £49m (2008: £365m) all of which was prime residential lending at an average loan to value (LTV) of 62%. Redemptions in the year were £434m resulting in a 17% reduction in mortgage balances. The average indexed LTV of the remaining book was 45%, demonstrating the high quality of the mortgage assets.



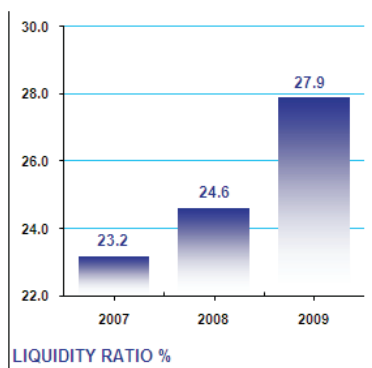
Retail Funding

Retail funding balances fell by £85m in the year, as the contraction of the balance sheet meant that funding requirements were reduced. Competition for retail funding remains intense as financial institutions seek to reshape their balance sheets, relying more on retail funding than that obtained through the wholesale markets. The Society responded to the challenge by developing a range of products which are attractive to a wider range of customers. Our 50+ notice account proved extremely popular together with the 50+ loyalty account which is available only to existing savers and pays a higher rate. We also offered a range of e-bonds through the internet and a regular saver product which frequently topped the best-buy tables.



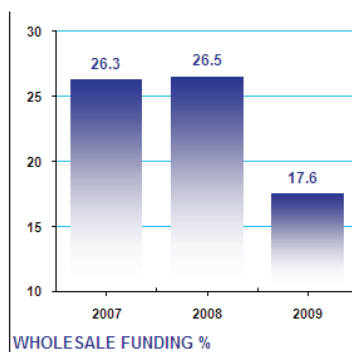
Liquidity

Year-end liquidity was 27.9% and the average ratio over the year was 24.9%. We have started a programme of investment in highly liquid, zero risk-weighted British Government Treasury bills and gilt-edged stocks in order to improve the quality of our liquidity and thereby further strengthen our position.



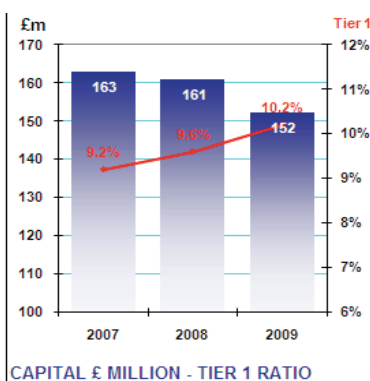
Wholesale Funding

In common with other financial institutions, we have sought to focus our funding effort on the more traditional retail markets, reducing reliance on the wholesale markets. Accordingly our wholesale funding ratio has dropped from 26.5% to 17.6%. Wholesale funding generally became more scarce in the year and local authorities, traditionally a major source of funding for the building society sector, were reluctant to lend due to their experience with the Icelandic banks. This stance was exacerbated by the downgrading of the sector by Moody's rating agency following the collapse of the Dunfermline Building Society.



Capital

The purpose of holding capital is to act as a buffer against any losses that might arise. Whilst overall our total capital reduced in the year, both our total capital ratio and our core Tier 1 ratio increased. Core Tier 1 capital is increasingly becoming the focus of the FSA. As a result of constraining mortgage lending and actively shrinking our balance sheet, our core Tier 1 capital ratio increased from 9.6% in 2008 to 10.2% and our total capital ratio from 14.3% to 15.4%



We also monitor a number of non-financial KPIs, including staff turnover, complaints, and customer satisfaction which we measure on a regular basis.

John Sutherland
Chief Executive
2 March 2010

Risk Management Report

The Group performs a range of activities and it is essential that all of the risks arising from these activities are managed effectively. We have a Risk department to oversee the management of risk, reporting to the Group Secretary. In accordance with best practice, the Board has established processes for the identification, evaluation and management of these risks which are set out below.

The principal risks inherent within our business are credit risk, market risk, liquidity risk and operational risk and the Society's Board has defined its appetite or tolerance in respect of each of these risks for the Group. Responsibility for the management of these risks has been apportioned to Board Committees as detailed below and set out in the terms of reference of each committee. Our approach to the management of each risk has been documented in detailed risk policy statements and in the Internal Capital Adequacy Assessment Process (ICAAP) report approved by the Board as part of our adoption of the Basel II capital management regime.

The Risk department sets limits in accordance with the Board's risk appetite, monitors and reports to the Board Committees on compliance with those limits, and generally provides an oversight role in relation to the management of risk. However, prime responsibility for managing risk, and for ensuring controls are put in place in respect of risk, lies with the business areas under delegated authority from the Board. This division of responsibility is in accordance with best practice recognised within the industry and by our regulator, the Financial Services Authority (FSA).

The Board and Committee structure which oversees the management of risk within the Group is as follows:

- The Board, whilst regularly considering the Group's risk profile, meets as a Risk Committee twice a year to consider the overall risk profile of the Group. The Board considers and approves the Group's risk appetite, approves lending policy and receives detailed reports on mortgage credit risk. It is also responsible for maintaining the ICAAP and ensuring the Group has capital resources that are adequate for the Group's risk profile.
- The Credit Risk Committee oversees the mortgage credit risk management processes and the credit risk profile of the mortgage book as a whole. It considers changes to lending policy and makes recommendations to the Board.
- The Assets & Liabilities Committee (ALCO) is responsible for market, liquidity, treasury counterparty credit and pension risk. It approves treasury policy and receives detailed risk monitoring reports.

- The Audit Committee is responsible for monitoring operational risk and oversees the risk management framework, ensuring that adequate systems of control are maintained. It also oversees the internal audit function and monitors the effectiveness of the external auditors.

Each of the above committees is responsible for the level of capital required for each risk that it manages and monitors, and also ensures that any risk mitigation is appropriate and effective. The following provides more detail on how each risk category is overseen by each committee.

Liquidity Risk

Liquidity risk is the risk that the Group is not able to meet its financial obligations as they fall due, or can do so only at excessive cost. The objective of our liquidity policy is therefore to enable us to hold sufficient liquid assets to cover cash flow imbalances and fluctuations in funding, to maintain full public confidence in our business and to enable us to meet all our financial obligations within a prudent framework.

The day-to-day management of liquidity is the responsibility of the Treasury function, which manages our portfolio of liquid assets and our contingency funding plans. The balance sheet is regularly stress tested to ensure the Society can withstand sudden and extreme outflows. Our liquidity risk policy is monitored by ALCO, which receives regular reports on our liquidity position and on stress tests of that liquidity position. We also comply with regulatory guidelines which govern the scope and nature of the Society's holdings of liquid assets.

Credit Risk

Credit risk is the risk that customers or counterparties will fail to meet their obligations to us as they become due. Credit risk arises primarily from loans to our retail and commercial customers and from the assets and off balance sheet exposures managed by our Treasury function.

Residential mortgage applications are processed by our Lending Centre. The creditworthiness of applicants is assessed using a credit scoring system, as well as by our specialist underwriters. The underwriting process, which is operationally independent of sales activity, ensures that the Society has adequate security for the loan and the borrower will be able to meet the repayments due on the loan. The Lending Centre approves mortgages according to the Society's lending policy which is approved by the Board following the consideration and recommendation of the Credit Risk Committee.

The considerations of the Credit Risk Committee are informed by regular reports received from the Risk department on the performance of the retail mortgage portfolio.

The Credit Risk Committee uses sophisticated models to assess the losses that are expected to materialise from the mortgage portfolio. It ensures that these forecasts are appropriate for current market conditions, as well as subjecting them to a series of stress and scenario tests.

Commercial mortgage credit risk is managed by a small team of commercial underwriters. This team underwrites all new loans and monitors existing loans. Loans above certain levels require additional approval from the Executive or Board. The commercial lending policy is approved by the Board on recommendation from the Credit Risk Committee.

The Risk department monitors compliance with the limits set out in the lending policy, providing reports to the Credit Risk Committee.

Should customers find themselves in financial difficulty, the Group has established procedures in place which involve working with the customer to clear the arrears under arrangements appropriate to the customer's circumstances. Where the situation continues to deteriorate, the Group may repossess and sell the property in order to repay the loan. The Group's approach to arrears management is compliant with the requirements of the FSA and the pre-action protocol agreed in 2008.

Treasury credit risk arises from investments placed with various counterparties in order to meet our liquidity and hedging requirements. This aspect of credit risk is managed by the Treasury department in accordance with the Financial Risk Management Policy and limits approved by the Board. The risk is managed by restrictions on the type of exposure and their duration, an assessment of the creditworthiness of counterparties and by the maintenance of exposure limits with each counterparty and country. The Society's policy only permits lending to central Government, UK local authorities, banks and building societies. The Society has no investments in mortgage-backed securities or specialist investment vehicles.

Market Risk

Market risk is the risk that the value of, or income arising from, the Group's assets and liabilities changes as a result of market variables such as changes in interest rates or prices.

Interest rate risk arises from the different interest rate characteristics of the Group's mortgages and savings products, and the use of other financial instruments. In particular, the marketing of fixed and capped rate mortgages exposes the Group to the risk that if there were a general increase in rates, funding costs would rise without any corresponding increase in interest income from the loans. Similarly, the marketing of fixed rate savings products creates the risk that, where interest rates fall, interest receivable from mortgage customers would fall without any reduction in interest payable to savers. In these circumstances, the Group arranges an interest rate swap with a counterparty bank under which the fixed rate of income, or expense, is converted into a variable rate, usually by reference to the 3 month London Inter Bank Offer Rate (LIBOR). Further information on the Group's use of such off balance sheet instruments is set out in the notes to the financial statements.

The Group's policy is to manage its exposure to interest rate risk within prudent limits contained within the Group's Treasury policies which are approved by ALCO.

The Treasury function is responsible for managing our exposure to such risks within these operational limits. Oversight is provided by ALCO which receives regular reports on interest rate risk.

Operational Risk

Operational risk is the risk of a loss arising from inadequate or failed internal processes or systems, human error or external events.

We manage operational risk through the Group's business areas with senior management having responsibility for understanding how operational risk impacts on each area and for putting in place the appropriate controls or other mitigation actions. The business units are supported by the Risk department which co-ordinates activity within an operational risk framework across a network of operational Risk Champions who work within the business units. This activity enables the Group's exposure to operational risk from all activities to be monitored in a consistent way and reported to the Audit Committee and Board Risk Committee.



Laurence James
Chairman
2 March 2010

Board of Directors



Laurence James (55)

Laurence has been on the Board of the Society for fourteen years and in that time there have been many changes within the business, none more so than over the past two years. Laurence's experience and insight into the business is very helpful in these difficult times by ensuring that the Stroud & Swindon remains true to its heritage and ethos.



Linda Will (53)

Linda joined the Society in July 2008 as Sales & Marketing Director. She has worked in the building society arena for over 22 years, her earlier financial services experience being in the insurance industry. She spent over 20 years with Yorkshire Building Society in a number of executive roles including Head of Product Development, Group Marketing & Communications Manager and Head of E-Commerce. Her last six years with Yorkshire were as Managing Director of Accord Mortgages Ltd, their intermediary lending subsidiary.



Glyn Smith (57)

Glyn joined the Board in September 2007 as a non-executive but has been acting as Finance Director since November 2009. He is a Chartered Accountant with considerable experience at Board level in the building society movement, having been Group Finance Director of Portman Building Society for over 6 years. He currently holds non-executive positions at the Covent Garden Market Authority and a Primary Care Trust, and is an examiner for the ICAEW. He is a member of the Assets & Liabilities Committee and, until November 2009, was Chairman of the Audit Committee.



John Clarke (56)

John joined the Board of the Society in 2005 and remains as strong a supporter of the Society and the mutual building society movement today as he was then. He is a lawyer by profession, based in Cheltenham with clients throughout the West Country. He is also a trustee of a number of charities and educational institutions. He is a member of the Audit Committee and Chair of the Trustees of the pension fund.



Michael O'Leary (57)

Mike joined the Board of the Society in November 2007. He also serves as Chairman of Five Valleys Property Company and on the Audit Committee. Mike has 30 years of Board level general management experience spanning FTSE 100 publicly quoted companies and smaller private organisations. He has spent more than a decade in businesses supplying the IT and outsourcing needs of the UK financial services sector. Elsewhere, Mike currently serves in a non-executive capacity with Psion plc, and Headlam plc, and he is Chairman of Digital Healthcare Ltd.



John Sutherland (53)

John spent over 20 years in senior roles with Nationwide Building Society, culminating in a main Board position as Executive Director, Sales & Marketing. Prior to this, he spent over 14 years with Lloyds Bank. John took up his position as Chief Executive on 15 February 2010 and was co-opted as a Director when the Board met on 18 February 2010. He will offer himself for election by members at the AGM of 2011.



Jane Ashcroft (43)

Jane joined the Board in 2007 and is a member of the Audit Committee and Acting Chair of the Governance & Remuneration Committee. She is a Chartered Secretary and a Member of the Chartered Institute of Personnel and Development. Jane is Deputy Chief Executive of Anchor Trust, England's largest not for profit provider of housing, care and support to older people.



Peter Gates (53)

With a background as an accountant and an experienced corporate treasurer, Peter joined the Society in 2000. He now serves as Vice Chairman, a Pension Fund Trustee, a member of the Governance & Remuneration Committee and is also Chair of the Assets and Liabilities Committee. He is also currently the Acting Chair of the Audit Committee.



