



Annual Members' Review

31 December 2017

Incorporating the financial statement

Kent Reliance Provident Society Limited (the Society):
Registered No. 31056R

KentReliance
Provident Society

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01

Society Information

Directors:

Andy Golding (Chairman and Chief Executive Officer)
John Eastgate
Clive Kornitzer
John Paddick
April Talintyre

Secretary:

Jason Elphick

Registered Office:

Reliance House
Sun Pier, Chatham
ME4 4ET

Auditor:

KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square, London
E14 5GL

Registered Number:

31056R

02

Introduction

The Directors have pleasure in presenting the summary report and financial statement for the year ended 31 December 2017. This financial statement is an extract of the audited accounts and the Directors' Report which will be available to members free of charge on demand from the Kent Reliance Provident Society (the Society) Registered Office from 22 June 2018 and on the Society's website, krps.com.

This is the seventh reporting period for the Society. The Society is regulated under the Co-operative and Community Benefit Societies Act 2014. The Society is a mutual organisation and operates exclusively for the benefit of its members.

Andy Golding

Chairman and Chief Executive Officer

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STRATEGIC REPORT

Chairman and Chief Executive Officer's Statement

I am pleased to report on the performance of the Kent Reliance Provident Society ('the Society') for 2017, together with a brief outline of the performance of OneSavings Bank plc ('OSB' or 'the Bank'), in which the Society retains its shareholding and which is the legal entity providing the banking services to the Society's Members.

OSB continues to enjoy a close working relationship with the Society, utilising dialogue directly with the Society's membership to inform its service and product development by bringing the voice of its customers (the Members) directly into the key operational committees of the Bank.

The Society held a number of Member events in 2017 and actively used its online consultation portal; seeking input into issues such as product maturities (savings and mortgages), customer documentation and how to improve it, and making sure our letters and customers' choices are clear and easy to understand. The portal is currently being redesigned for re-launch later in the year.

The Society has retained its shareholding in OSB, the value of which has increased in line with OSB's share price. At the time of the Bank's flotation, the Bank's Board agreed that shares put aside for executives and staff of the Bank at the time of the IPO, but where such individuals have left the Bank before their awards had matured, would be transferred to the Society. No additional shares were received during 2017.

Members will recall that at last year's Annual General Meeting ('the AGM'), the Society's Board recommended that the revenue received by the Society, by way of dividends from its shareholding in OSB, be donated to worthwhile causes through the Society's own Community Fund. This proposal was overwhelmingly endorsed by Members. Continuing in that spirit of mutuality and community giving, this year the Directors have once again recommended that the dividends received be similarly donated and Members will have the opportunity to indicate their preference by voting at the AGM.

The Bank and the Society share a common ancestry going back over 150 years, and continue to share the common interests of their respective customers/Members and the integrity of the trading name of Kent Reliance.

For providing these services and customer insight, OSB continues to underwrite the operational and governance costs of the Society, and also to fund the Society's monthly prize draw and community giving programme. The following information gives an overview of the Bank, how it performed during 2017 and the dividend paid to the Bank's shareholders.

Overview of OneSavings Bank plc

(Extracted from the 2017 Annual Report & Accounts)

23%

Growth on the Group's net loan book

Continued strong performance

We continue to deliver exceptional performance and reinforce our position as a leading specialist lender, supported by our stable, long-standing retail savings franchise and efficient, scalable back office function.

The Group's clear strategy and unique business model have proven robust as we successfully navigated significant regulatory and tax changes during the year.

Results

Underlying basic earnings per share grew by 23% to 51.1 pence with underlying pre-tax profit up by 21% to £167.7m.

OSB achieved particularly strong growth in our core Buy-to-Let lending sub-segment as the market became more focused on our professional landlord audience; we also enhanced our residential mortgage segment through selective asset acquisition, and increased our capital ratio following the sale of our economic interest in the Rochester Financing No. 1 plc securitisation.

We finished the year with a strong balance sheet, a high quality secured asset portfolio and an excellent reputation for customer service. Our strategy continues to provide the platform for us to grow and develop our business.

Overview of OneSavings Bank plc

(Extracted from the 2017 Annual Report & Accounts)

12.8p

Total dividend per share

The Group grew its loan book by 23% to £7.3bn in 2017, whilst maintaining its strong discipline on understanding and pricing for risk, and delivering a stable net interest margin ('NIM') of 3.16% for the year.

Balance sheet growth was achieved whilst delivering a best in class return on equity of 28% and a low cost to income ratio of 27%. Our Common Equity Tier 1 ('CET1') capital ratio increased to 13.7% from 13.3% in 2016, demonstrating the strength of our organic capital generation capability to support significant growth through profitability. I am very pleased that we further optimised our capital structure through the issuance of £60m of Additional Tier 1 securities ('AT1 securities') in May 2017.

Best Specialist Lender

OneSavings Bank continued to grow its loan book through its specialist lending brands, with total organic origination up by 14% in 2017 to £2.6bn. Our core Buy-to-Let lending sub-segment grew by 39% to £5.0bn, with our target audience of professional landlords continuing to deliver strong application and

28%

Return on equity

completion volumes.

