Savings Bank

Compelling combination of sustainable growth and returns

H1 2015 Results

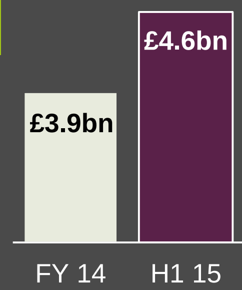
26 August 2015

Specialist
Personal
Flexible

Performance highlights

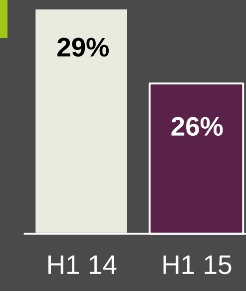
Loans & Advances

+ 17%



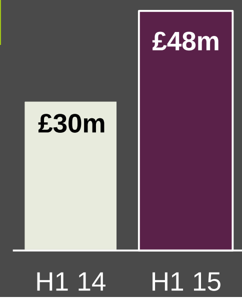
Cost : Income ratio

Improved by 3% points



Underlying PBT

+ 60%

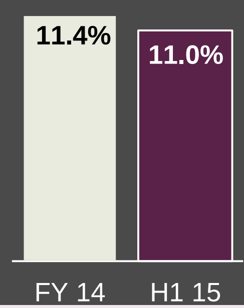


Interim Dividend

2.0 pence per share

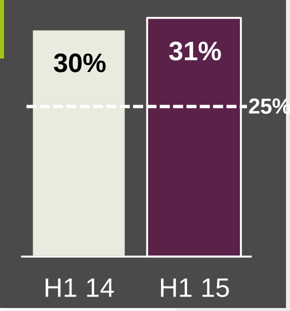
Fully-loaded CET1 Ratio

Robust capital



Underlying RoE

+6% points over target



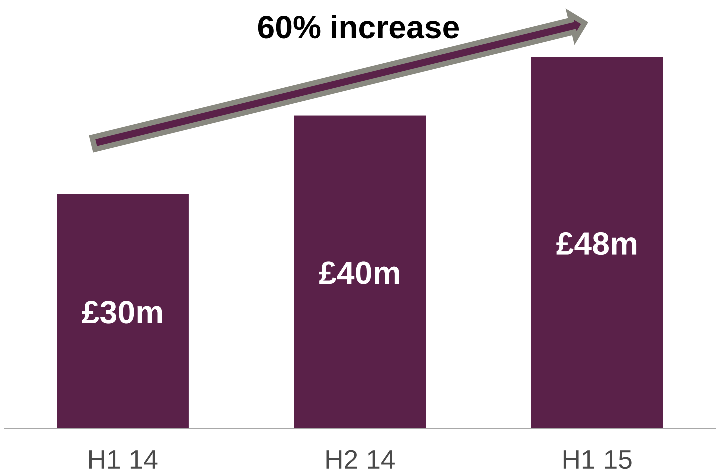
Delivering on our Financial objectives 2014 - 2016

		H1 2015 Result
Funding / Liquidity Strength	*Maintain loan to deposit ratio of <100%*[1]	**99%**
Cost Discipline	*Cost / income ratio of <35%*	**26%**
Capital Strength	*CRD IV CET1 ratio >10%*	**11%**
Shareholder Returns	*Underlying RoE of >25%*	**31%**
Dividend Policy[2]	*Pay-out ratio of ≥25%*	**2p**

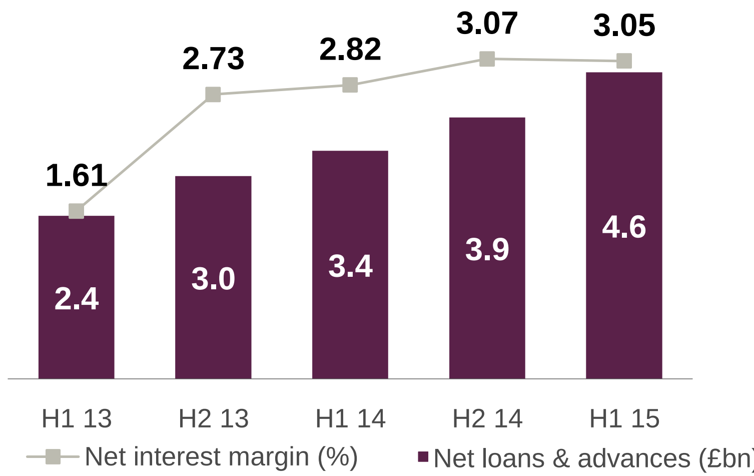
1. Excluding the impact of any drawdown under the Funding for Lending Scheme ("FLS").
2. Dividend policy is a pay-out ratio of no less than 25% of underlying profit after tax generated in a financial year. The interim dividend is calculated as one-third of the annualised prior year final dividend i.e. one-third of the 2014 final dividend of 3.9 pence per share, annualised, is 2.0 pence per share. Record date is 16 October and interim dividend to be paid on 6 November 2015.