Simon Whitwham (44)

Simon joined the Board in April 2002 and is the Society's Customer Service Director with responsibility for the Society's mortgage, savings and insurance administration, commercial assets management, IT and human resources. Simon is a Director of ITL Mortgages and Stroud & Swindon Funding Company (No. 2) Ltd. Simon graduated from Keele University in 1986 and has spent his entire career in the building society sector.

Directors' Report

Directors' Report

For the year ended 31 December 2009

The Directors have pleasure in presenting their Annual Report & Accounts for the year ended 31 December 2009.

Business Review

A review of the Group's progress in 2009 and future plans are set out in the Chairman's Statement, Chief Executive's Review and Business Review on pages 4 to 11.

Profits and Capital

The loss on ordinary activities before tax was £5.8 million (2008: £3.4 million). The loss after tax was £4.3 million (2008: £2.7 million). The Group reserves as at 31 December 2009 were £100.3 million (2008: £108.9 million).

Total capital including subordinated liabilities was £152.3 million. Gross capital and free capital at 31 December 2009 as a percentage of shares and deposits stood at 5.93% and 5.36% respectively (2008: 5.37% and 4.87%).

Key Performance Indicators

The Key Performance Indicators (KPIs) used by management for determining the Group's performance are discussed in the Business Review on pages 9 to 11.

Mortgage Arrears

Group lending comprises a traditional range of prime mortgage lending through the Society (SSBS) as well as loans acquired and originated through ITL Mortgages Limited (ITL). SSBS has a mortgage book of extremely high quality. At 31 December 2009 there were 9 accounts twelve or more months in arrears (2008: 4) with arrears outstanding of £48,000 (2008: £37,000). The total amount outstanding on these SSBS accounts was £1.2 million (2008: £0.5 million). ITL has purchased a range of mortgage books in the past ten years and now originates prime only intermediary lending. At 31 December 2009 ITL had 186 accounts twelve or more months in arrears (2008: 222) with arrears outstanding of £8.8 million (2008: £12.3 million). The total amount outstanding on these accounts was £23.4 million (2008: £19.7 million). At 31 December 2009 the Group had 195 accounts twelve or more months in arrears (2008: 226) with arrears of £8.8 million (2008: £12.4 million).

The total amount outstanding on these accounts was £24.7 million (2008: £20.2 million).

Charitable Donations

The Society is committed to supporting its local communities. A number of local causes benefited from donations and our staff also arranged various fund raising activities including support for Children in Need when £3,200 was raised. The total amount donated by the Society to charities in the year was nearly £21,000.

Creditor Payment Policy

The Society maintains a strict policy of meeting the payment terms defined in arrangements with suppliers. We are proud to be members of the Gloucestershire Voluntary Payments Charter, copies of which can be obtained from the Society's Head Office. Creditor days were 18 days at 31 December 2009 (2008: 17 days). The Society takes its responsibility as a major local employer seriously, and wherever possible sources services and supplies from local businesses.

Staff

The Society has established communication structures in place throughout the organisation. These include meetings, team briefings, an in-house online magazine and the internal intranet which keep staff informed of the Society's business plans and performance. We regularly undertake staff opinion surveys and support the Employee Consultation Group which was established in 2005. This provides a forum in which representatives can discuss staff views, issues and ideas with management.

The Society is a member of the Institute of Customer Services. We encourage as many members of staff as possible to take the appropriate external qualification as a benchmark of their performance, competencies and personal development.

It is the Society's policy to ensure equality of opportunity for all members of staff. The values of the Society require a positive environment in which all staff members are respected, are provided with development and progression opportunities, and can make the most of their abilities.

The Society regards this policy as a commitment to make full use of the talents and resources of all members of staff, and to provide a healthy environment which will encourage good and

productive working relations within the Society. The Society is particularly concerned to achieve the following objectives:

- When applying for jobs there is no discrimination against any person on the basis of age, race, colour, disability, nationality, ethnic or national origin, sex, marital status, sexual orientation, religion or belief.
- All promotions and appointments are strictly on the basis of ability to do the job.

Directors

The full list of Directors serving on the Board during the year is as follows:

Jane Ashcroft

Kevin Bounds (resigned 6 November 2009)

John Clarke

Peter Gates

David Hill (resigned 23 September 2009)

Laurence James

Michael O'Leary

Glyn Smith

Simon Whitwham

Linda Will

In accordance with the Rules Peter Gates, Glyn Smith, Simon Whitwham and Laurence James are due to retire by rotation at the Annual General Meeting in 2010. They are eligible and will stand for re-election.

No Director has any beneficial interest in the shares of any connected undertaking of the Society.

Statement of Directors' Responsibilities

This statement, which should be read in conjunction with the statement of the auditors' responsibilities on page 28, is made by the Directors to explain their responsibilities in relation to the preparation of the Annual Accounts, the Directors' Report and the Annual Business Statement.

The Directors are required by the Building Societies Act 1986 (the Act) to prepare, for each financial year, Annual Accounts which give a true and fair view of the state

of affairs of the Society and the Group as at the end of the financial year and of the income and expenditure of the Society and the Group for the financial year. In preparing those Annual Accounts the Directors are required to:

- Select appropriate accounting policies and apply them consistently;
- Make judgements and estimates that are reasonable and prudent;
- State whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the Annual Accounts;
- Prepare the Annual Accounts on a going concern basis unless it is inappropriate to assume that the Group will continue in business.

In addition to the Annual Accounts, the Act requires the Directors to prepare, for each financial year, an Annual Business Statement and a Directors' Report, each containing prescribed information relating to the business of the Society and the Group.

The Directors are responsible for ensuring that the Group keeps proper accounting records in accordance with the Building Societies Act 1986. The Directors are also responsible for ensuring that the Group takes reasonable care to establish, maintain, document and review such systems and controls as are appropriate to its business in accordance with rules made by the Financial Services Authority under the Financial Services & Markets Act 2000. The Directors have general responsibility for safeguarding the assets of the Group and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Society's website. Legislation in the UK governing the preparation and dissemination of Annual Accounts may differ from legislation in other jurisdictions. The Society's website address is www.stroudandswindon.co.uk.

Principal Risks and Uncertainties

The principal risks and uncertainties facing the Group are set out in the Risk Management Report on pages 12 to 13. The Group's financial risk management objectives and policies together with further details on the use of financial instruments are set out in the Risk Management Report and in the Notes to the Accounts.

Directors' Report (continued)

Under Basel II Pillar 3 (disclosures) the Group is required to publish further information about our exposures. Details of our Pillar 3 (disclosures) can be found on the website www.stroudandswindon.co.uk.

Going Concern

The Directors are satisfied that the Group has adequate resources to continue in business and that it is appropriate, therefore, to adopt the going concern basis in preparing the Annual Accounts. The basis of the Directors' assessments and assumptions for going concern are included in Note 1 on page 33.

Auditors

A resolution to re-appoint KPMG Audit Plc as auditors will be proposed at the Annual General Meeting.

A handwritten signature in blue ink that reads "Laurence James." The signature is written in a cursive style with a long horizontal stroke at the end.

Laurence James
Chairman
2 March 2010

Report of the Directors on Corporate Governance

The Board is committed to best practice in corporate governance. This report explains how the Society applies the principles in the 2008 Combined Code on Corporate Governance (the Code) issued by the Financial Reporting Council as well as meeting the corporate governance requirements of the Financial Services Authority (FSA). The Combined Code is aimed at public limited companies and in considering the application of the Code the Society incorporates the annotation for building societies provided by The Building Societies Association. Below is an analysis of the Society's practices against the Code requirements and, subject to the temporary appointments of non-executive Directors to the positions of Chief Executive and Finance Director in the fourth quarter of 2009, the Board considers that the Society and the Group comply with all the Code provisions unless the contrary is stated below.

Directors

The Board

Code Principle: Every company should be headed by an effective Board, which is collectively responsible for the success of the company.

Society Practice: The Society's Memorandum sets out the principal purpose of the Society which is to make loans secured on residential property funded substantially by our members. The principal functions of the Board are to develop the Society's strategy in line with that purpose, to appoint the executive Directors to oversee the implementation of plans that deliver the agreed strategy, to monitor the Society's performance and to ensure effective systems and controls are in place for the assessment and management of risk. The Society's policies together with the respective responsibilities of the Board and its committees are set out in a Board Manual.

The Board ensures its effectiveness through an annual appraisal process in which the effectiveness of all Directors is assessed individually and collectively as a Group Board. An annual report is made to the Board by the Chairman and Senior Independent Director.

The Board met on 12 occasions in 2009 and all matters discussed were fully minuted. In addition, there are four committees which are responsible for specific aspects of Board matters and which report their findings to the main Board. Further information on these committees is set out below. The terms of reference of the Board and its committees are available on request from the Secretary.

Details of Board members are set out on pages 14 and 15. The attendance record during the year of Directors

at formal meetings of the Board and its committees is shown on page 22. The non-executive Directors meet without executive Directors present and also without the Chairman present at least once a year. All Board members have the benefit of appropriate liability insurance at the Society's expense and have access to independent legal advice if required.

The Code requires that the Boards of listed companies nominate a Senior Independent Director to be available to shareholders. The Board has appointed J D Clarke to fulfil the role of Senior Independent Director to be available to members; he is also the independent non-executive Director within the Society's Whistleblowing policy. The Society's procedures require the Chairman to be a non-executive Director and that the majority of Board members are non-executives.

Chairman and Chief Executive

Code Principle: There should be a clear division of responsibilities at the head of the company between the running of the Board and the executive responsibility for the running of the company's business. No one individual should have unfettered powers of decision.

Society Practice: The offices of Chairman and Chief Executive are distinct and normally held by different people. The Chairman is responsible for leading the Board and communicating with the Society's members on behalf of the Board and ensuring the Board receives appropriate management information to facilitate effective contributions from non-executive Directors and constructive relations with executives. The Chief Executive is responsible for managing the Society's business within the strategic framework set by the Board. For a short period in 2009 it was necessary for management continuity for the Chairman to take the role of acting Chief Executive while a new Chief Executive was sought.

Board Balance and Independence

Code Principle: The Board should include a balance of executive and non-executive Directors (and in particular independent non-executive Directors) such that no individual or small group of individuals can dominate the Board's decision taking.

Society Practice: At the end of 2009, during the period of the temporary appointments the Board comprised 4 executives and 4 non-executive Directors. The usual Board structure comprises four executive Directors and six non-executive Directors, which the Board considers appropriate for the Society. Non-executive Directors are appointed for a 3 year term up to a maximum of 6 years unless appointed Chairman or

Report of the Directors on Corporate Governance (continued)

Vice Chairman of the Board or Chairman of a committee. In these circumstances, the Board considers it important that the office holders have sufficient knowledge and experience of the Society to undertake these roles which may result in the 6 year term being extended. Two non-executive Directors, the Chairman and Vice Chairman have served on the Board for more than the nine year period of office recommended by the Code and offer themselves for re-election by the members annually. In the view of the Board, all non-executive Directors are independent in character and judgement.

Appointment to the Board

Code Principle: There should be a formal, rigorous and transparent procedure for the appointment of new Directors to the Board.

Society Practice: The Governance & Remuneration Committee considers the balance of skills and experience required within the Board to enable the Society to grow and develop. The Board maintains a succession plan and develops a role profile in respect of any vacancy arising to ensure the Board continues to include the appropriate level of skills and experience.

Candidates for non-executive positions are identified as a result of the use of external search consultants, nomination by members, and applications in response to publicity in our members' newsletter. Appointments are made following a rigorous and objective process in which the candidate's skills, experience and time available are matched against the requirements of the role. All Directors must meet the tests of fitness and propriety laid down by the FSA and all Directors are required to be interviewed and registered with the FSA as an Approved Person in order to fulfil their Controlled Function as a Director.

The service contracts of executive Directors and the letters of appointment of the non-executive Directors are available for inspection on request from the Society's Secretary.

Information and Professional Development

Code Principle: The Board should be supplied in a timely manner with information in a form and of a quality appropriate to enable it to discharge its duties. All Directors should receive induction on joining the Board and should regularly update and refresh their skills and knowledge.

Society Practice: The Chairman ensures that the Board receives sufficient information to enable it to fulfil its responsibilities. New Directors undergo induction and training and development needs are assessed annually.

All Directors have access to the advice and services of the Secretary and independent professional advisers should this be required.

Performance Evaluation

Code Principle: The Board should undertake a formal and rigorous annual evaluation of its own performance and that of its committees and individual Directors.

Society Practice: All Directors are appraised annually by the Chairman who in turn is appraised by the Senior Independent Director and Chief Executive. The findings of the appraisal process are reported by the Chairman and Senior Independent Director to the full Board for discussion and action as appropriate. The Board and each committee evaluates its own performance annually and the committee chairmen report the result of that evaluation to the full Board.

Re-election

Code Principle: All Directors should be submitted for re-election at regular intervals, subject to continued satisfactory performance. The Board should ensure planned and progressive refreshing of the Board.

Society Practice: All Directors are submitted for election at the Annual General Meeting following their first appointment to the Board and seek re-election every three years thereafter providing that at every Annual General Meeting at least one third of serving Directors offer themselves for re election

The Board's general policy is that non-executive Directors should not expect to serve more than two terms of three years. Exceptions to this can arise for those Directors who are elected to the role of committee Chairman, Vice Chairman or ultimately Chairman of the Board. Nomination and re-election in these cases will be the subject of rigorous review.