This performance has been achieved despite the overall Buy-to-Let market shrinking in response to tax and regulatory changes. These changes have reduced the attractiveness of the sector to amateur investors, whilst largely maintaining the interest of professional landlords, and have driven the reduction in gross advances from £40.6bn in 2016 to £35.8bn in 2017. In this context, the Bank's performance demonstrates the sustainable strength of our proposition targeted at professional landlords, particularly our specialist, manual underwriting, and our deep relationships with mortgage intermediaries.

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We finished the year with a strong balance sheet, a **high quality secured asset portfolio** and an **excellent reputation** for customer service.

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Overview of OneSavings Bank plc

(Extracted from the 2017 Annual Report & Accounts)

90%

Customer retention rate

27,000

New savings customers in 2017

Sustainable Funding Model With Award-Winning Savings

Our stable and award-winning retail funding franchise continues to support lending growth, with retail deposits up 12% to £6.7bn during the year. Over 27,000 new savings customers joined the Bank during 2017 and our successful programme of creating long-term savings relationships by offering market competitive rates to all customers, including those with maturing fixed rate bonds and ISAs, continued to deliver a very strong 90% retention rate. The strength and fairness of our retail savings proposition, coupled with excellent customer service and high retention rates, continues to allow the Bank to raise significant funds without needing to price at the very top of the best buy tables and provides a consistent and stable source of liquidity.

I am delighted that Kent Reliance has been recognised by Moneyfacts in 2017 as the Best Cash ISA Provider for the fifth year running. The Bank also received the ISA Provider of the Year Award from Consumer Moneyfacts for the second consecutive year. These awards are a testament to our savings proposition and to the outstanding customer service delivered by our staff.

Looking Forward To 2018

Over the coming year, organic lending through the Buy-to-Let segment will remain the key driver of loan book growth, but we expect to grow our residential lending, and our commercial and bridge finance lending through our InterBay Commercial brand. Our primary growth strategy remains organic origination, but we continue to look at inorganic opportunities, including portfolio purchases, where they meet the Bank's return hurdles.

I believe that OneSavings Bank is well placed to take advantage of opportunities that arise and we remain capable of generating attractive returns for our shareholders.

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Our stable and
award-winning retail
funding franchise continues
to support lending growth

.....

Customers, Community and the Society

The Bank and the Society continue to work closely to preserve the values of service excellence, innovation and value that have been a key part of the Kent Reliance history. The Society continues to play an important role for the OSB Group, with its principal function to act as the eyes, ears and voice of the Bank's customers and help it to shape its product and service offering in a way that meets the needs of both savers and borrowers.

As Members will recall, the Society and Bank have been using a new form of consultative medium; a so called "portal" or website, through which the Society and Bank can address a much larger and geographically dispersed section of the Society's membership than can be achieved using the traditional "focus group" gatherings. This innovative new channel already has over 350 Members signed up who have participated in reviewing a range of documentation and processes with a view to improving their effectiveness and simplicity. Now some 2 years on, we are taking the opportunity to review the effectiveness of the portal given Members' feedback and hope to launch a new more effective portal later this year.

This commitment to preserving the place of customers within the heart of the Bank is reflected in the measurement of its customer satisfaction, the scores for which have continued to improve, with the key performance indicator of Net Promoter Score ('NPS' – broadly a reflection of the number of customers who would definitely recommend the Bank to others) increasing 3% to 62% during 2017.

In addition, I am delighted to report that the Society has continued its monthly free prize draw for qualifying Members, with a further 12 Members receiving a prize of £1,000 each during the year. Details of the rules of the draw can be found on the Society's website (www.krps.com).

To match this prize fund, the Society also donates £1,000 each month to the Kent Reliance Community Fund, which is administered on its behalf by the Kent Community Foundation. In addition, the Society is also a member of the Medway 100 Club, a group of businesses which pool donations into a fund designed to support the many good community causes that operate within the Medway Area. More details of the causes that have benefited from these funds and others that OSB has supported directly appear on pages 12 and 13.

Summary

Once again I am happy to report that the Bank and the Society have continued to grow and deliver against their joint mandates; working in partnership to bring our customer values to life, and through the generosity of Members, providing financial assistance to a wide range of community causes and organisations. Despite regulatory and political uncertainty, OSB has shown itself resilient and will maintain its focus on delivering its stated strategy and objectives. Our achievements in 2017 are a testament to our management and staff and I would like to thank my colleagues for their hard work and commitment throughout the year.

In view of the strength of this financial performance, OSB has recently announced a final dividend of 9.3p per share, which together with the interim dividend already paid of 3.5p per share makes a total 12.8p per share from which the Society will of course benefit by virtue of its shareholding in the Bank. True to its values as a mutual, the Board of the Society will consult with Members on the potential use of this income.

Andy Golding

Chairman and Chief Executive Officer
30 April 2018

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Community Matters

For over 150 years, Kent Reliance has been synonymous with the county of Kent and a passionate supporter of its local community. This passion is equally shared across the OSB Group, most significantly via the charitable activity of Kent Reliance and the Society.

