OneSavings Bank plc

Interim report for the six months ended 30 June 2019

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OneSavings Bank plc
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OneSavings Bank plc ('OSB' or 'the Bank' or 'the Group'), the specialist lending and retail savings group, announces today another strong set of results for the six months ended 30 June 2019.

Financial highlights

- Underlying profit before tax[1] increased 6% to £96.9m (H1 2018: £91.8m) and statutory profit before tax remained broadly flat at £91.0m (H1 2018: £91.8m)
- Net loan book growth of 10%, driven by 13% growth in gross organic origination to £1,635m (H1 2018: £1,444m)
- Continued focus on cost discipline and efficiency alongside strong income growth delivered a cost to income ratio[2] of 28% (H1 2018: 27%)
- Net interest margin ('NIM')[3] of 278bps (H1 2018: 301bps)
- Loan loss ratio[4] of 12bps (H1 2018: 11bps)
- Fully-loaded Common Equity Tier 1 ('CET1') capital ratio strong at 13.0% (FY 2018: 13.3%)
- Underlying basic earnings per share ('EPS') of 29.0p[5], up 5% (H1 2018: 27.5p) and statutory basic earnings per share down 7% to 25.5p (H1 2018: 27.5p)
- Return on equity[6] of 23% (H1 2018: 26%)
- Interim dividend of 4.9p per share, up 14% (H1 2018: 4.3p)[7]

Commenting on the results, Group CEO, Andy Golding said:

"I am delighted that OneSavings Bank has delivered strong performance in the first half of 2019. Lending volumes were driven by 13% growth in organic originations with high demand across our core market segments. We saw good opportunities in the professional Buy-to-Let segment and our more specialist businesses, including InterBay Commercial and bespoke residential, flourished in the first six months of the year. This supported 6% growth in underlying profit before tax to £96.9m and a strong return on equity of 23%.

In July we successfully completed the inaugural issuance of our Canterbury Finance RMBS programme, securitising £500m of organically originated mortgages, adding further diversification to our funding and paving the way for future optimisation of our funding model. Our retail funding franchise had an excellent six months with nearly 30,000 new customers joining the Bank.

NIM decreased in the first half, primarily due to the changing mix of the loan book despite broadly stable asset pricing. The mix of the loan book continued to change as the higher yielding back book refinanced onto front book pricing. The impact of this mix effect has now largely run its course, assuming current mortgage pricing, cost of funds and swap spreads continue.

Our core market segments remain attractive and we have confidence in continuing to deliver growth in our net loan book. Despite ongoing uncertainty surrounding Brexit, given the growth already achieved this year and considering the current strong pipeline and application levels in the third quarter to date, we now expect to deliver high-teens net loan book growth in 2019 at attractive margins. We continue to invest in the business and we will maintain a strong focus on cost efficiency and control.

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The recommended all-share combination between OneSavings Bank and Charter Court Financial Services Group plc ('CCFS') received shareholder approval from OSB and CCFS's respective shareholders on 6 June 2019 and an unconditional clearance from the Competition and Markets Authority on 30 July 2019. As a consequence of the combination we are unable to provide detailed guidance for the financial year ahead.

OneSavings Bank is exceptionally well-placed to continue to generate attractive returns for our shareholders, regardless of potential political scenarios that may take place and we look to the future with confidence."

Key metrics

	H1 2019	H1 2018
Total assets (£bn)	**11.6**	9.7
Net loan book (£bn)	**9.9**	8.1
Loan to deposit ratio[8] (%)	**91**	90
3 months+ arrears[9] (%)	**1.5**	1.3
Customer net promoter score[10]	**+64**	+60

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Results presentation
OneSavings Bank will be holding an interim results presentation for analysts at 9:30am on Wednesday 21 August at The Lincoln Centre, 18 Lincoln's Inn Fields, WC2A 3ED. The UK dial-in is 0808 109 0700 and the password is OneSavings Bank. The presentation will be webcast and available from 9.30am on the OneSavings Bank website at www.osb.co.uk/investors/results-reports-presentations. Registration is open immediately.

About OneSavings Bank plc
OneSavings Bank plc ('OSB') began trading as a bank on 1 February 2011 and was admitted to the main market of the London Stock Exchange in June 2014 (OSB.L). OSB joined the FTSE 250 index in June 2015. OSB is a specialist lending and retail savings group authorised by the Prudential Regulation Authority, part of the Bank of England, and regulated by the Financial Conduct Authority and Prudential Regulation Authority.

OSB primarily targets market sub-sectors that offer high growth potential and attractive risk-adjusted returns in which it can take a leading position and where it has established expertise, platforms and capabilities. These include private rented sector Buy-to-Let, commercial and semi-commercial mortgages, residential development finance, bespoke and specialist residential lending, secured funding lines and asset finance. OSB originates organically through specialist brokers and independent financial advisers. It is differentiated through its use of highly skilled, bespoke underwriting and efficient operating model.

OSB is predominantly funded by retail savings originated through the long-established Kent Reliance name, which includes online and postal channels, as well as a network of branches in the South East of England. Diversification of funding is currently provided by a securitisation programme and the Term Funding Scheme.

Notes
[1] Before exceptional transaction expenses of £5.9m (H1 2018: £nil), see Alternative performance measures and Exceptional items in the Financial review for further details
[2] Administrative expenses, including depreciation and amortisation as a percentage of total income

[3] Net interest income as a percentage of average interest bearing assets, annualised
[4] Impairment losses expressed as a percentage of average gross loans and advances, annualised
[5] Underlying profit attributable to ordinary shareholders of £71.0m (H1 2018: £67.1m), which is underlying profit after tax of £74.3m (H1 2018: £69.5m) less coupons on equity PSBs and AT1 securities, gross of tax of £3.3m (H1 2018: £2.4m, net of tax) divided by the weighted average number of ordinary shares in issue during the period, see note 1 Accounting policies – Taxation and note 9 Earnings per share
[6] Underlying profit after tax after deducting coupons on equity PSBs and AT1 securities of £3.3m, gross of tax (H1 2018: £2.4m, net of tax) as a percentage of average shareholders' equity (excluding equity PSBs of £22m and AT1 securities of £60m) which was £618.1m in first half of 2019 (H1 2018: £518.0m), annualised
[7] The proposed interim dividend of 4.9 pence per share for the first half of 2019 is based on one third of the total 2018 dividend of 14.6 pence per share (H1 2018: 4.3 pence per share, one third of the 2017 dividend of 12.8 pence per share)
[8] Excluding the impact of the Bank of England's Term Funding Scheme and Indexed Long-Term Repo. The unadjusted ratio was 107% (H1 2018: 109%)
[9] Portfolio arrears rate of accounts for which there are missing or overdue payments by more than three months as a percentage of gross loans
[10] The Net Promoter Score is calculated based on customer responses to the question of whether they would recommend the Group's products to a friend. The responses provide a score between -100 and +100

Alternative performance measures

OSB believes that the use of alternative performance measures ('APMs') for profitability and earnings per share provide valuable information to the readers of the financial statements and present a more consistent basis for comparing the Group's performance between financial periods, by adjusting for exceptional non-recurring items. APMs also reflect an important aspect of the way in which operating targets are defined and performance is monitored by the Board. However, any APMs in this document are not a substitute for IFRS measures and readers should consider the IFRS measures as well.

Important disclaimer

This document should be read in conjunction with the documents distributed by OneSavings Bank plc ('OSB') through the Regulatory News Service ('RNS'). This document is not audited and contains certain forward-looking statements, beliefs or opinions, including statements with respect to the business, strategy and plans of OSB and its current goals and expectations relating to its future financial condition, performance and results. Such forward-looking statements include, without limitation, those preceded by, followed by or that include the words 'targets', 'believes', 'estimates', 'expects', 'aims', 'intends', 'will', 'may', 'anticipates', 'projects', 'plans', 'forecasts', 'outlook', 'likely', 'guidance', 'trends', 'future', 'would', 'could', 'should' or similar expressions or negatives thereof. Statements that are not historical facts, including statements about OSB's, its directors' and/or management's beliefs and expectations, are forward-looking statements. By their nature, forward-looking statements involve risk and uncertainty because they relate to events and depend upon circumstances that may or may not occur in the future. Factors that could cause actual business, strategy, plans and/or results (including but not limited to the payment of dividends) to differ materially from the plans, objectives, expectations, estimates and intentions expressed in such forward-looking statements made by OSB or on its behalf include, but are not limited to: general economic and business conditions in the UK and internationally; market related trends and developments; fluctuations in exchange rates, stock markets, inflation, deflation, interest rates and currencies; policies of the Bank of England, the European Central Bank and other G8 central banks; the ability to access sufficient sources of capital, liquidity and funding when required; changes to OSB's credit ratings; the ability to derive cost savings; changing demographic developments, and changing customer behaviour, including consumer spending, saving and borrowing habits; changes in customer preferences; changes to borrower or counterparty credit quality; instability in the global financial markets, including Eurozone instability, the potential for countries to exit the European Union (the "EU") or the Eurozone, and the impact of any sovereign credit rating downgrade or other sovereign financial issues; technological changes and risks to cyber security; natural and other disasters, adverse weather and similar contingencies outside OSB's control; inadequate or failed internal or external processes, people and systems; terrorist acts and other acts of war or hostility and responses to those acts; geopolitical, pandemic or other such events; changes in laws, regulations, taxation, accounting standards or practices, including as a result of an exit by the UK from the EU; regulatory capital or liquidity requirements and similar contingencies outside OSB's control; the policies and actions of governmental or regulatory authorities in the UK, the EU or elsewhere including the implementation and interpretation of key legislation and regulation; the ability to attract and retain senior management and other employees; the extent of any future impairment charges or write-downs caused by, but not limited to, depressed asset valuations, market disruptions and illiquid markets; market relating trends and developments; exposure to regulatory scrutiny, legal proceedings, regulatory investigations or complaints; changes in competition and pricing environments; the inability to hedge certain risks economically; the adequacy of loss reserves; the actions of competitors, including non-bank financial services and lending companies; and the success of OSB in managing the risks of the foregoing.

Accordingly, no reliance may be placed on any forward-looking statement and no representation, warranty or assurance is made that any of these statements or forecasts will come to pass or that any forecast results will be achieved. Any forward-looking statements made in this document speak only as of the date they are made and it should not be assumed that they have been revised or updated in the light of new information of future events. Except as required by the Prudential Regulation Authority, the Financial Conduct Authority, the London Stock Exchange PLC or applicable law, OSB expressly disclaims any obligation or undertaking to release publicly any updates or revisions to any forward-looking statements contained in this document to reflect any change in OSB's expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based. For additional information on possible risks to OSB's business, please see Risk review section in the OSB 2018 Annual Report and Accounts. Copies of this are available at www.osb.co.uk and on request from OSB.

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Certain figures contained in this document, including financial information, may have been subject to rounding adjustments and foreign exchange conversions. Accordingly, in certain instances, the sum or percentage change of the numbers contained in this document may not conform exactly to the total figure given.

Key Performance Indicators

£1,635m (H1 2018: £1,444m)	**Gross new organic lending up 13%**	**£9.9bn** (FY 2018: £9.0bn)	**Net loan book up 10%**
£91.0m (H1 2018: £91.8m)	**Statutory profit before tax down 1%**	**25.5p** (H1 2018: 27.5p)	**Statutory basic EPS down 7%**
£96.9m[1] (H1 2018: £91.8m)	**Underlying profit before tax up 6%**	**29.0p**[1,5] (H1 2018: 27.5p)	**Underlying basic EPS up 5%**
23%[6] (H1 2018: 26%)	**Return on equity reduced by 3pp**	**278bps**[3] (H1 2018: 301bps)	**Net interest margin down 23bps**
28%[2] (H1 2018: 27%)	**Cost to income ratio increased by 1pp**	**13.0%** (FY 2018: 13.3%)	**Fully-loaded CET1 ratio remains strong**
12bps[4] (H1 2018: 11bps)	**Loan loss ratio up by 1bp**	**1.5%**[9] (FY 2018: 1.5%)	**3 months + in arrears stable**
+64[10] (H1 2018: +60)	**Customer NPS improved**	**4.9p**[7] (H1 2018: 4.3p)	**Interim dividend per share up 14%**

For definitions of key ratios please see footnotes above

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Chief Executive's Statement

Progress in the first half of 2019

I am very pleased with our progress this year. OneSavings Bank has delivered excellent shareholder returns as a result of strong lending across our market segments. In particular, strength in our core Buy-to-Let/SME segment supported earnings growth, with a 5% increase in underlying basic earnings per share to 29.0p. I am also pleased to report an underlying pre-tax profit of £96.9m, a 6% increase on the same period last year. Including the exceptional costs of the recommended combination with Charter Court Financial Services Group plc ('CCFS'), statutory profit before tax was broadly flat at £91.0m.

Our attractive market proposition to professional landlords and borrowers with more complex needs, combined with strong broker relationships, supported net loan book growth of 10% to £9.9bn in the first half of 2019. This achievement reflects our strong organic origination capability, with 13% growth in total organic origination versus the first half of 2018 and the continued opportunities in the markets in which we operate.

Demand across all of our core market segments is high and we were pleased with the continued traction of our products in the market. In particular, our commercial and residential offerings experienced exceptionally strong growth and we continued to see high quality business. However, in light of the current macroeconomic outlook and our disciplined approach to lending, we tightened our underwriting criteria, especially in bridging and residential development finance, to protect the quality of the book.

Net interest margin ('NIM') decreased to 278bps in the first half, with the reduction primarily due to the changing mix of the loan book, despite broadly stable asset pricing. The mix of the loan book continued to change as the higher yielding back book refinanced onto front book pricing. The impact of this mix effect has now largely run its course, assuming current mortgage pricing, cost of funds and swap spreads continue.

We continued to manage costs effectively whilst investing in the business, including the ongoing IRB project as well as improvements to our IT infrastructure. Our cost to income ratio for the first half was strong at 28%. High growth at attractive margins combined to produce an annualised return on equity of 23%.

Our retail savings franchise remains extremely strong, with nearly 30,000 new customers joining the Bank in the first six months of 2019, half of them in April alone, a record month for Kent Reliance. In July, we re-entered the securitisation market with an inaugural deal in our Canterbury Finance RMBS programme, securitising £500m of organically originated mortgages, which adds valuable diversification to our funding.

We are delighted with the receipt of OSB and CCFS shareholder approval and the Competition and Markets Authority's unconditional clearance of the recommended combination between OSB and CCFS, and we continue to believe in the strong strategic rationale for creating a leading specialist lender.

Continued development of our strong lending franchise

We differentiate ourselves by offering well-defined propositions in market segments where we have the experience and distribution relationships to successfully develop and service those segments.

Net loan book growth of 10% in the period was driven by a 13% increase in gross organic origination to £1.6bn against the same period in 2018. We continued to see good opportunities with professional landlords in our core Buy-to-Let market and additional semi-commercial and commercial opportunities for our InterBay Commercial brand. Our specialist residential lending increased through a successful relaunch in the second half of 2018.

A high proportion of borrowers choose to take a new product with the Bank at the end of their initial product term through Choices, OSB's mortgage product retention scheme. Under Choices, borrowers are encouraged to engage with their broker to receive advice and select from a bespoke product set.

Chief Executive's Statement

This scheme has been successful in increasing retention with 76% of borrowers choosing a new OSB product within three months of the maturity of their existing mortgage.