Remuneration

The separate Directors' Remuneration Policy Report explains how the Society applies the Code principles and complies with the provisions relating to remuneration.

Accountability and Audit

Financial Reporting

Code Principle: The Board should present a balanced and understandable assessment of the company's position and prospects.

Society Practice: The responsibilities of the Directors in relation to the preparation of the Group's financial statements and a statement that the Group's business is a going concern are contained in the Directors' Report. Business performance is also reviewed in the Chairman's Statement, Chief Executive's Review and the Business Review included in this Annual Report & Accounts. The Annual Report & Accounts are audited and the Auditor's statement is included in full. The Chairman presents a summary to the Annual General Meeting.

Internal Control

Code Principle: The Board should maintain a sound system of internal control to safeguard shareholders' investment and the company's assets.

Society Practice: The Board is responsible for determining the Group's risk appetite and strategy and overseeing the systems of control. The executive Directors and senior management are responsible for designing, operating and monitoring risk management and internal systems of control.

The development of risk strategy, the monitoring of risks and the setting of key risk limits is performed by the main Board with responsibility for management of certain risks delegated to committees of the Board. The main Board approves the mortgage credit risk policy and monitors these risks in conjunction with the Credit Risk Committee. Responsibility for interest rate risk, liquidity policy and treasury counterparty risk is delegated to the Assets & Liabilities Committee. Responsibility for operational risk, and compliance with statutory regulation and various codes of practice is delegated to the Audit Committee. Further details of the progress of these committees in 2009 are set out in this report. The accompanying Risk Management Report gives further details of the principal risks faced by the Group, and the Group's approach to managing those risks.

The Society has a strong compliance culture and maintains systems of control which are designed to enable it to achieve its strategic objectives within a managed risk profile, rather than attempting to eliminate risk. The role of the Head of Group Risk is to ensure that appropriate risk management systems exist across the Society and its subsidiaries and that there is an ongoing process for identifying, evaluating and managing risk within the Board's appetite. The Head of Internal Audit provides independent and objective assurance that the systems of control are effectively maintained.

The Board has ultimate responsibility for ensuring the effectiveness of the Society's systems of risk

management and internal control which it does through regular formal reviews. Following the annual review by the Audit Committee, the Board is satisfied that the Society's systems are effective and meet the requirements of the Code.

Audit Committee and Auditors

Code Principle: The Board should establish formal and transparent arrangements for considering how it should apply the financial reporting and internal control principles and for maintaining an appropriate relationship with the company's auditors.

Society Practice: The role of the Audit Committee is to review the Society's accounting policies, the integrity of the financial statements, the effectiveness of risk management and systems of control, the effectiveness of the internal audit and external audit service, and to oversee the relationship with the external auditors including recommending their appointment to the Board.

A policy has been established which limits the nature and quantum of non-audit services which can be provided by the external auditors in order to ensure that their independence and objectivity are maintained.

The Committee is also responsible for ensuring that there are effective whistleblowing arrangements to enable staff to raise, in confidence, any concerns about possible improprieties, and effective arrangements for investigation of any such concerns.

The Committee comprises four non-executive Directors. The Chairman of the Board is not a member of the Committee. The Board is satisfied that at least one member of the Committee has recent and relevant financial experience.

The Committee meets at least four times a year. By invitation of the Committee, the Chief Executive, Finance Director, Group Secretary, Heads of Group Risk and Internal Audit and external auditors attend for part of each meeting. The Committee also meets in private session with the external auditors and the Heads of Internal Audit and Group Risk.

Report of the Directors on Corporate Governance (continued)

Board and Board Committee membership attendance record

Against each Director's name is shown the number of meetings he or she attended in the year. The number of meetings each Director was eligible to attend is shown in brackets.

Director	Board	Audit Committee	Governance & Remuneration	ALCO	Credit Risk
J R Ashcroft	11/(12)	4/(4)	2/(2)	N/A	N/A
K C Bounds (Resigned 6/11/2009)	10/(10)	N/A	N/A	10/(10)	2/(3)
J D Clarke	12/(12)	4/(4)	1/(1)	N/A	N/A
E P Gates	12/(12)	1/(1)	2/(2)	11/(11)	N/A
D C Hill (Resigned 23/09/2009)	7/(9)	N/A	N/A	7/(9)	2/(3)
L F A James	12/(12)	N/A	2/(2)	1/(2)	3/(3)
M K O'Leary	12/(12)	3/(4)	N/A	N/A	N/A
G M Smith	12/(12)	3/(3)	N/A	11/(11)	3/(3)
S P Whitwham	11/(12)	N/A	N/A	N/A	1/(1)
L S Will	12/(12)	N/A	N/A	5/(5)	N/A

Relations with Shareholders

Dialogue with Institutional Shareholders

Code Principle: There should be a dialogue with shareholders based on the mutual understanding of objectives. The Board as a whole has responsibility for ensuring that a satisfactory dialogue with shareholders takes place.

Society Practice: As a mutual organisation, the Society has a membership comprised almost exclusively of individuals, all of whom are our customers. The Society proactively contacts savers with branch based accounts once per year to promote the relationship and we ask for feedback from all members on voting forms sent prior to each Annual General Meeting. We also conduct customer service feedback surveys and market research, and analyse the response to general feedback received by our branches and Customer Service Centre in Head Office. The Board has appointed a Senior Independent Director as a point of contact for individual members.

Constructive Use of the AGM

Code Principle: The Board should use the AGM to communicate with investors and to encourage their participation.

Society Practice: Each year the Society sends details of the Annual General Meeting (AGM) to all members eligible to vote. All resolutions put to members are separate and all Members are encouraged to vote at the AGM or to appoint a proxy to vote on their behalf if they do not attend the AGM. Members have the opportunity to withhold their votes. All votes are counted under independent scrutiny. All votes cast are included in the

published results of the vote.

All members of the Board are present at the AGM each year unless there are exceptional circumstances. Presentations to the members at the AGM by the Chief Executive and Chairman explain the Society's activities in the reporting year and also look forward. The Chairmen of the Board and of the Board Committees are available to answer questions.

Reports of the Chairs of the Board Committees

Audit Committee

The Audit Committee is comprised entirely of non-executive Directors. The Committee met on four occasions in 2009 and its members as at 31 December 2009 were as follows:

Peter Gates	Acting Chairman and non-executive Director (G M Smith was Chairman until 6 November 2009 and will resume this role when he ceases Executive duties).
Jane Ashcroft	Non-executive Director
John Clarke	Non-executive Director
Mike O'Leary	Non-executive Director

The principal responsibilities of the Committee are set out on page 21. The Committee's terms of reference and main responsibilities were reviewed and updated during the year to ensure that they continue to reflect best practice within the industry.

The Head of Internal Audit has a dual reporting line into both the Chief Executive and the Chairman of the Audit

Committee. This satisfies the need for day-to-day line supervision whilst maintaining a direct and independent relationship with the Committee Chairman. The Head of Internal Audit meets the Audit Committee Chairman on a monthly basis to discuss both progress against plan and any other matters of significance.

At each Audit Committee meeting there is a private session with the external auditor and the Heads of Internal Audit and Group Risk at which any concerns they may have relating to control issues can be discussed in confidence. The Committee Chairman regularly meets the external auditor outside of the normal Committee structure.

Audit plans for the twelve and thirty-six month periods commencing 1 Jan 2009 were approved by the Committee. Risk assessment methods were used to develop these plans and future auditing resource levels estimated. Both plans were found to be achievable with the resources available. A Compliance Plan covering the twelve months was approved by the Committee.

The Committee reviews the effectiveness of the Group's systems of controls on an annual basis. Reports are received from the Head of Internal Audit, and the Group Secretary (in respect of compliance matters) and the Head of Group Risk at each meeting and an annual assessment of the integrity of the systems of control is made in the light of the main findings of the inspection process during the year.

The effectiveness of the Internal Audit, Risk and Compliance functions was reviewed, as were all the outsourcing activities undertaken on behalf of the Group. All were found to meet the standards required.

The Committee re-assessed the effectiveness, objectivity and independence of the external auditors and its findings were reported back to KPMG Audit Plc (KPMG). As part of this process, KPMG's provision of non-audit services was reviewed and the Committee was satisfied that the scope of work undertaken was within the Society's policy which had also been reviewed. The Committee recommends the re-appointment of KPMG at the forthcoming AGM.

An assessment of the effectiveness of the Audit Committee was undertaken using best practice guidelines specifically developed for businesses in the financial services sector. The Committee continues to score highly against this benchmark.

The Committee Chairman, who is a qualified Chartered Accountant and Corporate Treasurer receives regular updates on best practice from the Audit Committee

Institute and additional information is provided by KPMG Audit Plc and the Institute of Internal Auditors UK on an ad hoc basis.

Governance & Remuneration Committee

The Governance & Remuneration Committee consists entirely of non-executive Directors. The Committee met on three occasions during the year and its members as at 31 December 2009 were as follows:

Jane Ashcroft	Acting Chairman and non-executive Director
Peter Gates	Vice Chairman and non-executive Director
John Clarke	Non-executive Director

The Committee's main responsibilities are to ensure the effective governance of the Society as a whole, to consider effective and relevant succession strategies for executive and non-executive Directors and to review salary and incentive awards for the executive Directors. It is usual for the Chairman of the Committee also to be Chairman of the Board and when that is the case discussions regarding remuneration of the Chairman of the Board are chaired by the Vice Chairman.

The Committee conducts an annual review of the extent to which the Society's existing practices comply with the Combined Code. It is pleasing to report that the Society's standards of corporate governance are very high and there are no material variations from the recommendations of the Code, other than those arising from the temporary appointments in place at 31 December 2009.

A comparison of the activities of the Committee compared to the specific requirements of the Combined Code is included in the Directors' Remuneration Policy Report.

Assets & Liabilities Committee

The Assets & Liabilities Committee (ALCO) meets monthly and membership as at 31 December 2009 was as follows:

Peter Gates	Chairman and non-executive Director
Peter Jones	Head of Treasury
Glyn Smith	Finance Director
Nick Brown	Head of Group Risk
Laurence James	Chief Executive
Linda Will	Sales & Marketing Director

Report of the Directors on Corporate Governance (continued)

The ALCO is attended by the Business Planning Manager and the Assets & Liability Manager.

The ALCO is responsible for preparing and recommending to the Board policy statements covering interest rate risk, liquidity, counterparty credit and wholesale funding. The Committee monitors compliance with these policy statements and the limits contained therein, management of the Society's interest margin and the risks arising from actual and potential changes in interest rates, and pension obligations risk. The ALCO requires periodic independent reviews of the Society's treasury policies, processes, controls and risk reporting.

The Committee has reviewed its terms of reference and the various statements of policy for which it is responsible, both in relation to developments in the financial markets and the Society's business position, and to regulatory and corporate governance guidance on best practice. The Committee also reviewed its performance in discharging its delegated responsibilities and concluded that it had performed effectively during the year.

Credit Risk Committee

The Credit Risk Committee involves non-executive Directors in the Group's understanding of credit risk matters and supports the development of the Internal Capital Adequacy Assessment Process (ICAAP). It meets quarterly and the membership as at 31 December 2009 was as follows:

Laurence James	Chief Executive
Nick Brown	Head of Group Risk
Bob Johnson	Group Secretary
Joe Macklin	Risk Analyst
Glyn Smith	Finance Director
Simon Whitwham	Customer Service Director

Due to the temporary appointments there was no non-executive representation on the Committee for the final meeting of 2009 as the Board considered the experience of Laurence James and Glyn Smith was critical to the continuity of the Committee and it was the intention that both should return quickly to their respective non-executive roles.

The purpose of the Committee is to understand and monitor the overall credit risks within the Stroud & Swindon Building Society Group lending portfolio, and to oversee the processes through which the risks are

managed. In order to do this, it receives and reviews management information on the composition and performance of the lending portfolio, including arrears data, analysis of the portfolio into asset classes and characteristics, and analysis of the risk profile of the portfolio. It is also responsible for approving the Society's lending policy.

The Committee is also responsible for overseeing the development and maintenance of the ICAAP as part of the implementation of a risk-based capital adequacy assessment regime under Basel II.

The Credit Risk Committee is assisted in its activities by an Operational Credit Risk Control Group (CRCG) which meets monthly for the ongoing monitoring of the credit risk management process and ICAAP development. Its members are the Group Secretary, the Heads of Group Risk, Commercial Assets and Central Services and the Risk Analyst. Operational CRCG discussion points and matters arising are reported to the Credit Risk Committee.

Boards of Principal Trading Subsidiaries

ITL Mortgages Limited

ITL Mortgages Limited is a wholly owned subsidiary of Stroud & Swindon Building Society. Established in 1993, the Company has been active in acquiring and originating good quality mortgage portfolios, as well as non-standard mortgage assets which offer enhanced margin at an acceptable level of credit risk. From 2009, all new broker introduced prime mortgage business was advanced by the Company and new directly sourced mortgage business was advanced by the Society.

ITL is managed on a day to day basis by the Society's executive Directors and members of the senior management team. The Company's assets are managed at Group level through the Group's risk management and governance framework.

No assets were acquired in 2009.

The Company's Board at 31 December 2009 comprised:

Laurence James	Chairman
Glyn Smith	Director
Bob Johnson	Director
Neil Spencer	Director
Simon Whitwham	Director
Linda Will	Director

Five Valleys Property Company Limited

Five Valleys Property Company Limited is a wholly owned subsidiary of Stroud & Swindon Building Society. Established in 2007, the Company acquires good quality houses and flats in and around the Society's heartland for the purpose of letting and, over the longer term, generating a capital gain on eventual disposal.

