

Kent Reliance Provident Society Limited

Annual Report and Accounts

31 December 2015

Society number: Registered No.31056R

Contents

For the year ended 31 December 2015

Society Information	3
Strategic Report	
Chairman and Chief Executive's Statement	4
Directors' Report	9
Corporate Governance Report	12
Directors' Remuneration Report	14
Statement of Directors' Responsibilities	15
Independent Auditor's Report	16
<i>Financial Statements</i>	
Profit and Loss Account	18
Statement of Total Recognised Gains and Losses	19
Balance Sheet	20
Reconciliation of Members' Funds	21
Statement of Cash Flows	22
Notes to the Accounts	23

Kent Reliance Provident Society Limited

Annual Report & Accounts

For the year ended 31 December 2015

Society Information

Board of Directors as at the date of signing

Directors

J Eastgate
A Golding
C Kornitzer
J Paddick
A Talintyre

Secretary

Zoe Bucknell (Resigned 31 March 2016)
M Purvis (Appointed 28 April 2016)

Registered office

Reliance House
Sun Pier
Chatham ME4 4ET
Kent

Registered number

31056R

Kent Reliance Provident Society Limited

Annual Report & Accounts

For the year ended 31 December 2015

Chairman & Chief Executive's Statement

I am pleased to report on the performance of the Kent Reliance Provident Society ("the Society") for 2015, 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.

To this end, the Society has held a number of member events on behalf of the Bank; seeking input into issues such as branch design and banking literature, and has launched a new innovative channel of communication with a more geographically spread section of the membership through a new internet "portal" (see page 7).

The Society has retained its shareholding in OSB, which has grown marginally due to the transfer of shares put aside for executives and staff of the Bank at the time of the IPO, but where such individuals have left the organisation before their awards had matured. This endowment of such shares was agreed by the Bank's Board at the time of the Bank's flotation.

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 dividend 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 its 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 2015 and the dividend paid to the Bank's shareholders.

Overview of OneSavings Bank plc (extracted from the 2015 Annual Report & Accounts)

Continued strong performance

OneSavings Bank has remained focused on delivering our objective of being a leading specialist lender in our chosen sub-sectors, supported by a strong retail savings franchise and an efficient and scalable Indian back office. We have continued to focus on customer needs and the quality of new lending, leading to an enhanced customer reputation across our lending and savings brands.

We have enhanced our core residential segment through organic growth as well as selective asset acquisition and I am very pleased that we have continued to innovate in the commercial side of our Buy-to-Let/SME segment. We have extended the InterBay brand product range to provide more choice for professional investors, increased the range and volume of secured funding lines and grown Heritable Development Finance. These newer business lines are core to the growth of our Buy-to-Let/SME franchise.

Kent Reliance Provident Society Limited

Annual Report & Accounts

For the year ended 31 December 2015

Chairman & Chief Executive's Statement (continued)

Overview of OneSavings Bank plc (extracted from the 2015 Annual Report & Accounts) continued

Results

The Group delivered strong profit and loan book growth in 2015. Underlying pre-tax profit increased by 52% to £105.9m (2014: £69.7m) and underlying basic earnings per share grew by 43% to 34.8 pence (2014: 24.4 pence).

The Group grew its loan book by 31% to £5.1bn in 2015 (2014: £3.9bn), whilst maintaining an appropriate risk return profile. This was driven by consistent loan book growth in our core Buy-to-Let/ SME segment, which continued to build on our 2014 achievements. Our high quality residential mortgage segment also continued to perform well.

The balance sheet growth was achieved whilst improving our high underlying return on equity to 32% (2014: 31%) and strengthening our fully-loaded common equity tier 1 capital ratio to 11.6% (2014: 11.4%) demonstrating the strong organic capital generation capability of the business through profitability.

The Board is recommending a final dividend of 6.7 pence per share in line with our stated dividend policy. This gives a total dividend per share for the full year of 8.7 pence.

Key drivers

The increase in gross new origination of 20% to £1.8bn (2014: £1.5bn) demonstrates the opportunities that exist in our specialist lending sub-sectors and the strength of our lending franchises. We have continued to differentiate ourselves from the competition by offering well defined propositions in high margin, underserved markets, where we have the experience, as well as the internal and intermediary infrastructure, to successfully develop and service those markets. Each of our mainstream lending brands, Kent Reliance, InterBay Commercial and Prestige Finance, has extended their position as leaders in their chosen markets and enhanced their reputation amongst mortgage intermediaries. Application volumes in our core businesses remained strong throughout the year and we are not experiencing competitive price pressure in our core markets as demonstrated by our improving net interest margin (NIM).

