MMIX

KENT RELIANCE BUILDING SOCIETY

REPORT AND ACCOUNTS 2009

Kent Reliance Building Society currently sponsor both Charlton Athletic and Gillingham Football Clubs who met for a League One match in October at the KRBS Priestfield Stadium.

Photograph courtesy of Keith Slater.

Contents

Board and Management

Board of Directors

Malcolm Mackenzie BA
Chairman

David Kemp
Vice Chairman and Mortgage Committee Chairman

Mike Lazenby FCIB, FRSA
Chief Executive

Malcolm McCaig BSc, MCMI, MIBC, CMC
Risk Committee Chairman

Anne-Marie Nelson CBE, DL, MA

Andrew Newell MBA, FCIB
Audit Committee Chairman

Rob Procter BA, FCIB, FRSA

Bob Scruton MSc, FCA, FRSA

Peter Williams BA, MSc, PhD

Executive Team

Mike Lazenby FCIB, FRSA
Chief Executive

Yogesh Agarwal MBA
Managing Director of Easiprocess Private Limited

Les Davies FMAAT
Head of Treasury

Rob Procter BA, FCIB, FRSA
Deputy Chief Executive

Bob Scruton MSc, FCA, FRSA
Finance Director

In my report to you last year I commented upon the unprecedented events which had caused significant damage to the global financial markets. Financial turbulence continued to take its toll over the last twelve months and while governments and central banks throughout the world have responded with significant support for the large financial organisations the positive signs – in the UK at least – are still small enough to prompt debate over whether the recession is over or not.

The meltdown of credit markets and the collapse of established banking organisations has resulted in the restructuring of major banking institutions worldwide and the partial nationalisation of a significant proportion of the UK banking system. This has dramatically changed the financial landscape in which the Society currently operates. The effect of all of this on competitiveness is far from clear. The state funded banks now seem to have an unfair advantage and together with the Government, with its own growing need for borrowing, will be major competitors for the retail funds which building societies have traditionally relied on to fund mortgage lending.

As a building society our priority is to serve our members and we recognise that the low interest rate environment, over which we have no control, presents real challenges for many and hardship for those on limited and fixed incomes. Our challenge remains to try to balance the needs of our savers and our borrowers but this has not been easy and there are no signs of improvement in the short term. We also have to be prepared to accept much lower profits for the foreseeable future as a consequence of very low interest rates and the delayed effects of the recession which may see many more people losing their jobs and therefore unable to meet their mortgage payments. We believe that it is important to be sympathetic to those who have been financially stretched by loss of employment and indeed we are increasingly obliged to do so legally. In the light of the emerging and potentially more uncertain economic conditions we have undertaken a detailed review of our commercial lending exposures and as a result have increased some of our impairment provisions for bad and doubtful debts, although our hope and expectation is that we will be able to reduce these provisions as the economy recovers.

The fair treatment of investors and borrowers continues to be a cornerstone of our approach to business and so we are fully supportive of the Financial Services Authority's (FSA) ongoing *Treating Customers Fairly* initiative. During the year the management information received by the board has been enhanced to ensure that we can monitor our performance in this area.

A substantial charge against our profits this year has been a further contribution to the Financial Services Compensation Scheme (FSCS). Although it is disappointing that we are being called upon to help pay for the failure of other financial institutions which lost their way, we recognise the importance of such a scheme and we remain fully supportive of it. Last year, we were able to partially offset the effects of the adverse financial climate by re-engineering our capital position but this year the full impact of the FSCS levy, a significant impairment charge and the greatly reduced margin have had to be borne from our trading income. Fortunately we have been able to rely upon the improved efficiencies and reduced costs enabled by our India operations. Against the adverse environment we have been able to achieve a small profit which underlines the resilience of our business model.

Despite the challenging trading conditions our staff have worked harder than ever and their tremendous commitment is gratefully acknowledged by the board. I am grateful too for the continuing support of our members and I pay tribute to my board colleagues who serve the Society so well.

Over the last year the Society has developed further our India operations with the establishment of a second company to complement the existing Bangalore based Easiprocess back office operation. The new company, EasiOption is sited in Pune and will serve as the main focus for third party work in the future. The office will also offer robust disaster contingency for both the Bangalore based business and the UK office. We remain convinced that the India operations will be a critical part of the Society's future, not just to enable reduced relative costs and improved efficiency but also as a source of non-lending related fee income. Easiprocess continues

Chairman's statement

to provide services to a Jamaican based mutual building society, telephone support for a Sharia compliant cash card operated in conjunction with MasterCard and during this year started providing services to a UK based legal firm. Profit that we generate from third party services is reinvested in the business to directly benefit members.

In the present very difficult market we have preserved our resources and concentrated upon serving our existing members rather than pursuing growth. We are mindful of the need to generate sufficient internal capital for prudential reasons and as a building society we are restricted in the way that we can do this, primarily by increasing profit and in the current climate that has not been easy. For that reason we will continue to restrain growth until such time as we can increase our capital base and that may mean lower profits for some years to come. In recognition of this our executive team have agreed to waive (not defer like other institutions) all future bonus payments until further notice and non-executive members of the board have accepted a reduction of 10% in their board fees. The impact of these changes will be seen in the 2009/10 accounts.

During the year we saw several board changes as part of our programme of refreshment of the Society board. Valerie Marshall stepped down and we thank her for her service to the Society. Malcolm McCaig and Peter Williams joined the board and both bring with them significant expertise that will be invaluable as we continue to negotiate the after shock of the global financial meltdown.

Despite the challenges the Group remains nearly six times the size it was in 2001 when it had a management expense ratio of 1.40% compared to an expense ratio today of just 0.39% – the lowest published ratio in the building society industry. Over this period the Society has sustained the fastest growth and the fastest reducing relative cost of any UK building society. It is rated a top tier Society in the KPMG 2009 analysis of building societies. We have no exposure to toxic loans and we have not engaged in lending to those people who could never have afforded to repay their debts – often referred to as 'sub prime' borrowers.

Our Channel Islands subsidiaries continue to perform very well in the domestic mortgage markets of Guernsey and Jersey. It remains a disappointment that we have been unable to secure a deposit taking licence on Jersey, but both operations are generating positive value for the Society which directly benefits members.

Our strategy continues to be to drive down relative costs and control real costs while at the same time continuing to run the business in a prudent manner. The low cost operating model developed over the last five years provides a sound basis to negotiate our way through the difficulties ahead in the global financial markets and we will continue to offer a safe haven for investors. The highly regulated industry in which we operate makes the business of lending money for the purposes of buying a home increasingly onerous and much more expensive, but we will continue to adopt a prudent approach offering long term real value to members.

During the year we maintained our shirt sponsorship of Gillingham Football Club and we signed up Charlton Athletic Football Club. Both sponsorships have offered excellent value in media and marketing terms with opportunities to work with both clubs in their local communities. We also engaged with Kent County Cricket Club again this year. We continued our work in our local communities of Kent and the Indian State of Karnataka. In Kent, we remained a supporter of the Kent Sports Development Unit, and continued to support the local schools walking bus initiative and Kent Air Ambulance. In India, we are working on two child related initiatives. In Bangalore we are helping the SOS Children's Villages to provide homes for children that may otherwise be homeless and harmed physically and mentally. In Mangalore we are helping to fund a home run by Y Care International for children who are affected by HIV. We have launched a programme called Quid 4 a kid and during the coming year we hope to be able to provide a new home for these little children. In response to member requests, we became carbon neutral several years ago and we continue to be so.

In summary our Society has encountered some very difficult trading conditions but we are focused upon remaining true to our purpose of helping people to buy homes and offering a secure place to invest while supporting the communities in which we operate.

Malcolm Mackenzie
Chairman

Malcolm Mackenzie
Chairman

"Kent Reliance is rated a top tier Society in the KPMG 2009 analysis of building societies."

The directors are pleased to present their annual report and accounts for the year ended 30 September 2009.

Directors' report

Business review and future developments

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.

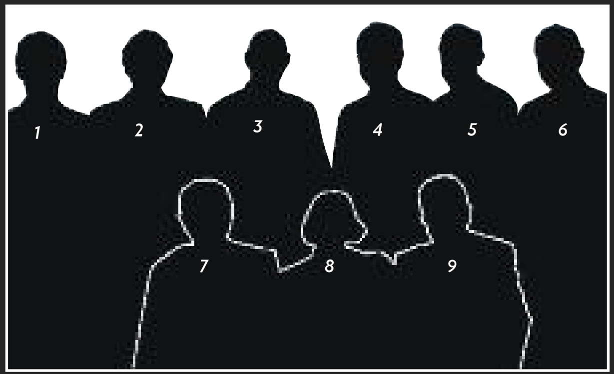
Total assets decreased by 4% in the year and now stand at £2.26 billion. Mortgage assets at the year end were £1.76 billion – a decrease of £123 million over the previous year end – which is in line with the board's policy of consolidation as a response to the difficult market currently experienced. 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 costs 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 and the Society remains in good shape and we expect to move forward with confidence.

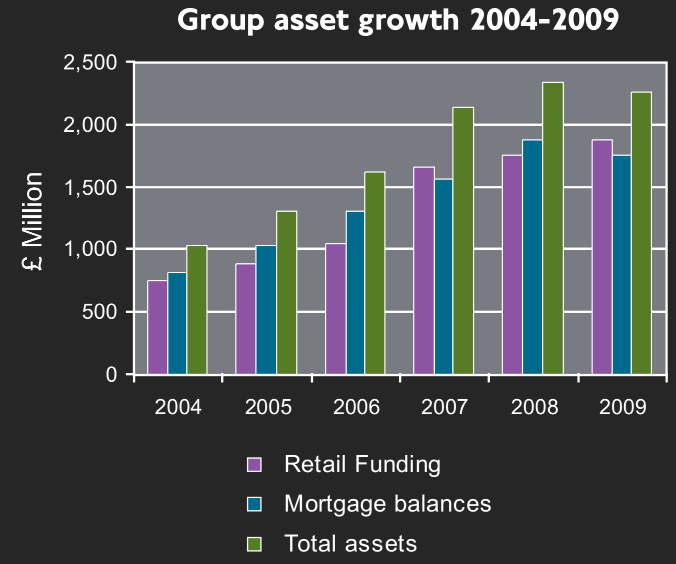
The review of the Society's operations continues. The franchise of the branch network to agents has proved very successful. Business volumes have remained good where historically they had been in decline. Some of our agents understandably have faced cost and business pressures in the aftermath of the 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.

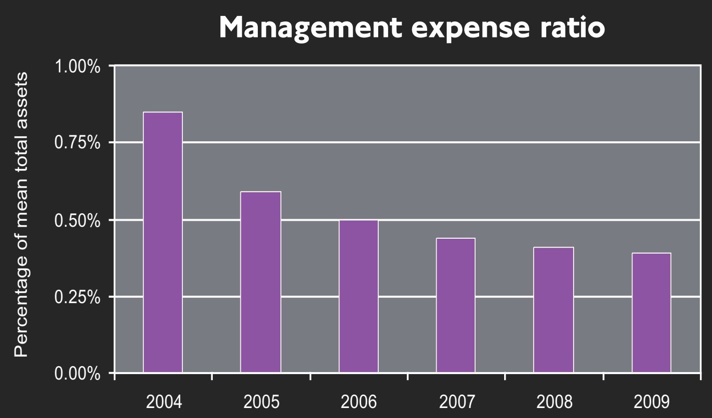
We are convinced that the local and focused management afforded by our remaining agent partners has had a significant beneficial impact upon the business levels and quality of service. In addition to the Chatham High Street branch, we have one long standing branch at Hempstead Valley and it continues 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.



1. Mike Lazenby, 2. Peter Williams, 3. Malcolm Mackenzie, 4. David Kemp, 5. Bob Scruton, 6. Rob Procter, 7. Malcolm McCaig, 8. Anne-Marie Nelson, 9. Andrew Newell.

> 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.





It is notable that more and more people are choosing to do business through direct channels and certainly that is where the majority of the 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. In order to accommodate changes to Jersey and Guernsey tax laws it has been necessary to form new subsidiaries, registered on the islands: Jersey Home Loans Limited, three years ago and Guernsey Home Loans Limited last year. That is why there are two Jersey Home Loan and two Guernsey Home Loan subsidiaries appearing in these accounts.

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 further development of the offshore operations in India through our subsidiary Easiprocess, 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.

Review of the year

The board monitors a number of indicators of financial and other performance on a regular basis. This review deals with those which are critical to commercial success. The table below sets out a five year history of the key performance indicators used by the board to measure success. These and other important factors are considered in more detail below.

Group key performance indicator	2005	2006	2007	2008	2009	Latest comparable external data (see note below)
As a percentage of mean total assets						
Net interest margin	0.91%	0.83%	0.73%	0.83%	**0.58%**	0.88%
Management expense ratio	0.59%	0.50%	0.44%	0.41%	**0.39%**	0.86%
Profit after tax	0.24%	0.29%	0.21%	0.40%	**0.07%**	0.00%
Increase/(decrease) over the previous year as a percentage						
Total assets	25.97%	24.64%	31.86%	9.64%	**(3.55%)**	8.62%
Profit after tax	58.55%	47.19%	(4.40%)	124.66%	**(81.11%)**	(102.32%)

note *External data is average of the top 17 building societies produced by KPMG from society results with year ends between December 2008 and April 2009.*

Financial performance

Group profit before tax for the year was £2.26 million (2008: £12.60 million). The results for 2009 include a number of items that are considered to be one-off in nature and also covered the continuing period of significant market turbulence. The underlying performance while below the level of the past few years, as shown by the following analysis, compares well with that of the sector.

