
25 February 2011

OneSavings Bank Plc

*(incorporated with limited liability in England and Wales with registered number
7312896)*

£15,000,000 7.875% Perpetual Subordinated Bonds

and

£22,000,000 6.591% Perpetual Subordinated Bonds

In accordance with the provisions of the £15,000,000 7.875% and the £22,000,000 6.591% Permanent Interest Bearing Shares (respectively the “**PIBS**”) of Kent Reliance Building Society (“**KRBS**”), OneSavings Bank Plc (the “**Issuer**” and the “**Bank**”) issued £15,000,000 and £22,000,000 principal amount of perpetual subordinated bonds (together the “**Bonds**”) on 1 February 2011 in place of the PIBS, bearing interest at a rate of 7.875% and 6.591% per annum respectively.

Each series of Bonds was constituted by a separate Trust Deed dated 1 February 2011 and made between the Bank and The Law Debenture Trust Corporation p.l.c (the “**Trustee**”). The Bonds will constitute unsecured, subordinated obligations of the Bank, as described in the terms and conditions (the “**Conditions**”) of the Bonds.

See “*Risk Factors*” for a discussion of certain factors to be considered in connection with an investment in the Bonds.

Application has been made to the United Kingdom Financial Services Authority (the “FSA”) in its capacity as competent authority under the Financial Services and Markets Act 2000 (the “UK Listing Authority”) for the Bonds to be admitted to the official list of the UK Listing Authority (the “Official List”) and to the London Stock Exchange plc (the “London Stock Exchange”) for the Bonds to be admitted to trading on the London Stock Exchange’s regulated market.

References in this Prospectus to Bonds being listed (and all related references) shall mean that such Bonds have been admitted to trading on the London Stock Exchange’s regulated market and have been admitted to the Official List. The London Stock Exchange’s regulated market is a regulated market for the purposes of Directive 2004/39/EC (the Markets in Financial Instruments Directive).

This Prospectus comprises a prospectus for the purposes of Article 5.4 of Directive 2003/71/EC (the “Prospectus Directive”).

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

This Prospectus is to be read in conjunction with all documents which are deemed to be incorporated herein by reference (see “*Documents Incorporated by Reference*” below). This Prospectus shall, save as specified herein, be read and construed on the basis that such documents are so incorporated and form part of this Prospectus.

The Bank has not authorised the use of this Prospectus in connection with any offer of Bonds.

No person is or has been authorised by the Bank to give any information or to make any representation not contained in or not consistent with this Prospectus or any other information supplied in connection with the Bonds and, if given or made, such information or representation must not be relied upon as having been authorised by the Bank, the Registrar, the Paying Agents or the Trustee.

Neither this Prospectus nor any other information supplied in connection with the Bonds (i) is intended to provide the basis of any credit or other evaluation or (ii) should be considered as a recommendation by the Bank, the Registrar, the Trustee or the Paying Agents that any recipient of this Prospectus or any other information supplied in connection with the Bonds should purchase any Bonds. Each investor contemplating purchasing any Bonds should make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness, of the Bank. Neither

this Prospectus nor any other information supplied in connection with the Bonds or the issue of any Bonds constitutes an offer or invitation by or on behalf of the Bank, the Registrar, the Trustee or the Paying Agents to any person to subscribe for or to purchase any Bonds.

Neither the delivery of this Prospectus nor the offering, sale or delivery of any Bonds shall in any circumstances imply that the information contained herein concerning the Bank is correct at any time subsequent to the date hereof or that any other information supplied in connection with the Bonds is correct as of any time subsequent to the date indicated in the document containing the same.

Following the publication of this Prospectus a supplement may be prepared by the Bank and approved by the UK Listing Authority in accordance with Article 16 of the Prospectus Directive.

No representation, warranty or undertaking, express or implied, is made and no responsibility is accepted by the Trustee as to the accuracy or completeness of the information contained in this Prospectus or any other information supplied in connection with the Bonds. Each person receiving this Prospectus acknowledges that such person has not relied on the Trustee in connection with its investigation of the accuracy of such information or its investment decision.

The distribution of this document in certain jurisdictions may be restricted by law and persons into whose possession this Prospectus or any Bonds may come must inform themselves about, and observe any restrictions on the distribution of this Prospectus and the offering and sale of Bonds.

The Bonds have not been and will not be registered under the securities laws of any jurisdiction other than the United Kingdom and may not be offered or sold directly or indirectly into any jurisdiction where to do so would be unlawful.

In particular, the Bonds have not been and will not be registered under the United States Securities Act of 1933, as amended (the “**Securities Act**”) and may not be offered or sold within the United States or to, or for the account of, U.S. persons except in transactions exempt from the registration requirements of the Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

The Bonds are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions 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 (as amended) and regulations thereunder.

All references in this document to “**Sterling**”, “**Pounds**” and “**£**”, refer to the currency of the United Kingdom.

Contents

Heading	Page
SUMMARY	1
RISK FACTORS	7
FINANCIAL STATEMENTS AND DOCUMENTS INCORPORATED BY REFERENCE	25
TERMS AND CONDITIONS OF THE FIRST PERPETUAL SUBORDINATED BONDS	26
TERMS AND CONDITIONS OF THE SECOND PERPETUAL SUBORDINATED BONDS	47
USE OF PROCEEDS	69
DESCRIPTION OF THE BANK	70
DESCRIPTION OF KRPS	87
TAXATION	89
GENERAL INFORMATION	94
Schedule 1 Interim financial statements of Kent Reliance Building Society	97
Schedule 2 OneSavings Plc¹ Directors' Report and Financial Statements	105

SUMMARY

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

Words and expressions specified as capitalised terms and defined in the sections headed “*Terms and Conditions of the First Perpetual Subordinated Bonds*” or “*Terms and Conditions of the Second Perpetual Subordinated Bonds*” as appropriate below shall have the same meanings in this summary.

Background to the issue of the Bonds: As a result of the transfer by KRBS to the Bank of its business, assets and liabilities under section 97 of the Building Societies Act 1986 and Part 2 of the Mutual Societies (Transfer) Order 2009 (the “**Transfer**”) the Bank assumed a liability on the Transfer date to each holder of a PIBS for a subordinated deposit equal to the principal amount of their PIBS. That deposit was automatically applied in subscription of Bonds having an interest rate of either 7.875% or 6.591% (corresponding to the relevant interest rate on such PIBS) for an amount corresponding to the principal amount of that holder's PIBS.

Issuer of Bonds: OneSavings Bank Plc. The Bank is a newly established United Kingdom bank, with a diversified range of retail banking activities primarily serving United Kingdom customers and also with significant lending, through its subsidiaries, into the Channel Islands. The Bank is a subsidiary of Kent Reliance Provident Building Society Limited (“**KRPS**”), which will hold (at least, initially) the majority of the

ordinary shares in the Bank.

Risk Factors:	There are certain factors that may affect the Bank's ability to fulfil its obligations under the Bonds. These are set out under the section headed " <i>Risk Factors</i> ". They include risks related to economic activity in the United Kingdom, risks related to the business of the Bank and risks related to the Conditions of the Bonds (including that the Bank's obligations under the Bonds are subordinated to claims of Senior Creditors).
Description of Bonds:	Perpetual Subordinated Bonds.
Trustee:	The Law Debenture Trust Corporation p.l.c.
Principal Paying Agent:	Equiniti Financial Services Limited.
Registrar:	Equiniti Limited.
Size:	£15,000,000 7.875% Perpetual Subordinated Bonds (the " First Perpetual Subordinated Bonds "). £22,000,000 6.591% Perpetual Subordinated Bonds (the " Second Perpetual Subordinated Bonds ").
Clearing System:	CRESTCo. Limited (" Crest ").
Currency:	Pounds sterling (£).
Maturity:	No maturity.
Interest Payment:	(a) The First Perpetual Subordinated Bonds bear interest from and including 1 February 2011 to but excluding 27 August 2014 at a rate of 7.875% per annum payable in arrear by half yearly instalments on 27 February and 27 August in each year, commencing on 27 February 2011. Thereafter the rate of interest shall be the rate calculated in accordance with Condition 4.2 of the Conditions of the First Perpetual

Subordinated Bonds and shall be payable, subject to those Conditions, in arrear by half yearly instalments on 27 February and 27 August commencing on 27 February 2015.

In respect of the period from and including 1 February 2011 to but excluding 27 February 2011, the amount of interest payable in respect of each £1,000 principal amount of the First Perpetual Subordinated Bonds shall be £5.57.

The Bank shall, subject to the Conditions of the First Perpetual Subordinated Bonds, pay an additional amount to each Bondholder on 27 February 2011 of £33.82 in respect of each £1,000 principal amount of First Perpetual Subordinated Bonds held by such Bondholder which shall represent accrued interest in respect of the 7.875 per cent Permanent Interest Bearing Shares of KRBS (“**2004 PIBS**”), in replacement for which the First Perpetual Subordinated Bonds have been issued, for the period from and including the interest payment date in respect thereof which immediately precedes 1 February 2011 to but excluding 1 February 2011.

- (b) The Second Perpetual Subordinated Bonds bear interest from and including 1 February 2011 to but excluding 7 March 2016 at a rate of 6.591% per annum payable in arrear by half yearly instalments on 7 September and 7 March in each year, commencing on 7 March 2011.

Thereafter the rate of interest shall be the rate calculated in accordance with Condition 4.2 of the Conditions of the Second Perpetual Subordinated Bonds and shall be payable, subject to those Conditions, in arrear by half yearly instalments on 7 September and 7

March in each year commencing on 7 September 2016.

In respect of the period from and including 1 February 2011 to but excluding 7 March 2011, the amount of interest payable in respect of each £1,000 principal amount of the Second Perpetual Subordinated Bonds shall be £6.20.

The Bank shall, subject to the Conditions of the Second Perpetual Subordinated Bonds, pay an additional amount to each Bondholder on 7 March 2011 of £26.77 in respect of each £1,000 principal amount of Second Perpetual Subordinated Bonds held by such Bondholder which shall represent accrued interest in respect of the 6.591 per cent Permanent Interest Bearing Shares of KRBS (“**2006 PIBS**”), in replacement for which the Second Perpetual Subordinated Bonds have been issued, for the period from and including the interest payment date in respect thereof which immediately precedes 1 February 2011 to but excluding 1 February 2011.

Form:

The Bonds have been issued in registered form and title to the Bonds will pass only by registration in the register of Bondholders. The Bonds may be held in certificated or uncertificated form in CREST.

If held in certificated form, a Certificate may be issued at the request of a Bondholder in respect of its registered holding of Bonds. Each Certificate will be numbered serially with an identifying number which will be recorded on the relevant Certificate and in the register of Bondholders which the Bank will procure to be kept by the Registrar and at the registered office of the Bank.

Status of the Bonds:

The Bonds constitute unsecured, subordinated obligations of the Bank. The First Perpetual

Subordinated Bonds rank *pari passu* without any preference among themselves and *pari passu* in point of subordination with the Second Perpetual Subordinated Bonds. The Second Perpetual Subordinated Bonds rank *pari passu* without any preference among themselves and *pari passu* in point of subordination with the First Perpetual Subordinated Bonds.

In the event of the winding up of the Bank, the claims of the holders of Bonds pursuant thereto will be subordinated to the claims of Senior Creditors (as defined in Condition 3.4(i)) in the manner and to the extent provided in each Trust Deed.

Except as provided in Condition 3.3, all payments in respect of the Bonds shall be conditional upon the Bank being solvent as contemplated in Condition 3.3 at the time for payment by the Bank, and no amount shall be payable in respect of the Bonds unless and until such time as the Bank could make such payment and still be solvent immediately thereafter.

Interest Deferral:

Payment of interest in respect of the Bonds may be deferred on any Interest Payment Date. Any interest so deferred will, so long as it remains unpaid, constitute Arrears of Interest. Arrears of Interest will, subject to Condition 3.3, become payable upon the redemption or purchase of the Bonds by the Bank or upon a winding-up of the Bank (other than a Solvent Winding Up (as defined in the Conditions)).

Listing and Admission to Trading:

Application has been made to the UK Listing Authority for the Bonds to be admitted to the Official List and to the London Stock Exchange for such Bonds to be admitted to trading on the London Stock Exchange's regulated market.

Redemption:

Subject as provided in Condition 5 of the Bonds, the Bank will be entitled to redeem for taxation reasons all of the First Perpetual Subordinated Bonds and/or all of the Second Perpetual Subordinated Bonds at their principal amount on the occurrence of certain

changes of law or regulation. The Bank will be entitled, having first obtained FSA consent and having given the relevant notices in Condition 5.3 (a) and (b), to redeem all (but not some) of the First Perpetual Subordinated Bonds on any Reset Date and all (but not some) of the Second Perpetual Subordinated Bonds on 7 March 2016 or on any Interest Payment Date thereafter.

Taxation:

All payments in respect of the Bonds will be made without deduction for or on account of United Kingdom withholding taxes, unless the withholding or deduction of taxes is required by law.

Governing Law:

The Trust Deeds, the Registrar Agreement and any non-contractual obligations arising out of or in connection with the Trust Deeds, the Registrar Agreement and the Bonds and any non-contractual obligations arising out of or in connection with the Bonds are, governed by, and construed in accordance with, English law.

ISIN Code:

First Perpetual Subordinated Bonds :

GB00B67JQX63

Second Perpetual Subordinated Bonds :

GB00B61ZXL72

RISK FACTORS

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

The Bank believes that the factors described below represent the principal risks inherent in investing in the Bonds, but the inability of the Bank to pay interest, principal or other amounts on or in connection with the Bonds may occur for other reasons which may not be considered significant risks by the Bank 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.

1. Factors that may affect the Bank's ability to fulfil its obligations under the Bonds:

1.1 Risks related to the business of the Bank

As a result of its business activities, the Bank will be exposed to a variety of risks, the most significant of which are described more fully below. Failure to control these risks could result in material adverse effects on the financial performance, and on the reputation, of the Bank. The Bank has implemented risk management policies and procedures to mitigate and control credit risk, concentration risk, liquidity risk, interest rate risk, operational risk and other risks to which the Bank is exposed, and exposures will be rigorously measured and monitored.

The Group's risk management policy will be approved at least annually by the Board and reviewed by the risk committee. This sets out in detail how the framework to identify and manage risk should operate, including (but not limited to) an overview of risk, setting out the arrangements for responsibilities for risk identification and management, describing the roles and responsibilities in respect of risk and summarising risk monitoring arrangements. The Bank'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 Group.

1.1.1 Credit risk

The Board considers that the most material risk that will be run by the Group is of default in the residential mortgage and commercial loan books. The Group seeks

to mitigate this risk by carrying out suitable credit checks on borrowers and ensuring that the value of any properties securing loans to their customers exceed the amount of such loans by a prudent margin.

Market conditions and reduction of available credit in the last few years have contributed to decreasing consumer confidence, increased market volatility, reduced business activity and, consequently, increasing commercial and consumer loan delinquencies. These market developments may further affect consumer confidence levels and may cause adverse changes in payment patterns, causing further increases in arrears and default rates, which may impact the Bank's provision for credit losses. These market conditions could materially and adversely affect the Bank's financial condition and results of the Group's operations. The commercial loan book is self contained, no material new commercial lending has been done since the autumn of 2008 and a key objective of the Bank will be to actively manage the remaining commercial loan portfolio to reduce the risk of loss arising from it. The Bank does not plan to provide commercial loans to its customers in the near future.

The Group's lending policies will be approved at least annually by the Board and reviewed by the credit committee. This sets out in detail how credit risk is managed within the business.

More generally, adverse changes in the credit quality of the Group's borrowers and counterparties or a general deterioration in the economic conditions in the United Kingdom, the Channel Islands or globally, could affect the recoverability and value of the Group's assets and require an increase in the allowance for impairment losses on credit exposures and other provisions.

The Bank is also at risk to spread-widening and, ultimately, defaults on its inter-bank and wholesale exposures, mitigated through credit assessment, limits and monitoring procedures.

1.1.2 Interest Rate risk

The Bank's businesses are inherently subject to risks in financial markets and in the wider economy. Market movements have had an impact in relation to KRBS and its business, and will have an impact on the Bank, in a number of key areas.

In particular, KRBS's mortgage book contains many mortgages that are either fixed rate mortgages or long-term base rate tracker mortgages. The interest received by KRBS on the mortgages (taken together with interest rate swap transactions that KRBS undertook to hedge against interest rate risks relating to its mortgage book) is less, at current market rates, than KRBS has to pay to obtain

funding for the mortgages. Accordingly, if the Bank of England base rate remains low, KRBS's returns on its mortgage book will continue to be adversely affected.

In the case of the Bank, KRBS wrote down asset values in respect of residential buy-to-let mortgage loans and commercial loans in the three year period before the Transfer and the Bank may need to make further write-downs of asset values in the future in respect of both residential mortgages and commercial loans.

In addition, as a result of the historically low interest rates in the United Kingdom and Channel Islands this has adversely impacted KRBS's net interest margins as a result of the need to offer competitively priced retail funding products and to hold higher levels of liquidity in low yielding assets. Although the Bank will undertake measures to mitigate and control the effects of these conditions, there can be no assurances that such controls will insulate the Bank from deteriorating market conditions, particularly in respect of its back-book of mortgages and commercial loans, acquired under the Transfer.

The Bank has implemented risk management policies to mitigate and control the market risks to which it is exposed, and exposures will be regularly measured and monitored. The management policies will aim to reduce the market risk (ie the interest rate risk) by a more rigorous matching of retail lending and investment products where this is possible and the use of derivatives where not.

The Bank's exposure to market risk in the financial markets is also limited in that it has no trading book. However, it is difficult to predict changes in economic and market conditions accurately, and the effects that these changes could have on the Bank's financial performance and business operations.

1.1.3 Operational Risks

Operational risk is the risk of loss or negative impact to the Group arising from inadequate or failed internal processes, people or systems or from external events. It includes legal and financial crime risks, but does not include strategic, reputational and business risks. The businesses of the Bank and its lending subsidiaries (together the "**Lending Group**") are dependent on the ability to process a large number of transactions efficiently and accurately. A feature specific to the Group is that arrangements to process some of the Lending Group back office work using an Indian-registered subsidiary of KRBS were put in place in January 2005 (prior to the Transfer having previously outsourced some of this work to third parties). Those arrangements remain in place for the Bank.

The Bank 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 resources are devoted to developing efficient procedures and to staff training. Whilst this system of control is commensurate with the characteristics of the business and is in accordance with regulatory considerations, it is not possible to implement procedures which are fully effective in controlling each of the operational risks as some risks may be unforeseeable.

Notwithstanding anything in this risk factor, this risk factor should not be taken to imply that the Bank will be unable to comply with its obligations as a company with securities admitted to the Official List or as an authorised firm regulated by the FSA.

1.1.4 Liquidity risk and wholesale funding markets

Liquidity risk arises from the timing of cash flows generated from the Bank's assets and liabilities, resulting in the Bank being unable to meet its financial obligations as they fall due. The risk is managed principally by holding cash and other realisable liquid assets and managing funding maturities to avoid bunching.

Any failure by the Bank to anticipate and provide for unforeseen decreases or changes in funding sources, including further deterioration in the wholesale funding markets, could have adverse consequences on its ability to meet its obligations under the Bonds.

As the Bank is funded primarily through retail deposits, it faces the risk that funds will be withdrawn, adversely affecting the Bank's ability to meet its financial obligations and/or to continue in business.

The Bank's policy is to carry a significant amount of its total assets in liquid form, with minimum limits to all bands of cash flow in order to control liquidity risk. Short-term liquidity is also reviewed in detail at regular meetings of the Bank's assets and liabilities committee and there are daily reports setting out performance against limits, liquidity and other balances and cash flow movements. Liquidity risks are subject to stress-testing in line with regulatory requirements.

The Bank's risk committee is responsible for considering and advising the Board in respect of the Bank's compliance with guidance regarding liquidity risk management and large exposures. Some of the risk committee's duties include reviewing the internal liquidity adequacy assessment (ILAA) framework by which the Bank's existing and forecast liquidity risk position and liquid assets are calculated and monitored and monitoring on an on-going basis the Bank's actual and forecast liquidity position.

1.1.5 Concentration risk

Concentration risk is the risk arising from lack of diversification in the Group's business. As a regionally-based building society, KRBS took, and the Bank (as a retail bank) and the Group will continue to take, significant steps to diversify the business beyond the original Kent-based constituency. However, some element of concentration exists by geography, products and funding.

In particular, the Group's portfolio of loans is concentrated in Jersey and (to a lesser extent) Guernsey, shared ownership lending in London and the South East and commercial lending in London and the South East. Accordingly, the Bank is particularly exposed to downturns in these markets and economic factors (such as volatility of property values) affecting these areas.

With regard to products, the Board considers that the greater risk of loss arises from a concentration in the real estate sector in the commercial portfolio (acquired under the Transfer), although there is a concentration, across the Group assets as a whole, on residential mortgage lending.

KRBS had, and (following the Transfer) the Bank has, a low dependence on wholesale funding, but there is a risk that it may be difficult for the Bank to raise wholesale funding in the immediate future, as an unrated bank. This is a risk that the Bank will be seeking to address by a programme of roadshows with key brokers and counterparties with a view to informing the market about the Bank and its business in order to encourage wholesale counterparties to place deposits with the Bank.

1.1.6 Regulatory compliance and litigation risk

The Bank operates in a legal and regulatory environment that exposes it to potentially significant litigation and regulatory compliance risks. Regulatory compliance risk arises from a failure or inability to comply fully with the laws, regulations or codes applicable specifically to the financial services industry. Non-compliance could lead to fines, public reprimands, damage to reputation, enforced suspension of operations or, in extreme cases, withdrawal of authorisation to operate. It is not possible for the Bank to predict what regulatory proceedings may arise in the future.

The Bank may, from time to time, be involved in various disputes and legal proceedings, including litigation and regulatory investigations. Such cases are subject to many uncertainties and their outcome is often difficult to predict.

Notwithstanding anything in this risk factor, this risk factor should not be taken to imply that the Bank will be unable to comply with its obligations as an authorised firm regulated by the FSA.

1.1.7 Impact of regulatory changes

The Bank is subject to laws, regulations, administrative actions and policies affecting financial institutions in the United Kingdom. Changes in supervision and regulation in the United Kingdom could materially affect the business of the Bank, the products and services offered or the value of its assets. Although the Bank will work closely with its regulators and will continually monitor the situation, future changes in laws, regulation and fiscal or other policies can be unpredictable and are beyond the control of the Bank. Such changes may be more likely to occur as a result of the establishment of new regulatory bodies proposed to replace the FSA. As one aspect of this risk, the Bank is subject to the risk of having insufficient capital resources to meet the minimum regulatory capital requirements. In addition, those minimum regulatory requirements may increase in the future and/or the FSA may change the manner in which it applies existing regulatory requirements.

