

PROSPECTUS



KENT RELIANCE BUILDING SOCIETY

(incorporated in England and Wales under the Building Societies Act 1986 and registered with the Financial Services Authority under no. 269B)

£ 35,000,000

Perpetual Subordinated Notes Callable 2019

Issue price: 99.298 per cent.

The £ 35,000,000 Perpetual Subordinated Notes Callable 2019 (the **Notes**) are issued by Kent Reliance Building Society (the **Issuer**).

Interest on the Notes will be payable annually in arrear on 19 July each year, up to and including 19 July 2019, at a rate of 7.25 per cent. per annum, and thereafter interest will be payable quarterly in arrear on the Interest Payment Dates falling on 19 October, 19 January, 19 April and 19 July in each year (subject to adjustment for non-business days) at a rate of interest equal to 3 month Sterling Libor plus a margin, *provided that* interest on the Notes shall be payable only at the option of the Issuer, as more fully described herein.

The Notes have no final maturity date and are only redeemable or repayable in accordance with the Conditions and as set out below. Subject to the Issuer having given at least one month's prior written notice to, and receiving no objection from, the United Kingdom Financial Services Authority (the **FSA**) (or such other period of notice as the FSA may require or accept and so long as there is a requirement to give such notice) with such details as the FSA may require, the Issuer may, at its option, redeem all, but not some only, of the Notes on 19 July 2019 or on any Interest Payment Date thereafter at par. Also, the Issuer may, at its option, redeem all, but not some only, of the Notes at any time prior to 19 July 2019 at par plus accrued interest, in the event of certain tax changes, and at the Make-Whole Redemption Price (as defined herein) plus accrued interest, in the event of a Capital Disqualification Event (as defined herein), as described under "*Conditions of the Notes - Redemption and Purchase*".

Application has been made to the UK Listing Authority (the **UK Listing Authority**) in its capacity as competent authority under the Financial Services and Markets Act 2000 (the **FSMA**) for the Notes to be admitted to the Official List of the UK Listing Authority and to the London Stock Exchange plc (the **London Stock Exchange**) for the Notes to be admitted to trading on the London Stock Exchange's Gilt Edged and Fixed Interest Market. The London Stock Exchange's Gilt Edged and Fixed Interest Market is a regulated market for the purposes of Directive 93/22/EEC.

For a description of certain matters that prospective investors should consider, see "*Risk Factors*".

The Notes will initially be represented by a temporary global note (the **Temporary Global Note**), without interest coupons, which will be deposited on or about 19 July 2007 (the **Closing Date**) with a common depository for Euroclear Bank S.A./N.V. (**Euroclear**) and Clearstream Banking, société anonyme (**Clearstream, Luxembourg**). Interests in the Temporary Global Note will be exchangeable for interests in a permanent global note (the **Permanent Global Note** and, together with the Temporary Global Note, the **Global Notes**), without interest coupons, on or after 28 August 2007, upon certification as to non-U.S. beneficial ownership. Interests in the Permanent Global Note will be exchangeable for definitive Notes only in certain limited circumstances - see "*Summary of Provisions Relating to the Notes while Represented by the Global Notes*".

Manager and Sole Structuring Advisor

The Royal Bank of Scotland

The date of this Prospectus is 17 July 2007

This document comprises a prospectus (the **Prospectus**) for the purposes of Article 5.3 of the Directive 2003/71/EC (the **Prospective Directive**) and for the purposes of giving information with regard to the Issuer and its subsidiary undertakings (together, the **Group**) and the Notes.

The Issuer accepts responsibility for the information contained in this Prospectus and to the best of the knowledge and belief 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.

No person has been authorised to give any information or to make any representation other than those contained in this document in connection with the offering of the Notes and, if given or made, such information or representations must not be relied upon as having been authorised by the Issuer or the Manager (as defined under "*Subscription and Sale*" below). Neither the delivery of this document nor any sale made hereunder shall, under any circumstances, constitute a representation or create any implication that there has been no change in the affairs of the Issuer since the date hereof. This document does not constitute an offer of, or an invitation by, or on behalf of, the Issuer or the Manager to subscribe for, or purchase, any of the Notes. This document does not constitute an offer, and may not be used for the purpose of an offer to, or a solicitation by, anyone in any jurisdiction or in any circumstances in which such an offer or solicitation is not authorised or is unlawful.

The information taken from Butlers Building Society Guide 2007 (compiled by Alison Colyer of ICAP, published and printed by Impact Print & Design Limited) (**Butlers**), referred to on page 39, has been accurately reproduced and, as far as the Issuer is aware and is able to ascertain from the information published in Butlers, no facts have been omitted which would render the reproduced information inaccurate or misleading.

The Law Debenture Trust Corporation p.l.c. (the **Trustee**) has not separately verified the information contained herein. Accordingly, no representation, warranty or undertaking, express or implied, is made and no responsibility or liability is accepted by the Manager, the Trustee or any of them as to the accuracy or completeness of the information contained in this Prospectus or any other information provided by the Issuer in connection with the Notes or their distribution.

This Prospectus is not intended to provide the basis of any credit or other evaluation and should not be considered as a recommendation by the Issuer or the Manager that any recipient of this Prospectus should purchase any of the Notes. Each investor contemplating purchasing Notes should make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness, of the Issuer.

The Notes have not been and will not be registered under the United States Securities Act of 1933, as amended (the **Securities Act**) and are subject to U.S. tax law requirements. Subject to certain exceptions, the Notes may not be offered, sold or delivered within the United States or to U.S. persons. For a further description of certain restrictions on the offering and sale of the Notes and on distribution of this document, see "*Subscription and Sale*" below.

IN CONNECTION WITH THE ISSUE OF THE NOTES, THE ROYAL BANK OF SCOTLAND PLC (OR PERSONS ACTING ON BEHALF OF THE ROYAL BANK OF SCOTLAND PLC) 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 ROYAL BANK OF SCOTLAND PLC (OR PERSONS ACTING ON BEHALF OF THE ROYAL BANK OF SCOTLAND PLC) WILL UNDERTAKE STABILISATION ACTION. ANY STABILISATION ACTION MAY BEGIN ON OR AFTER THE DATE ON WHICH ADEQUATE PUBLIC DISCLOSURE OF THE TERMS OF THE

OFFER OF THE RELEVANT NOTES 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 NOTES AND 60 DAYS AFTER THE DATE OF THE ALLOTMENT OF THE RELEVANT NOTES. ANY STABILISATION ACTION OR OVER-ALLOTMENT MUST BE CONDUCTED BY THE ROYAL BANK OF SCOTLAND PLC (OR PERSONS ACTING ON BEHALF OF THE ROYAL BANK OF SCOTLAND PLC) IN ACCORDANCE WITH ALL APPLICABLE LAWS AND RULES.

All references in this document to **£** and **GBP** refer to the lawful currency of the United Kingdom.

CONTENTS

	Page
Overview	5
Risk Factors	9
Documents Incorporated by Reference	16
Conditions of the Notes	17
Summary of Provisions Relating to the Notes while Represented by the Global Notes	36
Use of Proceeds.....	38
Kent Reliance Building Society	39
Taxation	45
Subscription and Sale.....	48
General Information.....	50

OVERVIEW

The following overview refers to certain provisions of the Terms and Conditions of the Notes and is qualified by the more detailed information contained elsewhere in this Prospectus. Defined terms used herein have the meaning given to them in "Terms and Conditions of the Notes".

Issuer:	Kent Reliance Building Society
Trustee:	The Law Debenture Trust Corporation p.l.c.
Issue Size:	GBP 35,000,000.
Maturity:	The Notes are undated and will have no scheduled maturity date.
Coupons:	The Notes will bear fixed interest at a rate of 7.25 per cent. per annum from (and including) 19 July 2007 to (but excluding) 19 July 2019 (the Reset Date), and thereafter at a floating rate equal to 3 month Sterling Libor plus a margin of 2.36 per cent.
Interest Payment Dates:	<p>Except as described below, interest in respect of the Notes will be payable annually in arrear on 19 July in each year, commencing on 19 July 2008 and ending on the Reset Date.</p> <p>Except as described below, after the Reset Date, interest in respect of the Notes will be payable quarterly in arrear on the Interest Payment Dates falling on 19 October, 19 January, 19 April and 19 July in each year (subject to adjustment for non-business days in accordance with the modified following business day convention).</p>
Subordination:	The Notes and the Coupons will be direct, unsecured and subordinated obligations of the Issuer and will rank <i>pari passu</i> without any preference among themselves. The obligations of the Issuer in respect of the Notes are subordinated in right of payment in the manner provided in the Trust Deed to the claims of all Senior Creditors and accordingly payments of principal, interest and other claims by the Issuer in respect of the Notes are conditional upon the Issuer being considered solvent at the time of such payment and no principal, interest or other claims shall be payable by the Issuer in respect of the Notes except to the extent that the Issuer could make such payment and still be considered solvent

immediately thereafter. For this purpose, the Issuer shall be considered solvent if both (a) it is able to pay its debts as they fall due and (b) its Assets exceed its Liabilities to Senior Creditors (other than its Liabilities to persons who are not Senior Creditors).

Interest Deferral:

The Issuer shall have the option to defer interest payments on the Notes. No interest will accrue on any such Arrears of Interest, for so long as the Arrears of Interest remain unpaid and are not due and payable. All Arrears of Interest (as defined in Condition 3.9 below) in respect of the Notes outstanding shall (subject to the subordination provisions) become due in full on the earliest of (i) the date set for any redemption pursuant to the Conditions or (ii) the commencement of the winding up of the Issuer (except for the purposes of, or pursuant to, a Permitted Transfer (as defined in Condition 2.1 below)). The Issuer may also pay all or any part of the Arrears of Interest at any time.

If any interest payment is deferred on any Interest Payment Date, then the Issuer shall (a) not pay any interest or dividend on any class of Deferred Shares of the Issuer (other than any class of Deferred Shares the terms of which do not provide for the Board to be able to cancel any interest or dividend payment at its discretion) while any Arrears of Interest remain unpaid, (b) not redeem, purchase or otherwise acquire for any consideration any class of Deferred Shares of the Issuer, and (c) as soon as reasonably practicable, notify each stock exchange on which it has any securities (including the Notes) for the time being listed, of its election not to pay interest on the relevant Interest Payment Date.

Payments under or arising from the Notes, Coupons or the Trust Deed relating to them or arising therefrom are, in addition to the right of the Issuer to defer payment of interest, conditional on the Issuer being solvent at the time of payment by the Issuer, and no such amount shall be payable except to the extent the Issuer could make such payment and still be solvent immediately thereafter (see Condition 2).

Redemption:

The Issuer may (subject to the Issuer having given at least one month's prior written notice to the FSA (as defined in Condition 5.2 below) (or such other period of notice as the FSA may

require or accept) and no objection thereto has been raised by the FSA and/or (if required) the FSA has provided its consent thereto) and the Noteholders, the Trustee and the Principal Paying Agent (as specified in Conditions 5.2, 5.3 and 5.4)) redeem all (but not some only) of the Notes (a) at their principal amount, plus accrued interest and any Arrears of Interest on the Reset Date or on any Interest Payment Date thereafter or (b) at par plus accrued interest and Arrears of Interest if certain tax changes arise, or (c) at the Make-Whole Redemption Price (as defined in Condition 5.3 below) plus accrued interest and Arrears of Interest if a Capital Disqualification Event (as defined in Condition 5.3 below) occurs, at any time prior to the Reset Date pursuant to Condition 5.

Withholding Tax:

The Issuer will pay such additional amounts as may be necessary in order that the net payment received by each Noteholder in respect of the Notes, after withholding for any taxes imposed by tax authorities in the United Kingdom upon payments made by or on behalf of the Issuer in respect of the Notes, will equal the amount which would have been received in the absence of any such withholding taxes, subject to customary exceptions (see also "*Redemption*" above).

Listing:

Application has been made to list the Notes on the London Stock Exchange.

Governing Law:

The Notes will be governed by, and construed in accordance with, English law.

Form:

Bearer form in the denomination of GBP 50,000 each. The Notes will initially be represented by a Temporary Global Note, without interest coupons or talons, which will be deposited with a common depositary on behalf of Euroclear and Clearstream, Luxembourg on or about 19 July 2007.

The Temporary Global Note will be exchangeable for interests in a Permanent Global Note, without interest coupons or talons, not earlier than 40 days after the Issue Date upon certification of non-US beneficial ownership. The Permanent Global Note will be exchangeable for Definitive Notes only in certain limited circumstances, as described under "*Summary of Provisions Relating to the Notes while Represented by the Global Notes*".

Risk Factors:

There are certain factors that may affect the Issuer's ability to fulfil its obligations under the Notes. In addition, there are certain factors which are material for the purpose of assessing the risks associated with the Notes. See "*Risk Factors*" below.

RISK FACTORS

The Issuer believes that the following factors may affect its ability to fulfil its obligations under the Notes. Most 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.

In addition, factors which are material for the purpose of assessing the market risks associated with the Notes are described below.