Our coordinated distribution across all brands remains a core strategic differentiator and we have continued to gain industry recognition, winning national and broker firm awards throughout the period, including Best Specialist Mortgage Provider from Moneyfacts as well as Mortgage Strategy awards for Best Specialist Lender and Best Buy-to-Let Lender. Our more specialist businesses were also recognised by the industry, including Bridging Funding Partner of the Year at the Bridging and Commercial Awards and 2018 Secured Loan Lender award for our Prestige second charge residential business.

The core Buy-to-Let sub-segment, which comprises 72% of the OSB gross loan book, is demonstrating robust demand from professional and incorporated landlords with high levels of refinancing partially offsetting lower purchase activity and reduced demand from amateur landlords. Five-year fixed rate products remain in favour with borrowers and represented 51% of our Kent Reliance Buy-to-Let completions in the first six months of 2019.

For new origination under our Kent Reliance brand, remortgages were 61%, up from 58% in 2018. Professional/multi-property landlords accounted for 81% of Buy-to-Let completions by value during the first half of 2019 and limited company purchase applications for Kent Reliance were 73%, as landlords continue their migration to borrowing via company structures. We are seeing increased demand in higher yielding market segments, including Houses in Multiple Occupation and student accommodation, where we have particular expertise.

Our InterBay Commercial business, which provides a range of commercial, semi-commercial, bridging and more complex Buy-to-Let mortgages, continues to flourish. Given the current macroeconomic environment, we have recently tightened lending criteria and adjusted our risk exposures accordingly to ensure the book remains of the highest quality. This business lends at sensible loan to values ('LTVs'), and generates strong returns on a risk-adjusted basis.

After a period of declining originations in our residential segment, we saw originations rise in the first half of 2019 to £260m (H1 2018: £111m). New products that we launched last year are gaining good traction and meeting our growth targets. The shared ownership market is currently offering relatively high yields and we have improved our competitiveness for high quality business. Over the medium term, we see an opportunity to deliver attractive risk-adjusted returns from our residential products, particularly once we transition to IRB.

We are very pleased with the performance of our Heritable Development Finance business. We continue to monitor markets closely and concentrate on funding house builders who operate outside central London and provide relatively affordable family housing, as opposed to complex city centre schemes where affordability and construction cost control can be more challenging. New applications come primarily from a mixture of repeat business from the team's extensive long-term relationships and referrals.

The residential development funding gross loan book at the end of June 2019 was £141m with a further £100m committed. The business has commitments to finance the development of around 1,800 residential units as at the end of June 2019.

The Bank's secured funding lines business in both Buy-to-Let/SME and Residential segments continues to grow, with cautious risk fundamentals applied. During the first six months of 2019, gross advances to the specialty finance market segment, including bridging loans totalled £101m, with total loans outstanding of £217m as at 30 June 2019. During the period, one new £30m facility was approved and a number of existing facilities were increased.

Chief Executive's Statement

The InterBay Asset Finance business, which was established in the second half of 2018 and predominantly targets UK SMEs and small corporates financing business-critical assets, had a gross carrying amount under finance leases of £28m as at 30 June 2019.

Sustainable funding model with outstanding customer satisfaction
We continue to benefit from our stable and award-winning retail funding franchise, with nearly 30,000 new savings customers joining the Bank in the first half of 2019. We offer a competitive retail savings proposition, which allows the Bank to raise significant funds as we require them. Retail deposits were up 14% from 31 December 2018 to £9.2bn, as OSB took the opportunity to raise deposits at attractive rates during the 2019 ISA season. Our excellent customer service is demonstrated by our very strong customer Net Promoter Score ('NPS') of +64 and our continued exceptionally high retention rates on maturing bonds and ISAs of 93%.

We remain committed to being funded predominantly by retail savings with a strong diversification capability through RMBS and Bank of England funding schemes. In July, we successfully securitised £500m of organically originated mortgages under our newly established Canterbury Finance RMBS programme. This was well-received in the market, adding further diversification to our funding and positioning us well for future transactions. Our borrowings under the Term Funding Scheme remained unchanged at £1.5bn and Indexed Long-Term Repo borrowings were £100m as at 30 June 2019.

Well-capitalised with strong risk management
The Group's total arrears balance remained low, and the portfolio arrears rate remained stable at 1.5% as at 30 June 2019 (31 December 2018: 1.5%). The Group's loan loss ratio for the first half remained broadly flat at 12bps compared to 11bps in the first half of 2018.

There was no material change in the severity or probability weightings assigned to the Group's macroeconomic scenarios in the first half of 2019. These were strengthened by the addition of a more severe no-deal disorderly Brexit scenario[1] in December 2018, in addition to the existing no-deal disruptive Brexit scenario[1]. The Bank's provisions under IFRS 9 are particularly sensitive to the weighting applied to the more severe disorderly no-deal Brexit scenario.[1]

We have maintained an appropriate level and quality of capital required to support our growth objectives and to meet prudential requirements. Our CET1 ratio of 13.0% as at 30 June 2019 (31 December 2018: 13.3%) remained comfortably in excess of the regulatory requirements and Board risk appetite. The Bank's total capital ratio was 15.2% as at 30 June 2019 (31 December 2018: 15.8%).

The weighted average LTV of the mortgage book remained low at 68% as at 30 June 2019 with an average LTV of 70% on new origination in the first half. Our average interest coverage ratio ('ICR') remained stable in the period at 175% (FY 2018: 171%).

We are pleased with our progress towards IRB and believe that the Bank will benefit in its capital requirements, especially for residential lending at sensible LTVs.

Cost discipline central to our business
The low cost to income ratio of 28% reflects our efficient and scalable operating platform, and has been achieved despite additional investment in the business, including our ongoing IRB project. We continue with improvements to our technology infrastructure, including our online savings platform. As ever, we focus on delivering further efficiencies in the cost of running the Bank on a 'business as usual basis', through continued disciplined cost management, the benefits of scale and leveraging our unique operating platform in India ('OSBI') as we grow. The management expense ratio improved to 74bps for the first six months of 2019 compared to 79bps for the first half of 2018.

OSBI undertakes a range of primary processing services at a significantly lower cost than an equivalent UK-based operation, with quality of service that is consistently high, as reflected in our outstanding customer NPS of +64. The focus on driving improved customer experience extends to both our savings and lending franchises. Broker NPS was +27 for the first six months of 2019.

Chief Executive's Statement

A larger, stronger specialist lender

We are excited about the recommended combination with CCFS, fully believing in the advantages that will come from a more resilient diversified funding platform together with greater scale and resources. We will have a larger footprint in the UK Buy-to-Let and residential segments with an enhanced proposition to the broker community to ensure we remain at the forefront of UK specialist mortgage lending.

Outlook

It is clear that the overall housing market is subdued with Brexit and geopolitical concerns weighing on pricing and activity. However, we are still achieving growth in our core market segments and are encouraged by our strong pipeline and application levels. Given this and considering the growth already achieved this year, we now expect to deliver net loan book growth in the high-teens in 2019, driven by organic lending and strong retention. The impact on NIM of the changing mix of the loan book, as the higher yielding back book refinanced onto front book pricing, has largely run its course, assuming current mortgage pricing, cost of funds and swap spreads continue.

We are mindful of the macroeconomic environment, primarily driven by uncertainties surrounding the UK's departure from the European Union and the potential impact on the UK economy, including pressure on house prices, particularly in London. However, we believe that our specialist underwriting capabilities across our segments are even more relevant in times of uncertainty, as they give us a greater and deeper understanding of the risks that we can actively manage and price for. We manage the business prudently, with careful business planning and strong credit risk management across the life cycle, and continue to focus on achieving high risk-adjusted returns in our chosen market segments.

Andy Golding

Chief Executive Officer

1. The Bank's two no-deal Brexit related economic scenarios relate to (1) a no-deal disruptive Brexit, and (2) no-deal disorderly Brexit, as published in the Bank of England 'EU withdrawal scenarios and monetary and financial stability' paper, November 2018.

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Interim Management Report

Financial review

Summarised financial information, including key ratios, is presented in the tables below:

Summary Profit or Loss	H1 2019 £m	H1 2018 £m
Net interest income	**151.0**	135.2
Fair value losses on financial instruments	**(7.4)**	(1.9)
Net fees and commissions	**0.3**	0.2
External servicing fees	**(0.1)**	(0.4)
Administrative expenses[1]	**(40.9)**	(35.9)
FSCS and other regulatory provisions	**(0.1)**	(1.1)
Impairment losses	**(5.9)**	(4.3)
Exceptional item – transaction expenses	**(5.9)**	-
Profit before tax	**91.0**	91.8
Profit after tax	**65.8**	69.5
Underlying profit before tax[2]	**96.9**	91.8
Underlying profit after tax[2]	**74.3**	69.5

Key ratios	H1 2019	H1 2018
Net interest margin	**278bps**	301bps
Basic earnings per share, pence[2]	**25.5**	27.5
Underlying basic earnings per share, pence[2]	**29.0**	27.5
Return on equity	**23%**	26%
Management expense ratio[3], annualised	**74bps**	79bps
Cost to income ratio	**28%**	27%
Loan loss ratio	**12bps**	11bps

	30-Jun-19 £m	31-Dec-18 £m
Extracts from the Statement of Financial Position		
Loans and advances	**9,862.0**	8,983.3
Retail deposits	**9,175.0**	8,071.9
Total assets	**11,637.8**	10,460.2
Key ratios		
Liquidity ratio[4]	**15.3%**	14.5%
Common equity tier 1 ratio	**13.0%**	13.3%
Total capital ratio	**15.2%**	15.8%
Total leverage ratio	**5.7%**	5.9%

[1] Including depreciation and amortisation
[2] See Alternative performance measures and reconciliation of statutory and underlying profit before and after tax below
[3] Administrative expenses including depreciation and amortisation as a percentage of average total assets
[4] Liquid assets as a percentage of funding liabilities

For definitions of other key ratios please see footnotes above

Interim Management Report

Alternative performance measures

OSB believes that the use of alternative performance measures ('APMs') for profitability and earnings per share provides valuable information to the readers of the financial statements and presents a more consistent basis for comparing the Group's performance between financial periods, by adjusting for exceptional non-recurring items. APMs also reflect an important aspect of the way in which operating targets are defined and performance is monitored by the Board. However, any APMs in this document are not a substitute for IFRS measures and readers should consider the IFRS measures as well.

Reconciliation of statutory profit to underlying profit

	Profit before taxation		Profit after taxation	
	Group 30-Jun-2019 £m	**Group 30-Jun-2018 £m**	**Group 30-Jun-2019 £m**	**Group 30-Jun-2018 £m**
Statutory profit	**91.0**	91.8	**65.8**	69.5
Exceptional cost – transaction expenses[1]	**5.9**	-	**5.9**	-
Exceptional cost – Heritable option tax[2]	**-**	-	**2.6**	-
Underlying profit	**96.9**	91.8	**74.3**	69.5

1. Exceptional transaction costs of £5.9m relate to the recommended combination with Charter Court Financial Services Group plc.
2. Heritable option tax relates to the reversal of the tax benefit recognised in 2018.

Statutory basic EPS of 25.5 pence per share (H1 2018: 27.5 pence per share) is calculated by dividing profit attributable to ordinary shareholders of £62.5m (H1 2018: £67.1m) which is profit after taxation of £65.8m (H1 2018: £69.5m) less coupons on equity PSBs, gross of tax of £0.5m (H1 2018: £0.4m, net of tax) and coupons on AT1 securities, gross of tax of £2.8m (H1 2018: £2.0m net of tax) by the weighted average number of ordinary shares in issue during the period of 244.9m (H1 2018: 244.0m).

Underlying basic EPS of 29.0 pence per share (H1 2018: 27.5 pence per share) is calculated by dividing underlying profit attributable to ordinary shareholders of £71.0m (H1 2018: £67.1m), which is underlying profit after taxation of £74.3m (H1 2018: £69.5m) less coupons on equity PSBs, gross of tax of £0.5m (H1 2018: £0.4m, net of tax) and coupons on AT1 securities, gross of tax of £2.8m (H1 2018: £2.0 net of tax) by the weighted average number of ordinary shares in issue during the period of 244.9m (H1 2018: 244.0m).

On 1 January 2019, the Group adopted amendments to IAS 12 Income Taxes and, as a result, changed the way it accounts for tax payable on coupons on equity bonds. From 1 January 2019, this tax is recognised directly in profit or loss and not, as previously, in equity.

Strong underlying profit growth

The Group reported profit before tax of £91.0m for the first half of 2019, a decrease of 1% compared to £91.8m in the first half of 2018. Excluding the exceptional transaction costs relating to the recommended combination with Charter Court Financial Services Group plc ('CCFS'), the Bank recorded a 6% increase in underlying profit before tax to £96.9m (H1 2018: £91.8m) primarily reflecting growth in the net loan book and net interest income supported by an efficient cost base.

Profit after tax for the first half of 2019 decreased by 5% to £65.8m (H1 2018: £69.5m). On an underlying basis, excluding the exceptional transaction costs and the tax adjustment on the Heritable option cost, the profit after tax was £74.3m (H1 2018: £69.5m) which represents a 7% increase compared to the first six months of 2018. The Bank's effective tax rate remained broadly flat at 24.7%[1] for the first half of 2019 (H1 2018: 24.3%).

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Net interest income

The Group reported an increase in net interest income of 12% to £151.0m in the first half of 2019 (H1 2018: £135.2m) and net interest margin ('NIM') of 278bps (H1 2018: 301bps).

The decrease in NIM is primarily due to the changing mix of the loan book, despite broadly stable asset pricing. The mix of the loan book continued to change as the higher yielding back book refinanced onto front book pricing. The impact of this mix effect has now largely run its course, assuming current mortgage pricing, cost of funds and swap spreads continue.

Fair value losses on financial instruments

Fair value losses on financial instruments increased to £7.4m in the first half of 2019 (H1 2018: £1.9m). This included a £4.6m loss on unmatched swaps (H1 2018: £0.2m gain), due primarily to fair value movements on mortgage pipeline swaps, prior to them being matched against completed mortgages, following a significant flattening of the Libor curve. This unrealised loss will unwind over the life of the swaps. The Group also made a loss of £0.9m (H1 2018: £0.8m gain) due to the ineffective portion of hedges and recognised £2.0m of amortisation of fair value adjustments on hedged assets relating to cancelled swaps (H1 2018: £2.5m).

Net fees and commissions

Net fees and commissions income of £0.3m in the first half of 2019 (H1 2018: £0.2m) comprised fees and commissions receivable of £0.9m (H1 2018: £0.7m) partially offset by fees and commissions payable of £0.6m (H1 2018: £0.5m).

External servicing fees

External servicing fees decreased to £0.1m in the first half of 2019 (H1 2018: £0.4m) due primarily to the transfer of servicing for a number of acquired residential loan books to the Bank's operation in India in 2018.

Administrative expenses

Administrative expenses, inclusive of depreciation and amortisation, were up 14% to £40.9m in the first half of 2019 (H1 2018: £35.9m). This included further spend on the Group's IRB project and planned investment in IT infrastructure. The cost to income ratio increased to 28% (H1 2018: 27%).

We continue to focus on finding efficiencies in the cost of running the Bank as we grow, which is demonstrated in the management expense ratio[2] improving by 5bps to 0.74% for the first half of 2019 (H1 2018: 0.79%).

Regulatory provisions

The regulatory provisions in the first half of 2019 were £0.1m (H1 2018: £1.1m) representing levies due to the Financial Services Compensation Scheme. The reduction in provisions is mainly due to recognition of additional provisions on acquired books in the prior period.