It has been four years since we announced that the Society had developed a community fund and committed to donating £1,000 each month to it, together with the dividend received by the society in respect of its holding of ordinary shares in OSB. Last year alone the society donated over £94,000 to community and charitable organisations throughout Kent via its relationship with the Kent Community Foundation, which provides the administration for the fund. It provides the Society with a suggested shortlist of worthy causes and specific requests which is then passed to a panel of Society members for their decision.

The focus of these donations has been in support of smaller, volunteer based services assisting young and older people in need. The Directors have decided to place any surplus funds directly with OSB in an interest-bearing account.

During 2017, a panel of Members of the Society met to decide which applicants were to receive donations from the Community Fund. The panel, which last year included Members from the Canterbury area, met three times and agreed awards to 50 causes throughout Kent, totalling over £94,000.

The Kent Community Foundation collates and presents to the panel applications for community projects, having undertaken appropriate due diligence. It also follows up each award, with successful applicants required to submit a formal end-of-grant report, with evidence that the grant was spent as intended.

The following is just a sample of the feedback from previously funded projects.

Academy FM Folkestone

Communication and Confidence Project
£1,000 Grant Awarded in February 2016
77 Beneficiaries (19 more than originally planned)

The £1,000 grant awarded to Academy FM Folkestone has enabled the training of 77 young people in radio presentation. For the Year 6 and Year 7 students, confidence was noticeably improved over the course of their first one hour radio show; often they would be very nervous at the start; nevertheless by the end of the hour they would be delivering confident and projected dialogues and by the time the youngsters had come back to take part in their second radio show they were operating the studio equipment to a basic level. One parent commented that her daughter was “a quiet girl, now much more confident. She is confident in being part of a team and working with others”. The older children are now working confidently in the Academy office, preparing their radio shows maturely and carrying themselves with a confidence many did not have before; improved communication skills, many even communicating exactly as professional radio staff would.

Academy FM recorded data for Year 9 and Year 10 students’ improvement. The results showed an increase at or above the 2 points initially predicted. Academy FM also worked with a large number of Year 6 and Year 7 students and took a sample of the improvements during a radio show; which showed a similar level of improvements as the older students.

Ashford Family Nursery

Subsidies of Costs for Vulnerable Families
£2,000 Grant Awarded in February 2016
40 Beneficiaries

Ashford Family Nursery have utilised their generous grant to subsidise costs for vulnerable families who cannot afford the fees, and continue to support those children and their families in preparing them as best as possible for the start of full time school. In total this grant has meant that; two Syrian refugee families, three Polish families, one family from Mauritius, one family from China, two dual language families and one family from a traveller background, as well as several families with varying learning and behavioural difficulties, have had the full support of the Ashford Family Nursery.

An example given by an applicant: “With your help we are supporting a young family with two young children. The children’s father has had to give up work due to ill-health and their mother is going through a complicated pregnancy. The children have been moved about a lot in the past and have just recently settled into a new home with their mother. They had previously been living in a bed and breakfast due to the couple separating. Both children are attending a full 5 days per week.”

Carers FIRST

Volunteer Projects

£5,000 Awarded in May 2016

41 Beneficiaries

As a result of this grant, Carers FIRST have been able to develop and improve the support they provide to new and existing volunteers. Their training has enhanced the service provided to carers in the local community. The training courses provided by this grant have also enabled new volunteers to be recruited into the befriending services, which has reduced the waiting list and as a result of this more carers are receiving regular and ongoing support.



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“Can’t thank you enough for giving T and I some quality time together in such a beautiful house.” T’s Mum

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Fegans

Counselling Support for Children

£1,500 Awarded in November 2016

54 Beneficiaries

The funding has enabled Fegans to continue supporting children across West Kent. This funding has primarily allowed Fegans to launch a bursary to which families can apply if they cannot afford counselling services. This enables families at high financial disadvantages to receive the same support that others have access to. The integration of this bursary into Fegans services has also allowed a more robust evaluation of individuals and families that are already receiving discount to support services and ultimately change their commercial model for the better.

“It is hard to emphasise the impact of this grant to us in a few words but I’ll try. The impact to our culture – Fegans had never had a bursary before and this grant launched our first way of assessing “need”. The impact to our morale – the work we do is often isolated and away from eyes; it is rare to get active feedback as we are there for our clients, not the other way round. This bursary was felt by our therapists as a real vote of confidence in what they do. The impact to our clients – during this time we have worked through child sex abuse, FGM, serious neglect, threatened child suicide and crushing depression. How amazing that you supported us through this time. The impact to their broader families – having the funds underpinning the children’s counselling gave us the confidence to offer parenting interventions as well. Thus the best of all interventions was possibly child and parent, meaning the impact is deeper and longer lasting. Finally, as CEO I sit near the front door and as I answer it I have met most of the clients your precious fund have supported. So I can tell you, first hand, that the change in demeanour in so many children has been spectacular. Thank you so so much.” Ian

The Children's Development Fund (YouCan)

Profiling Bed & Mattress

£945 Awarded in November 2016

12 Beneficiaries

The grant awarded has allowed the Children's Development Trust to offer young people with reduced mobility, or those in wheelchairs due to cancer treatment, full access to the facilities at Hinton House; giving them the comfort and comforts that make a holiday break possible. It is expected that the bed and mattress will provide five years of service within Hinton House.