The Issuer believes that the factors described below represent the principal risks inherent in investing in the Notes, but the inability of the Issuer to pay interest, principal or other amounts on or in connection with the Notes may occur for other reasons which may not be considered significant risks by the Issuer based on information currently available to it or which it may not currently be able to anticipate. Prospective investors should also read the detailed information set out elsewhere in this Prospectus and reach their own views prior to making any investment decision.

Risk Factors relating to the Notes

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

- (a) **Permanence:** The Notes will not be redeemable at the option of the Noteholders. The Issuer may (subject to the Issuer having given at least one month's prior notice to the FSA (or such other period of notice as the FSA require or accept) and no objection thereto having been raised by the FSA and/or (if required) the FSA has provided its consent thereto and having given notice to the Noteholders, the Trustee and the Principal Paying Agent (as specified in Conditions 5.2, 5.3 and 5.4)) redeem all (but not some only) of the Notes at their principal amount (a) on the Reset Date or on any Interest Payment Date thereafter or (b) at any time prior to the Reset Date in the circumstances described in Condition 5. The Issuer is under no obligation to the investor to give notice of redemption to the FSA or to seek the FSA's permission to repay the Notes and the FSA has complete discretion as to object to redemption and as to whether to give such permission. There is no right to repayment unlike normal investment accounts where the Issuer must return the capital investment (plus any accrued interest) to the investor as and when demanded (subject, to the stated period of notice etc. on that particular account).

One of the circumstances in which the Issuer may be expected to redeem the Notes is when its cost of borrowing is lower than the interest rate on the Notes; redemption may also be prompted by other circumstances, such as additional amounts being payable following a change in tax law. Where redemption occurs when the Issuer's cost of borrowing is lower than the interest rate on the Notes, 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.

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

- (c) **Capital value of investment:** As the capital value of the Notes will vary with market interest rates, the market perception of the value of the Issuer and the availability of purchasers, there is a **real chance that the investor will make a capital loss** when it comes to sell its Notes.

The Issuer will pay principal and interest on the Notes in GBP. 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 GBP. These include the risk that exchange rates may significantly change (including changes due to devaluation of the GBP 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 (a) the Investor's Currency-equivalent yield on the Notes, (b) the Investor's Currency-equivalent value of the principal payable on the Notes and (c) 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.

- (d) **Legal ranking of Notes:** In a winding up or dissolution of the Issuer, the claims of the Noteholders will rank behind all other creditors of the Issuer and the claims of Members (as defined in the rules of the Issuer (the **Rules**)) holding shares (other than Deferred Shares, as so defined in the Conditions) as to principal and interest and certain other sums. The Notes are subordinated obligations of the Issuer. **Accordingly, in the winding-up of the Issuer, there may not be a sufficient amount to satisfy the amounts owing to the Noteholders.**

Investors should be aware that this subordination is a primary factor behind the higher interest rate that is paid on the Notes when compared to other investment products. The higher interest rate reflects the fact that there is a higher risk involved with this investment.

- (e) **Investor protection:** Unlike normal building society investment products, the Notes are not protected deposits for the purposes of the Financial Services Compensation Scheme established under the FSMA.
- (f) **Interest Payments under Notes may be deferred:** On any Interest Payment Date, the Issuer may at its option (but subject to certain restrictions) defer the payment of interest on the Notes until (i) such time as it gives not less than seven days' notice to the effect that arrears of interest (in whole or in part) are to be paid or (ii) (a) the date set for redemption of the Notes or (b) the commencement of the winding up of the Issuer. Any deferred interest will not bear interest unless and until it becomes due and payable.

The obligation of the Issuer to pay principal and interest on Notes (including arrears of interest and additional amounts to gross up interest payments after withholding or deduction for or on account of taxes) and other claims is further conditional on it being considered solvent when the payment is due and immediately thereafter. In no event will Noteholders be able to accelerate the maturity of Notes; Noteholders will have claims only for amounts then due and payable on their Notes. After the Issuer has fully paid all deferred interest on the Notes, future interest payments on the Notes may be subject to further deferral as described above.

Any deferral of interest payments will likely have an adverse effect on the market price of the Notes. In addition, as a result of the interest deferral provision of the Notes, the market price of the Notes may be more volatile than the market prices of other debt securities on which

interest accrues that are not subject to such deferrals and may be more sensitive generally to adverse changes in the Issuer's financial condition.

- (g) **Taxation of Interest:** The Notes will be listed on a recognised stock exchange and therefore under current law interest may be paid without withholding or deduction for tax. Nevertheless, tax may be withheld or deducted if there is a change of law or if the Notes cease to be listed on a recognised stock exchange. In these circumstances, the Issuer may (if considered solvent) be obliged to gross up interest payments and may also then seek to redeem the Notes (subject to the restrictions contained in Condition 5.2).
- (h) **No limitation on issuing debt or senior or *pari passu* securities:** There is no restriction on the amount of debt which the Issuer may issue which ranks senior to the Notes or on the amount of securities which the Issuer may issue which rank senior to, or *pari passu* with, the Notes. The issue and existence of any such debt or securities may reduce the amount recoverable by Noteholders in the event of a winding up of the Issuer and/or may increase the likelihood of a deferral of payments under the Notes.

Investors' attention is also drawn to the following factors that may affect the Issuer's ability to fulfil its obligations under the Notes:

- (i) **United Kingdom Property Market:** One of the Issuer's primary activities is mortgage lending in the United Kingdom with loans secured against residential and commercial property. A downturn in the United Kingdom economy could result in losses being incurred by lenders on loans that have defaulted. This could have a negative effect on the housing market particularly if this results in an increased level of unemployment or significantly higher interest rates. Property prices may fall and could have consequences for the Issuer's funding costs if there was deemed to be a material deterioration in the quality of the mortgage portfolio.
- (j) **Channel Islands Property Market:** Lending in the Channel Islands with loans secured against residential property represents a significant proportion of the Group's activities. The economies of both Guernsey and Jersey are heavily dependent upon the financial services sector and any large scale relocation of this sector could have a negative effect on the housing market. Property prices may fall and could have consequences for the Group's funding costs if there were deemed to be a material deterioration in the quality of the mortgage portfolio.
- (k) **Personal Financial Services Market:** The United Kingdom housing and savings markets are competitive. Developments in this market and increased competition could have an adverse effect on the Issuer's financial position.
- (l) **Regulation:** The Issuer is regulated by the FSA. The FSA regulates the sale of residential mortgages and general insurance products. The regulatory regime requires the Issuer to be compliant across many aspects of activity, including the training, authorisation and supervision of personnel, systems, processes and documentation. If the Issuer fails to be compliant with the relevant regulations, there is a risk of an adverse impact on the business due to sanctions, fines or other action imposed by the regulatory authorities.

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

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

Credit Risk: is the potential risk of financial loss arising from the failure of a customer or counterparty to settle their financial and contractual obligations as they fall due. The Issuer's retail credit exposures are managed in accordance with the Board approved lending policy. Wholesale counterparty exposures are managed through the setting of limits to individual counterparties, countries, terms of exposure and type of financial instrument.

Liquidity Risk: The Issuer'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 Issuer and to be in a position to meet its financial obligations. This is achieved through maintaining a prudent level of liquid assets, through wholesale funding facilities and through management of the growth of the business.

Market Risk: Market risk is the risk to earnings from changes in interest rates, foreign exchange rates and the prices of financial securities. The Issuer offers a number of mortgage and savings products with varying interest rate features and maturities that create potential interest rate exposures. The Issuer manages this exposure on a continuous basis, with limits set by the Board, using a combination of on and off balance sheet instruments.

The Issuer's risk management structure is the overall responsibility of the board of directors. Assisting the board, the audit committee considers all matters relating to regulatory, prudential and accounting requirements that may affect the Issuer and its subsidiaries.

The Issuer has a formal structure for managing financial and operational risks, including established risk limits, reporting lines, governance committees, mandates and other control procedures.

- (n) **Operational Risks:** The Issuer's businesses are dependent on its ability to process a large number of transactions efficiently and accurately. Arrangements to process some of the Group's back office work using an Indian registered subsidiary of the Issuer were put in place in January 2005. 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. The Issuer has implemented risk controls and loss mitigation actions including specific controls to take account of the additional country and management risks arising from offshore processing, and substantial resources are devoted to developing efficient procedures and to staff training. While this system of control is commensurate with the characteristics of the business and is in accordance with best practice principles and regulatory considerations, it is not possible to implement procedures which are fully effective in controlling each of the operational risks.

- (o) **Accounting Standards:** The Issuer has adopted new accounting standards for reporting periods beginning after 30 September 2005 that may have a material impact on its financial statements. In June 2002, the Council of the European Union (EU) adopted a regulation requiring all listed EU companies to apply International Financial Reporting Standards (IFRS) (previously known as International Accounting Standards or IAS) in their consolidated financial statements for financial years commencing on or after 1 January 2005. The adoption of IFRS may have a material impact on a number of important financial items including, among others, the timing of recognition of sales and other revenues, marketable

securities and derivative instruments. The adoption of IFRS may also affect the classification of certain balance sheet items as debt or equity and have a significant impact on the reporting of business segments. The adoption of IFRS will therefore affect the valuation methods that analysts use to measure and evaluate the Issuer's performance. IFRS could also have an effect on the Issuer's debt covenants and other contractual obligations. In particular, its covenants linked to balance sheet ratios and income statement measures could be significantly affected by the adoption of the IFRS in ways that are difficult to predict at this time.

- (p) **Basel 2/Capital Requirements Directive:** The Basel Committee has issued proposals for reform of the 1988 Capital Accord and has proposed a framework which places enhanced emphasis on market discipline and sensitivity to risk. The New Basel Capital Accord has been implemented in the European Union under the Capital Requirements Directive and the FSA has implemented the Directive in the United Kingdom as part of its Handbook of Rules and Guidance. Implementation is at an early stage and the Issuer cannot predict the precise effects of the changes on its own financial performance as a result of the implementation of the proposals and the Directive. Prospective investors in the Notes should consult their own advisers as to the consequences for them of the potential application of the New Basel Capital Accord and the provisions of the Capital Requirements Directive.
- (q) **European Monetary Union:** If the United Kingdom joins the European Monetary Union there is no assurance that this would not adversely affect investors in the Notes. It is possible that the United Kingdom may become a participating Member State and that the Euro may become the lawful currency of the United Kingdom. In that event: (i) all amounts payable in respect of any Notes denominated in sterling may become payable in Euro; (ii) the law may allow or require the Notes to be re-denominated 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 ways 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.

Investors should be aware that there are additional risk factors associated with the Issuer's position in the United Kingdom savings and loans market. In particular:

- (i) Size – The Issuer's size gives diseconomies of scale in marketing of the Issuer which makes it impractical to offer as diverse a range of savings and mortgage products as those often provided by larger retail financial institutions.
- (ii) Small management team – The Issuer's management team reflects the small size of the Issuer with the result that the Issuer does not have access to the same range of experienced and specialised management as larger institutions. The performance of the Issuer is dependent on the performance of a small number of key individuals.

Investors' attention is drawn to the information in respect of the Issuer on pages 39 to 44 of this document.

In addition, investors should also consider the following risks related to the Notes generally:

- (r) **The Notes may not be a suitable investment for all investors:** Each potential investor in the 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 Notes, the merits and risks of investing in the 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 Notes and the impact the Notes 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 Notes, including where the currency for principal or interest payments is different from the potential investor's currency;
 - (iv) understand thoroughly the terms of the 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.
- (s) **Modification, waivers and substitution:** The 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 conditions of the Notes also provide that the Trustee may, without the consent or sanction of Noteholders (but subject to the detailed provisions of the conditions of the Notes), agree to (a) any modification of, or to the waiver or authorisation of any breach or proposed breach of, any of the provisions of the Notes or (b) determine without the consent of the Noteholders that any Event of Default (as defined in the Trust Deed) or Potential Event of Default (as so defined) shall not be treated as such or (c) the substitution of another company as principal debtor under any Notes in place of the Issuer, in the circumstances described in Conditions 11 and 13 of the conditions of the Notes.

- (t) **EU Savings Directive:** Under EC Council Directive 2003/48/EC on the taxation of savings income, Member States are required 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 an individual resident in that other Member State. However, for a transitional period, Belgium, Luxembourg and Austria are instead required (unless during that period they elect otherwise) to operate a withholding system in relation to such payments (the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries). A number of non-EU countries and territories including Switzerland have adopted similar measures (a withholding system in the case of Switzerland).

If, following implementation of this Directive, a payment were to be made or collected through a Member State which has opted for a withholding system 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 as a result of the imposition of such withholding tax. If a withholding tax is imposed on payment made by a Paying Agent following implementation of this Directive, the Issuer will be required to maintain a Paying Agent in a Member State that will not be obliged to withhold or deduct tax pursuant to the Directive.

- (u) **Change of law:** The conditions of the Notes are based on English law in effect as at the date of this Prospectus. No assurance can be given as to the impact of any possible judicial decision or change to English law or administrative practice after the date of this Prospectus.