Fair value gains and losses on financial instruments of £1.90 million arise from changes in the value of certain financial instruments producing volatility in the value of derivatives and are largely as a result of fluctuations in money market interest rates. This item is mainly comprised of timing differences which reverse over time.

The impairment losses and provision for levies of £4.46 million is largely comprised of one-off or unusual items:

> The provision for impairment of mortgage loans contains a charge of £2.79 million in respect of a small number of large loans. We consider the nature of these to be of a one-off nature and we might expect recoveries in due course. Otherwise the provision for impairment of mortgage loans is relatively low reflecting the quality of the vast majority of our mortgage book.
>
> The provision for impairment of investment securities includes a charge of £0.42 million as a result of a further provision against the value of one relatively small investment with the Nordic bank Glitnir.
>
> The provision for Financial Services Compensation Scheme levies of £0.78 million is largely due to the problems of Bradford & Bingley and the Icelandic banks.

After adjusting for items that are considered to be one-off in nature or the result of timing differences or the recent market turbulence, the Group's core operating profit was as follows:

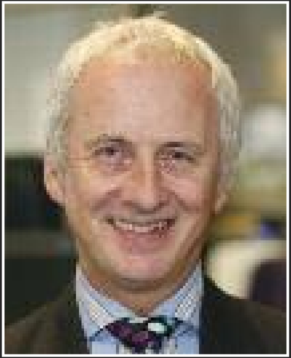
	2009	2008	2007	2006
	£'000	£'000	£'000	£'000
Profit before tax	**2,261**	12,603	5,713	5,954
Adjustments:				
(Gain) on repayment of subordinated debt	**–**	(8,550)	-	-
Net losses/(gains) from fair value volatility	**(1,901)**	1,382	(100)	(445)
Impairment of investment securities	**423**	512	-	-
Impairment of mortgage assets	**2,794**	3,280	-	-
Financial Services Compensation Scheme levy	**784**	1,043	-	-
Core operating profit	**4,361**	10,270	5,613	5,509

Total assets

Total assets decreased by £83 million during the year to £2.26 billion at 30 September 2009: a reduction of 4%.

Shares and deposits

Gross receipts from investing members and depositors (retail investments), excluding deposits raised from the wholesale money markets, were over £853 million. Investing members' balances increased by 7% and at the year end amounted to £1.88 billion. Significantly, mortgage balances are more than covered by retail balances at 107%: an improvement over the already satisfactory 93% of the previous year.



Mike Lazenby
Chief Executive

In 2009 the Society was voted best cash ISA provider by What Investment for the third year running.

Castle Cornet, St. Peter Port, Guernsey.

The opening event of our new EasiOption office in Pune, India.

Commercial assets

During the year 1,895 advances and loans were made to borrowers amounting to £95 million, a very significant reduction from the level of the past few years. Total mortgage balances at 30 September 2009 were £1.76 billion, a reduction of 7% compared with 2008. The total mortgage balances include those in the Channel Islands (Jersey and Guernsey), where total balances stood at £750 million against £863 million at September 2008 – a decrease of 13% - and £7 million in respect of a portfolio of buy to let mortgages acquired in September 2004 which continued to experience the expected level of redemptions during the year. The Society has maintained its efforts to minimise mortgage arrears and to help borrowers in difficulties to resolve their situation. At the year end there were 35 possession cases. In addition the Group had 43 cases where the repayments were 12 or more months in arrears but this included 7 cases under the special shared ownership scheme for people with learning disabilities and, in these cases the Society supports borrowers through the long period of obtaining Government funding.

The directors continue to provide for potential mortgage losses on a prudent and consistent basis in compliance with IFRS. All mortgage accounts in arrear at the year end by more than 2.5% of the outstanding balance have been reviewed in detail. A review of potential losses has confirmed the generally high quality of the mortgage portfolio and excellent low loan to value ratios. Despite the very real difficulties in the current financial markets and with house prices having continued to decline over part of the year, the Group collective impairment provision required at 30 September 2009 (ie based on cases where there was objective evidence indicating that losses may be incurred) was £699,000. There were losses incurred on just three cases during the year totalling £64,000. Recoveries of £1,000 were made against amounts previously provided so, as the provision at 30 September 2008 was £306,000, the Group collective impairment charge net of recoveries for the year amounted to £456,000. At 30 September 2008, there were a small number of loans which required individual impairment provision totalling £3.6 million of which one set of connected loans accounted for £3.28 million. During the year progress has been made in pursuing claims against the third parties involved but these were still unresolved at the year end. An in depth review of all commercial lending exposures resulted in a small number of individual cases where the directors felt it was appropriate to make further provision for impairment of £2.79 million given the current uncertainty over property values. The resulting provision for individual cases at 30 September 2009 was £6.39 million.

Treasury

During the year the Group reduced its use of the wholesale markets as a source of funding with the wholesale ratio reducing from 20.84% to 9.34% of share and deposit liabilities. A satisfactory level of liquidity was maintained at 20.77% - slightly increased from the 20.12% at 30 September 2008 - and in addition just over 50% of this was held in the form of Government securities at the year end.

Capital

Gross capital, comprising the general reserve, subscribed capital and subordinated liabilities, increased by £1.5 million to £117 million at 30 September 2009 by virtue of the retained profit for the year. At 30 September 2009 gross capital represented 5.65% of share and deposit liabilities. Free capital (as defined in the annual business statement) as at 30 September 2009 was 5.52% as a percentage of shares and borrowings. Both of these ratios increased over those reported at 30 September 2008.

Creditor payment policy

The Society's continuing policy concerning the payment of its trade creditors is to pay within the agreed terms of credit, usually 30 days from invoice, once the supplier has discharged its contractual obligations. These terms of payment are settled with suppliers when agreeing the terms of each transaction. The "creditor days" at 30 September 2009 were 15.

Charitable donations

Charitable donations made during the year amounted to £1,715. In addition, an amount of £12,000 was paid to Kent County Council to be distributed to local community sports projects in accordance with the terms of the *Sportsaver* account.

Principal risks and uncertainties

The principal risks and uncertainties of the Group are set out in the risk management report on pages 9 and 10. The Group's financial risk management objectives and policies together with further details on the use of financial instruments are set out in the risk management report and in the notes to the accounts.

Directors

The following persons were directors of the Society and served on the board committees shown during the year.

Malcolm Mackenzie Chairman	*Non-Executive Director*	Remuneration Committee Nominations Committee (Chairman) IT Project Group (Chairman)
Chris Byrne (until 31 March 2009)	*Non-Executive Director*	Mortgage Committee Remuneration Committee Nominations Committee
David Kemp Vice Chairman	*Non-Executive Director*	Remuneration Committee (Chairman) Nominations Committee Mortgage Committee (Chairman) Risk Committee
Mike Lazenby	*Chief Executive*	Mortgage Committee
Malcolm McCaig (from 24 March 2009)	*Non-Executive Director*	Risk Committee (Chairman) Audit Committee
Anne-Marie Nelson	*Non-Executive Director*	Audit Committee Risk Committee Nominations Committee
Andrew Newell	*Non-Executive Director*	Audit Committee (Chairman) Nominations Committee
Valerie Marshall (until 31 March 2009)	*Non-Executive Director*	Audit Committee
Rob Procter	*Deputy Chief Executive*	Mortgage Committee
Bob Scruton	*Finance Director*	IT Project Group Risk Committee
Peter Williams (from 1 July 2009)	*Non-Executive Director*	Mortgage Committee Remunerations Committee

In accordance with the Society's Rules Mike Lazenby, Anne-Marie Nelson and Andrew Newell retire by rotation at the Annual General Meeting and, being eligible, offer themselves for re-election. Malcolm McCaig and Peter Williams stand for election in accordance with the Rules following their appointment during the year.

Auditors

During the year, in accordance with its commitment to good governance, the Society carried out a competitive tender in relation to the future provision of external audit services. The board wishes to place on record its thanks to Ernst & Young LLP who have been the Society's external auditors since 1993 and have served the interests of members well. A resolution for the appointment of KPMG LLP as auditors will be proposed at the Annual General Meeting.

On behalf of the board

Malcolm Mackenzie
Chairman
24 November 2009

Rob Procter
Deputy Chief Executive

Our India operations are providing support services to a leading Jamaican building society.

Mike at the EasiOption office opening in Pune, India.

Mike with the EasiOption team.

Introduction

The board is responsible for ensuring that an effective framework is in place to identify and manage risks that the Group faces in the course of delivering its strategic objectives. The Group has a formal structure for managing risk, including established risk limits, reporting lines, mandates, credit risk appetite and other control procedures. The Group's risk committee structure which was reviewed and strengthened during the year has been designed to support an integrated approach to the identification and management of risk with two management level risk committees – the asset and liability committee ("ALCO") and the credit committee – reporting to the board risk committee, whose responsibility it is to take a Group-wide view of the overall exposure to risk.

Following the course of its normal business activities, the principal risks to which the Group is exposed are operational, credit, liquidity and market risk. Each of these risks, along with their current management frameworks are considered below.

Operational risk

Operational risk, which is inherent in all business activities, is risk of direct or indirect loss resulting from inadequate or failed internal process, people and systems or from external events. It can occur in any of the Group's businesses and includes errors, omissions, natural disasters and deliberate acts such as fraud. The Group manages this risk within an overall governance and control strategy. Within this structure, potential risk exposures are assessed to determine the appropriate type of controls to be applied. It is recognised that such risks can never be entirely eliminated and that the cost of controls in minimising these risks may outweigh the potential benefits. However, where required, the Group continues to invest in risk management and mitigation such as business continuity management and incident management. Independent assessment of the effectiveness of the management of operational risk is undertaken by the internal audit function.

Credit risk

Credit risk is the risk that unexpected losses may arise as a result of the Group's borrowers or market counterparties failing to meet their obligations to repay.

The retail credit risk is managed within the Group's underwriting process which seeks to ensure borrowers only take on a debt they can afford to repay, safeguarding both themselves and the Society. Where borrowers find themselves in financial difficulty, the Group has established procedures to manage the situation to a satisfactory conclusion. Usually this involves working with the borrower to clear arrears or making other arrangements commensurate with the borrower's circumstances. In rare cases where the situation deteriorates significantly and irreparably the Group may take possession of the underlying security.

The Group's exposure to retail credit risk is managed by the credit risk committee which reports to the board risk committee and to the board.

Credit risk within the treasury function arises from the risk counterparties will be unable to repay loans and other financial instruments that the treasury function holds as part of its liquidity portfolio. This risk is managed by restrictions on the type of assets held, an assessment of the credit worthiness of counterparties and by the maintenance of exposure limits with each counterparty and sector. The Group has no exposure to emerging markets and only limited exposure to non investment grade debt, including investments with other building societies and local authorities.

The Group's exposure to wholesale credit risk is managed by the ALCO which reports to the board risk committee and to the board.

Further analysis of the Group's exposure to credit risk is provided in note 28 to the accounts.

Risk management report

Liquidity risk

Liquidity risk is the risk of having insufficient liquid assets to fulfil obligations as they become due, or the cost of raising liquid funds becomes too expensive. The Group has maintained its minimum level of liquidity, above the previous normal range, in response to the current credit crisis.

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

The liquidity policy is developed, implemented and monitored by the ALCO which also sets limits over the level and maturity profile of wholesale funding and monitors the composition of the Group balance sheet. A series of liquidity stress tests are performed each month to confirm that the limits remain appropriate. The day-to-day management is delegated to the treasury function as detailed in the Financial Risk Management Policy.

The ALCO reports to the board risk committee and to the board.

Further analysis of the Group's exposure to liquidity risk is provided in note 28 to the accounts.

Market risk

Market risk is the risk of potential adverse change in Group income or the value of Group net worth arising from movement in interest rates, exchange rates or other market prices. Market risk exists, to some extent, in all of the Group's businesses. The Group recognises that the effective management of market risk is essential to the maintenance of stable earnings and preservation of member value.

The primary market risk faced by the Group is interest rate risk. Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. It is most prevalent in mortgage lending where fixed rate mortgages are not funded by fixed rate deposits of the same duration, or where the fixed rate risk is not hedged by a fully matching interest rate derivative.

The Group is exposed to movements in interest rates reflecting the mismatch between the dates on which interest receivable on assets and interest payable on liabilities are next reset to market rates or, if earlier, the dates on which the instruments mature. The Group manages this exposure on a continuous basis through the use of derivatives within limits set by the ALCO which reports to the board risk committee and to the board.

Further analysis of the Group's exposure to interest rate risk is provided in note 28 to the accounts.

