RIS Announcement

Date: 16 August 2013
On behalf of: OneSavings Bank plc ("the Bank")

OneSavings Bank plc
Interim Group results for the six months ended 30 June 2013

OneSavings Bank plc, the challenger bank, announces its interim Group results for the six months ended 30 June 2013.

The summary of the results for the six months is:

- A post tax profit of £12.4m (prior interim period post tax loss £1.8m, prior year post tax profit £8.0m)[1]
- Significantly improved net interest income of £23.4m, reflecting the positive impact of higher margin new lending and acquired mortgages as well as reduced funding costs (prior interim period £3.3m, prior year £15.7m)
- Annualised management expense ratio[2] of 0.70% reflecting a continued focus on cost discipline (prior interim period 0.70%, prior year 0.72%)
- Total capital ratio of 12.8% (30 June 2012 16.8%, 31 December 2012 14.0%)
- Further capital injection[3] of £15.0m in July 2013 to help support the purchase of a £0.3bn book of performing consumer loan assets from UK Asset Resolution (ôUKARö)
- Legal advice received that the Bankös perpetual subordinated bonds ('PSBs') listed on the London Stock Exchange should continue to be eligible as Tier 2 capital under CRD IV[4]. As a result, the Board does not currently anticipate calling the debt.

[1] The prior interim period refers to the period 1 January 2012 to 30 June 2012 and the prior year refers to the period from 1 January 2012 to 31 December 2012.

[2] Administrative expenses, including depreciation, expressed as a percentage of average total assets

[3] Received from OSB Holdco Limited, a shareholder of OSB owned by funds advised by J.C. Flowers & Co. LLP

[4] The PSBs should continue to be eligible as Tier 2 capital under the Capital Requirements Regulations as their governing provisions do not include any incentive for the Bank to redeem them. This is because at the time of issue in 2011 the interest rate reset comprised in the conditions attaching to the PSBs implied a step-down on a call.

Commenting on the results and outlook Stephan Wilcke, Chairman of OneSavings Bank plc, said:

ñThe turnaround of OneSavings Bank plc (the ôBankö) continued during the first half of 2013 much faster than originally expected. We have generated very strong growth on the top and bottom line. Last year our profitability arose principally from one-off accounting items related to our acquisitions. We are now run-rate profitable on an underlying basis. This represents another key milestone in the Bankös development.

We were pleased to welcome 70,000 new customers to the Bank through the acquisition of the performing consumer loan assets from UKAR which was signed in July.

The rapid progress of the Bank has exceeded the Board's expectations. At the core of all our specialist business lines remains an unrelenting focus on understanding and meeting our customersõ needs.ö

Andy Golding, Chief Executive of OneSavings Bank plc, added:

ñThe profit for the period, which exceeds the 2012 full year result, is particularly pleasing given the increasing intensity of competition in the mortgage lending market. We have continued to improve our lending proposition and increase our market share across all brand offerings and remain committed to offering long-term value for money products to our savers.

The second half of 2013 will see us continue to focus on growth as well as product and service development to enhance our customer proposition. To that end we are now embarking on a significant change project to improve our technology to deliver faster and more efficient mortgage processing and enhance our online savings functionality.

The trajectory for the Group is positive: continuing performance improvement, growth and development. As a óchallenger bankô, we continue to expand our customer base in our chosen markets, serving savers, mortgage borrowers and UK SMEs with our specialised products.ò

ENDS

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About OneSavings Bank plc

OneSavings Bank plc is a specialist financial services group, which lends to UK SMEôs and consumers through the Kent Reliance and associated Channel Islands brands, InterBay Commercial, Prestige Finance and Reliance Property Loans brands. It is also well known as a value for money retail savings provider, regularly topping and appearing in national press best buy tables. It is majority owned by the Kent Reliance Provident Society and operates under mutual principles. OSB Holdco Limited, owned by funds advised by J.C. Flowers & Co. LLP, is a significant minority shareholder.

Chairman's Statement

For the six months ended 30 June 2013

The turnaround of OneSavings Bank plc (the "Bank") continued during the first half of 2013 much faster than originally expected. We have generated very strong growth on the top and bottom line. Last year our profitability arose principally from one-off accounting items related to our acquisitions. We are now run-rate profitable on an underlying basis. This represents another key milestone in the Bank's development.