Impairment losses

Impairment losses in the first half of 2019 were £5.9m (H1 2018: £4.3m). The loan loss ratio remained broadly flat at 12bps compared to 11bps in the first half of 2018 and includes the impact of a small number of high value Buy-to-Let cases having Law of Property Act receivers appointed at the end of the period, which attract higher provision requirements in our IFRS 9 modelling approach.

Interim Management Report

There was no material change in the severity or probability weightings assigned to the Group's macroeconomic scenarios in the first half of 2019. These were strengthened by the addition of a more severe no-deal disorderly Brexit scenario[3] in December 2018, in addition to the existing no-deal disruptive Brexit scenario[3]. The Bank's provisions under IFRS 9 are particularly sensitive to the weighting applied to the more severe disorderly no-deal Brexit scenario[3].

The arrears performance of the front book continues to be very strong. From more than 54,500 loans totalling £12.4bn organically originated since the creation of the Bank in February 2011, only 273 were more than three months in arrears as at 30 June 2019, with a total value of £72.0m and an average loan to value of just 63%.

Exceptional items

Exceptional transaction costs of £5.9m, relating to the recommended combination with CCFS, were recognised in the first half of 2019. These exclude success fees payable if the combination receives regulatory approvals and completes and costs that contain discount provisions should the combination not proceed. These contingent liabilities are expected to be c. £9m.

There were no exceptional items in the first half of 2018.

Dividends

The Group's dividend policy is to declare interim dividends based on one third of the prior year's total dividend. The Board has therefore declared an interim dividend of 4.9 pence per share for the first half of 2019, based on the 2018 full year dividend of 14.6 pence per share. The Board continues to target a full year dividend pay-out ratio of at least 25 per cent of underlying profit after tax less coupons on equity PSBs and AT1 securities classified as dividends.

Balance sheet growth

Loans and advances grew by 10% in the first half of 2019 to £9,862.0m (31 December 2018: £8,983.3m). Retail deposits increased by 14% to £9,175.0m (31 December 2018: £8,071.9m) and the borrowings under the Bank of England's Indexed Long-Term Repo scheme were £100. m. The Group's balance under the Term Funding Scheme remained unchanged during the first half at £1,502.8m.

Total assets grew by 11% to £11,637.8m (31 December 2018: £10,460.2m) due to the growth in loans and advances and liquid assets.

Liquidity

OneSavings Bank operates under the PRA's liquidity regime. The Bank operates within a target liquidity runway in excess of the minimum regulatory requirement. OSB ended the first six months of 2019 with a liquidity ratio of 15.3%, an increase from 14.5% as at 31 December 2018. The Bank took the opportunity to raise additional retail funds during the ISA season to prudently improve its liquidity position given the current uncertain macroeconomic and political outlook.

The Bank's liquidity coverage ratio ('LCR') of 163% as at 30 June 2019 (31 December 2018: 224%) is significantly in excess of the regulatory minimum of 100%. The reduction in the LCR is due to a temporary technical requirement to treat term deposits as on demand until 31 August 2019, during the notice period for changes to terms and conditions. The Bank has not seen and does not anticipate any material change in customer behaviour or withdrawals during this period. Excluding this change, the LCR would have been 238% as at 30 June 2019.

The Bank's retail savings franchise continues to provide the business with long-term sustainable funding for loan book growth as evidenced by the retention rate for maturing deposits of 93% for the first six months of 2019 and an exceptional level of customer satisfaction with a Net Promoter Score of +64.

Capital

The Bank's capital position remained strong, with a fully-loaded CET1 ratio of 13.0% as at 30 June 2019 (31 December 2018: 13.3%) and a total capital ratio of 15.2% (31 December 2018: 15.8%) demonstrating the capital generation capability of the business to support significant growth through profitability. The reduction in capital ratios is due primarily to the strong growth in the loan book and the impact of exceptional transaction costs on statutory profit.

The Bank had a leverage ratio of 5.7% as at 30 June 2019 (31 December 2018: 5.9%) and a Pillar 2a requirement of 1.1% of risk weighted assets (31 December 2018: 1.1%).

1. Effective tax rate excludes £2.7m of adjustments relating to prior year, see note 8 Taxation.
2. Management expense ratio is administrative expenses including depreciation and amortisation as a percentage of average total assets.
3. The Bank's two no deal Brexit related economic scenarios relate to (1) a no deal disruptive Brexit, and (2) no deal disorderly Brexit, as published in the Bank of England 'EU withdrawal scenarios and monetary and financial stability' paper, November 2018.

Interim Management Report

Segmental review

The following table shows the Group's loans and advances and contribution to profit by segment:

First half 2019, £m	Total	BTL/SME	Residential mortgages
Net interest income	**151.0**	**120.0**	**31.0**
Other expense	**(7.2)**	**(5.2)**	**(2.0)**
Total income	**143.8**	**114.8**	**29.0**
Impairment losses	**(5.9)**	**(5.2)**	**(0.7)**
Contribution to profit	**137.9**	**109.6**	**28.3**
First half 2018, £m			
Net interest income	135.2	102.3	32.9
Other expense	(2.1)	(0.6)	(1.5)
Total income	133.1	101.7	31.4
Impairment losses	(4.3)	(3.0)	(1.3)
Contribution to profit	128.8	98.7	30.1

As at 30 June 2019, £m	Total	BTL/SME	Residential mortgages
Gross loans to customers	**9,895.0**	**8,158.8**	**1,736.2**
Provision for impairment losses	**(33.0)**	**(15.1)**	**(17.9)**
Net loans to customers	**9,862.0**	**8,143.7**	**1,718.3**
Risk weighted assets	**4,685.5**	**3,873.9**	**811.6**
As at 31 December 2018, £m			
Gross loans to customers	9,005.2	7,389.2	1,616.0
Provision for impairment losses	(21.9)	(11.0)	(10.9)
Net loans to customers	8,983.3	7,378.2	1,605.1
Risk weighted assets	4,211.8	3,453.8	758.0

Buy-to-Let/SME

Buy-to-Let/SME sub-segments: gross loans

	30-Jun-19 £m	31-Dec-18 £m
Buy-to-Let	**7,099.7**	6,517.5
Commercial	**725.1**	547.8
Residential development	**141.2**	155.8
Funding lines	**192.8**	168.1
Total	**8,158.8**	7,389.2

This segment comprises Buy-to-Let mortgages secured on residential property held for investment purposes by experienced and professional landlords, and commercial mortgages secured on commercial and semi-commercial properties held for investment purposes or for owner-occupation. It also includes our smaller, more specialist business segments, including bridge finance, residential development finance to small and medium-sized developers, secured funding lines to other lenders and asset finance.

Market-wide Buy-to-Let gross advances remained broadly flat in the first six months of 2019 at £18.5bn compared with £18.3bn in the same period last year.[1] Refinancing accounted for the majority of this activity, with landlords' confidence[2], continuing to be impacted by macroeconomic and political uncertainty. In addition, regulatory changes to tax and stricter affordability assessment rules continue to deter amateur landlords from entering the market leading to further professionalisation of the Private Rented Sector.

OSB delivered 10% growth in its Buy-to-Let/SME gross loan book to £8,158.8m in the first half of 2019, driven by a 3% increase in new organic originations in the segment to £1,374.5m for the first half of 2019, compared to £1,332.6m in the first half of 2018.

The Buy-to-Let sub-segment grew by £582.2m or 9% in the first half of 2019 to a gross value of £7,099.7m (31 December 2018: £6,517.5) as we benefitted from continued demand from the professional/multi-property landlords who accounted for 81% of Buy-to-Let completions by value during the first half of 2019 (H1 2018: 79%). This growth is also due to the success of our targeted retention programme Choices, with 76% of existing borrowers choosing a new product with the Group within three months of product maturity.

For our main Kent Reliance brand, Buy-to-Let remortgages in the first half of 2019 represented 61% and five year fixed rate products represented 51% of originations (H1 2018: 58% and 59% respectively). Limited company purchase applications for Kent Reliance were 73% for the first six months of 2019, up from 70% in 2018. Our weighted average interest coverage ratio was 175% in the first half (FY 2018: 171%).

Through our InterBay Commercial brand, we offer a range of commercial, semi-commercial, bridging and more complex Buy-to-Let mortgages. The Group's commercial sub-segment grew by 32% with the gross loan book reaching £725.1m as at 30 June 2019 (31 December 2018: £547.8m), due to reduced competition, primarily from wholesale-funded lenders. The commercial and semi-commercial portfolio had a low weighted average loan to value ('LTV') of 66% and average loan size of £380,000.

Our Heritable residential development business continues to provide prudent development finance to small and medium-sized residential developers. The preference is to fund house builders who operate outside central London and provide relatively affordable family housing, as opposed to complex city centre schemes where affordability and construction cost control can be more challenging. New applications come primarily from a mixture of repeat business from the team's extensive existing relationships and referrals.

The residential development funding gross loan book at the end of June 2019 was £141.2m with a further £99.8m committed (31 December 2018: £155.8m and £90.3m, respectively). Since inception through to 30 June 2019, the business has written £851m of loans of which £452m has been repaid to date. The business had commitments to finance the development of just under 1,800 residential units as at the end of June 2019, the majority of which are houses located outside central London.

In addition, the Bank continued to provide secured funding lines to non-bank lenders which operate in certain high-yielding, specialist sub-segments, such as bridging and asset finance. Total credit approved limits as at 30 June 2019 were £470.0m with total loans outstanding of £192.8m (31 December 2018: £385.0m and £168.1m respectively). During the period, one new £30m funding line was added and credit approved limits were increased by a further £30m across two existing funding lines. The pipeline remains robust, however, given macroeconomic uncertainties the Bank continues to adopt a cautious risk approach.

Our InterBay Asset Finance business which was established in the second half of 2018, predominantly targets UK SMEs and small corporates financing business-critical assets. The gross carrying amount under finance leases was £28.4m as at 30 June 2019 (31 December 2018: £7.2m).

The average LTV in the Buy-to-Let/SME segment remained low at 72% (31 December 2018: 70%) with only 0.7% of loans by value with an LTV exceeding 90% (31 December 2018: 0.6%). The average LTV of new Buy-to-Let/SME origination in the first half of 2019 was 70% (H1 2018: 70%).

The Buy-to-Let/SME segment made a contribution to Group profit of £109.6m in the first half of 2019, up 11% compared to £98.7m in the first half of 2018, primarily reflecting growth in the loan portfolio, partially offset by fair value losses on unmatched mortgage pipeline swaps included in other expense.

1. UK Finance, New and outstanding buy-to-let new mortgages, 15 August 2019
2. BDRC Landlord panel, July 2019

Residential mortgages

Residential sub-segments: gross loans

	30-Jun-19 £m	31-Dec-18 £m
First charge	**1,339.7**	1,223.9
Second charge	**372.8**	368.0
Funding lines	**23.7**	24.1
Total	**1,736.2**	1,616.0

This segment comprises lending to owner occupiers, secured via either first or second charges against residential homes and the shared ownership market. The Bank also provides funding lines to non-bank lenders who operate in high-yielding, specialist sub-segments such as residential bridge finance.

During the first half of 2019, OSB's total residential loan portfolio increased by 7% with a gross carrying value of £1,736.2m as at 30 June 2019 (31 December 2018: £1,616.0m) with organic residential lending of £259.9m in the first half (H1 2018: £111.2m).

The first charge residential book had a gross value of £1,339.7m as at 30 June 2019 up 9% from £1,223.9m at the end of 2018. The new residential products launched in the second half of 2018 received a positive response from borrowers and the Bank also increased its lending in the shared ownership market in the first half of 2019.

The second charge residential loan book was broadly flat as at 30 June 2019 with a gross value of £372.8m (31 December 2018: £368.0m) with organic origination matching redemptions on the organic book and acquired books in run-off. We maintained appropriate pricing for risk in this sub-segment as competitive pricing pressures continued in this market.

OSB continued to provide secured funding lines to non-bank lenders which operate in certain high-yielding, specialist sub-segments, such as residential bridge finance. The Bank adopts a cautious risk approach to these more cyclical businesses given macroeconomic uncertainty. Total credit approved limits as at 30 June 2019 were £51.0m, with total loans outstanding of £23.7m (31 December 2018: £51.8m and £24.1m respectively).

The average LTV in the Residential segment remained low at 58% (31 December 2018: 56%) with 5% of loans by value with LTV's exceeding 90% (31 December 2018: 3%). The average LTV of new residential origination in the first half of 2019 increased to 70% (H1 2018: 65%) due to the new residential range launched in the second half of 2018.

Residential mortgages made a contribution to Group profit of £28.3m in the first half of 2019, down 6% from £30.1m in the first half of 2018, primarily reflecting lower net interest income due to the run off of high-yielding mortgages in the back and acquired books.

Interim Management Report

Risk Management

Progress made during the six months to 30 June 2019

During the six months to 30 June 2019 the Group made strong progress against its strategic risk management objectives for the year.

The Group's strategic risk management framework continues to evolve in line with the growth of the business. An independent third party review of the Group's strategic risk management framework confirmed that it can be considered fit for purpose, that it is scalable and that it can be adapted to future business change.

Enhancements continue to be made to the Group's data management and governance capabilities in accordance with the Group's strategic data management programme.

The Internal Ratings Based ('IRB') programme continued to progress well, with significant progress made to the development of our second generation IRB models. Further enhancements were also made with respect to governance and embedding of the rating systems within wider risk management processes, positioning the Group well to submit the first module in the IRB application process within planned timelines.

The Group recognises that effective risk management is a responsibility of all business functions and continues to focus on the embedding of risk culture across the organisation. In particular, the Group continues to provide training to its risk champions from around the business and ensures they have specific risk management related activities recorded as part of their performance management objectives.

The Group refreshed its conduct risk appetite statement and expanded the range of associated key risk indicators to provide greater clarity on the degree to which the Group is exposed to conduct risk.

The Group enhanced its group-wide horizon scanning processes which further improved its ability to identify, assess, communicate and manage all key legal, regulatory and industry-related developments that may impact the Group.

The Group continues to review and enhance its management information with a particular focus on credit risk reporting of the Group's lending portfolios, which facilitate monitoring and allow improved management of the risk and return profile of the Group.

The Group continued to make significant investment in people across the Risk and Compliance functions ensuring that there is sufficient capacity and capability to deliver the strategic risk enhancements planned for the second half of the year and beyond.

Principal risks and uncertainties

The Board is responsible for determining the nature and extent of the principal risks it is willing to take in order to achieve its strategic objectives.

There were no material changes to the Group's business strategy, risk management framework or risk appetite during the six months to 30 June 2019. We have however recognised incremental economic and political risk and risks associated with the proposed combination with CCFS.

The table below details the principal risks which the Board believes are the most material with respect to potential adverse movements impacting the business model, future financial performance, solvency and liquidity. A more detailed review of the Group's principal risks and uncertainties can be found within the Risk review in the 2018 Annual Report and Accounts on pages 41 to 46, which can be accessed via our website at www.osb.co.uk.

