



2009

KENT RELIANCE BUILDING SOCIETY
SUMMARY FINANCIAL STATEMENT

Summary financial statement

The directors have pleasure in presenting the summary financial statement of the Group for the year ended 30 September 2009.

This financial statement is a summary of information in the audited annual accounts, the directors' report and annual business statement, all of which will be available to members and depositors free of charge on demand from the Kent Reliance Building Society Head Office from 11 January 2010 and will be available to download from our website from 4 January 2010.

The summary financial statement was approved by the Board of Directors on 24 November 2009.

M S Mackenzie
A Newell
M J Lazenby

Chairman
Audit Committee Chairman
Chief Executive

Summary directors' report 2009

The year to 30 September 2009 has been a period of volatility and economic disruption which has affected the financial services market in general and the building society sector in particular. Despite the continuing and unpredictable effects of the global credit crunch, the main objectives of the Society have been met, in that efficiency has improved, relative costs have reduced and a profit has been achieved, albeit at a lower level than in recent years.

Total assets decreased by 4% in the year and now stand at £2.26 billion. Mortgage assets at the year end were £1.76 billion – a decrease of £123 million over the previous year end – which is in line with the board's policy of consolidation as a response to the difficult market currently experienced. The quality of assets generally has remained at a very high standard. The Society has avoided the types of loan associated with the sub prime market and has no toxic debt. Growth over the years has been managed and was purely organic rather than purchasing mortgage loans like some other institutions have done. Nevertheless, in the very difficult trading circumstances that existed during the year, the Society has made higher provisions on certain of its loans. The actual losses incurred as a result of bad debts have been insignificant to date and even the provision for impairment this year of £3.25 million represents just 0.18% of total mortgage balances. While the costs of doing business are increasing and margins are under extreme pressure, new business has been achieved at satisfactory rates.

Over the past few years the prime objectives have been to reduce costs and improve efficiency while

building long term value for members. We have pursued greater efficiency and reduced relative costs in order to be able to operate on a finer interest margin which has enabled the Society to face the financial crisis with confidence. The burden of the financial call from the Financial Services Compensation Scheme has placed a large charge against current and future profits on those financial institutions that have been able to follow a more prudent path. Building societies in particular are historically very safe places with much lower risk profiles and a different drive in serving the interests of members not external shareholders. It is all the more disappointing therefore to be subsidising the high risk strategies of some financial institutions that got it so badly wrong that they could no longer exist. The heavy cost of bailing out these failed businesses, combined with the continuing increase in the level of regulation creates its own set of cost pressures. Our Society is well placed to face these challenges because of the way that cost savings and efficiencies have been achieved and although the cost of funding other people's mistakes is high, it is affordable.

We have continued to invest in technology, to process re-engineer the business and to capitalise upon the investment in our India based subsidiary companies. As a consequence we are able to process back office work faster, more efficiently, with more flexibility and at lower cost than is possible in the UK and the results are evident from these accounts. Our relative costs have again reduced, the Society remains in good shape and we expect to move forward with confidence.

The review of the Society's operations continues. The franchise of the branch network to agents has proved very successful. Business volumes have remained good where historically they had been in decline. Some of our agents understandably have faced cost and business pressures in the aftermath of the credit crunch and we have co-operated with them to enable them to continue to operate in the high street for as long as there is a viable option to meet the demand for face to face service. That said, member service is our priority and where there is a clear need we have not been afraid to step in. This happened during the year when we took back the Chatham High Street agency as a branch rather than allow it to close.

We are convinced that the local and focused management afforded by our remaining agent partners has had a significant beneficial impact upon the business levels and quality of service. In addition to the Chatham High Street branch, we have one long standing branch at Hempstead Valley and it continues to be our aspiration to relocate that branch to more suitable premises and eventually to transfer both this and the Chatham branch to agency arrangements, if suitable agent partners can be found. The transfers undertaken thus far have ensured that member access to local services is maintained for those that wish to do business in the high street, while enabling cost savings through shared use of premises. This strategy means that those members who do not use the branches and the agencies are not cross subsidising those that do.