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

DOCUMENTS INCORPORATED BY REFERENCE

The auditors' report and audited consolidated and non-consolidated annual financial statements for each of the financial years ended 30 September 2005 and 2006, which have previously been published and have been filed with the FSA shall be incorporated in, and form part of, this Prospectus.

CONDITIONS OF THE NOTES

The following is the text of the Conditions of the Notes which (subject to modification) will be endorsed on each Note in definitive form (if issued):

The GBP 35,000,000 Perpetual Subordinated Notes Callable 2019 (the **Notes**, which expression shall in these terms and conditions (**Conditions**), unless the context otherwise requires, include any further notes issued pursuant to Condition 15 and forming a single series with the Notes) of Kent Reliance Building Society (the **Issuer**) are constituted by a Trust Deed dated 19 July 2007 (the **Trust Deed**) made between the Issuer and The Law Debenture Trust Corporation p.l.c. (the **Trustee**, which expression shall include its successor(s)) as trustee for the holders of the Notes (the **Noteholders**) and the holders of the interest coupons appertaining to the Notes (the **Couponholders** and the **Coupons** respectively, which expression shall, unless the context otherwise requires, include the talons for further interest coupons (the **Talons**) and the holders of the Talons).

The statements in these Conditions include summaries of, and are subject to, the detailed provisions of and definitions in the Trust Deed. Copies of the Trust Deed and the Agency Agreement dated 19 July 2007 (the **Agency Agreement**) made between the Issuer, the Trustee and The Bank of New York (the **Principal Paying Agent** and together with any other paying agent (if any), appointed by the Issuer, the **Paying Agents**) are available for inspection during normal business hours by the Noteholders and the Couponholders at the specified office of each of the Paying Agents. The Noteholders and the Couponholders are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Trust Deed and the Agency Agreement applicable to them.

1. FORM, DENOMINATION AND TITLE

1.1 Form and Denomination

The Notes are in bearer form, serially numbered, in the denomination of GBP 50,000 each with Coupons and one Talon attached on issue.

In these Conditions, **£** and **GBP** refer to the lawful currency of the United Kingdom.

1.2 Title

Title to the Notes and to the Coupons will pass by delivery.

1.3 Holder Absolute Owner

The Issuer, any Paying Agent and the Trustee may (to the fullest extent permitted by applicable laws) deem and treat the bearer of any Note or Coupon as the absolute owner for all purposes (whether or not the Note or Coupon shall be overdue and notwithstanding any notice of ownership or writing on the Note or Coupon or any notice of previous loss or theft of the Note or Coupon or of any trust or interest therein) and shall not be required to obtain any proof thereof or as to the identity of such bearer.

2. STATUS AND SUBORDINATION

2.1 The Notes and any relative Coupons are direct, unsecured and subordinated obligations of the Issuer, conditional as described below and rank *pari passu* without any preference among themselves and will rank *pari passu* with all other Undated Subordinated Indebtedness of the Issuer, other than Converted Undated Subordinated Indebtedness (if any) and Undated

Subordinated Indebtedness which ranks or is expressed by its terms to rank junior to the Notes.

The obligations of the Issuer in respect of the Notes are subordinated in right of payment in the manner provided in the Trust Deed to the claims of all Senior Creditors (as defined below) and accordingly payments of principal, interest (including Arrears of Interest (as defined in Condition 3.9), if any), any damages awarded for breach of any obligation of the Issuer relating to principal and/or interest in respect of the Notes and any accrued interest (other than Arrears of Interest in respect thereof) by the Issuer in respect of the Notes are conditional upon the Issuer being considered solvent at the time of such payment and no principal or interest or other sums shall be payable by the Issuer in respect of the Notes except to the extent that the Issuer could make such payment and still be considered solvent immediately thereafter. For this purpose, the Issuer shall be considered solvent if both (a) it is able to pay its debts as they fall due and (b) its Assets exceed its Liabilities (other than its Liabilities to persons who are not Senior Creditors). A report as to the solvency of the Issuer by two Directors of the Issuer or, in certain circumstances as provided in the Trust Deed, the Auditors or, if the Issuer is being wound up, its liquidator or, if the Issuer is in administration, its administrator shall, in the absence of manifest error, be treated and accepted by the Issuer, the Trustee and the Noteholders and Couponholders as correct and sufficient evidence thereof. For the purposes of this paragraph of Condition 2.1 and Conditions 4, 7, 8 and 9, references to principal shall be deemed to include any amount payable in the sum of the Make-Whole Redemption Price under Condition 5.3.

If at any time an order is made or an effective resolution is passed for the winding-up in England of the Issuer (except for the purposes of, or pursuant to, a Permitted Transfer (as defined below)), there shall be payable on each Note (in lieu of any other payment, but subject as provided in this Condition, including as set out above in relation to the Issuer being considered solvent), such amount, if any, as would have been payable to the holder thereof if, on the day prior to the commencement of the winding-up and thereafter, such Noteholder were the holder of one of a class of notional Deferred Shares in the Issuer or, if applicable, Converted Undated Subordinated Indebtedness having a preferential right to a return of assets in the winding-up over the holders of all other classes of Deferred Shares for the time being in the Issuer or Converted Undated Subordinated Indebtedness, as the case may be (and so that, for the avoidance of doubt, such Noteholder ranks equally with the holders of all other Undated Subordinated Indebtedness, other than Converted Undated Subordinated Indebtedness (if any) and Undated Subordinated Indebtedness which ranks or is expressed by its terms to rank junior to the Notes) on the assumption that the holder of such notional Deferred Shares of such class or Converted Undated Subordinated Indebtedness, as the case may be was entitled (subject to such ranking) to receive on a return of assets in such winding-up an amount equal to the principal amount of such Note together with Arrears of Interest (as defined in Condition 3.9), if any, any interest that has not been paid as a consequence of the provisions of this Condition 2.1, any damages awarded for breach of any obligation of the Issuer relating to principal (including any amount payable in the sum of the Make-Whole Redemption Price under Condition 5.3) and/or interest in respect of the Notes and any accrued interest (other than Arrears of Interest) up to, but excluding, the date of repayment (as provided in the Trust Deed) in respect thereof.

For the purposes of this Condition:

Assets means the non-consolidated gross assets of the Issuer as shown by the then latest published audited balance sheet of the Issuer but adjusted for contingencies and for subsequent events and to such extent as two Directors of the Issuer, the Auditors or the liquidator or administrator of the Issuer (as the case may be) may determine to be appropriate;

Auditors means the independent auditors for the time being of the Issuer or, in the event of their being unable or unwilling promptly to carry out any action requested of them pursuant to the provisions of the Trust Deed, such other firm of accountants of recognised standing as may be nominated by the Issuer and approved by the Trustee after consultation with the Issuer or failing such nomination and/or approval, nominated by the Trustee for the purposes of the Trust Deed;

Converted Undated Subordinated Indebtedness means Undated Subordinated Indebtedness of the Issuer which has been converted from Deferred Shares following the transfer by the Issuer of its business to a company pursuant to Sections 97 to 102(D) of the Act (as defined below) or (if appropriate) the transfer by the Issuer of its business to a Subsidiary of another mutual society;

Deferred Shares means deferred shares as defined in Section 119 of the Act, and includes, without limitation, the Issuer's £15,000,000 7.875 per cent. Permanent Interest Bearing Shares issued on 27 August 2004 and £22,000,000 6.591 per cent. Permanent Interest Bearing Shares issued on 7 March 2006;

Liabilities means the non-consolidated gross liabilities of the Issuer as shown and adjusted in like manner as for Assets;

Permitted Transfer means the following:

- (a) an amalgamation of the Issuer with one or more other building societies under Section 93 of the Building Societies Act 1986 (as amended, the **Act**, which expression shall include, where applicable, any statutory modification thereof or re-enactment thereof or any statutory instrument, order or regulation made thereunder or under any statutory modification or re-enactment); or
- (b) a transfer by the Issuer of all or (with the consent of the Trustee) part of its engagements under Section 94 of the Act; or
- (c) a transfer by the Issuer of its business to a company under Sections 97 to 102(D) of the Act; or
- (d) a transfer by the Issuer of its business to a Subsidiary of another mutual society pursuant to any legislation from time to time; or
- (e) the substitution in place of the Issuer of a Successor in Business (as defined in the Trust Deed) or any other reconstruction or amalgamation the terms of which in each case have previously been approved in writing by the Trustee or by an Extraordinary Resolution of the Noteholders;

Senior Creditors means the following:

- (a) depositors and other creditors of the Issuer (including, without limitation, persons who become holders of deposits pursuant to Section 100 of the Act (as defined below) if the Issuer transfers its business to a successor pursuant to Section 97 of the Act or pursuant to any provisions of any statute or statutory instrument if the Issuer transfers its business to a Subsidiary of another mutual society) but not including creditors (if any) whose claims rank or are expressed to rank *pari passu* with or junior to the claims of the Noteholders and the Couponholders or creditors (if any) with or to whose claims the claims of the Noteholders and Couponholders rank or are

expressed to rank *pari passu* or senior (whether only in the event of a winding up of the Issuer or otherwise); and

- (b) (but only in respect of a winding up while the Issuer remains a building society) all members holding shares in the Issuer as regards the principal of their shares in the Issuer and any interest due in respect of those shares (other than members actually (but not deemed to be) holding Deferred Shares in the Issuer whose claims shall rank junior to the claims of the Noteholders and the Couponholders (both in the event of a winding up of the Issuer and otherwise)); and

Undated Subordinated Indebtedness means undated indebtedness of the Issuer on terms that no repayment will be made to the creditor until the investing members (which term shall not for this purpose include any holder of Deferred Shares in its capacity as such), depositors, senior lenders to and other general creditors of the Issuer have been repaid in full.

In these Conditions, **Subsidiary** means any company which is for the time being a subsidiary within the meaning of Section 736 of the Companies Act 1985 (as modified or re-enacted from time to time).

The obligations of the Issuer in respect of the Notes are conditional on the Issuer being solvent, within the meaning described in Condition 2, at the time of, and immediately after, payment by the Issuer. If the Issuer would not be so solvent, any amounts which might otherwise have been allocated in or towards payment of principal and interest in respect of the Notes may be used to absorb losses and any such amounts shall not be deemed to be due for the purposes of Condition 8. In the event of a winding-up of the Issuer each holder of a Note will be treated as if it were a holder of one of a class of notional Deferred Shares as described above.

The provisions of this Condition 2 apply only to the principal and interest (including Arrears of Interest, if any) in respect of the Notes (including any damages awarded for breach of any obligation of the Issuer relating to principal and/or interest in respect of the Notes) and nothing in this Condition 2 shall affect or prejudice the payment of the costs, charges, expenses, liabilities or remuneration of the Trustee or the rights and remedies of the Trustee in respect thereof.

2.2 Set-off

Subject to applicable law, no Noteholder or Couponholder may exercise, claim or plead any right of set-off, counter-claim or retention in respect of any amount owed to it by the Issuer arising under or in connection with the Notes or the Coupons and each Noteholder and Couponholder shall, by virtue of being the holder of any Note or Coupon, be deemed to have waived all such rights of such set-off, counter-claim or retention. Notwithstanding the preceding sentence, if any of the rights and claims of any Noteholder or Couponholder in respect of or arising under the Notes or the Coupons are discharged by set-off, such Noteholder or Couponholder will immediately pay an amount equal to the amount of such discharge to the Issuer or, if applicable, the liquidator of the Issuer and, until such time as payment is made, will hold a sum equal to such amount in trust for the Issuer or, if applicable, the liquidator in the Issuer's winding-up. Accordingly, such discharge will be deemed not to have taken place.

3. INTEREST

3.1 Interest Payment Dates

The Notes bear interest from and including 19 July 2007 (the **Interest Commencement Date**), payable annually in arrear on 19 July in each year commencing on 19 July 2008 (each a **Fixed Interest Payment Date**) to (and including) 19 July 2019 (the **Reset Date**) and thereafter quarterly in arrear on 19 October, 19 January, 19 April and 19 July in each year (together with each Fixed Interest Payment Date, an **Interest Payment Date**) *provided that* interest on the Notes shall be subject always to the provisions of Condition 2 and shall be payable only at the option of the Issuer as provided in Condition 3.9.

If any Interest Payment Date (other than a Fixed Interest Payment Date) would otherwise fall on a day which is not a Business Day (as defined in Condition 3.3) it shall be postponed to the next day which is a Business Day unless it would then fall into the next calendar month in which event such Interest Payment Date shall be brought forward to the immediately preceding Business Day. The period from (and including) the Interest Commencement Date to (but excluding) the first Interest Payment Date and each successive period from (and including) an Interest Payment Date to (but excluding) the next succeeding Interest Payment Date is called an **Interest Period**.

Whenever it is necessary to compute an amount of interest in respect of the Notes for a period other than an Interest Period and such period ends prior to the Reset Date (as defined above) or on (but excluding) the Reset Date, such interest shall be calculated on the basis of the actual number of days in the relevant period divided by the number of days in the Interest Period in which the redemption date falls and rounding the resultant figure to the nearest penny, half a penny being rounded upwards.