The Company is managed on a day to day basis by the Society's executive Directors and members of the senior management team. Assets are acquired in accordance with an investment policy approved by the Group and Company Boards. In view of the uncertain property market, the Board strategy in 2009 was to manage the existing stock and not to sell or acquire any new properties.

The Company's Board at 31 December 2009 comprised:

Mike O'Leary	Chairman
Jo Collinson	Director
Laurence James	Director
Neil Spencer	Director
Linda Will	Director



Laurence James
Chairman
2 March 2010

Directors' Remuneration Policy Report

The Board is committed to best practice in its remuneration policy for Directors. This report explains how the Society applies the principles set out in the Combined Code on Corporate Governance relating to remuneration.

Code Principle: Levels of remuneration should be sufficient to attract, retain and motivate Directors of the quality necessary to run the Company successfully, but a company should avoid paying more than is necessary for this purpose. A significant proportion of executive Directors' remuneration should be structured so as to link rewards to corporate and individual performance.

Code Principle: There should be a formal and transparent procedure for developing policy on executive remuneration and for fixing the remuneration packages of individual Directors. No Director should be involved in deciding his or her own remuneration.

Society Practice: The remuneration policy for Directors is determined by the Governance & Remuneration Committee which is comprised wholly of non-executive Directors. The Committee's objectives are to ensure that the Society offers appropriate and competitive remuneration and employment terms, consistent with the performance of the Society and sufficient for it to attract and retain suitably qualified staff.

The Governance & Remuneration Committee has established a sub-committee comprising the Chief Executive, the Secretary and the Head of Human Resources to recommend the appropriate level of non-executive Directors' fees and allowances.

The recommendations are considered by and approved by the full Board. Non-executive Directors do not have service contracts, and do not participate in any incentive scheme or qualify for pension

entitlement. In their respective executive capacities, Laurence James was employed on a three month contract, reviewed monthly and Glyn Smith is employed for the period until 31 August 2010 on a contract for services.

When assessing executive remuneration the Governance & Remuneration Committee considers comparative salary data from within the building society industry and the wider financial services sector. Remuneration is assessed by reference to roles carrying similar responsibilities in comparable organisations.

Executive Directors are eligible to participate in an annual incentive scheme which comprises three elements: the Society's financial performance against targets for asset growth, profitability and cost efficiency; team performance in implementing the Society's strategic goals; and individual performance against personal objectives. Each element provides a maximum payment of 10% to give a maximum of 30% in total, if pre-defined and stretching targets are met. Incentive scheme payments do not qualify as pensionable pay. No bonus payment will be made in respect of 2009 and 2010.

Executive Directors are employed on 12 month rolling contracts which expire at age 60. They also receive other benefits including a car or car allowance, private healthcare and pension entitlement.



Jane Ashcroft
Chairman
2 March 2010

	2009			2008		
Non-executive Directors' Emoluments	Fees £'000	Benefits £'000	Total £'000	Fees £'000	Benefits £'000	Total £'000
Jane Ashcroft	28	-	28	28	-	28
Michael Bramall ¹	-	-	-	10	-	10
John Clarke	31	-	31	29	-	29
Rennie Fritchie ²	-	-	-	11	-	11
Peter Gates	38	-	38	32	-	32
Laurence James ³	47	-	47	47	-	47
Mike O'Leary	28	-	28	28	-	28
Glyn Smith ⁶	35	-	35	30	-	30
Total	207	-	207	215	-	215
Pensions to former Directors	8	1	9	9	1	10

Executive Directors' Emoluments 2009	Salaries & fees £'000	Benefits £'000	Bonus £'000	Sub-total £'000	Increase in accrued pension £'000	Defined contributions pension benefit £'000	Total 2009 £'000
Kevin Bounds ³	251	-	-	251	-	30	281
David Hill ⁴	133	11	-	144	4	-	148
Laurence James ⁵	39	-	-	39	-	-	39
Glyn Smith ⁶	32	-	-	32	-	-	32
Simon Whitwham	110	9	-	119	-	17	136
Linda Will ⁷	125	16	-	141	-	27	168
Total	690	36	-	726	4	74	804
2008							
Kevin Bounds ³	71	-	-	71	-	-	71
Kit Beazley ⁸	74	6	-	80	-	11	91
Paul Chafer ⁹	41	9	-	50	-	6	56
David Hill	197	17	-	214	6	-	220
Simon Whitwham	110	8	-	118	-	16	134
Linda Will	59	7	-	66	-	-	66
Total	552	47	-	599	6	33	638

¹ Retired 24 April 2008 ² Retired 24 April 2008 ³ Appointed 23 October 2008 and resigned 6 November 2009 ⁴ Resigned 23 September 2009 ⁵ Appointed as acting Chief Executive 6 November 2009 ⁶ Appointed as acting Finance Director 6 November 2009 ⁷ Appointed 24 July 2008 ⁸ Resigned 31 July 2008 ⁹ Resigned 20 May 2008
As a result of the resignation of Kevin Bounds (acting Chief Executive and Finance Director) Laurence James was appointed as acting Chief Executive and Glyn Smith was appointed as acting Finance Director on 6 November 2009.

* This amount includes £212,450 fee for Kevin Bounds payable to Briefcase Consulting Ltd for making his services available as a Director (2008: £71,000).

** In addition to the amounts shown above £334,550 compensation for loss of office was paid to David Hill. This amount includes £19,550 in respect of additional costs related to severance. All other amounts relate to cash payments.

The increase in accrued pension represents the increase in annual pension which would be payable under the defined benefit pension scheme at normal retirement age.

	Accrued pension at 23.09.2009	Increase in accrued pension during 2009	Transfer value 23.09.2009	Transfer value 31.12.2008	Decrease in transfer value	Directors' contributions	Decrease in transfer value less Directors' contributions
Executive Directors' pension benefits	£'000	£'000	£'000	£'000	£'000	£'000	£'000
David Hill	38	4	639	647	(8)	9	(17)

Independent Auditors' Report

Independent auditors' report to the members of Stroud & Swindon Building Society

We have audited the Group and Society annual accounts of Stroud & Swindon Building Society for the year ended 31 December 2009 which comprise the Group and Society Income & Expenditure Accounts, the Group and Society Statements of Total Recognised Gains and Losses, the Group and Society Balance Sheets, the Group Cash Flow Statement and the related notes. These annual accounts have been prepared under the accounting policies set out therein.

We have examined the Annual Business Statement (other than the details of directors and officers upon which we are not required to report) and the Directors' Report.

This report is made solely to the Society's members, as a body, in accordance with section 78 of the Building Societies Act 1986. Our audit work has been undertaken so that we might state to the Society's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Society and the Society's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report & Accounts including the Directors' Report, the Annual Business Statement and the annual accounts in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities on page 17.

Our responsibility is to audit the annual accounts in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). We are also responsible for examining the Annual Business Statement (other than the details of directors and officers) and for reading the information in the Directors' Report and assessing whether it is consistent with the accounting records and the annual accounts.

We report to you our opinion as to whether the annual accounts give a true and fair view and are properly prepared in accordance with the Building Societies Act 1986 and regulations made under it. In addition, we report to you our opinion as to whether certain

information in the Annual Business Statement gives a true representation of the matters in respect of which it is given, whether the information in the Directors' Report is consistent with the accounting records and the annual accounts and whether the Annual Business Statement and the Directors' Report have each been prepared in accordance with the applicable requirements of the Building Societies Act 1986 and regulations made under it. The information given in the Directors' Report includes that specific information given in the Chairman's Statement, Chief Executive's Review and Business Review that is cross referred from the Business Review section of the Directors' Report.

We also report to you if, in our opinion, the annual accounts are not in agreement with the accounting records or if we have not received all the information and explanations that we require for our audit.

We read the other information contained in the Annual Report & Accounts and consider whether it is consistent with the audited annual accounts. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the annual accounts, Annual Business Statement and Directors' Report. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the annual accounts and the Annual Business Statement. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the annual accounts, and of whether the accounting policies are appropriate to the Group's and Society's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the annual accounts are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the annual accounts.



Opinion

In our opinion:

- a) the annual accounts give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the affairs of the Group and of the Society as at 31 December 2009 and of the income and expenditure of the Group and of the Society for the year then ended;
- b) the information given in the Annual Business Statement (other than the information upon which we are not required to report) gives a true representation of the matters in respect of which it is given;
- c) the information given in the Directors' Report is consistent with the accounting records and the annual accounts; and
- d) the annual accounts, the Annual Business Statement and the Directors' Report have each been prepared in accordance with the applicable requirements of the Building Societies Act 1986 and regulations made under it.

Ian S Smith (Senior Statutory Auditor)
for and on behalf of KPMG Audit Plc, Statutory Auditor

Chartered Accountants

One Snowhill
Snow Hill Queensway
Birmingham
B4 6GH

2 March 2010

Income & Expenditure Accounts

For the year ended 31 December 2009

	Notes	Group		Society	
		2009 £'000	2008 £'000	2009 £'000	2008 £'000
Interest receivable and similar income	2	82,496	190,111	84,193	187,839
Interest payable and similar charges	3	(72,683)	(168,164)	(72,683)	(168,164)
Net interest receivable		9,813	21,947	11,510	19,675
Pension finance (charge)/income	34	(227)	37	(227)	37
Income from investments	4	-	-	38	38
Fees and commissions receivable		4,209	4,935	3,553	4,465
Fees and commissions payable		(1,470)	(1,790)	(1,470)	(1,790)
Other operating income		429	401	64	122
Total income		12,754	25,530	13,468	22,547
Administrative expenses	5	(16,839)	(19,608)	(15,120)	(17,658)
Depreciation	18	(1,945)	(1,983)	(1,841)	(1,879)
Other operating charges	6	(240)	(865)	(222)	(856)
Provisions for bad and doubtful debts	16	(2,595)	(1,791)	14	420
Provisions for contingent liabilities and commitments - Non FSCS	27	-	211	-	211
Provisions for contingent liabilities and commitments - FSCS	27	1,530	(4,890)	1,530	(4,890)
Operating loss		(7,335)	(3,396)	(2,171)	(2,105)
Profit on disposal of fixed assets	18	1,563	-	1,563	-
Loss on ordinary activities before tax		(5,772)	(3,396)	(608)	(2,105)
Tax on loss on ordinary activities	10	1,466	647	233	532
Loss for the financial year	29	(4,306)	(2,749)	(375)	(1,573)

All results were derived from continuing activities.

Statement of Total Recognised Gains and Losses

For the year ended 31 December 2009

	Notes	Group		Society	
		2009 £'000	2008 £'000	2009 £'000	2008 £'000
Loss for the financial year		(4,306)	(2,749)	(375)	(1,573)
Actuarial (loss)/gain recognised in the pension scheme	34	(5,951)	1,065	(5,951)	1,065
Movement in deferred tax relating to pension scheme		1,666	(298)	1,666	(298)
Gain/(loss) on revaluation of investment properties	29	10	(147)	-	-
Total recognised losses for the year		(8,581)	(2,129)	(4,660)	(806)

The notes on pages 33 to 52 form part of these accounts.

Balance Sheets

As at 31 December 2009

	Notes	Group		Society	
		2009 £'000	2008 £'000	2009 £'000	2008 £'000
Assets					
Liquid assets					
Cash in hand and balances with the Bank of England		5,644	9,112	4,637	8,357
Treasury bills and other eligible bills	11	89,930	-	89,930	-
Loans and advances to credit institutions	12	194,330	214,061	194,330	214,061
Debt securities	13	377,801	462,216	377,801	462,216
Other liquid assets	14	48,572	50,166	48,572	50,166
		716,277	735,555	715,270	734,800
Loans and advances to customers					
Loans fully secured on residential property	15	1,959,264	2,372,112	1,511,922	1,915,687
Other loans	15	17,948	21,595	2,225	2,470
		1,977,212	2,393,707	1,514,147	1,918,157
Investments					
Investments in subsidiary undertakings	17	-	-	461,241	473,977
Tangible fixed assets	18	15,688	16,870	15,688	16,766
Investment properties	19	6,320	6,217	-	-
Other assets	21	3,254	803	1,444	1,221
Net pension asset	34	-	540	-	540
Prepayments and accrued income	22	18,026	15,969	15,361	9,518
Total assets		2,736,777	3,169,661	2,723,151	3,154,979
Liabilities					
Shares	23	2,117,789	2,202,574	2,117,789	2,202,574
Amounts owed to credit institutions	24	212,744	324,323	210,698	323,705
Amounts owed to other customers	25	237,976	468,696	237,976	468,696
		2,568,509	2,995,593	2,566,463	2,994,975
Other liabilities	26	6,104	4,205	1,721	1,250
Accruals and deferred income		3,651	4,070	3,466	3,894
Provisions for liabilities - FSCS	27	2,416	4,890	2,416	4,890
Net pension liability	34	3,775	-	3,775	-
Subordinated liabilities	28	52,000	52,000	52,000	52,000
Revaluation reserve	29	(137)	(147)	-	-
Reserves					
General reserves	29	100,459	109,050	93,310	97,970
Total liabilities		2,736,777	3,169,661	2,723,151	3,154,979
Memorandum items	30	112,291	116,278	112,291	116,278

The notes on pages 33 to 52 form part of these accounts.
These accounts were approved by the Board of Directors on 2 March 2010, and were signed on its behalf by:

L F A JAMES Chairman

J A SUTHERLAND Chief Executive

E P GATES Vice Chairman

Group Cash Flow Statement

For the year ended 31 December 2009

	Notes	Group	
		2009 £'000	2008 £'000
Net cash inflow from operating activities	32	3,815	119,102
Returns on investments and servicing of finance			
Interest paid on subordinated liabilities		(4,069)	(4,069)
Taxation		-	(513)
Capital expenditure and financial investment			
Purchase of investment securities		(3,027,312)	(2,020,722)
Sale and maturity of investment securities		3,021,797	1,952,038
Sale/(purchase) of other liquid assets		1,594	(37,229)
Purchase of tangible fixed assets		(1,103)	(1,515)
Sale of tangible fixed assets		1,903	9
Purchase of investment properties		(93)	(2,675)
		(3,214)	(110,094)
(Decrease)/increase in cash	32	(3,468)	4,426

Notes to the Accounts

For the year ended 31 December 2009

1. PRINCIPAL ACCOUNTING POLICIES

(a) Basis of preparation

The accounts are drawn up under the historical cost convention. The accounts have been prepared in accordance with the Building Societies (Accounts and Related Provisions) Regulations 1998, applicable UK accounting standards and the Building Societies Act 1986. The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the Group's financial statements.