It is notable that more and more people are choosing to do business through direct channels and certainly that is where the majority of new business has been in the past year. Over the course of the next few years it is expected that the internet will become the channel of choice for many customers and so the Society will develop and enhance our internet based service to complement the existing ways of doing business in the high street, by mail and by telephone.

This year saw the eighth consecutive reduction in the management expense ratio from 41p last year to 39p per £100 of assets as a result of the process changes, re-engineering and outsourcing initiatives. No other UK building society has a lower expense ratio, based on published information available at the end of September 2009.

The Society's business in the Channel Islands enjoyed another satisfactory year although, as indicated in the 2008 annual report, the board decided that because of

the pressure on retail deposits to fund new mortgage lending, the Society would focus on UK lending in the short term. The combination of these low levels of new lending and the natural profile of repayments and redemptions has resulted in total mortgage balances decreasing by 13% to £750 million. The Society has no formal presence on the islands of Jersey and Guernsey to manage this mortgage portfolio. All the customers are serviced from the Society's offices in Chatham and Bangalore.

The Society remains committed to local initiatives alongside its wider developments. In addition to a special mortgage scheme for key NHS workers, the Society offers affinity accounts for Charlton Athletic and Gillingham Football Clubs and Kent County Cricket Club. These accounts offer an attractive rate of interest while giving the Clubs a commission based upon the cumulative balances. Nationally, the Society is providing shared ownership loans for people with learning disabilities. The scheme is run in conjunction with Government agencies and local authorities.

The Society featured regularly throughout the year in the media and particularly in national press 'best buy' tables for both its investment and mortgage products. In addition, the Society continued to win awards: in 2009 the Society was voted Best Cash ISA Provider by 'What Investment' for the third year running and was judged to have the Best Shared Ownership Product by 'What Mortgage'.

The board is mindful that the market in which the Society operates is very difficult and therefore opportunities to develop other strategic options will be considered as they emerge, subject to the interests of members and other stakeholders being upheld.

The performance of the Society in these unprecedented times is likely to be better than many of our peers. Progress has been made in many areas, with increased efficiency, good performance of the business operations and the further development of the offshore operations in India. This is through our subsidiary Easiprocess in Bangalore, predominantly servicing the needs of the Society back office and the establishment of EasiOption in Pune which has been formed to cater for the third party market. Already, our India operations are providing support services to a leading Jamaican building society, a London based legal firm and also for a Sharia compliant cash card issued by MasterCard. As the credit crisis deepens, we expect more companies to search for ways to reduce their back office administrative costs and EasiOption is ideally placed to help.

Results of the Group for the year

	2009	2008
	£'000s	£'000s
Net interest receivable	13,432	18,580
Gain on repayment of subordinated debt	–	8,550
Other income and charges	269	1,273
Fair value gains and losses	1,901	(1,382)
Administrative expenses	(8,884)	(9,260)
Impairment losses	(4,457)	(5,158)
Profit for the year before taxation	2,261	12,603
Taxation	(573)	(3,666)
Profit for the year	1,688	8,937

Financial position of the Group at the end of the year

Assets		
Liquid assets	429,710	444,186
Mortgages	1,611,580	1,784,871
Other loans	146,716	95,612
Derivative financial instruments	1,134	5,338
Fixed and other assets	67,799	9,914
Total assets	2,256,939	2,339,921
Liabilities		
Shares	1,875,815	1,747,553
Borrowings	193,356	460,026
Derivative financial instruments	68,445	12,662
Other liabilities	2,395	4,198
Subordinated liabilities	26,703	27,058
Subscribed capital	36,901	36,843
Reserves	53,324	51,581
Total liabilities	2,256,939	2,339,921