Notwithstanding anything in this risk factor, this risk factor should not be taken to imply that the Bank is currently unable to meet its regulatory capital requirements or that it will be unable to do so in the future (and please also see paragraphs 1.1.8 and 2.2.8 below).

1.1.8 Capital resources

The Bank must ensure that it has sufficient capital resources to meet its minimum regulatory capital requirements. In addition, those minimum regulatory requirements may increase in the future and/or the FSA may change the manner in which it applies existing regulatory requirements to banks.

As a result of the conversion of the PIBS into the Bonds, £37 million of capital previously attributed to KRBS's tier one capital ratio (although not as core tier one capital) will be classified as upper tier two capital of the Bank.

However, as part of the wider transaction of which the Transfer formed a part, OSB Holdco Limited subscribed £50,000,000 in the Bank, immediately following the Transfer, for ordinary shares and preference shares in the Bank, £49,185,650 of which will comprise core tier one capital of the Bank for regulatory capital purposes.

Notwithstanding anything in this risk factor, this risk factor should not be taken to imply that the Bank will be unable to meet its regulatory capital requirements.

1.1.9 Systemic risk resulting from failures in the banking industry

Within the banking industry, concerns about, or a default by, one institution could lead to significant liquidity problems, losses or defaults by other institutions. This risk is referred to as “**systemic risk**” and may adversely affect financial intermediaries, such as clearing agencies, clearing houses, banks, brokers and exchanges with whom the Bank will interact on a daily basis, which could have an adverse effect on the Bank's ability to raise new funding and/or put in place hedging transactions and on the Bank's business, results of operations and financial position. The Bank itself may also experience withdrawal of funds in the event of significant liquidity problems, losses or defaults by other banks.

1.1.10 Financial Services Compensation Scheme (“FSCS”)

The FSCS is the United Kingdom's statutory fund of last resort for customers of authorised financial services firms, and will pay compensation to customers if such a firm is unable to pay claims against it. The FSCS is funded by levies on firms authorised by the FSA (including the Bank). The recent arrangements put in place to protect the depositors of Bradford & Bingley and other failed deposit-taking institutions are expected to result in a significant increase on the levies made by the FSCS on the industry.

An additional levy of £736,000 was paid in September 2009 in respect of FSCS interest costs for the period to 31 March 2009 (based on the protected deposits of KRBS as at 31 December 2007) and an additional levy of £770,000 was paid in September 2010 in respect of FSCS interest costs for the year ended 31 March 2010 (based on the protected deposits of KRBS as at 31 December 2008). These amounts were recognised in KRBS's financial statements for the years ended 30 September 2008 and 2009 respectively. However, the ultimate cost to the industry in respect of increased FSCS levies remains uncertain.

1.1.11 Change of Control

At present, KRPS holds 59.9% of the ordinary shares in the Bank and JCF Holdco holds 40.1% of the ordinary shares in the Bank. In addition, JCF Holdco (as defined in the section titled “*Description of the Bank*”) holds 32,574 convertible preference shares in the Bank.

The above shareholding figures are subject to adjustment. JCF Holdco would be given a greater stake in the Bank if there are determined to be shortfalls in the

value of the Bank's commercial loan book or if JCF Holdco successfully claims for breach of warranty against the Bank under the Framework Agreement (as defined in the section titled "*Description of the Bank*"). In such cases, additional preference shares may be issued to JCF Holdco at no additional cost to JCF Holdco.

Each preference share is convertible into one B ordinary share. JCF Holdco may exercise its rights to convert some or all of its preference shares into B ordinary shares at any time. However, to exercise these rights, subject to certain exceptions, JCF Holdco must first make an offer to KRPS for it to buy (or to find a third party buyer for) all of JCF Holdco's shares in the Bank at a price determined in accordance with the Subscription and Shareholders' Agreement (as defined in the section titled "*Description of the Bank*").

JCF Holdco will have a right under the Subscription and Shareholders' Agreement to realise its interest by calling for the sale, flotation or liquidation of the Bank. However, subject to certain exceptions, JCF Holdco must first make an offer for KRPS to buy (or to find a third party buyer for) its shares in the Bank. If KRPS does not take up this offer, it may be required to join JCF Holdco's exit and also sell its shares in the Bank.

If consequently JCF Holdco becomes the holder of a majority of ordinary shares in the Bank, or if a third party becomes the holder of a majority of ordinary shares in the Bank, then the management and policies of the Bank may change in the future.

1.2 Economic Activity in the United Kingdom and Channel Islands

The Bank's business activities are banking, finance and financial services required by its customers. The Bank's business activities were transferred to it by KRBS on the date of the Transfer. KRBS conducted and the Bank is conducting business in the United Kingdom and the Channel Islands in its own name and through its subsidiaries. Its performance is therefore influenced by the level and cyclical nature of economic activity in the United Kingdom and the Channel Islands, which is, in turn, affected by both domestic and international economic and political events. Adverse developments in the United Kingdom and/or the Channel Islands economies, such as the current and ongoing effects of the crisis in the global financial markets, recession, and further deterioration of general economic conditions, could cause the Bank's earnings to decline and capital to be eroded.

The global economy and the global financial system have been experiencing a period of significant turbulence and uncertainty. This market dislocation has also

been accompanied by recessionary conditions and trends in many economies throughout the world, including the United Kingdom and Channel Islands. The recession is expected to be prolonged and could be exacerbated even further by deflationary forces or the failure of untested monetary measures to combat deflation. Unemployment is rising, reducing consumer demand and confidence and causing further deterioration in the labour market. Moreover, the rate at which such deterioration has occurred has proven very difficult to predict and this is expected to continue to be the case. As a result of the recent recession, KRBS experienced increased levels of arrears in its secured loan portfolio and this, coupled with a fall in house prices resulting in a drop in the value of the security held by KRBS for such loans could result in reduced realisations on the enforcement of such security.

A widespread and severe deterioration in the United Kingdom and Channel Islands economies may reduce the level of demand for, and supply of, the Bank's products and services, lead to lower asset and other realisations and increased negative fair value adjustments and impairments of investments and other assets and may materially and adversely impact the Bank's operating results, financial condition and prospects.

1.2.1 United Kingdom Property Market

As a result of the Transfer, the Bank acquired KRBS's mortgage portfolio, with loans secured against residential and commercial property in the United Kingdom. The Bank will carry on that mortgage lending business. A downturn in the United Kingdom economy could result in losses being incurred by lenders (including the Bank) on loans that have defaulted or may default in the future.

United Kingdom house prices have declined significantly over recent years, reflecting a deterioration of asset values, triggered by the economic downturn and lower availability of credit. Economic or other factors may lead to further contraction in the mortgage market and further decreases in housing prices. If the current economic downturn continues this could lead to decreases in house prices and/or increases in default rates, the Bank's retail mortgage portfolio may generate increases in impairment losses which could materially affect its operations, financial condition and prospects. The Bank's funding costs may also increase.

1.2.2 Channel Islands Property Market

Lending in the Channel Islands with loans secured against residential property represents a significant proportion of the activities of the Bank's subsidiaries operating on Jersey and Guernsey. The economies of both Jersey and Guernsey

are heavily dependent upon the financial services sector and any large scale downturn in or relocation of this sector could have a negative effect on the local housing market. Property prices may fall and/or there may be increases in default rates, generating increases in impairment losses which could materially affect the operations, financial condition and prospects of the Bank and the Bank's funding costs may increase.

1.2.3 Personal Financial Services Market

The United Kingdom residential mortgage and savings markets are very competitive. As a new bank (albeit a successor to KRBS's business), the Bank will need to establish its presence in the United Kingdom mortgage and savings markets. Increasing levels of consumer indebtedness experienced market-wide could have an adverse impact on the Bank's financial position and reputation, via increased impairment losses and a reduction in demand for the Bank's products.

The ongoing availability of retail deposit funding is dependent on a variety of factors outside the Bank's control, such as general economic conditions, competition for retail funding from other financial institutions and the confidence of retail depositors. These or other factors could lead to a reduction in the Bank's ability to access retail deposit funding on appropriate terms in the future. This may prevent the Bank from being able to fund its mortgage lending activities at the levels set out in its business plan and this may result in lower levels of profitability or losses for the Bank.

Any loss in consumer confidence in the banking businesses of the Bank could significantly increase the amount of retail deposit withdrawals in a short space of time. Should the Bank experience an unusually high level of withdrawals, this may have an adverse effect on the Bank's business, financial position and results of operations.

The Bank may also be required to pay above-market rates for retail deposit funding, which may adversely affect its profitability.

1.2.4 The Bank's position in the United Kingdom savings and loans market. In particular:

- (i) Size - The Bank's size makes it impractical to offer as diverse a range of savings and mortgage products as those often provided by larger retail financial institutions. This may affect the attractiveness of the products offered by the Bank and its subsidiaries (together, the "**Group**"), the demand for its products and its levels of income and profit in respect of the business.

- (ii) Small management team - The Bank's management team reflects the small size of the Bank with the result that the Bank does not have access to the same range of experienced and specialised management as larger institutions. The performance of the Bank is dependent on the performance of a small number of executives. Following the announcement of the resignation of Michael Lazenby on 22 February 2011 (with effect from 28 February 2011), these comprise Robert Scruton and Timothy Sawyer. Robert Scruton is currently the sole executive director and is the acting chief executive officer, as well as being the Bank's finance director. The Bank is seeking to appoint an interim chief executive before appointing someone to a permanent position and both recruitment exercises are underway.

In the meantime, the Bank is heavily dependent on Robert Scruton's experience of the business and his detailed knowledge of the operation of the business. The loss of Timothy Sawyer as chief operating officer or, in particular, Robert Scruton would result in a further loss of experienced personnel and/or further loss of detailed knowledge of the operation of the business. The Bank will seek to draw on the experience and knowledge of the business on the part of the managers who report directly to the executives pending appointment of a new chief executive.

The Bank will also face the financial cost of replacing the relevant person, as well as the cost of replacing Michael Lazenby, including the sum paid to him on his departure.

As much of the Bank's customer-facing, administration and support services are carried out from India by its Indian subsidiaries, the executives have in the past visited the Indian operations with the result that they have not always been present in the UK. Following the resignation of Michael Lazenby and pending appointment of a new chief executive, visits to India by an executive will leave only one executive in the UK. Although this could be avoided by the executives remaining in the UK, this would inhibit the executives' oversight of the Indian businesses. Whether the executives travel to India or remain in the UK, having only two executives may have an impact on the management and operation of the Bank until a new chief executive is appointed.

1.3 Risks relating to the Banking Act 2009

Under the Banking Act 2009 (the "**Banking Act**"), substantial powers have been granted to HM Treasury, the Bank of England and the FSA (together, the "**Authorities**") as part of a special resolution regime (the "**SRR**"). These powers enable the Authorities to deal with a United Kingdom bank, building society or

other United Kingdom institution with permission to accept deposits pursuant to Part IV of the Financial Services and Markets Act 2000 (“FSMA”) (each a “**relevant entity**”) in circumstances in which the Authorities consider its failure has become highly likely and a threat is posed to the public interest. The SRR consists of three stabilisation options and two insolvency and administration procedures applicable to United Kingdom banks which may be commenced by the Authorities. The stabilisation options provide for: (i) private sector transfer of all or part of the business of the relevant entity; (ii) transfer of all or part of the business of the relevant entity to a “**bridge bank**” established by the Bank of England; and (iii) temporary public ownership (nationalisation) of the relevant entity or its United Kingdom-incorporated holding company. In each case, the Authorities have been granted wide powers under the Banking Act including powers to modify contractual arrangements in certain circumstances and powers for HM Treasury to disapply or modify laws (with possible retrospective effect) to enable the powers under the Banking Act to be used effectively. The following paragraphs set out some of the possible consequences of the exercise of those powers under the SRR.

1.3.1 The SRR may be triggered prior to insolvency of the Bank

The purpose of the stabilising options is to address the situation where all or part of a business of a relevant entity has encountered, or is likely to encounter, financial difficulties, giving rise to wider public interest concerns. Accordingly, the stabilisation options may only be exercised if (a) the FSA is satisfied that a relevant entity (such as the Bank) is failing, or is likely to fail, to satisfy the threshold conditions within the meaning of section 41 of the FSMA (which are the conditions that a relevant entity must satisfy in order to retain its authorisation to accept deposits), (b) following consultation with the other Authorities, the FSA determines that it is not reasonably likely that (ignoring the stabilising options) action will be taken that will enable the relevant entity to satisfy those threshold conditions, and (c) the Authorities consider the exercise of the stabilisation options to be necessary, having regard to certain public interest considerations (such as the stability of the United Kingdom financial systems, public confidence in the United Kingdom banking system and the protection of depositors). It is therefore possible that one of the stabilisation options could be exercised prior to the point at which any insolvency proceedings with respect to the relevant entity could be initiated.

1.3.2 Various actions may be taken in relation to the Bonds without the consent of the Bondholders

If the Bank were made subject to the SRR, HM Treasury or the Bank of England may exercise extensive share transfer powers (applying to a wide range of

securities) and property transfer powers (including powers for partial transfers of property, rights and liabilities) in respect of the Bank. Exercise of these powers could involve taking various actions in relation to any securities issued by the Bank (including the Bonds) without the consent of the Bondholders, including (among other things): (i) delisting the Bonds; (ii) converting the Bonds into another form or class (the scope of which power is unclear, although may include, for example, conversion of the Bonds into equity securities); (iii) modifying or disapplying certain terms of the Bonds, including disregarding any termination or acceleration rights or events of default under the terms of the Bonds which would be triggered by the transfer and certain related events; and/or (iv) where property is held on trust, removing or altering the terms of such trust.

There can be no assurance that the taking of any such actions would not adversely affect the rights of Bondholders, the price or value of their investment in the Bonds and/or the ability of the Bank to satisfy its obligations under the Bonds. In such circumstances, Bondholders may have a claim for compensation under one of the compensation schemes existing under, or contemplated by, the Banking Act, but there can be no assurance that Bondholders would thereby recover compensation promptly or equal to any loss actually incurred.

1.3.3 A partial transfer of the Bank's business may result in a deterioration of its creditworthiness

If the Bank were made subject to the SRR and a partial transfer of its business to another entity were effected, the quality of the assets and the quantum of the liabilities not transferred and remaining with the Bank (which may include the Bonds) may result in a deterioration in the creditworthiness of the Bank and, as a result, increase the risk that it may be unable to meet its obligations in respect of the Bonds and/or eventually become subject to administration or insolvency proceedings pursuant to the Banking Act. In such circumstances, Bondholders may have a claim for compensation under one of the compensation schemes existing under, or contemplated by, the Banking Act, but there can be no assurance that Bondholders would thereby recover compensation promptly or equal to any loss actually incurred.

As at the date of this Prospectus, the Authorities have not made an instrument or order under the Banking Act in respect of the Bank and there has been no indication that they will make any such instrument or order. However, there can be no assurance that this will not change and/or that Bondholders will not be adversely affected by any such order or instrument if made.

2. Risks related to the Bonds

2.1 Risks related to the market for Bonds

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

2.1.1 Possible volatility in the price of the Bonds

The market price of the Bonds could be volatile and subject to significant fluctuations due to a variety of factors, including changes in market sentiment regarding the Bonds or securities similar to them. Prospective investors in Bonds should be aware that the value of an investment in Bonds may go down as well as up.

2.1.2 Liquidity risks

The Bonds had no established trading market when issued, and one may never develop. If a market does develop, it may not be very liquid. Therefore, investors may not be able to sell their Bonds easily or at prices that will provide them with a yield comparable to similar investments that have a developed secondary market. The Bonds may have a more limited secondary market and more price volatility than conventional debt securities. Illiquidity may have a severely adverse effect on the market value of Bonds.

2.1.3 Interest rate risks

Investment in the Bonds, which have a fixed interest rate, involves the risk that subsequent changes in market interest rates may adversely affect the value of the Bonds.

2.1.4 Credit ratings may not reflect all risks

One or more independent credit rating agencies may assign credit ratings to the Bonds, although the Bonds were not rated at issue. The ratings may not reflect the potential impact of all risks related to structure, market, additional factors discussed above, and other factors that may affect the value of the Bonds. A credit rating is not a recommendation to buy, sell or hold securities and may be revised or withdrawn by the rating agency at any time.

2.1.5 Legal investment considerations may restrict certain investments

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

2.1.6 Exchange rate risks and exchange controls

The Bank will pay principal and interest on the Bonds in sterling in the United Kingdom. Investors whose financial activities are denominated principally in a currency other than sterling therefore bear the risk of currency exchange rate fluctuations. Investors based outside the United Kingdom risk the possibility of any relevant exchange controls being imposed or modified.

2.2 Risks related to the Conditions of the Bonds

2.2.1 The Bank's obligations under the Bonds are subordinated

The Bank's obligations under the Bonds are unsecured and subordinated and rank junior in priority to claims of Senior Creditors. “**Senior Creditors**” means depositors and other creditors of the Bank (other than creditors (if any) in respect of claims which are expressed to, or so as to, rank *pari passu* with or junior to the claims of the Bondholders or creditors in respect of claims with which the Bonds are expressed to rank *pari passu* (whether only in the event of a winding-up of the Bank or otherwise)).

If the Bank is wound up (other than a Solvent Winding-Up), Bondholders would rank behind all depositors and creditors of the Bank (except in respect of claims which are expressed to rank below or *pari passu* with the Bonds) and *pari passu* with holders of preference shares having a preferential right to a return of assets over the holders of all other issued shares, including any preference shares of the Bank.

2.2.2 All payments are conditional on the Bank's solvency

All payments under or arising from the Bonds (including the PIBS Interest Payment) and the Trust Deeds are conditional upon the Bank being solvent at the time for payment by the Bank, and no amount shall be payable under or arising from the Bonds (including the PIBS Interest Payment) and the Trust Deeds unless and until such time as the Bank could make such payment and still be solvent

immediately thereafter. For these purposes, the Bank shall be solvent if (i) it is able to pay its debts owed to Senior Creditors as they fall due and (ii) its Assets exceed its Liabilities (other than its Liabilities to persons who are not Senior Creditors) (as such terms are defined in the Conditions of the Bonds). If the Bank fails to make any interest payment as a result of failure to satisfy the conditions referred to in this paragraph, that interest will constitute Arrears of Interest until paid (including, without limitation, for the purposes of Condition 4.4). Without prejudice to the rest of the Conditions, amounts representing any payments of principal, premium or interest (including the PIBS Interest Payment) or any other amount including any damages awarded for breach of any obligations in respect of which the conditions referred to in this paragraph are not satisfied on the date upon which the same would otherwise be due and payable (“**Solvency Claims**”) will be payable by the Bank in a winding-up of the Bank as provided in Condition 3.4. A Solvency Claim shall not bear interest.

2.2.3 The Bank may resolve not to pay interest on the Bonds

Under the Terms and Conditions of each series of Bonds, the Bank may resolve not to pay, or to reduce, interest on any Interest Payment Date. However, a Bondholder's right to interest under the Bonds is cumulative; the Bondholder does not lose the right to any interest which is not paid. For so long as any Arrears of Interest remain outstanding, the Bank will undertake not to declare or pay any dividend or other distribution on Junior Securities or Parity Securities (as such terms are defined in the Conditions of the Bonds) (save in certain situations). Any Arrears of Interest will become due on the date on which the Bank is wound up (other than a Solvent Winding-Up) or the date upon which any administrator of the Bank gives notice that it intends to declare or distribute a dividend or the date on which the Bonds are redeemed or purchased. Arrears of Interest shall not bear interest. Furthermore, the Bank will be obliged to pay interest on a given Interest Payment Date if, as a result of a change in law, the Bonds are no longer eligible to form part of the Bank's capital resources under Capital Adequacy Regulations (save where such non-qualification is only as a result of any applicable limitation on the amount of such capital).

2.2.4 Restricted remedy for non-payment

In accordance with current FSA requirements for subordinated capital, the sole remedy against the Bank available to the Trustee (on behalf of the Bondholders) or (where the Trustee has failed to proceed against the Bank as provided in the Conditions of the Bonds) any Bondholder for recovery of amounts owing in respect of the Bonds (including the PIBS Interest Payment) will be in the institution of proceedings in England and Wales for the winding-up of the Bank

and/or proving in the winding-up of the Bank and/or claiming in the liquidation of the Bank for such amount.

2.2.5 No limitation on issuing debt or senior or pari passu securities:

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

2.2.6 The Bonds may be subject to redemption by the Bank in certain circumstances

Subject to the terms of Condition 5, the Bank will be entitled to redeem all of the Bonds at their principal amount on the occurrence of certain changes of law which require the Bank to pay additional amounts to ensure that Bondholders will receive the same amount which they would have received if such payments were made without the deduction or withholding arising as a result of the change in law. The Bank will be entitled to redeem all (but not some) of the First Perpetual Subordinated Bonds on 27 August 2014 and every fifth successive year thereafter. The Bank will be entitled to redeem all (but not some) of the Second Perpetual Subordinated Bonds on 7 March 2016 or any Interest Payment Date thereafter.

2.2.7 The Bonds may not be a suitable investment for all investors

Each potential investor in the Bonds must determine the suitability of that investment in light of its own circumstances.

The Bonds are complex financial instruments. Sophisticated institutional investors generally do not purchase complex financial instruments as stand-alone investments. They purchase complex financial instruments as a way to reduce risk or enhance yield with an understood, measured, appropriate addition of risk to their overall portfolios. A potential investor should not invest in Bonds which are complex financial instruments unless they have the expertise (either alone or with a financial adviser) to evaluate how the Bonds will perform under changing conditions, the resulting effects on the value of the Bonds and the impact this investment will have on the potential investor's overall investment portfolio.

2.2.8 Basel 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 Bank 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 Bonds 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.

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

2.3.1 EU Savings Directive

Under EC Council Directive 2003/48/EC on the taxation of savings income (the “**Directive**”), 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, 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).

On 13 November 2008, the European Commission proposed certain amendments to the Directive, which may, if implemented, amend or broaden the scope of the requirements described above.

2.3.2 Change of law

The conditions of the Bonds 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.

FINANCIAL STATEMENTS AND DOCUMENTS INCORPORATED BY REFERENCE

The auditors' report and audited consolidated annual financial statements of KRBS for the financial years ended 30 September 2009 and 30 September 2008 which have previously been published and filed with the National Storage Mechanism shall be incorporated in and form part of this Prospectus. The unaudited consolidated interim financial statements of KRBS for the period of seven months ended 30 April 2010 have been attached at Schedule 1 to this Prospectus. The unaudited financial statements of the Bank for the period from 13 July 2010 to 31 December 2010 are set out in Schedule 2 to this Prospectus.