Whenever it is necessary to calculate an amount of interest in respect of the Notes for a period other than an Interest Period and such period begins on or after the Reset Date, such interest shall be calculated on the basis of the actual number of days in the relevant period divided by 365 or, where the redemption date falls in a leap year, 366 and otherwise in accordance with Condition 3.4 below.

The Issuer may not exercise its rights under this Condition 3.1 and Condition 3.9 to defer Interest Payments if a Capital Disqualification Event (as defined in Condition 5.3) has occurred and is continuing (unless a Capital Breach Event has also occurred and is continuing at such time or the board of directors of the Issuer considers that there is a reasonable likelihood that payment of the relevant interest payment will in the foreseeable future result in a Capital Breach Event occurring, when the Issuer may still exercise such right in its discretion).

For the purposes of this Condition, **Capital Breach Event** means the occurrence of a breach by the Issuer of the United Kingdom capital adequacy requirements, guidelines or measures or any other regulatory capital requirements, guidelines or measures applicable to the Issuer (whether or not such requirements, guidelines or measures have the force of law and whether they are applied generally or specifically to the Issuer).

3.2 Interest Accrual

Each Note will cease to bear interest from and including the due date for redemption unless, upon due presentation, payment of the principal in respect of the Note is improperly withheld or refused or unless default is otherwise made in respect of the payment, in which event interest shall continue to accrue as provided in the Trust Deed.

3.3 Rate of Interest

The rate of interest for each Interest Period up to (and including) the Reset Date shall be 7.25 per cent. per annum (the **Fixed Rate of Interest**). Thereafter, the rate of interest payable from time to time in respect of the Notes (the **Floating Rate of Interest**) will be determined on the basis of the following provisions:

- (a) On each Interest Determination Date (as defined below), The Bank of New York or its duly appointed successor (in such capacity, the **Agent Bank**) will determine the Screen Rate (as defined below) at approximately 11.00 a.m. (London time) on that Interest Determination Date. If the Screen Rate is unavailable, the Agent Bank will request the principal London office of each of the Reference Banks (as defined below) to provide the Agent Bank with the rate at which deposits in GBP are offered by it to prime banks in the London/Euro-zone interbank market for three months at approximately 11.00 a.m. (London time) on the Interest Determination Date in question and for a Representative Amount (as defined below).
- (b) The Floating Rate of Interest for the Interest Period shall be the Screen Rate plus the Margin (as defined below) or, if the Screen Rate is unavailable, and at least two of the Reference Banks provide such rates, the arithmetic mean (rounded if necessary to the fifth decimal place, with 0.000005 being rounded upwards) as established by the Agent Bank of such rates, plus the Margin.
- (c) If fewer than two rates are provided as requested, the Floating Rate of Interest for that Interest Period will be the arithmetic mean of the rates quoted by major banks in London, selected by the Agent Bank, at approximately 11.00 a.m. (London time) on the Interest Determination Date for loans in GBP to leading European banks for a period of three months, commencing on the Interest Determination Date and for a Representative Amount, plus the Margin. If the Floating Rate of Interest cannot be determined in accordance with the above provisions, the Floating Rate of Interest shall be determined as at the last preceding Interest Determination Date.
- (d) The Margin (the **Margin**) in relation to the Notes is 2.36 per cent. per annum.
- (e) In these Conditions (except where otherwise defined) the expression:
 - (i) **Business Day** means a day which is a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in London;
 - (ii) **Interest Determination Date** means the first day of the relevant Interest Period for which the Floating Rate of Interest will apply (or the immediately preceding Business Day in the case of the first Interest Period for which the Floating Rate of Interest will apply where the Reset Date is not a Business Day);
 - (iii) **Reference Banks** means the principal London/Euro-zone office of each of four major banks engaged in the London interbank market selected by the Agent Bank, provided that, once a Reference Bank has been selected by the Agent Bank, that Reference Bank shall not be changed unless and until it ceases to be capable of acting as such;

- (iv) **Representative Amount** means, in relation to any quotation of a rate for which a Representative Amount is relevant, an amount that is representative for a single transaction in the relevant market at the relevant time; and
- (v) **Screen Rate** means the rate for three month deposits in GBP which appears on the Reuters page LIBOR01 (or such replacement page on that service which displays the information).

3.4 Determination of Floating Rate of Interest and Interest Amount

The Agent Bank shall, as soon as practicable after 11.00 a.m. (London time) on each Interest Determination Date, but in no event later than the third Business Day thereafter, determine the GBP amount (the **Interest Amount**) payable in respect of interest on each GBP 50,000 principal amount of Notes for the relevant Interest Period. The Interest Amount shall be determined by applying the Floating Rate of Interest to such principal amount, multiplying the sum by the actual number of days in the Interest Period concerned divided by 360 and rounding the resultant figure to the nearest penny (half a penny being rounded upwards).

3.5 Publication of Floating Rate of Interest and Interest Amount

The Agent Bank shall cause the Floating Rate of Interest and the Interest Amount for each Interest Period starting on or after the Reset Date and the relative Interest Payment Date to be notified to the Issuer, the Trustee, the Principal Paying Agent (if the Notes are then listed on the London Stock Exchange (the **London Stock Exchange**)), the London Stock Exchange, and to any other stock exchange or other relevant authority on which the Notes are at the relevant time listed as soon as possible after their determination. The Principal Paying Agent shall cause each Floating Rate of Interest and each Interest Amount and Interest Payment Date to be published in accordance with Condition 12 as soon as possible after their determination date but, in no event later than the second Business Day thereafter. The relevant Interest Amount and the relevant Interest Payment Date may subsequently be amended (or appropriate alternative arrangements made by way of adjustment) without notice in the event of an extension or shortening of the Interest Period.

3.6 Determination by the Trustee

The Trustee (or an agent appointed by the Trustee at the expense of the Issuer) shall, if the Agent Bank defaults at any time in its obligation to determine the Floating Rate of Interest and Interest Amount in accordance with the above provisions, determine the Floating Rate of Interest and Interest Amount, the former at such rate as, in its absolute discretion (having such regard as it shall think fit to the procedure described above), it shall deem fair and reasonable in all the circumstances and the latter in the manner provided in Condition 3.4 and the determinations shall be deemed to be determinations by the Agent Bank.

3.7 Notifications, etc. to be Final

All notifications, opinions, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained for the purposes of the provisions of this Condition, whether by the Agent Bank or the Trustee, will (in the absence of wilful default, bad faith or manifest error) be binding on the Issuer, the Trustee, the Agent Bank, the Paying Agents and all Noteholders and Couponholders and (in the absence of wilful default or bad faith) no liability to the Issuer, or the Noteholders or the Couponholders shall attach to the Agent Bank or, if applicable, the Trustee in connection with the exercise or non-exercise by any of them of their powers, duties and discretions under this Condition.

3.8 Agent Bank

The Issuer shall procure that, so long as any of the Notes remains outstanding, there is at all times an Agent Bank for the purposes of the Notes and the Issuer may, subject to the prior written approval of the Trustee, terminate the appointment of the Agent Bank. In the event of the appointed office of any bank being unable or unwilling to continue to act as the Agent Bank or failing duly to determine the Floating Rate of Interest and the Interest Amount for any Interest Period, the Issuer shall, subject to the prior written approval of the Trustee, appoint the London office of another major bank engaged in the London interbank market to act in its place. The Agent Bank may not resign its duties or be removed without a successor having been appointed.

3.9 Arrears of Interest

On any Interest Payment Date there may be paid (if the Issuer so decides and gives notice of such decision to the Noteholders and subject to Condition 2) the interest accrued in the Interest Period which ends on that Interest Payment Date, but, subject to the provisions of the penultimate paragraph of Condition 3.1, the Issuer shall not have any obligation to make such payment and, except where the Issuer is obliged to make such payment as described in Condition 3.1, any failure to pay shall not constitute a default by the Issuer for any purpose. Any interest not so paid on an Interest Payment Date shall, so long as the same remains unpaid, constitute **Arrears of Interest**. Arrears of Interest may, at the option of the Issuer (subject to Condition 2), be paid in whole or in part (any such part being the whole of the interest accrued during any Interest Period or Periods) at any time upon the expiration of not less than seven days' notice to such effect given to the Trustee and to the Noteholders in accordance with Condition 12. All Arrears of Interest in respect of the Notes outstanding shall (subject to Condition 2) become due in full on the earliest of (a) the date set for any redemption pursuant to Condition 5.2, 5.3 or 5.4 or (b) the commencement of the winding up in England of the Issuer (except for the purposes of paragraph (e) of the definition of Permitted Transfer in Condition 2 above). Notwithstanding the foregoing, if notice is given by the Issuer of its intention to pay the whole or part of Arrears of Interest, the Issuer shall be obliged (subject to Condition 2) to do so upon expiration of such notice. So long as, and to the extent that, the same have not become due and payable, Arrears of Interest shall not bear interest. All references in these Conditions to interest on or in respect of the Notes shall, unless the context otherwise requires, include Arrears of Interest.

3.10 Restrictions following deferral of interest

If the Issuer elects not to pay interest on an Interest Payment Date pursuant to Condition 3.9 then, for so long as the same constitutes Arrears of Interest:

- (a) the Issuer shall not pay any interest or dividend on any class of Deferred Shares of the Issuer (other than any class of Deferred Shares the terms of which do not provide for the Board to be able, at the relevant time, to cancel any interest or dividend payment at its discretion) while any Arrears of Interest remain unpaid;
- (b) the Issuer shall not redeem, purchase or otherwise acquire for any consideration any class of Deferred Shares of the Issuer; and
- (c) the Issuer shall, as soon as reasonably practicable, notify each stock exchange on which it has any securities (including the Notes) for the time being listed, of its election not to pay interest on the relevant Interest Payment Date.

4. PAYMENTS AND EXCHANGES OF TALONS

4.1 Payments in respect of Notes

Payments of principal and interest in respect of each Note will be made against presentation and surrender (or, in the case of part payment only, endorsement) of the Note, except that payments of interest due on an Interest Payment Date will be made against presentation and surrender (or, in the case of part payment only, endorsement) of the relevant Coupon, in each case at the specified office outside the United States of any of the Paying Agents.

4.2 Method of Payment

Payments will be made by credit or transfer to an account in GBP maintained by the payee with or, at the option of the payee, by a cheque in GBP drawn on, a bank in London.

4.3 Missing Unmatured Coupons

Each Note should be presented for payment together with all relative unmatured Coupons (which expression shall, for the avoidance of doubt, include Coupons falling to be issued on exchange of matured Talons). Upon the date on which any Note becomes due and repayable, all unmatured Coupons appertaining to the Note (whether or not attached) shall become void and no payment shall be made in respect of such Coupons.

4.4 Payments subject to Applicable Laws

Payments in respect of principal and interest on the Notes are subject in all cases to any fiscal or other laws and regulations applicable in the place of payment, but without prejudice to the provisions of Condition 6.

4.5 Payment only on a Presentation Date

A holder shall be entitled to present a Note or Coupon for payment only on a Presentation Date and shall not, except as provided in Condition 3.2, be entitled to any further interest or other payment if a Presentation Date is after the due date.

Presentation Date means a day which (subject to Condition 7):

- (a) is, or falls after, the relevant due date;
- (b) is a Banking Day in the place of the specified office of the Paying Agent at which the Note or Coupon is presented for payment; and
- (c) in the case of payment by credit or transfer to a sterling account in the United Kingdom, is a Banking Day in London.

In this Condition, **Banking Day** means, in relation to any place, a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in that place.

4.6 Exchange of Talons

On and after the Interest Payment Date on which the final Coupon comprised in any Coupon sheet matures, the Talon comprised in the Coupon sheet may be surrendered at the specified office of any Paying Agent in exchange for a further Coupon sheet (including any appropriate further Talon), subject to the provisions of Condition 7. Each Talon shall, for the purposes of

these Conditions, be deemed to mature on the Interest Payment Date on which the final Coupon comprised in the relative Coupon sheet matures.

4.7 Initial Paying Agents

The names of the initial Paying Agents and their initial specified offices are set out at the end of these Conditions. The Issuer reserves the right, subject to the prior written approval of the Trustee, at any time to terminate the appointment of any Paying Agent and to appoint additional or other Paying Agents, provided that:

- (a) there will at all times be a Principal Paying Agent;
- (b) so long as the Notes are listed on the London Stock Exchange, if the Notes are issued in definitive form, there will at all times be at least one Paying Agent in London unless the Issuer obtains an exemption from the London Stock Exchange;
- (c) the Issuer undertakes that it will ensure that it maintains a Paying Agent in a Member State of the European Union that is not obliged to withhold or deduct tax pursuant to European Council Directive 2003/48/EC or any law implementing or complying with, or introduced in order to conform to, such Directive; and
- (d) there will be at all times an Agent Bank.

Notice of any termination or appointment and of any changes in specified offices will be given to the Noteholders promptly by the Issuer in accordance with Condition 12.

5. REDEMPTION AND PURCHASE

5.1 No Maturity

The Notes have no final maturity date and are only redeemable or repayable in accordance with the following provisions of this Condition or Condition 8.

