RIS Announcement

Date: 31 August 2011
On behalf of: OneSavings Bank Plc ("the Bank")

OneSavings Bank Plc
Interim results for the period ended 30 June 2011
and Capital Injection by B Shareholder

OneSavings Bank Plc, the mutual Bank, announces its inaugural set of interim results and a further capital injection by JC Flowers.

The summary of the results for the period ended 30 June 2011 is:

- A post tax loss of £5.7m*
- Transfer of all the assets and liabilities of Kent Reliance Building Society to OneSavings Bank Plc, in conjunction with an injection of £50m capital from OSB Holdco Limited, on 1 February 2011
- Sustained pressure on net interest margin due to adverse economic conditions coupled with a low interest rate environment
- Asset quality in the residential mortgage portfolio has been maintained as evidenced by modest loss provisions and a stable arrears position for the period
- Commencement of improvement programme including:
  - review of key processes and systems
  - restructuring the savings product range
  - expansion and refurbishment of the agency network
  - maintaining a high quality residential mortgage book, with new lending only at acceptable margins
  - reduction of exposure to inherited commercial loan portfolio and no further commercial property lending

* (no comparatives are provided as this is the first reporting period for the Bank)

JC Flowers have today made a further capital injection of £15 million.

Commenting on the results, Malcolm McCaig, Chairman of OneSavings Bank Plc, said:

"The Bank has faced a challenging initial period due to adverse economic conditions and sustained pressure on interest rates. These factors are expected to continue for the remainder of 2011 and into the following year; however, some of the items impacting on the Bank's statutory loss position do not necessarily reflect the long-term underlying performance of the Bank, being either one-off items or timing difference that will reverse over time.

"The current focus is on delivering an improvement programme to address operational and resourcing issues. Progress is being made and the Bank has supportive shareholders, evidenced by the further injection by JC Flowers of £15 million of capital, and a dedicated and experienced management team in place to tackle these challenges."

ENDS

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About OneSavings Bank Plc

- OneSavings Bank Plc is registered at Reliance House, Sun Pier, Chatham, Kent (registered number 7312896) and is authorised and regulated by the Financial Services Authority (registered number 530504).
- OneSavings Bank Plc is a member of the Financial Services Compensation Scheme.
- OneSavings Bank Plc was formed as Sevco 5067 Limited on 13 July 2010; it changed its name to OneSavings Limited on 3 August 2010 and was converted to OneSavings PLC on 8 October 2010 and became OneSavings Bank Plc on 1 February 2011 and, following confirmation by the members of Kent Reliance Building Society (KBRS) and the Financial Services Authority (FSA), began trading as a bank on this date when the trade and assets of KRBS were transferred into the business.

Interim Management Report
For the period ended 30 June 2011

Background

This is the first reporting period for OneSavings Bank Plc ('OSB'). OSB was formed as Sevco 5067 Limited on 13 July 2010. Sevco 5067 Limited changed its name to OneSavings Limited on 3 August 2011 and was converted to OneSavings PLC on 8 October 2010.

OSB was established to take on the assets and liabilities of Kent Reliance Building Society ('KRBS'), and is jointly owned by Kent Reliance Provident Society ('KRPS') and OSB Holdco Limited ('OSB Holdco'), a wholly-owned subsidiary of funds advised from J.C Flowers & Co LLC ('JCF').

KRPS is a new industrial and provident society that was established to take on the membership of KRBS upon the transfer of the assets and liabilities to OSB. An industrial and provident society is form of mutual organisation that exists to benefits its members.

On 1 February 2011 all the assets and liabilities, including Members' Investment Accounts and Mortgage Accounts, of KRBS were transferred to OSB. Following this transfer, and receipt of permission from the Financial Services Authority ('FSA') to use the sensitive business name "Bank", OneSavings PLC changed its name to OneSavings Bank PLC with effect from 1 February 2011.

In return for the £50m of new capital OSB Holdco received 17,426 B ordinary shares and 32,574 convertible preference shares in the Bank. As at the 30 June 2011, OSB Holdco holds 40.1% of the ordinary share capital of the Bank and KRPS holds 26,000 A ordinary shares representing 59.9% of the ordinary share capital of the Bank.

The effect of above is that OSB Holdco is a co-owner of the Bank and KRPS has a majority of the ordinary shares and, therefore, voting control of the Bank.