Key Financial Indicators

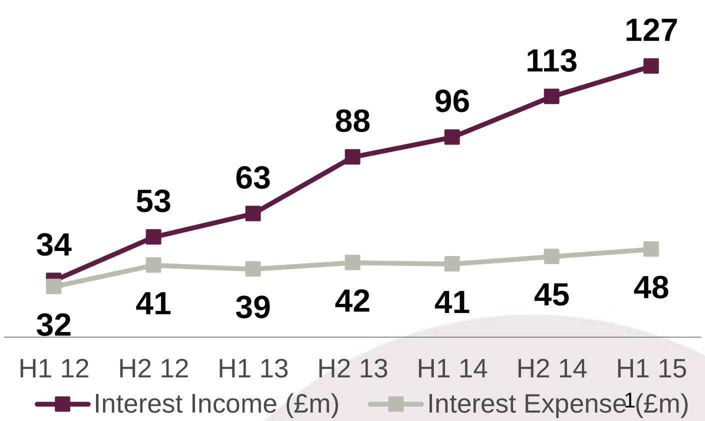
1 Improved Underlying Profitability…



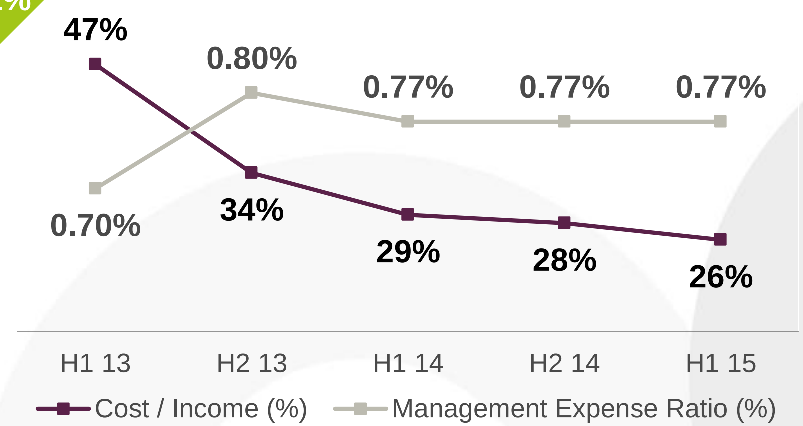
2 …Driven by High-Margin New Lending…



H1 2015 Underlying RoE of 31%



3 …Well Managed Cost of Funds / Liquidity…



4 …and Disciplined Cost Control

[1] Interest expense after deducting coupons on equity PSB's .

Income growth drives underlying profit up 60%

£m	H1 2014	H1 2015	Change £m	Change %
Net interest income[1]	55.0	78.8	23.8	*43*
Other income / (expense)	(2.5)	(3.3)	(0.8)	*(32)*
Total income[1]	**52.5**	**75.5**	**23.0**	***43***
Operating expenses	(15.4)	(19.7)	(4.3)	*(28)*
FSCS provisions	(2.7)	(3.4)	(0.7)	*(26)*
Impairments	(4.7)	(4.9)	(0.2)	*(4)*
Underlying PBT	**29.7**	**47.6**	**17.9**	***60***
IPO expenses	(5.6)	(1.7)	3.9	*70*
Remove Equity PSB coupons	0.7	0.7	0.0	*0*
Statutory PBT	**24.8**	**46.6**	**21.8**	***88***
Tax	(4.5)	(9.6)	(5.1)	*(113)*
Statutory PAT	**20.3**	**37.0**	**16.7**	***82***

Key Performance Indicators			
Net interest margin	2.82%	3.05%	23bps
Cost / income ratio	29%	26%	3pps
Impairments / avg gross loans	0.29%	0.23%	6bps
Underlying EPS	11.0p	15.5p	4.5p
Underlying RoE	30.0%	31.0%	1pps