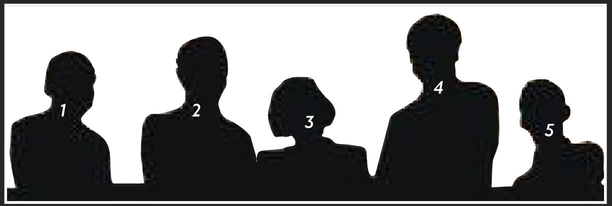
Capital management under Basel II

The Basel Committee on Banking Supervision introduced the Basel II framework for calculating minimum capital requirements. The EU Capital Requirements Directive ("the CRD") is the means by which Basel II was implemented in the EU. In the UK this was overseen by our regulator the Financial Services Authority (FSA). Basel II encourages a risk based approach to determining capital adequacy. By adopting more sophisticated analytical approaches, financial institutions may be able to carry less regulatory capital for credit and operational risk.

The Group adopted the provisions relating to the calculation of minimum capital requirements on 1 January 2008 and from that date to 30 September 2009 has calculated its capital requirement on a standardised basis.

The CRD requires the Group to conduct an assessment of its capital and financial resources known as its Internal Capital Adequacy Assessment Process (ICAAP). An analysis of the components of the Group's capital is provided in note 31 to the accounts.

Kent Reliance Risk Committee.



1. Bob Scruton, 2.Malcolm McCaig, 3. Anne-Marie Nelson, 4. David Kemp, 5. Mark Dowling.

"Kent Reliance Building Society donated £12,000 to Kent County Council to be distributed to local community sports projects."

The EasiOption state-of-the-art I.T. rooms – without which we could not operate securely and efficiently.

Introduction

The board is accountable to the members for the operation of the Society. To ensure the board manages the Society in a prudent and effective manner it takes account of guidance from the Financial Services Authority and the Building Societies Association, together with general best practice on corporate governance adapted for the particular circumstances of building societies.
While the Society is not a listed company and so does not have to comply with the Combined Code the board has a high regard for good corporate governance and where appropriate and relevant the board has taken proportionate steps to adopt its principles and recommendations in accordance with the Financial Services Authority's Building Society Regulatory Guide (BSOG) 1.3.2.

The board

Code principle A.1: *Every company should be headed by an effective board, which is collectively responsible for the success of the company.*

The board meets formally at least ten times a year and directors also attend board committees to ensure they have a direct role in corporate governance and provide leadership within a framework of prudent and effective controls. Ad hoc meetings can be and have been called when circumstances require it. Attendance at all meetings was good. At least once each year the board undertake a full strategic review of the business operations, usually over the course of two days.

The board focuses on setting strategy and monitoring management performance. In addition, it ensures the appropriate financial and business systems and controls are in place to safeguard members' interests and maintain effective corporate governance.

The board retains specific powers in relation to the approval of the Society's strategic aims and policies and other matters which must be approved by it under legislation or the Society's Rules. The board is also responsible for the recruitment and terms of employment of the executive management of the Society. Other powers are delegated to the executive team which comprises the chief executive, deputy chief executive, finance director and the head of treasury.

The board has established a number of committees which have their own terms of reference which are reviewed at least annually. During the year the governance framework of the Society has been strengthened by a review of the arrangements for dealing with the assessment, monitoring and management of risk including the establishment of a board risk committee supported by management level redefined asset and liability and credit committees. A summary of the principal board committees are set out below and details of membership are shown in the directors' report.

- *The audit committee meets quarterly to consider all Group audit matters, the system of internal control, financial reporting and whistle blowing.*
- *The mortgage committee meets quarterly to consider mortgage lending policy and attainment of the Society's lending objectives in the light of market conditions.*
- *The risk committee meets monthly to monitor the Group's overall exposure to risk. It oversees the identification and management of risks across the Group and the monitoring of operational, credit, liquidity and market risks.*
- *The remuneration committee considers the appointment, terms and conditions, and fees of executive and non-executive directors and executive staff salaries.*
- *The nominations committee is responsible for keeping under review the size, structure and composition of the board; nominating candidates to fill board and executive vacancies, taking into account the balance of skills, knowledge and experience on the board; and for making appropriate recommendations to the board.*
- *The IT project group reviews, approves and monitors major IT projects.*

Directors have access to the advice and services of the society secretary, whose appointment is a matter for the board and who is responsible for ensuring board procedures are followed and for advising the board, through the chairman, on matters relating to governance.

Corporate governance report

Chairman and chief executive

Code principle A.2: *There should be clear division of responsibilities at the head of the company between running of the board and the executive responsibility for the running of the company's business. No one individual should have unfettered powers of decision.*

The roles of the chairman and chief executive are held by different people and their respective purpose is clear and distinct. The chairman is responsible for leading the board and ensuring it acts effectively; the chief executive has overall responsibility for managing the Group and for implementing the strategies and policies agreed by the board.

Board balance and independence

Code principle A.3: *The board should include a balance of executive and non-executive directors (and in particular independent non-executive directors) such that no individual or small group of individuals can dominate the board's decision making.*

The board normally consists of three executive directors and six non-executive directors. The board appointed two new non-executive directors during the year. The size and composition of the board is kept under review to ensure an appropriate balance of skills and experience is represented on the board. Non-executive directors play a vital role in challenging and helping develop strategy, while providing independent judgement, experience and knowledge. In the opinion of the board, each of the non-executive directors, including the chairman, is independent in character and judgement.

Appointments to the board

Code principle A.4: *There should be a formal, rigorous and transparent procedure for the appointment of new directors to the board.*

The appointment of new directors is considered by the nominations committee which makes recommendations to the board. All directors are subject to election by members at the Annual General Meeting following their appointment. In addition, each director must receive approval from the Financial Services Authority as an Approved Person in order to fulfil his/her controlled function as a director. This normally requires the candidate to undergo a robust interview with the Financial Services Authority.

Information and professional development

Code principle A.5: *The board should be supplied in a timely manner with information in a form and of a quality appropriate to enable it to discharge its duties. All directors should receive induction on joining the board and should regularly update and refresh their skills and knowledge.*

All board members receive accurate, timely and clear information to enable them to make an effective contribution to board discussions. The scope and nature of such information is reviewed at least annually. On appointment, non-executive directors receive an appropriate induction programme which covers the Group's business and regulatory environment. Non-executive directors update their skills, knowledge and familiarity with the Group through presentations by members of the executive team and senior managers and relevant external input.

Performance evaluation

Code principle A.6: *The board should undertake a formal and rigorous annual evaluation of its own performance and that of its committees and individual directors.*

There is an annual appraisal of all directors and of the operation of the board as a whole.

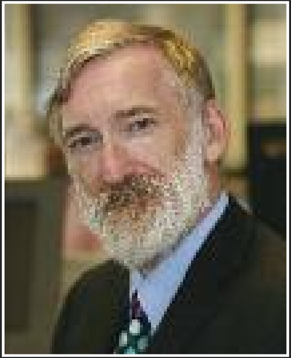
Re-election

Code principle A.7: *All directors should be submitted for re-election at regular intervals, subject to continued satisfactory performance. The board should ensure planned and progressive refreshing of the board.*

Under the Society's Rules, directors have to submit themselves for re-election at least once in every three years. There is adequate succession planning for both executive and non-executive members.

Remuneration

The level and make-up of director remuneration and the procedure for developing policy on executive remuneration is considered by the remuneration committee. The remuneration committee's work and the Society's compliance with the Combined Code is covered in the directors' remuneration report on page 15.



Bob Scruton
Finance Director

The Society featured regularly in the national press 'best buy' tables for both its investment and mortgage products.

The goals of the EasiOption office as featured in their Core Values Street.

Financial reporting

***Code principle C.1:** The board should present a balanced and understandable assessment of the company's position and prospects.*

The responsibilities of the directors in preparing the Society's accounts and a statement that the Society's business is a going concern are set out on page 16.

Internal control

***Code principle C.2:** The board should maintain a sound system of internal control to safeguard shareholder's investment and the company's assets.*

Responsibility for implementing sound and effective systems of internal control has been delegated by the board to executive management. KPMG provided an internal audit function throughout the year under the direction of the audit committee. This offered independent assurance to the board through the audit committee on the effectiveness of the systems of internal control.

The information received and considered by the audit committee provided assurance that during the year under review there were no material breaches of control or regulatory requirements and that the Group maintained an adequate and appropriate system of internal control.

Audit committee and auditors

***Code principle C.3:** The board should establish formal and transparent arrangements for considering how they should apply the financial reporting and internal control principles and for maintaining an appropriate relationship with the company's auditors.*

The role of the audit committee includes a review of the Group's accounting policies at least annually, a review of the financial statements including any significant financial reporting judgements on which they are based and monitoring the systems of internal control.

The Society has a policy on the use of the external auditors for non-audit work which has been approved by the audit committee. The purpose of this policy, which requires the formal prior approval of the audit committee for any ancillary services, is to ensure the continued independence and objectivity of the external auditors. The audit committee reviews annually the relationship with external and internal auditors and approves their terms of engagement and remuneration. During the year the audit committee undertook a review of the external audit arrangements and the board are proposing the appointment of KPMG LLP for the forthcoming year.

Relations with shareholders

***Code principle D.1:** There should be a dialogue with shareholders based on the mutual understanding of objectives. The board as a whole has a responsibility for ensuring that a satisfactory dialogue with shareholders takes place.*

The Society's shareholders are its members and so the investors (except deposit account holders) and borrowers (but not the borrowers of the subsidiary companies). Thus the majority of its customers are members and the Society encourages feedback from them on any aspect of the Society's activities.

Constructive use of the AGM

***Code principle D.2:** The board should use the AGM to communicate with investors and to encourage their participation.*

All members who are eligible are encouraged to exercise their vote at the Annual General Meeting either by attending in person or by proxy, for which purpose they are sent a proxy voting form and pre-paid envelope. All proxy votes are counted. A separate resolution is proposed on each separate issue including a resolution on the annual report and accounts. All members of the board are present at the AGM each year (unless, exceptionally, their absence is unavoidable) and the chairmen of the board and all board committees are therefore available to answer questions. The Notice of AGM and related papers are sent at least 21 days before the AGM in accordance with the Building Societies Act 1986.

Photograph courtesy of Keith Slater.

Gillingham Football Club and mascots welcome the match referees and Charlton players to the KRBS Priestfield Stadium.

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, to 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 which is 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 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, 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

The following statement, which should be read in conjunction with the independent auditors' responsibilities set out in their audit report, is made by the directors to explain their responsibilities in relation to the preparation of the annual accounts, annual business statement and directors' report.

The directors are required by the Building Societies Act 1986 (the Act) to prepare, for each financial year, annual accounts which give a true and fair view of:

- the state of affairs of the Society and Group as at the end of the financial year, and
- the income and expenditure and cash flows of the Society and Group for the financial year.

The Act states that reference to International Accounting Standards accounts giving a true and fair view are references to their achieving a fair presentation.

In preparing these accounts, the directors are required to:

- select appropriate accounting policies and apply them consistently;
- present information including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- state whether the accounts have been prepared in accordance with International Financial Reporting Standards; and
- prepare the accounts on the going concern basis, unless it is inappropriate to presume that the Group will continue in business.

In addition to the accounts, the Act requires the directors to prepare, for each financial year, an annual business statement and a directors' report, each containing prescribed information relating to the business of the Society and Group.

Directors' statement pursuant to the Disclosure and Transparency Rules

The directors confirm that, to the best of each person's knowledge and belief:

- the financial statements, prepared in accordance with IFRS as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit of the Group and the Society; and
- the directors' report and notes to the accounts include a fair review of the development and performance of the business and position of the Group and Society, together with a description of the principal risks and uncertainties that they face.

Directors' responsibilities for accounting records and internal control

The directors are responsible for ensuring that the Society and its connected undertakings:

- keep accounting records in accordance with the Act; and
- take reasonable care to establish, maintain, document and review such systems and controls as are appropriate to its business in accordance with the rules made by the Financial Services Authority under the Financial Services and Markets Act 2000.

The directors have general responsibility for safeguarding the assets of the Group and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Society's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Going concern

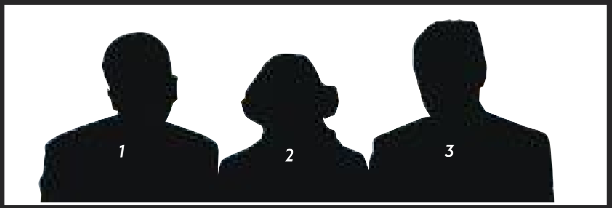
The Society's business activities, together with the factors likely to affect its future development, performance, position and liquidity are set out in the chairman's statement and directors' report.

The directors believe that the Society is well placed to manage its business risks successfully despite the current uncertain economic outlook. After considering factors including default rates on loans, house price movements and the Society's capital and liquidity position, the directors are confident that the Society has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and accounts.

On behalf of the board

Malcolm Mackenzie
Chairman
24 November 2009

Kent Reliance Audit Committee.



1. Andrew Newell. 2. Anne-Marie Nelson. 3. Malcolm McCaig.

"Profit that we generate from third party services is reinvested in the business to directly benefit members."

> Kent Reliance funded a gliding day for local members of MENCAP, allowing them to take to the skies and experience the thrill of gliding over the Kent countryside.