I am particularly pleased that Kent Reliance won the What Mortgage Best Buy-to-Let Lender award for the second year running in 2015. This combined with our improved broker Net Promoter Score (NPS) of 59% demonstrates the strength and value of our customer franchise.

Kent Reliance Provident Society Limited

Annual Report & Accounts

For the year ended 31 December 2015

Chairman & Chief Executive's Statement (continued)

Overview of OneSavings Bank plc (extracted from the 2015 Annual report & Accounts) continued

We have kept tight control on credit quality, as seen in our reportable arrears statistics: from more than 21,500 loans totalling £4.2bn of new organic originations since the bank's creation in February 2011, we only have 48 cases of arrears over three months in duration, with an aggregate balance of £5.1m and average LTV of 56%. Our stable retail funding franchise continues to support lending growth with retail deposits up 24% to £5.4bn (2014: £4.3bn).

Our loan to deposit ratio for 2015 was 93%, comfortably below our target of less than 100%, delivering on our strategy to be primarily retail funded. Over 23,000 new savings customers joined the Bank during 2015 and our successful programme of managing 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 89% retention rate.

As the Group has grown, costs have been controlled in line with our stated targets, resulting in a further improvement in cost: income ratio to 26% (2014: 28%).

We have continued to invest in customer facing and back office infrastructure as previously reported. To accommodate the Bank's growth in people, a new head office building in Chatham opened in the third quarter of 2015, and new premises in Bangalore are expected to be operational during the first quarter of 2016. During 2015 we rebranded our wholly-owned Indian operation from EasiProcess to OSBIndia reflecting its role as a core part of the Group.

OSBIndia undertakes a range of primary processing services at a significantly lower cost than an equivalent UK-based operation at very high quality. I am particularly proud that we have achieved this whilst maintaining our focus on customers, borne out by a fundamental increase in consumer NPS to 55% (2014: 39%). This is also demonstrated by our numerous awards including Kent Reliance being named in the Moneyfacts awards as Best Bank Savings Provider.

OSB Focus for upcoming year

Over the coming year, OneSavings Bank will maintain its focus on delivering its stated strategy and objectives. Organic lending will remain the key driver of growth in the loan book and we anticipate loans growing at a rate in line with organic capital generation whilst sticking rigorously to our key return hurdles.

Kent Reliance Provident Society Limited

Annual Report & Accounts

For the year ended 31 December 2015

Chairman & Chief Executive's Statement (continued)

Overview of OneSavings Bank plc (extracted from the 2015 Annual report & Accounts) continued

We are well placed to develop our chosen markets and identify new areas of lending that are underserved by the large banks and require the skills and approach we bring. Each of our lending brands are broadening in their markets and identifying new opportunities to develop. We acknowledge that, as a responsible lender, we need to recognise the causes of the political and regulatory headwinds in Buy-to-Let. 2016 has therefore seen us amend lending criteria such that we now focus even more strongly on the professional landlord community, and equally, we have reduced our attractiveness to the amateur.

This has further strengthened our position as a specialist lender and we will build on this throughout the year. In addition, we continue to evaluate inorganic opportunities that provide long-term value and meet our strategic objectives. We will continue to deploy our expertise in chosen markets across all segments to deliver target return on equity and enhance our reputation across all lending and savings brands.

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 mentioned in my report last year, the Society has worked with the Bank to launch a new form of consultative medium; a so called "portal" or on-line website, via which the Society and Bank can address a much larger and geographically dispersed section of the Society's membership than can be done using the traditional "focus group" gatherings. This innovative new channel already has over 400 members signed up who have indicated their willingness to be periodically polled on topics ranging from their personal perspectives of the wider economic environment, to undertaking critical reviews of the Bank's literature and processes.

Currently these selected members are examining the Bank's revised "savings choices" literature for ease of use and understanding; giving members a real voice in operational and service development.

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 16% to 55% during 2015.

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

Kent Reliance Provident Society Limited

Annual Report & Accounts

For the year ended 31 December 2015

Chairman & Chief Executive's Statement (continued)

operate within the Medway Area. More details of the causes that have benefited from these funds and others that OSB has supported directly appear in the Annual members' Review which will be distributed to all Members ahead of this year's Annual General Meeting.