Case Study

T is a 16 year old who was referred from the Royal Marsden following completion of her treatment for leukaemia. Treatment had left T with severe chronic limb pain, making mobility difficult and leaving her having to use a wheelchair for much of the time. Her medical team noted that she had ongoing anxiety, depression and that family relationships had been strained. Because we had a fully accessible suite, with appropriate profiling mattress and bed, we were able to offer T and her family a week's break together.

"We had a wonderful break and can't thank YouCan enough for letting us stay. Westgate-on-Sea is gorgeous and so relaxing going to the beach and listening to the sounds around us." T

"Can't thank you enough for giving T and I some quality time together in such a beautiful house." T's Mum

Square Pegs Drama Club

2017 Grand Performance

£1,000 Awarded in November 2016

30 Beneficiaries

This project has developed the confidence, self-esteem and social communication skills in 30 young people with learning disabilities through specialist drama and music workshops, rehearsals and performance. Through participating in this project these people have built new friendships and grown in confidence. Volunteers have also developed transferable skills through training and experience gained through this project.

One young person with learning difficulties and extreme anxiety (who has been involved with our group for 5 years) took part in this project. He has never performed on stage before due to his low confidence but through nurturing and supporting him – and writing a role especially designed for his needs – in this project he confidently performed on the stage in front of an audience of 220 for the first time ever. This was a significant breakthrough for us and his family are overwhelmed with the difference in him through his involvement with Square Pegs.



05

Directors' Report

Business review

The Society made a strong profit during the year, driven by the revaluation of its investment in OSB shares. The Society's principal trading income, derived from an agreement entered into with OSB to assist the Bank in ensuring its operations and services fairly represent the wishes and desires of Members wherever possible, generated a modest profit for the year.

The Society assisted the Bank in conducting a number of customer research activities during the year.

The Society also continued with its free monthly prize draw, and its charitable giving programme.

Financial results

The Society's profit before taxation for the year to 31 December 2017 was £918k (2016: £909k). The profit after taxation for the year was £786k (2016: £763k).

Assets

The Society's sole investment is its holding of equity in OSB.

As at 31 December 2017, the Society held (and continues to hold) 1,169,815 Ordinary Shares of £0.01 in OSB (2016: 1,169,815).

As per last year, the Board has decided it is appropriate that the investment be valued in the Society's accounts at the prevailing market value as at the accounting reference date.

Capital

The Society is not regulated as a financial institution, but is registered with the Financial Conduct Authority as the registering authority under the Co-operative and Community Benefit Societies Act 2014. This legislation replaced the former Acts of Parliament that governed Industrial and Provident Societies, and under which the Society was originally incorporated.

There are no specific externally set capital requirements. However, the Board is mindful of its financial obligations and has agreed to have sufficient reserves (from retained earnings) to enable an orderly wind-down of its affairs in the event that such action is required.

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The Society holds 1,169,815
Ordinary 1p Shares in
OneSavings Bank plc
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Creditor Payment Policy

The Society's 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 were settled with suppliers when agreeing the terms of each transaction.

Going concern

In preparing the financial statements the Directors must satisfy themselves that it is reasonable for them to consider whether it is appropriate to adopt the going concern basis.

In considering this issue, the Board has examined financial projections for the Society for the next financial period, and considered the operational and business risks associated with its primary activity of assisting the Bank with its customer research activity.

The Society is critically dependent upon OSB in a number of areas:

- KRPS receives reimbursement from OSB to cover its ongoing operating and governance costs for services and activities it undertakes on behalf of the Society's Members.
- During part of 2017 OSB provided banking services to KRPS, including the payment of all monies due and receipt of all income due to it.
- The Relationship and Services Agreement dated 31 January 2011 between the Society and OSB details a number of essential corporate support activities which OSB undertakes to provide (e.g. including the maintenance of the membership database).

Whilst the Society's current business plans indicate a satisfactory liquidity and trading performance, the Board also acknowledges that without the activities noted above, the Society would be unlikely to continue to operate and would be obliged to pursue an orderly liquidation.

Having said this, with its close working association with, and knowledge of OSB's own strategic plans, the Board of the Society believes it is appropriate that these financial statements are prepared on a going concern basis.

Charitable donations

During year, the Society made charitable donations of £92k (2016: £61k).

Directors

The full list of Directors who served on the Board during the year to 31 December 2017 was as follows:

Andy Golding (Chairman and Chief Executive Officer)
John Eastgate
Clive Kornitzer
John Paddick
April Talintyre

UK corporate governance code

The Board remains committed to the achievement of high standards of corporate governance which it considers to be central to the effective management of the Society and to maintaining the confidence of Members.

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The Society made charitable
donations of **£92,000**
.....

Indemnity provision

During the year covered by these accounts there were no new or outstanding third parties qualifying indemnity provisions in force.