We have audited the Group and Society's annual accounts of Kent Reliance Building Society for the year ended 30 September 2009 which comprise the Group and Society income statements, the Group and Society balance sheets, the Group and Society cash flow statements, the Group and Society statements of recognised income and expense and the related notes 1 to 32. These annual accounts have been prepared under the accounting policies set out therein.

We have examined the annual business statement (other than the details of directors and officers upon which we are not required to report) and the directors' report.

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

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report including the directors' report, the annual business statement, and the annual accounts in accordance with applicable United Kingdom law and International Financial Reporting Standards (IFRSs) as adopted by the European Union, are set out in the statement of directors' responsibilities on page 16.

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

We report to you our opinion as to whether the annual accounts give a true and fair view and whether the annual accounts are properly prepared in accordance with the Building Societies Act 1986 and regulations made under it and, as regards the Group annual accounts, Article 4 of the IAS Regulation. In addition, we report to you our opinion as to whether certain information in the annual business statement gives a true representation of the matters in respect of which it is given, whether the information in the directors' report is consistent with the accounting records and the annual accounts and whether the annual business statement and directors' report have each been prepared in accordance with the applicable requirements of the Building Societies Act 1986 and regulations made under it.

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

We read the other information contained in the Annual Report and consider whether it is consistent with the audited annual accounts. The other information comprises only the chairman's statement, directors' report, corporate governance report and the directors' remuneration report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the annual accounts, annual business statement and directors' report. Our responsibilities do not extend to any other information.

Basis of audit opinion

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

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

Opinion

In our opinion:

a) the annual accounts give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of affairs of the Group and of the Society as at 30 September 2009 and of the income and expenditure of the Group and of the Society for the year then ended;

b) the information given in the annual business statement (other than the information upon which we are not required to report) gives a true representation of the matters in respect of which it is given;

c) the information given in the directors' report is consistent with the accounting records and the annual accounts; and

d) the annual accounts, the annual business statement and the directors' report have each been prepared in accordance with the applicable requirements of the Building Societies Act 1986, regulations made under it and, as regards the Group financial statements, Article 4 of the IAS Regulation.

Robert McCracken (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor, London
24 November 2009

Auditors' report

For the year ended 30 September 2009

	Notes	Group 2009 £'000	Group 2008 £'000	Society 2009 £'000	Society 2008 £'000
Interest receivable and similar income	2	**86,334**	138,500	**86,028**	137,377
Interest payable and similar charges	3	**(72,902)**	(119,920)	**(72,902)**	(119,920)
Net interest receivable		**13,432**	18,580	**13,126**	17,457
Gain on repayment of subordinated debt		**–**	8,550	**–**	8,550
Fair value gains and losses on financial instruments	4	**1,901**	(1,382)	**1,901**	(1,382)
Other operating income		**96**	247	**–**	-
Fees and commissions receivable		**572**	1,575	**488**	942
Fees and commissions payable		**(399)**	(549)	**(395)**	(139)
Total income		**15,602**	27,021	**15,120**	25,428
Administrative expenses	5	**(8,203)**	(8,453)	**(8,612)**	(8,483)
Depreciation and amortisation	15, 16	**(681)**	(807)	**(416)**	(518)
		6,718	17,761	**6,092**	16,427
Impairment losses and provision for FSCS levies	13	**(4,457)**	(5,158)	**(4,458)**	(5,396)
Profit before tax		**2,261**	12,603	**1,634**	11,031
Tax expense	8	**(573)**	(3,666)	**(472)**	(3,209)
Profit for the financial year	25	**1,688**	8,937	**1,162**	7,822

STATEMENTS OF RECOGNISED INCOME AND EXPENSE

For the year ended 30 September 2009

	Group 2009 £'000	Group 2008 £'000	Society 2009 £'000	Society 2008 £'000
Available for sale securities:				
Valuation gains (losses) taken to equity	**74**	(10)	**74**	(10)
Tax on items taken direct to equity	**(19)**	3	**(19)**	3
Net income/(expense) recognised directly in equity	**55**	(7)	**55**	(7)
Profit for the financial year	**1,688**	8,937	**1,162**	7,822
Total recognised income and expense for the year attributable to members	**1,743**	8,930	**1,217**	7,815

The above results are derived wholly from continuing operations.

The notes on pages 23 to 40 form part of these accounts.

Income statements

As at 30 September 2009

	Notes	Group 2009 £'000	Group 2008 £'000	Society 2009 £'000	Society 2008 £'000
Assets					
Liquid assets					
Cash in hand and balances with the Bank of England		**260**	209	**260**	209
Loans and advances to credit institutions	9	**121,793**	172,153	**121,517**	171,770
Investment securities	10	**307,657**	271,824	**307,657**	271,824
Total liquid assets		**429,710**	444,186	**429,434**	443,803
Loans and advances to customers					
Loans fully secured on residential property	11	**1,611,580**	1,784,871	**897,221**	914,179
Other loans fully secured on land	11	**146,716**	95,612	**104,550**	95,612
		1,758,296	1,880,483	**1,001,771**	1,009,791
Derivative financial instruments	29	**1,134**	5,338	**1,134**	5,338
Fair value adjustments for hedged risk	29	**63,420**	6,740	**63,420**	6,740
Intangible fixed assets	15	**190**	282	**190**	282
Property, plant and equipment	16	**1,805**	2,177	**1,508**	1,724
Investments in group undertakings	14	**-**	-	**752,913**	865,556
Current tax asset		**734**	-	**609**	–
Deferred tax asset	17	**140**	129	**140**	129
Other assets	18	**1,510**	586	**357**	408
Total assets		**2,256,939**	2,339,921	**2,251,476**	2,333,771
Liabilities					
Shares	19	**1,875,815**	1,747,553	**1,875,815**	1,747,553
Amounts owed to credit institutions	20	**169,959**	411,051	**169,959**	411,051
Amounts owed to other customers	21	**23,397**	48,975	**23,397**	48,975
Derivative financial instruments	29	**68,445**	12,662	**68,445**	12,662
Fair value adjustments for hedged risk	29	**403**	1	**403**	1
Current tax liability		**-**	1,639	**–**	565
Deferred tax liability	17	**58**	39	**58**	39
Other liabilities	22	**844**	1,476	**844**	1,337
Provision for FSCS levies	26	**1,090**	1,043	**1,090**	1,043
Subordinated liabilities	23	**26,703**	27,058	**26,703**	27,058
Subscribed capital	24	**36,901**	36,843	**36,901**	36,843
		2,203,615	2,288,340	**2,203,615**	2,287,127
Equity					
Reserves	25	**53,324**	51,581	**47,861**	46,644
Total equity and liabilities		**2,256,939**	2,339,921	**2,251,476**	2,333,771

The notes on pages 23 to 40 form part of these accounts.
The accounts and annual business statement on pages 41 to 42 were approved by the board of directors on 24 November 2009.

M S Mackenzie
Chairman

A Newell
Audit Committee Chairman

M J Lazenby
Chief Executive

Balance sheets

A local swimmer, Xander Alari-Williams, one of the many young people who receive funding from Kent Reliance via our Sportsaver account.

Photograph courtesy of
Kent Sports Development Unit.

Cash flow statements

For the year ended 30 September 2009	Group		Society	
	2009	2008	**2009**	2008
	£'000	£'000	**£'000**	£'000
Cash flows from operating activities				
Profit on ordinary activities before taxation	**2,261**	12,603	**1,634**	11,031
Depreciation and amortisation	**681**	901	**416**	612
Interest paid on subordinated liabilities	**1,553**	3,848	**1,553**	3,848
Interest paid on subscribed capital	**2,689**	2,686	**2,689**	2,686
Increase in impairment of loans and advances	**3,187**	3,609	**3,188**	3,847
Net gain on disposal of tangible fixed assets	**–**	(94)	**–**	(94)
Gain on repayment of subordinated debt	**–**	(8,550)	**–**	(8,550)
Taxation	**(2,957)**	(3,475)	**(1,657)**	(3,475)
Cash generated from operations	**7,414**	11,528	**7,823**	9,905
Changes in operating assets and liabilities				
Decrease in loans and advances to credit institutions and other customers	**34,345**	41,661	**34,498**	41,661
Decrease in investment securities	**424**	512	**424**	512
Decrease/(increase) in loans and advances to customers	**119,000**	(315,646)	**4,832**	(153,542)
Decrease in derivative financial instruments and fair value adjustment for portfolio hedged risk	**3,709**	6,623	**3,709**	6,623
Decrease/(increase) in investments in group undertakings	**-**	-	**112,643**	(161,578)
Decrease/(increase) in other assets	**(924)**	624	**51**	802
Increase in shares	**128,262**	96,649	**128,262**	96,649
Decrease/(increase) in amounts owed to credit institutions and other customers	**(266,670)**	129,015	**(266,670)**	129,015
Decrease/(increase) in provisions and other liabilities	**(585)**	1,339	**(446)**	1,200
	17,561	(39,223)	**17,303**	(38,658)
Cash flows from investing activities				
Purchase of investment securities	**(1,190,868)**	(725,533)	**(1,190,868)**	(725,533)
Sale and maturity of investment securities	**1,154,685**	807,150	**1,154,685**	807,150
Purchase of property, plant and equipment	**(184)**	(764)	**(75)**	(22)
Disposal of property, plant and equipment	**–**	126	**–**	126
Purchase of intangible assets	**(33)**	(129)	**(33)**	(129)
	(36,400)	80,850	**(36,291)**	81,592
Cash flows from financing activities				
(Repayment)of subordinated liabilities	**(355)**	(31,118)	**(355)**	(31,118)
Issue of subscribed capital	**58**	54	**58**	54
Interest paid on subordinated liabilities	**(1,553)**	(3,848)	**(1,553)**	(3,848)
Interest paid on subscribed capital	**(2,689)**	(2,686)	**(2,689)**	(2,686)
	(4,539)	(37,598)	**(4,539)**	(37,598)
Net (decrease)/increase in cash and cash equivalents	**(15,964)**	15,557	**(15,704)**	15,241
Cash and cash equivalents at 1 October:				
Cash in hand and balances with the Bank of England	**209**	217	**209**	217
Loans and advances to credit institutions repayable on demand	**54,493**	38,928	**54,110**	38,861
	54,702	39,145	**54,319**	39,078
Cash and cash equivalents at 30 September:				
Cash in hand and balances with the Bank of England	**260**	209	**260**	209
Loans and advances to credit institutions repayable on demand	**38,478**	54,493	**38,355**	54,110
Cash and cash equivalents at 30 September	**38,738**	54,702	**38,615**	54,319

The Group is required to maintain interest free balances with the Bank of England which at 30 September 2009 amounted to £1,323,271 (2008: £1,056,000).

KRBS sponsor the Kent Disability team for their cricket match at the Cricket for Change centre, Wallington, Surrey.

Kent Reliance were winners of the What Mortgage '*Best Shared Ownership Product*' award for 2009 and we're always proud to be associated with an organisation like MySafeHome.

Notes

The principal accounting policies applied in the preparation of the Annual Accounts for the Group and Society are set out below.

a) Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU); interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC); and the Building Societies (Accounts and Related Provisions) Regulations 1998.

The following standards, amendments to existing standards and IFRIC interpretations are applicable but have not been adopted in the preparation of the financial statements as they are only effective in the EU for accounting periods starting on or after 1 January 2009 (except where noted):

- *IAS 1 Presentation of Financial Statements (Revised)*
  This will revise the presentation of the financial statements including a single statement of comprehensive income or a separate income statement and a statement of comprehensive income with a statement of movements in reserves. Adopting this change would have a fundamental effect on the presentation of accounts.
- *IFRS 8 Operating Segments*
  Replaces IAS 14 Segment Reporting and requires reporting of information on operating segments based on how financial information is reported and evaluated internally.
- *IAS 23 Borrowing costs (Revised)*
  This will remove the option to recognise immediately the interest on borrowings on assets which take a long time to get ready for intended use or sale.
- *IFRS 7 Improving Disclosures about Financial Instruments*
  This amendment clarifies and enhances disclosures about fair value measurement and the liquidity risk of financial instruments. We expect the amendment will result in further changes and enhancements to the risk disclosures.
- *Amendment to IAS 39 Eligible Hedged Items (for accounting periods starting on or after 1 July 2009)*
  The amendment clarifies how existing principles underlying hedge accounting should be applied where there is a one sided risk in a hedged item and where there is inflation in a hedged item.

The full impact of these accounting changes is being assessed by the Group; however, the initial view is that these changes are not expected to cause any significant impact on the Group accounts other than as noted.

The financial statements have been prepared on an historical cost basis, as modified by the revaluation of available for sale financial assets, derivative contracts and financial assets held at fair value through the income statement.

The preparation of financial statements requires the use of estimates and assumptions. Although these are based on management's best knowledge of the amount, event or actions, actual results may differ from these estimates. Further details of critical accounting estimates are given in Note 1 o) below.

b) Basis of consolidation

The Group accounts include the results of the Society and its subsidiary undertakings. Subsidiaries are fully consolidated from the date on which control is transferred to the Group and are de-consolidated from the date that control ceases. Upon consolidation inter-company transactions, balances and unrealised gains on transactions are eliminated.

