

PIBS booklet

This document contains:

- Background Information
- Terms and Conditions of the £15,000,000 7.875% Perpetual Subordinated Bonds of OneSavings 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
- Terms and Conditions of the £22,000,000 6.591% Perpetual Subordinated Bonds of OneSavings 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
- Information relating to the differences between the Permanent Interest Bearing Shares of Kent Reliance Building Society and the Perpetual Subordinated Bonds of OneSavings Plc
- Taxation Information

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KENT RELIANCE BUILDING SOCIETY
proposed transfer to
ONESAVINGS PLC

THIS DOCUMENT IS VERY IMPORTANT AND YOU SHOULD GIVE IT YOUR IMMEDIATE ATTENTION

If you are in any doubt about the action you should take, please consult your solicitor, accountant or other professional adviser.

Holders of Permanent Interest Bearing Shares should read this document in conjunction with the Transfer Document (which is being sent to all members of Kent Reliance Building Society eligible to vote at the Annual General Meeting on 19 November 2010) (the **Transfer Document**) containing information about the proposed transfer by Kent Reliance Building Society of the whole of its business, assets and liabilities to OneSavings Plc under section 97 of the Building Societies Act 1986 to which part 2 of the Mutual Societies (Transfers) Order 2009 will apply (the **Transfer**). If you were a holder of Permanent Interest Bearing Shares but have sold all of your Permanent Interest Bearing Shares and have ceased to be a member of Kent Reliance Building Society, please forward this document to the stockbroker, bank or other agent through whom the sale was effected for onward transmission to the purchaser.

Application will be made to the UK Listing Authority for the Perpetual Subordinated Bonds to be admitted to the Official List and to the London Stock Exchange plc for the Perpetual Subordinated Bonds to be admitted to trading on the London Stock Exchange plc's regulated market, and it is expected that the listing will become effective and dealings in the Perpetual Subordinated Bonds on the London Stock Exchange plc will commence within five business days following the vesting date on which the Transfer takes effect (expected to be 1 February 2011).

Dated: 13 October 2010

THE CONTENT OF THIS DOCUMENT HAS NOT BEEN APPROVED OR ENDORSED BY THE FINANCIAL SERVICES AUTHORITY.

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Part A:

Background information

The proposed Transfer

On 3 August 2010, the board of Kent Reliance Building Society (**KRBS**) announced proposals for a new structure for the business of KRBS, including the transfer of the whole of its business, assets and liabilities to a new bank to be named (subject to receiving the necessary consent from the Secretary of State) "OneSavings Bank Plc" (the **Bank**). The new structure will provide substantial new capital investment to support the business and can allow members to remain members of a mutual organisation. The decision to pursue the Transfer follows very careful and detailed consideration by the board of directors of KRBS (the **Board**) of the various strategic options available to KRBS. The Board is unanimous in agreeing that these proposals are in the best interests of KRBS and its members.

The Transfer will require the approval of KRBS eligible shareholding members and eligible borrowing members (together, the **KRBS Eligible Members**) at KRBS's Special General Meeting (**SGM**) to be held on 19 November 2010.

If the Transfer is approved by KRBS Eligible Members, subsequently confirmed by the Financial Services Authority (the **FSA**), and the Bank is granted the necessary permissions under Part IV of the Financial Services and Markets Act 2000 (as amended) to undertake its business or the parties are satisfied that this condition will be met by the Effective Date (as defined below), the Transfer will become effective through a transfer of the business, assets and liabilities of KRBS to the Bank under section 97 of the Building Societies Act 1986 and Part 2 of the Mutual Societies (Transfer) Order 2009, which is expected to take place on 1 February 2011 (the **Effective Date**).

About the Bank

On the Effective Date, KRBS will transfer its business to the Bank which will, at that stage, be a wholly-owned subsidiary of Kent Reliance Provident Society Limited (**KRPS**). Immediately

following the Transfer, OSB Holdco Limited (**JCF Holdco**), a wholly-owned subsidiary of funds advised by J.C. Flowers & Co. LLC, will provide £50,000,000 of capital to the Bank, in return for which it will receive 17,426 B ordinary shares (representing 40.1% of the ordinary share capital of the Bank) and 32,574 convertible preference shares in the Bank (subject to variation according to the procedure explained in the transfer statement contained in the Transfer Document (the **Transfer Statement**)). Following this subscription, the Bank will remain a subsidiary of KRPS, which will own over 59.9% of the ordinary shares of the Bank, although this position could be altered by future events, as described further in the Transfer Statement.