Summary

Last year I said that OSB and the Society had reached a major milestone in their journey of recovery, and I am happy to report that this year they have continued to grow and deliver their respective mandates. OneSavings Bank entered 2016 with its strongest ever pipeline, and will maintain its focus on delivering its stated strategy and objectives. Our achievements in 2015 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 6.7p per share, which together with the interim dividend already paid of 2.0p per share makes a total 8.7p 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 uses of this income.

Andy Golding
Chief Executive Officer
8th June 2016

Kent Reliance Provident Society Limited

Annual Report & Accounts

For the year ended 31 December 2015

Directors' Report

Business Review

During the year, the Society made a small profit, with its 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, together with financial returns received from its shareholding in OSB.

The Society assisted the Bank in conducting a number of customer research activities, including meetings with a number of invited members at which the Chief Executive and other senior executives of the Bank were available to answer questions and listen to members' views on a wide range of issues. Members were given information and demonstrations on proposed developments within the Bank, including development of the new member consultation portal.

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 2015 was £142,000 (2014: £3,000). The profit after taxation for the year was £114,000 (2014: £nil).

Assets

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

As at the 31 December 2015, the Society held (and continues to hold) 871,667 Ordinary 1p Shares in OneSavings Bank plc (31.12.2014 - 825,655). As for last year, the Board have decided it is appropriate that the investment be valued in its 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 & 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 of need.

Liquidity and Creditor Payment Policy

During the year, the Society did not hold a bank account in its own name, and used the internal accounting support of OSB to manage its income and expenditure.

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.

Kent Reliance Provident Society Limited

Annual Report & Accounts

For the year ended 31 December 2015

Directors' Report (continued)

Charitable Donations

During year, the Society made charitable donations of £49,634 (2014 £15,700) by directing such sums be paid either directly (as in 2015), or by the Bank under the agreement between the Bank and the Society (as in 2014).

Directors

The full list of directors serving on the Board during the year to 31 December 2015 was as follows:

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

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.

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 Company's auditor is aware of that information.

Auditors

KPMG LLP have been appointed as auditors of the Society and expressed their willingness to continue in office. Pursuant to section 489 of the Companies Act 2006, a resolution to re-appoint KPMG LLP as auditors will be proposed at the forthcoming AGM of the Society.

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.

Kent Reliance Provident Society Limited

Annual Report & Accounts

For the year ended 31 December 2015

Directors' Report (continued)

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

- The Society currently receives only one source of income; that deriving from the arrangement agreed between the Society and OSB in October 2013 in which the Society agreed to provide certain customer research and engagement activities, for which OSB agrees to pay the Society's operating and governance costs together with a small profit component.
- OSB currently provides banking services to the Society, including the payment of all monies due and receipt of all income due to it.

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.

On behalf of the Board

A Golding
Chairman and Chief Executive
Kent Reliance Provident Society Limited
8th June 2016

Kent Reliance Provident Society Limited

Annual Report & Accounts

For the year ended 31 December 2015

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

At the start of 2015, the Board was chaired by A Golding and constituted five directors. The Chairman and three other directors are executives of OneSavings Bank plc; of whom the Chairman and one other are also directors. The remaining director is an executive of the Society. The Board meets as needed and from 2016 have aimed for quarterly, however given their co-location, Directors meet informally on a regular basis in the normal course of business.

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, and with a commitment to zero tolerance towards bribery.

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

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.

Board and Board Committee Attendance Record

A table showing attendance at scheduled meetings is shown on the below. Against each director's name is shown the number of meetings he or she attended in the year to 31 December 2015. The number of meetings each director was eligible to attend is shown in brackets.

Director	Board
A Golding	0(1)
A Talintyre	0(1)
J Paddick	1(1)
J Eastgate	1(1)
C Kornitzer	1(1)

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.

Kent Reliance Provident Society Limited

Annual Report & Accounts

For the year ended 31 December 2015

Corporate Governance Report (continued)

Appointments to the Board

There were no new appointments to, nor resignations from, the Board during 2015.

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.

Audit & Risk Committee and Auditors

The Society has a policy on the use of the external auditors for non-audit work, which was approved by the Board. The purpose of this policy, which requires the formal prior approval of the Board for any ancillary services (and which has now passed to the Board), is to ensure the continued independence and objectivity of the external auditors. The Board reviews annually the relationship with the external auditors and approves their terms of engagement and remuneration.