Interim Management Report

Risk Management (continued)

Principal risks	Key mitigating actions
Strategic and business risk	• Regular monitoring of the Group's strategic and business performance against market commitments, the balanced business scorecard and risk appetite by the Board and the Executive Committees. • The Group also extensively uses stress tests to flex core business planning assumptions to assess potential performance under stressed operating conditions.
Reputational risk	• Established processes are in place to proactively identify and manage potential sources of reputational risk including monitoring of media coverage. • The Group has a customer centric culture whereby customer interests and market integrity are at the heart of business strategy and decision making. The Group is committed to ensuring it consistently delivers fair customer outcomes.
Credit risk	Individual borrower defaults • All loans are extended via bespoke and thorough expert underwriting to ensure the ability and propensity of borrowers to repay is appropriate, whilst sufficient security is in place in case an account defaults. • The Group's Transactional Credit Committee actively reviews and approves larger or more complex mortgage applications. • Should there be problems with a loan, the Collections and Recoveries team work with customers unable to meet their loan servicing obligations to reach a satisfactory conclusion while adhering to the principle of treating customers fairly. • Our strategic focus on lending to professional landlords means that properties are likely to be well-managed, with income from a diversified portfolio mitigating the impact of rental voids or maintenance costs. Lending to owner-occupiers is subject to a detailed affordability assessment, including the borrower's ability to continue payments if interest rates increase. • Lending on commercial property is focused on security levels, and is scrutinised by the Group's independent Real Estate team as well as by external valuers. • Development finance lending is extended only after a deep investigation of a borrower's track record and the specific project details and requires approval by a dedicated Development Finance Transactional Credit Committee. Macroeconomic downturn • The Group works within clearly defined portfolio limits approved by the Risk Committee and the Board covering loan to value ('LTV'), affordability, sector and geographic concentration. These are reviewed on a semi-annual basis. In addition, stress testing is performed to ensure the Group maintains sufficient capital to absorb losses in an economic downturn and will continue to meet its regulatory requirements. Wholesale credit risk • The Group transacts only with high quality wholesale counterparties. Derivative exposures include collateral agreements to mitigate credit exposures.

Risk Management (continued)

Principal risks	Key mitigating actions
Liquidity and funding risk	• The Group's funding strategy is focused on a highly stable retail deposit franchise. The Group's large number of depositors provides diversification, with a high proportion of balances covered by the Financial Services Compensation Scheme which mitigates the risk of a retail run. • The Group performs in-depth liquidity stress testing and maintains a liquid asset portfolio sufficient to meet obligations under stress. • The Group has prepositioned mortgage collateral with the Bank of England, so that liquidity insurance facilities can be accessed in the unlikely event that it should become necessary. • The Group's funding plan ensures a diverse funding profile and initiatives were put in place to replace the Term Funding Scheme funding, including the establishment of a Retail Mortgage-Backed Securities programme.
Solvency risk	• The Group actively monitors its capital requirements and resources against financial forecasts and plans and undertakes stress testing analysis to subject its solvency ratios to extreme but plausible scenarios. • The Group also holds prudent levels of capital buffers based on CRD IV requirements, its own risk appetite and expected balance sheet growth. • The Group engages actively with regulators, industry bodies and advisers to keep abreast of potential changes providing feedback through the consultation process and actively manages its capital strategy and plan.
Operational risk	Cyber / IT security risk • A series of tools were designed and deployed to identify and prevent network/system intrusions. The effectiveness of implemented controls is overseen by a dedicated IT Security Governance Committee, with specialist IT security staff employed by the Group. Data management • The Group continues to invest in its data management architecture, systems governance and controls. Financial Crime / Fraud • The Group continues to invest in enhancing preventative and detective controls in order to reduce both the likelihood and impact of this risk. IT Failure • The Group has an ongoing IT Transformation Programme, designed to further enhance the resilience of its technology platforms. Change management • The Group maintains a robust governance framework ensuring the appropriate oversight of all change management related activities.

Risk Management (continued)

Principal risks	**Key mitigating actions**
Conduct risk	Product suitability • The Group has a strategic commitment to providing customers with simple and transparent products. In addition, a Product Governance framework is established to oversee both the origination of new products and to revisit the ongoing suitability of the existing product suite. • The Group has a dedicated Product Governance team and an independent Conduct Risk team to effectively manage this risk. Data protection • In addition to a series of network/system controls, the Group performs extensive root cause analysis of any data leaks in order to ensure that the appropriate mitigating actions are taken.
Compliance and regulatory risk	• The Group has an effective horizon scanning process to identify regulatory change. All significant regulatory initiatives are managed by structured programmes overseen by the Change Management team and sponsored at executive management level. The Group proactively seeks external expert opinions to support its interpretation of the requirements and validation of its response. • The Group undertakes risk-based monitoring and oversight programmes to ensure it continues to meet existing regulatory requirements, has effective systems and controls and delivers fair customer outcomes.

Risk Management (continued)

Emerging risks

The Group proactively scans for emerging risks which may have an impact on its ongoing operations and strategy. The Group considers its top emerging risk to be:

Emerging risks	Key mitigating actions
Political and macroeconomic uncertainty As the final details around the UK's withdrawal from the European Union remain unclear, there is a continued likelihood of a period of macroeconomic uncertainty. The Group's lending activity is solely focused within the United Kingdom and as such will be impacted by any risks emerging from changes in the macroeconomic environment.	• The Group implemented robust monitoring processes and via various stress testing activity (i.e. ad hoc, risk appetite and ICAAP) understands how the Group performs over a variety of macroeconomic stress scenarios and subsequently developed a suite of early warning indicators which are closely monitored to identify changes in the macroeconomic environment.
Integration risk The proposed combination between OSB and CCFS is expected to create strategic and operational synergies, however, the integration process could result in operational and prudential risks. Integration-based operational risks could materialise through a number of different events, for example: • unrealised or delayed synergies; • one-off implementation costs being higher than estimated; and • realisation of wider transaction-related risks (for example, adverse customer impact, loss of key management or IT downtime/failure). The combination will also have implications on the combined Group's resolvability and additional gone concern capital requirements (MREL). The combination will involve a revised approach to combining the two independent IRB programmes to agree a revised approach to submitting the application. Completion of the combination is subject to a number of conditions which may not be satisfied or waived or which may be satisfied subject to conditions imposed by regulatory bodies or other third parties and may result in the completion of the combination being delayed, or the combination not completing. Delay in completing the combination will prolong the period of uncertainty for OSB and CCFS and both delay and failure to complete may result in the accrual of additional costs to their businesses without any of the potential benefits of the combination having been achieved.	**Operational risks** The probability and impact of integration-based operational risks being realised are minimised through the following mitigating factors: • a low-risk approach to integration through maintaining existing brands and parallel running of critical supporting functions. A cautious integration timeline has been assumed with no current plans for large-scale IT integration. • a prudent approach to forecasting base case synergies and one-off integration costs. • appropriate resourcing of the integration programme with external support services. • appropriate Board and senior management engagement and oversight of integration. **MREL** • The impact of MREL has been factored into the working capital assessment of the combined group. • The combined Group will work closely with the Bank of England Resolution Directorate to ensure effective compliance with the resolution strategy for the combined Group. **IRB** • A review of the independent IRB programmes has been undertaken as part of due diligence. • Expert advice will be sought on the approach to the combination. The PRA will be engaged to ensure the combined programme is aligned to their expectations. **Delays/non-completion** • A panel of appropriately skilled advisors have been appointed to advise the Group throughout the entire process.

Risk Management (continued)

Credit risk portfolio performance

The Group's credit profile continues to exhibit strong performance across all key risk indicators including loans and advances positions, LTV and arrears levels.

During the six months to 30 June 2019, the Group observed strong lending growth, whilst maintaining credit underwriting standards, with weighted average LTV ratios for new Buy-to-Let/SME lending remaining stable at 70% (30 June 2018: 70%). Residential lending saw an expected increase in weighted average LTV for new lending to 70%, driven by the new product range launched in the second half of 2018 (30 June 2018: 65%). During the period, the average weighted interest coverage ratio for new lending remained broadly stable at 175%, compared to 171% in 2018. Across the residential segment the percentage of new lending with a loan to income greater than 4.5 times remained stable at 3.1% (31 December 2018: 3.2%).

Strong lending growth across both the Buy-to-Let/SME segment and the first charge residential segment, combined with the success of the Group's customer retention programme, Choices, facilitated 10% net loan book growth in the period, with loans and advances to customers growing to £9.9bn (31 December 2018 £9.0bn). The Group's acquired portfolios continue to run off in line with expectations.

The Group's total weighted average LTV ratio increased to 68% as at 30 June 2019, increasing by two percentage points from 66% as at 31 December 2018, driven by strong BTL/SME lending within the period with a weighted average LTV of 70%. Importantly, the Group continues to observe a tight clustering of LTVs around the weighted average.

During the six months to 30 June 2019, the Group's portfolio composition continued to evolve favourably, with pre-2011 lending continuing to run down as expected, evidenced by a further reduction in lending exposures to Jersey and Guernsey. Post-2011 lending, incorporating tighter lending criteria, continued to make up an increasing proportion of the Group's total loans and advances to customers:

- exposure to semi-commercial/commercial lending remains low at £725.1m with a weighted average LTV of 66%
- exposure to residential development finance remains low at £141.2m with a weighted average LTV of 34%
- the Group has limited exposure to high LTV loans on properties worth more than £2m. In total, only 7.1% of the total loan book is secured on properties valued at greater than £2m with a LTV greater than 65% (30 June 2018: 5.0%) with the increase driven mainly by new Buy-to-Let loans.

The Group's total arrears balance remains low, and the portfolio arrears rate remained stable at 1.5% as at 30 June 2019 (30 December 2018: 1.5%). An increase in arrears in the Group's Buy-to-Let segment was observed, however the Collections and Recoveries team continue to carefully manage these cases. The Group's residential arrears performance remained broadly stable in the period, with an increase in acquired first charge arrears being offset by a decrease in acquired second charge arrears, whilst negligible arrears continued to be observed across the commercial loan, funding line and development finance portfolios.

During the six months to 30 June 2019, the Group continued to experience low levels of new cases requiring forbearance arrangements, however it did observe an increase in the cases entering forbearance versus the first half of 2018. The increase in forbearance volumes was driven by applications of forbearance across the acquired second charge portfolio.

Impairment losses in the first half of 2019 were £5.9m (H1 2018: £4.3m), which represents an annualised loan loss ratio of 12bps (H1 2018: 11bps) and included the impact of a small number of high

Risk Management (continued)

value Buy-to-Let cases having Law of Property Act receivers appointed at the end of the period which attract higher provision requirements in our IFRS 9 modelling approach.

There was no material change in the severity or probability weightings assigned to the Group's macroeconomic scenarios in the first half of 2019. These were strengthened by the addition of a more severe no-deal disorderly Brexit scenario[1] in December 2018, in addition to the existing no-deal disruptive Brexit scenario[1]. The Bank's provisions under IFRS 9 are particularly sensitive to the weighting applied to the more severe disorderly no-deal Brexit scenario[1].

The Group continues to closely monitor impairment coverage levels:

Impairment coverage review

	30-Jun-19	31-Dec-18
Gross loans and advances to customers £m	9,895.0	9,005.2
Provisions for impairment losses £m[1]	33.0	29.1
Coverage ratio versus loans and advances[2] %	0.33	0.32
Coverage ratio versus stage 3 balances (including POCI) [3] %	10.7	10.3

[1]During the period the Group reclassified £6.7m of incurred loss protection on acquired portfolios from loans and advances to expected credit losses ('ECL'). In the table above, an equivalent £7.2m was reclassified for the comparative period.
[2] Coverage ratio versus loans and advances is the total IFRS 9 provision versus gross loans and advances.
[3] Coverage ratio versus stage 3 balances is the total IFRS 9 provision versus stage 3 balances including purchase or originated credit impaired balances, which are held in stage 3 where a lifetime loss impairment balance is held against the exposure for the life of the loan irrespective of whether it is performing and doesn't meet the Group's stage 3 definition.

The Group's coverage ratios with respect to loans and advances and stage 3 balances increased during the period to 30 June 2019 versus year end, partly due to an increased proportion of stage 3 loans which also had a Law of Property Act receiver appointed, resulting in higher calculated expected losses on those accounts, as the probability of possession component of the Loss Given Default models are set to 100%.

Under the IFRS 9 approach, there are three stages which an exposure can be classified into, stage 1, where a 12 months expected credit loss provision is held, and stages 2 and 3 where a lifetime loss provision is held.

Purchased or originated credit impaired ('POCI') exposures are held in stage 3 for the lifetime of the loan, irrespective of whether they have transitioned to a performing status.

For non-POCI accounts which had previously met the Group's stage 3 criteria, a probation cure period must be satisfied prior to an exposure being migrated back to stage 1, where a twelve month loss provision is held.

Liquidity and funding risk management overview

OneSavings Bank's lending strategy is supported by a strong retail savings franchise, which provides the Bank with a sustainable funding platform to support long-term balance sheet growth. This strength is reflected in a high retention level on maturing fixed term products of 93% in the first half of 2019 and strong customer satisfaction scores. As at 30 June 2019, 8.2% of the Bank's retail deposits were above the FSCS protection level of £85k. Diversification of funding is also provided by borrowing from the Bank of

Risk Management (continued)

England under the Term Funding Scheme (which closed in February 2018) and by Indexed Long-Term Repo ('ILTR'). As at 30 June 2019, OSB had total TFS drawings of £1.5bn and ILTR drawings of £100m.

The Group continues to operate a conservative approach to managing liquidity with a liquidity ratio of 15.3% as at 30 June 2019 (31 December 2018: 14.5%). The liquidity coverage ratio at 30 June 2019 was 163% (31 December 2018: 224%), significantly above the regulatory minimum of 100%.

The reduction in the liquidity coverage ratio is due to a temporary technical requirement to treat term deposits as on demand until 31 August 2019, during the notice period for changes to terms and conditions. The Bank has not seen and does not anticipate any material change in customer behaviour or withdrawals during this period. Excluding this change, the LCR would have been 238% as at 30 June 2019.

Market risk

The Group has a small amount of foreign exchange exposure, due to the Rupee denominated running costs of its OSBIndia office. Rupee denominated running costs during the period to 30 June 2019 were £3.1m (H1 2018: £2.9m).

Solvency risk management overview

The Group continued to maintain an appropriate level and quality of capital to support its growth objectives and to meet its prudential requirements. The Group maintained a strong capital position in the first half of 2019 with a CET1 ratio of 13.0% (31 December 2018: 13.3%), which remains comfortably in excess of the regulatory requirements and Board risk appetite.

OSB's capital buffers are subject to active monitoring by the Board and senior management in the context of the Bank's strategic objectives, performance commitments, economic and market conditions, regulatory changes and other risks to which the Bank is exposed.

The Group's first generation IRB models were delivered on schedule in late 2016 and we ran them for the second year in 2018. We remain pleased with progress towards our IRB application and believe that the new calibrations, combined with the final IRB output floors outlined in Basel III, will be beneficial to the Bank's capital requirements.

[1] The Bank's two no-deal Brexit related economic scenarios relate to (1) a no-deal disruptive Brexit, and (2) no-deal disorderly Brexit, as published in the Bank of England 'EU withdrawal scenarios and monetary and financial stability' *paper*, November 2018.

Statement of Directors' Responsibilities

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 EU;

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

(a) DTR 4.2.7R of the Disclosure Guidance and Transparency Rules, being an indication of important events that have occurred during the first six months of the financial year 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 Guidance and Transparency Rules, being related party transactions that have taken place in the first six months of the current financial year 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:

Graham Allatt
Eric Anstee
Rod Duke
Andy Golding
Margaret Hassall
Mary McNamara
April Talintyre
David Weymouth
Sarah Hedger (Appointed on 1 February 2019)

By order of the Board

Date: 21 August 2019

Independent Review Report to OneSavings Bank plc

We have been engaged by the company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2019 which comprises the Condensed Consolidated Statement of Comprehensive Income, the Condensed Consolidated Statement of Financial Position, the Condensed Consolidated Statement of Changes in Equity, the Condensed Consolidated Statement of Cash Flows and related notes 1 to 25. We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the company in accordance with International Standard on Review Engagements (UK and Ireland) 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Financial Reporting Council. Our work has been undertaken so that we might state to the company those matters we are required to state to it in an independent review report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company, for our review work, for this report, or for the conclusions we have formed.

