RIS Announcement

Date: 29 August 2012
On behalf of: OneSavings Bank Plc ("the Bank")

OneSavings Bank Plc
Interim group results for the six months ended 30 June 2012

OneSavings Bank Plc, the mutual Bank, announces its interim group results for the six months ended 30 June 2012.

The summary of the results for the six months is:

- A post tax loss of £1.8m (prior interim period post tax loss £5.7m, prior period post tax loss £11.1m)[1]
- Positive net interest margin ('NIM') of £3.3m reflecting the positive impact of higher margin origination and acquired mortgage books (prior interim period negative NIM £0.5m, prior period negative NIM £1.4m)
- Annualised management expense ratio[2] of 0.69% reflecting a reduced dependency on interims and consultants (prior interim period 0.80%, prior period 0.86%)
- Further capital injection of £15m from OSB Holdco Limited on 30 June 2012
- Equity as at 30 June 2012 of £101.3m (30 June 2011 £79.9m, 31 December 2011 £89.4m)
- Further mortgage asset book purchase in July 2012 for £176.5m with a gross value of £249.2m
- Acquisition of the Interbay Group in August 2012, a specialist small and medium enterprise mortgage lender with gross assets of £56.3m

[1] The prior interim period refers to the period from incorporation on 13 July 2010 to 30 June 2011 and the prior period refers to the period from incorporation to 31 December 2011. OneSavings Bank began trading as a bank on 1 February 2011 when the trade and assets of Kent Reliance Building Society were transferred into the business

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

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

"Although we have taken significant steps to defuse interest rate risk in the Bank and increase credit provisions substantially on historic lending, we are still left with a back-book of mortgages many of which are on low margins and are therefore loss making in the current environment, where deposit rates are at a record level compared to Bank of England base rate.

Our strategy to address this and return the Bank to profitability is to make the loss-making back book smaller relative to the Bank as a whole, and grow by creating a large, high margin front book.

Despite a challenging external environment in the first half of this year, this turnaround and growth strategy has started to gain traction, with new organic lending yielding attractive returns and recent mortgage book acquisitions performing in line with expectations and enhancing net interest margin. We continue to see a good deal flow for high margin mortgage books and specialist lending platforms, to augment our multi-niche lending strategy."

Andy Golding, Chief Executive of OneSavings Bank Plc added:

"Whilst the bank still faces a number of challenges in relation to our back book, our journey of growth and return to profitability continues to plan, with the new organic mortgage lending and profitable acquisitions we have made so far, having a positive impact on our net income margin, which has returned to a positive position in the first half.

Our retail deposit franchise is performing extremely well with significant new funding achieved year to date as well as much improved retention of existing deposits following a re-engineering of the Kent Reliance product range and terms.

We have also launched a large number of new mortgage products, including buy-to-let, which are helping position us as a "go to" lender for a number of professional mortgage intermediaries.

The second half of 2012 will see us invest more in the ongoing development of the Group, including increases in core headcount and systems investment to support our future plans."

ENDS

Enquiries

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About OneSavings Bank plc

- Kent Reliance, krbs.com, Jersey Home Loans and Guernsey Home Loans are all trading names of OneSavings Bank plc. The Bank originates from mutual roots and has operated for over 150 years. Today it operates as a hybrid modern mutual bank, with core values in terms of treating its customers fairly and offering long term sustainable value for money, but with the capital advantages of a bank.

- 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 (KRBS) 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.

Chairman’s Statement
For the six months ended 30 June 2012

At inception, OneSavings Bank Plc ("the Bank") inherited, from the Kent Reliance Building Society, wonderfully dedicated staff, a good deposit franchise, a few niche mortgage segments worth re-entering and three major balance sheet problems.

During 2011 management de-fused the interest rate risk position, and also increased credit provisions substantially on historic lending. While this makes the balance sheet far more robust to stress, the Bank is still left with a back-book of mortgages many of which are on very low interest margins. This portion of the historic mortgage book remains loss making in the current environment where competition for deposits has increased deposit margins substantially relative to LIBOR and Bank Base Rate. The Bank’s strategy to address this loss-making back book is to make it smaller relative to the Bank as a whole and grow by creating a large, high-margin front book.

