



Annual Members Review

31 December 2016

Incorporating the financial statement

Society number: 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:

Zoe Bucknell (Resigned 31 March 2016)
Martin Purvis (Appointed 31 March 2016, resigned 9 August 2016)
Jason Elphick (Appointed 9 August 2016)

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 2016. 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 23 June 2017 and on the Society's website, krps.com.

This is the sixth 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

03 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 2016, 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 2016 and actively used its online consultation portal launched in 2015; seeking input into issues such as charitable giving, ISA maturity documentation and how to improve it, and making sure the Bank's mortgage maturity letters were clear and easy to understand.

The Society has retained its shareholding in OSB, which has grown due to the transfer of shares, set aside for executives and staff of the Bank at the time of the IPO, where such individuals have left the Bank 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 dividends received be donated to worthwhile causes 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 2016 and the dividend paid to the Bank's shareholders.

Overview of OneSavings Bank plc

(Extracted from the 2016 Annual Report & Accounts)

16%

Growth on the Group's net loan book

Continued strong performance

We reported a 28% growth in organic origination in 2016. This growth was achieved without compromising net interest margin as the Group remained focused on being a leading specialist lender in our chosen markets, supported by our strong retail savings franchise and our efficient and scalable back office function.

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.

Results

The Group delivered strong profit and loan book growth in 2016. Underlying pre-tax profit increased 29% to £137.0m (2015: £105.9m) and underlying basic earnings per share grew 20% to 41.7 pence (2015: 34.8 pence).

The Group grew its loan book by 16% to £5.9bn in 2016 (2015: £5.1bn) whilst maintaining an appropriate risk return profile. Excluding the Rochester 1 disposal, the loan book grew by 20%. This was driven by strong originations in the Buy-to-Let/SME segment. Residential mortgages also continued to perform well.

Overview of OneSavings Bank plc

(Extracted from the 2016 Annual Report & Accounts)

10.5p

Total dividend per share

The balance sheet growth was achieved whilst delivering a strong return on equity of 29% (2015: 32%) or, 32% excluding the impact of the new Bank Corporation Tax Surcharge, despite strengthening our fully-loaded CET1 ratio to 13.3% (2015:11.6%). The Board is recommending a final dividend of 7.6 pence per share, giving a total dividend per share for the full year of 10.5 pence.

Best Specialist Lender

We continue to differentiate ourselves by offering well-defined propositions in high-margin, underserved markets, where we have the experience, and the internal and intermediary infrastructure, to successfully develop and service those markets.

Completion volumes in our core businesses were strong in the first quarter as we fulfilled heightened demand to accelerate Buy-to-Let mortgage completions ahead of the Stamp Duty Land Tax changes and then grew again to record levels during the second half.

Application volumes in our core businesses remained strong throughout the year with the run-rate increasing in the second half of 2016. It increased further in the last quarter ahead of the introduction of new underwriting standards for Buy-to-Let at the beginning of 2017. This performance demonstrates the sustainable strength of our propositions targeted at professional landlords, particularly our specialist, manual underwriting and our deep relationships with mortgage intermediaries.

90%

Loan deposit ratio for 2016

Award Winning Savings

Our retail funding franchise continues to support lending growth, with retail deposits up 11% to £6.0bn (2015: £5.4bn). Our loan to deposit ratio for 2016 was 90%. Nearly 27,000 new savings customers joined OSB during 2016. The strength and fairness of our retail savings proposition, coupled with excellent customer service and high retention rates (87%), allows the Bank to raise significant funds without needing to price at the very top of the best buy tables.

We have diversified sources of funding including the Government's Funding for Lending Scheme ('FLS') and Term Funding Scheme ('TFS') and we managed liquidity using a mixture of new and retained retail deposits, FLS and TFS. In 2016, the Group also extended its savings product proposition to small and medium businesses.

.....
Nearly **27,000** new savings customers joined OSB during 2016.
.....

Overview of OneSavings Bank plc

(Extracted from the 2016 Annual Report & Accounts)

27%

Income ratio

Operational Excellence and Service

Costs have been controlled in line with stated financial objectives, resulting in a stable cost to income ratio of 27% (2015: 26%). During 2016, we continued to invest in risk and compliance functions and in particular we continued to invest in the development of models needed both for IFRS 9 and to progress our stated aim of becoming an internal ratings-based approach bank ('IRB'). The Group's IFRS 9 models and first generation IRB models were delivered on schedule in late 2016. We commenced the parallel run for IFRS 9 at the start of 2017 and are well placed to implement the requirements for 2018. We continue to invest in customer facing and back office infrastructure and to accommodate growth in OSB India, which offers high-quality primary processing services at a significantly lower cost than in the UK, evidenced by an increase in customer NPS to an outstanding 59% (2015: 55%).