The net interest margin continued to grow at a fast pace. Government policy has led to lower retail deposit rates, while the gross interest margin on our mortgage books has remained strong as we have added further high margin business.

We were pleased to welcome 70,000 new customers to the Bank through the acquisition of the performing consumer loan assets from UK Asset Resolution ("UKAR") which was signed in July. We are grateful for the continuing support from our shareholder JC Flowers* and their additional capital injection via OSB Holdco Limited of £15.0m to help support this acquisition.

The rapid progress of the Bank which has exceeded the Board's expectations is a credit to the staff and the management, for whose hard work and dedication we are grateful. At the core of all our specialist business lines remains an unrelenting focus on understanding and meeting our customers' needs.

Stephan Wilcke
Chairman

* Funds advised by J.C. Flowers & Co. LLP

Chief Executive's Report

For the six months ended 30 June 2013

I am extremely pleased to present strong results for the OneSavings Bank plc Group for the 2013 half year.

In my 2012 full year report, I stated that I expected the performance improvement to continue and the half-year profit for 2013 exceeds the 2012 full year performance; in fact it is more than Kent Reliance Building Society ever made on a full year basis. This is particularly pleasing given the increasing intensity of competition in the mortgage lending market, spurred on by significant government stimulus to aid the wider economic recovery.

We have continued to improve our lending proposition and now all three of our UK lending brands* are growing and increasing their market share.

We remain committed to offering long-term value for money for savers and in the first half of 2013, have regularly headed up ñbest buyò tables with our Kent Reliance savings rates. I am also delighted that Kent Reliance was the proud winner of the 2013 Moneyfacts ñBest Cash ISA Providerò award.

Following a period of stabilisation in 2012, the growth agenda has been the main focus in 2013. We have increased our new lending by 138.2% and our savings balances have grown by £862.9m as compared to the equivalent period last year and 8,937 new customers have done business with the Group since the start of 2013. Having resumed lending in Interbay Commercial in late 2012 and re-launched Prestige Finance in April 2013, it is pleasing to see that they have already gained good traction in their chosen markets; both having just delivered record completion months and completed their largest ever loans.

The agenda for the balance of 2013 is further growth through high-quality, profitable mortgage lending, further acquisitions if attractive opportunities present themselves and continued product and service development to enhance the group-wide customer proposition. Whilst all of this means we will invest in the business, the Board and my executive team have a strong focus on cost management to ensure that our resources are utilised in the right areas, helping improve the business on an incremental basis.

The trajectory for the Group is positive: continuing performance improvement, growth and development. As a óchallenger bankô, we continue to expand our customer base serving savers, mortgage borrowers and UK SMEs with our specialised products.

Andy Golding
Chief Executive

*Kent Reliance, Interbay Commercial and Prestige Finance

Interim Management Report

For the six months ended 30 June 2013

Principal activities

OneSavings Bank plc (‘the Bank’) began trading as a bank on 1 February 2011 when the trade and assets of Kent Reliance Building Society (‘KRBS’) were transferred into the business.

The principal activity of the OneSavings Bank Group (the Bank, together with its subsidiaries, ‘the Group’) is to provide finance to its borrowers and long-term value for money savings products to its investors. The strategic objective of the Group is to be a provider of financial lending across a broad range of markets including buy to let, residential, shared ownership, second charge and SME mortgages and unsecured consumer finance. To that end the Bank acquired a book of performing consumer loan assets from UKAR in July 2013 bringing 70,000 new customers to the Group.

The Bank has a number of subsidiaries including Jersey Home Loans Limited and Guernsey Home Loans Limited in the Channel Islands (which provide mortgages in Jersey and Guernsey respectively), the Interbay Group (a specialist SME mortgage lender), Prestige Finance Limited (a second charge mortgage lender) and Easioption BPO Services Pvt Limited and Easiprocess Pvt Limited in India (which provide back office processing services to the Bank). Together with the Bank, and the Bank’s other subsidiaries, these form the Group.

Business review

The Group continues to make significant progress in diluting the impact of the loss-making low interest bearing back book inherited from KRBS by originating and acquiring higher margin mortgages and as a result is now profitable on an underlying basis without the benefit of the non-recurring negative goodwill on acquisitions included in the prior year.

The Group increased its volume of new lending to over £230m in the first half of 2013 and purchased £70m of additional newly originated mortgages under third-party flow agreements.