Disclosure of information to auditor

The Directors who held office at the date of approval of this Directors' Report confirm that, so far as they are each aware, there is no relevant audit information of which the Society's auditor is unaware; and each Director has taken all the steps that they ought to have taken as a Director to make themselves aware of any relevant audit information and to establish that the Society's auditor is aware of that information.

Auditors

KPMG LLP has been appointed as auditors of the Society and expressed their willingness to continue in office. A resolution to re-appoint KPMG LLP as auditors will be proposed at the forthcoming AGM of the Society.

On behalf of the Board

Andy Golding

Chairman and Chief Executive Officer
Kent Reliance Provident Society Limited
30 April 2018

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The Society only currently
receives **one source**
of income

.....



06

Corporate Governance Report

Introduction

The Board recognises the importance of sound corporate governance, and is committed to ensuring best practice is applied throughout the Society in a proportionate manner.

The Board of Directors

The Board was chaired by Andy Golding and constituted five Directors (including the Chairman). The Chairman and three other Directors are executives of OSB; of which the Chairman and one other are also Directors. The remaining Director is an executive of the Society. The Board meets at appropriate intervals throughout the year and in 2017 met twice, however given their co-location; Directors meet informally on a regular basis in the normal course of business. Additional Board meetings may be called at such other times as the Chair deems appropriate.

The Board is responsible for setting the strategy for the Society and for ensuring that there are appropriate financial and business systems and controls in place to safeguard the interests of the Society's Members. The Board is also responsible for ensuring the Society's continuing commitment to carrying out its business fairly, honestly and openly, in line with its mutual principles.

The Board has oversight of the strategy and retains control through challenge at the Board meetings. 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 on an ongoing basis to ensure that it remains relevant and concise.

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.

At least once each year the Board undertakes a full strategic review of the business.

Board attendance record

A table showing attendance at scheduled meetings is shown below. Against each Director's name is shown the number of meetings he or she attended in the year to 31 December 2017. The number of meetings each Director was eligible to attend is shown in brackets.

Director	Meeting
Andy Golding	2(2)
John Eastgate	1(2)
Clive Kornitzer	2(2)
John Paddick	2(2)
April Talintyre	1(2)

Board balance and independence

The Board currently consists of five Directors. 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.

Appointments to the Board

There were no new appointments to, nor resignations from, the Board during 2017 and up to the date of signing this Annual Report.

Re-election

Directors are required to submit themselves for re-election at the first Annual General Meeting after their appointment and at least once in every three years thereafter.

System of internal control

The Board is responsible for determining the Society's strategy for managing risk and overseeing its systems of internal control, and is committed to embedding internal control and risk management into the operation of the Society. The Chief Executive Officer and the Chief Operating Officer are responsible for designing, operating and monitoring risk management and internal controls.

The Board is satisfied that during the period the Society maintained an adequate and appropriate system of internal control.

The role of the Board includes a review of the Society'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.

Financial reporting

The Statement of Directors' Responsibilities in preparing the Society's accounts are set out on pages 22 and 23.

07

Directors' Remuneration Report

Introduction

The purpose of this report is to outline the Board's policy for the remuneration of the Society's executive team and its non-executive Directors and explains the process for setting Directors' remuneration and how it applies the principles of the UK Corporate Governance Code ('the Code'). The Code is available at www.frc.org.uk.

Remuneration of the Society's executive management

Currently, the Chief Executive Officer is remunerated solely by OSB, where he holds the same position as Chief Executive Officer. Three other Directors are also remunerated solely by OSB. Their remuneration is determined in accordance with OSB Board governance procedures which are laid out in the Bank's latest Annual Report and Accounts, which is available to download from www.osb.co.uk. The Society has only one executive Director, the Chief Operating Officer, whose terms and conditions fall within the remit of the Society's Board.

The remuneration of the Chief Operating Officer is shown below:

	2017 £'000	2016 £'000
Basic salary	68	66
Bonus	11	11
Payments in respect of personal pension plans	7	7
Gains made in the exercise of SAYE options	18	-
	104	84

- Basic salary is determined by levels of responsibility, external market competitiveness and individual performance in the role. The Society's policy is to position salaries so that on average, they are in line with salary packages for similar positions in comparable 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 employee;
- An annual bonus is paid at the discretion of the Board, when determined appropriate, according to success in the delivery of corporate and individual objectives;
- The current executive management is an inactive member of the OSB Group pension scheme;
- Standard contractual terms for executive level appointments include notice periods of between 3 and 12 months;
- Participation in the OSB Save As You Earn scheme ('SAYE'). The scheme is open to all UK-based employees and allows them to save a fixed amount of between £5 and £500 per month over either three or five years in order to use these savings at the end of the qualifying period to buy OSB's shares at a fixed price which includes a 20% discount. The cost of the discount is borne by OSB.

Specific remuneration and terms and conditions of employment of Members of the OSB executive management team are determined annually by the OSB Board on the basis of recommendations by the OSB Remuneration Committee. The Committee ensures that OSB'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. Details of the approach of OSB to its own remuneration policy are set out in the latest Annual Report and Accounts for the Bank, which are available at www.osb.co.uk.