59%

Fundamental increase in consumer NPS

We start 2017 with a fully loaded CET1 ratio of 13.3% and a proven organic capital generation capability through profitability. We anticipate maintaining a CET1 ratio at a minimum 12% going forward. We remain keen to transition the capital stack to an optimum mix which may include Additional Tier 1 Capital ('AT1') when market conditions are right.

Our dividend policy for 2017 remains a pay-out ratio of at least 25% of underlying profit after taxation.

It is too soon to predict the medium to long-term impact of economic, tax and regulatory changes, but I believe that OneSavings Bank is well placed to take advantage of opportunities that arise and that we remain capable of generating attractive returns for our shareholders.

.....
A strong pipeline of new business
.....

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 and Bank launched a new form of consultative medium; a so called "portal" or online website, through 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 350 members signed up who have participated in reviewing a range of documentation and processes with a view to improving their effectiveness and simplicity.

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 by 4% to 59% during 2016.

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 later in this document.

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 a somewhat turbulent year in terms of regulatory and political uncertainty, OSB has shown itself resilient and will maintain its focus on delivering its stated strategy and objectives. Our achievements in 2016 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 7.6p per share, which together with the interim dividend already paid of 2.9p per share makes a total 10.5p 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
22 May 2017

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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 three years since we announced that the Society had developed a community fund and committed to donating £1,000 each month to it. During this time the Society has donated more than £36,000 from this source 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.



During 2016 and early 2017, a panel of Society members met to decide how the accrued donations for 2016 should be allocated to a selection of nominated causes.

After much discussion, the decision on this year's beneficiaries were:

£1,500	Fegans Counselling Support for Children	£1,000	The Abbot's Mill Project New outdoor club in Canterbury for children aged 5 to 12
£1,600	Young Kent Matching disabled children with other young people to attend clubs of their choice	£1,000	Bechange Improving parenting & life skills to young parents in Aylesham
£1,500	Louie's Helping Hands Sessional workers for helping children with profound & multiple disabilities	£1,500	Square Pegs Drama Club Maidstone based arts & drama for children and young adults with learning difficulties
£945	The Children's Development Trust Specialist bed and mattress for respite house for young people diagnosed with cancer	£1,500	Healthy Living Centre Dartford Weekly youth club in most deprived area
£1,500	Rising Sun Domestic Violence & Abuse Project Assisting project aimed at 15 to 24 year old women in Canterbury	£1,273	Millmead Children's Centre Partnership Ltd Dane Valley, Margate youth clubs (in the top 2% of most deprived areas in England)
£1,000	Dame Kelly Holmes Trust Assisting elite athletes to run courses for NEETS to motivate them to find work	£1,200	Church Street Community Project Helping struggling parents of vulnerable children
£1,000	Fusion Maidstone Targeted at primary age children and their parents/carers to spend quality time in the most deprived area	£1,000	Books Beyond Words CIC Helping children with learning difficulties to use books with pictures to assist in their life stage
£1,500	Chalkhill Farm Children in care/difficult home environments farm based activities	£1,600	Friends of Holcot Memorable days out for disadvantaged children/families
£1,000	The Alkham Valley Community Project Specialist carriage for children with complex physical and/or other disabilities	£1,500	ECHO (Evelina Children's Heart Organisation) Supporting events for children and families suffering major heart disorders
£1,000	Cantercare Canterbury charity helping homeless young women	£12,067	Promised to a further 6 organisations in Kent but as yet undrawn

Total £36,185

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In addition, and thanks to the generosity of members last year in agreeing to pass the monies received by the Society from the Bank by way of dividend, a further sum was donated to Kent Reliance Community Fund.

Here are just a few samples of feedback received from beneficiaries of the monies generously donated by members:

Westerham Sea Cadets

Donation £860

Purchase of indoor rowing machine

“I joined the Sea Cadets about a year ago, having been kicked out of the scouts due to my behaviour issues caused by my ADHD and learning difficulties ... I did not like rowing until the unit got an indoor rowing machine, I love it now. I can row against other people without getting into trouble and ...I can't wait to take part in the indoor championships later in the year, as long as I continue to behave.”