Despite the difficult external environment during the first half of 2012, the turnaround and growth strategy for the Bank has started to gain traction across the board. In particular:

1. The growing new organic lending business is yielding attractive returns on capital.
2. Recent mortgage book acquisitions are performing in line with expectations, enhancing net interest margin.
3. The Bank is continuing to see good deal flow, both for high-margin mortgage books and specialist lending business platforms, to augment the multi-niche lending strategy.

This is reflected in the Group’s financial performance for the first half of 2012, with a return to a positive net interest margin, something which the Bank is determined to maintain going forward, and the business is on track to see the Group return to overall profitability as the front book continues to grow and the back book shrinks over time.

The Bank has also been fortunate to attract a Chief Executive with drive and vision to lead the operating business, build a team and re-engage with customers, without whose support the business would not exist.

Stephan Wilcke
Chairman

Chief Executive's Report

For the six months ended 30 June 2012

The Bank is still facing a number of serious challenges, as outlined in the Chairman's Statement, however significant progress was made on a number of fronts in the first six months of the year, laying the foundations to support the Bank's growth plans and facilitate a return to profitability.

These included:

1. Hiring a permanent senior team to replace the largely interim executive team.
2. Agreeing a strategic and financial plan for the business over a five-year planning horizon and achieving board and shareholder support for that plan.
3. Making some strategic and customer-focused changes to both mortgage and savings product ranges, to increase volume and improve customer retention.
4. Continuing the improvements to the Bank's financial position through cost base and interest income management and by securing a further capital injection to support growth plans.

In the first six months of the year, the Bank secured an extremely competent senior team, comprising April Talintyre as Finance Director, David Jervis as Operations Director, Jens Bech as Chief Risk Officer, John Eastgate as Sales & Marketing Director and Ingrid Blades as HR Director, as well as retaining Zoe Bucknell, Chief Legal and Compliance Officer and Company Secretary.

Now that the team is complete, it is really starting to get traction with the delivery of the Bank's strategy and the business feels much stronger as a result.

The Board has now agreed a five-year strategic plan, which sees the Group return to profitability and grow significantly over the planning horizon. This includes building a connected retail deposit funded lending business, with offerings across a wide range of product areas, to support propositions from mainstream residential through to small businesses who find themselves in an under-served marketplace.

The Bank has already made a number of changes to the Kent Reliance product ranges. The Bank no longer uses "introductory bonus" accounts, replacing them with a very attractive range of long-term value products and existing bonus account holders are now being offered competitive long-term value rates when their bonuses mature.

The Bank has also launched a large number of new mortgage products, which are helping to position Kent Reliance as a "go to" lender for products such as buy to let, for a number of professional mortgage intermediaries.

The Group's financial results continue to track in the right direction, although the result for the first six months of the year does include one-off gains on the sale of financial instruments, and the Bank secured a further capital injection from funds advised by JC Flowers of £15m to support growth plans and strategic direction.

The business now has a clear future planned out, and over the balance of 2012 the focus will be on improving operational capability and performance and further enhancing the customer proposition to support both the organic growth and acquisition strategies.

Andy Golding
Chief Executive

Interim Management Report

For the six months ended 30 June 2012

Principal activities

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 following confirmation by the members of Kent Reliance Building Society (‘KRBS’) and the Financial Services Authority became OneSavings Bank Plc on 1 February 2011, and began trading as a bank on this date when the trade and assets of KRBS were transferred into the business.

The principal purpose of OneSavings Bank Plc (‘the Bank’) is to provide mortgage finance to its borrowers and to provide long-term value savings products to its investors.

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) 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 OneSavings Bank Group (‘the Group’).

Business highlights

The Group reported a loss before tax of £0.6m for the six months to 30 June 2012 (‘the period’) as compared to a loss of £8.4m for the period ended 30 June 2011 (‘the prior interim period’) and a loss of £13.2m for the period from incorporation (13 July 2010) to 31 December 2011 (‘the prior period’). The loss after taxation for the six months to 30 June 2012 was £1.8m compared to losses of £5.7m and £11.1m for the prior interim period and the prior period respectively.