In the Society accounts investments in subsidiary undertakings are stated at cost less provision for any impairment. All subsidiaries are wholly owned. Inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated in the Group accounts. Unrealised losses are also eliminated unless the transaction provides evidence of impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

c) Foreign currency translation

The consolidated financial statements are presented in sterling which is the functional currency of the Group. Foreign currency transactions are translated into sterling using the exchange rates prevailing at the date of the transactions. Monetary items denominated in foreign currencies are re-translated at the rate prevailing at the year end. Foreign exchange gains and losses resulting from the re-translation and settlement of these items are recognised in the income statement.

d) Segmental reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. The Group's geographical segment is considered solely to be England, Wales and the Channel Islands and the risks and returns from the Group's activities over this area are not materially different.

e) Taxation including deferred taxation

The charge for taxation is based on the profit for the year and takes into account current and deferred taxation. Where items are recognised directly in equity the associated tax charge or credit is also recognised in equity.

Current tax is the expected tax payable on the taxable income and gains in the year.

Deferred taxation is provided in full, using the balance sheet liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax is determined using the tax rates and laws that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

Deferred tax assets are recognised gross on the balance sheet and only recognised to the extent that recovery is probable.

Deferred tax related to the fair value re-measurement of available for sale investments, which are charged or credited directly to the available for sale reserve, is also credited or charged directly to the available for sale reserve and is subsequently recognised in the income statement together with the deferred gain or loss.

f) Interest income and expense

Interest income and interest expense for all interest bearing financial instruments measured at amortised cost are recognised in the income statement using the effective interest rate (EIR) method. The effective interest rate is the rate which discounts the expected future cash flows, over the expected life of the financial instrument, to the net carrying value of the financial asset or liability.

In calculating the EIR the Group estimates the cash flows considering all contractual terms but does not consider future credit losses. Potential early repayment charges, origination fees received and paid on mortgage assets, together with premiums paid on the acquisition of mortgage books are included within loans and advances to customers and are amortised over the expected life of the mortgage assets using the EIR method.

Interest income on available for sale investments and derivatives is included in interest receivable and similar income.

g) Fees and commissions

Fees and commissions which are an integral part of the effective interest rate of a financial instrument are recognised as an adjustment to the effective interest rate and recorded in interest income. Other fees and commissions are recognised on the accruals basis as services are provided or on the performance of a significant act.

h) Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise balances with less than three months maturity from the date of acquisition including cash, non-restricted balances with central banks and certificates of deposit.

i) Intangible assets

Purchased software and costs directly associated with the development of computer software are capitalised as intangible assets where the software is a unique and identifiable asset controlled by the Group and will generate future economic benefits. Costs to establish technological feasibility or to maintain existing levels of performance are recognised as an expense.

Amortisation is charged to the income statement by equal instalments over the estimated useful life of the software, which is generally five years. These assets are reviewed for impairment on an annual basis.

j) Property, plant and equipment
The directly attributable costs of additions and major alterations to office premises, equipment, fixtures and motor vehicles are capitalised. These assets are reviewed for impairment annually and are written down immediately to their recoverable amounts.

Gains and losses on disposals are determined by comparing the net disposal proceeds with the carrying amount of the asset and are included in the income statement.

The balance sheet value represents the original cost less cumulative depreciation. The costs less estimated residual values of assets are depreciated by equal instalments over their estimated useful economic lives as follows:

Freehold land and buildings	50 years
Equipment, fixtures and vehicles	5 years

Freehold land is not depreciated.

The cost of repairs and renewals is charged to the income statement in the year in which the expenditure is incurred.

k) Financial assets and liabilities
Purchases and sales of financial assets and liabilities are accounted for at trade date.

The Group classifies its financial assets and liabilities in accordance with IAS 39 into the following categories:

(i) Loans and receivables: which are predominantly mortgage loans and advances to customers and money market advances held for liquidity purposes. They are held at amortised cost less any impairment losses other than where an adjustment is made as part of a fair value hedging arrangement.

(ii) Financial assets at fair value through the income statement: are assets which have been specifically designated by the Group at inception and recorded at fair value with changes in fair value taken to the income statement. The fair values are quoted market prices (where there is an active market) or are based on valuation techniques (where there is no active market or the securities are unlisted). Valuation techniques include the use of recent arm's length transactions, discounted cash flow analysis and other commonly used valuation techniques.

The Group uses derivative financial instruments to hedge its exposure to the interest rate risk arising from financing and investment activities. In accordance with its treasury policy, the Group does not hold or issue derivative financial instruments for trading.

(iii) Available for sale financial assets: comprise securities held for liquidity purposes (certificates of deposit). These are held at fair value with movements being taken to equity, except for impairment losses which are taken to the income statement. Profit or loss is recognised in the income statement on disposal.

(iv) Held to maturity investments: are non-derivative financial assets with fixed or determinable payments and fixed maturity where the Group intends to hold to maturity. Assets are held at amortised cost less any impairment.

(v) Financial liabilities: are held at amortised cost except for those financial instruments measured at fair value through the income statement (see below). Interest is recognised on an EIR basis.

l) Derivative financial instruments and hedge accounting
The Group uses derivative financial instruments (interest rate swaps) for the purpose of reducing fair value interest rate risk. Derivative financial instruments are recognised in the balance sheet at their fair value with changes in their fair value going through the income statement. Fair values are calculated by discounting cash flows at prevailing interest rates. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

The Group designates certain derivatives as a hedge of fair value of a recognised asset or liability (fair value hedge). Hedge accounting is used for derivatives designated in this way provided the criteria specified in IAS 39 are met.

To the extent there is an effective hedge relationship for fair value hedges, the gain or loss is recognised in the income statement. This gain or loss relates to the movement in fair value of the hedge and of the associated hedged items (eg mortgage assets, amounts owed to credit institutions & others, subordinated debt and subscribed capital). The gains and losses of both hedged item and the hedging instrument substantially offset each other and reduce profit volatility.

To qualify for hedge accounting, at inception, the hedge relationship must be clearly documented and the derivative must be expected to be highly effective in offsetting the hedged risk. In addition, effectiveness must be tested throughout the life of the hedge relationship.

The Group discontinues hedge accounting when testing demonstrates that a derivative is not or has ceased to be highly effective as a hedge, the derivative ceases through expiry or sale etc or the underlying item matures, is sold or is repaid. The Group may also decide to cease hedge accounting even though the hedge relationship continues to be highly effective by de-designating the financial instrument as a hedge.

If a derivative no longer meets the criteria for hedge accounting the cumulative fair value hedging adjustment is amortised over a period up to the maturity of the previously designated hedge relationship. If the underlying item is sold or repaid the unamortised fair value adjustment is immediately reflected in the income statement.

m) Impairment of loans and advances to customers
Throughout the year and at the year end, all loans and advances which are in arrears, or where the property is in possession, are reviewed to consider the possibility of loss being realised. An individual impairment provision is made where loss is likely to be incurred.

In addition, an estimate of impairment is made where there is objective evidence which indicates that losses may be incurred collectively on categories of loans and advances. The amount of impairment is estimated using factors that take into account the Group's experience of default, loss emergence periods, movement in house prices and adjustments to allow expected forced sale values.

n) Provisions and contingent liabilities
A provision is recognised when there is a present obligation as a result of a past event, it is probable that the obligation will be settled and the amount can be estimated reliably. Contingent liabilities have not been recognised.

o) Judgements in applying accounting policies and critical accounting estimates
The Group makes judgements which affect the amounts recognised in the financial statements. In addition, estimates and assumptions are made which could affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are regularly reviewed based on past experience, expectations of future events and other factors. The key areas where estimates and judgements are made are as follows:

(i) Impairment of financial assets: Provisions are calculated using historic default and loss experience to estimate the loss in the event that the financial asset shows signs of default. Judgement needs to be exercised in deciding how to apply historic experience to current market conditions.

(ii) Fair values: The fair values used in the financial statements, including those for derivative financial instruments and available for sale assets, are, where market values are not available, calculated using valuation techniques utilising discounted cash flow models using yield curves based on observable market data.

(iii) Effective interest rate: To calculate the appropriate EIR the Group makes a number of assumptions relating to the expected lives of financial instruments, likely redemption profiles and the anticipated level of early repayment charges. These estimates are reviewed in each reporting period to ensure they reflect current performance.

An overjoyed James Cooper and his mum Tina receive the keys to his first home through a Kent Reliance shared ownership mortgage in partnership with MySafeHome - an organisation who have helped more than 700 adults with mild learning difficulties through to some who require round the clock care achieve the dream of home ownership and security.

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 30 SEPTEMBER 2009:

2 INTEREST RECEIVABLE AND SIMILAR INCOME

	Group		Society	
	2009	2008	**2009**	2008
	£'000	£'000	**£'000**	£'000
On loans fully secured on residential property	**84,984**	96,752	**48,855**	50,754
On other loans	**7,125**	4,756	**5,636**	4,756
On loans to subsidiaries	**–**	–	**37,312**	44,875
On investment securities:				
Interest and similar income	**9,591**	16,987	**9,591**	16,987
On other liquid assets:				
Interest and similar income	**4,545**	13,348	**4,545**	13,348
Net (expense)/income on financial instruments	**(19,911)**	6,657	**(19,911)**	6,657
	86,334	138,500	**86,028**	137,377

Included within interest receivable is £875,000 (2008 £304,000) in respect of interest accrued on impaired financial assets.

3 INTEREST PAYABLE AND SIMILAR CHARGES

	Group and Society	
	2009	2008
	£'000	£'000
On shares held by individuals	**57,326**	94,445
On subscribed capital	**2,689**	2,686
On deposits and other borrowings		
Subordinated liabilities	**1,553**	3,848
Other wholesale borrowings	**12,268**	18,250
Net (income)/expense on financial instruments	**(934)**	691
	72,902	119,920

4 FAIR VALUE GAINS AND LOSSES ON FINANCIAL INSTRUMENTS

	Group and Society	
	2009	2008
	£'000	£'000
Adjustment for fair value hedge accounting	**2,509**	(958)
Net (losses) on unmatched swaps	**(608)**	(424)
	1,901	(1,382)

5 ADMINISTRATIVE EXPENSES

	Group		Society	
	2009	2008	**2009**	2008
	£'000	£'000	**£'000**	£'000
Staff costs (see note 6)	**3,914**	3,928	**3,365**	3,400
Fees payable to the Group auditors and their associates for:				
Audit services	**155**	161	**135**	135
Other services relating to taxation	**–**	3	**–**	3
Property rentals under operating leases	**47**	44	**47**	44
Other administrative expenses	**4,087**	4,317	**5,065**	4,901
	8,203	8,453	**8,612**	8,483

6 STAFF NUMBERS AND COSTS

	Full time		Part time	
The average number of persons employed by the Group and Society (including executive directors) during the year was as follows:	**2009 No.**	2008 No.	**2009 No.**	2008 No.
Society's head office	**44**	47	**8**	9
Branch offices	**1**	1	**9**	7
Total Society employees	**45**	48	**17**	16
Subsidiary offices	**102**	101	**-**	-
Total Group employees	**147**	149	**17**	16

	Group		Society	
	2009	2008	**2009**	2008
The aggregate costs of these persons were:	**£'000**	£'000	**£'000**	£'000
Salaries	**3,248**	3,301	**2,699**	2,773
Social security costs	**321**	321	**321**	321
Other pension costs	**345**	306	**345**	306
	3,914	3,928	**3,365**	3,400

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 30 SEPTEMBER 2009: 7 DIRECTORS' EMOLUMENTS AND TRANSACTIONS

	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 £'000	2008 £'000
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 2008 to 31 March 2009)	**19**	25
M McCaig (from 24 March 2009)	**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

The Directors' Remuneration Report explains the board's policy on Directors' Remuneration and describes the process through which remuneration is determined. At 30 September 2009 there were outstanding loans granted in the ordinary course of business to 6 (2008: 6) directors and their connected persons amounting to £539,948 (2008: £810,457). Details of all such contracts and loans are contained in a register which will be available for inspection by members at the Society's head office for a period of 15 days up to and including the Annual General Meeting.

8 TAX EXPENSE

	Group **2009** £'000	Group 2008 £'000	Society **2009** £'000	Society 2008 £'000
Current UK corporation tax at 28% (2008: 29%)	**584**	3,684	**483**	3,227
Deferred taxation (see note 17)	**(11)**	(18)	**(11)**	(18)
Total tax expense	**573**	3,666	**472**	3,209
Factors affecting the tax charge for the year:				
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK at 28% (2008: 29%)	**559**	3,656	**458**	3,200
Effect of:				
Disallowed expenses and non-taxable income	**10**	11	**10**	11
Indexation on property gain	**–**	(15)	**–**	(15)
Depreciation in excess of capital allowances	**4**	13	**4**	13
Marginal relief	**–**	1	**–**	–
Total tax charge	**573**	3,666	**472**	3,209

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 30 SEPTEMBER 2009: 9 LOANS AND ADVANCES TO CREDIT INSTITUTIONS

	Group **2009** £'000	Group 2008 £'000	Society **2009** £'000	Society 2008 £'000
Loans and advances to credit institutions have a remaining maturity as follows:				
Repayable on demand	**38,478**	54,493	**38,355**	54,110
In not more than three months	**82,315**	94,896	**82,162**	94,896
In more than three months but not more than one year	**1,000**	14,243	**1,000**	14,243
In more than one year but not more than five years	**–**	8,521	**–**	8,521
	121,793	172,153	**121,517**	171,770

Notes

10 INVESTMENT SECURITIES

	Group and Society 2009 £'000	2008 £'000
Investment securities:		
Government investment securities	**224,805**	-
Transferable investment securities:		
Unlisted	**82,852**	271,824
	307,657	271,824

	Group and Society 2009 £'000	2008 £'000
Investment securities have remaining maturities as follows:		
In one year or less	**276,575**	238,537
In more than one year but less than five years	**31,082**	33,287
	307,657	271,824

All investment securities are unlisted. The directors of the Society consider that the primary purpose of holding investment securities is prudential. These securities are held as liquid assets with the intention of use on a continuing basis in the Society's activities and hence are classified as financial assets, held as available for sale or held to maturity as appropriate.