5.2 Redemption for Taxation Reasons

At any time prior to the Reset Date, subject to:

- (a) the Issuer having notified the FSA (with such details as the FSA requires) of its intention to redeem at least one month (or such other period, longer or shorter, as the FSA may then require or accept and so long as there is a requirement to give such notice) prior to the date scheduled for redemption and no objection thereto has been raised by the FSA and/or (if required) the FSA has provided its consent thereto (in the form of a waiver or in such other form or terms as may be required from time to time); and
- (b) the Issuer having satisfied the Trustee that, both at the time when the notice of redemption is given, immediately prior to the date of redemption and immediately after the date of redemption, the Issuer is or will be (as the case may be) in compliance with its capital adequacy requirements as provided in the Capital Regulations (defined below) (except, in each such case, to the extent that the FSA no longer so requires);

the Notes may be redeemed at the option of the Issuer in whole but not in part, at any time on giving not less than 30 nor more than 60 days' notice to the Trustee, the Principal Paying

Agent and the Noteholders, in accordance with Condition 12, if the Issuer satisfies the Trustee immediately prior to the giving of such notice that it has or will or would, but for redemption, become obliged to pay additional amounts as provided or referred to in Condition 6 in respect of any of the Notes, as a result of any change in, or amendment to, the laws or regulations of the United Kingdom or any political subdivision or any authority thereof or therein 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 17 July 2007 and cannot be avoided by the Issuer taking reasonable steps available to it, provided that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer would be obliged to pay such additional amounts as referred to above were a payment in respect of the Notes then due. Upon the expiration of such notice the Issuer shall be bound to redeem such Notes at their principal amount together with all accrued interest and Arrears of Interest to but excluding the date of redemption, subject to the provisions of Condition 2.

Prior to giving any notice of redemption pursuant to this paragraph, the Issuer shall deliver to the Trustee a certificate signed by two Directors of the Issuer stating that the obligation to pay additional amounts referred to above will apply on the next Interest Payment Date and cannot be avoided by the Issuer taking reasonable measures available to it and that it has given at least one month's (or such other period as described above) prior written notice to, and received no objection from the FSA and/or (if required) the FSA has provided its consent thereto as described above and that the Issuer is and will be (immediately after the date of the redemption) in compliance with its capital adequacy requirements as provided in the Capital Regulations as described above and the Trustee shall be entitled to accept the certificate as sufficient evidence of the satisfaction of the conditions precedent set out above, in which event it shall be conclusive and binding on the Noteholders and the Couponholders.

In these Conditions, **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) responsible for the supervision of banks, building societies (or, in the event that the Issuer transfers its business to a company under Section 97 of the Act or to a Subsidiary of another mutual society pursuant to any legislation from time to time, companies of that nature) and other authorised institutions in the United Kingdom.

5.3 Redemption due to Capital Disqualification Event

At any time prior to the Reset Date, subject to:

- (a) the Issuer having notified the FSA (with such details as the FSA requires) of its intention to redeem at least one month (or such other period, longer or shorter, as the FSA may then require or accept and so long as there is a requirement to give such notice) prior to the date scheduled for redemption and no objection thereto has been raised by the FSA and/or (if required) the FSA has provided its consent thereto (in the form of a waiver or in such other form or terms as may be required from time to time); and
- (b) the Issuer having satisfied (by the delivery to the Trustee of a certificate of two directors to such effect) the Trustee that, both at the time when the notice of redemption is given, immediately prior to the date of redemption and immediately after the date of redemption, the Issuer is or will be (as the case may be) in compliance with its capital adequacy requirements as provided in the Capital Regulations (except, in each such case, to the extent that the FSA no longer so requires);

the Notes may be redeemed at the option of the Issuer in whole but not in part, at any time on giving not less than 30 nor more than 60 days notice to the Trustee, the Principal Paying Agent and the Noteholders in accordance with Condition 12, if the Issuer satisfies the Trustee immediately prior to the giving of such notice that a Capital Disqualification Event has occurred and is continuing.

Upon the expiration of such notice, the Issuer shall be bound to redeem such Notes at the Make-Whole Redemption Price (as defined below) together with all accrued interest and Arrears of Interest to but excluding the date of redemption, subject to the provisions of Condition 2.

For the purposes of this Condition:

Capital Disqualification Event shall be deemed to have occurred if the FSA has confirmed to the Issuer that the Notes are no longer of a type capable of comprising upper tier two capital (as such term, or the equivalent thereto from time to time, has the meaning given to it in the Capital Regulations) of the Issuer on a solo and/or consolidated basis (except where such non-qualification is only as a result of any applicable limitation on the amount of such capital) as a result of any change in, or amendment to, the Capital Regulations in existence as at 17 July 2007 or in the interpretation or application of any of the Capital Regulations at any time after such date;

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

Make-Whole Redemption Price means, in respect of each Note, (a) the principal amount of such Note or, if this is higher, (b) the price, expressed as a percentage (rounded to four decimal places, 0.00005 being rounded upwards), at which the Gross Redemption Yield on a Note on the Reference Date (assuming for these purposes that the Notes are to be redeemed at their principal amount on the Reset Date) is equal to the Gross Redemption Yield (determined by reference to the middle market price) at 11.00 hours (London time) on the Reference Date of the Reference Bond plus the Spread, all as determined by the Calculation Agent.

For the purposes of the definition of Make-Whole Redemption Price:

Calculation Agent means the independent investment bank or financial institution appointed by the Issuer and approved by the Trustee (such approval not to be unreasonably withheld or delayed), for the purposes of performing any of the functions to be performed by it under the Conditions, or any successor thereto;

Gross Redemption Yield means, with respect to a Note, the gross redemption yield on such Note (as calculated by the Calculation Agent on the basis set out in the United Kingdom Debt Management Office in the paper "Formulae for Calculating Gilt Prices from Yields" page 4, Section One: Price/ Yield Formulae "Conventional Gilts; Double-dated and Undated Gilts with Assumed (or Actual) Redemption on a Quasi-Coupon Date" (published on 8 June 1998 and updated on 15 January 2002 and as further updated or amended) on an annual compounding basis rounded up (if necessary) to four decimal places));

Spread means 0.935 per cent;

Reference Bond means the 4.75 per cent. United Kingdom Treasury Stock due March 2020, or if such stock is no longer in issue such other United Kingdom government stock with a maturity date as near as possible to the Reset Date as the

Calculation Agent may, with the advice of the Reference Market Makers, determine to be appropriate by way of substitution for the 4.75 per cent. United Kingdom Treasury Stock due March 2020;

Reference Date means the date which is three Business Days prior to the date fixed for redemption pursuant to this Condition 5.3 by the Issuer; and

Reference Market Makers means three brokers or market makers of gilts selected by the Calculation Agent in consultation with the Issuer and approved for this purpose by the Trustee or such other three persons operating in the gilt-edged market as are selected by the Calculation Agent in consultation with the Issuer and approved for this purpose by the Trustee.

5.4 Redemption at the Option of the Issuer

The Issuer may, subject to the Issuer having given at least one month's prior written notice to, and receiving no objection from, the FSA (or such other period of notice as the FSA may require or accept and so long as there is a requirement to give such notice), with such details as the FSA requires, and having given:

- (a) not less than 15 nor more than 30 days' notice to the Noteholders in accordance with Condition 12; and
- (b) notice to the Trustee and the Principal Paying Agent not less than 7 days before the giving of the notice referred to in (a);

(which notices shall be irrevocable and shall specify the date fixed for redemption), redeem all (but not some only) of the Notes on the Reset Date or on any Interest Payment Date thereafter at their principal amount, subject to the provisions of Condition 2.

5.5 Purchases

The Issuer or any of its Subsidiaries (as defined in section 736 of the Companies Act 1985), subject to the Issuer having given at least one month's prior written notice to, and receiving no objection from, the FSA (or such shorter period of notice as the FSA may accept and so long as there is a requirement to give such notice), with such details as the FSA requires, may at any time purchase Notes (provided that all unmatured Coupons appertaining to the Notes are purchased with the Notes) in any manner and at any price. If purchases are made by tender, tenders must be available to all Noteholders alike.

5.6 Cancellations

All Notes which are (a) redeemed or (b) purchased by or on behalf of the Issuer or any of its Subsidiaries will forthwith be cancelled, together with all relative unmatured Coupons attached to the Notes or surrendered with the Notes, and accordingly may not be held, reissued or resold.

5.7 Notices Final

Upon the expiry of any notice as is referred to in Conditions 5.2, 5.3 and 5.4 above, the Issuer shall be bound to redeem the Notes to which the notice refers in accordance with the terms of the relevant Conditions.

6. TAXATION

6.1 Payment without Withholding

All payments in respect of the Notes by or on behalf of the Issuer shall be made without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature (**Taxes**) imposed or levied by or on behalf of the United Kingdom or any political subdivision or any authority thereof or therein having power to tax, unless the withholding or deduction of the Taxes is required by law. In that event, the Issuer will (subject to the provisions of Condition 2) pay such additional amounts as may be necessary in order that the net amounts received by the Noteholders and Couponholders after the withholding or deduction shall equal the respective amounts which would have been receivable in respect of the Notes or, as the case may be, Coupons in the absence of the withholding or deduction; except that no additional amounts shall be payable in relation to any payment in respect of any Note or Coupon:

- (a) presented for payment by or on behalf of a holder who is liable to the Taxes in respect of the Note or Coupon by reason of his having some connection with the United Kingdom other than the mere holding of the Note or Coupon; or
- (b) 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 law implementing or complying with, or introduced in order to conform to, such Directive; or
- (c) 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 or Coupon to another Paying Agent, if any, in a Member State of the European Union; or
- (d) presented for payment more than 30 days after the Relevant Date except to the extent that a holder would have been entitled to additional amounts on presenting the same for payment on the last day of the period of 30 days assuming, whether or not such is in fact the case, that day to have been a Presentation Date (as defined in Condition 4.5).

As used in these Conditions, **Relevant Date** means the date on which the payment first becomes due but, if the full amount of the money payable has not been received by the Principal Paying Agent or the Trustee on or before the due date, it means the date on which, the full amount of the money having been so received, notice to that effect has been duly given to the Noteholders by the Issuer in accordance with Condition 12.

6.2 Additional Amounts

Any reference in these Conditions to any amounts in respect of the Notes shall be deemed also to refer to any additional amounts which may be payable under this Condition or under any undertakings given in addition to, or in substitution for, this Condition pursuant to the Trust Deed.

7. PRESCRIPTION

Notes and Coupons (which for this purpose shall not include Talons) will become void unless presented for payment within periods of 10 years (in the case of principal) and five years (in the case of interest) from the Relevant Date in respect of the Notes or, as the case may be, the Coupons, subject to the provisions of Condition 4. There shall not be included in any Coupon

sheet issued upon exchange of a Talon any Coupon which would be void upon issue under this Condition or Condition 4.

8. EVENTS OF DEFAULT

If the Issuer shall not make payment in respect of the Notes for a period of ten days or more in the case of payment of any principal or 14 days or more in the case of payment of any interest, in any case after the date on which it becomes due and payable, the Trustee may, subject as provided below, at its discretion and without further notice, institute proceedings in England (but not elsewhere) for the winding-up of the Issuer provided that the Issuer shall not be in default, however, if, in the case of principal, during the ten days' grace period referred to above or, in the case of interest, during the 14 days' grace period referred to above, it satisfies the Trustee that such sums were not paid in order to comply with the order of any United Kingdom court of competent jurisdiction provided always that such grace periods shall automatically start to run again upon any such order being discharged or revoked.

9. ENFORCEMENT

- 9.1** Without prejudice to Condition 8, if the Issuer fails to perform, observe or comply with any obligation, condition or provision relating to the Notes binding on it under these Conditions or the Trust Deed (other than any obligation of the Issuer for the payment of any principal or interest or any other payment obligation of the Issuer in respect of the Notes), the Trustee may, subject as provided below, at its discretion and without further notice, institute such proceedings against the Issuer as it may think fit to enforce such obligations, condition or provision provided that the Issuer shall not as a consequence of such proceedings be obliged to pay any sum or sums representing or measured by reference to principal or interest or any other payment obligation of the Issuer in respect of the Notes sooner than the same would otherwise have been payable by it.
- 9.2** Subject to applicable laws, no remedy (including the exercise of any right of set-off or analogous event) other than those provided for in Condition 8 and Condition 9.1 above or submitting a claim in the winding-up of the Issuer will be available to the Trustee or the Noteholders or Couponholders.
- 9.3** The Trustee shall not be bound to take action as referred to in Conditions 8 and 9.1 or any other action under these Conditions or the Trust Deed unless (a) it shall have been so requested in writing by Noteholders holding at least one-fourth in aggregate nominal amount of the Notes then outstanding or if so directed by an Extraordinary Resolution of the Noteholders and (b) it shall have been indemnified and/or secured and/or prefunded to its satisfaction (as provided in the Trust Deed).
- 9.4** No Noteholder or Couponholder shall be entitled to proceed directly against the Issuer unless the Trustee, having become bound so to proceed, fails to do so within a reasonable period and such failure is continuing. No Noteholder or Couponholder shall be entitled either to institute proceedings for the winding up of the Issuer or to submit a claim in such winding-up, except that if the Trustee, having become bound to institute such proceedings as aforesaid, fails to do so, or, being able and bound to submit a claim in such winding-up, fails to do so, in each case within a reasonable period and such failure is continuing, then any such Noteholder or Couponholder may, on giving an indemnity satisfactory to the Trustee, in the name of the Trustee (but not otherwise), himself institute proceedings for the winding-up of the Issuer and/or submit a claim in such winding-up to the same extent (but not further or otherwise) that the Trustee would have been entitled to do.