Summary of key financial ratios

	30 Sept 2009	30 Sept 2008
	%	%
Gross capital as a percentage of shares and borrowings	5.65	5.23
Liquid assets as a percentage of shares and borrowings	20.77	20.12
Profit for the year as a percentage of mean total assets	0.07	0.40
Management expenses as a percentage of mean total assets	0.39	0.41

The **gross capital** ratio measures the proportion which the Group's capital bears to the Group's liabilities to shareholders and borrowers. The Group's capital consists of profits accumulated over many years in the form of reserves, subscribed capital and subordinated liabilities. Capital provides a financial cushion against difficulties which might arise in the Group's business and therefore protects investors.

The **liquid assets** ratio measures the proportion of investors' funds which are held in the form of cash, short term deposits and marketable securities. Liquid assets are generally realisable, enabling the Group to meet requests by investors for withdrawals from their accounts, to make new mortgage loans and to fund its general business activities.

The **profit/mean total assets** ratio measures the proportion which the profit after taxation for the year bears to the average of total assets at the start and end of the year. The Group needs to make a reasonable level of profit each year in order to maintain its capital at a suitable level to protect investors.

The **management expenses/mean total assets** ratio measures the proportion which the Group's administrative expenses bears to the average of total assets at the start and end of the year.

Statement of the independent auditors to the members and depositors of Kent Reliance Building Society

Pursuant to Section 76 of the Building Societies Act 1986, we have examined the summary financial statement of Kent Reliance Building Society set out on pages 1 to 3.

This report is made solely to the members and depositors of Kent Reliance Building Society, both as a body, in accordance with Section 76 of the Building Societies Act 1986. Our examination has been undertaken so that we might state to the Society's members and depositors those matters we are required to state in an auditor's statement and for no other purpose. To the fullest extent permitted by law, we do not accept responsibility to anyone other than the Society and the Society's members and depositors, both as a body, for our examination, for this statement, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the summary financial statement, in accordance with applicable United Kingdom law.

Our responsibility is to report to you our opinion on the consistency of the summary financial statement, with the annual accounts, annual business statement

and director's report and its conformity with the relevant requirements of Section 76 of the Building Societies Act 1986 and regulations made under it. We also read the other information contained in the summary financial statement and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the summary financial statement.

Basis of Opinion

We conducted our work in accordance with Bulletin 1999/6 'The auditors' statement on the summary financial statements issued by the Auditing Practices Board for use in the United Kingdom. Our report on the Group's full accounts describes the basis of our audit opinion on those annual accounts.

Opinion

In our opinion the summary financial statement is consistent with the full annual accounts, the annual business statement and directors' report of Kent Reliance Building Society for the year ended 30 September 2009 and complies with the applicable requirements of Section 76 of the Building Societies Act 1986 and regulations made under it.

Ernst & Young LLP
Registered Auditors
London
24 November 2009

Directors' remuneration report

Introduction

The purposes of this report are to inform members about the board's policy for the remuneration of the Group's executive team and its non-executive directors, explain the process for setting directors' remuneration and how the Society applies the principles of the Combined Code. **The Combined Code was developed by the Committee on Corporate Governance for listed companies: details can be downloaded from the Financial Reporting Council website www.frc.org.uk.**

Remuneration of Group's Executive Management Team

The remuneration of each executive director is set out in note 7 to the annual report and accounts.

Executive management remuneration comprises a number of elements: basic salary, annual and medium term incentive scheme and contributions to the Group pension scheme:

- ◆ Basic salary is determined by levels of responsibility, external market competitiveness and individual performance in the role. The Group's policy is to position salaries so that on average, they are in line with salary packages for comparable positions in similarly performing financial institutions taking account of the fact that no benefits in kind – such as company cars and private medical insurance – are enjoyed by the Society's employees;
- ◆ Annual and medium term bonus incentives are paid at the discretion of the board and incentives, when appropriate, are determined according to success in the delivery of corporate and individual objectives;
- ◆ Each of the executive management team is a member of the Society's contributory defined contribution pension scheme;
- ◆ Standard contractual terms for executive level appointments include notice periods of between 6 and 12 months.