The Group returned to a positive net interest margin (‘NIM’) position during the first six months of 2012, reporting net interest income of £3.3m for the period. This reflects the positive impact of increased new lending and three mortgage book acquisitions since November 2011 (two of which totalling £42m closed during the period) all of which are providing the Group with higher returns than the back book. However, NIM continues to be adversely affected by the low prevailing interest rate environment; with the Bank of England base rate remaining throughout the period at its lowest ever level of 0.5% and LIBOR also remaining low. In addition, the Bank inherited a position from the transfer of business of KRBS on 1 February 2011, where a significant proportion of its long-term fixed rate mortgages had been hedged to LIBOR and are therefore earning low rates of interest, below the current cost of funding from retail savings deposits.

In addition, the Group booked one-off gains of £2.9m on the sale of financial instruments in the six months to 30 June 2012, as compared to £nil in the prior interim period and £9.0m in the prior period.

The Group’s annualised management expense ratio to average total assets, excluding depreciation, was 0.69% for the six months to 30 June 2012 as compared to 0.80% and 0.86% for the prior interim period and prior period respectively. During the prior periods and continuing in to the first six months of 2012, the Group incurred significant costs to improve skill sets in the business, enhance the control framework and investigate potential acquisition opportunities. However, costs have fallen in the period due to a reduced dependency on interims and consultants as the permanent executive team came on board.

The Bank secured a further capital injection of £15m on 30 June 2012 from OSB Holdco Limited to help support its future growth plans. The future growth plans for the Group include increased organic lending alongside additional portfolio and business acquisitions.

As at 30 June 2012, OSB Holdco holds 44.6% of the ordinary share capital of the Bank and Kent Reliance Provident Society holds 55.4% of the ordinary share capital of the Bank.

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 downturn and sustainable recovery, unemployment levels, and the general tightening of household budgets. Retail savings rates are currently at a record level compared to Bank of England base rate, and a significant part of the Group's assets are yielding low returns linked to market rates, imposing a significant strain on profitability.

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

Outlook for the remaining six months of 2012

The mortgage market remains subdued at present and is still some way from returning to a form of normality. 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. Inflation is still high; however inflationary pressure is now reducing and the outlook is for inflation to return to low levels for the foreseeable future. Given the uncertain economic outlook and with changes to regulatory reform continuing to pose challenges, there remains continued margin pressure to the financial services industry.

Interest rates are likely to stay at low levels for the foreseeable future, with a limited likelihood for base rate increases during the remainder of 2012 and into 2013, causing continued impact on savers and the Group's margins. The level of interest rates does, however, have a positive impact on residential mortgage arrears and repossessions.

Despite these concerns the Group is well placed to take advantage of profitable origination and acquisition opportunities that may present themselves during the second half and has already closed additional acquisitions since the period end, including the purchase of a further mortgage book with a gross value of £249m, and the acquisition of the Interbay Group, a specialist SME mortgage lender with gross assets of £56m.

The second half of 2012 will see further investment in the ongoing 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 2012

	Notes	Six months ended 30 June 2012 £'000 (Unaudited)	Period from incorporation (13 July 2010) to 30 June 2011 £'000 (Unaudited)	Period from incorporation (13 July 2010) to 31 December 2011 £'000 (Audited)
Interest receivable and similar income	2	**34,268**	**17,813**	**42,043**
Interest payable and similar charges	3	**(30,961)**	**(18,284)**	**(43,450)**
Net interest income / (expense)		**3,307**	**(471)**	**(1,407)**
Fair value gains and losses on financial instruments		**2,702**	**(508)**	**669**
Gain on sales of financial instruments		**2,893**	**-**	**9,035**
Other operating income / (expense)		**47**	**689**	**(553)**
Administrative expenses	4	**(7,981)**	**(6,687)**	**(17,061)**
Depreciation and amortisation		**(143)**	**(80)**	**(314)**
		825	**(7,057)**	**(9,631)**
FSCS and other provisions		**(983)**	**(627)**	**(703)**
Impairment losses	6	**(450)**	**(723)**	**(2,913)**
Loss before tax		**(608)**	**(8,407)**	**(13,247)**
Taxation (expense) / credit		**(1,204)**	**2,676**	**2,135**
Loss for the period		**(1,812)**	**(5,731)**	**(11,112)**