The Bank also purchased two additional books of mortgages in the first six months of 2013 for a total of £61m with a gross value of £84m.

Financial results

The Group reported a profit before tax of £10.2m for the six months to 30 June 2013 (‘the period’) as compared to a loss of £0.6m for the six months ended 30 June 2012 (‘the prior interim period’) and a profit of £6.7m for the year to 31 December 2012 (‘the prior year’). This growth in profitability is despite the negative goodwill of £17.6m recognised in the prior year and gains on sales of financial instruments of £2.9m included in the prior interim period and prior year and reflects significant improvement in the underlying performance of the business.

The profit after taxation for the period was £12.4m compared to a loss of £1.8m for the prior interim period and a profit of £8.0m for the prior year. The tax credit for the period of £2.2m included the recognition of a deferred tax asset of £4.7m in respect of trading tax losses in the Interbay Group, which resumed lending in late 2012 and has seen rapid growth in pipeline and completed loans since then.

The Group reported net interest income of £23.4m during the period (prior interim period: £3.3m, prior year: £15.7m) with a net interest margin (‘NIM’) of 158bps (prior interim period: 30bps, prior year: 63bps). This significant improvement in NIM reflects the positive impact of increased growth in new lending and the mortgage book purchases and company acquisitions since the start of 2012. These are all providing the Group with higher returns than the loss-making back book inherited from KRBS. Net interest income also benefited from a sharp fall in the cost of retail funds following the UK Government’s introduction of the Funding for Lending Scheme (‘FLS’) in July 2012.

The introduction of the FLS significantly reduced the intense competition for retail funds seen throughout much of 2012 and led to a steady reduction in the cost of these funds in late 2012 and into the first half of 2013. Mortgage rates on new lending followed suit in the first half of 2013, particularly on mainstream buy to let and residential products.

The Group's annualised management expense ratio to average total assets, including depreciation, was 0.70% for the period (prior interim period: 0.70%, prior year: 0.72%) as the Group continued to focus on maintaining cost discipline during this period of growth.

The Bank did not recognise Financial Services Compensation Scheme ("FSCS") levies in the period (prior interim period: £1.0m, prior year: £2.3m) in line with the draft IFRIC interpretation on 'Levies Charged by Public Authorities on Entities that Operate in a Specific Market'. A liability for the FSCS levies is triggered by the Bank's participation in the retail savings market as at 31 December of each year and therefore no liability was recognised in interim accounts.

The total capital ratio as at 30 June 2013 was 12.8% (30 June 2012: 16.8%, 31 December 2013: 14.0%).

Principal risks and uncertainties

The Group considers a range of stress scenarios as part of its business planning and risk management. The principal risks facing the Group revolve around the UK's economic outlook as reflected in unemployment levels, household budgets and house price inflation. During the six months to 30 June 2013 there has been no fundamental change to our business model, risk appetite or risk management approach. Before the business became profitable, the Board had determined that it should hold a small additional capital buffer over and above the Prudential Regulation Authority ("PRA") agreed requirements for Individual Capital Guidance ("ICG") and Capital Planning Buffer ("CPB"). As the business is now sustainably profitable this additional capital buffer has been freed up by the Board to be utilised to fund additional lending to UK SMEs and consumers.

A detailed description of the principal risks and uncertainties the Group faces and its approach to managing and mitigating those risks is set out in the Risk Management Report of the 2012 Group Report and Accounts.

Outlook for the remaining six months of 2013

The mortgage market remains relatively subdued at present and is still some way from returning to a form of normality although new lending has increased in the UK mortgage market following the introduction of the FLS and the Government 'help-to-buy' scheme. The savings market also remains uncertain as household incomes continue to be squeezed due to slow economic growth, severe spending cuts and limited wage growth. Given the uncertain economic outlook and with changes to regulatory reform continuing to pose challenges, there remains continued margin pressure in the financial services industry.

Interest rates remain low with the Bank of England base rate staying throughout the first half of 2013 at its lowest ever level of 0.5% and the markets expect no change in the base rate in 2013, which will continue to impact on savers and the Group's margins. A significant but shrinking part of the Group's assets are yielding low returns linked to market rates, which has imposed a significant strain on profitability. The low level of interest rates does, however, have a positive impact on residential mortgage arrears and repossessions. The Bank also benefits from declining savings rates following the introduction of the FLS as the differential between LIBOR and savings rates across the market reduces.