1 Net interest income and total income after deducting coupons on equity PSB's

- 60% increase in underlying profitability primarily driven by loan book and margin growth
- Improving cost: income ratio reflects income growth and continued focus on cost discipline
- FSCS provision represents a full year's worth recognised 1 April each year
- Improved loan loss ratio reflects continued strong performance of front book with negligible arrears
- EPS improved by 4.5p with strengthened RoE of 31%

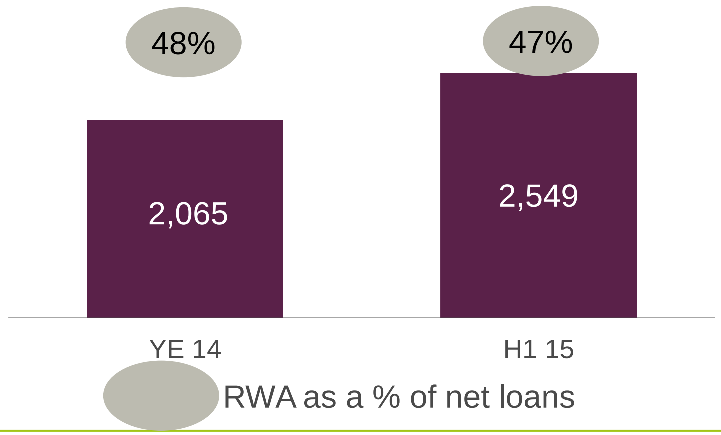
Significant loan growth, robust capital

£m	FY 2014	H1 2015	Change £m	Change %
Lending				
Net customer loans	3,919	4,598	679	*17*
o/w gross customer loans	3,945	4,627	682	*17*
o/w provisions	(26)	(29)	(3)	*(12)*
Funding and liquidity				
Customer deposits	4,332	4,635	303	*7*
Wholesale funding	266	215	(51)	*(19)*
Liquid assets	926	542	(384)	*(41)*
Funding for Lending Scheme	0	345	345	-
Liquidity ratio	20.1%	18.3%	(1.8%)	
Capital				
Risk-weighted assets (RWAs)	1,829	2,163	334	*18*
RWAs as % of total assets	37%	41%	4%	
Common equity tier 1 ratio	11.4%	11.0%	(0.4%)	
Total capital ratio	14.8%	13.8%	(1.0%)	
Leverage ratio	4.2%	4.6%	0.4%	

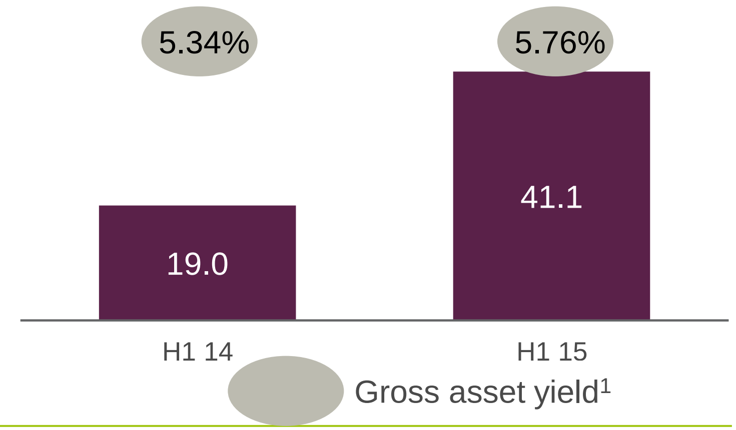
- Loan book growth of 17% from strong organic origination and £260m portfolio purchase
- Loan growth funded through retail deposits and liquid assets released via the Funding for Lending scheme
- CET1 ratio remains comfortably in excess of financial objective
- Leverage ratio up to 4.6% - significantly above the end game minimum requirement