The Bank will provide, without charge, to each person to whom a copy of this Prospectus has been delivered, upon the oral or written request of such person, a copy of any or all of the documents incorporated by reference in this Prospectus unless such documents have been modified or superseded. Written or telephone requests for such documents should be directed to the Bank at its registered office set out at the end of this Prospectus. In addition, such documents will be available from the specified office of the Principal Paying Agent set out at the end of this Prospectus.

Where documents incorporated by reference into this Prospectus, also themselves incorporate by reference further information or documents, this information does not form part of this Prospectus.

TERMS AND CONDITIONS OF THE FIRST PERPETUAL SUBORDINATED BONDS

Terms and Conditions of the Perpetual Subordinated Bonds of OneSavings Bank Plc to be issued in replacement of 15,000 Permanent Interest Bearing Shares of £1,000 each with an interest rate of 7.875% of Kent Reliance Building Society

The following are the terms and conditions of the Bonds which will be endorsed on the Certificates issued in respect of the Bonds:

The £15,000,000 7.875% Perpetual Subordinated Bonds (the **Bonds**) of OneSavings Bank Plc (the **Issuer**) are constituted by a trust deed (the **Trust Deed**) dated 1 February 2011 (the **Issue Date**) between (1) the Issuer and (2) The Law Debenture Trust Corporation p.l.c. as trustee (the **Trustee**, which expression shall include its successors under the Trust Deed). The Trustee acts as trustee for the holders of the Bonds in accordance with the provisions of the Trust Deed. The Bondholders (as defined below) are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions contained in the Trust Deed and the Registrar Agreement (the **Registrar Agreement**) dated the Issue Date between the Issuer, the Trustee, Equiniti Limited as Registrar (the **Registrar**) and Equiniti Financial Services Limited as principal paying agent (the **Agent**) and the other paying agents named in the Registrar Agreement (together with the Agent, the **Paying Agents**, which expression shall include any additional or successor paying agents). Copies of the Trust Deed and the Registrar Agreement are available for inspection by Bondholders during normal business hours at the registered office for the time being of the Trustee (being at the date of the Trust Deed at Fifth Floor, 100 Wood Street, London EC2V 7EX) and at the specified office of the Registrar.

The Bonds are issued subject to, and with the benefit of, these conditions of issue (the **Conditions**).

1. Form, Denomination and Title

1.1 Form and Denomination

The Bonds are issued in registered form in amounts of £1,000 and integral multiples of £1,000 thereafter (referred to as the principal amount of a Bond without interest coupons) and may be held in either certificated form or uncertificated form in CREST. If held in certificated form, a bond certificate (each a **Certificate**) may be issued at the request of a Bondholder in respect of its registered holding of Bonds. Each Certificate will be numbered serially with an identifying number which will be recorded on the relevant Certificate and in the

register of Bondholders which the Issuer will procure to be kept by the Registrar and at the registered office of the Issuer.

CREST means the relevant system (as defined in the CREST Regulations) in respect of which Euroclear (or any successor) is the operator (as defined in the CREST Regulations).

CREST Regulations means the Uncertificated Securities Regulations 2001 (SI 2001 No. 01/378), including any modification thereof or any regulations in substitution therefor for the time being in force.

1.2 Title

Title to the Bonds passes only by registration in the register of Bondholders. The Bondholder will (except as otherwise required by law) be treated as its absolute owner for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any interest or any writing on, or the theft or loss of, the Certificate issued in respect of it) and no person will be liable for so treating the holder. In these Conditions **Bondholder** and (in relation to a Bond) **holder** means the person in whose name a Bond is registered in the register of Bondholders (or, in the case of a joint holding, to the joint holder whose name appears first on the register of Bondholders in respect of such joint holding (the **representative joint Bondholder**)).

2. Transfers of Bonds and Issue of Certificates

2.1 Transfers

Subject to Condition 2.4 and Condition 2.5 below, a Bond may be transferred by depositing the Certificate issued in respect of that Bond, together with a duly completed form of transfer, at the specified office of the Registrar.

2.2 Delivery of new Certificates

Each new Certificate to be issued upon transfer of Bonds will, within five Business Days of receipt by the Registrar of the duly completed form of transfer together with a valid Certificate, be mailed by uninsured mail at the risk of the holder entitled to the Bond to the address specified in the form of transfer.

For the purposes of this Condition, **Business Day** shall mean a day (other than a Saturday or Sunday) on which banks are open for business in the city in which the specified office of the Registrar with whom a Certificate is deposited in connection with a transfer is located.

Where some but not all of the Bonds in respect of which a Certificate is issued are to be transferred a new Certificate in respect of the Bonds not so transferred will, within five Business Days of receipt by the Registrar of the original Certificate, be mailed by uninsured mail at the risk of the holder of the Bonds not so transferred to the address of such holder appearing on the register of Bondholders or as specified in the form of transfer.

2.3 Formalities free of charge

Registration of transfer of Bonds will be effected without charge by or on behalf of the Issuer, the Registrar or any Paying Agent but upon payment (or the giving of such indemnity as the Issuer, the Registrar or any Paying Agent may reasonably require) in respect of any tax or other governmental charges which may be imposed in relation to such transfer.

2.4 Closed Periods

No Bondholder may require the transfer of a Bond to be registered during the period of 15 days ending on the due date for any payment of principal, premium or interest on that Bond.

2.5 Regulations

All transfers of Bonds and entries on the register of Bondholders will be made subject to the detailed regulations concerning transfer of Bonds scheduled to the Trust Deed. The regulations may be changed by the Issuer with the prior written approval of the Registrar and the Trustee. A copy of the current regulations will be mailed (free of charge) by the Issuer to any Bondholder who requests one.

3. Status and Subordination

3.1 The Bonds are unsecured, subordinated obligations of the Issuer, and rank *pari passu* without any preference among themselves and *pari passu* in point of subordination with the £22,000,000 6.591% perpetual subordinated bonds also issued by the Issuer on the Issue Date (such liability having been assumed by the Issuer in respect of a series of 22,000 permanent interest bearing shares with an interest rate of 6.591% which were issued by Kent Reliance Building Society on 7 March 2006 (together with any further issues which shall be consolidated and form a single series therewith)).

3.2 The claims of the Bondholders against the Issuer arising under or from the Bonds (including the PIBS Interest Payment as defined in Condition 4.1(b)) and the Trust Deed are subject to Condition 3.3 and will, in the event of a winding up of

the Issuer or the appointment of an administrator of the Issuer where the administrator has given notice that it intends to declare and distribute a dividend, be subordinated in right of payment in the manner provided in the Trust Deed to the claims of all Senior Creditors of the Issuer.

3.3 Without prejudice to Condition 3.4 below, all payments under or arising from the Bonds (including the PIBS Interest Payment) and the Trust Deed are conditional upon the Issuer being solvent at the time for payment by the Issuer, and no amount shall be payable under or arising from the Bonds (including the PIBS Interest Payment) and the Trust Deed unless and until such time as the Issuer could make such payment and still be solvent immediately thereafter. For the purposes of this Condition 3.3, the Issuer shall be solvent if (i) it is able to pay its debts owed to Senior Creditors as they fall due and (ii) its Assets exceed its Liabilities (other than its Liabilities to persons who are not Senior Creditors). A certificate as to the solvency of the Issuer, signed by two Directors of the Issuer or, if there is a winding up or administration of the Issuer, the liquidator of the Issuer or, as the case may be, administrator of the Issuer shall, in the absence of manifest error, be treated and accepted by the Issuer, the Trustee, any Bondholder and all other interested parties as correct and sufficient evidence thereof. The Trustee shall incur no liability to the Bondholders in respect of reliance on such a certificate. If the Issuer fails to make any interest payment as a result of failure to satisfy the conditions referred to in this Condition 3.3, that interest will constitute Arrears of Interest until paid (including, without limitation, for the purposes of Condition 4.4). Without prejudice to the rest of these Conditions, amounts representing any payments of principal, premium or interest (including the PIBS Interest Payment) or any other amount including damages awarded for breach of any obligations in respect of which the conditions referred to in this Condition 3.3 are not satisfied on the payment date upon which the same would otherwise be due and payable (**Solvency Claims**) will be payable by the Issuer in a winding up of the Issuer as provided in Condition 3.4. A Solvency Claim shall bear no interest.

3.4 If, at any time an order is made or an effective resolution is passed for the winding up in England of the Issuer (except in the case of a Solvent Winding Up as defined below) or an administrator of the Issuer is appointed and the administrator has given notice that it intends to declare and distribute a dividend, there shall be payable on each Bond (including any accrued but unpaid PIBS Interest Payment) (in lieu of any other payment), but subject as provided in this Condition 3.4, such amount (if any) as would have been payable to the holder thereof if, on the day immediately prior to the commencement of the winding up of the Issuer or, as appropriate, notice having been given by the administrator, and thereafter, such Bondholder were the holder of a preference share in the capital of the Issuer of a class having a preferential right to a return of assets in the winding

up over the holders of all other issued shares, including any preference shares, for the time being in the capital of the Issuer on the assumption that such preference shareholders were entitled (to the exclusion of any other rights or privileges) to receive on a return of capital in such winding up an amount equal to the principal amount of such Bond, together with Arrears of Interest, if any, and any interest (other than Arrears of Interest) (including the PIBS Interest Payment) which has accrued up to (but excluding) the date of repayment (as provided in the Trust Deed) in respect of such Bond.

For the purposes of these Conditions:

- (i) **Senior Creditors** means depositors and other creditors of the Issuer (other than creditors (if any) in respect of claims which are expressed to, or so as to, rank *pari passu* with or junior to the claims of the Bondholders or creditors in respect of claims with which the Bonds are expressed to rank *pari passu* (whether only in the event of a winding up of the Issuer or otherwise));
- (ii) **Assets** means the unconsolidated gross assets of the Issuer all as shown by the latest published audited balance sheet of the Issuer, but adjusted for contingent liabilities and for subsequent events, all in such manner as the certifying directors of the Issuer, the auditors, the liquidator or the administrator (as the case may be) may determine;
- (iii) **Liabilities** means the unconsolidated gross liabilities of the Issuer all as shown by the latest published audited balance sheet of the Issuer, but adjusted for contingent liabilities and for subsequent events, all in such manner as the certifying directors of the Issuer, the auditors, the liquidator or the administrator (as the case may be) may determine; and
- (iv) **Solvent Winding Up means** a solvent winding up of the Issuer solely for the purpose of a reconstruction or amalgamation or a substitution of the Issuer in accordance with Condition 15, provided that (i) in the case of a reconstruction or amalgamation, such reconstruction or amalgamation has previously been approved by the Trustee in writing or by an Extraordinary Resolution of the Bondholders; (ii) the terms of such reconstruction, amalgamation or substitution do not provide that the Bonds shall thereby become repayable and (iii) the debt in respect of the Bonds (and any accrued interest including any Arrears of Interest) (disregarding any change to the principal debtor (if applicable)) remains outstanding.

3.5 Subject to applicable law, no Bondholder may exercise, claim or plead any right of set-off, compensation or retention in respect of any amount owed to it by the

Issuer arising under or in connection with the Bonds (including the PIBS Interest Payment) and each Bondholder shall, by virtue of being the holder of any Bond, be deemed to have waived all such rights of set-off, compensation or retention. Notwithstanding the previous sentence, if any of the amounts owing to any Bondholder by the Issuer under or in connection with the Bonds (including any PIBS Interest Payment) is discharged by set-off, such Bondholder shall immediately pay an amount equal to the amount of such discharge to the Issuer or, in the event of its winding up, the liquidator of the Issuer and until such time as payment is made, shall hold an amount equal to such amount in trust for the Issuer, or the liquidator of the Issuer, and accordingly any such discharge shall be deemed not to have taken place.

On a winding up of the Issuer, there may be no surplus assets available to meet the claims of Bondholders after the claims of the parties ranking senior to the Bondholders (as provided in this Condition) have been satisfied.

4. Interest

4.1 Interest Payment Dates

- (a) The rate of interest payable on the Bonds (the **Rate of Interest**) will be determined in accordance with this Condition 4. The Rate of Interest on the Bonds from and including 1 February 2011 (the **Interest Commencement Date**) to but excluding 27 August 2014 shall be 7.875% per annum, and thereafter at a rate calculated in accordance with Condition 4.2 below, in each case payable subject as set out below, in arrear by equal half-yearly instalments on 27 February and 27 August in each year (each an **Interest Payment Date**), commencing on 27 February 2011. Each half-yearly period from (and including) one Interest Payment Date to (but excluding) the next succeeding Interest Payment Date is an **Interest Period**. Where it is necessary to calculate an amount of interest in respect of any Bonds for a period which is not an Interest Period, such interest shall be calculated on the basis of the actual number of days in the period from (and including) the most recent Interest Payment Date (or, if none, 1 February 2011) to (but excluding) the date on which the relevant interest is payable, divided by the product of (a) the actual number of days in the period from (and including) such Interest Payment Date (or, if none 1 February 2011) to (but excluding) the next (or first) scheduled Interest Payment Date and (b) two.

In respect of the period from and including the Interest Commencement Date to but excluding 27 February 2011 (the **First Interest Payment**

Date), the amount of interest payable in respect of each £1,000 principal amount of Bonds shall be £5.57.

All amounts of interest due on each Bond will be rounded upwards, if necessary, to the nearest penny.

- (b) The Issuer shall, subject as provided in these Conditions, pay an additional amount to each Bondholder on the First Interest Payment Date of £33.82 in respect of each £1,000 principal amount of Bonds held by such Bondholder (the **PIBS Interest Payment**). The PIBS Interest Payment shall be in respect of interest accrued on the 15,000 Permanent Interest Bearing Shares of £1,000 each with an interest rate of 7.875% of Kent Reliance Building Society (the **2004 PIBS**), in replacement for which the Bonds have been issued, for the period from and including the interest payment date in respect thereof which immediately precedes the Interest Commencement Date to but excluding the Interest Commencement Date.
- (c) Subject as provided in these Conditions, the aggregate amount payable by the Issuer to each Bondholder pursuant to Conditions 4.1(a) and 4.1(b) on the First Interest Payment Date shall be £39.39 in respect of each £1,000 principal amount of Bonds held by such Bondholder. Interest Payments (including the PIBS Interest Payment) will be made in accordance with and subject to the provisions of Condition 6. Interest accruing on each Bond shall cease to accrue from the date of its redemption unless, upon due presentation, payment of principal is improperly withheld or refused or is not made by reason of Condition 3, in which event interest shall continue to accrue thereon as provided in the Trust Deed.

4.2 Floating Rate of Interest

- (a) The Rate of Interest payable in respect of the Bonds from and including 27 August 2014 in respect of each Reset Period (as defined below) shall be determined by such leading bank or investment banking firm in London as shall be appointed by the Issuer (the **Agent Bank**) on the following basis. On the Determination Date (as defined below) relating to each Reset Period, the Agent Bank shall determine the Gross Redemption Yield (as defined below). The Rate of Interest for the relevant Reset Period shall be the aggregate of 4% per annum and the Gross Redemption Yield for that Reset Period, as determined by the Agent Bank.

In these Conditions:

Benchmark Gilt means, in respect of a Reset Period, such fixed income United Kingdom government security denominated in sterling having a maturity date on or about the last day of such Reset Period as the Agent Bank, with the advice of the Reference Market Makers, may determine to be appropriate;

Determination Date means, in relation to any Reset Period, the 45th day prior to the first day of such Reset Period; provided that if such day is not a day on which banks are open for business in London, it shall be postponed to the next such day;

Gross Redemption Yield means, in respect of a Reset Period, the gross redemption yield (as calculated by the Agent Bank on the basis set out by the United Kingdom Debt Management Office in the paper “Formulae for Calculating Gilt Prices from Yields” page 4, Section One: Price/Yield Formulae “Conventional Gilts; Double-dated and Undated Gilts with Assumed (or Actual) Redemption on a Quasi-Coupon Date” (published 8 June 1998 and as updated on 15 January 2002) on a semi-annual compounding basis (converted to an annualised yield and rounded up (if necessary) to four decimal places) of the Benchmark Gilt in respect of that Reset Period, with the price of the Benchmark Gilt for this purpose being the arithmetic average (rounded up (if necessary) to four decimal places) of each of the bid and offered prices of such Benchmark Gilt quoted by the Reference Market Makers at 11.00 a.m. (London time) on the relevant Determination Date on a dealing basis for settlement on the next following dealing day in London;

Reference Market Makers means three gilt edged market makers selected by the Agent Bank, failing which such other three persons operating in the gilt edged market as are selected by the Agent Bank;

Reset Date means 27 August 2014 and every fifth successive year thereafter; and

Reset Period means the period beginning on and including a Reset Date and ending on and including the day immediately preceding the next succeeding Reset Date.

- (b) As soon as practicable after 11.00 a.m. (London time) on each Determination Date, the Agent Bank shall determine the Rate of Interest for the relevant Reset Period and calculate the amount of interest payable on each £1,000 principal amount of Bonds (the **Interest Amount**) on each of the 10 Interest Payment Dates, that fall after the commencement of the

Reset Period to which such Determination Date relates. The Issuer shall cause such Rate of Interest, Reset Period and each such Interest Amount to be notified to the Trustee as soon as practicable after their determination and calculation and shall procure that the Agent gives notice thereof to the Bondholders in accordance with Condition 12.

- (c) The Issuer may from time to time appoint any leading bank or investment banking firm in London as the Agent Bank in substitution for any existing Agent Bank. In the event of the appointed office of the Agent Bank being unable or unwilling to continue to act as the Agent Bank, the Issuer shall forthwith appoint the London office of such other leading bank or investment banking firm in London to act as such in its place. The Agent Bank may not resign its duties or be removed without a successor having been appointed as aforesaid.
- (d) All notifications, opinions, advice, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained for the purposes of this Condition 4.2 by the Agent Bank shall (in the absence of wilful default, bad faith or manifest error) be binding on the Issuer, the Agent Bank, the Trustee, the Registrar, the Paying Agents and all Bondholders and (in the absence as aforesaid) no liability shall attach to the Agent Bank or the Reference Market Makers or, in the circumstances set out in Condition 4.3, the Trustee, in connection with the exercise or non-exercise of their powers, duties and discretions.

4.3 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 Rate of Interest and the Interest Amount in accordance with the above provisions, determine the Rate of Interest and the 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 4.2 and the determinations shall be deemed to be determinations by the Agent Bank.

4.4 Arrears of Interest

Interest in respect of the Bonds shall not be paid for any Interest Period if the Board is of the opinion that:

- (a) there has been a failure by the Issuer to satisfy any requirement relating to capital adequacy imposed on the Issuer by or pursuant to the Financial

Services and Markets Act 2000, including any statutory modification or re-enactment thereof, or any other enactment imposing capital adequacy requirements and such failure is then continuing; or

- (b) the payment of the interest would cause or contribute to such a failure by the Issuer,

and, in the case of (a) above, the Board passes a resolution deferring such interest or, in the case of (b) above, the Board passes a resolution deferring such amount of interest as may be necessary to secure that, in the opinion of the Board, such payment would not cause or contribute to a failure to satisfy the requirement in Condition 4.4(a). On the passing of any such resolution the Issuer shall give notice of such resolution to the Bondholders in accordance with Condition 12, the Issuer shall not have any obligation to make any such payment of interest for the relevant Interest Period and any failure to pay shall not constitute a default by the Issuer for any purpose (including, but without limitation, Conditions 9 or 10). Any interest which is deferred by the Issuer in accordance with the foregoing provisions of the Condition 4.4 shall, so long as the same remains unpaid, constitute **Arrears of Interest**. Arrears of Interest may, at the option of the Issuer, be paid in whole or in part (any such part being the whole of the interest accrued during any Interest Period or Periods but not the whole of the interest accrued during all Interest Periods) at any time upon the expiration of not less than seven days' notice to such effect given to the Bondholders in accordance with Condition 12 but so that in the case of payment of only part of the Arrears of Interest the interest accrued during any Interest Period shall not be paid prior to that accrued during an earlier Interest Period. If, on any Interest Payment Date, interest in respect of the Bonds shall not have been paid in accordance with the terms of this Condition 4.4, then from the date of such Interest Payment Date until such time as the full amount of the relevant Arrears of Interest has been received by the Bondholders or Trustee and no other payment of Arrears of Interest remains outstanding, the Issuer undertakes not to declare or pay any dividend or other distribution on any Junior Securities or Parity Securities, provided that such undertaking shall not apply in respect of any dividend or other distribution where the Issuer is not able to defer, pass or eliminate or continue to defer, pass or eliminate such dividend or other distribution in accordance with the terms and conditions of those Junior Securities or Parity Securities. All Arrears of Interest shall (subject only to the provisions of Condition 3.3) become due whenever is the earliest of the date set for any redemption or purchase pursuant to Conditions 5.2 or 5.3 or the commencement of the winding-up of the Issuer (except that Arrears of Interest shall not become due in respect of a Solvent Winding Up) or the date upon which any administrator of the Issuer gives notice that it intends to declare or distribute a dividend.

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 3) to do so upon the expiry 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 the Bonds shall, unless the context otherwise requires, include Arrears of Interest.

Board means the board of directors of the Issuer.

Junior Securities means any class of share capital of the Issuer together with any other securities of the Issuer or of a Subsidiary Undertaking of the Issuer and the terms of which securities benefit from a guarantee or support agreement ranking or expressed to rank, junior to the Bonds.

Parity Securities means any securities ranking, or expressed to rank *pari passu* with the Bonds whether issued directly by the Issuer or by a Subsidiary Undertaking of the Issuer and the terms of which securities benefit from a guarantee or support agreement ranking or expressed to rank, *pari passu* with the Bonds.

Subsidiary Undertaking means any company which is for the time being a subsidiary undertaking (within the meaning of Section 1162 and Schedule 7 of the Companies Act 2006).

4.5 No deferral of interest on change of regulatory treatment

The Issuer agrees that it will not, in the event of any change in any applicable law or regulation (or in the official interpretation or application thereof) as a result of which, for the purposes of the Capital Adequacy Regulations at that time, the Bonds after the Issue Date would no longer be eligible to form part of the Issuer's capital resources under the Capital Adequacy Regulations applicable to the Issuer (save where such non-qualification is only as a result of any applicable limitation on the amount of such capital) (a **Capital Disqualification Event**), exercise its right under Condition 4.4 to defer payment of interest accrued in any Interest Period. A Capital Disqualification Event is not deemed to occur if the Bonds are still eligible to form part of the Issuer's capital resources on account of transitional provisions under the Capital Adequacy Regulations or a waiver of the FSA.

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

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 or other authorised institutions in the United Kingdom.