For further information on the Transfer, please refer to the Transfer Document, which is enclosed with this document, or please contact KRBS's helpline on 0845 122 1120. Lines are open 8.30am-5pm Mondays-Fridays and 9am-1pm Saturdays. Calls may be monitored and/or recorded. Calls from landline phones will be charged at local rates. However, mobile providers may charge for calls at other rates.

General information relating to conversion to Perpetual Subordinated Bonds

KRBS currently has two issues of permanent interest bearing shares outstanding:

- (a) 15,000 PIBS of £1,000 each with an interest rate of 7.875% issued on 27 August 2004 (the **2004 PIBS**); and
- (b) 22,000 PIBS of £1,000 each with an interest rate of 6.591% issued 7 March 2006 (the **2006 PIBS** and together with the 2004 PIBS, the **PIBS**).

The special conditions of issue of the PIBS provide that, upon the Transfer, the PIBS will convert into perpetual subordinated debt of the successor.

This means that, on the Effective Date, the Bank will assume a liability to each registered holder of a PIBS (a **PIBS Holder**) for a subordinated deposit equal to the principal amount of their PIBS. That deposit will automatically be applied in subscription of either perpetual subordinated bonds having an interest rate of 7.875% in respect of the 2004 PIBS (the **First Perpetual Subordinated Bonds**) or perpetual subordinated bonds having an interest rate of 6.591% in respect of the 2006 PIBS (the **Second Perpetual Subordinated Bonds** and with the First Perpetual Subordinated Bonds, the **Perpetual Subordinated Bonds**) for an amount corresponding to the principal amount of that holder's PIBS. Conversion of the PIBS into Perpetual Subordinated Bonds should not attract stamp duty.

The terms and conditions of the Perpetual Subordinated Bonds will be such as to secure their treatment as perpetual subordinated debt forming part of the Bank's tier two capital resources (as referred to in the relevant requirements of the FSA or any successor thereof). The Perpetual Subordinated Bonds will be constituted by two trust deeds (one in respect of the First Perpetual Subordinated Bonds and one in respect of the Second Perpetual Subordinated Bonds) each to be dated the Effective Date (each a **Trust Deed**) but otherwise will be on broadly similar terms to the special conditions of issue of the relevant PIBS, will carry the same rate of interest as the PIBS and will have the right to all accrued but unpaid interest on the PIBS up to the Effective Date. Like the PIBS, the Perpetual Subordinated Bonds may be held in certificated or uncertificated form at the option of the holder.

The trustee for the holders of the Perpetual Subordinated Bonds is expected to be The Law Debenture Trust Corporation p.l.c, whose registered office is at Fifth Floor, 100 Wood Street, London EC2V 7EX and who will be appointed under each of the Trust Deeds.

The Perpetual Subordinated Bonds are not being made available to anyone other than PIBS Holders prior to the Effective Date.

If the Transfer does not become effective for any reason, the PIBS will remain in place and the Perpetual Subordinated Bonds will not be issued.

The principal differences between the PIBS and the Perpetual Subordinated Bonds are summarised below.

(a) Holders of PIBS will become members of KRPS in the same way as other members of KRBS. However, in accordance with the terms on which the PIBS were issued, their PIBS will convert into Perpetual Subordinated Bonds and, therefore, they will not hold deposit accounts with the Bank. The Perpetual Subordinated Bonds will be regarded as institutional funding rather than as a customer account and so will not count towards the award of membership points. This means that, in order to meet the requirements to

become qualifying members of KRPS (which affords a right to vote and receive direct financial entitlements (**Qualifying Members**)), PIBS holders will need to comply separately with the requirements in force for becoming a Qualifying Member. Any holder of PIBS who wants to ensure that he/she remains able to vote and will be eligible for any financial benefits after the Transfer should consider opening a share account with more than £100 in KRBS so that there is no break in his/her being regarded as holding a deposit and so that where relevant his/her previous holding of PIBS can be taken into account for the award of membership points.

(b) Under the conditions of the PIBS, the Board can resolve not to pay interest or reduce the interest due in circumstances where KRBS ceases (or will cease as a result of the payment) to comply with applicable regulatory capital requirements. In addition, the conditions of the 2006 PIBS entitle the Board to resolve, in its sole discretion, not to pay interest or to reduce the interest due on the 2006 PIBS on any interest payment date (subject to notice as described in the conditions). In these circumstances, the PIBS Holder loses the right to any such cancelled interest in respect of the 2006 PIBS for the period cancelled or any interest other than the reduced amount.