The Pegasus Play Scheme

Donation £2,000

Quotes from children, volunteers and family members:

“Another fantastic year! Thank you so much ... I don't know what we'd do without you!”

“**** spends all year looking forward to Pegasus it is a benchmark in his year that he looks forward to.”

“My child likes being with other young people so benefits from talking with others and having fun. Thank you for another wonderful summer.”

“**** has had the time of her life - thanks so much!”

.....

“Another fantastic year! Thank you so much. I don't know what we'd do without you!”

.....



Young Lives Foundation

Donation £540

Supporting 1-2-1 mentoring for vulnerable and disadvantaged children

“‘D’ was facing real difficulties including involvement with the police. His mentor ‘J’ and ‘D’ worked towards goals around improving his behaviour, attendance at school and relationships with his parents. It took a while for him to open up and begin to trust ‘J’... but he eventually did. Since the mentoring, his mother has reported that he spends more time with the family now and hasn't been involved with the Police for a few months. He has also started to attend some group activities with YLF.”

Tunbridge Wells & District Volunteer Bureau – Community Car Service

Donation £5,000

Safe and affordable transport

“The drivers drive 365 days a year ... Last year one of our customers didn't know that we have drivers on Christmas day and she paid £100 for a taxi to visit her husband in Tunbridge Wells hospital - this is a distance of about four and half miles each way. This year ... she has booked her transport already”.

Demelza Hospice Care for Children

Demelza provides specialist one to one care and support and access to life-enhancing facilities for babies, children and young people up to the age of 19. Staff from Kent Reliance have participated in fundraising events throughout the year including headline sponsors and participants of the annual KM Dragon Boat Race, raising the majority share of more than £100,000 raised through their efforts on the day. Kent Reliance also take huge pride in Demelza's annual fundraising event, 'Go Dotty' which this year culminated in a week long campaign involving office and branch staff who enthusiastically embraced the challenges set upon them.

Kent County Football Association

The partnership between the Kent FA and Kent Reliance has grown over the last three years and now covers 23 Kent County Cup competitions with over 1,000 teams competing from across the county, and the Kent Girls and Disability Player Development Centres. This commitment to the broad range of development and involvement has led to Kent Reliance becoming Kent FA's first official 'Community Partner'.

Kent County Cricket Club

In 2016, Kent Reliance continued its partnership with KCCC, by supporting the Club's community programme. This relationship is another opportunity to really support grassroots activity within the county and encourage people of all abilities to get involved and enjoy sport. Our sponsorship activity provides for funding for the Disability Performance Squads who currently operate two teams that represent Kent in national competitions against other counties, the Kent Reliance Learning and Physically Disabled ('LDPD') Performance Squad and the Kent Reliance Visually Impaired ('VI') Performance Squad. The inclusion of Kent Spitfires player Amin Afshari in England's Visually Impaired World Cup squad is evidence that the programme really does work."

In partnership with KM Group – Kent Heroes and Make Someone's Christmas

Kent Heroes and Make Someone's Christmas gives the Kent community an opportunity to celebrate local, unsung heroes who may not otherwise gain recognition for their selfless acts.



Kent Literacy

In 2016, Kent Reliance supported the educational charity to launch and develop its new home reading initiative – Buster's Book Club – in ten Medway schools. The scheme was extremely successful with 11,000 children involved and more than 2.8m minutes of reading achieved.

05

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. In addition, the Society received additional shares from OSB in relation to forfeited staff IPO awards.

The Society assisted the Bank in conducting a number of customer research activities during the year, including meetings with a number of invited members at which the Chief Executive Officer 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 2016 was £909k (2015 restated: £1,317k). The profit after taxation for the year was £763k (2015 restated: £1,121k).

Assets

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

As at 31 December 2016 the Society held (and continues to hold) 1,169,815 Ordinary Shares of £0.01 in OSB (2015: 871,667). 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 & 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
.....

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.

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 2016 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 £61,474 (2015: £49,634).

Directors

The full list of Directors served on the Board during the year to 31 December 2016 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.

.....
The Society made charitable
donations of **£61,474**
.....

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
22 May 2017

.....
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 as needed and from 2016 has aimed for quarterly meetings, 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.