The Issuer shall promptly give notice to the Bondholders in accordance with Condition 12 if any such change as is mentioned above occurs.

5. Redemption and Purchase

5.1 No Maturity

The Bonds have no final maturity date and are only redeemable or repayable in accordance with the following provisions of this Condition 5 or Condition 9.

5.2 Redemption for Taxation Reasons

If the Issuer satisfies the Trustee immediately before the giving of the notice referred to below that:

- (a) 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, or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective after the Issue Date, on the next Interest Payment Date the Issuer would be required to pay additional amounts as provided or referred to in Condition 7; and
- (b) the requirement cannot be avoided by the Issuer taking reasonable measures available to it,

the Issuer may at its option, subject to the Issuer having given at least one month's prior written notice, and receiving no objection from, to 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) and having given not less than 30 nor more than 60 days' notice to the Bondholders in accordance with Condition 12 (which notice shall be irrevocable), and provided that such redemption complies with the provisions of the FSA relating to the capital adequacy of the Issuer, redeem all the Bonds, but not some only, at any time prior to the Reset Date at their principal amount together with interest accrued to but excluding the date of redemption, 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 required to pay such additional amounts, were a payment in respect of the Bonds then due.

Prior to giving any notice of redemption pursuant to this Condition 5.2, the Issuer shall deliver to the Trustee a certificate signed by two directors of the Issuer stating that the requirement referred to in (a) 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 prior written 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) and the Trustee shall be entitled to accept and rely upon 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 Bondholders and the Trustee shall incur no liability to the Bondholders in respect of such reliance.

5.3 Redemption at the Option of the Issuer

The Issuer may, subject to the Issuer having first obtained the consent of the FSA and then having given:

- (a) not less than 30 nor more than 60 days' notice to the Bondholders in accordance with Condition 12; and
- (b) notice to the Trustee and the Agent not less than seven 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 Bonds on any Reset Date at their principal amount together with interest accrued to but excluding the date of redemption.

5.4 Purchases

The Issuer or any of its subsidiaries (as defined in section 1159 of the Companies Act 2006), subject to the Issuer having given at least one month's prior written 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), may at any time purchase Bonds in any manner and at any price. If purchases are made by tender, tenders must be available to all Bondholders alike. Such Bonds may be held, reissued, resold or, at the option of the Issuer, surrendered for cancellation.

5.5 Cancellations

All Bonds which are redeemed or surrendered for cancellation shall be cancelled forthwith and accordingly may not be held, reissued or resold.

5.6 Notices Final

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

6. Payments

6.1 Payments in respect of the Bonds

All payments in respect of the Bonds will be made by sterling cheque or warrant drawn on a bank or building society in the United Kingdom, posted not later than the Business Day immediately preceding the relevant due date and made payable to the Bondholder (in the case of a joint holding of Bonds, the representative joint Bondholder) appearing in the register of Bondholders in respect of the Bond of which he is the holder at the close of business on the fifteenth day before the relevant due date (the **Record Date**) at the addresses shown in the register of Bondholders on the Record Date. Upon application of a Bondholder (or in the case of a joint holding of Bonds, the representative joint Bondholder) to the Issuer, in the form from time to time prescribed by the Issuer, not less than ten days before the due date for any payment in respect of his Bonds, the payment may be made by transfer on the due date or, if the due date is not a Business Day, on the immediately following Business Day to a sterling account with a bank or building society in the United Kingdom.

6.2 Payments subject to Applicable Laws

Payments in respect of principal and interest on the Bonds 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 7.

6.3 No commissions

No commissions or expenses shall be charged to the Bondholders in respect of any payments made in accordance with this Condition.

6.4 Payment on Business Days

Where payment is to be made by transfer to a registered account, payment instructions (for value the due date or, if the due date is not a Business Day, for value the immediately following Business Day) will be initiated and, where payment is to be made by cheque, the cheque will be mailed, not later than the Business Day preceding the due date for payment or, in the case of a payment of

principal or a payment of interest due otherwise than on an Interest Payment Date, if later, on the Business Day on which the relevant Certificate is surrendered at the specified office of an Agent.

Bondholders will not be entitled to any interest or other payment for any delay after the due date in receiving the amount due if the due date is not a Business Day, if the Bondholder is late in surrendering its Certificate (if required to do so).

Business Day means a day (other than a Saturday or Sunday) on which commercial banks are open for business in London and, in the case of presentation of a Certificate, in the place in which the Certificate is presented.

6.5 Partial Payments

If the amount of principal or interest which is due on the Bonds is not paid in full, the Registrar will annotate the register of Bondholders with a record of the amount of principal, premium (if any) or interest in fact paid.

6.6 Agents

The names of the initial Paying Agents and their initial specified offices are set out in the Registrar Agreement. The Issuer reserves the right at any time to vary or terminate the appointment of any Paying Agent (subject to the prior written consent of the Trustee) and to appoint additional or other Paying Agents, provided that:

- (a) there will at all times be an Agent and, unless the Bonds are redeemed and cancelled on or prior to 27 August 2014, an Agent Bank;
- (b) 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
- (c) there will at all times be a Registrar.

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

7. Taxation

7.1 Payment without Withholding

All payments in respect of the Bonds 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 pay such additional amounts as may be necessary in order that the net amounts received by the Bondholders after the withholding or deduction shall equal the respective amounts which would have been receivable in respect of the Bonds 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 Bond:

- (a) presented for payment by or on behalf of a holder who (i) would be able to avoid such withholding or deduction by making a declaration of non-residence or similar claim for exemption but fails to do so, or (ii) is liable to the Taxes in respect of the Bond by reason of his having some connection with the United Kingdom other than the mere holding of the Bond; 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 Bond 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 that day to have been a Business Day.

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 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 Bondholders by the Issuer in accordance with Condition 12.

7.2 Additional Amounts

Any reference in these Conditions to any amounts in respect of the Bonds 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.

8. Prescription

Claims in respect of principal and interest (including the PIBS Interest Payment) will become prescribed unless made within periods of 10 years (in the case of principal) and five years (in the case of interest) (including the PIBS Interest Payment) from the Relevant Date (as defined in Condition 7.1).

9. Events of Default

Notwithstanding any of the provisions below in Condition 9 or Condition 10, the right to institute proceedings is limited to circumstances where payment has become due. Pursuant to Condition 3, no payment will be due on the relevant payment date if the Issuer is not or would not in making such payment be solvent (as set out in that Condition). Also, in the case of any interest payment, such payment will not be due if the Issuer has deferred that payment pursuant to Condition 4.4 (subject to Condition 4.5).

If the Issuer shall not make payment in respect of the Bonds for a period of 14 days or more after the due date, 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 and/or prove in the winding up of the Issuer and/or claim in the liquidation of the Issuer for such payment.

10. Enforcement

- 10.1 Without prejudice to Condition 9, if the Issuer fails to perform, observe or comply with any obligation, condition or provision relating to the Bonds binding on it under these Conditions or the Trust Deed (other than any payment obligation of the Issuer under or arising from the Bonds or the Trust Deed including without limitation, payment of any principal, premium, or interest (including the PIBS Interest Payment) in respect of the Bonds and any damages awarded for breach of any obligation), 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 obligation, condition or provision provided that the Issuer shall not as a consequence of such proceedings be obliged to pay any sum or sums sooner than the same would otherwise have been payable by it.

- 10.2 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 9 and Condition 10.1 above or submitting a claim in the winding-up of the Issuer will be available to the Trustee or the Bondholders.
- 10.3 The Trustee shall not be bound to take action as referred to in Conditions 9 and 10.1 or other action under these Conditions or the Trust Deed unless (i) it shall have been so requested in writing by Bondholders holding at least one-fifth in nominal amount of the Bonds then outstanding or if so directed by an Extraordinary Resolution of the Bondholders and (ii) it shall have been indemnified and/or secured and/or prefunded to its satisfaction.
- 10.4 No Bondholder 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 Bondholder shall be entitled either to institute proceedings for the winding-up of the Issuer or to prove in the winding-up or claim in the liquidation of the Issuer, except that if the Trustee, having become bound to institute such proceedings as aforesaid, fails to do so, or, being able to prove in such winding-up or claim in such liquidation fails to do so, in each case within a reasonable period and such failure is continuing, then any such Bondholder may, on giving an indemnity and/or security and/or prefunding 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 prove in such winding up and/or claim in such liquidation to the same extent (but not further or otherwise) that the Trustee would have been entitled to do.

11. Replacement of Certificates

If any Certificate is lost, stolen, mutilated, defaced or destroyed it may be replaced at the specified office of the Registrar 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 Certificates must be surrendered before replacements will be issued.

12. Notices

All notices to the Bondholders will be valid if mailed to them at their respective addresses in the register of Bondholders maintained by the Registrar. Any notice shall be deemed to have been given on the second day after being so mailed. The Issuer shall also ensure that notices are duly given or published in a manner which complies with the rules and regulations of any stock exchange or other relevant authority on which the Bonds are for the time being listed.

13. Meetings of Bondholders, Modification and Waiver

The Trust Deed contains provisions for convening meetings of the Bondholders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution of a modification of the Bonds or certain provisions of the Trust Deed. Such a meeting may be convened by the Issuer or by Bondholders holding not less than 10% in nominal amount of the Bonds for the time being remaining outstanding. The quorum at any such meeting for passing an Extraordinary Resolution is one or more persons holding or representing a clear majority in nominal amount of the Bonds for the time being outstanding, or at any adjourned meeting one or more persons being or representing Bondholders whatever the nominal amount of the Bonds so held or represented, except that at any meeting the business of which includes the modification of certain provisions of the Bonds (including modifying any date for payment of interest on the Bonds, reducing or cancelling the amount of principal or the rate of interest payable in respect of the Bonds or altering the currency of payment of the Bonds) or certain of the provisions of the Trust Deed, the necessary quorum for passing an Extraordinary Resolution will be one or more persons holding or representing not less than two-thirds, or at any adjourned such meeting not less than one-third, in nominal amount of the Bonds for the time being outstanding. An Extraordinary Resolution passed at any meeting of the Bondholders shall be binding on all the Bondholders, whether or not they are present at the meeting.

The Trust Deed provides that the Trustee may agree, without the consent of the Bondholders, to any modification (subject to certain exceptions as provided in the Trust Deed) of, or to any waiver or authorisation of any breach or proposed breach of, any of these Conditions or any of the provisions of the Trust Deed, or may determine that any condition, event or act which, but for such determination, would constitute an event of default under Condition 9, shall not be treated as such which in any such case, in the opinion of the Trustee, is proper to make and is not materially prejudicial to the interests of the Bondholders or to any modification of any of these Conditions or any of the provisions of the Trust Deed which is of a formal, minor or technical nature or which is made to correct a manifest error. Any such modification, waiver, authorisation or determination shall be binding on the Bondholders and, unless the Trustee agrees otherwise, any such modification shall be notified to the Bondholders as soon as practicable thereafter in accordance with Condition 12. No modification to the provisions of Condition 3 shall be effected without the prior consent of the FSA.

In connection with the exercise by it of any of its trusts, powers, authorities or discretions (including, but without limitation, any modification, waiver, authorisation or substitution), the Trustee shall have regard to the interests of the Bondholders as a class and, in particular, but without limitation, shall not have

regard to the consequences of such exercise for individual Bondholders resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory and the Trustee shall not be entitled to require, nor shall any Bondholder be entitled to claim, from the Issuer or any other person any indemnification or payment in respect of any tax consequence of any such exercise upon individual Bondholders except to the extent already provided for in Condition 7 and/or any undertaking given in addition to, or in substitution for, Condition 7 pursuant to the Trust Deed.

14. Further Issues

The Issuer is at liberty from time to time without the consent of the Bondholders 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 Bonds) 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 Bonds) 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 Bondholders and the holders of notes or bonds of other series in certain circumstances where the Trustee so decides.

15. Substitution

The Trustee may, without the consent of the Bondholders, agree with the Issuer to the substitution in place of the Issuer (or of any previous substitute under this Condition) as the principal debtor under the Bonds and the Trust Deed of the Holding Company, a Successor in Business (each as defined in the Trust Deed) or any subsidiary of the Issuer, subject to (a) in the case of a substitution of any subsidiary of the Issuer, the Bonds being unconditionally and irrevocably guaranteed by the Issuer and so that the obligations of the Issuer under 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 Bonds, (b)

the Trustee being satisfied that the interests of the Bondholders will not be materially prejudiced by the substitution, (c) (i) the obligations of such Holding Company or Successor in Business or (ii) in the case of substitution of a subsidiary of the Issuer, the obligations of the Issuer under its guarantee, being subordinated on a basis equivalent to that in respect of the Issuer's obligations as principal debtor in respect of the Bonds, and (d) certain other conditions set out in the Trust Deed being complied with. No such substitution shall be effected without the prior consent of the FSA.

16. Indemnification of the Trustee

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility in certain circumstances including provisions relieving it from instituting proceedings to enforce repayment unless indemnified and/or secured and/or prefunded to its satisfaction.

17. Contracts (Rights of Third Parties) Act 1999

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

18. Governing Law

The Trust Deed, the Registrar Agreement, the Bonds and any non-contractual obligations arising out of or in connection with such Trust Deed, Registrar Agreement and the Bonds are governed by, and shall be construed in accordance with, English law.

TERMS AND CONDITIONS OF THE SECOND PERPETUAL SUBORDINATED BONDS

Terms and Conditions of the Perpetual Subordinated Bonds of OneSavings Bank Plc to be issued in replacement of 22,000 Permanent Interest Bearing Shares of £1,000 each with an interest rate of 6.591% of Kent Reliance Building Society

The following are the terms and conditions of the Bonds which will be endorsed on the Certificates issued in respect of the Bonds:

The £22,000,000 6.591% Perpetual Subordinated Bonds (the **Bonds**) of OneSavings Bank Plc (the **Issuer**) are constituted by a trust deed (the **Trust Deed**) dated 1 February 2011 (the **Issue Date**) between (1) the Issuer and (2) The Law Debenture Trust Corporation p.l.c. as trustee (the **Trustee**, which expression shall include its successors under the Trust Deed). The Trustee acts as trustee for the holders of the Bonds in accordance with the provisions of the Trust Deed. The Bondholders (as defined below) are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions contained in the Trust Deed and the Registrar Agreement (the **Registrar Agreement**) dated the Issue Date between the Issuer, the Trustee, Equiniti Limited as Registrar (the **Registrar**) and Equiniti Financial Services Limited as principal paying agent (the **Agent**) and the other paying agents named in the Registrar Agreement (together with the Agent, the **Paying Agents**, which expression shall include any additional or successor paying agents). Copies of the Trust Deed and the Registrar Agreement are available for inspection by Bondholders during normal business hours at the registered office for the time being of the Trustee (being at the date of the Trust Deed at Fifth Floor, 100 Wood Street, London EC2V 7EX) and at the specified office of the Registrar.

The Bonds are issued subject to, and with the benefit of, these conditions of issue (the **Conditions**).

1. Form, Denomination and Title

1.1 Form and Denomination

The Bonds are issued in registered form in amounts of £1,000 and integral multiples of £1,000 thereafter (referred to as the principal amount of a Bond without interest coupons) and may be held in either certificated form or uncertificated form in CREST. If held in certificated form, a bond certificate (each a **Certificate**) may be issued at the request of a Bondholder in respect of its registered holding of Bonds. Each Certificate will be numbered serially with an identifying number which will be recorded on the relevant Certificate and in the

register of Bondholders which the Issuer will procure to be kept by the Registrar and at the registered office of the Issuer.

CREST means the relevant system (as defined in the CREST Regulations) in respect of which Euroclear (or any successor) is the operator (as defined in the CREST Regulations).

CREST Regulations means the Uncertificated Securities Regulations 2001 (SI 2001 No. 01/378), including any modification thereof or any regulations in substitution therefor for the time being in force.

1.2 Title

Title to the Bonds passes only by registration in the register of Bondholders. The Bondholder will (except as otherwise required by law) be treated as its absolute owner for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any interest or any writing on, or the theft or loss of, the Certificate issued in respect of it) and no person will be liable for so treating the holder. In these Conditions Bondholder and (in relation to a Bond) holder means the person in whose name a Bond is registered in the register of Bondholders (or, in the case of a joint holding, to the joint holder whose name appears first on the register of Bondholders in respect of such joint holding (the **representative joint Bondholder**)).

2. Transfers of Bonds and Issue of Certificates

2.1 Transfers

Subject to Condition 2.4 and Condition 2.5 below, a Bond may be transferred by depositing the Certificate issued in respect of that Bond, together with a duly completed form of transfer, at the specified office of the Registrar.

2.2 Delivery of new Certificates

Each new Certificate to be issued upon transfer of Bonds will, within five Business Days of receipt by the Registrar of the duly completed form of transfer together with a valid Certificate, be mailed by uninsured mail at the risk of the holder entitled to the Bond to the address specified in the form of transfer.

For the purposes of this Condition, **Business Day** shall mean a day (other than a Saturday or Sunday) on which banks are open for business in the city in which the specified office of the Registrar with whom a Certificate is deposited in connection with a transfer is located.

Where some but not all of the Bonds in respect of which a Certificate is issued are to be transferred a new Certificate in respect of the Bonds not so transferred will, within five Business Days of receipt by the Registrar of the original Certificate, be mailed by uninsured mail at the risk of the holder of the Bonds not so transferred to the address of such holder appearing on the register of Bondholders or as specified in the form of transfer.

2.3 Formalities free of charge

Registration of transfer of Bonds will be effected without charge by or on behalf of the Issuer, the Registrar or any Paying Agent but upon payment (or the giving of such indemnity as the Issuer, the Registrar or any Paying Agent may reasonably require) in respect of any tax or other governmental charges which may be imposed in relation to such transfer.

2.4 Closed Periods

No Bondholder may require the transfer of a Bond to be registered during the period of 15 days ending on the due date for any payment of principal, premium or interest on that Bond.

2.5 Regulations

All transfers of Bonds and entries on the register of Bondholders will be made subject to the detailed regulations concerning transfer of Bonds scheduled to the Trust Deed. The regulations may be changed by the Issuer with the prior written approval of the Registrar and the Trustee. A copy of the current regulations will be mailed (free of charge) by the Issuer to any Bondholder who requests one.

3. Status and Subordination

3.1 The Bonds are unsecured, subordinated obligations of the Issuer, and rank *pari passu* without any preference among themselves and *pari passu* in point of subordination with the £15,000,000 7.875% perpetual subordinated bonds also issued by the Issuer on the Issue Date (such liability having been assumed by the Issuer in respect of a series of 15,000 permanent interest bearing shares with an interest rate of 7.875% which were issued by Kent Reliance Building Society on 27 August 2004), (in each case, together with any further issues which shall be consolidated and form a single series therewith)).

3.2 The claims of the Bondholders against the Issuer arising under or from the Bonds (including the PIBS Interest Payment as defined in Condition 4.1(b)) and the Trust Deed are subject to Condition 3.3 and will, in the event of a winding up of

the Issuer or the appointment of an administrator of the Issuer where the administrator has given notice that it intends to declare and distribute a dividend, be subordinated in right of payment in the manner provided in the Trust Deed to the claims of all Senior Creditors of the Issuer.

3.3 Without prejudice to Condition 3.4 below, all payments under or arising from the Bonds (including the PIBS Interest Payment) and the Trust Deed are conditional upon the Issuer being solvent at the time for payment by the Issuer, and no amount shall be payable under or arising from the Bonds (including the PIBS Interest Payment) and the Trust Deed unless and until such time as the Issuer could make such payment and still be solvent immediately thereafter. For the purposes of this Condition 3.3, the Issuer shall be solvent if (i) it is able to pay its debts owed to Senior Creditors as they fall due and (ii) its Assets exceed its Liabilities (other than its Liabilities to persons who are not Senior Creditors). A certificate as to the solvency of the Issuer, signed by two Directors of the Issuer or, if there is a winding up or administration of the Issuer, the liquidator of the Issuer or, as the case may be, administrator of the Issuer shall, in the absence of manifest error, be treated and accepted by the Issuer, the Trustee, any Bondholder and all other interested parties as correct and sufficient evidence thereof. The Trustee shall incur no liability to the Bondholders in respect of reliance on such a certificate. If the Issuer fails to make any interest payment as a result of failure to satisfy the conditions referred to in this Condition 3.3, that interest will constitute Arrears of Interest until paid (including, without limitation, for the purposes of Condition 4.4). Without prejudice to the rest of these Conditions, amounts representing any payments of principal, premium or interest (including the PIBS Interest Payment) or any other amount including damages awarded for breach of any obligations in respect of which the conditions referred to in this Condition 3.3 are not satisfied on the payment date upon which the same would otherwise be due and payable (**Solvency Claims**) will be payable by the Issuer in a winding up of the Issuer as provided in Condition 3.4. A Solvency Claim shall bear no interest.

3.4 If, at any time an order is made or an effective resolution is passed for the winding up in England of the Issuer (except in the case of a Solvent Winding Up as defined below) or an administrator of the Issuer is appointed and the administrator has given notice that it intends to declare and distribute a dividend, there shall be payable on each Bond (including any accrued but unpaid PIBS Interest Payment) (in lieu of any other payment), but subject as provided in this Condition 3.4, such amount (if any) as would have been payable to the holder thereof if, on the day immediately prior to the commencement of the winding up of the Issuer or, as appropriate, notice having been given by the administrator, and thereafter, such Bondholder were the holder of a preference share in the capital of the Issuer of a class having a preferential right to a return of assets in the winding

up over the holders of all other issued shares, including any preference shares, for the time being in the capital of the Issuer on the assumption that such preference shareholders were entitled (to the exclusion of any other rights or privileges) to receive on a return of capital in such winding up an amount equal to the principal amount of such Bond, together with Arrears of Interest, if any, and any interest (other than Arrears of Interest) (including the PIBS Interest Payment) which has accrued up to (but excluding) the date of repayment (as provided in the Trust Deed) in respect of such Bond.

For the purposes of these Conditions:

- (i) **Senior Creditors** means depositors and other creditors of the Issuer (other than creditors (if any) in respect of claims which are expressed to, or so as to, rank *pari passu* with or junior to the claims of the Bondholders or creditors in respect of claims with which the Bonds are expressed to rank *pari passu* (whether only in the event of a winding up of the Issuer or otherwise));
- (ii) **Assets** means the unconsolidated gross assets of the Issuer all as shown by the latest published audited balance sheet of the Issuer, but adjusted for contingent liabilities and for subsequent events, all in such manner as the certifying directors of the Issuer, the auditors, the liquidator or the administrator (as the case may be) may determine;
- (iii) **Liabilities** means the unconsolidated gross liabilities of the Issuer all as shown by the latest published audited balance sheet of the Issuer, but adjusted for contingent liabilities and for subsequent events, all in such manner as the certifying directors of the Issuer, the auditors, the liquidator or the administrator (as the case may be) may determine; and
- (iv) **Solvent Winding Up** means a solvent winding up of the Issuer solely for the purpose of a reconstruction or amalgamation or a substitution of the Issuer in accordance with Condition 15, provided that (i) in the case of a reconstruction or amalgamation, such reconstruction or amalgamation has previously been approved by the Trustee in writing or by an Extraordinary Resolution of the Bondholders; (ii) the terms of such reconstruction, amalgamation or substitution do not provide that the Bonds shall thereby become repayable and (iii) the debt in respect of the Bonds (and any accrued interest including any Arrears of Interest) (disregarding any change to the principal debtor (if applicable)) remains outstanding.