Non-executive Directors' fees

During the year under review, none of the non-executive Directors received any remuneration for their time spent in connection with their role as a director of the Society.

Summary

This report, together with the disclosure in note 4 to the report and accounts, is provided to give Members insight into the overall cost of the Society's Directors' remuneration.

08

Statement of Directors' Responsibilities

The Directors are responsible for preparing the Annual Report and the Society financial statements in accordance with applicable law and regulations.

Co-operative and Community Benefit Society law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with UK Accounting Standards FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland.

The financial statements are required by law to give a true and fair view of the state of affairs of the Society and of the income and expenditure of the Society for that period.

In preparing the Society financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements, and
- assess the Society's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Society or to cease operations, or have no realistic alternative but to do so.

The Directors are responsible for keeping proper books of account that disclose with reasonable accuracy at any time the financial position of the Society and enable them to ensure that its financial statements comply with the Co-operative and Community Benefit Societies Act 2014. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Society and to prevent and detect 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.

Approved by the Board and signed on its behalf by:

Andy Golding

Chairman and Chief Executive Officer
Kent Reliance Provident Society Limited
30 April 2018

09

Independent auditor's report to the members of Kent Reliance Provident Society Limited

We have audited the financial statements of Kent Reliance Provident Society for the year ended 31 December 2017 which comprise the Statement of Comprehensive income, Statement of Financial position, Reconciliation of Members' Funds, Statement of Cash Flows and related notes, including the accounting policies in note 1.

In our opinion the financial statements:

- give a true and fair view, in accordance with UK accounting standards, including FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland, of the state of the Society's affairs as at 31 December 2017 and of the income and expenditure of the Group and the Society for the year then ended; and
- comply with the requirements of the Co-operative and Community Benefit Societies Act 2014.

Basis for opinion

As more fully explained in the Statement of Directors' Responsibilities set out on page 22 the Society's Directors are responsible for the preparation of financial statements which give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Going Concern

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least twelve months from the date of approval of the financial statements. We have nothing to report in these respects.

Other Information

In addition to our audit of the financial statements, the Directors have engaged us to review whether their Corporate Governance Report on pages 18 to 19 reflects the Society's compliance with provisions 43 and 123 to 152 of Co-operatives UK Limited's Corporate Governance Code for Consumer Co-operative Societies issued in November 2013 ('the Code'). We have nothing to report in this respect.

Matters on which we are required to report by exception

Under the Co-operative and Community Benefit Societies Act 2014 we are required to report to you if, in our opinion:

- the Society has not kept proper books of account; or
- the Society has not maintained a satisfactory system of control over its transactions; or
- the financial statements are not in agreement with the Society's books of account; or
- we have not received all the information and explanations we need for our audit.

We have nothing to report in these respects.

Directors' responsibilities

As more fully explained in their statement set out on pages 22 and 23 the Society's Directors are responsible for the preparation of financial statements which give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements

that are free from material misstatement, whether due to fraud or error; assessing the Society's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditors' Responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

The purpose of our audit work and to whom we owe our responsibilities

This report is made solely to the Society in accordance with section 87 of the Co-operative and Community Benefit Societies Act 2014 and, in respect of the reporting on corporate governance, on terms that have been agreed. Our audit work has been undertaken so that we might state to the Society those matters we are required to state to it in an auditor's report and, in respect of the reporting on corporate governance, those matters we have agreed to state to it in our 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 for our audit work, for this report, or for the opinions we have formed.

Pamela McIntyre (Senior Statutory Auditor)

for and on behalf of KPMG LLP,
Statutory Auditor Chartered Accountants
15 Canada Square
Canary Wharf
London
E14 5GL

30 April 2018

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Financial Statements

Statement of Comprehensive Income

	Notes	Year ended 31 Dec 17 £'000	Year ended 31 Dec 16 £'000
Commission and dividend income	2	374	326
Other income	3	873	871
Administrative expenses	4	(329)	(288)
Profit before taxation		918	909
Taxation	5	(132)	(146)
Profit for the year		786	763

The above results are derived wholly from continuing operations.

There were no recognised gains or losses other than the profit for the year and accordingly no statement of other comprehensive income is given.

The notes on pages 30 to 35 form part of these financial statements.

Statement of Financial Position

	Notes	As at 31 Dec 17 £'000	As at 31 Dec 16 £'000
Non-current assets			
Investment in OneSavings Bank plc	6	4,827	3,954
Current assets			
Cash at bank		368	-
Net amount receivable from OneSavings Bank plc		31	443
Corporation tax receivable		17	-
Current liabilities			
Corporation tax		-	(125)
Deferred tax	7	578	(430)
Other creditors	8	(68)	(31)
Net current liabilities		(230)	(143)
Total assets less current liabilities		4,597	3,811
Reserves			
Retained earnings		4,597	3,811
Total Members' Funds		4,597	3,811

The notes on pages 30 to 35 form part of these financial statements.