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 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 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 2016. The number of meetings each Director was eligible to attend is shown in brackets.

Director	Meeting
Andy Golding	2(3)
John Eastgate	3(3)
Clive Kornitzer	3(3)
John Paddick	3(3)
April Talintyre	3(3)

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 2016.

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 page 22.

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 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 can comprise a number of elements: basic salary, annual bonus 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 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 5 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's 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, including 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's 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 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 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
22 May 2017

.....
Financial statements are required
by law to give a **true and fair view**
of the state of affairs
.....

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 2016 set out on pages 26 to 35. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice), including FRS, the Financial Reporting Standard applicable in the UK and Republic of Ireland.

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.

Respective responsibilities of directors and auditor

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.

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.

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The Society's Directors are responsible for the preparation of financial statements which give a true and fair view

.....

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 2016 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
- we have not received all the information and explanations we need for our audit.

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

22 May 2017

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Financial Statements

Profit and Loss Account

	Notes	Year ended 31 Dec 16 £'000	RESTATED Year ended 31 Dec 15 £'000
Commission and dividend income	3	326	284
Other income	4	871	1,312
Administrative expenses	5	(288)	(279)
Profit before taxation		909	1,317
Taxation	6	(146)	(196)
Profit for the year		763	1,121

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.

Balance Sheet

	Notes	As at 31 Dec 16 £'000	As at 31 Dec 15 £'000
Non-current assets			
Investment in OneSavings Bank plc	7	3,954	3,083
Current assets			
Net amount receivable from OneSavings Bank plc		443	423
Current liabilities			
Accruals		(31)	(48)
Corporation tax		(125)	(28)
Deferred tax	8	(430)	(382)
Net current liabilities			
		(143)	(35)
Total assets less current liabilities			
		3,811	3,048
Reserves			
Retained earnings		3,811	3,048
Total Members' Funds			
		3,811	3,048

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 22 May 2017 and were signed on its behalf by:

John Paddick
Director

John Eastgate
Director

Reconciliation of Members' Funds

	Retained earnings £'000	Revaluation reserve £'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

	RESTATED Retained earnings £'000	RESTATED Revaluation reserve £'000	Total members' funds £'000
As at 1 January 2015	1,070	857	1,927
FRS 102 transition adjustment ¹	857	(857)	-
Profit for the year	1,121	-	1,121
As at 31 December 2015	3,048	-	3,048

¹ The implementation of FRS 102, effective from 1 January 2015, removed the option for an entity to account for fair value changes of an investment directly through other comprehensive income. Rather, FRS 102 requires all fair value adjustments of investments to be taken to the Statement of Profit or Loss. The implementation required an opening balance adjustment as at 1 January 2015 to move the historic revaluation reserve to retained earnings.

Statement of Cash Flows

	Year ended 31 Dec 16 £'000	RESTATED Year ended 31 Dec 15 £'000
Cash flows from operating activities		
Profit before taxation	909	1,317
Adjustments for non-cash items:		
Unrealised gains on investments	(284)	(1,175)
Cash generated from operations	625	142
Changes in operating assets and liabilities		
Decrease/(increase) in net amounts receivable from OSB	(20)	(193)
Increase in investment in OSB	(587)	(137)
(Decrease)/Increase in accruals	(17)	21
Tax refunded/(paid)	(1)	167
Movement in cash and cash equivalents	-	-

The 2015 comparatives have been restated for the change in accounting policy as described in note 1.

1. Change in accounting for investment in OneSavings Bank plc

In these financial statements the Society has changed the way that it has accounted for the investment in OneSavings Bank plc ('OSB'). The implementation of FRS 102, effective from 1 January 2015, removed the option for an entity to account for fair value changes of an investment directly through other comprehensive income (previously the Statement of Total Realised Gains and Losses). Rather, FRS 102 requires all fair value adjustments of investments to be taken to the Statement of Profit or Loss. Deferred tax liabilities are also required to be recognised through the Statement of Profit or Loss consistent with the treatment of the underlying revaluation gains. The Society has restated the 2015 comparatives in these financial statements accordingly. This adjustment does not affect the carrying amount of the investment in the Statement of Financial Position.