The Group's business activities, together with the factors likely to affect its future development and performance are set out in the Business Review on pages 9 to 11. Although the Group has reported a loss after tax of £4.3m, the Group's core Tier 1 capital ratio has improved from 9.6% at 31 December 2008 to 10.2%. The Directors have prepared forecasts including of the Group's liquidity and capital positions, for a period beyond twelve months from the date of approval of these financial statements. The Directors have also considered the effect upon the Group's business, financial position, liquidity and capital of stressed, but plausible, trading and market conditions.

The economic and financial climate presents a number of risks for the Group's operations and its compliance with regulatory requirements. Having considered the forecasts and these risks, the Directors are confident that the Group will continue to satisfy the FSA as to its compliance with all relevant regulatory requirements ('threshold conditions') for the foreseeable future.

The Directors, therefore, have a reasonable expectation that the Society and Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing financial statements.

(b) Basis of consolidation

The Group accounts comprise the accounts of the Society and its subsidiary and associate undertakings for the year to 31 December. Investments in subsidiary and associate undertakings are stated at cost less provisions for any impairment in value.

(c) Tangible fixed assets and depreciation

Tangible fixed assets are stated at cost. The cost less the estimated residual value of fixed assets, other than land and assets in the course of construction, is depreciated on a straight line basis over their estimated useful lives as follows:

• Freehold buildings:	50 years
• Short leasehold premises:	life of lease
• Long leasehold premises:	50 years
• Fixtures and fittings:	8 years
• Office and computer equipment : personal computers	3 years
• : other equipment	5 years
• Motor vehicles:	5 years
• Software:	5 years

(d) Investment properties

Investment properties, which comprise properties held for rental are included in the balance sheet at their open market value. The properties are revalued annually and the aggregate surplus or deficit transferred to the revaluation reserve except where any deficit is deemed permanent when it is taken to the income and expenditure account. No provision is made for depreciation of investment properties. The departure from the requirements of the Regulations, which require all properties to be depreciated is, in the opinion of the Directors, necessary for the Annual Accounts to show a true and fair view in accordance with applicable accounting standards. The depreciation charge is only one of the factors reflected in the annual valuation and therefore the effect of the departure cannot be readily quantified.

Notes to the Accounts

For the year ended 31 December 2009

1. PRINCIPAL ACCOUNTING POLICIES (continued)

(e) Taxation

The charge for taxation is based on the (loss)/profit for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes. Deferred tax is provided using the full provision method and is recognised on a non-discounted basis in respect of all timing differences except as otherwise required under FRS19.

(f) Liquid assets

Debt securities and Treasury bills are held for continuing use in the business and so are accounted for as financial fixed assets and accordingly, together with other liquid assets, are shown at cost. Premiums and discounts arising on the purchase of financial fixed assets are amortised over either five years, or if a shorter period, to the maturity date of the security. Where debt securities are used to hedge fixed rate liabilities, premiums and discounts are amortised on a straight line basis to the maturity date of the liability being hedged. Where there is a permanent diminution in value of a financial fixed asset, a provision is made so as to write down the cost of the security to its recoverable amount.

(g) Pension costs

The Group operates a defined benefit pension scheme where the assets are measured at market value at each balance sheet date and the liabilities are measured using the projected unit valuation method, discounted using a corporate bond rate. For quoted securities the current bid price is taken as the market value. The resultant pension scheme surplus or deficit is recognised as an asset or liability on the balance sheet, net of associated deferred taxation.

The increase in the present value of the liabilities of the scheme expected to arise from employee service is charged to the income and expenditure account as an administrative expense. The expected return on the scheme's assets and the increase in the scheme's liabilities, arising from the passage of time, are disclosed as a pension finance charge. Any resulting actuarial gains or losses, that is gains or losses arising from differences in the expected return on scheme assets compared to the actual return and changes in assumptions, or factors which affect those assumptions, used in measuring the scheme liabilities, are recognised immediately in the statement of total recognised gains and losses.

The Group also operates a defined contribution scheme, contributions to which are charged to the income and expenditure account as they fall due.

(h) Provisions for bad and doubtful debts

The provision for bad and doubtful debts includes both those specifically identified and those provided for on a general basis, based upon a year end appraisal of the portfolio of loans and advances to customers. Specific provisions are made against all loans where the property has been taken into possession, or where mortgage payments are in arrears and where a probable loss is identified at the balance sheet date. No provision is made for the loss of future interest. A general provision, based on the evaluation of risks in the portfolio and taking into account prior experience, is made in the accounts to reflect the probability that other loans to customers may already have become impaired at the balance sheet date, with the result that the amount advanced may not be recovered in full.

The charge or credit to the income and expenditure account represents losses written off in the year together with increases or releases of the general and specific provisions, adjusted for recoveries of amounts written off in previous years. Interest is charged at the full contractual rate on all mortgage accounts in arrears or in possession. However, for the purposes of these accounts, interest is suspended for all accounts in possession or more than twelve months in arrears where collection is in doubt.

(i) Operating leases

Operating lease charges are recognised in the income and expenditure account on a straight line basis over the life of the lease.

(j) Premiums on the acquisition of mortgages

Premiums arising on the acquisition of mortgages are included within prepayments in the balance sheet and are amortised against interest receivable and similar income over the average expected life of the acquired portfolio. Certain up front fees paid to mortgage packagers are also accounted for as premiums on mortgage acquisition.

Notes to the Accounts

For the year ended 31 December 2009

1. PRINCIPAL ACCOUNTING POLICIES (continued)

(k) Mortgage incentives

Mortgage cashback incentives are amortised over the shorter of the early redemption charge period or the expected life of the mortgage. Interest discounts reduce interest receivable over the period of the relevant discounted rate. Other mortgage incentives paid to borrowers are charged to the income and expenditure account within other operating charges as incurred.

(l) Fees and commissions

Mortgage procurement fees paid to brokers are deferred and charged against interest receivable and similar income over the estimated life of the mortgage. Other fees and commissions receivable and payable are recognised in the income and expenditure account on an accruals basis.

(m) Derivatives

The Society enters into derivative contracts for the purpose of matching or eliminating risk from potential movements in interest rates inherent in the Group's assets and liabilities.

Derivatives are reviewed regularly for their effectiveness as hedges and are accounted for on an accruals basis, consistent with the assets or liabilities being hedged. Income and expenses on derivatives are recognised as they accrue over the life of the instruments as an adjustment to interest receivable or interest payable. In order to achieve a consistent timing of income recognition on the items being hedged, deferred gains and losses are included in the balance sheet within accruals and deferred income or prepayments and accrued income.

Where a hedge is terminated early, the resulting gain or loss is amortised over the remaining life of the item being hedged. If the underlying item is redeemed, the unamortised amounts are recognised immediately in the income and expenditure account.

Notes to the Accounts

For the year ended 31 December 2009

2. INTEREST RECEIVABLE AND SIMILAR INCOME

	Group		Society	
	2009 £'000	2008 £'000	2009 £'000	2008 £'000
On loans fully secured on residential property	99,036	142,209	80,465	111,666
On other loans				
· loans fully secured on land	959	1,779	185	223
· other loans	27	39	-	-
· connected undertakings	-	-	21,075	29,898
On debt securities				
· interest and other income	7,757	24,697	7,757	24,697
· profits net of losses	1,633	1,264	1,633	1,264
On other liquid assets				
· interest and other income	2,403	14,762	2,397	14,730
Net (expense)/income on financial instruments hedging assets	(29,319)	5,361	(29,319)	5,361
	82,496	190,111	84,193	187,839

Included within Group interest receivable on loans fully secured on residential property is a charge of £1,499,000 (2008 : £2,430,000) relating to the amortisation of premiums arising on the acquisition of mortgages. Also included in interest receivable is a charge of £2,398,000 (2008 : nil) relating to the write-off of premiums arising on the acquisition of mortgages. Interest and other income on debt securities for Group and Society relates wholly to fixed income securities.

3. INTEREST PAYABLE AND SIMILAR CHARGES

	Group & Society	
	2009 £'000	2008 £'000
On shares held by individuals	64,679	112,554
On deposits and other borrowings	17,480	54,827
Net (income)/expense on financial instruments hedging liabilities	(9,476)	783
	72,683	168,164

Interest payable on deposits and other borrowings includes £4,069,000 (2008: £4,069,000) payable on subordinated liabilities.

4. INCOME FROM INVESTMENTS

	Society	
	2009 £'000	2008 £'000
Income from shares in subsidiary undertakings	38	38

Notes to the Accounts

For the year ended 31 December 2009

5. ADMINISTRATIVE EXPENSES

	Group		Society	
	2009 £'000	2008 £'000	2009 £'000	2008 £'000
Staff costs:				
· wages and salaries	8,391	9,471	8,391	9,471
· social security costs	800	903	800	903
· other pension costs	550	656	550	656
	9,741	11,030	9,741	11,030
Other administrative costs:				
Auditors' remuneration - audit of financial statements Society (exclusive of VAT)	96	96	96	96
- audit of financial statements of subsidiaries (exclusive of VAT)	15	13	-	-
- other services relating to taxation (exclusive of VAT)	35	32	35	32
Operating lease charges:				
· land and buildings	403	295	403	295
· other	218	221	218	221
Other expenses	6,331	7,442	4,627	5,505
Restructuring costs*	-	479	-	479
	16,839	19,608	15,120	17,658

* Restructuring costs arose from changes in the structure of head office management

6. OTHER OPERATING CHARGES

Other operating charges comprise mortgage incentives other than interest discounts and cashbacks.

7. DIRECTORS' EMOLUMENTS

Details of Directors' emoluments are set out in the table in the Directors' Remuneration Policy Report on page 27. Total Directors' emoluments amounted to £1,011,000 (2008 : £853,000).

8. LOANS TO DIRECTORS AND CONNECTED PERSONS

At 31 December 2009 there were 3 (2008: 5) loans to persons as defined under Section 65 of the Building Societies Act 1986 amounting to £399,597 (2008: £834,963). A register of loans to and transactions with Directors and connected persons is maintained. A statement containing particulars from the register will be available for inspection by members at the Society's Head Office from 08 April 2010 up to and including 22 April 2010 and will be available at the Annual General Meeting.

9. EMPLOYEES

The average number of persons employed by the Group and the Society (including Executive Directors) during the year was:

	Full time		Part time	
	2009 Number	2008 Number	2009 Number	2008 Number
Head Office	177	199	54	61
Branches	109	112	44	43
	286	311	98	104

Notes to the Accounts

For the year ended 31 December 2009

10. TAX ON LOSS ON ORDINARY ACTIVITIES

	Group		Society	
	2009 £'000	2008 £'000	2009 £'000	2008 £'000
Corporation tax at 28% (2008:28.5%)				
Under / (over) provision in previous years	408	-	(15)	-
Group relief payable/receivable				
Under provision in previous years	-	-	408	-
Total current tax	408	-	393	-
Deferred tax (note 20)	(1,479)	(621)	(257)	(506)
Over provision in previous years (note 20)	(395)	(26)	(369)	(26)
Total tax credit	(1,466)	(647)	(233)	(532)

Factors affecting tax charge for year

The tax assessed for the year differs from the standard rate of corporation tax in the UK. The differences are explained below:

Loss on ordinary activities before tax	(5,772)	(3,396)	(608)	(2,105)
Current tax at 28% (2008:28.5%)	(1,616)	(968)	(170)	(600)
Effects of:				
Expenses not deductible for tax purposes	15	24	15	24
Depreciation for the period in excess of capital allowances	205	244	176	215
Provisions not allowed until paid	(31)	(274)	(31)	(391)
Adjustment to tax charge for payments basis (pension)	12	-	12	-
Income not subject to tax	-	-	(11)	(11)
Losses not utilised	1,579	1,071	170	862
Brought forward losses utilised	(3)	-	-	-
Prior year adjustment	-	(99)	-	(99)
Capital items expensed	-	2	-	-
Difference between accounting loss on disposal and chargeable gain	(161)	-	(161)	-
Adjustment to tax charge in respect of previous periods	408	-	393	-
Total current tax (see above)	408	-	393	-

11. TREASURY BILLS AND OTHER ELIGIBLE BILLS

The movement on Treasury bills was as follows:

	Group & Society	
	2009 £'000	2008 £'000
Cost		
At 1 January 2009	-	-
Acquisitions	124,904	-
Disposals	(35,000)	-
Amortisation	26	-
	89,930	-

The unamortised discount on Treasury bills above was £70,000 (2008 : nil)

12. LOANS AND ADVANCES TO CREDIT INSTITUTIONS

Repayable from the date of the balance sheet in the ordinary course of business as follows:

	Group & Society	
	2009 £'000	2008 £'000
Accrued interest	330	561
In not more than three months	150,500	211,500
In more than three months but not more than one year	43,500	2,000
	194,330	214,061

Notes to the Accounts

For the year ended 31 December 2009

13. DEBT SECURITIES

	Group & Society	
	2009 £'000	2008 £'000
Issued by public bodies	9,152	15,119
Issued by other borrowers	368,649	447,097
	377,801	462,216
Repayable from the date of the balance sheet in the ordinary course of business as follows:		
Accrued interest	860	3,997
In not more than one year	286,549	383,846
In more than one year	90,392	74,373
	377,801	462,216
Analysis of debt securities		
Transferable securities accounted for as financial fixed assets - unlisted	377,801	462,216
The Directors of the Society consider that the primary purpose of holding securities is prudential. The securities are held as liquid assets with the intention of use on a continuing basis in the Group's activities and are therefore classified as financial fixed assets rather than current assets.		
Movements during the year of transferable securities held as financial fixed assets are analysed as follows:		
Cost (excluding accrued interest)		
At 1 January	458,219	388,700
Additions	2,905,545	2,021,557
Maturities and disposals	(2,986,823)	(1,952,038)
At 31 December	376,941	458,219
The unamortised premium on debt securities included above was £41,000 (2008 : £231,000). The unamortised discount on debt securities included above was £114,000 (2008 : £127,000).		