	Group and Society 2009 £'000	2008 £'000
Movements during the year of investment securities held as available for sale financial assets are analysed as follows:		
At 1 October	**220,883**	353,963
Additions	**1,170,089**	673,080
Disposals and maturities	**(1,135,185)**	(806,150)
Changes in fair value	**73**	(10)
At 30 September	**255,860**	220,883
Movements during the year of investment securities held to maturity are analysed as follows:	**2009**	2008
	£'000	£'000
At 1 October	**50,941**	-
Additions	**20,779**	52,453
Disposals and maturities	**(19,500)**	(1,000)
Impairment	**(423)**	(512)
At 30 September	**51,797**	50,941

11 LOANS AND ADVANCES TO CUSTOMERS

	Group 2009 £'000	Group 2008 £'000	Society 2009 £'000	Society 2008 £'000
Loans fully secured on residential property	**1,611,580**	1,784,871	**897,221**	914,179
Other loans fully secured on land	**146,716**	95,612	**104,550**	95,612
	1,758,296	1,880,483	**1,001,771**	1,009,791
Maturity analysis				
Advances secured on residential property and other loans are repayable from the date of the balance sheet as follows:				
In not more than three months	**4,795**	5,200	**3,996**	4,201
In more than three months but not more than one year	**3,796**	3,849	**3,044**	3,355
In more than one year but not more than five years	**102,242**	91,335	**85,205**	76,469
In more than five years	**1,654,549**	1,783,998	**916,601**	929,653
	1,765,382	1,884,382	**1,008,846**	1,013,678
Less: impairment losses on loans and advances (see note 12)	**(7,086)**	(3,899)	**(7,075)**	(3,887)
	1,758,296	1,880,483	**1,001,771**	1,009,791

It should be noted that this analysis may not reflect actual experience of repayments, since many mortgage loans are repaid early.

12 PROVISION FOR IMPAIRMENT LOSSES ON LOANS AND ADVANCES

Movement in provision for impairment on loans and advances to customers is as follows:	Loans fully secured on residential property		Other loans fully secured on land		2009			2008
	Individual	**Collective**	**Individual**	**Collective**	**Individual**	**Collective**	**Total**	Total
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	£'000
Group								
At 1 October	**3,343**	**188**	**250**	**118**	**3,593**	**306**	**3,899**	290
Write offs in year	**–**	**(64)**	**–**	**–**	**–**	**(64)**	**(64)**	–
Recoveries of amounts previously provided	**–**	**1**	**–**	**–**	**–**	**1**	**1**	6
Charge for the year net of recoveries	**2,530**	**87**	**264**	**369**	**2,794**	**456**	**3,250**	3,603
At 30 September	**5,873**	**212**	**514**	**487**	**6,387**	**699**	**7,086**	3,899
Society								
At 1 October	**3,343**	**176**	**250**	**118**	**3,593**	**294**	**3,887**	40
Write offs in year	**–**	**(64)**	**–**	**–**	**-**	**(64)**	**(64)**	–
Recoveries of amounts previously provided	**–**	**1**	**–**	**–**	**-**	**1**	**1**	6
Charge/(credit) for the year net of recoveries	**2,530**	**97**	**264**	**360**	**2,794**	**457**	**3,251**	3,841
At 30 September	**5,873**	**210**	**514**	**478**	**6,387**	**688**	**7,075**	3,887

13 IMPAIRMENT LOSSES AND PROVISION FOR LEVIES

	Group		Society	
	2009	2008	**2009**	2008
	£'000	£'000	**£'000**	£'000
Impairment losses on loans and advances to customers (see note 12)	**3,250**	3,603	**3,251**	3,841
Impairment losses on investment securities (see note 10)	**423**	512	**423**	512
Provision for Financial Services Compensation Scheme levies (see note 26)	**784**	1,043	**784**	1,043
	4,457	5,158	**4,458**	5,396

14 RELATED PARTIES AND INVESTMENTS IN GROUP UNDERTAKINGS

The Society has the following subsidiary undertakings, all of which are wholly owned.	Class of shares	Activity	Country of registration
Jersey Home Loans Ltd	Ordinary	Mortgage provider	England
Jersey Home Loans Ltd	Ordinary	Mortgage provider	Jersey
Easioption Ltd	Ordinary	Holding Company	England
Guernsey Home Loans Ltd	Ordinary	Mortgage provider	England
Guernsey Home Loans Ltd	Ordinary	Mortgage provider	Guernsey
Reliance Property Loans Ltd	Ordinary	Mortgage provider	England
Easiprocess Private Ltd	Ordinary	Back office processing	India
EasiOption BPO Services Private Ltd	Ordinary	Back office processing	India

All the above subsidiaries have a 30 September year end date, with the exception of Easiprocess Private Ltd and EasiOption BPO Services Private Limited which are required to have a year end of 31 March.

Investments in subsidiaries are financial fixed assets. The net movement during the year is as follows:	**2009** **£'000**	2008 £'000
At 1 October	**865,556**	703,978
Additions	**578**	188,799
Repayments	**(113,221)**	(27,221)
At 30 September	**752,913**	865,556

Transactions with key management personnel

The board considers the key management personnel to comprise executive and non-executive directors. Details of remuneration paid and mortgage loans made to key management personnel and connected persons are set out in note 7.

Key management personnel held deposits and shares with the group of £733,601 (2008: £579,791).

15 INTANGIBLE FIXED ASSETS

	Group and Society	
	2009	2008
	£'000	£'000
Cost		
At 1 October	**2,136**	2,007
Additions	**33**	129
At 30 September	**2,169**	2,136
Amortisation		
At 1 October	**1,854**	1,594
Charged in year	**125**	260
At 30 September	**1,979**	1,854
Net book value at 30 September	**190**	282
At 1 October	282	413

Intangible fixed assets consist of computer software.

16 PROPERTY, PLANT AND EQUIPMENT

Group	Freehold land and buildings	Equipment, fixtures and vehicles	2009 Total	2008 Total
	£'000	**£'000**	**£'000**	£'000
Cost				
At 1 October	**1,259**	**4,754**	**6,013**	5,286
Additions	**–**	**184**	**184**	764
Disposals	**–**	**–**	**-**	(37)
At 30 September	**1,259**	**4,938**	**6,197**	6,013
Depreciation				
At 1 October	**138**	**3,698**	**3,836**	3,200
Charged in year	**19**	**537**	**556**	641
On disposals	**–**	**–**	**–**	(5)
At 30 September	**157**	**4,235**	**4,392**	3,836
Net book value at 30 September	**1,102**	**703**	**1,805**	2,177
At 1 October	1,121	1,056	2,177	2,086

Society				
	£'000	**£'000**	**£'000**	£'000
Cost				
At 1 October	**1,259**	**4,012**	**5,271**	5,286
Additions	**–**	**75**	**75**	22
Disposals	**–**	**–**	**–**	(37)
At 30 September	**1,259**	**4,087**	**5,346**	5,271
Depreciation				
At 1 October	**138**	**3,409**	**3,547**	3,200
Charged in year	**19**	**272**	**291**	352
On disposals	**–**	**–**	**–**	(5)
At 30 September	**157**	**3,681**	**3,838**	3,547
Net book value at 30 September	**1,102**	**406**	**1,508**	1,724
At 1 October	1,121	603	1,724	2,086

Depreciation and amortisation in the income account is made up as follows:	Group 2009 Total	Group 2008 Total	Society 2009 Total	Society 2008 Total
	£'000	£'000	**£'000**	£'000
Depreciation of intangible assets	**125**	260	**125**	260
Depreciation of property, plant and equipment	**556**	641	**291**	352
Gain on the disposal of property	**–**	(94)	**–**	(94)
	681	807	**416**	518

17 DEFERRED TAX

	Group 2009 £'000	Group 2008 £'000	Society 2009 £'000	Society 2008 £'000
Deferred tax asset				
At 1 October	**129**	111	**129**	111
Amount provided in the year	**11**	18	**11**	18
At 30 September	**140**	129	**140**	129
This represents:				
Excess of depreciation over capital allowances	**140**	129	**140**	129
Deferred tax liability				
At 1 October	**39**	42	**39**	42
Fair value gains on available for sale assets	**19**	(3)	**19**	(3)
At 30 September	**58**	39	**58**	39

18 OTHER ASSETS

	Group 2009 £'000	Group 2008 £'000	Society 2009 £'000	Society 2008 £'000
Prepayments	**313**	463	**313**	285
Other assets	**1,197**	123	**44**	123
	1,510	586	**357**	408

19 SHARES

	Group and Society 2009 £'000	Group and Society 2008 £'000
Shares held by individuals	**1,875,815**	1,747,553
Repayable from the date of the balance sheet in the ordinary course of business as follows:		
On demand	**1,136,426**	1,628,007
In not more than three months	**182,189**	62,136
In more than three months but not more than one year	**359,227**	31,709
In more than one year but not more than five years	**197,973**	25,701
	1,875,815	1,747,553

20 AMOUNTS OWED TO CREDIT INSTITUTIONS

	Group and Society 2009 £'000	Group and Society 2008 £'000
Repayable from the date of the balance sheet in the ordinary course of business as follows:		
In not more than three months	**130,828**	217,051
In more than three months but not more than one year	**31,284**	169,000
In more than one year but not more than five years	**7,847**	25,000
	169,959	411,051

21 AMOUNTS OWED TO OTHER CUSTOMERS

	Group and Society 2009 £'000	Group and Society 2008 £'000
Repayable from the date of the balance sheet in the ordinary course of business as follows:		
In not more than three months	**19,507**	35,383
In more than three months but not more than one year	**3,890**	13,592
	23,397	48,975

22 OTHER LIABILITIES

	Group		Society	
	2009	2008	**2009**	2008
	£'000	£'000	**£'000**	£'000
Falling due within one year:				
Tax deducted at source from interest paid	**109**	100	**109**	100
Other creditors	**260**	345	**260**	345
Accruals and deferred income	**475**	1,031	**475**	892
	844	1,476	**844**	1,337

23 SUBORDINATED LIABILITIES

	Group		Society	
	2009	2008	**2009**	2008
	£'000	£'000	**£'000**	£'000
Linked to LIBOR (London Interbank Offered Rate):				
Floating rate Subordinated Liabilities 2015	**2,997**	2,993	**2,997**	2,993
Floating rate Subordinated Liabilities 2016	**2,989**	2,990	**2,989**	2,990
Floating rate Subordinated Liabilities 2017	**5,631**	5,634	**5,631**	5,634
Linked to the average standard mortgage rate of the five largest building societies:				
Floating rate Subordinated Liabilities 2017	**5,093**	5,132	**5,093**	5,132
Fixed rate:				
6.45% Subordinated Liabilities 2024	**9,993**	10,309	**9,993**	10,309
	26,703	27,058	**26,703**	27,058

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

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

24 SUBSCRIBED CAPITAL

	Group and Society 2009 £'000	Group and Society 2008 £'000
7.875% sterling permanent interest bearing shares	**14,957**	14,924
6.591% sterling permanent interest bearing shares	**21,944**	21,919
	36,901	36,843

The subscribed capital was issued for an indeterminate period and is only repayable in the event of the winding up of the Society. PIBS holders do not have any right to a residual interest in the Society and as such they have been classified as a debt instrument rather than equity.

25 EQUITY

	Group 2009 £'000	Group 2008 £'000	Society 2009 £'000	Society 2008 £'000
General reserve				
At 1 October	**51,567**	42,630	**46,630**	38,808
Profit for the financial year	**1,688**	8,937	**1,162**	7,822
General reserve at 30 September	**53,255**	51,567	**47,792**	46,630
Available for sale reserve				
At 1 October	**14**	21	**14**	21
Net gains (losses) from changes in fair value during the year	**55**	(7)	**55**	(7)
Available for sale reserve at 30 September	**69**	14	**69**	14
Total reserves at 30 September	**53,324**	51,581	**47,861**	46,644

26 FINANCIAL SERVICES COMPENSATION SCHEME

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

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

To date the Group has been charged and has paid the levy for the period to 31 March 2009 – which was based on deposit balances at 31 December 2007 – amounting to £736,300 against which provision of £1,043,000 had been made in the 2008 accounts. The levy for the second of the three initial years – for the year to 31 March 2010 – will be based on deposit balances at 31 December 2008 and can be estimated with reasonable accuracy and so, as shown in note 13, provision has been made for the expected amount of £1,090,430 (and net of the 2008 overprovision of £306,700 results in a charge of £784,000) which will be payable in September 2010.