Statement of Comprehensive Income

For the six months ended 30 June 2012

	Six months ended 30 June 2012 £'000 (Unaudited)	Period from incorporation (13 July 2010) to 30 June 2011 £'000 (Unaudited)	Period from incorporation (13 July 2010) to 31 December 2011 £'000 (Audited)
Other comprehensive income			
Available for sale securities: valuation gains taken to equity	**(424)**	**459**	**2,141**
Deferred tax relating to components of other comprehensive income	**(93)**	**(123)**	**(319)**
Other comprehensive income for the period net of taxation	**(517)**	**336**	**1,822**
Loss for the period	**(1,812)**	**(5,731)**	**(11,112)**
Total comprehensive expense for the period	**(2,329)**	**(5,395)**	**(9,290)**

Statement of Financial Position

As at 30 June 2012

	Notes	30 June 2012 £'000 (Unaudited)	30 June 2011 £'000 (Unaudited)	31 December 2011 £'000 (Audited)
Assets				
Liquid assets				
Cash in hand and balances with the Bank of England		**212**	**257**	**253**
Loans and advances to credit institutions		**143,707**	**13,357**	**239,661**
Investment securities		**309,969**	**430,937**	**361,337**
Total liquid assets		**453,888**	**444,551**	**601,251**
Loans and advances to customers	5	**1,724,090**	**1,512,984**	**1,639,946**
Fair value adjustments for hedged risk		**92,210**	**52,433**	**94,181**
Deferred tax asset		**13,484**	**15,319**	**15,736**
Intangible fixed assets		**643**	**129**	**495**
Property, plant and equipment		**1,800**	**1,995**	**1,858**
Other assets		**3,731**	**3,163**	**2,925**
		111,868	**73,039**	**115,195**
Total assets		**2,289,846**	**2,030,574**	**2,356,392**
Liabilities				
Amounts owed to retail depositors		**2,034,702**	**1,787,288**	**2,081,590**
Amounts owed to credit institutions		**29,557**	**59,630**	**39,225**
Derivative financial instruments		**70,560**	**52,940**	**96,316**
Other liabilities		**8,861**	**8,152**	**5,113**
FSCS and other provisions		**3,520**	**1,097**	**2,537**
Subordinated liabilities		**26,627**	**26,650**	**26,842**
Perpetual subordinated bonds (PSBs)		**14,741**	**14,900**	**15,327**
		2,188,568	**1,950,657**	**2,266,950**
Equity		**101,278**	**79,917**	**89,442**
Total equity and liabilities		**2,289,846**	**2,030,574**	**2,356,392**

Statement of Changes in Equity

As at 30 June 2012

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 30 June 2012	494	14,506	-	-	-	-	-	**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 income	-	-	-	-	(517)	-	-	**(517)**
Balance at 30 June 2012 (Unaudited)	855	105,145	(110)	(12,818)	1,305	(15,099)	22,000	**101,278**

30 June 2011	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 date of incorporation	-	-	-	-	-	-	-	**-**
Transfer of business 1 February 2011	-	26,000	-	(11,969)	-	-	22,000	**36,031**
Capital injection 1 February 2011	76	49,924	-	-	-	-	-	**50,000**
Loss for the period	-	-	-	-	-	(5,731)	-	**(5,731)**
Coupon paid on PSBs	-	-	-	-	-	(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**