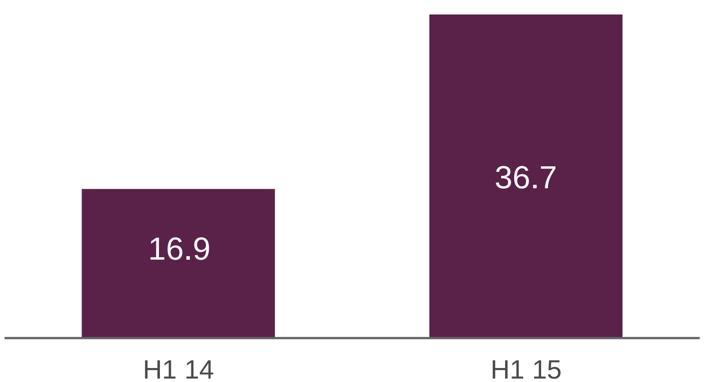
BTL / SME organic lending growth of 24%

1 Gross Loan Book (£m)

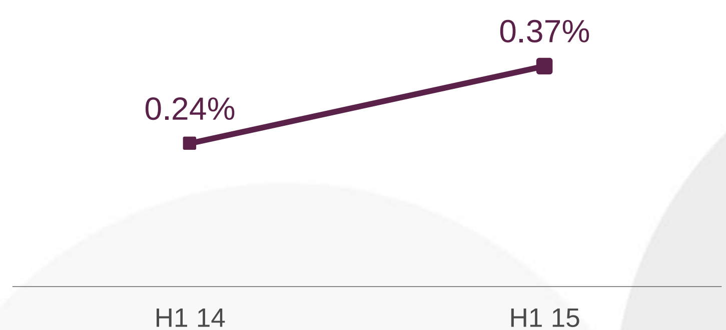


2 Net Interest Income (£m)





3 Contribution to Profit (£m)



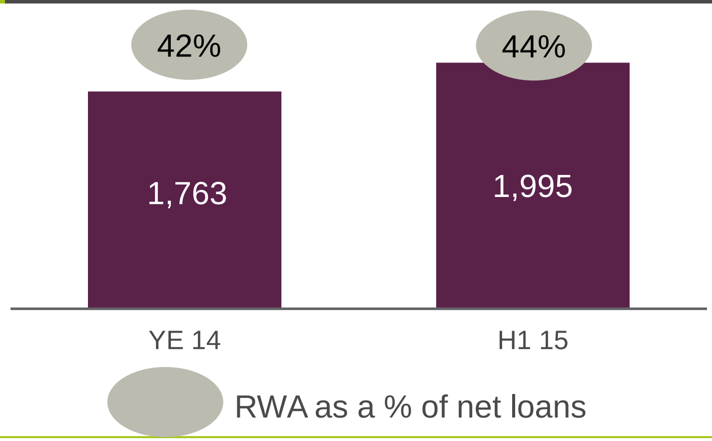
4 Loan Loss Charge as % of Avg Gross Loans

LTVs remain low at 67% (31 December 2014: 68%) with only 2% of loans by value with LTVs exceeding 90% (31 December 2014: 2%).

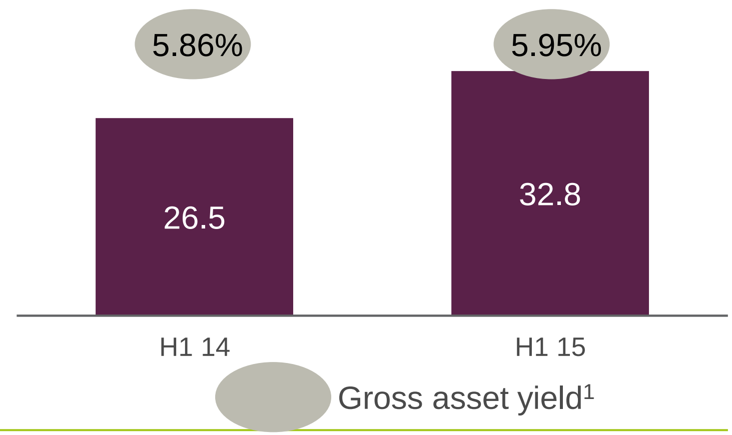
[1] Annualised Interest received, before liquidity and swap costs ,over average gross lending

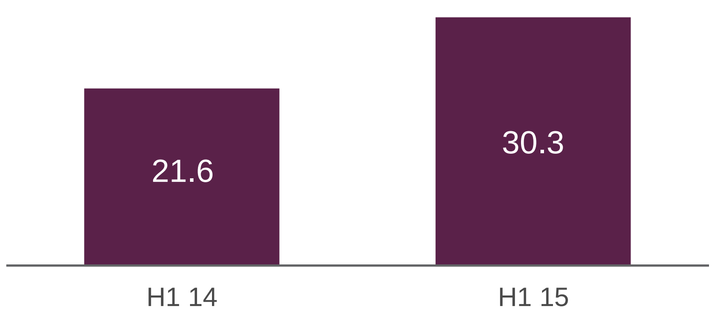
Residential growth through portfolio acquisition