Under the Perpetual Subordinated Bonds, the Bank may resolve not to pay or to reduce interest on a given interest payment date (subject to giving the bondholders 14 days' prior notice) in the same circumstances as provided under the conditions of the PIBS. However, a bondholder's right to interest under the Perpetual Subordinated Bonds is cumulative; the bondholder does not lose the right to any interest which is not paid. For so long as arrears of interest remain outstanding, the Bank will undertake not to declare or pay any dividend or other distribution on other Perpetual Subordinated Bonds or other *pari passu* or junior ranking securities (including preference shares or ordinary shares). The Bank will not be permitted to defer payments of interest on the Perpetual Subordinated Bonds on a given interest payment date if, as a result of a change of law, the Perpetual Subordinated Bonds are no longer eligible to form part of the Bank's capital resources under the relevant capital adequacy regulations.

(c) If KRBS were wound up, PIBS Holders would rank behind all creditors of KRBS and all other members holding shares (other than deferred shares). If the Bank is wound up (other than a solvent winding up), the holders of the Perpetual Subordinated Bonds 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 Perpetual Subordinated 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.

- (d) No principal or interest is payable in respect of the Perpetual Subordinated Bonds except to the extent that the Bank could make such a payment and still remain solvent immediately thereafter.
- (e) Subject to the consent of the FSA, the 2004 PIBS are redeemable in whole on 27 August 2014 and every fifth year thereafter. Subject to the consent of the FSA, the 2006 PIBS are redeemable in whole on 7 March 2016 or any interest payment date thereafter.
- (f) Subject to the consent of the FSA, the Bank will be entitled to redeem all of the Perpetual Subordinated Bonds at their principal amount on the occurrence of certain changes of law which require the Bank to pay additional amounts to ensure that holders 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.
- (g) Subject to the consent of the FSA, the Bank will be entitled to redeem (a) all of the First Perpetual Subordinated Bonds on 27 August 2014 and every fifth year thereafter; and (b) all of the Second Perpetual Subordinated Bonds on 7 March 2016 or any interest payment date thereafter.

Any arrears of interest will become due on the date the Bank is wound up (other than a solvent winding up) or where the Perpetual Subordinated Bonds are redeemed.

Part D sets out details of certain additional technical differences between the PIBS and the Perpetual Subordinated Bonds which have not been included in the summary above and Part E sets out a summary of certain UK tax consequences of the replacement of the PIBS with the Perpetual Subordinated Bonds.

PIBS Holders are shareholding members of KRBS and will be eligible to vote on the Transfer (as described in the Transfer Document) if they satisfy the voting conditions. Guidance on eligibility to vote is set out in Part C of the Transfer Document. For those investors which hold their PIBS through an account with Euroclear and/or Clearstream, Luxembourg, instead of through an account with CRESTCo Limited, such PIBS will be registered in the name of Euroclear and/or Clearstream, Luxembourg's nominee accountholder with CRESTCo Limited, who shall be the PIBS Holder for those PIBS for the purpose of the rules of KRBS and the Conditions (as defined in the Special Conditions of the 2004 PIBS and the 2006 PIBS as applicable) and not the investors holding the beneficial interests in the PIBS through Euroclear and/or Clearstream, Luxembourg. Except to the extent that an investor holding PIBS through Euroclear and/or Clearstream, Luxembourg is a member of KRBS in some other capacity, such investors in the PIBS will not directly be bound by the Building Societies Act 1986 or, as the case may be, the rules of KRBS or the memorandum of KRBS and shall not be entitled to vote in respect of such PIBS.

At a general meeting of KRBS (including the SGM), each PIBS Holder will have one vote regardless of the principal amount of PIBS held by that PIBS Holder or whether the PIBS Holder is otherwise a member of KRBS.

KRBS will appoint Equiniti Limited (the **Registrar**) to act as registrar in respect of the Perpetual Subordinated Bonds under the terms of two registrar agreements (one in respect of the First Perpetual Subordinated Bonds and one in respect of the Second Perpetual Subordinated Bonds (together the **Registrar Agreement**)) as described in the terms and conditions of the First Perpetual Subordinated Bonds and the Second Perpetual Subordinated Bonds set out in Parts B and C, respectively, of the PIBS Booklet.



Part B:

Terms and Conditions of the Perpetual Subordinated Bonds of OneSavings 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 Plc¹ (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 (the **Bondholders**) in accordance with the provisions of the Trust Deed. The Bondholders 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 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.

¹ The name of the Issuer is expected to change to "OneSavings Bank Plc" by the time of or shortly after the issue of the Bonds, subject to the Issuer obtaining Secretary of State approval to use of the word "Bank" in the Issuer's name. However, the Issuer's current name is given here.

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

I. Form, Denomination and Title

I.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.