Despite these challenges, the Group is well placed to take advantage of profitable origination, going into the second half of 2013 with a record pipeline.

The future growth plans for the Group include increased organic lending alongside additional portfolio and/or business acquisitions where opportunities present themselves. To that end the Bank acquired £0.3bn of performing consumer loan assets from UKAR in July 2013, securing a further capital injection of £15.0m from OSB Holdco Limited to help support the purchase.

The second half of 2013 will see further investment in the on-going development of the Group, including increases in core headcount and systems investment to support these growth plans.

Income Statement

For the six months ended 30 June 2013

	Notes	Six months ended 30 June 2013 £'000 (Unaudited)	Six months ended 30 June 2012 £'000 (Unaudited)	Year ended 31 December 2012 £'000 (Audited)
Interest receivable and similar income	2	**61,934**	**34,268**	**86,872**
Interest payable and similar charges	3	**(38,564)**	**(30,961)**	**(71,132)**
Net interest income		**23,370**	**3,307**	**15,740**
Fair value gains and (losses) on financial instruments		**667**	**2,702**	**(561)**
Gain / (loss) on sales of financial instruments		**(24)**	**2,893**	**2,893**
Other operating income / (expense)		**(521)**	**47**	**(2,079)**
Administrative expenses	4	**(10,350)**	**(7,981)**	**(18,836)**
Depreciation and amortisation		**(350)**	**(143)**	**(460)**
		12,792	**825**	**(3,303)**
FSCS and other provisions	5	**-**	**(983)**	**(2,331)**
Impairment losses	8	**(2,616)**	**(450)**	**(5,301)**
Negative goodwill		**-**	**-**	**17,603**
Profit / (Loss) before taxation		**10,176**	**(608)**	**6,668**
Taxation credit / (expense)	6	**2,229**	**(1,204)**	**1,297**
Profit / (Loss) for the period		**12,405**	**(1,812)**	**7,965**

Statement of Comprehensive Income

For the six months ended 30 June 2013

	Six months ended 30 June 2013 £'000 (Unaudited)	Six months ended 30 June 2012 £'000 (Unaudited)	Year ended 31 December 2012 £'000 (Audited)
Other comprehensive expense			
Available for sale securities: valuation losses taken to equity	**(977)**	**(424)**	**(467)**
Deferred taxation relating to components of other comprehensive income	**(18)**	**(93)**	**(70)**
Other comprehensive expense for the period net of taxation	**(995)**	**(517)**	**(537)**
Profit / (Loss) for the period	**12,405**	**(1,812)**	**7,965**
Total comprehensive income / (expense) for the period	**11,410**	**(2,329)**	**7,428**

Statement of Financial Position

As at 30 June 2013

	Notes	30 June 2013 £'000 (Unaudited)	30 June 2012 £'000 (Unaudited)	31 December 2012 £'000 (Audited)
Assets				
Liquid assets				
Cash in hand and balances with the Bank of England		**298**	**212**	**282**
Loans and advances to credit institutions		**183,410**	**143,707**	**291,700**
Investment securities		**402,632**	**309,969**	**410,339**
Total liquid assets		**586,340**	**453,888**	**702,321**
Loans and advances to customers	7	**2,445,116**	**1,724,090**	**2,196,050**
Fair value adjustments for hedged risk		**71,284**	**92,210**	**86,501**
Deferred tax asset		**17,946**	**13,484**	**16,019**
Intangible fixed assets		**848**	**643**	**910**
Property, plant and equipment		**4,075**	**1,800**	**4,231**
Other assets		**2,818**	**3,731**	**3,175**
		96,971	**111,868**	**110,836**
Total assets		**3,128,427**	**2,289,846**	**3,009,207**
Liabilities				
Amounts owed to retail depositors		**2,897,639**	**2,034,702**	**2,744,646**
Amounts owed to credit institutions		**17,255**	**29,557**	**24,953**
Derivative financial instruments		**30,470**	**70,560**	**67,424**
Other liabilities		**12,016**	**8,861**	**10,630**
FSCS and other provisions	5	**3,609**	**3,520**	**4,862**
Subordinated liabilities		**27,573**	**26,627**	**27,576**
Perpetual Subordinated Bonds (PSBs)		**15,213**	**14,741**	**15,189**
		3,003,775	**2,188,568**	**2,895,280**
Equity		**124,652**	**101,278**	**113,927**
Total equity and liabilities		**3,128,427**	**2,289,846**	**3,009,207**