Financial reporting

The responsibilities of the directors in preparing the Society's accounts are set out on page 15.

Kent Reliance Provident Society Limited

Annual Report & Accounts

For the year ended 31 December 2015

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 Combined Code. The Combined Code was developed by the Committee on Corporate Governance for listed companies: details can be downloaded from the Financial Reporting Council website www.frc.org.uk.

Remuneration of Society's Executive Management

Currently, the Chief Executive is remunerated solely by OSB, where he holds the same position as Chief Executive, and Board Director. 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 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 Board.

Executive management remuneration can comprise a number of elements: basic salary, annual and 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 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 employees;
- 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 (see note 9);
- Standard contractual terms for executive level appointments include notice periods of between 3 and 12 months.

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 & Accounts for the Bank, which can be downloaded from www.OSB.co.uk.

Non-Executive Directors' Fees

During the year under review, no director 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 5 to the report and accounts, is provided to give members insight into the overall cost of the Society's directors' remuneration.

Kent Reliance Provident Society Limited

Annual Report & Accounts

For the year ended 31 December 2015

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.

Industrial and Provident 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 (UK Generally Accepted Accounting Practice), including FRS102 the Financial Reporting Standard applicable to the UK and Republic of Ireland.

The Society financial statements are required by law to give a true and fair view of the state of affairs of the Society and of the profit or loss 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
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Society will continue in business.

The directors are responsible for keeping proper accounting records 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 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.

A Golding
Chairman and Chief Executive
Kent Reliance Provident Society Limited
8th June 2016

Kent Reliance Provident Society Limited

Annual Report & Accounts

For the year ended 31 December 2015

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 2015 set out on pages 18 to 29. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice), including FRS102 the Financial Reporting Standard applicable to the UK and Republic of Ireland.

This report is made solely to the Society's members, as a body, 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's members those matters we are required to state to them in an auditor's report and, in respect of the reporting on corporate governance, those matters we have agreed to state to them 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 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 auditor

As more fully explained in the Statement of Directors' Responsibilities set out on page 15 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.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the Society's affairs as at 31 December 2015 and of the income and expenditure of the Society for the year then ended; and
- comply with the requirements of the Co-operative and Community Benefit Societies Act 2014.

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

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

Kent Reliance Provident Society Limited

Annual Report & Accounts

For the year ended 31 December 2015

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

- we have not received all the information and explanations we need for our audit.

Richard Gabbertas (Senior Statutory Auditor)

for and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants

1 Sovereign Square

Sovereign Street

Leeds

LS1 4DA

8th June 2016

Kent Reliance Provident Society Limited

Annual Report & Accounts

For the year ended 31 December 2015

Profit and Loss Account

	Notes	Year ended 31-Dec-15 £'000	Year ended 31-Dec-14 £'000
Commission and other income	2	<u>421</u>	<u>226</u>
Total income		421	226
Administrative expenses	3	<u>(279)</u>	<u>(223)</u>
Profit before taxation		142	3
Taxation	4	<u>(28)</u>	<u>(3)</u>
Profit for the year		114	-

The above results are derived wholly from continuing operations.

The notes on pages 23 to 29 form part of these financial statements.

Kent Reliance Provident Society Limited

Annual Report & Accounts

For the year ended 31 December 2015

Statement of total recognised gains and losses

	Year ended 31-Dec-15 £'000	Year ended 31-Dec-14 £'000
Profit for the year	114	-
Items which may be reclassified to the income statement:		
Fair value changes on investment in OneSavings Bank plc	1,175	1,071
Deferred tax on fair value changes	(168)	(214)
	<hr/>	<hr/>
Total recognised gains and losses for the year	1,121	857
	<hr/>	<hr/>

Kent Reliance Provident Society Limited

Annual Report & Accounts

For the year ended 31 December 2015

Balance sheet

	Notes	As at 31-Dec-15 £'000	As at 31-Dec-14 £'000
Assets			
Non-current assets			
Investment in OneSavings Bank plc	6	3,083	1,771
Current assets			
Net amount receivable from OneSavings Bank plc		423	230
Corporation tax receivable		-	167
Total assets		3,506	2,168
Liabilities			
Non-current liabilities			
Accruals		48	27
Corporation tax		28	-
Deferred tax	7	382	214
		458	241
Equity			
Reserves		3,048	1,927
		3,048	1,927
Total equity and liabilities		3,506	2,168

The notes on pages 23 to 29 form part of these financial statements.