The report covers the period from inception on 13 July 2010 until 30 June 2011, although OSB only started trading as a bank from 1st February 2011 at the point the trade and assets of KRBS were transferred into the business.

Business highlights

In its first five months of trading, the Bank operated at a loss as a result of sustained pressure on margins. Significant costs were incurred to up-skill the business and enhance the control framework. As a consequence, losses are likely to continue for the remainder of 2011 and into the following year.

The Bank's financial position will improve over time as a result of new lending at more attractive margins funded by economic retail deposits and the long-run redemption of negative margin back book mortgage accounts.

Statutory losses post tax for the period to 30 June 2011 were £5.7m.

Some of the items impacting on OSB's statutory loss position do not necessarily reflect the long-term underlying performance of the Bank, being either one-off items or timing differences that reverse over time, such as professional fees and restructuring costs.

The Bank has focused on a number of key areas in 2011:

- a review of key processes and systems, identifying where upgrades are required to meet new business requirements, including the implementation of an online application process for savings accounts, and in due course will encompass the replacement of the Bank's mortgage application processing systems with online application and tracking facilities for brokers.
- restructuring the savings product range to provide a wider choice of products to meet customer needs.
- expansion and refurbishment of the agency network.
- maintaining a high quality residential mortgage book and only lending at acceptable margins
- cessation of commercial property lending and reduction of the existing exposure.

Principal risks and uncertainties

The Bank considers a range of stress scenarios as part of its business planning and risk management. The principal risks facing the Bank revolve around the UK's economic downturn and sustainable recovery, unemployment levels, and the general tightening of household budgets. Retail savings rates are currently at their highest level compared to Bank of England base rate and this imposes a significant strain on the Bank's profitability. Conversely, a significant part of the Bank's assets are yielding low returns that are linked to market rates.

KRBS operated at an exceptionally low level of operating expenses. Review of the Bank's operations since vesting, however, has identified areas where resources and controls needed to be strengthened and this has already led to a necessary increase in the level of operating expenses. This increase is expected to continue for the remainder of 2011.

In such a challenging business environment capital is a key requirement and the Bank will continue to monitor its capital requirements closely in conjunction with its shareholders.

Outlook for the remaining six months in 2011

The mortgage market is some way from returning to a form of normality, and the savings market remains uncertain as household incomes are squeezed in the face of rising inflation, slow economic growth, severe spending cuts and limited wage growth. However, the uncertain economic outlook and changes to regulatory reform continue to pose challenges, including continued margin pressure, to the financial services industry.

With interest rates likely to stay at low levels for the foreseeable future, with a limited likelihood for base rate increases during the remainder of 2011 and well into 2012, there is a continued impact on savers and the Bank's margins. The level of interest rates does, however, have a positive impact on residential mortgage arrears and repossessions.

The Bank's Treasury team maintains good working relationships with a range of wholesale counter-parties, particularly from the local authority and educational sectors, who continue to provide valuable wholesale funding to augment savers' deposits.

Income Statement
For the period ended 30 June 2011

	Note	Period 30 June 2011 £'000 (Unaudited)
Interest receivable and similar income	2	**17,813**
Interest payable and similar charges	3	**(18,284)**
Net interest payable		**(471)**
Fair value gains and losses on financial instruments		**(508)**
Other operating income		**689**
Administrative expenses	4	**(6,687)**
Depreciation and amortisation		**(80)**
		(7,057)
Provision for FSCS levies		**(627)**
Impairment losses	6	**(723)**
Loss before tax		**(8,407)**
Taxation credit		**2,676**
Loss for the period		**(5,731)**

Statement of Comprehensive Income
For the period ended 30 June 2011

	Period 30 June 2011 £'000 (Unaudited)
Other comprehensive income	
Available for sale securities: valuation gains taken to equity	**459**
Deferred tax relating to components of other comprehensive income	**(123)**
Other comprehensive income for the year net of taxation	**336**
Loss for the period	**(5,731)**
Total comprehensive expense for the period	**(5,395)**