10. REPLACEMENT OF NOTES AND COUPONS

Should any Note or Coupon be lost, stolen, mutilated, defaced or destroyed, it may be replaced at the specified office of the Principal Paying Agent or (where applicable) the Paying Agent in London upon payment by the claimant of the expenses incurred in connection with the replacement and on such terms as to evidence and indemnity as the Issuer may reasonably require. Mutilated or defaced Notes or Coupons must be surrendered before replacements will be issued.

11. SUBSTITUTION

- 11.1** Subject as provided in the Trust Deed, the Trustee, if it is satisfied that so to do would not be materially prejudicial to the interests of the Noteholders and provided that the Issuer has given at least one month's notice to, and received no objection from, the FSA (or such shorter period of notice as the FSA may accept and so long as there is a requirement to give such notice) with such details as the FSA requires) may agree, without the consent of the Noteholders or Couponholders, to the substitution of any Successor in Business or of a Subsidiary of the Issuer or of any Successor in Business (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 Section 97 of the Act or a Subsidiary of another mutual society to which the Issuer has transferred its business under any applicable legislation), in place of the Issuer (or of any previous Successor in Business) as principal debtor under the Trust Deed and the Notes and Coupons at any time on or after the fifth anniversary of the date of issue of the Notes, provided (in the case of the substitution of any company which is a Subsidiary of the Issuer or of such Successor in Business) that the obligations of the Subsidiary in respect of the Trust Deed and the Notes and Coupons shall be guaranteed by the Issuer or such Successor in Business in such form as the Trustee may require and provided further that the obligations of such Successor in Business or Subsidiary and the obligations (if any) of the Issuer or the Successor in Business under 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 and Coupons.
- 11.2** If the Issuer shall amalgamate with one or more other building societies pursuant to Section 93 of the Act or transfer its engagements to another building society pursuant to Section 94 of the Act or transfer the whole of its business to a successor in accordance with Section 97 and other applicable provisions of the Act or transfer its business to a Subsidiary of another mutual society pursuant to any legislation from time to time, the successor will upon such transfer, pursuant to such provisions, automatically be substituted in place of the Issuer as principal debtor under the Trust Deed and the Notes and Coupons without any prior approval thereof being required from the Noteholders, Couponholders or the Trustee.
- 11.3** Any such substitution shall be binding on the Noteholders and the Couponholders and, unless the Trustee agrees otherwise, any such substitution shall be notified to the Noteholders as soon as practicable thereafter in accordance with Condition 12.

12. NOTICES

All notices to the Noteholders will be valid if published in a leading English language daily newspaper published in London or such other English language daily newspaper with general circulation in Europe as the Trustee may approve. The Issuer shall also ensure that notices are duly published in a manner which complies with the rules and regulations of any stock exchange or the relevant authority on which the Notes are for the time being listed. Any such

notice will be deemed to have been given on the date of the first publication or, where required to be published in more than one newspaper, on the date of the first publication in all required newspapers. If publication as provided above is not practicable, notice will be given in such other manner, and shall be deemed to have been given on such date, as the Trustee may approve. Couponholders will be deemed for all purposes to have notice of the contents of any notice given to the Noteholders in accordance with this paragraph.

13. MEETINGS OF NOTEHOLDERS, MODIFICATION, WAIVER, AUTHORISATION AND DETERMINATION

13.1 Meetings of Noteholders

The Trust Deed contains provisions for convening meetings of the Noteholders to consider any matter affecting their interests, including the modification or abrogation by Extraordinary Resolution (which is defined in the Trust Deed as a resolution duly passed by a majority of not less than three-fourths of the votes cast thereon or a resolution in writing signed by or on behalf of the holders of not less than 90 per cent. in nominal amount of the Notes outstanding) of any of these Conditions or any of the provisions of the Trust Deed. The quorum at any meeting for passing an Extraordinary Resolution will be one or more persons present holding or representing more than 50 per cent. in principal amount of the Notes for the time being outstanding, or at any adjourned such meeting one or more persons present whatever the principal amount of the Notes held or represented by him or them, except that, at any meeting the business of which includes, *inter alia*, the modification of certain of the provisions of these Conditions and certain of the provisions of the Trust Deed, the necessary quorum for passing an Extraordinary Resolution will be one or more persons present holding or representing not less than two-thirds, or at any adjourned such meeting not less than one-third, of the principal amount of the Notes for the time being outstanding. An Extraordinary Resolution passed at any meeting of the Noteholders will be binding on all Noteholders, whether or not they are present at the meeting, and on all Couponholders. Notwithstanding the passing of any Extraordinary Resolution or any other consent, approval or authorisation of Noteholders (howsoever expressed) in relation to any amendment or proposed amendment to these Conditions or the provisions of the Trust Deed, no such amendment or proposed amendment shall take effect at any time whilst there is any obligation on the Issuer under the Capital Regulations to give a notice in writing of the proposed amendment (with such details as the FSA requires) to the FSA, unless the Issuer has given the FSA such a notice at least one month before the same is due to take effect (or such other period as the FSA may require) and the FSA has not objected to such proposed amendment.

13.2 Modification, Waiver, Authorisation and Determination

The Trustee may agree, without the consent or sanction of the Noteholders or Couponholders, to any modification of, or to the waiver or authorisation of any breach or proposed breach of, any of these Conditions or any of the provisions of the Trust Deed, or determine, without any such consent as aforesaid, that any Event of Default or Potential Event of Default (as defined in the Trust Deed) shall not be treated as such (provided that, in any such case, it is not, in the opinion of the Trustee, materially prejudicial to the interests of the Noteholders) or may agree, without any such consent as aforesaid, to any modification which, in its opinion, is of a formal, minor or technical nature or to correct a manifest error or an error which, in the opinion of the Trustee, is proven, provided that the Trustee may not agree to (and no purported agreement by the Trustee shall be effective to) modify, amend or otherwise alter any of the Conditions or any provision of the Trust Deed at any time whilst there is any obligation on the Issuer under the Capital Regulations to give a notice in writing of the proposed amendment (with such details as the FSA requires) to the FSA, unless the Issuer has

given the FSA notice at least one month before the same is due to take effect (or such other period as the FSA may require) and the FSA has not objected to such proposed amendment.

13.3 Trustee to have Regard to Interests of Noteholders as a Class

In connection with the exercise by it of any of its trusts, powers, authorities and discretions (including, without limitation, any modification, waiver, authorisation, determination or substitution), the Trustee shall have regard to the general interests of the Noteholders as a class but shall not have regard to any interests arising from circumstances particular to individual Noteholders or Couponholders (whatever their number) and, in particular but without limitation, shall not have regard to the consequences of any such exercise for individual Noteholders or Couponholders (whatever their number) resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory or any political sub-division thereof and the Trustee shall not be entitled to require, nor shall any Noteholder or Couponholder be entitled to claim, from the Issuer, the Trustee or any other person 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 6 and/or any undertaking given in addition to, or in substitution for, Condition 6 pursuant to the Trust Deed.

13.4 Notification to the Noteholders

Any modification, abrogation, waiver, authorisation or determination shall be binding on the Noteholders and the Couponholders and, unless the Trustee agrees otherwise, shall be notified by the Issuer to the Noteholders as soon as practicable thereafter in accordance with Condition 12.

14. INDEMNIFICATION OF THE TRUSTEE AND ITS CONTRACTING WITH THE ISSUER

14.1 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 action unless indemnified and/or secured and/or prefunded to its satisfaction.

14.2 Trustee Contracting with the Issuer

The Trust Deed also contains provisions pursuant to which the Trustee is entitled, *inter alia*, (a) to enter into business transactions with the Issuer and/or any of the Issuer's Subsidiaries and to act as trustee for the holders of any other securities issued or guaranteed by, or relating to, the Issuer and/or any of the Issuer's Subsidiaries, (b) to exercise and enforce its rights, comply with its obligations and perform its duties under or in relation to any such transactions or, as the case may be, any such trusteeship without regard to the interests of, or consequences for, the Noteholders or Couponholders, and (c) to retain and not be liable to account for any profit made or any other amount or benefit received thereby or in connection therewith.

15. FURTHER ISSUES

The Issuer is at liberty from time to time without the consent of the Noteholders or Couponholders to create and issue further notes or bonds (whether in bearer or registered form) either (a) ranking *pari passu* in all respects (or in all respects save for the first payment of interest thereon) and so that the same shall be consolidated and form a single series with the outstanding notes or bonds of any series (including the Notes) constituted by the Trust

Deed or any supplemental deed or (b) upon such terms as to ranking, interest, conversion, redemption and otherwise as the Issuer may determine at the time of the issue. Any further notes or bonds which are to form a single series with the outstanding notes or bonds of any series (including the Notes) constituted by the Trust Deed or any supplemental deed shall, and any other further notes or bonds may (with the consent of the Trustee), be constituted by a deed supplemental to the Trust Deed. The Trust Deed contains provisions for convening a single meeting of the Noteholders and the holders of notes or bonds of other series in certain circumstances where the Trustee so decides.

16. GOVERNING LAW

The Trust Deed, the Notes and the Coupons are governed by, and will be construed in accordance with, English law.

17. RIGHTS OF THIRD PARTIES

No rights are conferred on any person under the Contracts (Rights of Third Parties) Act 1999 to enforce any term of this Note, but this does not affect any right or remedy of any person which exists or is available apart from that Act.

SUMMARY OF PROVISIONS RELATING TO THE NOTES WHILE REPRESENTED BY THE GLOBAL NOTES

The following is a summary of the provisions to be contained in the Trust Deed to constitute the Notes and in the Global Notes which will apply to, and in some cases modify, the Conditions of the Notes while the Notes are represented by the Global Notes. Defined terms used in this section have the meaning given to them in "Conditions of the Notes".

1. Exchange

The Permanent Global Note will be exchangeable in whole but not in part (free of charge to the holder) for definitive Notes only:

- (a) upon the happening of any Event of Default (as defined in the Trust Deed); or
- (b) if either Euroclear or Clearstream, Luxembourg is closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so and no alternative clearing system satisfactory to the Trustee is available.

Thereupon the holder of the Permanent Global Note (acting on the instructions of one or more of the Accountholders (as defined below)) or the Trustee may give notice to the Issuer of its intention to exchange the Permanent Global Note for definitive Notes on or after the Exchange Date (as defined below). In addition, the Issuer shall publish a notice in accordance with Condition 12 setting out the necessary information regarding the exchange of the Permanent Global Note for definitive Notes, including details of any further paying agents appointed from time to time in London.

On or after the Exchange Date, the holder of the Permanent Global Note may surrender the Permanent Global Note to or to the order of the Principal Paying Agent. In exchange for the Permanent Global Note, the Issuer will deliver, or procure the delivery of, an equal aggregate principal amount of definitive Notes (having attached to them all Coupons in respect of interest which has not already been paid on the Permanent Global Note), security printed in accordance with any applicable legal and stock exchange requirements and in or substantially in the form set out in the Trust Deed. On exchange of the Permanent Global Note, the Issuer will procure that it is cancelled and, if the holder so requests, returned to the holder together with any relevant definitive Notes.

For these purposes, **Exchange Date** means a day specified in the notice requiring exchange falling not less than 60 days after that on which such notice is given and being a day on which banks are open for business in the place in which the specified office of the Principal Paying Agent is located and, except in the case of exchange pursuant to (b) above, in the place in which the relevant clearing system is located.

2. Payments

On and after 28 August 2007, no payment will be made on the Temporary Global Note unless exchange for an interest in the Permanent Global Note is improperly withheld or refused. Payments of principal and interest in respect of Notes represented by a Global Note will, subject as set out below, be made against presentation for endorsement and, if no further payment falls to be made in respect of the Notes, surrender of such Global Note to the order of the Principal Paying Agent or such other Paying Agent as shall have been notified to the Noteholders for such purposes. A record of each payment made will be endorsed on the

appropriate part of the schedule to the relevant Global Note by or on behalf of the Principal Paying Agent, which endorsement shall be *prima facie* evidence that such payment has been made in respect of the Notes. Payments of interest on the Temporary Global Note (if permitted by the first sentence of this paragraph) will be made only upon certification as to non-U.S. beneficial ownership unless such certification has already been made.

3. Notices

For so long as all of the Notes are represented by one or both of the Global Notes and such Global Note(s) is/are held on behalf of Euroclear and/or Clearstream, Luxembourg, notices to Noteholders may be given by delivery of the relevant notice to Euroclear and/or Clearstream, Luxembourg (as the case may be) for communication to the relative Accountholders rather than by publication as required by Condition 12 provided that, so long as the Notes are listed on the London Stock Exchange, the London Stock Exchange so agrees. Any such notice shall be deemed to have been given to the Noteholders on the second day after the day on which such notice is delivered to Euroclear and/or Clearstream, Luxembourg (as the case may be) as aforesaid.