The report and accounts were approved by the Board of Directors on 08 June 2016.

Signed on its behalf by:

J Paddick
Director

J Eastgate
Director

Kent Reliance Provident Society Limited

Annual Report & Accounts

For the year ended 31 December 2015

Reconciliation of Members' Funds

	Year ended 31-Dec-15 £'000	Year ended 31-Dec-14 £'000
Opening total funds	1,927	1,070
Total recognised gains and losses for the year	<u>1,121</u>	<u>857</u>
Closing total funds	<u>3,048</u>	<u>1,927</u>

Kent Reliance Provident Society Limited

Annual Report & Accounts

For the year ended 31 December 2015

Statement of Cash Flows

	Year ended 31-Dec-15 £'000	Year ended 31-Dec-14 £'000
Cash flows from operating activities		
Profit before taxation	142	3
Cash generated from operations	<u>142</u>	<u>3</u>
Changes in operating assets and liabilities		
(Increase) / decrease in net amounts receivable from OSB	(193)	1,076
(Increase) in investment in OneSavings Bank plc	(137)	(700)
Increase in accruals	21	27
Tax refunded / (paid)	167	(406)
Movement in cash and cash equivalents	<u>-</u>	<u>-</u>
Cash and cash equivalents at beginning and end of year	<u>-</u>	<u>-</u>

Kent Reliance Provident Society Limited

Annual Report & Accounts

For the year ended 31 December 2015

Notes to the accounts

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

The financial statements have been prepared in accordance with FRS 102, the Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland.

FRS102 is mandatory for accounting periods beginning on or after 1 January 2015. The adoption of FRS 102 did not require any adjustments to the financial statements as a result.

The Society's Directors have considered the requirements of FRS 102 and the relevant legislation to prepare consolidated financial statements in respect of OneSavings Bank plc group ("OSB" or "the Group") where in prior years it held more than half of the equity share capital. They assessed the Society's ability to control the composition of OSB's board of directors and extract value from OSB to conclude that despite holding a majority shareholding it did not have sufficient power to govern and control OSB group. As a consequence, the Society did not consolidate the results of OSB and its subsidiaries.

In light of the Society's shareholding in OSB during the year, and the nature of its relationship with it, the directors regard the Society's shareholding in the Bank as an investment, which has been valued in the accounts at fair market value in accordance with note 1g) below.

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:

- Prior to October 2013 the Society received agency commission from OSB relating to the administration of activities per the Agency Agreement dated 27 January 2011.
- After this point and following the buy-out of this Agency Agreement, KRPS now 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.
- OSB currently provides 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).

Kent Reliance Provident Society Limited

Annual Report & Accounts

For the year ended 31 December 2015

Notes to the accounts (Continued)

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 currently derives the majority of its 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) Employee benefits – Defined contribution scheme

Obligations for contributions to defined contribution pension arrangements are recognised as an expense in the Profit and Loss statement as incurred.

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.

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.

Tax charge is taken to the profit and loss account, total recognised gains and losses or reserves depending on the items it relates to.

g) Investment in OneSavings Bank plc

In prior years, the investment in OneSavings Bank plc was considered to be a joint venture with the other shareholder, OSB Holdco Ltd, where all shareholders have joint control but neither party has majority control over the joint venture operations. The ability to control the composition of the board, influence business decisions and extract value was also taken into account. Based on these factors, the investment was accounted for on an equity basis at cost less impairment.

Kent Reliance Provident Society Limited

Annual Report & Accounts

For the year ended 31 December 2015

Notes to the accounts (Continued)

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 re-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 total recognised gains and losses.

h) Cash flow statement

The Society does not have its own banking facility and accordingly there are no cash movements in the year. The Society makes use of the facilities provided by OneSavings Bank plc.

i) Related parties

All transactions with related parties are disclosed in accordance with Financial Reporting Standard 8.

The Society has a related party relationship with OneSavings Bank plc. Details of the related party transactions can be found in note 8.

Kent Reliance Provident Society Limited

Annual Report & Accounts

For the year ended 31 December 2015

Notes to the accounts (Continued)

2. Commission and other income

	Year ended 31-Dec-15 £'000	Year ended 31-Dec-14 £'000
Management fee	234	226
Dividend income	50	-
Additional shares received ¹	137	-
	<u>421</u>	<u>226</u>

¹ The additional shares relate to forfeited IPO awards. See note 6.