Directors' responsibilities

The half-yearly financial report is the responsibility of, and has been approved by, the Directors. The Directors are responsible for preparing the half-yearly financial report in accordance with the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

As disclosed in note 1 accounting policies, the annual financial statements of the Group are prepared in accordance with IFRSs as adopted by the European Union. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting" as adopted by the European Union.

Our responsibility

Our responsibility is to express to the Company a conclusion on the condensed set of financial statements in the half-yearly financial report based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Financial Reporting Council for use in the United Kingdom. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2019 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

Deloitte LLP
Statutory Auditor
London, United Kingdom
21 August 2019

Condensed Consolidated Statement of Comprehensive Income

	Note	**Six months ended 30-Jun-19 (Unaudited) £m**	Six months ended 30-Jun-18 (Unaudited) £m
Interest receivable and similar income	2	**227.9**	190.1
Interest payable and similar charges	3	**(76.9)**	(54.9)
Net interest income		**151.0**	135.2
Fair value losses on financial instruments	4	**(7.4)**	(1.7)
Loss on sale of financial instruments		**-**	(0.2)
Fees and commissions receivable		**0.9**	0.7
Fees and commissions payable		**(0.6)**	(0.5)
External servicing fees		**(0.1)**	(0.4)
Total income		**143.8**	133.1
Administrative expenses	5	**(37.9)**	(33.7)
Depreciation and amortisation		**(3.0)**	(2.2)
Impairment losses	16	**(5.9)**	(4.3)
FSCS and other regulatory provisions		**(0.1)**	(1.1)
Exceptional cost - transaction expenses	7	**(5.9)**	-
Profit before taxation		**91.0**	91.8
Taxation	8	**(25.2)**	(22.3)
Profit for the period		**65.8**	69.5
Other comprehensive income/(expense)			
Items which may be reclassified to profit or loss:			
Fair value changes on financial instruments measured as FVOCI:			
Arising in the period		**-**	(0.1)
Revaluation of foreign operations		**0.1**	(0.5)
Total other comprehensive income/(expense)		**0.1**	(0.6)
Total comprehensive income for the period		**65.9**	68.9
Dividend, pence per share	10	**4.9**	4.3
Earnings per share, pence per share			
Basic	9	**25.5**	27.5
Diluted	9	**25.3**	27.3

The above results are derived wholly from continuing operations.

The notes on pages 33 to 61 form an integral part of these condensed financial statements.

OneSavings Bank plc

Interim report as at 30 June 2019

Condensed Consolidated Statement of Financial Position

	Note	**As at 30-Jun-19 (Unaudited) £m**	As at 31-Dec-18 (Audited) £m
Assets			
Cash in hand		**0.3**	0.4
Loans and advances to credit institutions		**1,493.8**	1,347.3
Investment securities		**160.0**	58.9
Loans and advances to customers	12	**9,862.0**	8,983.3
Fair value adjustments on hedged assets	17	**66.5**	19.8
Derivative assets		**3.9**	11.7
Deferred taxation asset		**2.2**	3.5
Intangible assets		**8.1**	7.8
Property, plant and equipment		**28.6**	21.8
Other assets		**12.4**	5.7
Total assets		**11,637.8**	10,460.2
Liabilities			
Amounts owed to retail depositors		**9,175.0**	8,071.9
Fair value adjustments on hedged liabilities	17	**3.1**	-
Amounts owed to credit institutions		**1,605.9**	1,584.0
Amounts owed to other customers		**8.8**	32.9
Derivative liabilities		**58.2**	24.9
Current taxation liability		**20.6**	19.2
Other liabilities		**18.9**	18.7
FSCS and other regulatory provisions		**1.7**	1.8
Subordinated liabilities		**10.8**	10.8
Perpetual subordinated bonds		**15.3**	15.3
		10,918.3	9,779.5
Equity			
Share capital		**2.5**	2.4
Share premium		**158.8**	158.8
Retained earnings		**479.2**	439.6
Other reserves		**79.0**	79.9
		719.5	680.7
Total equity and liabilities		**11,637.8**	10,460.2

The notes on pages 33 to 61 form an integral part of these condensed financial statements.

The financial statements on pages 29 to 61 were approved by the Board of Directors on 21 August 2019.

Andy Golding
Chief Executive Officer

April Talintyre
Chief Financial Officer

Company number: 07312896

Condensed Consolidated Statement of Changes in Equity

	Share capital £m	Share premium £m	Capital contribution £m	Transfer reserve £m	Foreign exchange reserve £m	Available-for-sale reserve (IAS 39) £m	FVOCI reserve (IFRS 9) £m	Share-based payment reserve £m	Retained earnings £m	Equity bonds[1] £m	Total £m
At 1 January 2019	2.4	158.8	6.5	(12.8)	(0.4)	-	(0.1)	4.7	439.6	82.0	680.7
Profit for the period	-	-	-	-	-	-	-	-	65.8	-	65.8
Coupon paid on equity bonds	-	-	-	-	-	-	-	-	(3.3)	-	(3.3)
Dividends paid	-	-	-	-	-	-	-	-	(25.3)	-	(25.3)
Other comprehensive income	-	-	-	-	0.1	-	-	-	-	-	0.1
Ordinary share capital issuance	0.1	-	-	-	-	-	-	-	-	-	0.1
Share-based payments	-	-	-	-	-	-	-	(1.1)	2.5	-	1.4
Exceptional cost - transaction expenses[2]	-	-	-	-	-	-	-	-	(0.1)	-	(0.1)
Tax recognised in equity	-	-	-	-	-	-	-	0.1	-	-	0.1
At 30 June 2019 (Unaudited)	**2.5**	**158.8**	**6.5**	**(12.8)**	**(0.3)**	**-**	**(0.1)**	**3.7**	**479.2**	**82.0**	**719.5**
At 31 December 2017	2.4	158.4	6.4	(12.8)	(0.2)	0.1	-	5.0	337.5	82.0	578.8
IFRS 9 transitional adjustment	-	-	-	-	-	(0.1)	0.1	-	(3.6)	-	(3.6)
Tax on IFRS 9	-	-	-	-	-	-	-	-	0.7	-	0.7
Restated at 31 December 2017	2.4	158.4	6.4	(12.8)	(0.2)	-	0.1	5.0	334.6	82.0	575.9
Profit for the period	-	-	-	-	-	-	-	-	69.5	-	69.5
Coupon paid on equity bonds	-	-	-	-	-	-	-	-	(3.3)	-	(3.3)
Dividends paid	-	-	-	-	-	-	-	-	(22.7)	-	(22.7)
Other comprehensive income	-	-	-	-	(0.5)	-	(0.1)	-	-	-	(0.6)
Share-based payments	-	-	0.1	-	-	-	-	(1.1)	2.4	-	1.4
Tax recognised in equity	-	-	-	-	-	-	-	0.1	0.9	-	1.0
At 30 June 2018 (Unaudited)	2.4	158.4	6.5	(12.8)	(0.7)	-	-	4.0	381.4	82.0	621.2

[1] Equity bonds comprise £22m of Perpetual Subordinated Bonds ('PSBs') and £60m of Additional Tier 1 securities ('AT1 securities').
[2] Exceptional cost – transaction expenses relate to costs incurred for the issuance of equity as part of the recommended all-share combination with Charter Court Financial Services Group plc.

Condensed Consolidated Statement of Cash Flows

	Note	**Six months ended 30-Jun-19 (Unaudited) £m**	Six months ended 30-Jun-18 (Unaudited) £m
Cash flows from operating activities			
Profit before taxation		**91.0**	91.8
Adjustments for non-cash items	22	**18.6**	11.7
Changes in operating assets and liabilities	22	**45.8**	(18.8)
Cash generated from operating activities		**155.4**	84.7
FSCS and other provisions paid		**(0.2)**	-
Net tax paid		**(22.4)**	(19.8)
Net cash generated from operating activities		**132.8**	64.9
Cash flows from investing activities			
Purchases of investment securities		**(239.9)**	(39.9)
Maturity and sales of investment securities		**139.0**	39.9
Sales of financial instruments		**-**	0.4
Purchases of equipment and intangible assets		**(10.1)**	(2.5)
Cash used in investing activities		**(111.0)**	(2.1)
Cash flows from financing activities			
Bank of England TFS drawdowns		**-**	250.0
Bank of England ILTR received		**180.0**	-
Bank of England ILTR matured		**(80.0)**	-
Interest paid on bonds and subordinated debt		**(0.8)**	(0.8)
Coupon paid on equity bonds		**(3.3)**	(3.3)
Dividends paid		**(25.3)**	(22.7)
Cash payments on lease liabilities		**(0.3)**	-
Cash generated from financing activities		**70.3**	223.2
Net increase in cash and cash equivalents		**92.1**	286.0
Cash and cash equivalents at the beginning of the period	11	**1,324.2**	1,165.9
Cash and cash equivalents at the end of the period	11	**1,416.3**	1,451.9
Movement in cash and cash equivalents		**92.1**	286.0

The notes on pages 33 to 61 form an integral part of these condensed financial statements.

Notes to the Condensed Consolidated Financial Statements

1. Accounting policies

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

a) Basis of preparation

These Interim Group Financial Statements have been prepared in accordance with the Disclosure Guidance and Transparency Rules ('DTR') of the FCA and in accordance with International Accounting Standard 34 Interim Financial Reporting as adopted by the 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. They do not include all the information required for a complete set of IFRS financial statements. However, selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in the Group's financial position and performance since the last Interim Report as at 30 June 2018 and last Annual Report and Accounts for the year ended 31 December 2018.

The comparative figures for the year ended 31 December 2018 are not the Group's statutory accounts for that financial year. The statutory accounts for the year ended 31 December 2018 have been delivered to the Registrar of Companies in England and Wales in accordance with section 447 of the Companies Act 2006. The Group's previous auditor has reported on those accounts. Their report was unqualified; did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying their report, and did not contain a statement under section 498(2) or (3) of the Companies Act 2006.

These interim financial statements were authorised for issue by the Company's Board of Directors on 21 August 2019.

b) Accounting standards

All accounting policies used are consistent with those set out on pages 122 to 130 of the 2018 Annual Report and Accounts, except for the implementation of IFRS 16 Leases and changes to IAS 12 Income Taxes effective from 1 January 2019.

Leases

The Group recognises right-of-use assets and lease liabilities for most leases over 12 months. Right-of-use assets and lease liabilities are initially recognised at the net present value of future lease payments, discounted at the Group's internal cost of funding, excluding the impact of the Bank of England Term Funding Scheme ('TFS') funding. Subsequent to initial recognition, right-of-use assets are depreciated on a straight-line basis over the term of the lease. Future rental payments are deducted from the lease liability, with interest charged on the lease liability using the incremental borrowing cost at the time of initial recognition. The Group recognises the interest paid on the lease liability within financing activities on the Statement of Cash Flows.

The Group applies judgement in assessing the likely impact of early terminations upon recognising the right-of-use asset and lease liability where leases contain an option to terminate the lease early. The Group performs an annual assessment of the judgements made at initial recognition and, where it is found the lease duration will be shorter or longer than initially accounted, adjusts the carrying balance of the right-of-use asset and lease liability to the net present value of future lease payments discounted at the initial cost of funding.

Leases with low future payments or terms less than 12 months are recognised on an accruals basis directly in profit or loss.

1. Accounting policies (continued)

The impact on the Group's Statement of Financial Position as at 1 January 2019 of the implementation of IFRS 16 was an increase in total assets and total liabilities of £3.8m.

Taxation
Income tax comprises current and deferred tax. It is recognised in profit or loss, other comprehensive income or directly in equity, consistently with the recognition of items it relates to. In accordance with IAS 12, from 1 January 2019 the Group recognises tax on the coupon paid on equity bonds directly in profit or loss (2018: directly in equity).

The impact on the Group's Statement of Comprehensive Income for the period to 30 June 2019 for the implementation of the amendments to IAS 12 is an increase in profit for the period of £0.9m.

c) Going concern

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

Projections for the Group 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 Group Financial Statements including stress scenarios. The stress scenarios include Brexit and Bank of England TFS repayments. These projections show that the Group has sufficient capital and liquidity to continue to meet its regulatory capital requirements as set out by the PRA.

The Board has therefore concluded that the Group has sufficient resources to continue in operational existence for a period in excess of 12 months and as a result, it is appropriate to prepare these Interim Group Financial Statements on a going concern basis.

d) Segmental reporting

The Group segments its lending by product, focusing on the customer need and reason for a loan. The Group operates under two segments: Buy-to-Let/SME ('BTL/SME') and Residential mortgages.

The Group includes asset finance leases (a new business lending line developed internally with lending commencing in October 2018) within the BTL/SME segment.

The Group has applied the aggregation criteria of IFRS 8 for the segmental reporting in note 21, but has disclosed the risk management tables in note 18 at a sub-segment level to provide the user with a granular level analysis of the Group's core lending business.

e) Judgements and estimates

The preparation of the Interim Report requires management to make estimates and assumptions that affect the reported income and expense, assets and liabilities and disclosure of contingencies at the date of the Interim Report. Although these estimates and assumptions are based on management's best judgement at that date, actual results may differ from these estimates. Estimates and assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised in the period in which the estimate is revised and in any future periods affected.

There have been no significant changes on the basis upon which estimates have been determined for loan book impairment, acquisition accounting and income recognition and effective interest rate ('EIR') calculations compared to those applied at 31 December 2018, as described on pages 130 to 132 of the 2018 Annual Report and Accounts.

Notes to the Condensed Consolidated Financial Statements
(continued)

2. Interest receivable and similar income

	Six months ended 30-Jun-19 (Unaudited) £m	Six months ended 30-Jun-18 (Unaudited) £m
At amortised cost:		
On BTL/SME mortgages	**183.9**	146.9
On Residential mortgages	**43.6**	43.9
On investment securities	**0.5**	0.1
On other liquid assets	**5.0**	3.1
At fair value through profit or loss:		
Net expense on derivative financial instruments - lending activities	**(5.1)**	(3.9)
	227.9	190.1

3. Interest payable and similar charges

	Six months ended 30-Jun-19 (Unaudited) £m	Six months ended 30-Jun-18 (Unaudited) £m
On retail deposits	**70.2**	50.3
On Bank of England borrowings	**5.6**	3.3
On Perpetual Subordinated Bonds	**0.4**	0.4
On subordinated liabilities	**0.4**	0.4
On wholesale borrowings	**0.6**	0.1
Net (income)/expense on derivative financial instruments - savings activities	**(0.3)**	0.4
	76.9	54.9

Notes to the Condensed Consolidated Financial Statements
(continued)

4. Fair value losses on financial instruments

	Six months ended 30-Jun-19 (Unaudited) £m	Six months ended 30-Jun-18 (Unaudited) £m
Fair value changes of swaps hedging assets	**(50.2)**	(8.3)
Hedging of assets	**50.1**	9.3
Fair value changes of swaps hedging liabilities	**3.7**	-
Hedging of liabilities	**(4.5)**	(0.2)
Ineffective portion of hedges	**(0.9)**	0.8
Amortisation of fair value adjustments on hedged assets	**(2.0)**	(2.5)
Net (loss)/gain on unmatched swaps	**(4.6)**	0.2
Debit and credit valuation adjustment	**0.1**	(0.2)
	(7.4)	(1.7)

Amortisation of fair value adjustments on hedged assets relates to hedged assets and liabilities where the hedges were terminated before maturity and were effective at the point of termination.