3.5 Subject to applicable law, no Bondholder may exercise, claim or plead any right of set off, compensation or retention in respect of any amount owed to it by the

Issuer arising under or in connection with the Bonds (including the PIBS Interest Payment) and each Bondholder shall, by virtue of being the holder of any Bond, be deemed to have waived all such rights of set off, compensation or retention. Notwithstanding the previous sentence, if any of the amounts owing to any Bondholder by the Issuer under or in connection with the Bonds (including any PIBS Interest Payment) is discharged by set-off, such Bondholder shall immediately pay an amount equal to the amount of such discharge to the Issuer or, in the event of its winding up, the liquidator of the Issuer and until such time as payment is made, shall hold an amount equal to such amount in trust for the Issuer, or the liquidator of the Issuer, and accordingly any such discharge shall be deemed not to have taken place.

On a winding up of the Issuer, there may be no surplus assets available to meet the claims of Bondholders after the claims of the parties ranking senior to the Bondholders (as provided in this Condition) have been satisfied.

4. Interest

4.1 Interest Payment Dates

- (a) The rate of interest payable on the Bonds (the **Rate of Interest**) will be determined in accordance with this Condition 4. The Rate of Interest on the Bonds from and including 1 February 2011 (the **Interest Commencement Date**) to but excluding 7 March 2016 shall be 6.591% per annum, and thereafter at a rate calculated in accordance with Condition 4.2 below in each case payable subject as set out below, in arrear by equal half-yearly instalments on 7 September and 7 March in each year (each an **Interest Payment Date**), commencing on 7 March 2011. Each half-yearly period from (and including) one Interest Payment Date to (but excluding) the next succeeding Interest Payment Date is an **Interest Period**. Where it is necessary to calculate an amount of interest in respect of any Bonds for a period which is not an Interest Period, such interest shall be calculated on the basis of the actual number of days in the period from (and including) the most recent Interest Payment Date (or, if none, 1 February 2011) to (but excluding) the date on which the relevant interest is payable, divided by the product of (a) the actual number of days in the period from (and including) such Interest Payment Date (or, if none, 1 February 2011) to (but excluding) the next (or first) scheduled Interest Payment Date and (b) two.

In respect of the period from and including the Interest Commencement Date to but excluding 7 March 2011 (the **First Interest Payment Date**),

the amount of interest payable in respect of each £1,000 principal amount of Bonds shall be £6.20.

All amounts of interest due on each Bond will be rounded upwards, if necessary, to the nearest penny.

- (b) The Issuer shall, subject as provided in these Conditions, pay an additional amount to each Bondholder on the First Interest Payment Date of £26.77 in respect of each £1,000 principal amount of Bonds held by such Bondholder (the **PIBS Interest Payment**). The PIBS Interest Payment shall be in respect of interest accrued on the 22,000 Permanent Interest Bearing Shares of £1,000 each with an interest rate of 6.591% of Kent Reliance Building Society (the **2006 PIBS**), in replacement for which the Bonds have been issued, for the period from and including the interest payment date in respect thereof which immediately precedes the Interest Commencement Date to but excluding the Interest Commencement Date.
- (c) Subject as provided in these Conditions, the aggregate amount payable by the Issuer to each Bondholder pursuant to Conditions 4.1(a) and 4.1(b) on the First Interest Payment Date shall be £32.97 in respect of each £1,000 principal amount of Bonds held by such Bondholder. Interest Payments (including the PIBS Interest Payment) will be made in accordance with and subject to the provisions of Condition 6. Interest accruing on each Bond shall cease to accrue from the date of its redemption unless, upon due presentation, payment of principal is improperly withheld or refused or is not made by reason of Condition 3, in which event interest shall continue to accrue thereon as provided in the Trust Deed.

4.2 Floating Rate of Interest

- (a) The Rate of Interest payable in respect of the Bonds from and including the 7 March 2016 in respect of each Reset Period (as defined below) shall be determined by such leading bank or investment banking firm in London as shall be appointed by the Issuer (the **Agent Bank**) on the following basis. On the Determination Date (as defined below) relating to each Reset Period, the Agent Bank shall determine the Gross Redemption Yield (as defined below). The Rate of Interest for the relevant Reset Period shall be the aggregate of 3.40% per annum and the Gross Redemption Yield for that Reset Period, as determined by the Agent Bank.

In these Conditions:

Benchmark Gilt means, in respect of a Reset Period, such fixed income United Kingdom government security denominated in sterling having a maturity date on or about the last day of such Reset Period as the Agent Bank, with the advice of the Reference Market Makers, may determine to be appropriate;

Determination Date means, in relation to any Reset Period, the 45th day prior to the first day of such Reset Period; provided that if such day is not a day on which banks are open for business in London, it shall be postponed to the next such day;

Gross Redemption Yield means, in respect of a Reset Period, the gross redemption yield (as calculated by the Agent Bank on the basis set out by the United Kingdom Debt Management Office in the paper “Formulae for Calculating Gilt Prices from Yields” page 4, Section One: Price/Yield Formulae “Conventional Gilts; Double-dated and Undated Gilts with Assumed (or Actual) Redemption on a Quasi-Coupon Date” (published 8 June 1998 and as updated on 15 January 2002) on a semi-annual compounding basis (converted to an annualised yield and rounded up (if necessary) to four decimal places) of the Benchmark Gilt in respect of that Reset Period, with the price of the Benchmark Gilt for this purpose being the arithmetic average (rounded up (if necessary) to four decimal places) of each of the bid and offered prices of such Benchmark Gilt quoted by the Reference Market Makers at 11.00 a.m. (London time) on the relevant Determination Date on a dealing basis for settlement on the next following dealing day in London;

Reference Market Makers means three gilt edged market makers selected by the Agent Bank, failing which such other three persons operating in the gilt edged market as are selected by the Agent Bank;

Reset Date means 7 March 2016 and every fifth successive year thereafter; and

Reset Period means the period beginning on and including a Reset Date and ending on and including the day immediately preceding the next succeeding Reset Date.

- (b) As soon as practicable after 11.00 a.m. (London time) on each Determination Date, the Agent Bank shall determine the Rate of Interest for the relevant Reset Period and calculate the amount of interest payable on each £1,000 principal amount of Bonds (the “**Interest Amount**”) on each of the 10 Interest Payment Dates, that fall after the commencement

of the Reset Period to which such Determination Date relates. The Issuer shall cause such Rate of Interest, Reset Period and each such Interest Amount to be notified to the Trustee as soon as practicable after their determination and calculation and shall procure that the Agent gives notice thereof to the Bondholders in accordance with Condition 12.

- (c) The Issuer may from time to time appoint any leading bank or investment banking firm in London as the Agent Bank in substitution for any existing Agent Bank. In the event of the appointed office of the Agent Bank being unable or unwilling to continue to act as the Agent Bank, the Issuer shall forthwith appoint the London office of such other leading bank or investment banking firm in London to act as such in its place. The Agent Bank may not resign its duties or be removed without a successor having been appointed as aforesaid.
- (d) All notifications, opinions, advice, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained for the purposes of this Condition 4.2 by the Agent Bank shall (in the absence of wilful default, bad faith or manifest error) be binding on the Issuer, the Agent Bank, the Trustee, the Registrar, the Paying Agents and all Bondholders (in the absence as aforesaid) no liability shall attach to the Agent Bank or the Reference Market Makers or, in the circumstances set out in Condition 4.3, the Trustee, in connection with the exercise or non-exercise of their powers, duties and discretions.

4.3 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 Rate of Interest and the Interest Amount in accordance with the above provisions, determine the Rate of Interest and the 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 4.2 and the determinations shall be deemed to be determinations by the Agent Bank.

4.4 Arrears of Interest

- (a) If, on any day within 30 days preceding a scheduled Interest Payment Date the Board:
 - (i) after consultation with the FSA (as defined in Condition 4.5) and having taken appropriate legal advice, is of the opinion that on the

relevant date, the Issuer is, or payment of the relevant interest payment will result in the Issuer being, or there is a reasonably likelihood that payment of the relevant interest payment will in the foreseeable future result in the Issuer being, in non-compliance with its Capital Adequacy Regulations; and

- (ii) passes a resolution deferring payment of the interest to such an extent as may be necessary to secure that, in the opinion of the Board (after consultation with the FSA and having taken appropriate legal advice), such payment would not cause or contribute to such non-compliance,

and the Issuer shall, as soon as practicable, give notice to all Bondholders of such resolution in accordance with Condition 12, and such interest payment or part thereof, as the case may be, shall not be made. On the passing of any such resolution, the Issuer shall not have any obligation to make any such payment of interest for the relevant Interest Period and any failure to pay shall not constitute a default by the Issuer for any purpose (including, but without limitation, Conditions 9 or 10).

- (b) If, in circumstances other than as set out in Condition 4.4(a) above, on any day within the 30 days preceding a scheduled Interest Payment Date, the Board passes a resolution deferring the payment of interest payable on such Interest Payment Date, then the Issuer shall, as soon as practicable, give notice to all Bondholders of such resolution in accordance with Condition 12 and such interest payment shall not be made on such Interest Payment Date. On the passing of any such resolution the Issuer shall not have any obligation to make any such payment of interest for the relevant Interest Period and any failure to pay shall not constitute a default by the Issuer for any purpose (including, without limitation, Conditions 9 or 10).

Any interest which is deferred by the Issuer in accordance with Condition 4.4(a) or (b) above, shall, so long as the same remains unpaid, constitute **Arrears of Interest**. Arrears of Interest may, at the option of the Issuer, be paid in whole or in part (any such part being the whole of the interest accrued during any Interest Period or Periods but not the whole of the interest accrued during all Interest Periods) at any time upon the expiration of not less than seven days' notice to such effect given to the Bondholders in accordance with Condition 12 but so that in the case of payment of only part of the Arrears of Interest the interest accrued during any Interest Period shall not be paid prior to that accrued during an earlier Interest Period. If, on any Interest Payment Date, interest in respect of the Bonds shall not have been paid in accordance with the terms of this Condition 4.4, then from the date of such Interest Payment Date until such time as the full amount of

the relevant Arrears of Interest has been received by the Bondholders or Trustee and no other payment of Arrears of Interest remains outstanding, the Issuer undertakes not to declare or pay any dividend or other distribution on any Junior Securities or Parity Securities, provided that such undertaking shall not apply in respect of any dividend or other distribution where the Issuer is not able to defer, pass or eliminate or continue to defer, pass or eliminate such dividend or other distribution in accordance with the terms and conditions of those Junior Securities or Parity Securities. All Arrears of Interest shall (subject only to the provisions of Condition 3.3) become due whenever is the earliest of the date set for any redemption or purchase pursuant to Conditions 5.2 or 5.3 or the commencement of the winding-up of the Issuer (except that Arrears of Interest shall not become due in respect of a Solvent Winding Up) or the date upon which any administrator of the Issuer gives notice that it intends to declare or distribute a dividend.

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 3) to do so upon the expiry 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 the Bonds shall, unless the context otherwise requires, include Arrears of Interest.

Board means the board of directors of the Issuer.

Junior Securities means any class of share capital of the Issuer together with any other securities of the Issuer or of a Subsidiary Undertaking of the Issuer and the terms of which securities benefit from a guarantee or support agreement ranking or expressed to rank, junior to the Bonds.

Parity Securities means any securities ranking, or expressed to rank *pari passu* with the Bonds whether issued directly by the Issuer or by a Subsidiary Undertaking of the Issuer and the terms of which securities benefit from a guarantee or support agreement ranking or expressed to rank, *pari passu* with the Bonds.

Subsidiary Undertaking means any company which is for the time being a subsidiary undertaking (within the meaning of Section 1162 and Schedule 7 of the Companies Act 2006).

4.5 No deferral of interest on change of regulatory treatment

The Issuer agrees that it will not, in the event of any change in any applicable law or regulation (or in the official interpretation or application thereof) as a result of which, for the purposes of the Capital Adequacy Regulations at that time, the

Bonds after the Issue Date would no longer be eligible to form part of the Issuer's capital resources under the Capital Adequacy Regulations applicable to the Issuer (save where such non-qualification is only as a result of any applicable limitation on the amount of such capital) (a **Capital Disqualification Event**), exercise its right under Condition 4.4 to defer payment of interest accrued in any Interest Period. A Capital Disqualification Event is not deemed to occur if the Bonds are still eligible to form part of the Issuer's capital resources on account of transitional provisions under the Capital Adequacy Regulations or a waiver of the FSA.

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

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 or other authorised institutions in the United Kingdom.

The Issuer shall promptly give notice to the Bondholders in accordance with Condition 12 if any such change as is mentioned above occurs.

5. Redemption and Purchase

5.1 No Maturity

The Bonds have no final maturity date and are only redeemable or repayable in accordance with the following provisions of this Condition 5 or Condition 9.

5.2 Redemption for Taxation Reasons

If the Issuer satisfies the Trustee immediately before the giving of the notice referred to below that:

- (a) 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, or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective after the Issue Date, on the next Interest Payment Date the Issuer would be required to pay additional amounts as provided or referred to in Condition 7; and
- (b) the requirement cannot be avoided by the Issuer taking reasonable measures available to it,

the Issuer may at its option, subject to the Issuer having given at least one month's prior written notice to, and receiving no objection from (or, in the case of any redemption prior to the fifth anniversary of 7 March 2006 (being the issue date of the 2006 PIBS)), receiving a waiver, so long as there is a requirement for such a waiver, 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) and having given not less than 30 nor more than 60 days' notice to the Bondholders in accordance with Condition 12 (which notice shall be irrevocable), and provided that such redemption complies with the provisions of the FSA relating to the capital adequacy of the Issuer, redeem all the Bonds, but not some only, at any time prior to the Reset Date at their principal amount together with interest accrued to but excluding the date of redemption, 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 required to pay such additional amounts, were a payment in respect of the Bonds then due.

Prior to giving any notice of redemption pursuant to this Condition 5.2, the Issuer shall deliver to the Trustee a certificate signed by two directors of the Issuer stating that the requirement referred to in (a) 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 prior written notice to, and received no objection from (or in the case of any redemption prior to the fifth anniversary of 7 March 2006 (being the issue date of the 2006 PIBS), receiving a waiver, so long as there is a requirement for such a waiver 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) and the Trustee shall be entitled to accept and rely upon 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 Bondholders and the Trustee shall incur no liability to the Bondholders in respect of such reliance.

5.3 Redemption at the Option of the Issuer

The Issuer may, subject to the Issuer having first obtained the consent of the FSA and then having given:

- (a) not less than one month's nor more than 60 days' notice to the Bondholders in accordance with Condition 12; and
- (b) notice to the Trustee and the Agent not less than seven 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 Bonds on 7 March 2016 or on any Interest Payment Date thereafter at their principal amount together with interest accrued to but excluding the date of redemption.

5.4 Purchases

The Issuer or any of its subsidiaries (as defined in section 1159 of the Companies Act 2006), subject to the Issuer having given at least one month's prior written notice to, and received no objection from, (or in the case of any purchase prior to the fifth anniversary of 7 March 2006 (being the issue date or the 2006 PIBS), issuing a waiver, so long as this is a requirement for such waiver, 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), may at any time purchase Bonds in any manner and at any price. If purchases are made by tender, tenders must be available to all Bondholders alike. Such Bonds may be held, reissued, resold or, at the option of the Issuer, surrendered for cancellation.

5.5 Cancellations

All Bonds which are redeemed or surrendered for cancellation shall be cancelled forthwith and accordingly may not be held, reissued or resold.

5.6 Notices Final

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

6. Payments

6.1 Payments in respect of the Bonds

All payments in respect of the Bonds will be made by sterling cheque or warrant drawn on a bank or building society in the United Kingdom, posted not later than the Business Day immediately preceding the relevant due date and made payable to the Bondholder (in the case of a joint holding of Bonds, the representative joint Bondholder) appearing in the register of Bondholders in respect of the Bond of which he is the holder at the close of business on the fifteenth day before the relevant due date (the **Record Date**) at the addresses shown in the register of Bondholders on the Record Date. Upon application of a Bondholder (or in the case of a joint holding of Bonds, the representative joint Bondholder) to the Issuer, in the form from time to time prescribed by the Issuer, not less than ten

days before the due date for any payment in respect of his Bonds, the payment may be made by transfer on the due date or, if the due date is not a Business Day, on the immediately following Business Day to a sterling account with a bank or building society in the United Kingdom.

6.2 Payments subject to Applicable Laws

Payments in respect of principal and interest on the Bonds 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 7.

6.3 No commissions

No commissions or expenses shall be charged to the Bondholders in respect of any payments made in accordance with this Condition.

6.4 Payment on Business Days

Where payment is to be made by transfer to a registered account, payment instructions (for value the due date or, if the due date is not a Business Day, for value the immediately following Business Day) will be initiated and, where payment is to be made by cheque, the cheque will be mailed, not later than the Business Day preceding the due date for payment or, in the case of a payment of principal or a payment of interest due otherwise than on an Interest Payment Date, if later, on the Business Day on which the relevant Certificate is surrendered at the specified office of an Agent.

Bondholders will not be entitled to any interest or other payment for any delay after the due date in receiving the amount due if the due date is not a Business Day, if the Bondholder is late in surrendering its Certificate (if required to do so).

Business Day means a day (other than a Saturday or Sunday) on which commercial banks are open for business in London and, in the case of presentation of a Certificate, in the place in which the Certificate is presented.

6.5 Partial Payments

If the amount of principal or interest which is due on the Bonds is not paid in full, the Registrar will annotate the register of Bondholders with a record of the amount of principal, premium (if any) or interest in fact paid.

6.6 Agents

The names of the initial Paying Agents and their initial specified offices are set out in the Registrar Agreement. The Issuer reserves the right at any time to vary or terminate the appointment of any Paying Agent subject to the prior written consent of the Trustee and to appoint additional or other Paying Agents provided that:

- (a) there will at all times be an Agent and, unless the Bonds are redeemed and cancelled on or prior to 7 March 2016, an Agent Bank;
- (b) 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
- (c) there will at all times be a Registrar.

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

7. Taxation

7.1 Payment without Withholding

All payments in respect of the Bonds 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 pay such additional amounts as may be necessary in order that the net amounts received by the Bondholders after the withholding or deduction shall equal the respective amounts which would have been receivable in respect of the Bonds 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 Bond:

- (a) presented for payment by or on behalf of, a holder who (i) would be able to avoid such withholding or deduction by making a declaration of non-residence or similar claim for exemption but fails to do so, or (ii) is liable to the Taxes in respect of the Bond by reason of his having some

connection with the United Kingdom other than the mere holding of the Bond; 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 Bond 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 that day to have been a Business Day.

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 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 Bondholders by the Issuer in accordance with Condition 12.

7.2 Additional Amounts

Any reference in these Conditions to any amounts in respect of the Bonds 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.

8. Prescription

Claims in respect of principal and interest (including the PIBS Interest Payment) will become prescribed unless made within periods of 10 years (in the case of principal) and five years (in the case of interest) (including the PIBS Interest Payment) from the Relevant Date (as defined in Condition 7.1).

9. Events of Default

Notwithstanding any of the provisions below in Condition 9 or Condition 10, the right to institute proceedings is limited to circumstances where payment has become due. Pursuant to Condition 3, no payment will be due on the relevant

payment date if the Issuer is not or would not in making such payment be solvent (as set out in that Condition). Also, in the case of any interest payment, such payment will not be due if the Issuer has deferred that payment pursuant to Condition 4.4 (subject to Condition 4.5).

If the Issuer shall not make payment in respect of the Bonds for a period of 14 days or more after the due date, 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 and/or prove in the winding up of the Issuer and/or claim in the liquidation of the Issuer for such payment.

10. Enforcement

- 10.1 Without prejudice to Condition 9, if the Issuer fails to perform, observe or comply with any obligation, condition or provision relating to the Bonds binding on it under these Conditions or the Trust Deed (other than any payment obligation of the Issuer under or arising from the Bonds or the Trust Deed including without limitation, payment of any principal, premium, or interest (including the PIBS Interest Payment) in respect of the Bonds and any damages awarded for breach of any obligation), 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 obligation, condition or provision provided that the Issuer shall not as a consequence of such proceedings be obliged to pay any sum or sums sooner than the same would otherwise have been payable by it.
- 10.2 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 9 and Condition 10.1 above or submitting a claim in the winding-up of the Issuer will be available to the Trustee or the Bondholders.
- 10.3 The Trustee shall not be bound to take action as referred to in Conditions 9 and 10.1 or other action under these Conditions or the Trust Deed unless (i) it shall have been so requested in writing by Bondholders holding at least one-fifth in nominal amount of the Bonds then outstanding or if so directed by an Extraordinary Resolution of the Bondholders and (ii) it shall have been indemnified and/or secured and/or prefunded to its satisfaction.
- 10.4 No Bondholder 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 Bondholder shall be entitled either to institute proceedings for the winding-up of the Issuer or to prove in the winding-up or claim in the liquidation of the Issuer, except that if the Trustee, having become bound to institute such proceedings as aforesaid, fails to do so, or, being

able to prove in such winding-up or claim in such liquidation fails to do so, in each case within a reasonable period and such failure is continuing, then any such Bondholder may, on giving an indemnity and/or security and/or prefunding 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 prove in such winding up and/or claim in such liquidation to the same extent (but not further or otherwise) that the Trustee would have been entitled to do.

11. Replacement of Certificates

If any Certificate is lost, stolen, mutilated, defaced or destroyed it may be replaced at the specified office of the Registrar 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 Certificates must be surrendered before replacements will be issued.

12. Notices

All notices to the Bondholders will be valid if mailed to them at their respective addresses in the register of Bondholders maintained by the Registrar. Any notice shall be deemed to have been given on the second day after being so mailed. The Issuer shall also ensure that notices are duly given or published in a manner which complies with the rules and regulations of any stock exchange or other relevant authority on which the Bonds are for the time being listed.