31 December 2011	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 date of incorporation	-	-	-	-	-	-	-	**-**
Transfer of business 1 February 2011	-	26,000	-	(12,818)	-	-	22,000	**35,182**
Capital injection 1 February 2011	76	49,924	-	-	-	-	-	**50,000**
Loss for the period	-	-	-	-	-	(11,112)	-	**(11,112)**
Coupon paid on PSBs	-	-	-	-	-	(1,450)	-	**(1,450)**
Other comprehensive income	-	-	-	-	1,822	-	-	**1,822**
Additional capital injection 31 August 2011	285	14,715	-	-	-	-	-	**15,000**
Balance at 31 December 2011 (Audited)	361	90,639	-	(12,818)	1,822	(12,562)	22,000	**89,442**

Statement of Cashflows

For the six months ended 30 June 2012

	Period ended 30 June 2012 £'000 (Unaudited)	Period from date of incorporation to 30 June 2011 £'000 (Unaudited)	Period from date of incorporation to 31 December 2011 £'000 (Audited)
Cash flows from operating activities			
Loss on ordinary activities before taxation	**(608)**	(8,407)	(13,247)
Depreciation and amortisation	**143**	80	314
Interest on subordinated liabilities	**420**	337	853
Interest on 7.875% PSBs	**549**	457	1,120
Net increase in impairment of loans and advances	**450**	723	2,913
Profit on sale of Gilts	**(2,893)**	-	(9,035)
Net increase in FSCS and other provisions	**983**	627	703
Net change in fair value gains and losses on financial instruments	**(2,702)**	508	(669)
Net increase in tax (expense) / credit	**(1,204)**	2,676	2,135
	(4,862)	(2,999)	(14,913)
Cash flows from operating assets and liabilities			
Net decrease / (increase) in loans and advances to credit institutions	**95,954**	27,259	(17,654)
Net decrease / (increase) in loans and advances to customers	**(84,594)**	20,882	(108,271)
Net (decrease) /increase in amounts owed to retail depositors	**(46,888)**	81,891	376,193
Net decrease / (increase) in other assets and deferred tax	**1,446**	(6,474)	(3,560)
Net (decrease) in cash on termination of derivatives	**(19,763)**	-	-
Net (decrease) in amounts owed to credit institutions	**(9,668)**	(68,061)	(88,466)
Net increase in provisions and other liabilities	**4,731**	4,529	1,665
Cash (used in) / from operating activities	**(58,782)**	60,026	159,907
Cash flows from investing activities			
Cash and cash equivalents acquired	**-**	70,683	70,683
Net purchase of investment securities	**(38,439)**	(162,130)	(81,354)
Net purchase of property, plant and equipment	**(15)**	(7)	(279)
Net purchase of intangible assets	**(219)**	-	(459)
Cash (used in) investing activities	**(38,673)**	(91,454)	(11,409)
Cash flows from financing activities			
Coupon paid on 6.591% PSBs	**(725)**	(719)	(1,450)
Interest paid on 7.875% PSBs and subordinated liabilities	**(1,211)**	(1,240)	(2,365)
Share capital issue	**15,000**	50,000	65,000
Cash generated from financing activities	**13,064**	48,041	61,185
Net (decrease) / increase in cash and cash equivalents	**(89,253)**	13,614	194,770
Cash and cash equivalents at the start of period			
Cash in hand and balances with the Bank of England	**253**	-	-
Loans and advances to credit institutions repayable on demand	**194,517**	-	-
	194,770	-	-
Cash and cash equivalents at end of period			
Cash in hand and balances with the Bank of England	**212**	257	253
Loans and advances to credit institutions repayable on demand	**105,305**	13,357	194,517
	105,517	13,614	194,770
Movement in cash and cash equivalents	**(89,253)**	13,614	194,770

Certain cashflows for the periods ended 30 June 2011 and 31 December 2011 have been re-presented to provide additional granularity of information.

Note to the Accounts

For the six months ended 30 June 2012

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. In all scenarios the projections show that OneSavings Bank Plc 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 such support will be forthcoming.

The Board has 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 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.