3. Administrative expenses

	Year ended 31-Dec-15 £'000	Year ended 31-Dec-14 £'000
Staff costs (see below)	94	92
Fees payable to the auditors and their associates	14	16
AGM costs	96	108
Charitable donations	50	-
Other administrative expenses	25	7
	<u>279</u>	<u>223</u>

Staff numbers and costs

The average number of persons employed by the Society (including executive directors) during the year was 1 (2014: 1).

	Year ended 31-Dec-15 £'000	Year ended 31-Dec-14 £'000
The cost of this person was:		
Salaries	82	81
Social security costs	12	10
Other pension costs	-	1
	<u>94</u>	<u>92</u>

In the year ended 31 December 2014, in addition to the costs above, employees of the Society received one-off share awards in the form of nil price options over shares in OneSavings Bank plc on OSB plc admission to the London Stock Exchange vesting over a 12 month period. The expense is borne by OSB Holdco Ltd recognised over the vesting period, in respect of 3,492 shares based on their value at grant date of 170 pence per share.

Kent Reliance Provident Society Limited

Annual Report & Accounts

For the year ended 31 December 2015

Notes to the accounts (Continued)

4. Taxation

	Year ended 31-Dec-15 £'000	Year ended 31-Dec-14 £'000
Profit before taxation	<u>142</u>	<u>3</u>
Profit multiplied by the weighted average rate of corporation taxation in the UK of 20.25% (2014: 21.5%)	29	1
Non-taxable dividend income	(10)	-
Disallowable charitable donations	9	-
Prior year adjustments	-	2
Total taxation	<u>28</u>	<u>3</u>

5. Directors' emoluments and transactions

Four of the Society's directors are also employees of OSB. These directors are paid by OSB and receive no additional remuneration from the Society.

Total remuneration of the Society's directors in respect of their duties as directors amounted to £94k (2014: £92k). Total remuneration of the highest paid director amounted to £94k (2014: £92k). See the Directors' Remuneration Report on page 14 for more details.

6. Investment in OneSavings Bank plc

The Society is one of the two founding shareholders of OneSavings Bank plc. 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 Ltd, 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 Ltd 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

Kent Reliance Provident Society Limited

Annual Report & Accounts

For the year ended 31 December 2015

Notes to the accounts (Continued)

employees. This brings its total holding in OSB at 31 December 2015 to 871,667 shares which equates to about 0.4% 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 total recognised gains and losses 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-15 £'000	Year ended 31-Dec-14 £'000
At 1 January	1,771	-
677,800 new shares received on IPO in a share settlement, at £1.70 per share	-	1,152
Additional 147,855 new shares received on IPO, at £1.70 per share	-	251
Additional 46,012 shares received 10 th June 2015, at £2.98 per share being IPO shares forfeited	137	-
Fair value change due to share price movements	1,175	368
At 31 December	<u>3,083</u>	<u>1,771</u>

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 OneSavings Bank plc at the reporting date.

The movement in the deferred tax liability in 2015 included £32,000 in relation to a change in the rate of tax applied

Reductions in the UK corporation tax rate from 23% to 21% (effective from 1 April 2014) and 20% (effective from 1 April 2015) were substantively enacted on 2 July 2013. Further reductions to 19% (effective from 1 April 2017) and to 18% (effective 1 April 2020) were substantively enacted on 26 October 2015. The deferred tax liability at 31 December 2015 has been calculated based on these rates.

In additional reduction to 17% (effective 1 April 2020) was announced in the Budget on 16 March 2016. This will reduce the company's future tax charge accordingly and reduce the deferred tax liability at 31 December 2015.

Kent Reliance Provident Society Limited

Annual Report & Accounts

For the year ended 31 December 2015

Notes to the accounts (Continued)

8. Related party transactions

During the year, the Society had the following transactions with its related party OneSavings Bank plc, all of which were on an arm's length basis:

	Year ended 31-Dec-15 £'000	Year ended 31-Dec-14 £'000
Commission and other income from OneSavings Bank plc	421	226
Additional shares received ¹	137	-

¹ The additional shares relate to forfeited IPO awards. See note 6.

9. Pension scheme

Defined contribution scheme:

During the year the Society paid £nil (2014: £1k) to the defined contribution pension scheme.