13. Meetings of Bondholders, Modification and Waiver

The Trust Deed contains provisions for convening meetings of the Bondholders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution of a modification of the Bonds or certain provisions of the Trust Deed. Such a meeting may be convened by the Issuer or by Bondholders holding not less than 10% in nominal amount of the Bonds for the time being remaining outstanding. The quorum at any such meeting for passing an Extraordinary Resolution is one or more persons holding or representing a clear majority in nominal amount of the Bonds for the time being outstanding, or at any adjourned meeting one or more persons being or representing Bondholders whatever the nominal amount of the Bonds so held or represented, except that at any meeting the business of which includes the modification of certain provisions of the Bonds (including modifying any date for payment of interest on the Bonds, reducing or cancelling the amount of principal or the rate of interest payable in respect of the Bonds or altering the currency of payment of the Bonds) or certain of the provisions of the Trust Deed, the necessary quorum for passing an Extraordinary Resolution will be one or more persons holding or representing not

less than two-thirds, or at any adjourned such meeting not less than one-third, in nominal amount of the Bonds for the time being outstanding. An Extraordinary Resolution passed at any meeting of the Bondholders shall be binding on all the Bondholders, whether or not they are present at the meeting.

The Trust Deed provides that the Trustee may agree, without the consent of the Bondholders, to any modification (subject to certain exceptions as provided in the Trust Deed) of, or to any waiver or authorisation of any breach or proposed breach of, any of these Conditions or any of the provisions of the Trust Deed, or may determine that any condition, event or act which, but for such determination, would constitute an event of default under Condition 9, shall not be treated as such which in any such case, in the opinion of the Trustee, is proper to make and is not materially prejudicial to the interests of the Bondholders or to any modification of any of these Conditions or any of the provisions of the Trust Deed which is of a formal, minor or technical nature or which is made to correct a manifest error. Any such modification, waiver, authorisation or determination shall be binding on the Bondholders and, unless the Trustee agrees otherwise, any such modification shall be notified to the Bondholders as soon as practicable thereafter in accordance with Condition 12. No modification to the provisions of Condition 3 shall be effected without the prior consent of the FSA.

In connection with the exercise by it of any of its trusts, powers, authorities or discretions (including, but without limitation, any modification, waiver, authorisation or substitution), the Trustee shall have regard to the interests of the Bondholders as a class and, in particular, but without limitation, shall not have regard to the consequences of such exercise for individual Bondholders resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory and the Trustee shall not be entitled to require, nor shall any Bondholder be entitled to claim, from the Issuer or any other person any indemnification or payment in respect of any tax consequence of any such exercise upon individual Bondholders except to the extent already provided for in Condition 7 and/or any undertaking given in addition to, or in substitution for, Condition 7 pursuant to the Trust Deed.

14. Further Issues

The Issuer is at liberty from time to time without the consent of the Bondholders 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 Bonds) 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 Bonds) 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 Bondholders and the holders of notes or bonds of other series in certain circumstances where the Trustee so decides.

15. Substitution

The Trustee may, without the consent of the Bondholders, agree with the Issuer to the substitution in place of the Issuer (or of any previous substitute under this Condition) as the principal debtor under the Bonds and the Trust Deed of the Holding Company, a Successor in Business (each as defined in the Trust Deed) or any subsidiary of the Issuer, subject to (a) in the case of a substitution of any subsidiary of the Issuer, the Bonds being unconditionally and irrevocably guaranteed by the Issuer and so that the obligations of the Issuer under 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 Bonds, (b) the Trustee being satisfied that the interests of the Bondholders will not be materially prejudiced by the substitution, (c) (i) the obligations of such Holding Company or Successor in Business or (ii) in the case of substitution of a subsidiary of the Issuer, the obligations of the Issuer under its guarantee, being subordinated on a basis equivalent to that in respect of the Issuer's obligations as principal debtor in respect of the Bonds, and (d) certain other conditions set out in the Trust Deed being complied with. No such substitution shall be effected without the prior consent of the FSA.

16. Indemnification of the Trustee

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility in certain circumstances including provisions relieving it from instituting proceedings to enforce repayment unless indemnified and/or secured and/or prefunded to its satisfaction.

17. Contracts (Rights of Third Parties) Act 1999

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

18. Governing Law

The Trust Deed, the Registrar Agreement, the Bonds and any non-contractual obligations arising out of or in connection with such Trust Deed, Registrar Agreement and the Bonds are governed by, and shall be construed in accordance with, English law.

USE OF PROCEEDS

As the Bonds have been issued in substitution for the PIBS, there are no new proceeds from the issue of the Bonds.

DESCRIPTION OF THE BANK

1. History and Development

The Bank was incorporated as a private company limited by shares, called Sevco 5067 Limited, on 13 July 2010.

The Bank changed its name to OneSavings Limited on 3 August 2010.

The Bank re-registered as a public company limited by shares on 8 October 2010 and, at the same time, changed its name to OneSavings Plc.

The Bank changed its name to OneSavings Bank Plc on 1 February 2011.

The head office, and registered office, of the Bank is at Reliance House, Sun Pier, Chatham, Kent, ME4 4ET. Its telephone number is 01634 848944. The registered number of the Bank is 07312896.

The Bank has prepared unaudited financial statements for the period from its date of incorporation (13 July 2010) to 31 December 2010 which have been subject to a review by the Bank's auditors in accordance with SIR2000 (Standards for Investment Reporting 2000) which are set out in Schedule 2. These financial statements report the trading activities of the Bank during that period prior to the date of the Transfer. First audited accounts for the Bank will be produced for the financial period ending on 31 December 2011 and, thereafter, annually.

The Bank is a subsidiary of KRPS, which holds 26,000 A ordinary shares in the Bank, representing 59.9% of the ordinary share capital of the Bank. KRPS is an industrial and provident society, a form of mutual organisation that exists to benefit its members rather than any outside shareholders.

On 1 February 2011, OSB Holdco Limited ("**JCF Holdco**"), a wholly owned subsidiary of funds advised by J.C. Flowers & Co. LLC became a shareholder in the Bank, subscribing £50,000,000 of capital to the Bank for 17,426 B ordinary shares and 32,574 convertible preference shares in the Bank. JCF Holdco currently holds 40.1% of the ordinary share capital of the Bank.

On 1 February 2011, the Bank acquired the whole of the business, assets and liabilities of KRBS under the Transfer (in accordance with the Transfer Agreement).

On 3 September 2010, the Bank entered into an agency agreement with KRBS (the “**First Agency Agreement**”) and from 6 September 2010 until 1 February 2011 operated the business of acting as a branch agent of KRBS.

Other than the First Agency Agreement, the Bank did not enter into any material agreements or trade in any material way until it acquired the business, assets and liabilities of Kent Reliance Building Society on 1 February 2011.

Since the Transfer, the Bank has operated the business formerly carried out by KRBS, providing customers with savings accounts and mortgages. The Bank will continue the policy of KRBS of operating branch agency arrangements, and has engaged KRPS as its branch agent in respect of four of its branch agencies.

Pro forma financial information

The pro forma information set out below has been prepared in order to show the consolidated income statement and balance sheet of the Bank for the seven month period ended 30 April 2010 and as at 30 April 2010, respectively as if the Transfer had occurred on 30 April 2010. This information had been prepared for illustrative purposes only because it addresses a hypothetical situation and therefore does not represent the Bank’s actual financial position or results. The pro forma adjustments assume that the Transfer took place on 30 April 2010 and reflect the necessary adjustments to the income statement and the balance sheet of KRBS that need to be made in order to reflect this change. The income statement and balance sheet data of KRBS have been extracted from the interim financial statements of KRBS which are set out in Schedule 1 to this Prospectus. No unadjusted figures for the Bank are shown in the pro forma information set out below as the Bank had not been incorporated on 30 April 2010 and therefore there was no income statement or balance sheet data for the Bank available as at 30 April 2010. Accordingly, the pro forma adjustments simply reflect the necessary adjustments to the income statement and the balance sheet of KRBS resulting from the Transfer, namely the conversion of the PIBS into the Bonds and the subscription by JCF Holdco of £50,000,000 shares in the Bank, as more fully described below.

Income statement	KRBS 7 months ended 30 April 2010	Adjustments	The Bank Pro Forma
	<u>£mn</u>	<u>£mn</u>	<u>£mn</u>
Net expense	(0.4)	(0.9) ¹	(1.3)
Other income and charges	0.1		0.1
Fair value gains and losses on financial instruments	<u>0.6</u>		<u>0.6</u>
Total income	0.3	(0.9) ¹	(0.6)
Administrative expenses	(5.3)		(5.3)
Impairment losses on loans and advances to customers	0.8		0.8
			(0.5)
Provision for FSCS levies	<u>(0.5)</u>		<u>(0.5)</u>
Loss before tax	(4.7)	(0.9) ¹	(5.6)
Tax credit	<u>1.4</u>	<u>0.2</u> ²	<u>1.6</u>
Loss after tax	<u><u>(3.3)</u></u>	<u><u>(0.7)</u></u> ¹	<u><u>(4.0)</u></u>

- 1 This figure follows from the terms and conditions of the Second Perpetual Bonds which are set out in this Prospectus. The interest payable on the 2006 PIBS, which was treated as a profit distribution rather than an interest expense, will be treated as an interest expense after the Transfer. This is because the Second Perpetual Subordinated Bonds will be debt rather than equity instruments. The 2004 PIBS were already treated as debt instruments and therefore no pro forma adjustment is required to reflect their conversion into the First Perpetual Subordinated Bonds. This pro forma adjustment has the effect of reducing total income as it increases net expense and results in a corresponding increase in the loss before tax of the Bank on a pro forma basis. This pro forma adjustment will have a continuing impact on the Bank so long as the Second Perpetual Subordinated Bonds are outstanding. This pro forma adjustment reflects how the financial statements of the Bank will appear going forward.
- 2 The increase in tax credit results from the tax relief arising from the extra interest payable as a result of the Second Perpetual Subordinated Bonds being treated as debt rather than equity instruments as described in note 1. This adjustment will have a continuing impact on the Bank so long as the pro forma adjustments described in note 1 remain in effect. This pro forma adjustment reflects how the financial statements of the Bank will appear going forward.

Balance Sheet	KRBS	Adjustments	The
	30 April		Bank
	2010		Pro
	<u>£mn</u>	<u>£mn</u>	<u>Forma</u>
Assets			
Liquid assets.....	479.9	50.0 ¹	529.9
Mortgages	1,668.9		1,668.9
Derivative financial instruments	0.7		0.7
Fair value adjustments for hedged risk...	56.7		56.7
Fixed and other assets	<u>6.5</u>		<u>6.5</u>
Total Assets	<u>2,212.7</u>	<u>50.0</u> ¹	<u>2,262.7</u>
Liabilities			
Shares.....	1,834.3	(1,834.3) ²	-
Retail deposits		1,834.3 ²	1,834.3
Wholesale deposits	199.4		199.4
Other liabilities	5.3		5.3
Derivative financial instruments	60.9		60.9
Fair value adjustments for hedged risk...	0.1		0.1
Subordinated liabilities	26.7		26.7
Permanent Interest Bearing Shares.....	36.7	(36.7) ³	
Perpetual Subordinated Bonds		36.7 ³	36.7
Preference Shares and related reserves ...		0.8 ⁴	0.8
Ordinary Shares and related reserves		98.5 ⁵	98.5
Reserves	<u>49.3</u>	<u>49.3</u> ⁵	
Total Liabilities	<u>2,212.7</u>	<u>50.0</u> ⁵	<u>2,262.7</u>

- 1 This reflects the cash subscription price paid by JCF Holdco to subscribe for shares in the bank as reflected in the statutory books of the Bank and as described in paragraph 6.3 below (Subscription and Shareholders' Agreement).
- 2 As a result of the Transfer, the line item 'Shares' in the balance sheet of KRBS which represented deposits held for members of KRBS was recharacterised as retail deposits in the balance sheet of the Bank.
- 3 This reflects the conversion of the PIBS into the Bonds as a result of the Transfer. The principal amount of the Bonds outstanding is derived from the records kept by the Registrar (Equiniti Limited) and as shown in the Trust Deeds. The principal amount of the Bonds is shown net of unamortised issue costs. This pro forma adjustment reflects how the financial statements of the Bank will appear going forward.
- 4 The preference shares in the Bank that were subscribed for by JCF Holdco appear in the line item "Preference shares and related reserves" of the Bank's balance sheet. This pro forma adjustment reflects how the financial statements of the Bank will appear going forward.
- 5 These pro forma adjustments reflect the subscription of ordinary shares in the Bank by JCF Holdco as described in note 1 above and as described in paragraph 6.3 below (Subscription and Shareholders' Agreement) and the recharacterisation of the reserves of KRBS as a result of the Transfer. In particular, a consequence of the Transfer is that the reserves of KRBS (£49.3 million as at 30 April 2010) were used to pay up share capital of the Bank contributing to the balance under the line item "Ordinary Shares and related reserves" of the Bank's balance sheet and are added to

the £49.2 million of ordinary shares in the Bank that were subscribed for by JCF Holdco and together these figures provide the total included under the line item "Ordinary Shares and related reserves" of the Bank's balance sheet. This pro forma adjustment reflects how the financial statements of the Bank will appear going forward.

The pro forma information set out above was prepared using the same accounting principles that were adopted by the Bank in its financial statements for the period ended 31 December 2010, as set out in Schedule 2 which is IFRS (International Financial Reporting Standards).

2. Activities of the Bank

2.1 Form, Status and Ownership

The Bank is the successor to the business formerly carried out by KRBS. KRBS was 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.

As at 30 September 2009, based on its asset value, KRBS was the twelfth (eleventh if the subsequent Coventry/Stroud & Swindon merger is taken into account) largest building society in the United Kingdom with assets of £2.25 billion. During the financial year ended 30 September 2009 KRBS had, on average, 164 employees and operated two branches at the year end.

On the date of the Transfer KRBS had approximately 150,000 members.

The Bank's principal business is that of making loans which are secured on residential property and are funded substantially by its customers. The Bank's principal operating objective is to be a high quality provider of retail savings and mortgage products to an increasing number of members of KRPS and other customers. Funds are primarily advanced to borrowers on the security of first mortgages on freehold and leasehold residential property and the Bank also lends to borrowers on the security of commercial property and (taking account of the practice of KRBS) expects to typically hold 20-24% of its assets in high quality money market instruments to provide operating liquidity. KRBS's liquid assets stood at £475 million as at 30 September 2010, representing 24% of the total of its shares and borrowings at that date; no figure is currently available in respect of the Bank's liquid assets.

The Bank has five wholly-owned subsidiaries providing mortgage services: four lending to the residents of the Channel Islands (Jersey Homes Loans Limited (registered in England and Wales), Jersey Homes Loans Limited (registered in

Jersey), Guernsey Home Loans Limited (registered in England and Wales) and Guernsey Home Loans Limited (registered in Guernsey)) and Reliance Property Loans Limited (which provides buy-to-let loans on the UK mainland). In addition, the Bank has a wholly-owned subsidiary, Easioption Limited, which is the UK holding company for two Indian-registered wholly-owned subsidiaries, Easiprocess Private Limited and Easioption BPO Services Private Limited, which provide back office services to the Group and outsourcing services to third parties.

3. The management of the Bank

The directors of the Bank are set out below. These include the previous executive directors of KRBS, who form part of the Bank's executive team, described below, non-executive directors drawn from KRBS's previous non-executive directors (as KRPS's nominees) and nominees by JCF Holdco, together with two independent non-executive directors, one of whom is the Bank's senior independent director.

The executive management of the Bank, at director level, comprises the Chief Executive and the Finance Director. The executive committee for the Bank comprises the Chief Executive, the Finance Director and the Chief Operating Officer (Mr T Sawyer).

As at the date of this Prospectus, the Directors of the Bank, their business addresses, their functions in the Bank and their principal outside activities (if any) of significance to the Bank are as follows:

Name	Function within the Bank from the Effective Date	Business Address	Directorships (other than of KRPS Group members) and other business interests
M J Lazenby ¹	Chief Executive	Reliance House, Sun Pier, Chatham, Kent ME4 4ET	mikelazenby.com Ltd – Director and Shareholder M L Consultancy Services Pvt Limited - Director and Shareholder The Gillingham Football Club Community Sports And Education Foundation -Director/Trustee

¹ On 22 February 2011 the Bank announced that the Chief Executive, Mike Lazenby, would be stepping down with effect from 28 February 2011. The recruitment of a new Chief Executive is in progress and in the interim the Finance Director, Bob Scruton, will be acting Chief Executive.

R Scruton	Finance Director	Reliance House, Sun Pier, Chatham, Kent ME4 4ET	
M G McCaig	Non-executive director	Reliance House, Sun Pier, Chatham, Kent ME4 4ET	<p>Barbon Insurance Group Ltd – Director</p> <p>Caley Ltd – Director</p> <p>Crest Nicholson Holdings Ltd - Director</p> <p>Glasgow Caledonian University Company Ltd - Director</p> <p>Meretune Management (Falcon) Ltd – Director</p> <p>M G McCaig Ltd (Director and Shareholder)</p> <p>Renaissance Capital Ltd - Director</p> <p>Unum Ltd - Director</p> <p>London Capital Group Holdings PLC - Director</p> <p>The House of Lords - Lay member of Audit Committee</p>
A Newell	Non-executive director	Reliance House, Sun Pier, Chatham, Kent ME4 4ET	<p>East Treasury Limited - Director</p> <p>East Thames Group Limited – Director</p> <p>Crisis UK –Trustee</p> <p>Triathlon LLP - Director</p> <p>Holy Trinity Northwood - Trustee</p> <p>Independent Audit Limited - Associate (Consultant)</p> <p>Football Association - Chairman of Group Audit Committee</p> <p>Colnbrook IRC – Chairman of Independent Monitoring Board</p> <p>East Reger Limited</p>

P Williams	Non-executive director	Reliance House, Sun Pier, Chatham, Kent ME4 4ET	<p>Peter R Williams Limited -Director and Shareholder</p> <p>Consultcih Limited – Director</p> <p>National Housing Federation - Director</p> <p>Property Codes Compliance Ltd - Director</p> <p>Thames Valley Housing Association - Director</p>
T Hanford	Non-executive director	Reliance House, Sun Pier, Chatham, Kent ME4 4ET	<p>Pension Insurance Corporation Limited – Director</p> <p>Pension Insurance Corporation Holdings LLP – Director</p> <p>SGL No. 1 Limited – Director</p> <p>ORSU Metals Corporation - Director</p> <p>Shelbourne Group Limited - Director</p> <p>SGL No. 2 Limited – Director</p> <p>SGL No. 3 Limited – Director</p> <p>Shelbourne Syndicate Services Limited - Director</p> <p>Encore Capital Group, Inc. - Director</p> <p>JSCB “Investtradebank” (OJSC) - Director</p> <p>Vitae Trading Company Limited – Director</p> <p>Castle Trust Capital Limited</p>

D Morgan	Non-executive director	Reliance House, Sun Pier, Chatham, Kent ME4 4ET	<p>HSH Nordbank AG - Director</p> <p>NIBC Holding, N.V. - Director</p> <p>JC Flowers (Australia) Pty Limited - Director</p> <p>J.C. Flowers & Co. UK Limited - Director</p> <p>Pension Insurance Corporation Holdings LLP – Director</p> <p>LifCorp S.à r.l. – Director</p> <p>NPG Holding S.à r.l. – Director</p> <p>Shinsei Bank Limited – Advisor</p> <p>Castle Trust Capital Limited</p>
Sir Callum McCarthy	Non-executive director	Reliance House, Sun Pier, Chatham, Kent ME4 4ET	<p>J.C. Flowers & Co. UK Limited – Director</p> <p>Industrial & Commercial Bank of China - Director</p> <p>Intercontinental Exchange Inc – Director</p> <p>HM Treasury – Non Executive Member of Treasury Board</p> <p>Castle Trust Capital Limited</p>
Stephan Wilcke	Director	Reliance House, Sun Pier, Chatham, Kent ME4 4ET	Parsifal Partners LLP
David Mills	Director	Reliance House, Sun Pier, Chatham, Kent ME4 4ET	<p>The More Factory Holdings Limited</p> <p>Foxdale Homes LP</p>

There are no potential conflicts of interest between the duties to the Bank of its Directors and their private interests or other duties. The following directors of the Bank are also directors of one or more subsidiaries of the Bank or, as the case may be, directors of JCF Holdco and certain JC Flowers entities:

- (a) M J Lazenby was nominated as a director of the Bank by KRPS, is a director of KRPS and is a director of the following subsidiaries of the Bank:

- (i) Easioption Limited;
- (ii) Easioption BPO Services Private Limited;
- (iii) Easiprocess Private Limited;
- (iv) Guernsey Home Loans Limited;
- (v) Guernsey Home Loans Limited (incorporated in Guernsey);
- (vi) Jersey Home Loans Limited;
- (vii) Jersey Home Loans Limited (incorporated in Jersey); and
- (viii) Reliance Property Loans Limited.

(b) R Scruton was nominated as a director of the Bank by KRPS, is a director of KRPS and is a director of the following subsidiaries of the Bank:

- (i) Easioption Limited;
- (ii) Guernsey Home Loans Limited;
- (iii) Guernsey Home Loans Limited (incorporated in Guernsey);
- (iv) Jersey Home Loans Limited;
- (v) Jersey Home Loans Limited (incorporated in Jersey); and
- (vi) Reliance Property Loans Limited.

(c) A Newell was nominated as a director of the Bank by KRPS, is a director of KRPS and is a director of the following subsidiaries of the Bank:

- (i) Easioption Limited;
- (ii) Easioption BPO Services Private Limited; and
- (iii) Easioption Private Limited.

- (d) P Williams was nominated as a director of the Bank by KRPS, is a director of KRPS and is a director of the following subsidiaries of the Bank:
- (i) Guernsey Home Loans Limited;
 - (ii) Guernsey Home Loans Limited (incorporated in Guernsey);
 - (iii) Jersey Home Loans Limited;
 - (iv) Jersey Home Loans Limited (incorporated in Jersey); and
 - (v) Reliance Property Loans Limited.
- (e) M McCaig was nominated as a director of the Bank by KRPS and is a director of KRPS and Easioption Limited.
- (f) T Hanford was nominated as a director of the Bank by JCF Holdco and is a director of JCF Holdco.
- (g) D Morgan was nominated as a director of the Bank by JCF Holdco and is a director of JCF Holdco and the following JC Flowers entities:
- (i) JC Flowers (Australia) Pty Limited; and
 - (ii) J.C. Flowers & Co. UK Limited
- (h) Sir Callum McCarthy was nominated as a director of the Bank by JCF Holdco and is a director of JCF Holdco and J.C. Flowers & Co. UK Limited.