On currently available information the levy for the third year is likely also to be approximately £1 million.

27 GUARANTEES AND OTHER FINANCIAL COMMITMENTS

a) The Society has a contingent liability which cannot be quantified in respect of contributions to the Financial Services Compensation Scheme required by the Financial Services and Markets Act 2000. An assessment of the Group's exposure to such contribuitions is set out in note 26 above.

b) There were no capital commitments for the Group contracted but not provided for as at 30 September 2009 (2008: £nil).

c) Operating leases

	Group and Society 2009 £'000	Group and Society 2008 £'000
Total commitments under operating leases		
Land and buildings		
Within one year	**47**	44
Within two to five years	**–**	–
After five years	**–**	–
	47	44

Notes

Overview
Financial instruments form a vast majority of the Group's and Society's assets and liabilities. The Group manages risk on a consolidated basis and risk disclosures are provided on this basis.

Types of financial instrument
A financial instrument is one which gives rise to a financial asset or a financial liability. The Group is a retailer of financial instruments, mainly in the form of mortgages and savings products. The Group also uses wholesale financial instruments to invest liquid asset balances, raise wholesale funding and to manage the risks arising from its operations. The Group does not operate a trading book and therefore does not have exposure to related higher risks run by many financial institutions.

The Group uses derivative instruments to manage various aspects of market rate risk. Instruments used for risk management purposes include derivative financial instruments ("derivatives") which are contracts whose value is derived from one or more of underlying price, rate or index inherent in the contract or agreement, such as interest rates. Derivatives are solely used by the Group, in accordance with the Building Societies Act 1986, to reduce the risk of loss arising from changes in market value. Derivatives are not used for speculative purposes.

Types of derivatives and uses
The derivative instruments used by the Group in managing its balance sheet risk exposures are interest rate swaps. These are used to protect the Group from exposures arising principally from fixed rate mortgage lending, deposit funding and subscribed capital. An interest rate swap is a contract to exchange one set of interest rate cash flows for another. Such swaps result in the economic exchange of interest rates. No exchange of principal takes place. Instead interest payments are based on notional principal amounts agreed at the inception of the swap. The duration and maturity profile of the interest rate swap reflects the nature of the exposures arising from the underlying business activities.

The following table describes the significant activities undertaken by the Group and the risks associated with such activities: derivatives in the form of interest rate swaps are used by the Group in managing such risks. Such risks may alternatively be managed using existing Balance Sheet instruments as part of the Group's integrated approach to risk management.

Activity	Risk
Fixed rate savings products and fixed rate funding	Decrease in interest rates
Fixed rate mortgage lending and fixed rate asset investments	Increase in interest rates

The fair value of the derivatives at 30 September 2009 are shown in note 29.

Financial risks
The principal risks to which the Group is exposed are operational, credit and liquidity and market risk. Each of these is considered below.

The Group has adopted the standardised approach for analysing credit risk and assessment of capital requirements. This approach considers risk weightings as defined under Basel II principles.

Operational risk
Operational risk, which is inherent in all business activities, is risk of direct or indirect loss resulting from inadequate or failed internal process, people and systems or from external events. It can occur in any of the Group's businesses and includes errors, omissions, natural disasters and deliberate acts such as fraud. The Group manages this risk within an overall governance and control strategy. Within this structure, potential risk exposures are assessed to determine the appropriate type of controls to be applied. It is recognised that such risks can never be entirely eliminated and that the cost of controls in minimising these risks may outweigh the potential benefits. However, where required, the Group continues to invest in risk management and mitigation such as business continuity management and incident management. Independent assessment of the effectiveness of the management of operational risk is undertaken by the Internal Audit function.

Credit risk – loans and advances to customers

Credit risks associated with mortgage lending revolve largely around the housing market and levels of employment. A recession and/or high interest rates may cause pressure within the market, resulting in rising levels of arrears and repossessions.

All loan applications are assessed with reference to the Group's lending policy. Changes to policy are approved by the board and the approval of loan applications is mandated.

As the economic environment changes, the ALCO regularly monitor and review lending activity taking appropriate actions to re-price products and adjust lending criteria in order to control risk and manage exposure. Significant changes are recommended to the board for subsequent inclusion in the Group's Lending Policy Statement.

The following table shows an analysis of the Group mortgage portfolio by borrower type at the year end:

Loans and advances to customers	2009		2008	
	£'000	%	£'000	%
Residential mortgages	**1,327,769**	**75**	1,456,249	77
Buy To Let mortgages	**289,742**	**17**	324,033	17
Commercial mortgages	**147,716**	**8**	103,994	6
Total	**1,765,227**	**100**	1,884,276	100

Property values are updated to reflect changes in the house price index. A breakdown of the table above by loan to value is as follows:

Loan to value analysis by band:

	2009					2008				
Band	Residential	Buy To Let	Commercial	Total		Residential	Buy To Let	Commercial	Total	
	£'000	£'000	£'000	£'000	%	£'000	£'000	£'000	£'000	%
0 - 50%	**773,078**	**61,975**	**22,495**	**857,548**	**49%**	822,584	81,978	22,980	927,542	49
50% - 60%	**194,782**	**44,730**	**10,752**	**250,264**	**14%**	195,968	37,066	11,858	244,892	13
60% - 70%	**161,584**	**49,426**	**25,647**	**236,657**	**13%**	211,683	67,099	13,635	292,417	15
70% - 80%	**143,348**	**76,159**	**69,052**	**288,559**	**16%**	111,401	100,545	45,477	257,423	14
80% - 90%	**47,572**	**37,127**	**13,526**	**98,225**	**6%**	98,102	35,504	9,208	142,814	8
>90%	**7,405**	**20,325**	**6,244**	**33,974**	**2%**	16,511	1,841	836	19,188	1
Total	**1,327,769**	**289,742**	**147,716**	**1,765,227**	**100%**	1,456,249	324,033	103,994	1,884,276	100

Analysis of mortgage portfolio by arrears and collateral held

The table below provides further information on the mortgage portfolio by payment due status:

Not impaired	2009		2008	
Status	Mortgage Balance	Collateral	Mortgage Balance	Collateral
	£'000	£'000	£'000	£'000
Not past due	**1,552,895**	**4,805,438**	1,708,360	5,010,273
Past due up to 3 months	**50,606**	**125,882**	85,268	154,754
Past due 3 to 6 months	**22,305**	**50,989**	27,860	59,455
Past due 6 to 12 months	**18,310**	**40,241**	14,882	25,924
Past due over 12 months	**16,041**	**35,280**	3,050	6,348
Possessions	**19,674**	**25,838**	1,421	3,569
Total	**1,679,831**	**5,083,668**	1,840,841	5,260,323

The table above includes assets that are in possession but where the recoverable value is more than the mortgage balance.

Notes

Impaired Status	2009 Mortgage Balance £'000	2009 Collateral £'000	2008 Mortgage Balance £'000	2008 Collateral £'000
Not past due	**65,066**	**65,315**	32,904	30,806
Past due up to 3 months	**1,219**	**1,137**	1,815	1,529
Past due 3 to 6 months	**5,692**	**5,570**	6,931	3,873
Past due 6 to 12 months	**2,057**	**1,983**	1,120	861
Past due over 12 months	**3,065**	**2,710**	556	511
Possessions	**8,297**	**3,833**	109	98
Total	**85,396**	**80,548**	43,435	37,678

Impaired mortgages above do not include balances that are past due if the recoverable value is more than the mortgage balance.

Provision for mortgages differs from the gap in the mortgage balance and collateral to the extent that:

a. In individually identified cases where the recoverable value is less than the mortgage balance, an impairment percentage has been applied
b. For cases subject to collective impairment where the recoverable value is less than the mortgage balance, an impairment percentage based on management assessment has been applied.

Collateral held against mortgages that are past due and impaired are set out below:

Collateral held in relation to secured loans that are either past due or impaired is capped to the amount outstanding on an individual loan basis.

Collateral held against Mortgages	2009 Mortgage Balance £'000	2009 Collateral £'000	2008 Mortgage Balance £'000	2008 Collateral £'000
Past due but not impaired	**126,936**	**278,230**	132,481	250,050
Impaired	**85,396**	**80,548**	43,435	37,678
Total	**212,332**	**358,778**	175,916	287,728

Geographical analysis by region

An analysis of mortgages by region is provided below:

Region	2009 £'000	2009 %	2008 £'000	2008 %
East Anglia	**22,913**	**1.3**	24,706	1.3
East Midlands	**44,569**	**2.5**	45,080	2.4
Greater London	**346,279**	**19.6**	343,494	18.2
North	**9,597**	**0.5**	9,384	0.5
North West	**46,719**	**2.6**	45,918	2.4
South East	**412,719**	**23.4**	421,144	22.4
South West	**61,362**	**3.5**	58,425	3.1
Wales	**12,559**	**0.7**	13,350	0.7
West Midlands	**38,093**	**2.2**	38,209	2.0
Yorks & Humberside	**16,904**	**1.0**	19,475	1.0
Guernsey	**135,046**	**7.7**	153,931	8.2
Jersey	**614,237**	**34.8**	708,331	37.6
Isle of Man	**4,230**	**0.2**	2,829	0.2
Total	**1,765,227**	**100.0**	1,884,276	100.0

Credit risk - investment securities, loans and advances to credit institutions and derivative financial instruments

The Group holds treasury instruments in order to meet liquidity requirements and for general business purposes. The credit risk arising from these investments is closely monitored and managed by the Group's treasury department within the guidelines laid down in the Financial Risk Management policy approved by the board and reported to ALCO monthly.

As at 30 September 2009 one of the Group's treasury portfolio exposures (Glitnir: £1.6 million against which impairment provision has been made of £935,000) was both past due and impaired. There are no assets whose terms have been renegotiated.

The Group has no exposure to emerging markets and only limited exposure to non investment grade debt, including investments with other building societies and local authorities. The ALCO is responsible for approving treasury counterparties.

Credit risk (continued)

The table below provides further analysis of the Group's treasury investment portfolio by credit rating and by location of issuer:

Ratings 2009	AAA	AA	A	Less than A rating	Unrated building societies	Total
Certificate of deposit	**2,115**	**28,941**				**31,056**
Call accounts	**1,323**	**37,569**				**38,892**
Time deposits		**2,003**	**12,011**	**27,036**	**42,111**	**83,161**
Floating rate notes		**22,775**	**14,260**	**12,756**	**2,006**	**51,797**
Treasury bills	**176,963**					**176,963**
Gilts	**47,841**					**47,841**
Total	**228,242**	**91,288**	**26,271**	**39,792**	**44,117**	**429,710**
Percentages	52%	21%	6%	9%	10%	100%

Ratings 2008						
Certificate of deposit	4,000	82,050	102,800		29,600	218,450
Call accounts	1,056	53,824				54,880
Time deposits		34,000	27,000		55,000	116,000
Floating rate notes		23,260	21,900	6,600		51,760
Total	5,056	193,134	151,700	6,600	84,600	441,090
Percentages	1%	44%	34%	2%	19%	

The Group also monitors exposure concentrations against a variety of criteria including industry sector/asset class and country of risk. To avoid refinancing risks associated with any one counterparty, sector or geographical region the board has set appropriate limits. These are contained in the Financial Risk Management Policy.

Industry sector/asset class	2009		2008	
	£'000	%	£'000	%
Financial institutions				
Banks	**324,232**	**75**	299,840	68
Building societies	**105,478**	**25**	141,250	32
Local authorities	**-**	**-**	-	-
Total	**429,710**	**100**	441,090	100

Geographical exposure	2009		2008	
	£'000	%	£'000	%
United Kingdom	**408,748**	**95**	256,600	58
Europe except United Kingdom	**14,708**	**3**	155,740	35
Asia	**-**	**0**	13,000	3
America	**3,251**	**1**	3,250	1
Australia	**3,003**	**1**	12,500	3
Total	**429,710**	**100**	441,090	100

Liquidity risk

Liquidity risk is the risk of having insufficient liquid assets to fulfil obligations as they become due, or the cost of raising liquid funds becomes too expensive. The Group increased its minimum level of liquidity, above our normal range, in response to the current credit crisis.

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

The development and implementation of the liquidity policy is the responsibility of ALCO, with day-to-day management delegated to treasury as detailed in the Financial Risk Management Policy. A series of liquidity stress tests are performed each month to confirm that the limits remain appropriate. ALCO is responsible for setting limits over the level and maturity profile of wholesale funding for monitoring the composition of the Group balance sheet.

For each material class of financial liability a contractual maturity analysis is provided in notes 19 to 21.