Statement of Changes in Equity

As at 30 June 2013

30 June 2013	Share capital £'000	Capital contribution £'000	Share premium £'000	Foreign Exchange reserve £'000	Transfer reserve £'000	AFS reserve £'000	Retained earnings £'000	6.591% Perpetual Subordinated Bonds (PSBs) £'000	Total £'000
Balance at 1 January 2013	1,001	3,326	105,149	31	(12,818)	1,285	(6,047)	22,000	**113,927**
Profit for the period	-		-	-	-	-	12,405	-	**12,405**
Additional preference shares issued	112	-	(112)	-	-	-	-	-	**-**
Coupon paid on PSBs	-		-	-	-	-	(725)	-	**(725)**
Revaluation of subsidiary assets and liabilities	-		-	40	-	-	-	-	**40**
Other comprehensive expense	-		-	-	-	(995)	-	-	**(995)**
Balance at 30 June 2013 (Unaudited)	1,113	3,326	105,037	71	(12,818)	290	5,633	22,000	**124,652**

30 June 2012	Share capital £'000	Share premium £'000	Foreign Exchange reserve £'000	Transfer reserve £'000	AFS reserve £'000	Retained earnings £'000	6.591% Perpetual Subordinated Bonds (PSBs) £'000	Total £'000
Balance at 1 January 2012	361	90,639	-	(12,818)	1,822	(12,562)	22,000	**89,442**
Capital injection on 30 June 2012	490	14,510	-	-	-	-	-	**15,000**
Loss for the period	-	-	-	-	-	(1,812)	-	**(1,812)**
Coupon paid on PSBs	-	-	-	-	-	(725)	-	**(725)**
Revaluation of subsidiary assets and liabilities	-	-	(110)	-	-	-	-	**(110)**
Other comprehensive expense	-	-	-	-	(517)	-	-	**(517)**
Balance at 30 June 2012 (Unaudited)	851	105,149	(110)	(12,818)	1,305	(15,099)	22,000	**101,278**

31 December 2012	Share capital £'000	Capital contribution £'000	Share premium £'000	Foreign Exchange reserve £'000	Transfer reserve £'000	AFS reserve £'000	Retained earnings £'000	6.591% Perpetual Subordinated Bonds (PSBs) £'000	Total £'000
Balance at 1 January 2012	361	-	90,639	-	(12,818)	1,822	(12,562)	22,000	**89,442**
Capital injection on 28 June 2012	490	-	14,510	-	-	-	-	-	**15,000**
Profit for the period	-	-	-	-	-	-	7,965	-	**7,965**
Coupon paid on PSBs	-	-	-	-	-	-	(1,450)	-	**(1,450)**
Revaluation of subsidiary assets and liabilities	-	-	-	31	-	-	-	-	**31**
Other comprehensive expense	-	-	-	-	-	(537)	-	-	**(537)**
Capital contribution on acquisition of the Interbay group	-	1,272	-	-	-	-	-	-	**1,272**
Ordinary E shares issued	150	2,054	-	-	-	-	-	-	**2,204**
Balance at 31 December 2012 (Audited)	1,001	3,326	105,149	31	(12,818)	1,285	(6,047)	22,000	**113,927**