The Bank has an audit committee comprising: Andrew Newell (Chairman), Sir Callum McCarthy and David Mills, whose task is to monitor on a regular and timely basis the adequacy of the Bank's systems and controls. The audit committee also plays a key role in controlling the work of the internal audit function of the Bank and receiving its reports. The audit committee also works closely with the risk committee on a range of matters including the identification and mitigation of risks, which are also relevant to the internal audit function's work.

The Bank complies with the UK Corporate Governance Code, although it should be noted that it applies Code principle A.4 (which provides that there should be a formal, rigorous and transparent procedure for the appointment of new directors

to the board) in a modified way to reflect the fact that the Bank's shareholders each have rights to nominate a number of directors to the Board of the Bank.

The day-to-day management of the Bank is the responsibility of the Chief Executive, the Finance Director and the Chief Operating Officer (Mr T Sawyer).

4. Principal objects of and restrictions on the Bank

The Bank's articles of association provide that its principal object, or main purpose, is to provide a range of financial services to members of KRPS (being initially the former members of KRBS) and other customers in support of its co-operative principles. The articles entrench its purpose and state that, accordingly, the affairs of the Bank shall be conducted with a view to furthering this purpose rather than the purpose of maximising the profits for distribution to the Bank's shareholders. The relevant article reads as follows:

The Company will acquire the business and assets of Kent Reliance Building Society and, on completion of that transfer will issue shares to Kent Reliance Provident Society Limited (KRPS), an industrial & provident society, formed to operate as a co-operative society. KRPS will offer membership (inter alia) to those customers from time to time of the Company and/or subsidiaries of the Company who hold qualifying membership accounts or qualifying mortgage accounts with the Company, being initially the former members of Kent Reliance Building Society. The core purpose of the Company is to provide a range of financial services to members of the Society in support of its co-operative principles and accordingly the affairs of the Company shall be conducted with a view to furthering this purpose rather than the purpose of maximising the profits for distribution to the Company's members. The Company will also offer services to customers other than members of the Society.

This statement of purpose cannot be changed without the consent of KRPS unless KRPS holds less than 10% of all ordinary shares in the Bank.

5. Connected undertakings of the Bank

As a result of the Transfer, the Bank has acquired the subsidiaries of KRBS, which are now wholly-owned subsidiaries of the Bank.

The Bank's principal subsidiaries (and their main activities) are:

Company name	Country of registration	Main activity
Guernsey Home Loans Limited	England and Wales	Mortgage provider
Guernsey Home Loans Limited	Guernsey	Mortgage provider
Jersey Home Loans Limited	England and Wales	Mortgage provider
Jersey Home Loans Limited	Jersey	Mortgage provider
Reliance Property Loans Limited	England and Wales	Mortgage provider
Easioption Limited	England and Wales	Holding company
Easiprocess Private Limited	India	Back office processing
Easioption BPO Services Private Limited	India	Back office processing

6. Material Contracts

6.1 Framework Agreement

The Framework Agreement was entered into between KRBS and JCF Associates III Limited (“**JCF**”) (the general partner of JCF Associates III LP, the general partner of certain JC Flowers private equity funds) on 3 August 2010. It provided for those parties to co-operate in relation to the Transfer and JCF Holdco’s proposed investment into the Bank.

As a result of the Transfer, the obligations of KRBS under the Framework Agreement have been assumed by the Bank.

Under the Framework Agreement, KRBS has warranted that certain statements contained in the Framework Agreement (the “**Warranties**”) are true, accurate and not misleading. If any statements made in the Warranties are incorrect at the time they are given and a Warranty has therefore been breached, JCF may be entitled to make a claim against the Bank for breach of Warranty. Except in the case of certain identified exceptions, JCF may not make a claim for breach of Warranty if the matter in question and which is in breach of the Warranty was formally disclosed to JCF by KRBS. The Bank’s liability under the Warranties is subject to certain *de minimis*, time and other limitations and is subject to an overall cap on liability of £50 million.

If JCF has a claim against the Bank for breach of Warranty, this is to be compensated for through the issue of preference shares in the Bank rather than by the payment of a cash amount.

6.2 Transfer Agreement

Under the terms of the Transfer Agreement (which was entered into by KRPS, KRBS and the Bank on 12 October 2010) the Bank acquired the business of KRBS (including all its property, rights and liabilities).

The transfer of KRBS's business to the Bank occurred on 1 February 2011 in accordance with the Transfer Agreement.

6.3 Subscription and Shareholders' Agreement

The Subscription and Shareholders' Agreement was entered into between the Bank, KRPS and JCF Holdco on 1 February 2011.

The Subscription and Shareholders' Agreement sets out the terms on which JCF Holdco subscribed for B ordinary shares and convertible preference shares in the Bank and contains provisions governing the relationship between KRPS and JCF Holdco thereafter, and between those parties (as shareholders) and the Bank. Its most important provisions include provisions:

- (a) which permit the respective shareholdings of JCF Holdco and KRPS to be adjusted by reference to (amongst other matters) the performance of the commercial loan book portfolio of KRBS or to satisfy claims for breach of warranty arising under the Framework Agreement;
- (b) to the effect that if, following the Transfer, the Bank's board decides that the Bank requires additional capital, KRPS and/or JCF Holdco may (but are not obliged to) subscribe for further shares up to a total nominal value of £50,000;
- (c) that if there is a shortfall in the Bank's tier one capital (or equivalent if there is a change in the relevant law or regulation) of at least 9% of its risk-weighted assets as applied by the FSA in relation to prudential requirements, or such higher rate as the FSA shall direct, JCF Holdco may subscribe further capital for additional B ordinary shares and/or preference shares, either in response to a request made by the board of directors of the Bank or of its own volition, subject to certain conditions and up to the value of the shortfall amount;

- (d) that while KRPS holds the majority of the ordinary shares in the Bank, it may appoint a majority of members of the Bank's board of directors (including up to seven A Directors), with JCF Holdco having the right to appoint up to three B Directors whilst it holds at least 15% of all shares. If JCF Holdco were to become the majority shareholder in the Bank in the future, the position would reverse and JCF Holdco would acquire the right to appoint a majority of the board, with KRPS having the right to appoint up to three A Directors whilst it holds at least 10% of all ordinary shares. If KRPS's shareholding falls below 10% of all ordinary shares, it will have the right to appoint only one A Director and, similarly, JCF Holdco will have the right to appoint only one B Director if its shareholding falls below 15% of all shares in the Bank. Up to three further directors may be appointed by the board or the holder of the majority of the ordinary shares in the Bank. It is anticipated that two of these directors will act as non-executive independent directors of the Bank;
- (e) that the Chief Executive and the Chief Financial Officer shall be appointed as A Directors whilst KRPS holds the majority of the ordinary shares in the Bank. These two appointments must be agreed by KRPS and JCF Holdco. If they are unable to agree, the board of directors of the Bank may nominate one of the (suitably qualified and authorised) non-executive directors to act as interim Chief Executive or Chief Financial Officer, as applicable;
- (f) that the day-to-day running of the Bank's business will be managed by the its senior executive team and will be overseen by the board but that certain matters outside the ordinary course of business will require the specific prior consent of both KRPS and JCF Holdco;
- (g) that the article summarised at paragraph 4 "*Principal objects of and restrictions on the Bank*" above which states the Bank's principal object, or main purpose, is to provide a range of financial services to members of KRPS cannot be changed without the consent of KRPS unless KRPS holds less than 10% of all ordinary shares in the Bank;
- (h) setting out the circumstances in which JCF Holdco may convert some or all of its preference shares into B ordinary shares at any time and each preference share is convertible into one B ordinary share;
- (i) providing JCF Holdco with certain rights of first refusal in relation to proposed transfer of ordinary shares held by KRPS;

- (j) providing rights for JCF Holdco to realise its investment, and in certain circumstances to compel KRPS to join it in a proposal for selling or floating the shares in the Bank; and
- (k) allocating the net proceeds of sale or flotation between KRPS and JCF Holdco.

6.4 Second Agency Agreement

Under the terms of an agency agreement (the “**Second Agency Agreement**”), which was entered into by KRPS and KRBS on 27 January 2011 (with KRBS’s rights and liabilities passing to the Bank on 1 February 2011 in accordance with the Transfer Agreement), KRPS has been appointed by the Bank (with effect from 1 February 2011) to act as its agent in carrying out branch business transactions on its behalf. Under this Second Agency Agreement, KRPS operates agencies at Chatham, Hempstead Valley, Strood and Gravesend on behalf of the Bank and may (when appropriate premises are acquired) operate an agency at Maidstone). In return for providing this service, KRPS is paid a fee.

6.5 Relationship and Services Agreement

The relationship and services agreement (the “**RSA**”) was entered into by the Bank and KRPS on 1 February 2011. The RSA regulates business arrangements between the Bank and KRPS. The matters dealt with include mutual promotion of each other’s business to KRPS members and Bank customers, the Bank keeping the KRPS membership database as a service to the KRPS, use of the KRBS and KRPS names and the provision of head office support services to KRPS.

6.6 Intra Group Funding Agreement

Under the terms of an intra group funding agreement (the “**Intra Group Funding Agreement**”) which was entered into by the Bank and KRPS on 1 February 2011, the Bank agreed to make available to KRPS an unsecured revolving credit facility of £150,000 in order to enable KRPS to finance its working capital requirements.

6.7 Recent Developments

Since the 30 April 2010 (the date on which the most recent unaudited interim financial statements of KRBS have been prepared), the following key developments have taken place: on the Transfer date the Bank assumed all assets and liabilities of KRBS; JCF Holdco became a shareholder in the Bank, subscribing £50,000,000 of capital to the Bank; and the PIBS were converted into Bonds.

On 25 January 2011 the FSA announced that they had confirmed the transfer of the business of KRBS to the Bank.

DESCRIPTION OF KRPS

1. History and Development

KRPS is a new industrial and provident society. Like a building society, an industrial and provident society is a form of mutual organisation that exists to benefit its members rather than any outside shareholders.

The head office, and registered office, of KRPS is at Reliance House, Sun Pier, Chatham, Kent, ME4 4ET. Its telephone number is 0845 122 1177. The registered number of KRPS is 31056R.

2. Activities of KRPS

KRPS has two main functions. First, it is the parent organisation of the Bank, connecting its members to the Bank and its business. Secondly, KRPS will operate its own business. This business comprises two main elements. First KRPS will undertake the business of acting as an agent of the Bank in relation to the operation of certain high-street outlets, and will provide the services that are currently being provided at those outlets. Secondly, KRPS will also develop and operate a web-based portal that will provide members with access to a range of products and services, offering discounts and special terms. It is intended that these will be expanded in the future and that the wider range of products and services will include access to financial products and services offered by third parties including the Bank (although this will be subject to KRPS meeting any relevant legal and regulatory requirements). This is a new start-up business which is to be operated on a mutual basis and therefore not with an intention to generate significant profits, but rather to provide members with value for money services. In view of the initial relatively small scale of KRPS's own business, this business is considered by the directors of KRPS to be unlikely to have a material bearing on the financial prospects of the KRPS Group overall for at least the first three years of the KRPS Group's existence.

3. The management of KRPS

KRPS is run by its board, which will in the future be elected by the Qualifying Members (as defined in the rules of KRPS). The initial directors of KRPS are:

Name and date of birth	Date of first appointment as a director of KRPS
D S Kemp / 16.10.1947	05.10.2010
M J Lazenby / 08.05.1955	05.10.2010
M S Mackenzie / 12.07.1947	05.10.2010
M G McCaig / 25.05.1955	05.10.2010
A S Nelson / 22.04.1941	05.10.2010
A Newell / 19.06.1956	05.10.2010
R Scruton / 06.04.1952	05.10.2010
Dr P R Williams / 13.07.1946	05.10.2010

4. Principal objects of and resolutions of KRPS

KRPS's objects provide it with wide scope to provide services to its members, and it is intended to offer a range of new services (initially and in the future) as well as offering (over time) new ways for members to access the Bank's services.

5. Connected undertakings of KRPS

The Bank is a subsidiary of KRPS. Through its interest in the Bank, KRPS is linked to the same undertakings as the Bank (see paragraph 5 "*Connected undertakings of the Bank*" in the section headed "*Description of the Bank*").

6. Material Contracts

KRPS is a party to the Transfer Agreement, the Subscription and Shareholders' Agreement, the Second Agency Agreement, the Relationship and Services Agreement and the Intra Group Funding Agreement (see paragraphs 6.2 – 6.6 (inclusive) in the section headed "*Description of the Bank*").

TAXATION

The following is a summary of certain United Kingdom tax consequences of the replacement of the PIBS with Bonds. The Building Societies Act 1986 and the terms of the Transfer require that this replacement must be achieved by the Bank assuming a deposit liability to each PIBS holder equal to the principal amount of their PIBS. That deposit will automatically be applied, on behalf of the PIBS holder, in the subscription of Bonds.

This summary is included only as a general guide and is based on the Bank's understanding of current law and practice in the United Kingdom relating to certain aspects of United Kingdom taxation. It is not exhaustive. Except where expressly stated otherwise, it relates only to persons resident or ordinarily resident and domiciled in the United Kingdom for tax purposes who are legal and beneficial owners of PIBS. Some aspects do not apply to certain classes of person (such as dealers, persons connected with KRBS and persons who have received their PIBS by virtue of an office or employment) to whom special rules may apply. The United Kingdom tax treatment of holders of PIBS (and, as such, prospective holders of Bonds) depends on their individual circumstances and may be subject to change in the future.

Persons who are subject to special rules, persons who may be subject to tax in another jurisdiction and persons who are in any doubt about their tax position should seek independent professional advice.

A. Interest on the Bonds

Payment of interest on the Bonds

Payments of interest on the Bonds may be made without deduction of or withholding on account of United Kingdom income tax provided that the Bonds continue to be listed on a “recognised stock exchange” within the meaning of section 1005 of the Income Tax Act (“**ITA 2007**”). The London Stock Exchange is a recognised stock exchange. Securities will be treated as listed on the London Stock Exchange if they are included in the Official List (within the meaning of and in accordance with the provisions of Part 6 of the Financial Services and Markets Act 2000) and admitted to trading on the London Stock Exchange. Provided, therefore, that the Bonds remain so listed, interest on the Bonds will be payable without deduction of or withholding on account of United Kingdom tax.

Interest on the Bonds may also be paid without deduction of or withholding on account of United Kingdom income tax where, at the time the payment is made, the Bank reasonably believes (and any person by or through whom interest on the

Bonds is paid reasonably believes) that the beneficial owner of such interest is within the charge to United Kingdom corporation tax as regards the payment of interest, provided that HM Revenue and Customs (“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 Bonds on account of United Kingdom income tax at the basic rate (currently 20%). 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 holder of Bonds, HMRC can issue a notice to the Bank to pay interest to that holder without deduction of tax (or for interest to be paid with tax deducted at the rate provided for in the relevant double tax treaty).

Holders of Bonds may wish to note that, in certain circumstances, 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 holder of Bonds. Information so obtained may, in certain circumstances, be exchanged by HMRC with the tax authorities of the jurisdiction in which the holder of Perpetual Subordinated Bonds is resident for tax purposes.

EU Savings Directive

Under EC Council Directive 2003/48/EC on the taxation of savings income (the “**Directive**”), 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 or to certain limited types of entities established in that other Member State. However, for a transitional period 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).

On 13 November 2008, the European Commission proposed certain amendments to the Directive, which may, if implemented, amend or broaden the scope of the requirements described above.

Further United Kingdom Income Tax Issues

Interest on the Bonds 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 of or withholding on account of United Kingdom income tax will not be chargeable to United Kingdom tax in the hands of a holder of Bonds (other than certain trustees) who is not resident for tax purposes in the United Kingdom unless that holder 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 Bonds are attributable (and where that holder is a company, unless that holder carries on a trade in the United Kingdom through a permanent establishment in connection with which the interest is received or to which the Bonds 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 holders of Bonds.

B. United Kingdom Tax Consequences on the Disposal of the PIBS pursuant to the Transfer

Individuals

On the basis that the PIBS constitute “qualifying corporate bonds” within the meaning of section 117 of the Taxation of Chargeable Gains Act 1992, the disposal pursuant to the Transfer by a holder of the PIBS who is an individual will not give rise to a chargeable gain or an allowable loss for the purposes of the United Kingdom taxation of chargeable gains.

On the disposal of PIBS by a holder pursuant to the Transfer, any interest which has accrued to the date of the Transfer may be chargeable to tax as income under the rules of the accrued interest scheme as set out in Part 12 ITA 2007. The accrued income scheme recognises the interest income on an accrued daily basis and provides that the accrued income is recognised in the tax year in which the next interest payment date would have fallen due if not for the sale (section 616-618 ITA 2007). There are a number of exclusions which may apply to individual holders, and individual tax advice should be sought to deal with each individual case. However, broadly these exemptions include:

- the nominal value of all securities held is less than £5,000;

- the person is not resident in the UK throughout the tax year in which they acquire or dispose of the securities and is not ordinarily resident in the UK;
- if the person carries on a trade and the proceeds of the transfer are included in the computation of trading profit or loss;
- if the interest is received by a charitable trust that is exempt from tax; or
- if the persons are trustees of a registered pension scheme.

United Kingdom Corporation Tax Payers

In general, holders of PIBS which are within the charge to United Kingdom corporation tax will be charged to tax as income on any returns, profits or gains arising from the disposal of the PIBS pursuant to the Transfer (whether attributable to currency fluctuations or otherwise) broadly in accordance with their statutory accounting treatment.

C. Further United Kingdom Tax Consequences for Holders of the Perpetual Subordinated Bonds

Individuals

The Bonds are expected to constitute “qualifying corporate bonds” within the meaning of section 117 of the Taxation of Chargeable Gains Act 1992. Accordingly, a disposal by a holder of a Bond who is an individual should not give rise to a chargeable gain or an allowable loss for the purposes of the United Kingdom taxation of chargeable gains.

On a disposal of Bonds by a holder, any interest which has accrued to the date of disposal may (subject to certain exceptions) be chargeable to tax as income under the rules of the accrued income scheme as set out in Part 12 ITA 2007, if that holder 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 Bonds are attributable.

The Perpetual Subordinated Bonds which are to be issued in replacement of the 22,000 PIBS of £1,000 each with an interest rate of 6.591% and of the 15,000 PIBS of £1000 each with an interest rate of 7.875% both of KRBS will constitute variable rate securities for the purposes of the accrued income scheme and, accordingly, that will impact on the way in which the provisions of the accrued income scheme could apply on a disposal of such Perpetual Subordinated Bonds.

United Kingdom Corporation Tax Payers

In general, holders of Bonds 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 Bonds (whether attributable to currency fluctuations or otherwise) broadly in accordance with their statutory accounting treatment.

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

No United Kingdom stamp duty or SDRT will be payable on the disposal of the PIBS pursuant to the Transfer.

No United Kingdom stamp duty or SDRT should be payable on the issue or transfer of the Bonds.

GENERAL INFORMATION

1. Admission of Bonds to the Official List of the UK Listing Authority

The admission of Bonds to the Official List will be expressed as a percentage of their nominal amount (excluding accrued interest). It is expected that the Bonds will be admitted for listing to the Official List and to trading on the London Stock Exchange's regulated market on or about 2 March 2011. Application has been made to the UK Listing Authority for the Bonds to be admitted to the Official List and to the London Stock Exchange for such Bonds to be admitted to trading on the London Stock Exchange's regulated market.

2. Authorisation

The issue of the Bonds has been duly authorised by resolutions of the Board of Directors of the Bank dated 31 January 2011.

3. Documents Available

Copies of the following documents will, when published, be available from the registered office of the Bank and from the specified office of the Principal Paying Agent set out at the end of this Prospectus:

- (a) the Memorandum and Articles of Association of the Bank;
- (b) the audited consolidated annual financial statements of KRBS for the financial years ended 30 September 2008 and 30 September 2009 and the unaudited consolidated interim financial statements of KRBS for the seven months ended 30 April 2010;
- (c) the Registrar Agreement for the Bonds;
- (d) the respective Trust Deeds for the Bonds; and
- (e) a copy of this Prospectus.

4. Clearing and Settlement

Bonds are held in uncertificated form in CREST and are participating securities for the purposes of the CREST Regulations.

5. Significant or Material Change

Save for the Transfer (as detailed in paragraph 6.2 of “*Description of the Bank*”), there has been no significant change in the financial or trading position of the Bank and its subsidiaries taken as a whole since the Bank’s date of incorporation (13 July 2010).

There has been no material adverse change in the prospects of the Bank since its incorporation.

6. Litigation

Neither the Bank nor any of its subsidiaries is or has been involved in any legal, governmental or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuer is aware), during a period covering at least the twelve months preceding this Prospectus which may have, or have had in the recent past, significant effects on the Bank and/or the Group’s financial position or profitability.

7. Expenses

The total expenses for the listing of this transaction are £9,250.

8. Auditors

The auditors of the Bank are KPMG Audit Plc, Chartered Accountants and Registered Auditors. Although the Bank has not yet produced audited accounts, the first audited accounts will be produced for the financial period ending on 31 December 2011 and, thereafter, annually.

The Directors’ Report and unaudited financial statements of the Bank set out in Schedule 2 have been reviewed by KPMG Audit Plc and include their report thereon and are included in this Prospectus in the form and context in which they are included, at the Issuer’s request and with the consent of KPMG Audit Plc which has authorised the contents of such report .

From 2007 to 2009 KRBS’s auditors were Ernst & Young LLP, Chartered Accountants and Registered Auditors, who have audited KRBS's consolidated annual financial statements, without qualification, for the financial years ended 30 September 2009 and 2008. For the 15 month financial period ended on 31 December 2010, KPMG Audit Plc were KRBS’s auditors and they were KRBS’s auditors up to its dissolution (following the Transfer). KPMG Audit Plc do not have a material interest in the Issuer.

9. Post-Issuance Information

The Bank does not intend to provide any post-issuance information in relation to the Bonds.