Statement of Financial Position
As at 30 June 2011

	Note	30 June 2011 £'000 (Unaudited)
Assets		
Liquid assets		
Cash in hand and balances with the Bank of England		**257**
Loans and advances to credit institutions		**13,357**
Investment securities		**430,937**
Total liquid assets		**444,551**
Loans and advances to customers	5	**1,512,984**
Derivative financial instruments		**52,433**
Deferred tax asset		**15,319**
Intangible fixed assets		**129**
Property, plant and equipment		**1,995**
Other assets		**3,163**
		73,039
Total assets		**2,030,574**
Liabilities		
Amounts owed to retail depositors		**1,787,288**
Amounts owed to credit institutions		**59,630**
Derivative financial instruments		**52,940**
Other liabilities		**8,152**
FSCS and other provisions		**1,097**
Subordinated liabilities		**26,650**
Subscribed capital		**14,900**
		1,950,657
Equity		**79,917**
Total equity and liabilities		**2,030,574**

Statement of Changes in Equity
As at 30 June 2011

	Share capital £'000	Share premium £'000	Transfer reserve £'000	AFS Reserve £'000	Retained earnings £'000	Subscribed Capital £'000	Total £'000
Balance at 1 February 2011	76	75,924	(11,969)	-	-	22,000	**86,031**
Loss for the period	-	-	-	-	(5,731)	-	**(5,731)**
Interest paid on subscribed capital	-	-	-	-	(719)	-	**(719)**
Other comprehensive income	-	-	-	336	-	-	**336**
Balance at 30 June 2011 (Unaudited)	76	75,924	(11,969)	336	(6,450)	22,000	**79,917**

Statement of Cashflows
For the period ended 30 June 2011

	Period 30 June 2011 £'000 (Unaudited)
Cash flows from operating activities	
Loss on ordinary activities before taxation	**(8,407)**
Depreciation and amortisation	**80**
Interest paid on subordinated liabilities	**515**
Interest paid on subscribed capital	**(69)**
Increase in impairment of loans and advances	**723**
Increase in fair value gains and losses on financial instruments	**508**
Increase in tax credit for the year	
Cash generated from operations	**(6,650)**
Cash flows from operating assets and liabilities	
Increase in loans and advances to customers	**(1,513,707)**
Increase in amounts owed to retailed depositors	**1,787,288**
Increase in other assets and deferred tax	**(15,806)**
Increase in amounts owed to credit institutions	**59,630**
Increase in provisions and other liabilities	**9,249**
Cash generated from operating assets and liabilities	**326,654**
Cash flows from investing activities	
Purchase of investment securities	**(430,937)**
Purchase of property, plant and equipment	**(2,043)**
Purchase of intangible assets	**(161)**
Cash generated from investing	**(433,141)**
Cash flows from financing activities	
Increase of subordinated liabilities	**26,134**
Subscribed capital	**36,970**
Interest paid on subscribed capital	**(719)**
Movement of AFS reserve	**336**
Share capital issue	**76,000**
Movement due to transfer of business	**(11,970)**
Cash generated from financing	**126,751**
Net increase in cash and cash equivalents	**13,614**
Cash and cash equivalents at 30 June 2011	
Cash in hand and balances with the Bank of England	**257**
Loans and advances to credit institutions repayable on demand	**13,357**
	13,614

Note to the Accounts
For the period ended 30 June 2011

1. Introduction

The financial statements show the financial performance of the Bank for the period from 6 July 2010 to 30 June 2011, although OSB started trading as a bank from 1st February 2011 at the point the trade and assets of KRBS were transferred into the business.

a) Basis of preparation

The interim financial statements have been prepared in accordance with 'International Accounting Standard 34 Interim Financial Reporting' as adopted by the European Union

On 1 February 2011, Kent Reliance Building Society transferred its business to OSB.

On account of the transfer, the accounts of the Bank showing the results and position of the Bank have been prepared for the period ended 30 June 2011. No comparatives are provided as this is the first reporting period for the Bank.

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 OSB 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 interim accounts. In all scenarios the projections show that OSB is dependent, until after the time at which the return to profitability is foreseen upon the continued support of the shareholders. The directors have a reasonable expectation that support will be forthcoming.

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

c) 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 into the following categories:

(i) Loans and receivables: which 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: comprise securities held for liquidity purposes (certificates of deposit, treasury bills and money market instruments in the nature of loans and advances to credit institutions). These are held at fair value with movements being taken to equity, except for impairment losses which are taken to the income statement. Profit or loss is recognised in the income statement on disposal.

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

d) Impairment of loans and advances to customers

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

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

e) Deferred tax:

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 projection of future taxable profits and future reversals of existing taxable temporary differences.

Tax losses were incurred in the Bank during the period. Management has evaluated the factors contributing to the losses to determine whether the factors leading to the losses are temporary or indicative of a permanent decline in earnings.