Net (loss)/gain on unmatched swaps included a £4.6m loss on unmatched swaps, due primarily to fair value movements on mortgage pipeline swaps prior to them being matched against completed mortgages, following a significant flattening Libor curve. This unrealised loss will unwind over the life of the swaps.

5. Administrative expenses

	Six months ended 30-Jun-19 (Unaudited) £m	Six months ended 30-Jun-18 (Unaudited) £m
Staff costs	**21.1**	19.1
Share-based payments	**1.4**	1.3
Facilities costs[1]	**1.6**	1.6
Marketing costs	**1.6**	1.3
Support costs[1]	**5.0**	4.0
Professional fees[1]	**3.0**	3.1
Other costs[1,2]	**4.2**	3.3
	37.9	33.7

[1] The comparative information has been reclassified to align with the presentation adopted in the 2018 Annual Report and Accounts.
[2] Other costs mainly consist of irrecoverable VAT expense.

The average number of persons employed by the Group (including executive Directors) during the first half of 2019 was 1,072 (first half of 2018: 956).

6. Share-based payments

The Group operates the following equity-settled share-based payment schemes, full details of which are provided on pages 134 to 137 of the 2018 Annual Report and Accounts:

- Sharesave Scheme ('SAYE')
- Deferred Share Bonus Plan ('DSBP')
- Performance Share Plan ('PSP')

The movement in the number of share options and awards and their weighted average exercise prices are presented below:

	Sharesave Scheme		Deferred Share Bonus Plan	Performance Share Plan
	Number	**Weighted average exercise price, (£)**	**Number**	**Number**
At 1 January 2019	841,629	2.93	1,258,712	1,737,997
Granted	-	-	**476,933**	**1,079,392**
Exercised/vested	**(12,832)**	**4.30**	**(430,904)**	**(235,241)**
Forfeited	**(75,024)**	**3.12**	**(71,636)**	**(398,778)**
At 30 June 2019 (Unaudited)	**753,773**	**2.93**	**1,233,105**	**2,183,370**

There were no options or awards exercisable as at 30 June 2019.

The closing share price at vesting for the DSBP and PSP awards was £3.98 per share.

7. Exceptional transaction costs

Exceptional transaction costs of £5.9m relate to the recommended all-share combination with Charter Court Financial Services Group plc ('CCFS').

Notes to the Condensed Consolidated Financial Statements (continued)

8. Taxation

	Six months ended 30-Jun-19 (Unaudited) £m	Six months ended 30-Jun-18 (Unaudited) £m
Corporation taxation	**(21.9)**	(22.3)
Deferred taxation	**(0.6)**	-
Tax in respect of prior periods[1]	**(2.7)**	-
Total taxation	**(25.2)**	(22.3)

[1] Tax in respect of prior periods includes £2.6m relating to the reversal of the tax benefit on the exceptional cost - Heritable option recognised in 2018.

The taxation on the Group's profit before taxation differs from the theoretical amount that would arise using the weighted average taxation rate applicable to profits of the Group as follows:

	Six months ended 30-Jun-19 (Unaudited) £m	Six months ended 30-Jun-18 (Unaudited) £m
Profit before taxation	**91.0**	91.8
Profit multiplied by the weighted average rate of corporation tax in the UK during 2019 of 19% (2018: 19%)	**(17.3)**	(17.4)
Bank surcharge	**(4.4)**	(4.6)
Taxation effects of:		
Expenses not deductible for taxation purposes	**-**	(0.2)
Exceptional cost – transaction expenses not deductible for taxation purposes	**(1.1)**	-
Adjustments in respect of earlier years	**(2.7)**	-
Tax adjustments in respect of share-based payments	**(0.1)**	0.1
Timing differences on capital items	**(0.5)**	(0.2)
Tax on coupon on equity bonds	**0.9**	-
Total taxation charge	**(25.2)**	(22.3)

A reduction in the UK corporation tax rate from 19% to 18% (effective from 1 April 2020) was substantively enacted on 26 October 2015. An additional reduction to 17% (effective from 1 April 2020) was substantively enacted on 6 September 2016. This will reduce the Group's future tax charge accordingly.

9. Earnings per share

Earnings per share ('EPS') are based on the profit for the period and the number of ordinary shares in issue. Basic EPS are calculated by dividing profit attributable to ordinary shareholders by the weighted average number of ordinary shares in issue during the period. Diluted EPS take into account share awards and options which can be converted to ordinary shares.

For the purpose of calculating EPS, profit attributable to ordinary shareholders is arrived at by adjusting profit for the period for the coupons on the PSBs and AT1 Securities classified as equity. The tax on coupons for the current period is included within the profit for the period, in-line with the changes to IAS 12 Income Taxes.

The tax on coupons for the prior period is based on the rate of taxation applicable to the Bank, including the bank surcharge:

	Six months ended 30-Jun-19 (Unaudited) £m	Six months ended 30-Jun-18 (Unaudited) £m
Profit for the period	**65.8**	69.5
Adjustments:		
Coupons on PSBs and AT1 securities classified as equity	**(3.3)**	(3.3)
Tax on coupons	**-**	0.9
Profit attributable to ordinary shareholders	**62.5**	67.1
Exceptional items:		
Exceptional cost - transaction expenses	**5.9**	-
Exceptional cost - Heritable option tax[1]	**2.6**	-
Underlying profit attributable to ordinary shareholders	**71.0**	67.1

[1] Exceptional cost - Heritable option tax relates to the reversal of the tax benefit recognised in 2018.

Earnings per share are summarised in the table below:

	Six months ended 30-Jun-19 (Unaudited)	Six months ended 30-Jun-18 (Unaudited)
Weighted average number of shares, millions		
Basic	**244.9**	244.0
Diluted	**246.8**	245.9
Earnings per share, pence per share		
Basic	**25.5**	27.5
Diluted	**25.3**	27.3
Underlying earnings per share, pence per share		
Basic	**29.0**	27.5
Diluted	**28.8**	27.3

Notes to the Condensed Consolidated Financial Statements (continued)

10. Dividends

During the period, the Bank paid the following dividends:

	Six months ended 30-Jun-19 (Unaudited)		Six months ended 30-Jun-18 (Unaudited)	
	£m	**Pence per share**	£m	Pence per share
Final dividend for the prior year	**25.3**	**10.3**	22.7	9.3

A summary of the Bank's distributable reserves from which dividends can be paid are shown below:

	Six months ended 30-Jun-19 (Unaudited) £m	Year ended 31-Dec-18 (Audited) £m
Net assets	**549.0**	535.8
Less:		
- Share capital	**(2.5)**	(2.4)
- Share premium	**(158.8)**	(158.8)
- Other non-distributable reserves[1]	**(88.2)**	(88.1)
- Unrealised gains[2]	**(66.5)**	(19.8)
Distributable reserves	**233.0**	266.7

[1] Other non-distributable reserves include the capital contribution, equity bonds and FVOCI reserve.
[2] Unrealised gains relate to the Bank's fair value adjustments on hedged assets.

The Directors propose an interim dividend for the first half of 2019 of 4.9 (2018: 4.3) pence per share, based on one third of the total 2018 dividend of 14.6 pence per share, payable on 20 September 2019 with an ex-dividend date of 29 August 2019 and a record date of 30 August 2019. This dividend is not reflected in these financial statements as it was not declared at the reporting date.

Notes to the Condensed Consolidated Financial Statements (continued)

11. Cash and cash equivalents

	As at 30-Jun-19 (Unaudited) £m	As at 31-Dec-18 (Audited) £m	As at 30-Jun-18 (Unaudited) £m	As at 31-Dec-17 (Audited) £m
Cash in hand	**0.3**	0.4	0.3	0.5
Unencumbered loans and advances to credit institutions	**1,416.0**	1,323.8	1,451.6	1,165.4
	1,416.3	1,324.2	1,451.9	1,165.9

Unencumbered loans and advances to credit institutions exclude £23.1m (30 June 2018: £17.3m) held in the cash ratio deposit with the Bank of England and £54.7m (30 June 2018: £7.8m) of encumbered assets in the form of cash margin collateral paid in relation to the Group's derivatives.

12. Loans and advances to customers

	As at 30-Jun-19 (Unaudited) £m	As at 31-Dec-18 (Audited) £m
Loans and advances (see note 13)	**9,866.6**	8,998.0
Finance leases (see note 14)	**28.4**	7.2
	9,895.0	9,005.2
Less: Expected credit losses (see note 15)	**(33.0)**	(21.9)
	9,862.0	8,983.3

13. Loans and advances

	As at 30-Jun-19 (Unaudited)			As at 31-Dec-18 (Audited)		
	BTL/SME £m	**Residential £m**	**Total £m**	BTL/SME £m	Residential £m	Total £m
Gross carrying amount						
Stage 1	**7,691.9**	**1,365.1**	**9,057.0**	7,032.1	1,247.5	8,279.6
Stage 2	**318.0**	**183.4**	**501.4**	247.6	189.2	436.8
Stage 3	**120.2**	**129.3**	**249.5**	102.0	123.4	225.4
Stage 3 (POCI)	**0.3**	**58.4**	**58.7**	0.3	55.9	56.2
	8,130.4	**1,736.2**	**9,866.6**	7,382.0	1,616.0	8,998.0

Notes to the Condensed Consolidated Financial Statements (continued)

13. Loans and advances (continued)

The tables below show the movement in loans and advances to customers by IFRS 9 stage:

	Stage 1 £m	Stage 2 £m	Stage 3 £m	Stage 3 (POCI) £m	Total £m
At 1 January 2019	8,279.6	436.8	225.4	56.2	8,998.0
Originations[1]	**1,608.6**	**-**	**-**	**-**	**1,608.6**
Repayments and write-offs[2]	**(701.2)**	**(17.2)**	**(25.7)**	**(2.6)**	**(746.7)**
Transfers:					
- To Stage 1	**121.9**	**(111.1)**	**(10.8)**	**-**	**-**
- To Stage 2	**(224.8)**	**234.7**	**(9.9)**	**-**	**-**
- To Stage 3	**(27.1)**	**(41.8)**	**68.9**	**-**	**-**
Incurred loss protection[3]	**-**	**-**	**1.6**	**5.1**	**6.7**
At 30 June 2019 (Unaudited)	**9,057.0**	**501.4**	**249.5**	**58.7**	**9,866.6**

	Stage 1 £m	Stage 2 £m	Stage 3 £m	Stage 3 (POCI) £m	IAS 39 £m	Total £m
At 31 December 2017	-	-	-	-	7,327.6	7,327.6
IFRS 9 transitional adjustment	6,782.5	292.4	183.0	69.7	(7,327.6)	-
Restated at 31 December 2017	6,782.5	292.4	183.0	69.7	-	7,327.6
Originations[1]	3,043.4	-	-	-	-	3,043.4
Repayments and write-offs[2]	(1,265.3)	(50.8)	(43.4)	(13.5)	-	(1,373.0)
Transfers:						
- To Stage 1	170.5	(150.0)	(20.5)	-	-	-
- To Stage 2	(353.8)	375.1	(21.3)	-	-	-
- To Stage 3	(97.7)	(29.9)	127.6	-	-	-
At 31 December 2018 (Audited)	8,279.6	436.8	225.4	56.2	-	8,998.0

[1] Originations include further advances and drawdowns on existing commitments.
[2] Repayments and write-offs include customer redemptions.
[3] During the period the Group reclassified £6.7m of incurred loss protection on acquired portfolios from loans and advances to expected credit losses ('ECL') to reflect the Group's total ECL position. The Group has not reclassified the comparative information where the incurred loss balance included within loans and advances was £7.2m.

14. Finance leases

	As at 30-Jun-19 (Unaudited) £m	As at 31-Dec-18 (Audited) £m
Net investment in finance leases, receivable		
Less than one year	**4.4**	2.2
Between one and five years	**23.4**	4.9
More than five years	**0.6**	0.1
	28.4	7.2

Notes to the Condensed Consolidated Financial Statements (continued)

15. Expected credit losses

The Group's expected credit losses ('ECL') by segment and IFRS 9 stage is shown below:

	As at 30-Jun-19 (Unaudited)			As at 31-Dec-18 (Audited)		
	BTL/SME £m	**Residential[1] £m**	**Total £m**	BTL/SME £m	Residential £m	Total £m
Expected credit loss						
Stage 1	**(2.3)**	**(1.0)**	**(3.3)**	(3.0)	(1.3)	(4.3)
Stage 2	**(1.9)**	**(2.3)**	**(4.2)**	(2.1)	(3.5)	(5.6)
Stage 3	**(10.7)**	**(7.6)**	**(18.3)**	(5.7)	(4.5)	(10.2)
Stage 3 (POCI)	**-**	**(7.0)**	**(7.0)**	-	(1.6)	(1.6)
Undrawn loan facilities	**(0.2)**	**-**	**(0.2)**	(0.2)	-	(0.2)
	(15.1)	**(17.9)**	**(33.0)**	(11.0)	(10.9)	(21.9)

[1] During the period the Group reclassified £6.7m of incurred loss protection on acquired portfolios from loans and advances to expected credit losses ('ECL') to reflect the Group's total ECL position. The Group has not reclassified the comparative information where the incurred loss balance included within loans and advances was £7.2m.

The tables below show the movement in the ECL by IFRS 9 stage during the period. ECLs on originations reflect the IFRS 9 stage of loans originated during the period as at 30 June and not the date of origination. Remeasurement of loss allowance relates to existing loans which did not redeem during the period and includes the impact of loans moving between IFRS 9 stages.

	Stage 1 £m	**Stage 2 £m**	**Stage 3 £m**	**Stage 3 (POCI) £m**	**Total £m**
At 1 January 2019	4.5	5.6	10.2	1.6	21.9
Originations	**0.9**	**0.1**	**-**	**-**	**1.0**
Repayments and write-offs	**(0.4)**	**(0.2)**	**(1.8)**	**(0.1)**	**(2.5)**
Remeasurement of loss allowance	**(2.7)**	**0.3**	**7.9**	**0.4**	**5.9**
Transfers:					
- To Stage 1	**1.4**	**(1.1)**	**(0.3)**	**-**	**-**
- To Stage 2	**(0.2)**	**0.3**	**(0.1)**	**-**	**-**
- To Stage 3	**-**	**(0.8)**	**0.8**	**-**	**-**
Incurred loss protection[1]	**-**	**-**	**1.6**	**5.1**	**6.7**
At 30 June 2019 (Unaudited)	**3.5**	**4.2**	**18.3**	**7.0**	**33.0**

[1] During the period the Group reclassified £6.7m of incurred loss protection on acquired portfolios from loans and advances to expected credit losses ('ECL') to reflect the Group's total ECL position. The Group has not reclassified the comparative information where the incurred loss balance included within loans and advances was £7.2m.