14. OTHER LIQUID ASSETS

	Group & Society	
	2009 £'000	2008 £'000
Repayable from the date of the balance sheet in the ordinary course of business as follows:		
Accrued interest	9	46
In not more than three months	48,563	50,120
	48,572	50,166
Other liquid assets include £20,462,000 deposited as collateral in respect of swap agreements (2008 : £40,328,000).		

15. LOANS AND ADVANCES TO CUSTOMERS

	Group		Society	
	2009 £'000	2008 £'000	2009 £'000	2008 £'000
Loans fully secured on residential property	1,959,264	2,372,112	1,511,922	1,915,687
Other loans				
- loans fully secured on land	17,697	21,203	2,225	2,470
- other loans	251	392	-	-
	1,977,212	2,393,707	1,514,147	1,918,157
The maturity of loans and advances to customers, from the date of the balance sheet is as follows:				
On call and at short notice	6,844	6,386	970	2,328
In not more than three months	7,845	8,867	6,890	7,925
In more than three months but not more than one year	31,828	34,402	25,461	28,773
In more than one year but not more than five years	228,758	252,385	190,304	214,666
In more than five years	1,707,774	2,096,818	1,290,905	1,664,825
	1,983,049	2,398,858	1,514,530	1,918,517
Provisions for losses on loans and advances to customers (note 16)	(5,837)	(5,151)	(383)	(360)
	1,977,212	2,393,707	1,514,147	1,918,157

The maturity analysis is based on contractual maturity not actual redemption levels experienced by the Group.

Notes to the Accounts

For the year ended 31 December 2009

16. PROVISIONS FOR BAD AND DOUBTFUL DEBTS

	Group		
	Loans fully secured on residential properties £'000	Loans fully secured on land £'000	Total £'000
At 1 January 2009			
· general provision	1,738	53	1,791
· specific provision	3,360	-	3,360
	5,098	53	5,151
Amounts written off during the year - specific provision	(2,040)	-	(2,040)
Income and expenditure charge for the year			
· general provision	(709)	(3)	(712)
· specific provision	3,438	-	3,438
	2,729	(3)	2,726
At 31 December 2009			
· general provision	1,029	50	1,079
· specific provision	4,758	-	4,758
	5,787	50	5,837

The charge to the income and expenditure account in respect of provisions for bad and doubtful debts comprises the above charge less a credit for recoveries of specific debts fully secured on residential property previously written off totalling £131,000.

	Society		
	Loans fully secured on residential properties £'000	Loans fully secured on land £'000	Total £'000
At 1 January 2009			
· general provision	146	40	186
· specific provision	174	-	174
	320	40	360
Amounts written off during the year - specific provision	(86)	-	(86)
Income and expenditure charge for the year			
· general provision	(107)	(2)	(109)
· specific provision	218	-	218
	111	(2)	109
At 31 December 2009			
· general provision	39	38	77
· specific provision	306	-	306
	345	38	383

The credit to the income and expenditure account in respect of provisions for bad and doubtful debts comprises the above charge and a credit for recoveries of specific debts fully secured on residential property previously written off totalling £123,000.

Notes to the Accounts

For the year ended 31 December 2009

17. INVESTMENTS

Investments in equity shares and subsidiary undertakings are financial fixed assets.

Investments in unlisted associated undertakings

The Society has an interest in the ordinary share capital of the following undertaking:-

Associated undertaking	% Shareholding	Nature of business
Bundles Limited (in liquidation)	25%	Non trading

Bundles Limited is registered in England. The cost of investment was written off in 2006.

Investments in subsidiary undertakings

The Society has wholly-owned subsidiary undertakings, none of which is a credit institution and all of which are included in the consolidated accounts. These subsidiary undertakings, all of which are registered in England, are :

	Nature of business
ITL Mortgages Ltd*	Acquisition of mortgage portfolios and provision of mortgage finance to homeowners
Stroud & Swindon Funding Company	Funding company for acquisition of mortgage books
Stroud & Swindon Funding Company (No.2) Ltd.	Funding company for acquisition of mortgage books
Five Valleys Property Company Ltd	Acquisition of investment properties

All the above subsidiary undertakings have ordinary share capital and are limited liability companies, except Stroud & Swindon Funding Company which is an unlimited liability company and ITL Mortgages Ltd which also has preference share capital.

* This company is directly owned by Stroud & Swindon Funding Company (No. 2) Ltd.

The movement in the carrying value of the investments in these subsidiary undertakings, all of which are unlisted, is as follows:

	Society		Total £'000
	Shares in subsidiary undertakings £'000	Loans to subsidiary undertakings £'000	
Society			
Cost			
At 1 January 2009	13,215	460,762	473,977
Net repayments	-	(12,736)	(12,736)
At 31 December 2009	13,215	448,026	461,241

Notes to the Accounts

For the year ended 31 December 2009

18. TANGIBLE FIXED ASSETS

18. TANGIBLE FIXED ASSETS		Land & buildings			Equipment fixtures, fittings & vehicles £'000	Assets in the course of construction £'000	Total £'000
		Freehold £'000	Long leasehold £'000	Short leasehold £'000			
Group							
Cost							
At 1 January 2009		12,161	1,199	527	14,386	-	28,273
Additions		-	-	-	608	495	1,103
Disposals		(371)	-	-	-	-	(371)
At 31 December 2009		11,790	1,199	527	14,994	495	29,005
Depreciation							
At 1 January 2009		1,288	445	363	9,307	-	11,403
Charge for the year		306	24	18	1,597	-	1,945
Disposals		(31)	-	-	-	-	(31)
At 31 December 2009		1,563	469	381	10,904	-	13,317
Net book amount							
At 31 December 2009		10,227	730	146	4,090	495	15,688
At 31 December 2008		10,873	754	164	5,079	-	16,870
Society							
Cost							
At 1 January 2009		11,641	1,199	527	14,386	-	27,753
Additions		-	-	-	608	495	1,103
Disposals		(371)	-	-	-	-	(371)
At 31 December 2009		11,270	1,199	527	14,994	495	28,485
Depreciation							
At 1 January 2009		872	445	363	9,307	-	10,987
Charge for the year		202	24	18	1,597	-	1,841
Disposals		(31)	-	-	-	-	(31)
At 31 December 2009		1,043	469	381	10,904	-	12,797
Net book amount							
At 31 December 2009		10,227	730	146	4,090	495	15,688
At 31 December 2008		10,769	754	164	5,079	-	16,766

During the year the Society sold and leased back premises. This realised a profit of £1,563,000.

	Group		Society	
	2009 £'000	2008 £'000	2009 £'000	2008 £'000
The net book amount of land and buildings occupied by the Group and Society for its own activities	10,250	10,624	10,250	10,520

The cost of freehold land and buildings includes £1,547,000 (Group and Society) which is not depreciated.

19. INVESTMENT PROPERTY

Cost / valuation	Group £'000
At 1 January 2009	6,217
Additions	93
Net revaluation increase	10
At 31 December 2009	6,320

A national firm of property experts, Spicerhaart, was used to carry out a valuation review of the residential investment properties held by Five Valleys Property Company. Drive-by valuations were carried out by their estate agency operation, Darlows. If the properties were carried at cost, the carrying amount would be £6,456,844 (2008:£6,364,281).

Notes to the Accounts

For the year ended 31 December 2009

20. DEFERRED TAX

	Group	Society
	2009 £'000	2009 £'000
At 1 January	803	726
Charge for the year (note 10)	1,874	626
Offset against pension deficit	(10)	(10)
At 31 December	2,667	1,342

	Group		Society	
	2009 £'000	2008 £'000	2009 £'000	2008 £'000
Accelerated capital allowances	227	(171)	227	(171)
Provisions not allowed until paid	298	328	22	52
Other timing differences	2,142	646	1,093	845
Deferred tax asset	2,667	803	1,342	726

21. OTHER ASSETS

	Group		Society	
	2009 £'000	2008 £'000	2009 £'000	2008 £'000
Corporation tax recoverable	587	-	102	495
Deferred tax (note 20)	2,667	803	1,342	726
	3,254	803	1,444	1,221

22. PREPAYMENTS AND ACCRUED INCOME

	Group		Society	
	2009 £'000	2008 £'000	2009 £'000	2008 £'000
Due within one year:				
Premiums on acquisition of mortgages	817	1,845	-	-
Prepaid fees	1,323	803	1,217	614
Amounts due on interest rate contracts	1,397	5,187	1,397	5,187
Other	4,417	1,547	3,623	886
	7,954	9,382	6,237	6,687

Due after more than one year:

Premiums on acquisition of mortgages	716	3,586	-	-
Prepaid fees	589	645	357	475
Other	8,767	2,356	8,767	2,356
	18,026	15,969	15,361	9,518

Included in 'other' above is £9,788,000 (2008 : nil) swap cancellation costs, which are being amortised in accordance with the policy set out in Note 1.

23. SHARES

	Group & Society	
	2009 £'000	2008 £'000
Held by individuals	2,117,789	2,202,574
Repayable from the date of the balance sheet in the ordinary course of business as follows:		
Accrued interest	16,813	47,082
On demand	961,802	1,045,371
In not more than three months	669,596	1,086,712
In more than three months but not more than one year	141,150	1,187
In more than one year but not more than five	328,428	22,222
	2,117,789	2,202,574

Notes to the Accounts

For the year ended 31 December 2009

24. AMOUNTS OWED TO CREDIT INSTITUTIONS

	Group		Society	
	2009 £'000	2008 £'000	2009 £'000	2008 £'000
Repayable from the date of the balance sheet in the ordinary course of business as follows:				
Accrued interest	238	1,305	238	1,305
On demand	2,756	618	710	-
In not more than three months	206,750	303,000	206,750	303,000
In more than three months but not more than one year	2,000	19,400	2,000	19,400
In more than one year but not more than five years	1,000	-	1,000	-
	212,744	324,323	210,698	323,705

25. AMOUNTS OWED TO OTHER CUSTOMERS

	Group & Society	
	2009 £'000	2008 £'000
Repayable from the date of the balance sheet in the ordinary course of business as follows:		
Accrued interest	1,052	8,111
On demand	22,743	19,168
In not more than three months	160,350	331,156
In more than three months but not more than one year	51,331	105,261
In more than one year but not more than five years	2,500	5,000
	237,976	468,696

26. OTHER LIABILITIES

	Group		Society	
	2009 £'000	2008 £'000	2009 £'000	2008 £'000
Income tax	1,198	747	1,198	747
Corporation tax	2,935	1,941	-	-
Other taxation and social security	239	305	239	305
Other creditors	1,732	1,212	284	198
	6,104	4,205	1,721	1,250

27. PROVISIONS FOR LIABILITIES

	Group & Society	
	2009 £'000	2008 £'000
Provision for regulatory claims as at 1 January	4,890	239
Utilised in the year	(944)	(28)
Unused amounts reversed	-	(211)
(Decrease)/increase in provision - FSCS levy	(1,530)	4,890
Provision for FSCS as at 31 December (note 31)	2,416	4,890

Notes to the Accounts

For the year ended 31 December 2009

28. SUBORDINATED LIABILITIES

	Group & Society	
	2009 £'000	2008 £'000
Subordinated loan due 2016 rate payable 12.25%	7,000	7,000
Subordinated loan due 2017 rate payable 8.37%	10,000	10,000
Subordinated loan due 2021 rate payable 6.12%	10,000	10,000
Subordinated loan due 2026 rate payable 6.33%	10,000	10,000
Subordinated loan due 2032 rate payable 7.54%	15,000	15,000
	52,000	52,000

The loans are repayable at maturity denominated in Sterling. The rights of repayment of the holders of subordinated debt are subordinated to the claims of all depositors, all creditors and members holding shares in the Society, as regards the principal of their shares and interest due to them. The subordinated loans due on 2017, 2021, 2026 and 2032 have options to repay on 2012, 2016, 2021 and 2027 respectively, with the prior consent of the Financial Services Authority. The weighted average interest rate of 7.83% has been hedged by a combination of bonds and fixed rate mortgages resulting in a net cost of capital after hedging of 1.1% (2008: 0.8%).