Statement of Cashflows

For the six months ended 30 June 2013

	Six months ended	Six months ended	Year ended
	30 June 2013	30 June 2012	31 December 2012
	£'000	£'000	£'000
	(Unaudited)	(Unaudited)	(Audited)
Cash flows from operating activities			
Profit / (Loss) on ordinary activities before taxation	10,176	(608)	6,668
Depreciation and amortisation	350	143	460
Negative goodwill	-	-	(17,603)
Interest on subordinated liabilities	620	420	1,299
Interest on 7.875% PSBs	622	549	1,254
Net increase in impairment of loans and advances	2,616	450	5,301
Loss / (Gain) on sale of Gilts	24	(2,893)	(2,893)
Net increase in FSCS and other provisions	-	983	2,331
Net change in fair value gains and losses on financial instruments	(667)	(2,702)	561
Tax credit / (expense)	2,229	(1,204)	1,297
	15,970	(4,862)	(1,325)
Cash flows from operating assets and liabilities			
Net decrease / (increase) in loans and advances to credit institutions	87,024	95,954	(41,880)
Net (increase) in loans and advances to customers	(251,682)	(84,594)	(452,214)
Net increase / (decrease) in amounts owed to retail depositors	152,993	(46,888)	663,056
Net (increase) / decrease in other assets and deferred tax	(1,570)	1,446	(1,830)
Net (decrease) in cash on termination of derivatives	(21,070)	(19,763)	(21,773)
Net (decrease) in amounts owed to credit institutions	(7,698)	(9,668)	(14,272)
Net increase in provisions and other liabilities	133	4,731	5,511
Cash (used in) / from operating activities	(41,870)	(58,782)	136,598
Cash flows from investing activities			
Net sale / (purchase) of investment securities	6,712	(38,439)	(47,328)
Net purchase of property, plant and equipment	(73)	(15)	(2,654)
Net purchase of intangible assets	(59)	(219)	(594)
Cash paid on purchase of Prestige	-	-	(340)
Cash paid on purchase of Interbay	-	-	(869)
Cash generated from / (used in) investing activities	6,580	(38,673)	(51,785)
Cash flows from financing activities			
Coupon paid on 6.591% PSBs	(725)	(725)	(1,450)
Interest paid on 7.875% PSBs and subordinated liabilities	(1,205)	(1,211)	(2,453)
Share capital issue	-	15,000	15,000
Repayment of Prestige funding on acquisition	-	-	(38,142)
Repayment of Interbay funding on acquisition	-	-	(46,255)
Cash (used in) / generated from financing activities	(1,930)	13,064	(73,300)
Net (decrease) / increase in cash and cash equivalents	(21,250)	(89,253)	10,188
Cash and cash equivalents at start of period			
Cash in hand and balances with the Bank of England	282	253	253
Loans and advances to credit institutions repayable on demand	204,676	194,517	194,517
	204,958	194,770	194,770
Cash and cash equivalents at end of period			
Cash in hand and balances with the Bank of England	298	212	282
Loans and advances to credit institutions repayable on demand	183,410	105,305	204,676
	183,708	105,517	204,958
Movement in cash and cash equivalents	(21,250)	(89,253)	10,188

Notes to the Accounts

For the six months ended 30 June 2013

1. Accounting Policies

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

a) Basis of preparation

These Interim Group Financial Statements have been prepared in accordance with 'International Accounting Standard 34 Interim Financial Reporting' as adopted by the European Union (EU).

The accounting policies, presentation and methods of computation are consistent with those applied by the Group in its latest audited financial statements, which were prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU and interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC).

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

b) Going concern

The Board undertakes regular rigorous assessments of whether the Bank is a going concern in the light of current economic conditions and all available information about future risks and uncertainties.

Projections for OneSavings Bank plc have been prepared, covering its future performance, capital and liquidity, for a period in excess of 12 months from the date of approval of these accounts. These projections show that the Group has sufficient capital to continue to meet its regulatory capital requirements as set out by the regulator.

The Board has therefore concluded that the Group has sufficient resources to continue in operational existence for the foreseeable future and as a result it is appropriate to prepare these financial statements on a going concern basis.

c) Deferred taxation

Deferred tax assets are recognised only to the extent that it is probable that future taxable profits will be available to utilise the asset. The recognition of deferred tax is mainly dependent on the projections of future taxable profits and future reversals of existing taxable temporary differences.

Management's projections of future taxable income are based on business plans, future capital requirements and ongoing tax planning strategies. These assumptions include the impact of credit losses, capital requirements and assumptions about the UK (macroeconomic) environment. The assumptions surrounding future expected credit losses represent the most subjective areas of judgement in Management's projections of future taxable income. Management's forecast supports the assumption that it is probable that the results of future operations will generate sufficient taxable income to utilise the deferred tax asset.

d) Interest income and expense

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

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

Interest income on available for sale investments is included in interest receivable and similar income. Interest on derivatives is included in interest receivable and similar income or interest expense and similar charges following the underlying instrument it is hedging.

e) Financial assets and liabilities

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

The Bank classifies its financial assets and liabilities in accordance with IAS 39 - Financial Instruments: Recognition and Measurement into the following categories:

(i) Loans and receivables: are predominantly mortgage loans and advances to customers and money market advances that are not quoted in an active market. They are held at amortised cost less any impairment losses.