1 Gross Loan Book (£m)

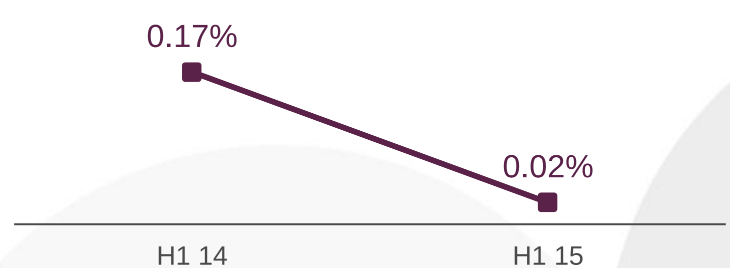


2 Net Interest Income (£m)





3 Contribution to Profit (£m)



4 Loan Loss Charge as % of Avg Gross Loans

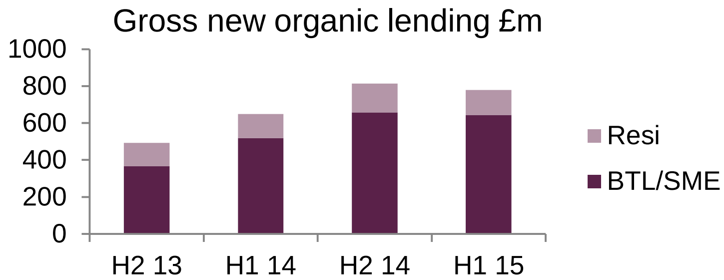
LTVs remain low at 54% (31 December 2014: 54%) with only 3% of loans by value with LTVs exceeding 90% (31 December 2014: 1%).

[1] Annualised Interest received, before liquidity and swap costs ,over average gross lending

One specialist lender

One Savings Bank

1 Growth



Organic lending growth continues, £778m for the period, up 20% from H1 2014

2 Product Innovation

InterBay Commercial launched an extended range of innovative refurbishment products for professional Buy-to-Let landlords

Prestige Finance developed and launched second charge Buy-to-Let loans to meet the demand from professional landlords wishing to expand and improve their portfolios

3 Momentum

We continue to have momentum across our trading brands

Heritable Development Finance our residential development finance business has a growing loan book and pipeline ahead of plan, with the experienced team generating both repeat business and new customers

4 Award winning

KentReliance a multiple award winner including being recognised as Best Buy-to-Let lender for 2nd year running

One fair place to save

1 Growth

Our stable retail funding franchise continues to grow, ensuring long term, stable funding

£1bn Retail deposits up almost £1bn year-on-year to £4.6bn

9,600 More than 9,600 new savings customers so far this year

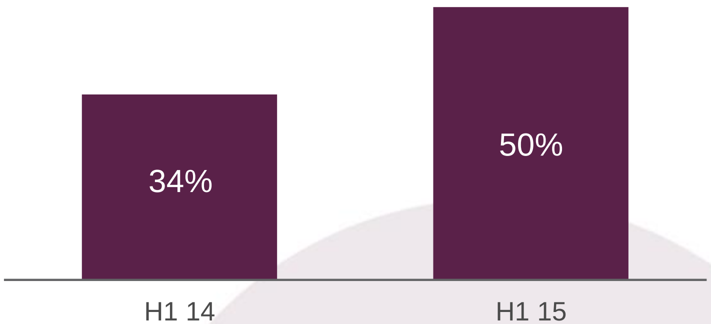
2 Retention

Our targeted Choices retention programme continues to deliver certainty to support our funding requirements with exceptionally strong retention for maturing Bond and ISA customers

>90% retention

3 Recommendation

We continue to lead on customer satisfaction with outstanding growth in our Net Promoter Score



4 Recognition

Our strong, fair proposition and our staff who deliver outstanding service, are demonstrated through receiving 3 major awards from Moneyfacts

Summary and outlook

1 Responding to changing regulation

BTL tax changes have not impacted OSB's target market

Professional landlords seek capital gain not income

Supply and demand supports the market

Putting off amateur landlords is positive

2 Bank corporation tax surcharge

Seen as unfair by many

At odds with verbal support for challengers

We are at the heart of lobbying with the BBA

However, we can still deliver our 25% plus ROE objective

3 Market conditions

Volumes continue to grow

We are not experiencing price pressure in our core markets

Product innovation allows us to be selective

4 Outlook

Second half investment in headcount and infrastructure

Specialism and innovation is delivering strong performance

We are well placed to continue to execute our strategy and remain confident in the outlook for the group

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