I.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 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 Registrar Agreement. The regulations may be changed by the Issuer with the prior written approval of the Registrar. A copy of the current regulations will be mailed (free of charge) by the Registrar 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 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]² (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 (each a **Rate of Interest**), 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 £[•].³

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 £[•]⁴ 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 £[•]⁵ 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.

² 1 February 2011 is the date on which the Transfer (defined earlier in this PIBS Booklet) is expected to take place if the relevant conditions are met and the Transfer becomes effective – see Part A above.

³ An amount calculated by applying the Rate of Interest to each £1,000 principal amount of Bonds and multiplying the sum with the sum of (a) the actual number of days in the period from (and including) the Interest Commencement Date to (but excluding) [27 February] 2011 divided by (b) the number of days in the period from (and including) the Interest Commencement Date to (but excluding) [27 February] 2011 multiplied by two.

⁴ An amount calculated for the period from and including the interest payment date in respect of the PIBS immediately preceding the Interest Commencement Date to but excluding the Interest Commencement Date in accordance with their terms and will be inserted in the Conditions prior to the issue of the Perpetual Subordinated Bonds.

⁵ An amount, being the aggregate of the amounts payable pursuant to Conditions 4.1(a) and 4.1(b) on the First Interest Payment Date, will be inserted into the Conditions prior to the issue of the Perpetual Subordinated Bonds.

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

ten 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 Agent 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 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;
- (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 in the United Kingdom; or
- (d) 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
- (e) 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 or on the date of publication or, if so published more than once or on different dates, on the date of the first publication. 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 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 there 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 considered by the Trustee to be 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.

Part C: Terms and Conditions of the Perpetual Subordinated Bonds of OneSavings 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 Plc¹ (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 (the **Bondholders**) in accordance with the provisions of the Trust Deed. The Bondholders 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 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.

¹ The name of the Issuer is expected to change to "OneSavings Bank Plc" by the time of or shortly after the issue of the Bonds, subject to the Issuer obtaining Secretary of State approval to use of the word "Bank" in the Issuer's name. However, the Issuer's current name is given here.

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

I. Form, Denomination and Title

I.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.

I.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 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 Registrar Agreement. The regulations may be changed by the Issuer with the prior written approval of the Registrar. A copy of the current regulations will be mailed (free of charge) by the Registrar 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 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]² (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 (each a **Rate of Interest**), 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 £[•].³

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 £[•]⁴ 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 £[•]⁵ 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

² 1 February 2011 is the date on which the Transfer (defined earlier in this PIBS Booklet) is expected to take place if the relevant conditions are met and the Transfer becomes effective – see Part A above.

³ An amount calculated by applying the Rate of Interest to each £1,000 principal amount of Bonds and multiplying the sum with the sum of (a) the actual number of days in the period from (and including) the Interest Commencement Date to (but excluding) [7 March] 2011 divided by (b) the number of days in the period from (and including) the Interest Commencement Date to (but excluding) [7 March] 2011 multiplied by two

⁴ An amount calculated for the period from and including the interest payment date in respect of the PIBS immediately preceding the Interest Commencement Date to but excluding the Interest Commencement Date in accordance with their terms and will be inserted in the Conditions prior to the issue of the Perpetual Subordinated Bonds.

⁵ Be an amount, being the aggregate of the amounts payable pursuant to Conditions 4.1(a) and 4.1(b) on the First Interest Payment Date, will be inserted into the Conditions prior to the issue of the Perpetual Subordinated Bonds.

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

ten 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 Agent 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 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 of 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;
- (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 in the United Kingdom; or
- (d) 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
- (e) 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 or on the date of publication or, if so published more than once or on different dates, on the date of the first publication. 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 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 there 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 considered by the Trustee to be 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.

Part D:

Additional differences between the PIBS and the Perpetual Subordinated Bonds

A summary of the principal commercial differences between the PIBS and the Perpetual Subordinated Bonds is set out above in Part A. Further, more technical, differences are summarised below.