15. Expected credit losses (continued)

	Stage 1 £m	Stage 2 £m	Stage 3 £m	Stage 3 (POCI) £m	IAS 39 impairments £m	Total £m
At 31 December 2017	-	-	-	-	21.6	21.6
IFRS 9 transitional adjustment	7.8	2.3	13.3	1.8	(21.6)	3.6
Restated at 31 December 2017	7.8	2.3	13.3	1.8	-	25.2
Originations	2.1	-	-	-	-	2.1
Repayments and write-offs	(0.3)	(0.2)	(7.0)	(0.2)	-	(7.7)
Remeasurement of loss allowance	(6.1)	6.9	4.0	-	-	4.8
Transfers:						
- To Stage 1	1.4	(0.8)	(0.6)	-	-	-
- To Stage 2	(0.8)	1.3	(0.5)	-	-	-
- To Stage 3	(5.8)	(0.4)	6.2	-	-	-
Changes in assumptions and model parameters	6.2	(3.5)	(5.2)	-	-	(2.5)
At 31 December 2018 (Audited)	4.5	5.6	10.2	1.6	-	21.9

16. Impairment losses

	Six months ended 30-Jun-19 (Unaudited) £m	Six months ended 30-Jun-18 (Unaudited) £m
Write-offs in period	**1.5**	6.3
Increase/(decrease) in provision	**4.4**	(2.0)
	5.9	4.3

17. Fair value adjustments on hedged items

	As at 30-Jun-19 (Unaudited) £m	As at 31-Dec-18 (Audited) £m
Hedged assets		
Current hedge relationships	**51.1**	2.5
Cancelled hedge relationships	**15.4**	17.3
	66.5	19.8
Hedged liabilities		
Current hedge relationships	**(3.1)**	-

The fair value adjustments on hedged assets in respect of cancelled hedge relationships represent the fair value adjustment for interest rate risk on legacy long-term fixed rate mortgages (c.25 years at origination) where the interest rate swap hedges were terminated before maturity and were effective at the point of termination.

18. Risk management and financial instruments

The tables below are a summary of the Group's risk management and financial instruments disclosures, of which a complete disclosure for the year ended 31 December 2018 is included in the Group's 2018 Annual Report and Accounts. The tables do not represent all risks the Group is exposed to and should be read in conjunction with the Risk review above.

Credit risk

The following table shows the Group's maximum exposure to credit risk and the impact of collateral held as security, capped at the gross exposure amount, by IFRS 9 stage:

	As at 30-Jun-19 (Unaudited)		As at 31-Dec-18 (Audited)	
	Gross carrying amount £m	**Capped collateral held £m**	Gross carrying amount £m	Capped collateral held £m
Stage 1	**9,085.4**	**9,053.2**	8,286.8	8,274.5
Stage 2	**501.4**	**501.3**	436.8	436.8
Stage 3	**249.5**	**248.4**	225.4	224.2
Stage 3 (POCI)	**58.7**	**58.7**	56.2	56.1
	9,895.0	**9,861.6**	9,005.2	8,991.6

The Group's collateral held in relation to BTL/SME and Residential first and second charge mortgage loans is property, based in the UK and the Channel Islands. The Group's collateral held in relation to funding lines is predominantly property.

The Group uses indexed loan-to-value ('LTV') ratios to assess the quality of the uncapped collateral held. Property values are updated to reflect changes in the house price index. A breakdown of loans and advances to customers by indexed LTV is as follows:

LTV analysis by band for all loans:

	As at 30 June 2019 (Unaudited)			
	BTL/SME £m	**Residential £m**	**Total £m**	**%**
Band				
0% - 50%	**949.3**	**789.8**	**1,739.1**	**18**
50% - 60%	**999.5**	**242.6**	**1,242.1**	**13**
60% - 70%	**1,927.0**	**197.6**	**2,124.6**	**21**
70% - 80%	**3,476.1**	**181.6**	**3,657.7**	**36**
80% - 90%	**723.3**	**233.8**	**957.1**	**10**
90% - 100%	**42.9**	**73.8**	**116.7**	**1**
>100%	**40.7**	**17.0**	**57.7**	**1**
Total loans before provisions	**8,158.8**	**1,736.2**	**9,895.0**	**100**

Notes to the Condensed Consolidated Financial Statements (continued)

18. Risk management and financial instruments (continued)

	As at 31 December 2018 (Audited)			
	BTL/SME £m	Residential £m	Total £m	%
Band				
0% - 50%	935.8	784.4	1,720.2	19
50% - 60%	1,105.9	249.7	1,355.6	15
60% - 70%	2,021.4	194.1	2,215.5	25
70% - 80%	2,864.5	177.3	3,041.8	34
80% - 90%	414.1	162.2	576.3	6
90% - 100%	32.9	32.3	65.2	1
>100%	14.6	16.0	30.6	-
Total loans before provisions	7,389.2	1,616.0	9,005.2	100

LTV analysis by band for BTL/SME:

	As at 30 June 2019 (Unaudited)				
	Buy-to-Let £m	**Commercial £m**	**Residential development £m**	**Funding lines £m**	**Total £m**
Band					
0% - 50%	**620.5**	**95.0**	**120.2**	**113.6**	**949.3**
50% - 60%	**859.3**	**88.8**	**8.9**	**42.5**	**999.5**
60% - 70%	**1,719.3**	**192.1**	**10.7**	**4.9**	**1,927.0**
70% - 80%	**3,140.0**	**336.1**	**-**	**-**	**3,476.1**
80% - 90%	**714.8**	**8.5**	**-**	**-**	**723.3**
90% - 100%	**11.1**	**1.4**	**-**	**30.4**	**42.9**
>100%	**34.7**	**3.2**	**1.4**	**1.4**	**40.7**
Total loans before provisions	**7,099.7**	**725.1**	**141.2**	**192.8**	**8,158.8**

	As at 31 December 2018 (Audited)				
	Buy-to-Let £m	Commercial £m	Residential development £m	Funding lines £m	Total £m
Band					
0% - 50%	663.9	71.2	108.7	92.0	935.8
50% - 60%	964.8	72.2	38.8	30.1	1,105.9
60% - 70%	1,843.9	163.1	7.3	7.1	2,021.4
70% - 80%	2,617.1	233.5	-	13.9	2,864.5
80% - 90%	408.3	4.8	1.0	-	414.1
90% - 100%	7.5	0.4	-	25.0	32.9
>100%	12.0	2.6	-	-	14.6
Total loans before provisions	6,517.5	547.8	155.8	168.1	7,389.2

18. Risk management and financial instruments (continued)

LTV analysis by band for Residential:

	As at 30 June 2019 (Unaudited)			
	First charge £m	**Second charge £m**	**Funding lines £m**	**Total £m**
Band				
0% - 50%	**658.4**	**119.6**	**11.8**	**789.8**
50% - 60%	**157.0**	**79.8**	**5.8**	**242.6**
60% - 70%	**121.8**	**73.3**	**2.5**	**197.6**
70% - 80%	**126.6**	**52.7**	**2.3**	**181.6**
80% - 90%	**202.1**	**31.1**	**0.6**	**233.8**
90% - 100%	**66.1**	**7.3**	**0.4**	**73.8**
>100%	**7.7**	**9.0**	**0.3**	**17.0**
Total loans before provisions	**1,339.7**	**372.8**	**23.7**	**1,736.2**

	As at 31 December 2018 (Audited)			
	First charge £m	Second charge £m	Funding lines £m	Total £m
Band				
0% - 50%	651.9	123.2	9.3	784.4
50% - 60%	160.9	81.8	7.0	249.7
60% - 70%	117.2	74.3	2.6	194.1
70% - 80%	125.2	48.3	3.8	177.3
80% - 90%	137.1	24.4	0.7	162.2
90% - 100%	25.1	6.8	0.4	32.3
>100%	6.5	9.2	0.3	16.0
Total loans before provisions	1,223.9	368.0	24.1	1,616.0

18. Risk management and financial instruments (continued)

Analysis of loan portfolio by arrears and collateral held

The tables below provide further information on collateral, capped at the value of each individual loan, over the loan portfolio by payment due status and IFRS 9 stage:

	As at 30-Jun-19 (Unaudited)		As at 31-Dec-18 (Audited)	
	Loan balance £m	Capped collateral £m	Loan balance £m	Capped collateral £m
Stage 1				
Not past due	**8,996.1**	**8,964.2**	8,225.3	8,213.3
Past due < 1 month	**89.3**	**89.0**	61.5	61.2
	9,085.4	**9,053.2**	8,286.8	8,274.5
Stage 2				
Not past due	**260.4**	**260.3**	241.9	241.9
Past due < 1 month	**149.5**	**149.5**	124.9	124.9
Past due 1 to 3 months	**91.5**	**91.5**	70.0	70.0
	501.4	**501.3**	436.8	436.8
Stage 3				
Not past due	**44.1**	**44.0**	67.8	67.2
Past due < 1 month	**19.2**	**19.2**	16.2	16.2
Past due 1 to 3 months	**32.5**	**32.5**	30.4	30.4
Past due 3 to 6 months	**59.6**	**59.5**	57.2	57.2
Past due 6 to 12 months	**34.7**	**34.7**	32.0	31.9
Past due over 12 months	**18.4**	**17.9**	13.9	13.6
Possessions	**41.0**	**40.6**	7.9	7.7
	249.5	**248.4**	225.4	224.2
Stage 3 (POCI)				
Not past due	**20.1**	**20.1**	18.6	18.6
Past due < 1 month	**5.9**	**5.9**	6.7	6.6
Past due 1 to 3 months	**7.6**	**7.6**	6.6	6.6
Past due 3 to 6 months	**7.1**	**7.1**	7.4	7.4
Past due 6 to 12 months	**7.0**	**7.0**	7.7	7.7
Past due over 12 months	**9.7**	**9.7**	9.2	9.2
Possessions	**1.3**	**1.3**	-	-
	58.7	**58.7**	56.2	56.1
Total loans before provisions	**9,895.0**	**9,861.6**	9,005.2	8,991.6

18. Risk management and financial instruments (continued)

The tables below show the payment due status of the Group's loan portfolios by operating segment:

	As at 30 June 2019 (Unaudited)				
BTL/SME	**Buy-to-Let £m**	**Commercial £m**	**Residential development £m**	**Funding lines £m**	**Total £m**
Stage 1					
Not past due	**6,703.1**	**648.5**	**141.2**	**192.8**	**7,685.6**
Past due < 1 month	**25.1**	**9.6**	**-**	**-**	**34.7**
	6,728.2	**658.1**	**141.2**	**192.8**	**7,720.3**
Stage 2					
Not past due	**129.0**	**41.4**	**-**	**-**	**170.4**
Past due < 1 month	**91.9**	**1.3**	**-**	**-**	**93.2**
Past due 1 to 3 months	**36.5**	**17.9**	**-**	**-**	**54.4**
	257.4	**60.6**	**-**	**-**	**318.0**
Stage 3					
Not past due	**20.8**	**0.8**	**-**	**-**	**21.6**
Past due < 1 month	**6.3**	**0.2**	**-**	**-**	**6.5**
Past due 1 to 3 months	**10.6**	**0.9**	**-**	**-**	**11.5**
Past due 3 to 6 months	**23.0**	**1.0**	**-**	**-**	**24.0**
Past due 6 to 12 months	**13.6**	**1.7**	**-**	**-**	**15.3**
Past due over 12 months	**5.1**	**0.3**	**-**	**-**	**5.4**
Possessions	**34.7**	**1.2**	**-**	**-**	**35.9**
	114.1	**6.1**	**-**	**-**	**120.2**
Stage 3 (POCI)					
Not past due	**-**	**0.2**	**-**	**-**	**0.2**
Past due < 1 month	**-**	**0.1**	**-**	**-**	**0.1**
	-	**0.3**	**-**	**-**	**0.3**
Total loans before provisions	**7,099.7**	**725.1**	**141.2**	**192.8**	**8,158.8**

Notes to the Condensed Consolidated Financial Statements (continued)

18. Risk management and financial instruments (continued)

	As at 31 December 2018 (Audited)				
BTL/SME	Buy-to-Let £m	Commercial £m	Residential development £m	Funding lines £m	Total £m
Stage 1					
Not past due	6,193.4	501.7	155.8	168.1	7,019.0
Past due < 1 month	18.5	1.8	-	-	20.3
	6,211.9	503.5	155.8	168.1	7,039.3
Stage 2					
Not past due	102.8	39.1	-	-	141.9
Past due < 1 month	74.7	1.0	-	-	75.7
Past due 1 to 3 months	29.3	0.7	-	-	30.0
	206.8	40.8	-	-	247.6
Stage 3					
Not past due	40.6	2.5	-	-	43.1
Past due < 1 month	3.3	0.4	-	-	3.7
Past due 1 to 3 months	12.0	0.1	-	-	12.1
Past due 3 to 6 months	24.5	0.1	-	-	24.6
Past due 6 to 12 months	10.9	0.1	-	-	11.0
Past due over 12 months	3.1	-	-	-	3.1
Possessions	4.4	-	-	-	4.4
	98.8	3.2	-	-	102.0
Stage 3 (POCI)					
Not past due	-	0.1	-	-	0.1
Past due < 1 month	-	0.2	-	-	0.2
	-	0.3	-	-	0.3
Total loans before provisions	6,517.5	547.8	155.8	168.1	7,389.2

Notes to the Condensed Consolidated Financial Statements (continued)

18. Risk management and financial instruments (continued)

Residential	First charge £m	Second charge £m	Funding lines £m	Total £m
	As at 30 June 2019 (Unaudited)			
Stage 1				
Not past due	1,006.8	280.0	23.7	1,310.5
Past due < 1 month	45.8	8.8	-	54.6
	1,052.6	288.8	23.7	1,365.1
Stage 2				
Not past due	73.1	16.9	-	90.0
Past due < 1 month	50.6	5.7	-	56.3
Past due 1 to 3 months	30.9	6.2	-	37.1
	154.6	28.8	-	183.4
Stage 3				
Not past due	20.3	2.2	-	22.5
Past due < 1 month	10.6	2.1	-	12.7
Past due 1 to 3 months	15.2	5.8	-	21.0
Past due 3 to 6 months	27.1	8.5	-	35.6
Past due 6 to 12 months	14.9	4.5	-	19.4
Past due over 12 months	11.0	2.0	-	13.0
Possessions	4.7	0.4	-	5.1
	103.8	25.5	-	129.3
Stage 3 (POCI)				
Not past due	12.7	7.2	-	19.9
Past due < 1 month	3.3	2.5	-	5.8
Past due 1 to 3 months	4.0	3.6	-	7.6
Past due 3 to 6 months	3.2	3.9	-	7.1
Past due 6 to 12 months	2.9	4.1	-	7.0
Past due over 12 months	2.6	7.1	-	9.7
Possessions	-	1.3	-	1.3
	28.7	29.7	-	58.4
Total loans before provisions	1,339.7	372.8	23.7	1,736.2

18. Risk management and financial instruments (continued)

	As at 31 December 2018 (Audited)			
Residential	First charge £m	Second charge £m	Funding lines £m	Total £m
Stage 1				
Not past due	906.6	275.6	24.1	1,206.3
Past due < 1 month	32.5	8.7	-	41.2
	939.1	284.3	24.1	1,247.5
Stage 2				
Not past due	80.8	19.2	-	100.0
Past due < 1 month	43.2	6.0	-	49.2
Past due 1 to 3 months	32.7	7.3	-	40.0
	156.7	32.5	-	189.2
Stage 3				
Not past due	22.2	2.5	-	24.7
Past due < 1 month	10.2	2.3	-	12.5
Past due 1 to 3 months	13.0	5.3	-	18.3
Past due 3 to 6 months	23.8	8.8	-	32.6
Past due 6 to 12 months	16.9	4.1	-	21.0
Past due over 12 months	8.8	2.0	-	10.8
Possessions	3.5	-	-	3.5
	98.4	25.0	-	123.4
Stage 3 (POCI)				
Not past due	12.1	6.4	-	18.5
Past due < 1 month	4.4	2.1	-	6.5
Past due 1 to 3 months	4.1	2.5	-	6.6
Past due 3 to 6 months	3.5	3.9	-	7.4
Past due 6 to 12 months	3.4	4.3	-	7.7
Past due over 12 months	2.2	7.0	-	9.2
	29.7	26.2	-	55.9
Total loans before provisions	1,223.9	368.0	24.1	1,616.0

18. Risk management and financial instruments (continued)

Forbearance measures undertaken

The Group has a range of options available where borrowers experience financial difficulties which impact their ability to service their financial commitments under the loan agreement. These are explained on page 47 of the 2018 Annual Report and Accounts.