Management's projections of future taxable income are based on business plans, future capital requirement and ongoing tax planning strategies. These assumptions include impact of credit losses, capital requirement, assumptions about UK recession. 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 support the assumption that it is probable that the results of future operations will generate sufficient taxable income to utilise the deferred tax asset.

2. Interest receivable and similar income

	2011 Period £'000 (Unaudited)
On loans and advances to customers	**27,516**
On liquid assets	**1,530**
Net expense on financial derivatives	**(11,233)**
	17,813

3. Interest payable and similar charges

	2011 Period £'000 (Unaudited)
On retail deposits	**17,266**
On other deposits and borrowings	**1,018**
	18,284

4. Administrative expenses

	2011 Period £'000 (Unaudited)
Staff costs	**2,284**
Other	**4,403**
	6,687

5. Loans and advances to customers

	2011 £'000 (Unaudited)
Residential Mortgages	**1,148,209**
Buy to Let Mortgages	**266,670**
Commercial Mortgages	**134,386**
Provisions	**(36,281)**
	1,512,984

6. Provisions for impairment losses on loans and advances

	2011		
	Individual £'000	Collective £'000	Total £'000 (Unaudited)
As at 1 February 2011	**34,258**	**1,300**	**35,558**
Write offs in period	**-**	**-**	**-**
Charge for the period net of recoveries	**723**	**-**	**723**
As at 30 June 2011	**34,981**	**1,300**	**36,281**

7. Share Capital

	2011 £'000		
	Value	Premium	Total (Unaudited)
Ordinary A shares	**26**	**25,974**	**26,000**
Ordinary B shares	**17**	**49,168**	**49,185**
Convertible Preference shares	**33**	**782**	**815**
As at 30 June 2011	**76**	**75,924**	**76,000**

8. Related Parties

The Group has no material or unusual related party transactions during the period to 30 June 2011. Transactions for this period are similar to those for the fifteen months to 31 December 2010, details of which can be found in the 2010 Annual Report and Accounts.

9. Transfer of business

On 1st February 2011, the Bank acquired the business of Kent Reliance Building Society. As the assets and liabilities of Kent Reliance Building Society constitute the business, which as a result of the transfer continue as a going concern. As such, no accounting adjustments were required to the book value of the assets and liabilities. The book values of the assets and liabilities of Kent Reliance Building Society transferred to the Bank as at 31 January 2011 are set out below:

	31-Jan-11 £'000 (Audited)
Assets	
Liquid assets	
Bank of England	**232**
Loans and advances to credit institutions	**97,941**
Investment securities	**268,807**
Total liquid assets	**366,980**
Loans and advances to customers	
Loans fully secured on residential property	**1,406,700**
Other loans fully secured on land	**127,888**
Derivative financial instruments	**99**
Fair value adjustments for hedged risk	**47,301**
Current tax asset	**1,805**
Deferred tax asset	**11,789**
Intangible fixed assets	**129**
Property, plant and equipment	**2,069**
Other assets	**1,917**
Total assets	**1,966,677**
Liabilities	
Shares	**1,705,397**
Amounts owed to credit institutions	**15,160**
Amounts owed to other customers	**112,531**
Derivative financial instruments	**51,114**
Fair value adjustments for hedged risk	**62**
Current tax liability	**-**
Deferred tax liability	**243**
Other liabilities	**2,886**
FSCS and other provisions	**1,834**

Subordinated liabilities	**26,951**
Subscribed capital	**15,398**
	1,931,576
Equity	
Subscribed capital	**21,919**
Reserves	**13,182**
	35,101
Total equity and liabilities	**1,966,677**

Immediately on the transfer of assets and liabilities to the Bank, £50m new capital was received from OSB Holdco Limited (JCF Holdco), a wholly-owned subsidiary of funds advised from J.C Flowers & Co LLC. In return for this new capital JCF Holdco received 17,426 B ordinary shares and (subject to adjustment) 32,574 convertible preference shares in the Bank. At this point, JCF Holdco holds 40.1% of the ordinary share capital of the Bank and KRPS holds 26,000 A ordinary shares representing 59.9% of the ordinary share capital of the Bank.

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 represents those individuals responsible for interim management report as listed below:

Sir Callum McCarthy

Dr David Morgan

Malcolm McCaig

David Mills

Peter Williams

Tim Hanford

Andrew Newell

Stephen Wilcke

By order of the Board

Date: 31 August 2011