(ii) Financial assets at fair value through the income statement: are assets which have been specifically designated by the Bank at inception and recorded at fair value with changes in fair value taken to the income statement. The fair values are quoted market prices (where there is an active market) or are based on valuation techniques (where there is no active market or the securities are unlisted).

The Bank uses derivative financial instruments to hedge its exposure to the interest rate risk arising from financing and investment activities.

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

f) Derivative financial instruments and hedge accounting

The Group uses derivative financial instruments (interest rate swaps and floors) for the purpose of reducing fair value interest rate risk to hedge its exposure to the interest rate risk arising from financing and investment activities. Derivative financial instruments are recognised in the balance sheet at their fair value with changes in their fair value going through the income statement. Fair values are calculated by discounting cash flows at prevailing interest rates.

The Group designates certain derivatives as a hedge of fair value of a portfolio of recognised assets or liabilities (macro fair value hedge). Where there is an effective hedge relationship for fair value hedges, the changes in fair value of the hedged item arising from the hedged risk are taken to the income statement.

The Group discontinues hedge accounting when testing demonstrates that a derivative is not or has ceased to be highly effective as a hedge, the derivative ceases through expiry or sale for example or the underlying item matures, is sold or is repaid.

g) Impairment of financial assets

The Group regularly assesses whether there is evidence that a financial asset or a portfolio of financial assets that is not carried at fair value through profit or loss is impaired. A financial asset or portfolio of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more loss events that occurred after the initial recognition of the asset and prior to the balance sheet date ('a loss event'), and that loss event or events has had an impact on the estimated future cash flows of the financial asset or the portfolio that can be reliably estimated.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment. An individual provision is also made where an account is not in arrears but the Group has exercised forbearance in the conduct of the account. Any provision is based on a management assessment of the propensity for the account to realise a loss had forbearance not been shown taking account of the amount recoverable on mortgage indemnity cover and additional security.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar risk characteristics, taking into account asset type, industry, geographical location, collateral type, past-due status and other relevant factors. These characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the counterparty's ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the Group and historical loss experience for assets with credit risk characteristics similar to those in the Group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not currently exist. In addition, the Group uses its experienced judgement to estimate the amount of an impairment loss. This incorporates amounts calculated to overcome model deficiencies and systemic risks where appropriate and is supported by historic loss experience data. The use of such judgements and reasonable estimates is considered by management to be an essential part of the process and does not impact reliability.

Following impairment, interest income is recognised using the original effective rate of interest which was used to discount the future cash flows for the purpose of measuring the impairment loss.

2. Interest receivable and similar income

	Six months ended 30 June 2013 £'000 (Unaudited)	Six months ended 30 June 2012 £'000 (Unaudited)	Year ended 31 December 2012 £'000 (Audited)
On loans and advances to customers	65,973	39,474	96,335
On liquid assets	2,999	3,481	7,078
Net expense on financial derivatives	(7,038)	(8,687)	(16,541)
	61,934	34,268	86,872

3. Interest payable and similar charges

	Six months ended 30 June 2013 £'000 (Unaudited)	Six months ended 30 June 2012 £'000 (Unaudited)	Year ended 31 December 2012 £'000 (Audited)
On retail deposits	38,383	30,408	70,033
On other deposits and borrowings	1,409	1,102	3,083
Net expense on financial derivatives	(1,228)	(549)	(1,984)
	38,564	30,961	71,132

4. Administrative expenses

	Six months ended 30 June 2013 £'000 (Unaudited)	Six months ended 30 June 2012 £'000 (Unaudited)	Year ended 31 December 2012 £'000 (Audited)
Staff costs	4,766	2,753	7,796
Other	5,584	5,228	11,040
	10,350	7,981	18,836

Other administrative expenses include consulting and legal fees, facility costs, marketing and other expenses.

5. FSCS and other provisions

As described in note 26 to the 2012 Group Report and Accounts, the Bank is required to make payments to the FSCS as a result of its participation in the retail savings market.

In May 2012 the International Accounting Standards Board published a draft IFRIC interpretation on ‘Levies Charged by Public Authorities on Entities that Operate in a Specific Market’. In line with the draft IFRIC interpretation, a liability for the FSCS levies is triggered by the Bank’s participation in the retail savings market as at 31 December of each year and therefore no provision was recognised for the six months ended 30 June 2013.