29. RESERVES

	Group	Society
	2009 £'000	2009 £'000
Revaluation reserve		
At 1 January 2009	(147)	-
Gain on revaluation of investment properties (note 19)	10	-
At 31 December 2009	(137)	-
General reserves		
At 1 January 2009	109,050	97,970
Loss for the financial year	(4,306)	(375)
Actuarial losses net of deferred tax recognised in STRGL	(4,285)	(4,285)
At 31 December 2009	100,459	93,310

30. MEMORANDUM ITEMS

	Group & Society
	Contract amount £'000
2009	
Irrevocable undrawn mortgage loan facilities	112,291
2008	
Irrevocable undrawn mortgage loan facilities	116,278

31. FINANCIAL COMMITMENTS

In common with all regulated UK deposit takers, the Society pays levies to the Financial Services Compensation Scheme (FSCS) to enable the FSCS to meet claims against it. The FSCS levy consists of two parts - a management expenses levy and a compensation levy. The management expenses levy covers the costs of running the scheme and the compensation levy covers the amount of compensation the scheme pays, net of any recoveries it makes using the rights that have been assigned to it. In September 2008 a claim was triggered against the FSCS by the transfer of Bradford & Bingley plc's retail deposit business to Abbey National plc. In October 2008 a further claim was triggered against the FSCS by the transfer of Kaupthing Singer and Friedlander's (KSF) internet deposit business ('Kaupthing Edge') and Heritable Bank's (a subsidiary of Landsbanki hf) deposit business to ING Direct. The FSCS will also be liable to claims from depositors of Landsbanki hf and KSF whose balances have not been transferred to ING Direct, but are covered by the FSCS.

We understand that the FSCS has met, or will meet, the claims by way of loans received from the Bank of England which will eventually be replaced by a loan from HM Treasury. The FSCS has, in turn, acquired the rights to the realisation of the assets of these banks. The FSCS is liable to pay interest on the loans from the Bank of England. The loan facilities are on an interest only basis for 3 years. The FSCS may have a further liability if there are insufficient funds available from the realisation of the assets of the banks to repay fully the respective Bank of England loans.

In 2008, the Society recognised a provision for the FSCS levy of £4.9m which was calculated with reference to the protected deposits held and was the best estimate of the management expenses levy to be raised to cover the three year's interest referred to above. During the course of the year there has been further clarification from the Financial Services Authority on amounts to be provided. This clarification confirms that accrual should only be made for liabilities incurred as a result of market participation up to the date of the balance sheet and that future market participation should not be taken into account. As a result there has been a release of provision of £1.5m. The provision does not include any estimate for management expense levies for future scheme years or for compensation levies which may arise.

Notes to the Accounts

For the year ended 31 December 2009

31. FINANCIAL COMMITMENTS (continued)

The capital commitments contracted but not provided for at 31 December 2009 were £98,000 (2008 : nil). The Society leases a number of properties in respect of land & buildings and other items under operating leases and the annual rentals under the leases are as follows:

	Group & Society	
	2009 £'000	2008 £'000
Operating leases which expire:		
Within one year		
Land and buildings	-	14
Other	51	48
Within two to five years		
Land and buildings	107	30
Other	131	208
Over five years		
Land and buildings	387	298
	676	598

32. GROUP CASH FLOW STATEMENT

	Group	
	2009 £'000	2008 £'000
Reconciliation of operating loss to net cash inflow from operating activities.		
Operating loss	(7,335)	(3,396)
Provision for bad and doubtful debts	2,595	1,791
Loans and advances written-off, net of recoveries	(1,909)	(312)
Depreciation	1,945	1,983
Interest on subordinated liabilities	4,069	4,069
Pension charges	485	368
Pension contributions	(443)	(936)
Net cash (outflow)/inflow from trading activities	(593)	3,567
Net (increase)/decrease in prepayments and accrued income	(2,057)	8,275
Net (decrease) in accruals and deferred income	(419)	(1,386)
Net decrease in loans and advances to customers	415,809	35,080
Net decrease in shares	(84,785)	(8,080)
Net (decrease)/increase in amounts owed to credit institutions and other customers	(342, 299)	5,918
Net decrease in loans and advances to credit institutions	19,731	71,327
Net increase/(decrease) in other liabilities	902	(250)
Net (decrease)/increase in provisions for liabilities	(2,474)	4,651
Net cash inflow from operating activities	3,815	119,102
Analysis of the balances of cash in hand and balances with the Bank of England:		
At 1 January	9,112	4,686
Flows	(3,468)	4,426
At 31 December	5,644	9,112

The Group is required to maintain balances with the Bank of England which at 31 December 2009 amounted to £1,717,000 (2008: £2,041,000).

Notes to the Accounts

For the year ended 31 December 2009

33. FINANCIAL INSTRUMENTS

A financial instrument is a contract that gives rise to a financial asset of one entity and a financial liability of another entity. The Group is a retailer of financial instruments, mainly in the form of mortgages and savings products. The Group uses wholesale financial instruments to invest liquid asset balances, raise wholesale funding and to manage the risks arising from its operations.

The Assets & Liabilities Committee is responsible for the management and control of the Group's balance sheet risk. The Committee sets and reviews the Group's formal structure for managing risk, which includes established risk limits, reporting lines, mandates and other control procedures. The findings of the Committee are presented to the Board.

Derivatives

The Society is permitted by the Building Societies Act 1986 to enter into derivative contracts for the purposes of hedging its lending and funding activities.

The Society enters into interest rate contracts with other financial institutions in order to minimise its exposure to interest rate movements over fixed periods. The principal contracts used in interest rate risk management are interest rate swaps which are used to hedge the Group's balance sheet exposures arising from fixed and capped rate mortgage lending and fixed rate savings products with durations of up to five years. The cash flows on these interest rate contracts are in respect of interest only and the underlying principal is a nominal amount, which is not included in the balance sheet. Information on the accounting treatment of these contracts is set out in Note 1. Other information is as follows:

	Group & Society					
	Notional Principal amount 2009 £'000	Credit risk weighted amount 2009 £'000	Replacement Cost 2009 £'000	Notional Principal amount 2008 £'000	Credit risk weighted amount 2008 £'000	Replacement Cost 2008 £'000
Interest rate contracts						
Interest rate swaps	849,800	1,771	5,231	1,837,400	2,752	8,696
Under one year	343,000	170	852	1,061,500	958	4,788
Between one and five years	397,500	1,273	4,379	657,500	1,439	3,908
Over five years	109,300	328	-	118,400	355	-
Total	849,800	1,771	5,231	1,837,400	2,752	8,696

Notional principal amounts are used to express the volume of transactions, but the amounts potentially subject to credit risk are much smaller. The credit risk weighted amount, which is calculated according to rules specified by the Financial Services Authority, is based on the replacement cost, but also takes into account measures of the extent of potential future exposure and the nature of the counterparty. The replacement cost represents the cost of replacing contracts with positive values, calculated at market rates current at the balance sheet date.

Risk management

The financial risks faced by the Group include liquidity risk, credit risk and interest rate risk.

Liquidity risk

The Group's liquidity policy is to maintain sufficient liquid resources to cover cash flow imbalances and fluctuations in funding, to retain full public confidence in the solvency of the Group and to enable the Group to meet its financial obligations. This is achieved through maintaining a prudent level of liquid assets, through wholesale funding facilities and through management control of the growth of the business.

Credit risk

Credit risk is the risk that counterparties will not be able to meet their obligations as they fall due. The Assets & Liabilities Committee is responsible for approving the Group's investment policy which contains limits on credit exposures to individual counterparties.

Notes to the Accounts

For the year ended 31 December 2009

33. FINANCIAL INSTRUMENTS (continued)

Interest rate risk

Interest rate risk arises primarily from the Group's exposure to interest rate fluctuations whilst offering customer products (both mortgage and savings) which are at fixed interest rates. The exposure is managed using interest rate swaps and other conventional hedging instruments. The tables below provide an indication of the re-pricing mismatch. For the major categories of asset and liability, these "gap" tables show the volumes repricing in selected maturity bands. An interest rate sensitivity gap in a particular time period indicates an exposure to a movement in interest rates when refinancing.

At 31 December 2009

	Group						
	Not more than 3 months	More than 3 months but not more than 6 months	More than 6 months but not more than 1 year	More than 1 year but not more than 5 years	More than 5 years	Non-interest bearing	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Assets							
Liquid assets	608,510	40,931	60,000	-	-	6,836	716,277
Loans and advances to customers	1,304,480	76,970	151,587	279,440	170,572	(5,837)	1,977,212
Tangible fixed assets	-	-	-	-	-	15,688	15,688
Other assets	-	-	-	-	-	27,600	27,600
Total assets	1,912,990	117,901	211,587	279,440	170,572	44,287	2,736,777
Liabilities							
Shares	1,389,091	36,130	163,865	512,385	-	16,318	2,117,789
Amounts owed to credit institutions and to other customers	392,604	40,431	12,900	3,500	-	1,285	450,720
Other liabilities	-	-	-	-	-	6,104	6,104
Provisions for liabilities - FSCS	-	-	-	-	-	2,416	2,416
Net pension liability	-	-	-	-	-	3,775	3,775
Accruals and deferred income	-	-	-	-	-	3,651	3,651
Subordinated liabilities	-	-	-	-	52,000	-	52,000
Revaluation reserve	-	-	-	-	-	(137)	(137)
Reserves	-	-	-	-	-	100,459	100,459
Total liabilities	1,781,695	76,561	176,765	515,885	52,000	133,871	2,736,777
Off balance sheet items	104,771	(25,000)	(128,000)	157,500	(109,271)	-	-
Interest rate sensitivity gap	236,066	16,340	(93,178)	(78,945)	9,301	(89,584)	-

At 31 December 2008

Assets

Liquid assets	655,717	56,001	2,000	1,088	7,071	13,678	735,555
Loans and advances to customers	1,145,417	206,276	333,909	549,761	163,495	(5,151)	2,393,707
Tangible fixed assets	-	-	-	-	-	16,870	16,870
Other assets	-	-	-	-	-	23,529	23,529
Total assets	1,801,134	262,277	335,909	550,849	170,566	48,926	3,169,661

Liabilities

Shares	1,375,213	237,994	283,586	258,698	-	47,083	2,202,574
Amounts owed to credit institutions and to other customers	654,124	49,761	74,900	5,000	-	9,234	793,019
Other liabilities	-	-	-	-	-	4,205	4,205
Provisions for liabilities - FSCS	-	-	-	-	-	4,890	4,890
Net pension liability	-	-	-	-	-	-	-
Accruals and deferred income	-	-	-	-	-	4,070	4,070
Subordinated liabilities	-	-	-	-	52,000	-	52,000
Revaluation reserve	-	-	-	-	-	(147)	(147)
Reserves	-	-	-	-	-	109,050	109,050
Total liabilities	2,029,337	287,755	358,486	263,698	52,000	178,385	3,169,661
Off balance sheet items	482,352	87,000	(68,500)	(382,500)	(118,352)	-	-
Interest rate sensitivity gap	254,149	61,522	(91,077)	(95,349)	214	(129,459)	-

Liquid assets include cash in hand and balances with the Bank of England, loans and advances to credit institutions, debt securities and Treasury bills. Other assets include investment properties, prepayments and accrued income. Subordinated liabilities are stated exclusive of accrued interest. Other liabilities include provisions for liabilities and other liabilities.

Notes to the Accounts

For the year ended 31 December 2009

33. FINANCIAL INSTRUMENTS (continued)

Gains and losses on hedges

Derivatives (which are all held for non trading purposes) are measured on an accruals basis, consistent with the assets or liabilities being hedged. The gains and losses on these instruments (arising from changes in fair value) are not recognised in the Income and Expenditure Account. The table below summarises the unrecognised gains and losses at 31 December 2009 and the movements therein during the year.

	Group		
	Gains £'000	Losses £'000	Total Net gains/(losses) £'000
Unrecognised gains and losses on hedges at 1 January 2009	8,696	(66,337)	(57,641)
Of which recognised in the year to 31 December 2009	6,647	(23,015)	(16,368)
Gains and losses arising before 1 January 2009 that were not recognised in the year to 31 December 2009	15,343	(89,352)	(74,009)
Gains and losses arising in the year to 31 December 2009 that were not recognised in that year	(10,112)	64,931	54,819
Unrecognised gains and losses on hedges at 31 December 2009	5,231	(24,421)	(19,190)
Of which expected to be recognised in the year to 31 December 2010	4,223	(10,860)	(6,637)

Fair values of financial instruments

The table below compares the book and fair values of some of the Group's financial instruments by category excluding accrued interest as at 31 December 2009 and 31 December 2008. Where available, market values have been used to determine fair values. Where market values are not available, fair values have been calculated by discounting cashflows at prevailing interest rates.