Liquidity risk (continued)

The following table is an analysis of the Group's cash flows payable under financial liabilities:

As at 30 September 2009	Up to 3 months £'000	3-12 months £'000	1-5 years £'000	More than 5 years £'000	Total £'000
Shares	**1,300,702**	**359,227**	**197,973**		**1,857,902**
Amounts owed to credit institutions and other customers	**149,387**	**35,865**	**9,401**		**194,653**
Derivative financial instruments	**68,445**				**68,445**
Other liabilities	**844**	**1,090**			**1,934**
Subordinated liabilities	**201**	**978**	**9,181**	**24,453**	**34,813**
Subscribed capital		**2,638**	**25,555**	**24,181**	**52,374**
Total liabilities	**1,519,579**	**399,798**	**242,110**	**48,634**	**2,210,121**

As at 30 September 2008	Up to 3 months £'000	3-12 months £'000	1-5 years £'000	More than 5 years £'000	Total £'000
Shares	1,701,773	34,964	26,947		1,763,684
Amounts owed to credit institutions and other customers	251,375	191,313	27,502		470,190
Derivative financial instruments	12,662				12,662
Other liabilities	1,476	2,682			4,158
Subordinated liabilities	442	1,625	12,324	27,356	41,747
Subscribed capital		2,635	10,555	41,819	55,009
Total liabilities	1,967,728	233,219	77,328	69,175	2,347,450

The subscribed capital consists of PIBS which theoretically have no maturity date. It has been assumed they will mature at the first call date.

Market risk

Market risk is the risk of potential adverse change in Group income or the value of Group net worth arising from movement in interest rates, exchange rates or other market prices. Market risk exists, to some extent, in all the Group's businesses. The Group recognises that the effective management of market risk is essential to the maintenance of stable earnings and preservation of member value.

Interest rate risk

The primary market risk faced by the Group is interest rate risk. Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. It is most prevalent in mortgage lending where fixed rate mortgages are not funded by fixed rate deposits of the same duration, or where the fixed rate risk is not hedged by a fully matching interest rate derivative.

The Group is exposed to movements in interest rates reflecting the mismatch between the dates on which interest receivable on assets and interest payable on liabilities are next reset to market rates or, if earlier, the dates on which the instruments mature. The Group manages this exposure on a continuous basis within limits set by the ALCO and the board, through the use of derivatives. After taking into account the various derivatives entered into by the Group, the interest rate sensitivity at 30 September is assessed by considering a parallel shift in interest rates at that date: if interest rates had been 100 basis points higher and all other variables were constant, the Group's annual profit after tax and equity for 2009 would increase by £1.97 million. For a similar parallel 100 basis points decrease in interest rates the Group's profit after tax would decrease by £1.99 million. In 2008 the corresponding effect was £2.2 million. The Group's sensitivity to interest rates has remained largely constant over the two reporting periods.

There is no material difference between the interest rate risk profile for the Group and that for the Society.

Fair value adjustments for hedged risk

This represents the fair value adjustments to the carrying value of mortgage assets, amounts owed to credit institutions and other customers, subordinated debt and subscribed capital as a result of portfolio hedging.

Fair values of financial assets and financial liabilities

The following table gives a comparison of book and fair values of some of the Group's financial assets and liabilities as at 30 September 2009. The Group does not undertake transactions for trading or speculative purposes. Market values have been used to determine fair values but where these are not available the financial instruments have been valued by discounting cash flows at prevailing interest rates.

Group 2009

	Positive Book value £'000	Positive Fair value £'000	Negative Book value £'000	Negative Fair value £'000	Principal/ Notional £'000
Cash and balances with the Bank of England	**260**	**260**			**260**
Loans and advances to credit institutions	**121,793**	**121,917**			**121,630**
Investment securities	**307,657**	**307,677**			**304,910**
Loans and advances to customers	**1,758,296**	**1,856,248**			**1,765,227**
Amounts owed to credit institutions			**(169,959)**	**(171,012)**	**168,050**
Amounts owed to other customers			**(23,397)**	**(23,451)**	**23,356**
Subordinated debts			**(26,703)**	**(29,412)**	**26,650**
Subscribed capital			**(36,901)**	**(27,449)**	**37,000**
Derivatives	**1,134**	**1,134**	**(68,445)**	**(68,445)**	**826,750**
Total	**2,189,140**	**2,287,236**	**(325,405)**	**(319,769)**	

Group 2008

	Positive Book value £'000	Positive Fair value £'000	Negative Book value £'000	Negative Fair value £'000	Principal/ Notional £'000
Cash and balances with the Bank of England	209	209			209
Loans and advances to credit institutions	172,153	172,120			170,485
Investment securities	271,824	271,822			269,076
Loans and advances to customers	1,880,483	1,914,352			1,884,276
Amounts owed to credit institutions			(411,051)	(411,127)	405,535
Amounts owed to other customers			(48,975)	(48,978)	48,594
Subordinated debts			(27,058)	(28,815)	26,650
Subscribed capital			(36,843)	(37,596)	37,000
Derivatives	5,338	5,338	(12,662)	(12,662)	990,550
Total	2,330,007	2,363,841	(536,589)	(539,178)	

Effective interest rate

The table below summarises the effective interest rate for monetary financial instruments not carried at fair value through the income statement.

	Group		Society	
Assets	**2009**	2008	**2009**	2008
Cash and balances with the Bank of England	**0.00%**	0.00%	**0.00%**	0.00%
Loans and advances to credit institutions	**0.96%**	5.86%	**0.96%**	5.86%
Loans fully secured on residential property and other loans	**4.51%**	5.95%	**4.22%**	6.01%
Liabilities				
Shares	**2.40%**	5.42%	**2.40%**	5.42%
Amounts owed to credit institutions and other customers	**2.42%**	5.80%	**2.42%**	5.80%
Subordinated liabilities	**4.41%**	7.27%	**4.41%**	7.27%
Subscribed capital	**7.17%**	7.18%	**7.17%**	7.18%

30 PENSION SCHEME

The Society operated a defined benefit pension scheme (the Scheme) funded by the payment of contributions to a separately administered fund for nine retired members. The board decided to close the Scheme with effect from 31 December 2001 and introduced a new defined contribution scheme to cover service of Scheme members from 1 January 2002.

The Scheme Trustees, having taken actuarial advice, decided to wind up the Scheme rather than continue to operate it on a "paid up" basis. The winding up is largely complete. As at 30 September 2009 the liability to remaining members is £57,000 (2008: £57,000) and is matched by Scheme assets.

31 CAPITAL MANAGEMENT

The Society's policy is to maintain a capital base sufficient to enable continuing growth and investment for the benefit of its members.

The Society's capital adequacy and capital resources are managed and monitored in accordance with the regulatory capital requirements of the Financial Services Authority (FSA), the UK regulator. The Society has in place processes and controls to monitor and manage the Society's capital adequacy and there were no breaches of capital requirements during the year.

	Group 2009 £'000	Group 2008 £'000
Tier 1 Capital		
General reserves	**53,324**	51,581
Subscribed capital	**36,901**	36,843
Less: Intangible assets	**(190)**	(282)
	90,035	88,142
Tier 2 Capital		
Subordinated debt	**26,703**	27,058
Total regulatory capital	**116,738**	115,200

Under Basel II Pillar 3 the Group is required to publish further information about its capital position and exposures. Copies of the Group's Pillar 3 disclosures are available on demand.

32 ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

Disclosed below are new standards and interpretations which have been adopted during the year:

- IAS 39 & IFRS 7 – Reclassification of Financial Instruments (updated). This amendment permits reclassification of certain non-derivative financial assets out of fair value through the income statement in particular circumstances. The amendment also permits an entity to transfer from available for sale category to the loans and receivables category a financial asset that would have met the definition of loans and receivables if the financial asset had not been designated as available for sale if the entity has the intention and ability to hold that financial asset for the foreseeable future. The Group has not applied any of the reclassification options available in this amendment.

1. Statutory percentages

	2009 %	Statutory limit %
Lending limit	**11.71**	25
Funding limit	**9.34**	50

The above percentages have been calculated in accordance with the provisions of the Building Societies Act 1986 as amended by the Building Societies Act 1997.

The lending limit measures the proportion of business assets not in the form of loans fully secured on residential property. Business assets comprise total assets plus impairment provision, less liquid assets, intangible assets and tangible fixed assets.

The funding limit measures the proportion of shares and other borrowings not in the form of shares held by individuals.

The statutory limits are laid down in the Building Societies Act 1986 as amended by the Building Societies Act 1997 and ensure that the principal purpose of a building society is that of making loans which are secured on residential property and are funded substantially by its members.

2. Other percentages

	2009 %	2008 %
As a percentage of shares and borrowings:		
Gross capital	**5.65**	5.23
Free capital	**5.52**	5.13
Liquid assets	**20.77**	20.12
Profit for the financial 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 above percentages have been prepared from the Society's consolidated accounts and in particular:

"Shares and borrowings"	represents the total value of shares, amounts owed to credit institutions, and amounts owed to other customers.
"Gross capital"	represents the aggregate of reserves, subscribed capital and subordinated liabilities.
"Free capital"	represents the aggregate of the gross capital, impairment provision less tangible fixed assets and intangible assets.
"Liquid assets"	represents the total of cash in hand and balances with the Bank of England, investment securities and other liquid assets.
"Mean total assets"	represents the amount produced by halving the aggregate of total assets at the beginning and end of the financial year.
"Management expenses"	represents the aggregate of administrative expenses, depreciation and amortisation.

3. Information relating to directors and officers as at 30 September 2009

Name	Date of birth	Date of appointment	Occupation	Directorships (other than Group subsidiaries)
Directors				
M S Mackenzie BA (Chairman)	12.07.47	29.01.02	Director	Seaforth Brook Ltd The Tank Museum Ltd
D S Kemp (Vice Chairman)	16.10.47	01.04.86	Director	None
M J Lazenby FCIB, FRSA	08.05.55	10.07.00	Building Society Chief Executive	mikelazenby.com Ltd*
M G McCaig BSc, MCMI, MIBC, CMC	25.05.55	24.03.09	Director	Rennaisance Capital Ltd Barbon Insurance Group Ltd Caley Ltd Glasgow Caledonian University Company Ltd Crest Nicholson Holdings Ltd Meretune Management (Falcon) Ltd M G McCaig Ltd Unum Ltd
A S Nelson CBE, DL, MA	22.04.41	01.03.95	Director	Individual Learning Co Ltd Fair Play South East Ltd
A Newell MBA, FCIB	19.06.56	29.11.05	Director	East Thames Group Ltd East Treasury Ltd Triathlon LLP Rosebery Housing Association Off the Streets and into Work Ltd
R D Procter BA, FCIB, FRSA	02.01.58	01.05.04	Deputy Chief Executive	None
R Scruton MSc, FCA, FRSA	06.04.52	01.05.04	Finance Director	St Martins Emmaus
Dr P R Williams BA, MSc, PhD	13.07.46	01.07.09	Director	PR Williams Ltd ConsultCIH Ltd National Housing and Planning Advice Unit Thames Valley Housing Association Ltd

Only the executive directors have service contracts with the Society. Mike Lazenby entered into his contract on 17 January 2000, Rob Procter and Bob Scruton entered into their contracts on 1 May 2004. The contracts can be terminated by either party giving notice of 1 year in the case of Mike Lazenby and Rob Procter and six months in the case of Bob Scruton.

Correspondence to the directors jointly or individually should be addressed "Private and Confidential" and c/o the Society's Head Office, Reliance House, Sun Pier, Chatham, Kent ME4 4ET.

* represents a dormant company

Name	Occupation	Directorships (other than Group subsidiaries)
Officers		
M J Lazenby FCIB, FRSA	Chief Executive	As above
Y Agarwal MBA	Managing Director of Easiprocess Private Ltd	None
L G Davies FMAAT	Head of Treasury	None
R D Procter BA, FCIB, FRSA	Deputy Chief Executive	None
C Byrne LL.B	Society Secretary	None
R Scruton MSc, FCA, FRSA	Finance Director	As above

No director or officer has any rights to subscribe for shares in, or debentures of, any connected undertaking of the Society.

KENT RELIANCE BUILDING SOCIETY
CHARITABLE TRUST

Charitable Trust

Kent Reliance Building Society has set up a brand new charitable trust to help communities both at home and abroad and we would like to tell you some more about just one of our campaigns.

Last year we introduced you to our new charity campaign Quid 4 a kid and our desire to raise £500,000 to build a new orphanage in India.

The home, based in Mangalore is only rented and has no secure tenure which could mean innocent children may be made homeless at any point.

These children through no fault of their own have been infected with the Aids virus, inherited from one or both parents. Sadly, there are many more children still waiting for a place at the home and in the meantime they are at risk.

Our campaign is progressing well but we would love you to get involved and be part of making the time they have left a happy, safe and secure one.

giftaid it

Please help us achieve our goal...just a pound or as much as you can spare would be fantastic.

To make a donation or just to find out more please visit our dedicated website at www.quid4akid.com

I fully appreciate that these are tough times financially but any donation would mean the world and if applicable, you can now Gift Aid it so for every pound you give HM Revenue & Customs will give a further 28p!!

Mike Lazenby
Chief Executive

Quid 4 a Kid

Charitable Trust

The Walking Bus schools hold their Annual Teddy Bear's Picnic at Rochester Castle. Kent Reliance sponsor a number of these schools and is always keen to help out and get involved in the fun.

Photograph courtesy of Kent Messenger.

KRBS is a carbon neutral company

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