The report and accounts were approved by the Board of Directors on 30 April 2018 and were signed on its behalf by:

John Paddick
Director

John Eastgate
Director

Reconciliation of Members' Funds

	Retained earnings £'000	Total members' funds £'000
As at 1 January 2016	3,048	3,048
Profit for the year	763	763
As at 31 December 2016	3,811	3,811
Profit for the year	786	786
As at 31 December 2017	4,597	4,597

Statement of Cash Flows

	2017 £'000	2016 £'000
Cash flows from operating activities		
Profit before taxation	918	909
Adjustments for non-cash items:		
Unrealised gains on investments	(873)	(284)
Cash generated from operations	45	625
Changes in operating assets and liabilities		
Increase in net amounts receivable from OSB	412	(20)
Increase in investment in OSB	-	(587)
Increase in other creditors	37	(17)
Tax paid	(126)	(1)
Movement in cash and cash equivalents	368	-
Cash and cash equivalents at beginning of year	-	-
Cash and cash equivalents at end of year	368	-
Movement in cash and cash equivalents	368	-

1. Accounting policies

The principal accounting policies applied in the preparation of the accounts for the Society are set out below.

a) Basis of preparation

These financial statements have been prepared in accordance with applicable UK accounting standards, including Financial Reporting Standard 102: The Financial Reporting Standard Applicable in the United Kingdom and Republic of Ireland ('FRS102'), and with the Companies Act 2006. The presentation currency of these financial statements is Pounds Sterling. All amounts in the financial statements have been rounded to the nearest thousand (£'000').

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements.

There were no significant judgements made by the Directors, in the application of these accounting policies that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year.

b) Going Concern

In preparing the financial statements the Directors must satisfy themselves that it is reasonable for them to consider whether it is appropriate to adopt the going concern basis.

In considering this issue, the Board has examined financial projections for the Society for the 12 month period following the signing of these accounts, and considered the operational and business risks associated with its activities.

The Society is critically dependent upon OSB in a number of areas:

- KRPS receives reimbursement from OSB to cover its ongoing operating and governance costs for services and activities it undertakes on behalf of the Society's Members.
- During part of the year OSB provided banking services to KRPS, including the payment of all monies due and receipt of all income due to it.
- The Relationship and Services Agreement dated 31 January 2011 between the Society and OSB details a number of essential corporate support activities which OSB undertakes to provide (e.g. including the maintenance of the membership database).

Whilst the Society's current business plans indicate a satisfactory liquidity and trading performance, the Board also acknowledges that without the activities noted above, the Society would be unlikely to continue to operate and would be obliged to pursue an orderly liquidation.

Having said this, with its knowledge of OSB's strategic plans the Board of the Society believes it is appropriate to prepare these financial statements on a going concern basis.

c) Commission and other income

The Society derives its management income from a management fee charged to OneSavings Bank plc. This income is recognised on an accruals basis.

d) Administrative expenses

Administrative expenses for the Society include all operating and governance costs and are recognised on an accruals basis.

e) OSB Sharesave Scheme

The OSB Save As You Earn ('SAYE') or Sharesave Schemes are open to the Society's employee and allows them to save a fixed amount of between £5 and £500 per month over either three or five years in order to use these savings at the end of the qualifying period to buy OSB shares at a fixed price established when the schemes were announced. The OSB Group offered 3 and 5 year sharesave schemes annually since 2014, with the exercise price set at a 20% discount on the OSB share price on the scheme dates. The cost of the Society's employee enrolled in the SAYE scheme is borne by OSB. Further details about the Sharesave Schemes are included in the OSB Group Annual Report.

f) Taxation including deferred taxation

The charge for taxation is based on the result for the period and takes into account current and deferred taxation. The tax charge is taken to the profit or loss account, consistent with the items it relates to. Current taxation is the expected taxation charge on the taxable profits in the period. Deferred tax is the tax expected to be payable or recoverable in respect of temporary differences between the carrying amounts of assets or liabilities for accounting purposes and carrying amounts for tax purposes.

g) Investment in OneSavings Bank plc

Following the re-organisation of OSB's share capital in 2014, the Society's holding decreased below the levels required to control or significantly influence OSB. As a result, the investment has been classified as other investments, originally recognised at cost of acquisition and subsequently re-measured at market value less impairment. Changes in its market value and related tax effect are taken to the statement of profit or loss.

h) Related parties

The Society has a related party relationship with OSB. Details of the related party transactions can be found in note 9.

2. Commission and dividend income

	Year ended 31 Dec 17 £'000	Year ended 31 Dec 16 £'000
Management fee	242	234
Dividend income	132	92
	374	326

3. Other income

	Year ended 31 Dec 17 £'000	Year ended 31 Dec 16 £'000
Revaluation of investment in OSB	873	284
Additional shares received ¹	-	587
	873	871

¹ Additional shares received relate to forfeited IPO awards. See note 6 for further details.