Schedule 1

Interim financial statements of Kent Reliance Building Society

Condensed consolidated interim statement of comprehensive income for the seven months ended 30 April 2010

	7 months ended 30 April 2010 unaudited £'000s	7 months ended 30 April 2009 unaudited £'000s	12 months ended 30 September 2009 audited £'000s
Net interest (expense) income	(366)	11,230	14,882
Other income and charges	54	195	269
Fair value gains and losses on financial instruments	600	(186)	1,901
Total income	288	11,239	17,052
Administrative expenses	(5,344)	(5,259)	(8,884)
Impairment losses on loans and advances:			
to customers	810	(384)	(3,250)
to banks	-	-	(423)
Provision for FSCS levies	(490)	(490)	(784)
(Loss) Profit before tax	(4,736)	5,106	3,711
Tax credit (expense)	1,326	(1,430)	(979)
(Loss) Profit after tax	(3,410)	3,676	2,732
Other comprehensive income			
Available for sale financial assets	-	-	74
Income tax relating to components of other comprehensive income	-	-	(19)
Other comprehensive (expense) income for the period, net of tax	-	-	55
Total comprehensive (expense) income for the period attributable to members	(3,410)	3,676	2,787

**Condensed consolidated interim statement of financial position
at 30 April 2010**

	30 April 2010 unaudited £'000s	30 April 2009 unaudited £'000s	30 September 2009 audited £'000s
Assets			
Liquid assets			
Cash in hand and balances with the Bank of England	289	267	260
Other liquid assets	479,624	453,897	429,450
Total liquid assets	479,913	454,164	429,710
Loans and advances to customers			
Loans fully secured on residential property	1,527,135	1,695,287	1,611,580
Other loans fully secured on land	141,733	142,495	146,716
	1,668,868	1,837,782	1,758,296
Derivative financial instruments	728	3,603	1,134
Fair value adjustments for hedged risk	56,683	73,499	63,420
Intangible fixed assets	143	214	190
Property, plant and equipment	1,676	1,879	1,805
Current tax asset	2,352	-	734
Other assets	2,232	1,164	1,650
	2,212,595	2,372,305	2,256,939
Total assets			
Liabilities			
Shares	1,834,293	2,015,378	1,875,815
Borrowings	199,373	151,863	193,356
Derivative financial instruments	60,865	78,973	68,445
Fair value adjustments for hedged risk	120	2,283	403
Current tax liability	-	563	-
Other liabilities	3,089	3,119	902
Provision for FSCS levies	1,580	1,533	1,090
Subordinated liabilities	26,825	26,855	26,703
Subscribed capital	15,066	15,034	14,957
	2,141,211	2,295,601	2,181,671
Equity			
Subscribed capital	22,079	22,056	21,944
General reserve	49,236	54,634	53,255
Available for sale reserve	69	14	69
	2,212,595	2,372,305	2,256,939
Total equity and liabilities			

**Condensed consolidated statement of changes in members' interest
for the seven months ended 30 April 2010**

7 months ended 30 April 2010 unaudited	Subscribed capital £'000s	General reserve £'000s	Available for sale reserve £'000s	Total £'000s
Balance as at 1 October 2009	21,944	53,255	69	75,268
Comprehensive (expense) income for the period	-	(3,410)	-	(3,410)
Interest on subscribed capital	-	(609)	-	(609)
Change in accrued interest on subscribed capital	135	-	-	135
	22,079	49,236	69	71,384
<hr/>				
7 months ended 30 April 2009 unaudited	Subscribed capital £'000s	General reserve £'000s	Available for sale reserve £'000s	Total £'000s
Balance as at 1 October 2008	21,919	51,567	14	73,500
Comprehensive (expense) income for the period	-	3,676	-	3,676
Interest on subscribed capital	-	(609)	-	(609)
Change in accrued interest on subscribed capital	137	-	-	137
	22,056	54,634	14	76,704
<hr/>				
12 months ended 30 September 2009 audited	Subscribed capital £'000s	General reserve £'000s	Available for sale reserve £'000s	Total £'000s
Balance as at 1 October 2008	21,919	51,567	14	73,500
Comprehensive (expense) income for the period	-	2,732	55	2,787
Interest on subscribed capital	-	(1,044)	-	(1,044)
Change in accrued interest on subscribed capital	25	-	-	25
	21,944	53,255	69	75,268
<hr/>				

**Condensed consolidated interim statement of cash flow
for the seven months ended 30 April 2010**

	7 months to 30 April 2010 unaudited £000s	7 months to 30 April 2009 unaudited £000s	12 months to 30 September 2009 audited £000s
Cash flows from operating activities			
(Loss)/Profit on ordinary activities before tax	(4,736)	5,106	3,711
Depreciation and amortisation	205	392	681
Interest paid on subordinated liabilities	711	1,004	1,553
Interest paid on subscribed capital	689	689	1,239
(Decrease)/Increase in impairment of loans and advances	(816)	385	3,187
Taxation	(56)	(2,270)	(2,957)
Cash generated from operations	(4,003)	5,306	7,414
Changes in operating assets and liabilities			
(Increase) in loans and advances to credit institutions and other customers	(24,194)	(45,198)	(1,414)
Decrease in loans and advances to customers	90,244	42,316	119,000
(Increase)/decrease in derivative financial instruments and			
fair value adjustment for portfolio hedged risk	(720)	3,569	3,709
(Increase) in other assets	(582)	(449)	(924)
(Decrease)/Increase in shares	(41,522)	267,825	128,262
(Decrease)/increase in amounts owed to credit institutions and other customers	6,017	(308,163)	(266,670)
(Decrease)/increase in provisions and other liabilities	2,677	2,094	(585)
	31,920	(38,006)	(18,622)
Cash flows from investing activities			
Purchase of property, plant and equipment	(29)	(24)	(184)
Purchase of intangible assets	-	(2)	(33)
	(29)	(26)	(217)
Cash flows from financing activities			
(Repayment) of subordinated liabilities	122	(203)	(355)
Issue of subscribed capital	244	247	58
Interest paid on subordinated liabilities	(711)	(1,004)	(1,553)
Interest paid on subscribed capital	(1,534)	(1,534)	(2,689)
	(1,879)	(2,494)	(4,539)
Net increase/(decrease) in cash and cash equivalents	26,009	(35,220)	(15,964)
Cash and cash equivalents at start of period:			
Cash in hand and balances with the Bank of England	260	209	209
Loans and advances to credit institutions repayable on demand	38,478	54,493	54,493
	38,738	54,702	54,702
Cash and cash equivalents at end of period			
Cash in hand and balances with the Bank of England	289	267	260
Loans and advances to credit institutions repayable on demand	64,458	19,215	38,478
	64,747	19,482	38,738
Cash and cash equivalents at 30 September	64,747	19,482	38,738
The Group is required to maintain interest free balances with the Bank of England which were as follows:	1,452	1,306	1,323

Notes to condensed consolidated interim financial information

For the seven months ended 30 April 2010

1. General information

These interim financial results do not constitute statutory accounts as defined in section 81A of the Building Societies Act 1986. A copy of the statutory accounts for the year to 30 September 2009 has been delivered to the FSA and the information in this report has been extracted from these statutory accounts. Those accounts have been reported on by the Group's auditors and the report of the auditors was (i) unqualified, and (ii) did not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying their report. The consolidated interim financial information for the seven months to 30 April 2010 and 30 April 2009 is unaudited and unreviewed.

2. Basis of preparation

This condensed consolidated half-yearly statement of comprehensive income for the seven months ended 30 April 2010 has been prepared in accordance with the Disclosure and Transparency Rules of the Financial Services Authority and with IAS 34, 'Interim financial reporting' as adopted by the European Union. This interim condensed consolidated financial report should be read in conjunction with the annual financial statements for the year ended 30 September 2009, which have been prepared in accordance with IFRSs as adopted by the European Union.

3. Accounting policies

Except as described below, the accounting policies applied are consistent with those of the annual financial statements for the year ended 30 September 2009, as described in those annual financial statements. Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual earnings. The following new standards and amendments to standards are mandatory for the first time for the financial period beginning 1 October 2009:

- IAS 1 (revised), 'Presentation of financial statements'. The revised standard prohibits the presentation of items of income and expenses (that is 'non-owner changes in equity') in the statement of changes in equity, requiring 'non-owner changes in equity' to be presented separately from owner changes in equity. All 'non-owner changes in equity' are required to be shown in a performance statement.
- Entities can choose whether to present one performance statement (the statement of comprehensive income) or two statements (the income statement and statement of comprehensive income).
- The Group has elected to present a single statement. The interim financial statements have been prepared under the revised disclosure requirements.
- IFRS 8, 'Operating segments'. IFRS 8 replaces IAS 14, 'Segment reporting'. It requires a 'management approach' under which segment information is presented on the same basis as that used for internal reporting purposes. The Group's geographical segment is considered solely to be England, Wales and the Channel Islands and the risks and returns from the Group's activities over this area are not materially different.

The following new standards, amendments to standards and interpretations are mandatory for the first time for the financial period beginning 1 October 2009, but are not currently relevant for the Group:

- IAS 23 (amendment), 'Borrowing costs'.
- IFRS 2 (amendment), 'Share-based payment'.
- IAS 32 (amendment), 'Financial instruments: Presentation'.
- IFRIC 13, 'Customer loyalty programmes'.

- IFRIC 15, 'Agreements for the construction of real estate'.
- IFRIC 16, 'Hedges of a net investment in a foreign operation'
- IAS 39 (amendment), 'Financial instruments: Recognition and measurement'.

The following new standards, amendments to standards and interpretations have been issued, but are not effective for the financial period beginning 1 October 2009 and have not been early adopted:

- IFRS 3 (revised), 'Business combinations' and consequential amendments to IAS 27, 'Consolidated and separate financial statements', IAS 28, 'Investments in associates' and IAS 31, 'Interests in joint ventures', effective prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009. Management is assessing the impact of the new requirements regarding acquisition accounting, consolidation and associates on the Group. The Group does not have any joint ventures.
- The revised standard continues to apply the acquisition method to business combinations, with some significant changes. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the Statement of Comprehensive Income. There is a choice on an acquisition-by-acquisition basis to measure the minority interest in the acquiree either at fair value or at the minority interest's proportionate share of the acquiree's net assets. All acquisition-related costs should be expensed. The Group will apply IFRS 3 (revised) to all business combinations from 1 April 2010.
- IFRIC 17, 'Distributions of non-cash assets to owners', effective for annual periods beginning on or after 1 July 2009. This is not currently applicable to the Group, as it has not made any non-cash distributions.
- IFRIC 18, 'Transfers of assets from customers', effective for transfer of assets received on or after 1 July 2009. This is not relevant to the Group, as it has not received any assets from customers.

4. Property, plant equipment and intangible assets

	Freehold land and buildings	Equipment fixtures and vehicles	Intangible fixed assets	Total
7 months ended 30 April 2010				
unaudited				
Opening net book amount 1 October 2009	1,102	703	190	1,995
Additions	-	29	-	29
Depreciation, amortisation and other movements	(11)	(147)	(47)	(205)
Closing net book amount 30 April 2010	1,091	585	143	1,819
7 months ended 30 April 2009				
unaudited				
Opening net book amount 1 October 2008	1,121	1,056	282	2,459
Additions	-	24	2	26
Depreciation, amortisation and other movements	(11)	(311)	(70)	(392)
Closing net book amount 30 April 2009	1,110	769	214	2,093
12 months ended 30 September 2009				
audited				
Opening net book amount 1 October 2008	1,121	1,056	282	2,459
Additions	-	184	33	217
Depreciation, amortisation and other movements	(19)	(537)	(125)	(681)
Closing net book amount 30 September 2009	1,102	703	190	1,995

5. Subordinated liabilities

	30 April 2010 unaudited £'000s	30 April 2009 unaudited £'000s	30 September 2009 audited £'000s
Linked to LIBOR (London Interbank Offered Rate):			
Floating rate Subordinated Liabilities 2015	3,006	3,004	2,997
Floating rate Subordinated Liabilities 2016	2,999	2,997	2,989
Floating rate Subordinated Liabilities 2017	5,648	5,647	5,631
Linked to the average standard mortgage rate of the five largest building societies:			
Floating rate Subordinated Liabilities 2017	5,122	5,164	5,093
Fixed rate:			
6.45% Subordinated Liabilities 2024	10,050	10,043	9,993
	26,825	26,855	26,703

Subordinated liabilities are repayable at the dates stated or earlier at the option of the society with the prior consent of the Financial Services Authority. All Subordinated Liabilities are denominated in sterling.

The rights of repayment of the holders of these issues are subordinated to the claims of all depositors, all creditors and members holding shares in the Society as regards the principal of their shares and interest due on them.

6. Subscribed capital

	30 April 2010	30 April 2009	30 September 2009
	unaudited	unaudited	audited
	£'000s	£'000s	£'000s
7.875% sterling permanent interest bearing shares	15,066	15,034	14,957
6.591% sterling permanent interest bearing shares	22,079	22,056	21,944
	37,145	37,090	36,901

The subscribed capital was issued for an indeterminate period and is only repayable in the event of the winding up of the Society. PIBS holders do not have any right to a residual interest in the Society. The 7.875% PIBS have been classified as a debt instrument whereas the 6.591% PIBS have been classified as debt because of the discretion over the payment of interest.

7. Financial Services Compensation Scheme

Based on its share of protected deposits, the Group pays levies to the Financial Services Compensation Scheme (FSCS) to enable the FSCS to meet claims against it. Since September 2008 a number of claims have been triggered against the FSCS by failed financial institutions including Bradford & Bingley, Kaupthing Singer and Friedlander (Kaupthing Edge), Icesave, Heritable Bank and London Scottish Bank.

The FSCS has met, or will meet, the claims by way of loans received from the Bank of England which have or will be replaced by loans from HM Treasury. The FSCS has, in turn, acquired rights in the realisation of the assets of the banks. The FSCS is liable to pay interest on these loans and may have a further liability if there are insufficient funds from the realisation of the assets of the banks to fully repay these loans.

To date the Group has been charged and has paid the levy for the period to 31 March 2009 - which was based on deposit balances at 31 December 2007 - amounting to £736,300 and has been charged the levy for the period to 31 March 2010 - based on deposit balances at 31 December 2008 - amounting to £769,700 which is payable on 1 September 2010 and has been provided for in these accounts.

8. Related party transactions

There had been no changes to the nature of related party transactions entered into since the last annual report. There were no material related party transactions in the seven months to 30 April 2010.

Schedule 2

OneSavings Plc¹ Directors' Report and Financial Statements

Directors' Report

The Directors present their Directors' Report and Financial Statements for the period ended 31 December 2010.

The company was incorporated as Serco 5067 Limited on 13 July 2010. It changed its name to OneSavings Ltd on 13 July 2010 and was registered as OneSavings Plc on 8 October 2010

Principal activities

The principal activity of the Company is provision of services to its parent company.

Proposed dividend

No interim dividend was paid during the period. The Directors do not propose the payment of a final dividend.

Policy and practice on payment of creditors

The Company's policy concerning the payment of suppliers for the next financial year is to agree terms of payment in advance and to make the payment in accordance with agreed terms and any other legal obligations

Directors

The Directors who served during the period were:

	Appointed	Resigned
Malcolm McCaig	2/08/2010	
Michael Lazenby	2/08/2010	
Robert Scruton	2/08/2010	
Andrew Newell	20/08/2010	
Nicholas Thompsell	13/07/2010	11/08/2010
Ruth Finch	13/07/2010	2/08/2010
Samuel Lloyd	13/07/2010	13/07/2010

By order of the Board

Robert Scruton

Director

Reliance House, Sun Pier,. Chatham, Kent ME4 4ET

¹ The Issuer changed its name to OneSavings Bank Plc on 1 February 2010.

Statement of Directors' Responsibilities in Respect of the Directors' Report and the Financial Statements

The Directors are responsible for preparing the Directors' Report and the Financial Statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare Financial Statements for each financial period. Under that law they have elected to prepare the Financial Statements in accordance with IFRSs as adopted by the EU and applicable law.

Under company law the Directors must not approve the Financial Statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these Financial Statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU; and
- prepare the Financial Statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the Financial Statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

Statement of Comprehensive Income
for the period from 13 July 2010 to 31 December 2010

	Notes	2010 £'000
Commission receivable		31.5
Operating profit		31.5
Staff cost		(22.5)
Management expenses		(8.9)
Profit before tax		0.1
Taxation		-
Profit for the period		0.1
Attributable to:		
Equity shareholders		0.1

The profit for the current financial period was derived wholly from continuing operations.

There were no other recognised items of income or expenditure during the period and so a separate statement of recognised income and expenditure has not been presented.

The Statement of Comprehensive Income is prepared on an unmodified historical cost basis.

The notes on pages 111 to 113 form part of these Financial Statements.

Statement of Financial Position

As at 31 December 2010

	Notes	2010 £'000
Current assets		
Cash		53.5
Debtors		4.8
Total assets		58.3
Current liabilities		
Creditors due under one year		8.2
Total liabilities		8.2
Equity		
Share capital		50.0
Retained earnings		0.1
Total equity		50.1
Total equity and liabilities		58.3

These Financial Statements were approved by the Board of Directors on 31 January 2011 and were signed on its behalf by:

Michael Lazenby
Director

Robert Scruton
Director

Registered number 07312896

The notes on pages 111 to 113 form part of these Financial Statements.

Statement of Changes in Equity
for the period ended 31 December 2010

	Share capital	Retained earnings	Total equity
	£'000	£'000	£'000
Balance at incorporation	50.0	-	50.0
Total comprehensive income for the period	-	0.1	0.1
Balance at 31 December 2010	50.0	0.1	50.1

Statement of Cash Flows
for the period ended 31 December 2010

	Notes	£'000
Cash flows from operating activities		
Profit for the period		0.1
Adjustments for:		
Increase in debtors	(4.8)	
Increase in creditors	8.2	
		3.4
Net cash from operating activities		3.5
Cash flows from financing activities		
Proceeds from issue of share capital		50.0
Net cash from financing activities		50.0
Net increase in cash and cash equivalents		53.5
Cash and cash equivalents at 13 July 2010		-
Cash and cash equivalents at 31 December 2010		53.5

The notes on pages 111 to 113 form part of these Financial Statements.

Notes to the Financial Statements

Accounting policies

1. OneSavings Plc (the "Company") is a company incorporated and domiciled in the UK.

a) Basis of preparation

The Financial Statements are presented in accordance with International Financial Reporting Standards (IFRSs) and its interpretations as adopted by the EU and effective as at 31 December 2010.

The accounts are presented in pounds Sterling and, except where otherwise indicated, have been rounded to the nearest thousands.

The Financial Statements have been prepared under the historical cost convention on a going concern basis.

b) Commission receivable

Commission receivable is recognised when all services have been provided.

c) Taxation

Income tax on the profits for the period comprises current tax and deferred tax. Income tax is recognised in the Statement of Comprehensive Income except where items are recognised directly in equity, in which case the associated income tax asset or liability is recognised via equity.

Current tax is the expected tax payable on the income for the period, using tax rates enacted or substantially enacted on the balance sheet date, and any adjustment to tax payable in respect of previous periods.

Deferred tax is provided using the balance sheet liability method, which recognises temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. It is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which temporary differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

d) Cash and cash equivalents

For the purpose of the cash flow statement, cash comprises cash in hand and loans and advances to credit institutions repayable on demand, and cash and cash equivalents comprise highly liquid investments that are convertible into cash with an insignificant risk of changes in value with original maturities of three months or less.

The statement of cash flow has been prepared using the indirect method.

Notes to the Financial Statements (continued)

2. Profit from operations

Profit from operations has been arrived at after charging:

	2010 £'000
Remuneration of auditors and their associates (exc. VAT)	
- Audit of the financial statements	8.9

3. Tax expense

a) Analysis of tax charge in the period

	2010 £'000
Current tax charge	
Current tax at 28%	-
Current tax	-
Income tax	-

b) Factors affecting current tax in the period

A reconciliation of the tax charge on profit before tax at the standard rate of UK corporation tax to the actual tax expense is as follows:

	2010 £'000
Profit on ordinary activities before tax	0.1
Tax calculated at standard UK tax rate of 28%	-
Income tax expense	-

4. Share capital

Issued and fully paid:

	2010 £'000
49,999 redeemable shares of £1 each	50.0
1 Ordinary share of £1	-

Notes to the Financial Statements (continued)

5. Management of share capital

	2010 £'000
Capital	
Ordinary shares	50.0
Reserves	0.1
Total	50.1

Capital is considered to be the audited reserves and ordinary share capital in issue.

Company objectives when managing capital are:

- to safeguard the entity's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders.

The Company is not subject to externally imposed capital requirements other than the minimum share capital required by the Companies Act, with which it complies.

The Company manages the capital balance in order to ensure that the internal limit is not breached.

6. Ultimate parent undertaking

OneSavings Plc is a wholly owned subsidiary of Kent Reliance Provident Society Limited. Copies of the accounts of Kent Reliance Provident Society Limited will be available from the Society's registered office: Reliance House, Sun Pier, Chatham, Kent, ME4 4ET.

Accountant's report to the Members of OneSavings Plc

We report on the financial information of OneSavings Plc set out on pages 105 to 113. This financial information has been prepared for inclusion in the prospectus dated 25 February 2011 of OneSavings Bank Plc on the basis of the accounting policies set out in paragraph 1. This report is required by paragraph 13.1 of Annex IV of the Prospectus Directive Regulation and is given for the purpose of complying with that paragraph and for no other purpose.

Respective responsibilities of Directors and Auditors

As explained more fully in the Directors' responsibilities statement set out on page 106, the Directors are responsible for the preparation of the Financial Statements and for being satisfied that they give a true and fair view.

It is our responsibility to form an opinion on the financial information and to report our opinion to you.

Save for any responsibility arising under Prospectus Rule 5.5.4R (2)(f) to any person as and to the extent there provided, to the fullest extent permitted by law we do not assume any responsibility and will not accept any liability to any other person for any loss suffered by any such other person as a result of, arising out of, or in connection with this report or our statement, required by and given solely for the purposes of complying with paragraph 16.1 of Annex IV of the Prospectus Directive Regulation, consenting to its inclusion in the prospectus

Basis of opinion

We conducted our work in accordance with Standards for Investment Reporting issued by the Auditing Practices Board in the United Kingdom. Our work included an assessment of evidence relevant to the amounts and disclosures in the financial information. It also included an assessment of the significant estimates and judgments made by those responsible for the preparation of the financial information and whether the accounting policies are appropriate to the entity's circumstances, consistently applied and adequately disclosed.

We planned and performed our work so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial information is free from material misstatement whether caused by fraud or other irregularity or error.

Opinion

In our opinion, the financial information gives, for the purposes of the prospectus dated 25 February 2011, a true and fair view of the state of affairs of OneSavings Plc as at the date stated and of its profits, cash flows and changes in equity for the period then ended in accordance with the basis of preparation set out in note 1 and in accordance with the applicable financial reporting framework as described in note 1.

Declaration

For the purposes of Prospectus Rule 5.5.4R (2)(f) we are responsible for this report as part of the prospectus and declare that we have taken all reasonable care to ensure that the information contained in this report is, to the best of our knowledge, in accordance with the facts and contains no omission likely to affect its import. This declaration is included in the prospectus in compliance with paragraph 1.2 of Annex IV of the Prospectus Directive Regulation.

Richard Gabbertas (Senior Statutory Auditor)
for and on behalf of KPMG Audit Plc, Statutory Auditor
Chartered Accountants
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