A summary of the forbearance measures undertaken during the period under review is below:

	H1 2019 number of accounts	**As at 30-Jun-19 £m**	Restated[1] H1 2018 number of accounts	Restated[1] As at 30-Jun-18 £m
Forbearance type:				
Interest-only switch	**20**	**3.2**	17	2.9
Interest rate reduction	**22**	**1.2**	3	0.9
Term extension	**15**	**4.3**	18	3.1
Payment holiday	**24**	**0.7**	27	0.8
Voluntary assisted sale	**13**	**0.7**	-	-
Payment concession (reduced monthly payments)	**35**	**0.9**	29	2.6
Full or partial debt forgiveness	**2**	**-**	-	-
Total	**131**	**11.0**	94	10.3

	H1 2019 number of accounts	**As at 30-Jun-19 £m**	Restated[1] H1 2018 number of accounts	Restated[1] As at 30-Jun-18 £m
Loan type:				
First charge owner occupier	**23**	**4.8**	23	2.9
Second charge owner occupier	**94**	**3.3**	54	1.6
Buy-to-Let	**13**	**2.9**	17	5.8
Commercial	**1**	**-**	-	-
Total	**131**	**11.0**	94	10.3

[1] The 2018 comparatives have been restated to reflect changes to the data capture process.

Notes to the Condensed Consolidated Financial Statements (continued)

18. Risk management and financial instruments (continued)

Geographical analysis by region

An analysis of loans by region is provided below:

	As at 30-Jun-19 (Unaudited)		As at 31-Dec-18 (Audited)	
Region	**£m**	**%**	£m	%
East Anglia	**361.4**	**4**	316.4	4
East Midlands	**369.9**	**4**	325.4	4
Greater London	**4,335.7**	**44**	3,965.5	43
Guernsey	**51.8**	**1**	61.7	1
Jersey	**160.8**	**2**	176.0	2
North East	**125.0**	**1**	115.6	1
North West	**525.6**	**5**	447.6	5
Northern Ireland	**14.9**	**-**	14.6	-
Scotland	**46.2**	**-**	45.2	1
South East	**2,140.7**	**22**	1,955.1	22
South West	**707.0**	**7**	634.2	7
Wales	**213.4**	**2**	187.1	2
West Midlands	**623.4**	**6**	557.5	6
Yorks & Humberside	**219.2**	**2**	203.3	2
Total loans before provisions	**9,895.0**	**100**	9,005.2	100

Notes to the Condensed Consolidated Financial Statements (continued)

19. Fair values of financial assets and financial liabilities

The following tables provide an analysis of financial assets and financial liabilities measured at fair value on the Statement of Financial Position grouped into level 1 to 3 based on the degree to which the fair value is observable:

As at 30-Jun-19 (Unaudited)	**Carrying amount £m**	**Principal amount £m**	**Level 1 £m**	**Level 2 £m**	**Level 3 £m**	**Total £m**
Financial assets						
Investment securities	**160.0**	**160.0**	**160.0**	**-**	**-**	**160.0**
Derivative assets	**3.9**	**3,565.0**	**-**	**3.9**	**-**	**3.9**
	163.9	**3,725.0**	**160.0**	**3.9**	**-**	**163.9**
Financial liabilities						
Derivative liabilities	**58.2**	**4,133.2**	**-**	**58.2**	**-**	**58.2**

As at 31-Dec-18 (Audited)	Carrying amount £m	Principal amount £m	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial assets						
Investment securities	58.9	59.0	58.9	-	-	58.9
Derivative assets	11.7	1,999.0	-	11.7	-	11.7
	70.6	2,058.0	58.9	11.7	-	70.6
Financial liabilities						
Derivative liabilities	24.9	4,532.2	-	24.9	-	24.9

Level 1: Fair values that are based entirely on quoted market prices (unadjusted) in an actively traded market for identical assets and liabilities that the Group has the ability to access. Valuation adjustments and block discounts are not applied to Level 1 instruments. Since valuations are based on readily available observable market prices, this makes them most reliable, reduces the need for management judgement and estimation and also reduces the uncertainty associated with determining fair values.

Level 2: Fair values that are based on one or more quoted prices in markets that are not active or for which all significant inputs are taken from directly or indirectly observable market data. These include valuation models used to calculate the present value of expected future cash flows and may be employed either when no active market exists or when there are no quoted prices available for similar instruments in active markets.

Level 3: Fair values for which any one or more significant input is not based on observable market data and the unobservable inputs have a significant effect on the instruments fair value. Valuation models that employ significant unobservable inputs require a higher degree of management judgement and estimation in determining the fair value. Management judgement and estimation are usually required for the selection of the appropriate valuation model to be used, determination of expected future cash flows on the financial instruments being valued, determination of the probability of counterparty default and prepayments, determination of expected volatilities and correlations and the selection of appropriate discount rates.

19. Fair values of financial assets and financial liabilities (continued)

The following tables provide an analysis of financial assets and financial liabilities not measured at fair value on the Statement of Financial Position grouped into level 1 to 3 based on the degree to which the fair value is observable:

			Estimated fair value			
As at 30-Jun-19 (Unaudited)	**Carrying amount £m**	**Principal amount £m**	**Level 1 £m**	**Level 2 £m**	**Level 3 £m**	**Total £m**
Financial assets						
Cash in hand	**0.3**	**0.3**	**-**	**0.3**	**-**	**0.3**
Loans and advances to credit institutions	**1,493.8**	**1,493.4**	**-**	**1,493.8**	**-**	**1,493.8**
Loans and advances to customers	**9,862.0**	**10,008.7**	**-**	**3,820.9**	**6,948.4**	**10,769.3**
	11,356.1	**11,502.4**	**-**	**5,315.0**	**6,948.4**	**12,263.4**
Financial liabilities						
Amounts owed to retail depositors	**9,175.0**	**9,138.6**	**-**	**3,397.9**	**5,787.5**	**9,185.4**
Amounts owed to credit institutions	**1,605.9**	**1,602.9**	**-**	**1,605.9**	**-**	**1,605.9**
Amounts owed to other customers	**8.8**	**8.8**	**-**	**-**	**8.9**	**8.9**
Subordinated liabilities	**10.8**	**10.6**	**-**	**10.8**	**-**	**10.8**
Perpetual subordinated bonds	**15.3**	**15.0**	**14.5**	**-**	**-**	**14.5**
	10,815.8	**10,775.9**	**14.5**	**5,014.6**	**5,796.4**	**10,825.5**

			Estimated fair value			
As at 31-Dec-18 (Audited)	Carrying amount £m	Principal amount £m	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial assets						
Cash in hand	0.4	0.4	-	0.4	-	0.4
Loans and advances to credit institutions	1,347.3	1,346.9	-	1,347.3	-	1,347.3
Loans and advances to customers	8,983.3	9,121.4	-	4,195.3	4,955.8	9,151.1
	10,331.0	10,468.7	-	5,543.0	4,955.8	10,498.8
Financial liabilities						
Amounts owed to retail depositors	8,071.9	8,019.7	-	2,916.4	5,181.1	8,097.5
Amounts owed to credit institutions	1,584.0	1,581.0	-	1,584.0	-	1,584.0
Amounts owed to other customers	32.9	32.8	-	-	32.9	32.9
Subordinated liabilities	10.8	10.6	-	10.8	-	10.8
Perpetual subordinated bonds	15.3	15.0	14.3	-	-	14.3
	9,714.9	9,659.1	14.3	4,511.2	5,214.0	9,739.5

Notes to the Condensed Consolidated Financial Statements (continued)

20. Capital management

The Group's individual regulated entities and the Group as a whole complied with all of the capital requirements which they were subject to for the periods presented.

The regulatory capital of the Group is presented below:

	As at 30-Jun-19 (Unaudited) £m	As at 31-Dec-18 (Unaudited) £m
Common equity tier 1 capital		
Called up share capital	**2.5**	2.4
Share premium, capital contribution and share-based payment reserve	**169.0**	170.0
Retained earnings	**479.2**	439.6
Transfer reserve	**(12.8)**	(12.8)
Other reserves	**(0.4)**	(0.5)
Total equity excluding equity bonds	**637.5**	598.7
Foreseeable dividends	**(17.8)**	(25.2)
Solo consolidation adjustments[1]	**(6.2)**	(5.4)
IFRS 9 transitional adjustment[2]	**2.4**	2.7
Deductions from common equity tier 1 capital		
Prudent valuation adjustment[3]	**(0.1)**	(0.1)
Intangible assets	**(8.1)**	(7.7)
Deferred tax asset	**(0.9)**	(1.4)
Common equity tier 1 capital	**606.8**	561.6
Additional tier 1 capital		
AT1 Securities	**60.0**	60.0
Total tier 1 capital	**666.8**	621.6
Tier 2 capital		
Subordinated debt and PSBs	**47.4**	47.4
Deductions from tier 2 capital	**(4.0)**	(3.3)
Total tier 2 capital	**43.4**	44.1
Total regulatory capital	**710.2**	665.7
Risk weighted assets (unaudited)	**4,685.5**	4,211.8

[1] The Bank has solo consolidation waivers for most of its subsidiaries. The equity for unconsolidated entities has been removed from CET1.

[2] The regulatory capital includes a £2.4m add-back under IFRS 9 transitional arrangements. This represents 85% of the IFRS 9 transitional adjustment booked directly to retained earnings of £2.9m. The full impact of IFRS 9, if applied, would reduce total regulatory capital to £707.8m.

[3] The Group has adopted the simplified approach under the Prudent Valuation rules, recognising a deduction equal to 0.1% of fair value assets and liabilities.

Notes to the Condensed Consolidated Financial Statements (continued)

21. Operating segments

The Group distinguishes two segments within its operations.

1. **BTL/SME**; secured lending on property for investment and commercial purposes. This segment also includes the Group's new asset finance business, and
2. **Residential mortgages**; lending to customers who live in their own homes, secured either via first or second charges against the residential home.

The financial position and results of operations of the above segments are summarised below:

	BTL/SME £m	Residential mortgages £m	Total £m
Balances as at 30 June 2019 (Unaudited)			
Gross loans and advances to customers	**8,158.8**	**1,736.2**	**9,895.0**
Expected credit loss	**(15.1)**	**(17.9)**	**(33.0)**
Loans and advances to customers	**8,143.7**	**1,718.3**	**9,862.0**
Capital expenditure	**8.3**	**1.8**	**10.1**
Profit for six months ended 30-Jun-19 (Unaudited)			
Interest receivable	**183.4**	**44.5**	**227.9**
Interest payable	**(63.4)**	**(13.5)**	**(76.9)**
Net interest income	**120.0**	**31.0**	**151.0**
External servicing fees	**-**	**(0.1)**	**(0.1)**
Other expense	**(5.2)**	**(1.9)**	**(7.1)**
Other expense	**(5.2)**	**(2.0)**	**(7.2)**
Total income	**114.8**	**29.0**	**143.8**
Impairment losses	**(5.2)**	**(0.7)**	**(5.9)**
Contribution to profit	**109.6**	**28.3**	**137.9**
Operating expenses			**(40.9)**
FSCS and other regulatory provisions			**(0.1)**
Exceptional cost - transaction expenses			**(5.9)**
Profit before taxation			**91.0**
Taxation			**(25.2)**
Profit for the period			**65.8**

21. Operating segments (continued)

	BTL/SME	Residential mortgages	Total
	£m	£m	£m
Balances as at 31 December 2018 (Audited)			
Gross loans and advances to customers	7,389.2	1,616.0	9,005.2
Expected credit loss	(11.0)	(10.9)	(21.9)
Loans and advances to customers	7,378.2	1,605.1	8,983.3
Capital expenditure	5.2	1.1	6.3
Profit for six months ended 30-Jun-18 (Unaudited)			
Interest receivable	145.5	44.6	190.1
Interest payable	(43.2)	(11.7)	(54.9)
Net interest income	102.3	32.9	135.2
External servicing fees	(0.1)	(0.3)	(0.4)
Other expense	(0.5)	(1.2)	(1.7)
Other expense	(0.6)	(1.5)	(2.1)
Total income	101.7	31.4	133.1
Impairment losses	(3.0)	(1.3)	(4.3)
Contribution to profit	98.7	30.1	128.8
Operating expenses			(35.9)
FSCS and other regulatory provisions			(1.1)
Profit before taxation			91.8
Taxation			(22.3)
Profit for the period			69.5

22. Adjustments for non-cash items and changes in operating assets and liabilities

	Six months ended 30-Jun-19 (Unaudited) £m	Six months ended 30-Jun-18 (Unaudited) £m
Adjustments for non-cash items:		
Depreciation and amortisation	**3.0**	2.2
Interest on subordinated liabilities	**0.4**	0.4
Interest on perpetual subordinated bonds	**0.4**	0.4
Impairment charge on loans	**5.9**	4.3
Loss on sale of financial instruments	**-**	0.2
FSCS and other regulatory provisions	**0.1**	1.1
Fair value losses on financial instruments	**7.4**	1.7
Share-based payments	**1.4**	1.4
Total adjustments for non-cash items	**18.6**	11.7
Changes in operating assets and liabilities:		
Increase in loans and advances to credit institutions	**(54.3)**	(3.3)
Increase in loans to customers	**(884.6)**	(799.0)
Increase in retail deposits	**1,103.1**	773.5
Net increase in other assets	**(6.7)**	(5.0)
Net (decrease)/increase in derivatives and hedged items	**(9.9)**	0.1
Net (decrease)/increase in credit institutions and other customers deposits	**(102.2)**	15.3
Net increase in other liabilities	**0.3**	0.1
Exchange differences on working capital	**0.1**	(0.5)
Total changes in operating assets and liabilities	**45.8**	(18.8)

23. Related parties

The Group had no related party transactions during the six months to 30 June 2019 that would materially affect the position or performance of the Group. Details of transactions for the year ended 31 December 2018 can be found in the 2018 Annual Report and Accounts on pages 144 to 146.

Transactions with Key Management Personnel
During the period, the Group granted awards under the Deferred Share Bonus Plan and Performance Share Plan as described in note 6 to these interim accounts and note 9 in the 2018 Annual Report and Accounts on pages 134 to 137. The impact of these awards in the six months ended 30 June 2019 is reported in note 6.

24. Contingent liabilities

The Group has not recognised a liability or provision for success fees payable if the recommended all-share combination with CCFS completes, as the combination depends on future regulatory approvals. Similarly, the Group has not recognised transaction costs that contain discount provisions should the combination not proceed. The Group expects the success fees and transaction costs subject to discount provisions to be c.£9m.

25. Events after the reporting date

On 12 July 2019, the Group completed a c. £500m securitisation transaction of originated mortgage loans through Canterbury Finance No.1 plc (‘Canterbury’). The Group has retained ownership of the Class A2, F and X notes and residual certificates issued by Canterbury and will consolidate Canterbury into the Group’s results from July 2019.

On 30 July 2019, the Competition and Markets Authority announced its decision to approve the recommended all-share combination of OneSavings Bank and CCFS. Completion of the combination remains subject to other outstanding conditions, including receipt of regulatory approvals from the FCA and PRA.

OneSavings Bank plc

Interim report for the six months ended 30 June 2019

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