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 and 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 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) 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: 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. 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. Assets are held at amortised cost less any impairment.

e) 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.

f) 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 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 2012 £'000 (Unaudited)	Period from incorporation (13 July 2010) to 30 June 2011 £'000 (Unaudited)	Period from incorporation (13 July 2010) to 31 December 2011 £'000 (Audited)
On loans and advances to customers	39,474	27,516	63,031
On liquid assets	3,481	1,530	4,632
Net expense on financial derivatives	(8,687)	(11,233)	(25,620)
	34,268	17,813	42,043

3. Interest payable and similar charges

	Six months ended 30 June 2012 £'000 (Unaudited)	Period from incorporation (13 July 2010) to 30 June 2011 £'000 (Unaudited)	Period from Incorporation (13 July 2010) to 31 December 2011 £'000 (Audited)
On retail deposits	30,408	17,266	40,163
On other deposits and borrowings	1,102	1,018	3,279
Net expense on financial derivatives	(549)	-	8
	30,961	18,284	43,450

4. Administrative expenses

	Six months ended 30 June 2012 £'000 (Unaudited)	Period from incorporation (13 July 2010) to 30 June 2011 £'000 (Unaudited)	Period from incorporation (13 July 2010) to 31 December 2011 £'000 (Audited)
Staff costs	2,753	2,284	4,733
Other	5,228	4,403	12,328
	7,981	6,687	17,061

Other administrative expenses include the cost of interims, consulting and legal fees, facility costs, marketing and other expenses.

5. Loans and advances to customers

	30 June 2012 £'000 (Unaudited)	30 June 2011 £'000 (Unaudited)	31 December 2011 £'000 (Audited)
Residential mortgages	1,262,748	1,148,209	1,257,452
Buy to Let mortgages	371,929	266,670	288,489
Commercial mortgages	122,155	134,386	126,297
Provisions	(32,742)	(36,281)	(32,292)
	1,724,090	1,512,984	1,639,946

6. Provisions for impairment losses on loans and advances

	30 June 2012 (Unaudited)		
	Individual £'000	Collective £'000	Total £'000
As at 1 January 2012 (audited)	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

	30 June 2011 (Unaudited)		
	Individual £'000	Collective £'000	Total £'000
At date of incorporation	-	-	-
Transfer of business 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

	31 December 2011 (Audited)		
	Individual £'000	Collective £'000	Total £'000 (Audited)
At date of incorporation	-	-	-
Transfer of business 1 February 2011	34,194	1,300	35,494
Write offs in period	(6,115)		(6,115)
Charge for the period net of recoveries	2,953	(40)	2,913
As at 31 December 2011	31,032	1,260	32,292

7. Share Capital

30 June 2012 £'000 (Unaudited)		
Value	Premium	Total

			Total (Unaudited)
Ordinary A shares	**26**	**25,974**	**26,000**
Ordinary B shares	**21**	**78,389**	**78,410**
Convertible Preference shares	**808**	**782**	**1,590**
As at 30 June 2012	**855**	**105,145**	**106,000**

	30 June 2011 £'000 (Unaudited)		
	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**

	31 December 2011 £'000 (Audited)		
	Value	**Premium**	**Total (Audited)**
Ordinary A shares	**26**	**25,974**	**26,000**
Ordinary B shares	**20**	**63,883**	**63,903**
Convertible Preference shares	**315**	**782**	**1,097**
As at 31 December 2011	**361**	**90,639**	**91,000**

8. Related Parties

The Group has no material or unusual related party transactions during the period to 30 June 2012. Transactions for this period are similar to those for the period from incorporation to 31 December 2011, details of which can be found in the 2011 Group Report and Accounts.

9. Post Balance Sheet Events

In July 2012, a further mortgage book was purchased for £176.5m with a gross value of £249.2m.

In August 2012 the Bank acquired the issued share capital of the Interbay Group, a specialist small and medium enterprise mortgage lender with gross assets of £56.3m.

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 (appointed 4 July 2012)

A Golding

M McCaig

Sir C McCarthy

D Mills

Dr D Morgan

A Talintyre (appointed 26 June 2012)

S Wilcke

P Williams

By order of the Board

Date: 29 August 2012