4. Accountholders

For so long as all of the Notes are represented by one or both of the Global Notes and such Global Note(s) is/are held on behalf of Euroclear and/or Clearstream, Luxembourg, each person (other than Euroclear or Clearstream, Luxembourg) who is for the time being shown in the records of Euroclear or Clearstream, Luxembourg as the holder of a particular principal amount of such Notes (each an **Accountholder**) (in which regard any certificate or other document issued by Euroclear or Clearstream, Luxembourg as to the principal amount of such Notes standing to the account of any person shall, in the absence of manifest error, be conclusive and binding for all purposes) shall be treated as the holder of such principal amount of such Notes for all purposes (including but not limited to, for the purposes of any quorum requirements of, or the right to demand a poll at, meetings of the Noteholders) other than with respect to the payment of principal and interest on such Notes, the right to which shall be vested, as against the Issuer and the Trustee, solely in the bearer of the relevant Global Note in accordance with and subject to its terms and the terms of the Trust Deed. Each Accountholder must look solely to Euroclear or Clearstream, Luxembourg, as the case may be, for its share of each payment made to the bearer of the relevant Global Note.

5. Prescription

Claims against the Issuer in respect of principal and interest on the Notes represented by a Global Note will be prescribed after 10 years (in the case of principal) and five years (in the case of interest) from the Relevant Date (as defined in Condition 6).

6. Cancellation

Cancellation of any Note represented by a Global Note and required by the Conditions of the Notes to be cancelled following its redemption or purchase will be effected by endorsement by or on behalf of the Principal Paying Agent of the reduction in the principal amount of the relevant Global Note on the relevant part of the schedule thereto.

7. Euroclear and Clearstream, Luxembourg

References in the Global Notes and this summary to Euroclear and/or Clearstream, Luxembourg shall be deemed to include references to any other clearing system approved by the Trustee.

USE OF PROCEEDS

The net proceeds of the issue of the Notes will be used by the Issuer to strengthen its capital base and to continue the ongoing development of the Issuer's business. The total expenses related to the admission to trading of the Notes are estimated to be £6,925 (exclusive of VAT).

KENT RELIANCE BUILDING SOCIETY

Form, Status and Ownership

Kent Reliance Building Society (the **Society**) adopted its present name in 1986 and is the result of mergers of the Chatham Reliance Building Society (established 1898) with the Dover District Building Society (established 1861) in 1977, with the Kent & Canterbury Building Society (established 1847) in 1984 and with the Herne Bay Building Society (established 1888) in 1986. It is incorporated in England under the Building Societies Act 1986 (the **Act**) for an unlimited duration and has permission under Part IV of the FSMA to carry on all of the regulated activities which it was authorised to carry on under the Act prior to 1 December 2001.

The principal office of the Society is Reliance House, Sun Pier, Chatham, Kent ME4 4ET. Its telephone number is 01634 848944.

As at 30 September 2006 based on its asset value the Society was the nineteenth (eighteenth if the subsequent Nationwide/Portman merger is taken into account) largest building society in the United Kingdom with assets of £1.6 billion. During the financial year ended 30 September 2006 the Society had, on average, 98 employees and operated one branch at the year end.

The Society has approximately 160,000 members. .

Business

The figures stated in this section relating to the business of the Society relate to the Group, comprising the Society and its six wholly owned subsidiaries described below, except where otherwise stated.

General

The Society operates in accordance with the Act, regulations made thereunder and the Rules and its memorandum (the **Memorandum**). The principal purpose of the Society as stated in Clause 2 of its Memorandum is that of making loans which are secured on a residential property and are funded substantially by its members. The Group's principal operating objective is to be a high quality provider of building society services of retail savings and mortgages to an increasing number of customers.

Butlers shows the Society to be ranked (by society total assets) nineteenth out of 60 building societies in the 2006 reporting season and having the fastest growth (largest percentage increase in society total assets) over the past three years. Total assets have increased from £401 million in 2001 to £1.6 billion in 2006: the Society is four times the size it was five years ago. Most of this growth has been organic with just the acquisition of a £53 million portfolio of residential loans in Jersey in September 2002 and a £22 million portfolio of buy-to-let mortgages in September 2004.

The Society has maintained five consecutive years of record growth in new mortgage advances, which totalled £421 million in the financial year ended 30 September 2006, and comparable growth in gross retail receipts, which totalled £362 million in the same period. Such business volumes have served to increase the total asset base without infringing on the key financial indicators of the Society.

Funds are advanced primarily to borrowers on the security of first mortgages on freehold and leasehold residential property. The Society also lends to borrowers on the security of commercial property and typically holds 19 – 24 per cent. of its assets in high quality money market instruments to provide operating liquidity.

The Group obtains funds from the retail market from a range of variable rate instant access and notice accounts, supplemented by fixed rate/fixed term accounts. The Group also raises funds in the wholesale money markets and has previously arranged both medium term funding and syndicated bank facilities.

The Society has four wholly-owned subsidiaries providing mortgage services: three lending to the residents of the Channel Islands - Jersey Home Loans Limited (registered in England and Wales), Jersey Home Loans Limited (Jersey registered) and Guernsey Home Loans Limited – and one, Reliance Property Loans Limited, providing buy to let loans on the UK mainland. Borrowers in these subsidiaries are not members of the Society. In addition the Society has a wholly-owned English subsidiary - Easiprocess Limited – which is the UK holding company for an Indian registered wholly-owned subsidiary – Easiprocess Private Limited – providing back office services to the Group.

The Jersey mortgage portfolio (held by the two Jersey Home Loans Limited companies) has grown from the portfolio of £53 million purchased in September 2002 to £432 million at 30 September 2006. The Jersey portfolio represents 26.7 per cent. of total Group assets, at 30 September 2006. The Guernsey portfolio (held by Guernsey Home Loans Limited) comprised £61 million of mortgages at 30 September 2006, representing 3.8 per cent. of total Group assets.

Mortgage Lending Activities

The Group's mortgage lending activity consists mainly of the making of loans to individuals for the purchase or re-mortgage of residential property in the UK and the Channel Islands, secured by a first legal charge over the property. At 30 September 2006, loans fully secured on residential property amounted to £1.27 billion, comprising 98 per cent. of all loans and advances to members and customers. Of the Group's total residential mortgage loan portfolio at 30 September 2006, 50 per cent. was at fixed or capped interest rates, 20 per cent. was linked to the Bank of England repo rate, and 15 per cent at discounted administered variable rates, with the remainder on administered variable rates. Residential mortgage products are distributed through a number of channels, including the Society's branch and agency network and direct telephone links, as well as intermediaries.

At 30 September 2006, the Group also had loans of approximately £26 million secured on commercial property.

Lending is conducted in accordance with Board approved lending policy statements drawn up in compliance with the Interim Prudential Sourcebook for Building Societies published by the FSA. Within the agreed policy parameters, care, prudence and control are exercised by experienced underwriting staff to ensure that the quality of lending is maintained. Despite increasing market pressures in recent years, the Society has not relaxed its underwriting criteria with the fundamental pre-requisite for new mortgages continuing to be the perceived ability of the borrower to repay.

Arrears and Loan Loss Provision

The Group reports on mortgage arrears for regulatory purposes where arrears on the account represent 2.5 per cent. or more of the mortgage balance outstanding. As at 30 September 2006 only 0.68 per cent. by number and 0.64 per cent. by value of all mortgage advances had arrears of 2.5 per cent. or more of the balance outstanding: the arrears amounted to £384,000. These arrears are among the lowest in the sector, in part reflecting the effectiveness of the Society's ongoing commitment to proactive arrears management.

The amount of net recoveries of balances previously written off on mortgage advances in the year ended 30 September 2006 was £16,000. In that year the provision for potential future losses on default was increased by £53,000 with resultant carried forward impairment provisions £275,000 at 30 September 2006. There were no cases where repayments were 12 months or more in arrears at 30 September 2006. The number of properties in possession at the end of 30 September 2006 was six

none of which resulted in any loss to the Society when they were realised. Most were a consequence of voluntary surrender rather than Society action.

Retail Funding

The Society offers its members and potential members a range of share account and investment products covering both fixed and variable rates and varying notice periods. The Society's retail funding is obtained in part through direct contact with members through the Society's head office as a result of advertising and marketing activities and in part through the branch and agency network. In the year to 30 September 2006 the Society achieved a net increase in retail savings balances of £169 million, the majority being secured through press coverage and marketing activities.

Wholesale Funding

The Society is an active participant in the wholesale money markets. The Society increased its non-retail funding by a total of £124 million in the year to 30 September 2006. The Society transacts with a range of counter-parties and the analysis of wholesale funds at 30 September 2006 was:

	£ million
Amounts owed to credit institutions	390.9
Amounts owed to other wholesale customers	80.3
	<hr/>
	471.2
	<hr/>

At 30 September 2006 the Group's wholesale funding was 31.1 per cent. of shares, deposits and loans.

Liquidity

The Group's liquid assets for these purposes stood at £315.2 million at 30 September 2006, representing 20.8 per cent. of the total shares and borrowings of the Group at that date. In addition the Society maintains a £75 million standby facility with a range of credit institutions under an arrangement which runs to May 2008.

Capital Resources

The Society has a capital base comprising general reserves, subscribed capital (the two PIBS issues) and term and undated subordinated debt.

Operational Efficiency

At a strategic review in 2002 the Board acknowledged the Group would need to find ways of reducing relative costs in order to be able to operate on a finer interest margin as competition in the sector intensified and the cost of regulation increased. These challenges were addressed through a four year programme of modernisation and growth. The Group has invested in technology, process re-engineered the business and established a subsidiary company in Bangalore, India to process back office work faster, more efficiently and at less cost than was possible in the UK. Over the period from 2002 to 2006 the Group administrative expense ratio has reduced from 1.06 per cent. to 0.50 per cent. of assets. No UK building society has a lower administrative expense ratio based on current published information.

Other Income

In addition to net interest receivable, the Group has other sources of income. These include valuation and administration and related fees, and insurance commissions and they represent 11.6 per cent. of Group total income.

Current Prospects

The Group has achieved significant growth in the sector by a combination of competitiveness in both the retail mortgage and investment markets and national press coverage. The growth has brought with it scale economies which, together with the results of the modernisation programme described above, will allow the Society to maintain its competitive position and so continue its growth in a controlled manner. The Society's Executive Team develops the Group businesses and is complemented by an experienced non-executive board from differing professional, commercial and industrial backgrounds.

Board of Directors

The business of the Society is under the direction of the Board, who are elected by the members and serve in accordance with the Memorandum and Rules. The Board is responsible to the members for the proper conduct of the affairs of the Society and appoints and supervises executives who are responsible to the Board for the day to day management of the Society.

The Society has nine directors, comprising six non executive (part time) directors and three executive (full time) directors who are the Society's most senior executives. As required by the FSA, the Society's directors are fit and proper persons and bring a wide range of experience, business skills, professional expertise and community involvement to the policy making of the Society.

A brief profile of the Executive Directors is as follows:

Mike Lazenby FCIB, FRSA

Chief Executive (Aged 52) - appointed July 2000

Mike Lazenby joined the Society as Chief Executive in April 2000. Formerly Marketing Director with the Nationwide Building Society and Managing Director of UCB Home Loans Corporation Limited he has extensive knowledge of the industry. Prior to joining Nationwide in 1991 he spent 18 years with Midland Bank plc and one year with Standard Chartered Bank rising to a senior management position in corporate banking. His career has led to Board level responsibilities for business development, marketing, public relations, sponsorship and community affairs.

Rob Procter BA, FCIB, FRSA

Deputy Chief Executive (Aged 49) – appointed May 2004

Rob Procter joined the Board as Deputy Chief Executive in May 2004 having joined the Society in 1989 and worked in the building society sector since 1980. He is Managing Director of the Society's Channel Island subsidiaries, an executive member of the Society's Mortgage Committee and Joint Chief Executive of the Society's Indian registered subsidiary company, Easiprocess Private Limited.

Bob Scruton MSc FCA FRSA

Finance Director (Aged 55) – appointed May 2004

Bob Scruton is a chartered accountant with experience of financial and general management in a wide range of organisations. This includes a substantial period in private practice and various roles in the private, public and voluntary sectors at local and national level. He joined the Board as Finance Director in May 2004 but previously had a long association with the Society in other roles.

The names of all the directors of the Society, their responsibilities within the Society, their date of appointment, their business occupation and partnerships or other directorships as at the date of this document are detailed below. The business address of each of the directors is the principal office of the Society as stated on page 39 of this document.