6. Taxation credit

The taxation credit for the period includes the recognition of a deferred tax asset of £4.7m in respect of trading losses in the Interbay group which resumed lending in late 2012. The deferred tax asset was recognised with reference to projections of future taxable profits which demonstrated that it would be utilised fully within the planning horizon.

7. Loans and advances to customers

	30 June 2013	30 June 2012	31 December 2012
	£'000	£'000	£'000
	(Unaudited)	(Unaudited)	(Audited)
Residential mortgages	1,674,119	1,262,748	1,614,434
Buy to let mortgages	664,529	371,929	450,748
Commercial mortgages	129,767	122,155	161,840
Provisions	(23,299)	(32,742)	(30,972)
	2,445,116	1,724,090	2,196,050

8. Provisions for impairment losses on loans and advances

	30 June 2013 (Unaudited)		
	Individual	Collective	Total
	£'000	£'000	£'000
As at 1 January 2013 (audited)	28,428	2,544	30,972
Write offs in period	(10,289)	-	(10,289)
Charge for the period net of recoveries	3,719	(1,103)	2,616
As at 30 June 2013	21,858	1,441	23,299

	30 June 2012 (Unaudited)		
	Individual	Collective	Total
	£'000	£'000	£'000
As at 1 January 2012	31,032	1,260	32,292
Write offs in period	-	-	-
Charge for the period net of recoveries	362	88	450
As at 30 June 2012	31,394	1,348	32,742

	31 December 2012 (Audited)		
	Individual	Collective	Total
	£'000	£'000	£'000
			(Audited)
As at 1 January 2012	31,032	1,260	32,292
Write offs in period	(6,621)	-	(6,621)
Charge for the period net of recoveries	4,017	1,284	5,301
As at 31 December 2012	28,428	2,544	30,972

9. Share Capital

	30 June 2013 £'000 (Unaudited)		
	Value	Premium	Total (Unaudited)
Ordinary A shares	**26**	**25,974**	**26,000**
Ordinary B shares	**21**	**78,393**	**78,414**
Ordinary E shares	**150**	**-**	**150**
Convertible preference shares*	**916**	**670**	**1,586**
As at 30 June 2013	**1,113**	**105,037**	**106,150**

* In April 2013, additional B Preference Shares were issued to OSB Holdco Limited out of the share premium attributable to the previously issued B Preference Shares.

	30 June 2012 £'000 (Unaudited)		
	Value	Premium	Total (Unaudited)
Ordinary A shares	**26**	**25,974**	**26,000**
Ordinary B shares	**21**	**78,393**	**78,414**
Convertible preference shares	**804**	**782**	**1,586**
As at 30 June 2012	**851**	**105,149**	**106,000**

	31 December 2012 £'000 (Audited)		
	Value	Premium	Total (Audited)
Ordinary A shares	**26**	**25,974**	**26,000**
Ordinary B shares	**21**	**78,393**	**78,414**
Ordinary E shares	**150**	**-**	**150**
Convertible preference shares	**804**	**782**	**1,586**
As at 31 December 2012	**1,001**	**105,149**	**106,150**

10. Related Parties

The Group has no material or unusual related party transactions during the period to 30 June 2013. Transactions for this period are similar to those for the year ended 31 December 2012, details of which can be found in the 2012 Group Report and Accounts.

11. Post Balance Sheet Events

In July 2013, the Bank acquired £0.3bn of performing consumer loan assets from UKAR, securing a further capital injection of £15m from OSB Holdco Limited to help support the purchase.

We confirm that to the best of our knowledge:

•the condensed set of financial statements has been prepared in accordance with IAS 34, Interim Financial Reporting, as adopted by the European Union;

•the interim management report includes a fair review of the information required by:

(a) DTR 4.2.7R of the Disclosure and Transparency Rules, being an indication of important events that have occurred during the period and their impact on the condensed set of financial statements; and a description of the principal risks and uncertainties for the remaining six months of the year; and

(b) DTR 4.2.8R of the Disclosure and Transparency Rules, being related party transactions that have taken place in the first six months of the current financial period and that have materially affected the financial position or performance of the entity during that period; and any changes in the related party transactions described in the last annual report that could do so.

The Board of Directors, as listed below, represents those individuals responsible for this interim management report:

R Duke

A Golding

T Hanford

M McCaig

Sir C McCarthy

D Mills

Dr D Morgan

A Talintyre

S Wilcke

P Williams

By order of the Board

Date: 16 August 2013