Specific remuneration and terms and conditions of employment of members of the executive management team are determined annually by the board on the basis of recommendations by the remuneration committee. The committee ensures that the Group's policy remains appropriate to attract, motivate and retain high calibre executives with the

skills and experience needed to lead a business of this nature and complexity, and develop it for the long term benefit of members.

The remuneration committee comprises three non-executive directors as set out in the directors' report with attendance by the chief executive as appropriate. The chief executive withdraws from the meeting when his own remuneration is considered. The committee is provided with executive remuneration and benefits data from comparative organisations across the financial services industry and building society sector and procures such other relevant data from independent expert sources as appropriate.

Non-executive directors' fees

Fees for each non-executive director are set out in note 7 to the annual report and accounts. Non-executive directors are remunerated solely by fees. They do not receive any salary, bonus incentives, pension contribution or other taxable benefit.

The Group's policy is to position fees so that they are in line with fees paid by similarly performing financial services organisations. Enhanced fees are paid to the chairmen of the board and board committees commensurate with the additional responsibilities inherent in these roles.

Fees are determined annually by the board on the basis of recommendations by the remuneration committee. The committee is provided with fee data from comparative organisations across the financial services industry and building society sector and procures such other relevant data from independent expert sources as appropriate.

In summary

This report, together with the disclosures in note 7 to the annual report and accounts (and set out in the table opposite), is provided to give members a full explanation of the policy and application of directors' remuneration. A resolution will be put to the Annual General Meeting, inviting members to vote on the directors' remuneration report. The vote is advisory and the board will carefully consider the outcome of the vote.

David Kemp
Chairman of the Remuneration Committee
24 November 2009

Directors' emoluments

	Salary & fees £'000	Bonus £'000	Other benefits £'000	Contribution to personal pension policy £'000	Total £'000
Executive directors' emoluments - 2009					
M J Lazenby	382	77	-	76	535
R D Procter	240	49	-	48	337
R Scruton	240	49	-	48	337
Total executive emoluments	862	175	-	172	1,209

Executive directors' emoluments - 2008

M J Lazenby	368	52	-	61	481
R D Procter	231	33	-	38	302
R Scruton	231	33	-	38	302
Total executive emoluments	830	118	-	137	1,085

2009 2008

Non-executive directors' emoluments

M S Mackenzie (Chairman)				58	55
C J Byrne (to 31 March 2009)				19	39
D S Kemp				46	43
Mrs V Marshall (from 26 February 08 to 31 March 09)				19	25
M G McCaig (from 24 March 09)				22	-
Mrs A S Nelson				38	37
A Newell				48	46
P R Williams (from 1 July 2009)				10	-
Total non-executive emoluments				260	245

Board and Management

Board of Directors

Malcolm Mackenzie BA
 David Kemp
 Mike Lazenby FCIB, FRSA
 Malcolm McCaig BSc,
 MCMI, MIBC, CMC
 Anne-Marie Nelson CBE, DL, MA
 Andrew Newell MBA, FCIB

Rob Procter BA, FCIB, FRSA
 Bob Scruton MSc, FCA, FRSA
 Peter Williams BA, MSc, PhD

Chairman
 Vice Chairman
 Chief Executive
 Risk Committee
 Chairman
 Audit Committee
 Chairman

Executive Team

Mike Lazenby FCIB, FRSA
 Yogesh Agarwal MBA
 Les Davies FMAAT
 Rob Procter BA, FCIB, FRSA
 Bob Scruton MSc, FCA, FRSA

Chief Executive
 M.D. of Easiprocess
 Private Limited
 Head of Treasury
 Deputy Chief Executive
 Finance Director



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