Name	Responsibility within the Society	Date of Appointment	Business Occupation	Partnerships or Other Directorships
Malcolm Seaforth Mackenzie	Chairman	January 2002	Company Director	Seaforth Brook Ltd Mackenzie Health Ltd Easiprocess Private Ltd
Christopher John Byrne	Director	April 1979	Solicitor and Notary Public	Girlings
David Stephen Kemp	Vice Chairman	April 1986	Diocesan Secretary	None
Michael John Lazenby	Chief Executive	July 2000	Building Society Executive	mikelazenby.com Ltd Easiprocess Ltd Easiprocess Private Ltd Guernsey Home Loans Ltd Jersey Home Loans Ltd Jersey Home Loans Ltd Reliance Property Loans Ltd
Anne-Marie Nelson	Director	March 1995	Company Director	University of Greenwich Individual Learning Company Ltd Fair Play South East Ltd Guernsey Home Loans Ltd Jersey Home Loans Ltd Jersey Home Loans Ltd Reliance Property Loans Ltd
Andrew Newell	Director	November 2005	Company Director	Off the Streets and into Work Easiprocess Ltd Easiprocess Private Ltd
Fiona Pollard	Director	November 2006	Company Director	SEEDA Kent Messenger Radio Group Ltd Education Business Partnership West Kent Ltd FMQ Ltd BMQ Ltd Hop Farm Trading Ltd Hop Farm Real Estate Ltd Hop Farm Ltd Turner Contemporary Trust Ltd Guernsey Home Loans Ltd Jersey Home Loans Ltd Jersey Home Loans Ltd Reliance Property Loans Ltd
Robert Duncan Procter	Deputy Chief Executive	May 2004	Building Society Executive	Easiprocess Ltd Easiprocess Private Ltd Guernsey Home Loans Ltd Jersey Home Loans Ltd

			Jersey Home Loans Ltd Reliance Property Loans Ltd
Robert Scruton	Finance Director	May 2004	Building Society Executive
			Kent Ambulance NHS Trust St Martin's Emmaus Easiprocess Ltd Guernsey Home Loans Ltd Jersey Home Loans Ltd Jersey Home Loans Ltd Reliance Property Loans Ltd

There are no conflicts of interest between any duties to the Society of the persons named above and other duties or private interests of those persons.

Recent Developments

There has been no material change in the nature of the Group's business since 30 September 2006. There has been further growth in retail lending and at 31 May 2007 the (unaudited) total mortgage lending net of provisions stood at £1.54 billion: an increase of £240 million. This has been mirrored by an increase in retail funding which at 31 May 2007 stood at (unaudited) £1.4 billion: an increase of £355 million. In addition the capital position has been strengthened by a further £8.65 million of dated subordinated debt. The process of reviewing the Group's systems and procedures to minimise relative management costs continues with a resultant reduction in management expense ratio.

TAXATION

The following applies only to persons who are the beneficial owners of Notes and is a summary of the Issuer's understanding of current law and practice in the United Kingdom relating to certain aspects of United Kingdom taxation. Some aspects do not apply to certain classes of person (such as dealers and persons connected with the Issuer) to whom special rules may apply. Prospective Noteholders who may be subject to tax in a jurisdiction other than the United Kingdom or who may be unsure as to their tax position should seek their own professional advice.

A. Interest on the Notes

1. Payment of interest on the Notes

Payments of interest on the Notes may be made without deduction of or withholding on account of United Kingdom income tax provided that the Notes continue to be listed on a "recognised stock exchange" within the meaning of section 1005 of the Income Tax Act 2007 (the **Tax Act**). The London Stock Exchange is a recognised stock exchange. Under a United Kingdom HM Revenue & Customs (**HMRC**) interpretation, the Notes will satisfy this requirement if they are admitted to trading by the London Stock Exchange. Provided, therefore, that the Notes remain so listed, interest on the Notes will be payable without withholding or deduction on account of United Kingdom tax.

The United Kingdom Finance Bill 2007 contains a proposed new statutory meaning of references to securities which are "listed" on a recognised stock exchange. The draft legislation provides that securities will be treated as listed on a recognised stock exchange if (and only if) they are admitted to trading on that exchange and either they are included in the United Kingdom official list (within the meaning of Part VI of the FSMA) or they are officially listed, in accordance with the provisions corresponding to those generally applicable in European Economic Area states, in a country outside the United Kingdom in which there is a recognised stock exchange. It is understood that this new definition is not intended to alter the position described above in respect of securities that are listed and admitted to trading on a market of a stock exchange which was already designated as a recognised stock exchange before 21 March 2007.

Interest on the Notes may also be paid without withholding or deduction on account of United Kingdom tax where interest on the Notes is paid by the Issuer and, at the time the payment is made, the Issuer reasonably believes (and any person by or through whom interest on the Notes is paid reasonably believes) that the beneficial owner is within the charge to United Kingdom corporation tax as regards the payment of interest, provided that HMRC has not given a direction (in circumstances where it has reasonable grounds to believe that it is likely that the above exemption is not available in respect of such payment of interest at the time the payment is made) that the interest should be paid under deduction of tax.

In other cases, an amount must generally be withheld from payments of interest on the Notes on account of United Kingdom income tax at the savings rate (currently 20 per cent.). However, where an applicable double tax treaty provides for a lower rate of withholding tax (or for no tax to be withheld) in relation to a Noteholder, HMRC can issue a notice to the Issuer to pay interest to the Noteholder without deduction of tax (or for interest to be paid with tax deducted at the rate provided for in the relevant double tax treaty).

Noteholders may wish to note that HMRC has power to obtain information (including the name and address of the beneficial owner of the interest) from any person in the United

Kingdom who either pays or credits interest to or receives interest for the benefit of a Noteholder. Information so obtained may, in certain circumstances, be exchanged by HMRC with the tax authorities of the jurisdiction in which the Noteholder is resident for tax purposes.

2. *EU Savings Directive*

Under EC Council Directive 2003/48/EC on the taxation of savings income, Member States are required 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 an individual resident in that other Member State. However, for a transitional period, Belgium, Luxembourg and Austria are instead required (unless during that period they elect otherwise) to operate a withholding system in relation to such payments (the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries). A number of non-EU countries and territories including Switzerland have adopted similar measures (a withholding system in the case of Switzerland).

3. *Further United Kingdom Income Tax Issues*

Interest on the Notes constitutes United Kingdom source income for tax purposes and, as such, may be subject to income tax by direct assessment even where paid without withholding.

However, interest with a United Kingdom source received without deduction or withholding on account of United Kingdom tax will not be chargeable to United Kingdom tax in the hands of a Noteholder (other than certain trustees) who is not resident for tax purposes in the United Kingdom unless that Noteholder carries on a trade, profession or vocation in the United Kingdom through a United Kingdom branch or agency in connection with which the interest is received or to which the Notes are attributable (and where that Noteholder is a company, unless that Noteholder carries on a trade in the United Kingdom through a permanent establishment in connection with which the interest is received or to which the Notes are attributable). There are exemptions for interest received by certain categories of agent (such as some brokers and investment managers). The provisions of an applicable double taxation treaty may also be relevant for such Noteholders.

B. United Kingdom Corporation Tax Payers

In general, Noteholders which are within the charge to United Kingdom corporation tax will be charged to tax as income on all returns, profits or gains on, and fluctuations in value of, the Notes (whether attributable to currency fluctuations or otherwise) broadly in accordance with their statutory accounting treatment.

C. Other United Kingdom Tax Payers

1. *Taxation of Chargeable Gains*

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

2. *Accrued Income Scheme*

The Notes are likely to constitute variable rate securities for the purposes of the accrued income scheme. Under the accrued income scheme as set out in Part 12 of the Tax Act, on a disposal of Notes by a Noteholder who is resident or ordinarily resident in the United Kingdom or carries on a trade in the United Kingdom through a branch or agency to which the Notes are attributable, the Noteholder may be charged to income tax on an amount of interest which is just and reasonable in the circumstances. The purchaser of such a Note will not be entitled to any equivalent tax credit under the accrued income scheme to set against any actual interest received by the purchaser in respect of the Notes (which may therefore be taxable in full).

D. Stamp Duty and Stamp Duty Reserve Tax (SDRT)

No United Kingdom stamp duty or SDRT is payable on a transfer by delivery of the Notes.

SUBSCRIPTION AND SALE

The Royal Bank of Scotland plc (the **Manager**) has, pursuant to a Subscription Agreement (the **Subscription Agreement**) dated 17 July 2007, agreed to subscribe or procure subscribers for the Notes at the issue price of 99.298 per cent. of the principal amount of Notes, less a commission. The Issuer will also reimburse the Manager in respect of certain of its expenses, and has agreed to indemnify the Manager against certain liabilities, incurred in connection with the issue of the Notes. The Subscription Agreement may be terminated in certain circumstances prior to payment to the Issuer.

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.

The Notes 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 of 1986 and regulations thereunder.

The Manager has agreed that, except as permitted by the Subscription Agreement, it will not offer, sell or deliver the Notes (a) as part of their distribution at any time or (b) otherwise until 40 days after the later of the commencement of the offering and the Closing Date within the United States or to, or for the account or benefit of, U.S. persons and that it will have sent to each dealer to which it sells any 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. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

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

United Kingdom

The Manager has represented and agreed that, except as permitted by the Subscription Agreement:

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

General

No action has been taken by the Issuer or the Manager that would, or is intended to, permit a public offer of the Notes in any country or jurisdiction where any such action for that purpose is required. Accordingly, the Manager has undertaken that it will not, directly or indirectly, offer or sell any Notes or distribute or publish any offering circular, prospectus, form of application, advertisement or other document or information in any country or jurisdiction except under circumstances that will, to the best of its knowledge and belief, result in compliance with any applicable laws and regulations and all offers and sales of Notes by it will be made on the same terms.

GENERAL INFORMATION

Authorisation

The issue of the Notes was duly authorised by a resolution of the Board of Directors of the Issuer dated 27 June 2007.

Listing

Application has been made to list the Notes on the London Stock Exchange. If the application to the London Stock Exchange is approved, the Notes listed on the London Stock Exchange will be traded on the London Stock Exchange.

Clearing Systems

The Notes have been accepted for clearance through Euroclear and Clearstream, Luxembourg. The ISIN for this issue is XS0311941214 and the Common Code is 031194121.

No Significant Change

Save as disclosed on page 44 of this Prospectus, there has been no significant change in the financial or trading position of the Group since 30 September 2006 and there has been no material adverse change in the financial position or prospects of the Issuer since 30 September 2006.

Litigation

The Issuer is not involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuer is aware) which may have or have had in the 12 months preceding the date of this document a significant effect on the financial position or profitability of the Issuer and/or the Group.

Accounts

The auditors of the Issuer are Ernst & Young LLP (registered auditor, regulated by the Institute of Chartered Accountants in England and Wales), who have audited the Issuer's accounts in accordance with generally accepted auditing standards in the United Kingdom for each of the two financial years ended on 30 September 2005 and 30 September 2006.

The Issuer currently prepares audited accounts on an annual basis. These are available from the Issuer upon request at its registered office. The Issuer does not currently publish interim accounts.

U.S. Tax

The Notes and Coupons will contain 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."

Control

The FSMA and certain related statutory instruments contain provisions regarding changes in control over UK authorised persons, such as the Issuer, including provisions setting out when a person is taken to acquire such control. In the case of building societies, this includes where a person acquires 10% or more of the society's capital (i.e. general reserves and deferred shares as defined in section 119 of the Act).

As at 12 July 2007, HSBC Global Custody Nominee (UK) Limited (**HSBC Nominee**) held such deferred shares of the Issuer (**Deferred Shares**) for nominee accounts, together representing approximately 18.36 per cent. of the Issuer's capital. Although nominee holdings may constitute control of the Issuer under the FSMA, HSBC Nominee will not have voting control of the Issuer (because each holder of Deferred Shares has only one vote) and will not have significant influence over the Issuer. The Issuer has no details of the persons for whom HSBC Nominee is holding the Deferred Shares. In the circumstances, the Issuer does not consider that the holding of the Deferred Shares will result in abuse of control.

So far as is known to the Issuer, no persons directly or indirectly, jointly or severally, exercise control over the Issuer, except as stated above.

Documents

For the period of twelve months starting on the date on which this Prospectus is made available to the public as required by the prospectus rules made by the FSA, copies of the following documents will be available for inspection at the offices of the Principal Paying Agent during normal business hours on any weekday (excluding Saturdays, Sundays and public holidays):

- (a) the Memorandum and Rules;
- (b) the audited consolidated financial statements of the Issuer in respect of the financial years ended 30 September 2005 and 30 September 2006; and
- (c) the Trust Deed and the Agency Agreement.

THE ISSUER

Kent Reliance Building Society
Reliance House
Sun Pier
Chatham ME4 4ET

TRUSTEE

The Law Debenture Trust Corporation p.l.c.
Fifth Floor
100 Wood Street
London EC2V 7EX

PRINCIPAL PAYING AGENT AND AGENT BANK

The Bank of New York
One Canada Square
London E14 5AL

LEGAL ADVISERS

To the Manager and the Trustee

Allen & Overy LLP
One Bishops Square
London E1 6AO

To the Issuer

Ruth Finch
170 Cambridge Street
London SW1V 4QE

AUDITORS

Ernst & Young LLP
1 More London Place
London SE1 2AF

MANAGER

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