	Group							
	Positive		Negative		Positive		Negative	
	2009 Book value £'000	2009 Fair value £'000	2009 Book value £'000	2009 Fair value £'000	2008 Book value £'000	2008 Fair value £'000	2008 Book value £'000	2008 Fair value* £'000
On balance sheet instruments:								
Liquid assets								
- Issued by public bodies	9,041	9,147	-	-	14,881	18,269	-	-
- Issued by other borrowers	367,745	367,174	-	-	443,338	440,051	-	-
- Issued by UK Government	89,915	89,923	-	-	-	-	-	-
Subordinated liabilities	-	-	(52,000)	(28,890)	-	-	52,000	(31,525)
Off balance sheet and similar instruments								
Interest rate swaps	-	5,231	-	(24,421)	-	8,696	-	(66,337)

The table excludes certain financial assets and liabilities which are not listed or publicly traded, or for which a liquid and active market does not exist. Thus it excludes mortgages, retail savings accounts and other balance sheet items whose book and fair values may differ.

*As restated. The valuation of subordinated liabilities at the end of 2008 was previously based on limited information available at the time. Subsequent transactions have indicated the value at that date to be lower and consequently the comparative has been restated to reflect this revised fair value.

Notes to the Accounts

For the year ended 31 December 2009

34. PENSIONS

The Society's Retirement Benefit Plan (the Plan) is of the defined benefit type, based on final pensionable earnings. The Plan's assets are held in a separate trust fund, the administration of which is wholly independent of the Society's finances. The Plan was closed to new entrants in February 2001.

The Society has run a defined contribution scheme since April 2001 for all new employees with a cost incurred of £284,000 (2008 : £244,000). There were no outstanding or prepaid contributions as at the balance sheet date.

The valuation used for FRS 17 disclosures has been based on the most recent full actuarial valuation at 6 April 2006 and updated to 31 December 2009 by a qualified independent actuary to take account of the requirements of FRS 17 in order to assess the liabilities of the Plan at 31 December 2009 using the projected unit method. Plan assets are stated at their market value at 31 December 2009

The principal actuarial assumptions used to calculate Plan liabilities under FRS 17 are :	2009 %	2008 %	2007 %
Discount rate	5.70	6.50	5.70
Inflation rate	3.50	3.00	3.20
Increase to deferred benefits during deferment	3.50	3.00	3.10
Increase to pensions in payment (for pre 01/08/2002)	3.90	3.40	3.60
Increase to pensions in payment (for post 01/08/2002)	3.50	3.00	3.20
Increase to pensions in payment (for post 05/04/2006)	2.50	2.25	2.35
Salary increases	4.60	4.50	4.70
Expected rate of return on scheme assets	5.44	6.15	6.06

In valuing the liabilities of the pension fund at 31 December 2009, mortality assumptions have been made using the actuarial tables indicated below. If life expectancy had been changed to assume that all members of the fund lived for one year longer, the value of the reported liabilities at 31 December 2009 would have increased by £1,730,000 before deferred tax.

	2009	2008	2007
Pre retirement mortality (male / female)	nil	nil	nil
Post retirement mortality for non-pensioner members (male / female)	S1PXA YOB MC	PXA92B =1965 mc	PXA92B =1965 mc
Post retirement mortality for pensioner members (male / female)	S1PXA YOB MC	PXA92B =1935 mc	PXA92B =1935 mc

The tables anticipate that for current non-pensioners (actives and deferreds) at age 65 life expectancy will be 22.8 years for males and 25.48 years for females. For a current pensioner aged 65 the life expectancy is 20.94 years for a male and 23.58 years for a female.

The assets in the Plan and the expected rate of return at 31 December were :

	Long term rate of return expected 2009 %	Value 2009 £'000	Long term rate of return expected 2008 %	Value 2008 £'000	Long term rate of return expected 2007 %	Value 2007 £'000
Equities	7.75	12,412	7.25	10,007	7.25	13,264
Bonds	5.00	14,075	4.50	11,710	5.50	11,875
Other	4.00	1,823	4.00	5,002	4.50	4,158
		28,310		26,719		29,297
Actual return on Plan assets		6.8%		8.8%		4.1%

The overall expected rate of return is calculated by weighting the individual rates in accordance with the anticipated balance in the Plan's investment portfolio. The following amounts at 31 December were measured in accordance with the requirements of FRS17:

	2009 £'000	2008 £'000	2007 £'000
Fair value of Plan assets	28,310	26,719	29,297
Present value of Plan liabilities	(33,553)	(25,969)	(30,180)
(Deficit)/surplus in the Plan	(5,243)	750	(883)
Related deferred tax asset/(liability)	1,468	(210)	247
Net pension (liability)/surplus	(3,775)	540	(636)

The fair value of Plan assets does not include any property occupied or used by the Group.

Notes to the Accounts

For the year ended 31 December 2009

34. PENSIONS (continued)

The following amounts have been recognised in the performance statements under the requirements of FRS17:

	2009 £'000	2008 £'000
Operating profit		
Current service cost	258	405
Total operating charge (included within administrative expenditure)	258	405
Other finance income / (expense)		
Expected return on pension scheme assets	1,448	1,742
Interest on pension scheme liabilities	(1,675)	(1,705)
Net (charge)/income (included within pension finance income)	(227)	37
Statement of total recognised gains and losses (STRGL)		
Actual return less expected return on pension scheme assets	362	(4,318)
Experience gains/(losses) on liabilities	(2,048)	-
Changes in the assumptions underlying the present value of the scheme liabilities	(4,265)	5,383
Actuarial (loss)/gain recognised in STRGL	(5,951)	1,065
Cumulative actuarial losses reported in the consolidated statement of total recognised gains and losses for accounting periods ending after 31 December 2001 are £4.2m (2008: £1.8m)		

Movements in present value of defined benefit obligation

	2009 £'000	2008 £'000
At 1 January	25,969	30,180
Current service cost	258	405
Interest cost	1,675	1,705
Contributions by members	158	192
Experience losses arising on Plan liabilities	2,048	-
Changes in assumptions underlying the Plan liabilities	4,265	(5,383)
Benefits paid	(820)	(1,130)
At 31 December	33,553	25,969

Movements in fair value of Plan assets

	2009 £'000	2008 £'000
At 1 January	26,719	29,297
Expected return on Plan assets	1,448	1,742
Actual less expected return on Plan assets	362	(4,318)
Contributions by employer*	443	936
Contributions by members	158	192
Benefits paid	(820)	(1,130)
At 31 December	28,310	26,719

* The Society paid no additional contributions during the year (2008 : £400,000)

Notes to the Accounts

For the year ended 31 December 2009

34. PENSIONS (continued)

History of experience gains and losses for the year to 31 December

	2009	2008	2007	2006	2005
Difference between the expected and actual return on scheme assets:					
Amount (£'000s)	362	(4,318)	(541)	843	2,159
Percentage of scheme assets	1%	(16%)	(2%)	3%	9%
Experience gains and losses on scheme liabilities:					
Amount (£'000s)	(2,048)	-	(101)	1,494	-
Percentage of the present value of the scheme liabilities	6%	0%	0%	5%	-
Total amount recognised in statement of total recognised gains and losses:					
Amount (£'000s)	(5,951)	1,065	3,001	2,153	(3,916)
Percentage of the present value of the scheme liabilities	18%	4%	10%	7%	12%

Plan history

The history of the Plan for the current and prior periods is as follows:

	2009	2008	2007	2006	2005
Balance Sheet					
Present value of Plan liabilities	(33,553)	(25,969)	(30,180)	(32,177)	(32,239)
Fair value of Plan assets	28,310	26,719	29,297	26,654	23,052
(Deficit)/surplus	(5,243)	750	(883)	(5,523)	(9,187)

The fair value of Plan assets for 2006 and 2007 has not been restated at bid price, as the impact of the restatement of £5,000 for 2007 and £29,000 for 2006 is not considered to be material. The Society has elected not to restate amounts for 2005 as permitted by the amendment to FRS 17.

The Group expects to contribute approximately £463,000 to the Plan in the next financial year.

Annual Business Statement

For the year ended 31 December 2009

1. STATUTORY PERCENTAGES

Calculated in accordance with the Building Societies Act 1986.

	Ratio at 31 Dec 2009 %	Statutory Limit %
Lending limit	2.27	25
Funding limit	17.55	50

The lending limit measures the proportion of business assets other than in the form of loans fully secured on residential property, where:

* Business assets are the total assets of the Group as shown in the balance sheet plus provisions for bad and doubtful debts, less fixed assets and liquid assets.

* Loans fully secured on residential property are the amount of principal owing by borrowers and interest accrued not yet payable. This is the amount shown in the balance sheet plus provision for bad and doubtful debts and suspended interest.

The funding limit measures the proportion of shares and deposits other than in the form of shares held by individuals.

2. OTHER PERCENTAGES

Calculated in accordance with the Building Societies Act 1986 and as calculated from the Group Accounts.

	Ratio at 31 Dec 2009 %	Ratio at 31 Dec 2008 %
As a percentage of shares and deposits		
• Gross capital	5.93	5.37
• Free capital	5.36	4.87
• Liquid assets	27.89	24.55
As a percentage of mean total assets		
• Loss after taxation	(0.15)	(0.09)
• Management expenses	0.64	0.68

Shares and deposits comprise the aggregate of shares, amounts owed to credit institutions and amounts owed to other customers. Gross capital comprises the aggregate of general reserves, revaluation reserve and subordinated liabilities as stated in the balance sheet.

Free capital comprises the aggregate of gross capital and the general provision for bad and doubtful debts less fixed assets.

Liquid assets comprise the aggregate of cash in hand and balances with the Bank of England, loans and advances to credit institutions, debt securities, Treasury bills and other liquid assets. Mean total assets have been calculated as the average of the opening and closing total assets shown in the Group balance sheet.

Management expenses comprise the aggregate of administrative expenses and depreciation.

Annual Business Statement

For the year ended 31 December 2009

3. INFORMATION RELATING TO DIRECTORS

Name and date of birth	Occupation and date of appointment	Other Directorships and roles
JANE ASHCROFT BA (Hons), FCIS, MCIPD 17 June 1966	Company Director Appointed 01.11.2007	Deputy Chief Executive of Anchor Trust English Community Care Association Anchor Lifestyle Developments Limited Anchor 2020 Ltd
JOHN CLARKE BA, Dip Ed Law 30 May 1953	Solicitor Appointed 01.02.2005	QIA Excellence Committee Member Filton College Governor Partner Bevan Brittan LLP Badminton School Governor
PETER GATES BSc ACA MCT 15 December 1956	Corporate Treasurer Appointed 01.06.2000	Westcott Consulting Limited
LAURENCE JAMES BSc 06 April 1954	Company Director 02.01.1996	The Light Company (Direct) Ltd ITL Mortgages Limited Five Valleys Property Company Limited Chair Royal Orthopaedic Hospital Birmingham
MICHAEL O'LEARY BSc (Hons) 16 December 1952	Company Director Appointed 01.11.2007	Headlam plc Psion plc Digital Healthcare Limited Five Valleys Property Company Limited
GLYN SMITH MA, FCA 15 September 1952	Company Director Appointed 01.09.2007	Covent Garden Market Authority Bournemouth & Poole Teaching PCT Examiner - ICAEW Freelance Consultant ITL Mortgages Limited
JOHN SUTHERLAND MA, MBA, FCIB, Dip FS 18 June 1956	Chief Executive Officer Appointed 15.02.2010	JAS Corporation Ltd
SIMON WHITWHAM BA (Hons), C. Dir. MloD 7 August 1965	Customer Service Director 25.04.2002	ITL Mortgages Limited Stroud & Swindon Funding Company (No. 2) Limited Minchinhampton Golf Club Limited
LINDA WILL FCII 21 January 1957	Sales & Marketing Director Appointed 24.07.2008	ITL Mortgages Limited Five Valleys Property Company Limited Stroud & Swindon Funding Company

Executive Directors are employed on twelve month rolling contracts terminable by the Society on twelve months' notice, or by the individual on six months' notice. The Directors, with the date of their contracts shown in brackets are as follows: S P Whitwham (12 November 2001) and L S Will (24 July 2008). In their respective executive capacities, Laurence James was employed on a three month contract, reviewed monthly and Glyn Smith is employed for the period until 31 August 2010 on a contract for services. Documents may be served on any of the above named Directors c/o Winterbothams, Solicitors, at the following address: 4-7 Rowcroft, Stroud, Gloucestershire GL5 3BJ.

Annual Business Statement

For the year ended 31 December 2009

4. INFORMATION RELATING TO OTHER OFFICERS

Name	Occupation	Other Directorships and roles
Sue Bailey, MA, Chartered FCIPD	Head of Human Resources	Governor, Stroud College in Gloucestershire
Nick Brown, BSc Econ (Hons)	Head of Group Risk	
Jo Collinson, BA (Hons), ACA	Head of Finance	Five Valleys Property Company Limited
Tony Hall	Head of Retail Distribution	
Bob Johnson, ACIS, ACIB	Group Secretary	ITL Mortgages Limited Gloucestershire Money Advice Service Ltd Stroud & Swindon Funding Company Stroud & Swindon Funding Company (No. 2) Limited
Peter Jones, MBA	Head of Treasury	Canleygold Limited
Andy King	Head of Central Services	
Tracey Knox, BSc, MIIA	Head of Internal Audit	Chair of the Institute of Internal Auditors UK & Ireland - South West District Tresmere Ltd
David Rodney	Head of Marketing	
Neil Spencer, MICM, ACIB	Head of Commercial Assets	ITL Mortgages Limited Five Valleys Property Company Limited
Gina Pearce	Head of Group Contact Centre	
Kim Massey, BSc (Hons)	Head of Business Change	Orbit Housing Group Ltd Chair of Services Committee

Head Office

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