The impact to the 2015 comparatives is shown below:

	As reported 31 Dec 15 £'000	RESTATED 31 Dec 15 £'000	Impact 31 Dec 15 £'000
Statement of profit or loss			
Other income	137	1,312	1,175
Profit before taxation	142	1,317	1,175
Taxation	(28)	(196)	(168)
Profit for the year	114	1,121	1,007
Statement of financial position			
Revaluation reserve	1,864	-	(1,864)
Retained earnings	1,184	3,048	1,864

2. 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 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 him 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 in 2016, 2015 and 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 and Accounts.

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) 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 OSB.

i) Related parties

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

3. Commission and dividend income

	Year ended 31 Dec 16 £'000	Year ended 31 Dec 15 £'000
Management fee	234	234
Dividend income	92	50
	326	284

The 2015 comparative has been reclassified splitting commission and other income in the 2015 financial statement into two separate line items; commission and dividend income and other income. This adjustment does not affect the amount recognised in the Statement of Profit or Loss.

4. Other income

	Year ended 31 Dec 16 £'000	RESTATED Year ended 31 Dec 15 £'000
Revaluation of investment in OSB	284	1,175
Additional shares received ¹	587	137
	871	1,312

¹Additional shares received relate to forfeited IPO awards. See note 7 for further details. The 2015 comparative was previously disclosed within commission and other income, which has been split into commission and dividend income and other income for the 2016 financial statements.

The 2015 comparatives have been restated to account for the revaluation of investment in OSB through the Statement of Profit or Loss rather than equity. Please see note 1 for further details.

5. Administrative expenses

	Year ended 31 Dec 16 £'000	Year ended 31 Dec 15 £'000
Staff costs (see below)	94	94
Fees payable to the auditors and their associates	15	14
AGM Costs	99	96
Charitable donations	61	50
Other administrative expenses	19	25
	288	279

Staff numbers and costs

The average number of persons employed by the Society (including executive Directors) during the year was 1 (2015: 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 16 £'000	Year ended 31 Dec 15 £'000
Salaries and other benefits	77	75
Social security costs	10	12
Other pension costs ¹	7	7
	94	94

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

The 2015 comparative has been reclassified to separately disclose salaries and other pension costs.

In the year ended 31 December 2015, 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 OSB on OSBs admission to the London Stock Exchange, vesting over a 12 month period. The expense was borne by OSB Holdco Limited.

6. Taxation

	Year ended 31 Dec 16 £'000	RESTATED Year ended 31 Dec 15 £'000
Corporation tax	98	28
Deferred tax	48	168
	146	196

The 2015 comparative has been restated to account for deferred tax through the Statement of Profit or Loss as mentioned in note 1.

Tax is charged at the weighted average rate of corporation tax for the period of 20.00% (2015: 20.25%). The tax reconciliation is presented below:

	Year ended 31 Dec 16 £'000	RESTATED Year ended 31 Dec 15 £'000
Profit before taxation	909	1,317
Profit multiplied by the weighted average rate of corporation taxation in the UK of 20.00% (2015: 20.25%):	182	267
Non-taxable dividend income	(18)	(10)
Unrealised gains on investment in OSB	(9)	(70)
Disallowed charitable donations	-	9
Adjustments in respect for prior years	(9)	-
Total taxation	146	196

7. 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. During the year ended 31 December 2016 the Society received an additional 298,148 forfeited shares (2015: 46,012 shares). This brings the Society's total holding in OSB at 31 December 2016 to 1,169,815 (2015: 871,667) shares which equates to about 0.5% (2015: 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 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 16 £'000	Year ended 31 Dec 15 £'000
At 1 January	3,083	1,771
Additional 46,012 shares received in 2015, at £2.98 per share	-	137
Additional 298,148 shares received in 2016, at £1.97 per share	587	-
Fair value change due to share price movements	284	1,175
At 31 December	3,954	3,083

8. 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.

	Year ended 31 Dec 16 £'000	Year ended 31 Dec 15 £'000
At 1 January	382	214
Tax recognised in the profit or loss account and attributable to:		
Tax rate changes	-	(32)
Movements in the value of shares	48	200
At 31 December	430	382

A reduction in the UK corporation tax rate from 21% to 20% (effective from 1 April 2015) was substantively enacted on 2 July 2013. Further reductions to 19% (effective from 1 April 2017) and 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 2016 has been calculated based on these rates.

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 16 £'000	Year ended 31 Dec 15 £'000
Commission and dividend income	326	284
Additional shares received ¹	587	137

¹ Additional shares received relate to forfeited IPO awards. See note 7 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