1. In contrast to the PIBS, the Perpetual Subordinated Bonds will be constituted by the trust deed which is expected to be made between the Bank and The Law Debenture Trust Corporation p.l.c. as trustee (the **Trust Deed**). In accordance with general practice where a trustee for bondholders has been appointed, the trustee may, in various circumstances, act without the consent of the holders of the Perpetual Subordinated Bonds. For example, the trustee may bring proceedings to wind up the Bank and prove in such winding up if it does not make any required payment in respect of the Perpetual Subordinated Bonds within a specified time and the trustee may also agree, at the request of the Bank, to the substitution, as principal debtor under the Perpetual Subordinated Bonds, of a holding company, a subsidiary or a successor in business of the Bank, subject to certain conditions. In addition, certain restrictions are imposed on holders of the Perpetual Subordinated Bonds. For example, such a holder may not generally bring proceedings against the Bank unless the trustee fails to take proceedings in accordance with the requirements of the Trust Deed.
2. The special conditions of issue of the PIBS may only be varied by KRBS either (a) with the consent in writing of the holders of not less than three-quarters in principal amount

of the PIBS for the time being outstanding or (b) with the sanction of a resolution passed at a separate meeting of the PIBS holders of not less than one-third in principal amount of the PIBS outstanding by a majority of not less than three-quarters in principal amount of such holder(s) who vote in person or by proxy at such meeting. In respect of the Perpetual Subordinated Bonds, the trustee may, without the consent of the holders of the Perpetual Subordinated Bonds, agree to the waiver or authorisation of any breach (or proposed breach) of the Perpetual Subordinated Bonds or the provisions of the Trust Deed which, in the opinion of the trustee, is not materially prejudicial to the interest of the holders of the Perpetual Subordinated Bonds. The trustee may also, without the consent of the holders of the Perpetual Subordinated Bonds, agree to any modification of the Perpetual Subordinated Bonds or the provisions of the Trust Deed which, in the opinion of the trustee, is not materially prejudicial to the interests of the holders of the Perpetual Subordinated Bonds or which, in the opinion of the trustee, is of a formal, minor or technical nature or is made to correct a manifest error.

3. For a meeting of PIBS holders held to vary the conditions of issue of the PIBS, the quorum is one or more persons present in person or by proxy and holding or representing at least one-third in principal amount of the PIBS for the time being outstanding. The quorum at a meeting of the holders of the Perpetual Subordinated Bonds for passing an extraordinary resolution to modify the Perpetual Subordinated Bonds or the provisions of the Trust Deed

will be one or more persons holding or representing a clear majority in nominal amount of the Perpetual Subordinated Bonds outstanding or; at any adjourned meeting, one or more persons being or representing holders of Perpetual Subordinated Bonds, whatever the nominal amount of the Perpetual Subordinated Bonds so held or represented, except that at any meeting the business of which includes the modification of certain provisions of the Perpetual Subordinated 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 meeting, not less than one-third, in nominal amount of the Perpetual Subordinated Bonds for the time being outstanding.

4. In respect of the PIBS, any amount representing principal of or interest on a PIBS in respect of which no cheque or warrant has been cashed and no payment claimed shall ceased to be payable after 12 years from the due date and shall revert to KRBS. In each case, the period of years will normally run from the date on which such payment first became due.

Part E:

Holders of PIBS and Perpetual Subordinated Bonds and United Kingdom Taxation

This summary is included only as a general guide and is based on KRBS's and 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 Perpetual Subordinated 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.

I. Interest on the Perpetual Subordinated Bonds

I.1 Payment of interest on the Perpetual Subordinated Bonds

Payments of interest on the Perpetual Subordinated Bonds may be made without deduction of or withholding on account of United Kingdom income tax provided that the Perpetual Subordinated Bonds continue to be listed on a 'recognised stock exchange' within the meaning of section 1005 of the Income Tax Act 2007 (**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 Perpetual Subordinated Bonds remain so listed, interest on the Perpetual Subordinated Bonds will be payable without deduction of or withholding on account of United Kingdom tax.

Interest on the Perpetual Subordinated 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 Perpetual Subordinated 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 Perpetual Subordinated 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 Perpetual Subordinated 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 Perpetual Subordinated 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 Perpetual Subordinated 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.

2. 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, Belgium, Luxembourg and Austria are instead required (unless during that period they elect otherwise) to operate a withholding system in relation to such payments (the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries). A number of non-EU countries and territories including Switzerland have adopted similar measures (a withholding system in the case of Switzerland).

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.

2.1 Further United Kingdom Income Tax Issues

Interest on the Perpetual Subordinated 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 Perpetual Subordinated 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 Perpetual Subordinated 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 Perpetual Subordinated 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 Perpetual Subordinated Bonds.

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

Individuals

On the basis 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 UK 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.

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

Individuals

The Perpetual Subordinated 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 Perpetual Subordinated Bond who is an individual should not give rise to a chargeable gain or an allowable loss for the purposes of the UK taxation of chargeable gains.

On a disposal of Perpetual Subordinated 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 Perpetual Subordinated 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.

2.4 United Kingdom Corporation Tax Payers

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

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

No United Kingdom stamp duty or SDRT is 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 Perpetual Subordinated Bonds.