4. Administrative expenses

	Year ended 31 Dec 17 £'000	Year ended 31 Dec 16 £'000
Staff costs (see below)	99	94
Fees payable to the auditors and their associates	16	15
AGM Costs	104	99
Charitable donations	92	61
Other administrative expenses	18	19
	329	288

Staff numbers and costs

The average number of persons employed by the Society (including executive Directors) during the year was 1 (2016: 1). Four of the Society's Directors are employees of OSB. These Directors are paid by OSB and receive no additional remuneration from the Society. The aggregate costs of the 1 person, which are also the remuneration of the highest paid Director, were:

	Year ended 31 Dec 17 £'000	Year ended 31 Dec 16 £'000
Salaries and other benefits	81	77
Social security costs	11	10
Other pension costs ¹	7	7
	99	94

¹ Other pension costs relate to contributions to personal pension plans.

5. Taxation

	Year ended 31 Dec 17 £'000	Year ended 31 Dec 16 £'000
Corporation tax	(16)	98
Deferred tax	148	48
	132	146

Tax is charged at the weighted average rate of corporation tax for the period of 19.25% (2016: 20.00%). The tax reconciliation is presented below:

	Year ended 31 Dec 17 £'000	Year ended 31 Dec 16 £'000
Profit before taxation	918	909
Profit multiplied by the weighted average rate of corporation taxation in the UK of 19.25% (2016: 20.00%):	177	182
Non-taxable dividend income	(25)	(18)
Unrealised gains on investment in OSB	(20)	(9)
Adjustments in respect for prior years	-	(9)
Total taxation	132	146

6. Investment in OneSavings Bank plc

The Society is one of the two founding shareholders of OSB. On 1 February 2011, it transferred to OSB the trade and net assets of the Kent Reliance Building Society in exchange for 26,000 ordinary A shares. OSB Holdco Limited, the other founding party, injected £50m of new capital in exchange for 17,426 ordinary B shares and 32,574 convertible preference shares in OSB.

Between 2011 and 2013, OSB Holdco Limited injected a further £45m of capital in OSB in exchange for ordinary B shares and convertible preference shares. In 2012, OSB issued 1,000 E shares in connection with an acquisition of a subsidiary.

In 2014, OSB reorganised its share capital in preparation for the listing on the London Stock Exchange ("Initial Public Offering" or "IPO"). The reorganisation included an issue of interim shares, conversion, bonus issue and change of denomination from £1 to £0.01. Each ordinary B, E and preference share was exchanged for 200 new £0.01 ordinary shares. Ordinary A shares of the Society were exchanged for 677,800 new shares, a ratio of about one for 26. This included an additional allocation of ordinary shares to settle OSB's liability of £700k for the buy-out of the agency agreement.

An additional 147,855 shares were received at IPO in accordance with the reorganisation agreement. In addition, the terms of settlement entitled it to the forfeited IPO shares granted to OSB employees. The Society received no additional forfeited shares during the year ended 31 December 2017 (2016: 298,148 shares). The Society's total holding in OSB at 31 December 2017 remained 1,169,815 (2016: 1,169,815) shares which equates to about 0.5% (2016: 0.5%) of OSB's capital after the IPO. The current level of voting rights does not allow the Society to significantly influence business decisions of OSB. Accordingly, the investment is classified as other long-term investments.

Until the capital reorganisation, the investment was valued at nil cost. Since OSB's IPO, the investment has been measured at market value based on OSB's share price on the reporting date. Changes in its market value are taken to the statement of profit or loss together with the related deferred tax disclosed in the note below.

The movements in the investment's value are analysed as follows:

	Year ended 31 Dec 17 £'000	Year ended 31 Dec 16 £'000
At 1 January	3,954	3,083
Additional 298,148 shares received in 2016, at £1.97 per share	-	587
Fair value change due to share price movements	873	284
At 31 December	4,827	3,954

7. Deferred tax

Deferred tax represents the expected tax liability on the difference between the current market value and original cost of the investment in OSB at the reporting date.

	2017 £'000	2016 £'000
At 1 January	430	382
Tax recognised in the profit or loss account and attributable to:		
Movements in the value of shares	148	48
At 31 December	578	430

A reduction in the UK corporation tax rate from 20% to 19% (effective from 1 April 2017) was substantively enacted on 26 October 2015. Further reductions to 18% (effective from 1 April 2020) were substantively enacted on 26 October 2015, and an additional reduction to 17% (effective 1 April 2020) was substantively enacted on 6 September 2016. The deferred tax asset at 31 December 2017 has been calculated based on these rates.

8. Other creditors

	2017 £'000	2016 £'000
Accruals	65	29
PAYE & NIC	3	2
	68	31

9. Related party transactions

During the year the Society had the following transactions with its related party, OSB, all of which were at an arm's length basis:

	Year ended 31 Dec 17 £'000	Year ended 31 Dec 16 £'000
Commission and dividend income	374	326
Additional shares received ¹	-	587

¹ Additional shares received relate to forfeited IPO awards. See note 6 for further details.

Kent Reliance Provident Society Limited is a registered society under the Co-operative and Community Benefit Societies Act 2014. Registered No: 31056R.
Registered office: Reliance House, Sun Pier, Chatham, Kent, ME4 4ET.

KentReliance
Provident Society