2018 interim results

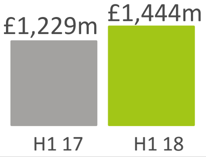
23 August 2018

Another strong set of results for the first half of 2018

One Savings Bank

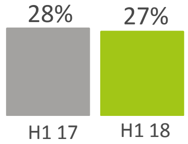
Gross organic lending

+ 17%



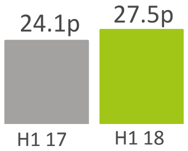
Cost to income ratio

Improved by 1pt



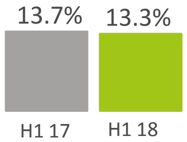
Underlying basic EPS

+ 14%



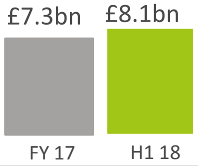
Fully-loaded CET1 ratio

Remains strong



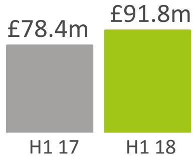
Loans and advances

+ 11%



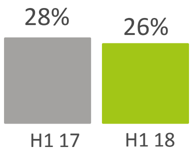
Underlying PBT

+ 17%



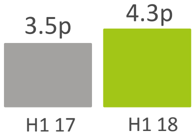
Return on equity

Remains strong



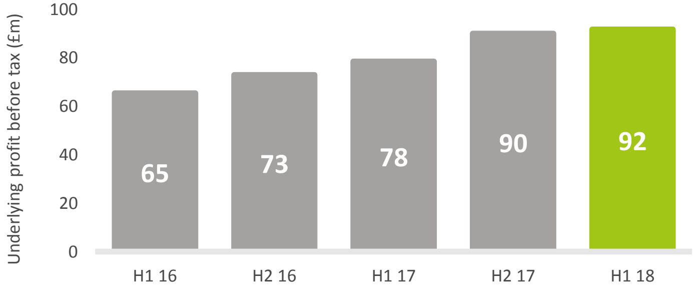
Interim dividend per share

+ 23%

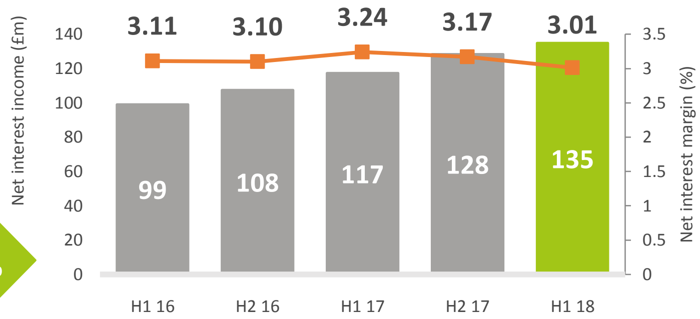


Strong growth in profits

1. Continued growth in underlying profits...

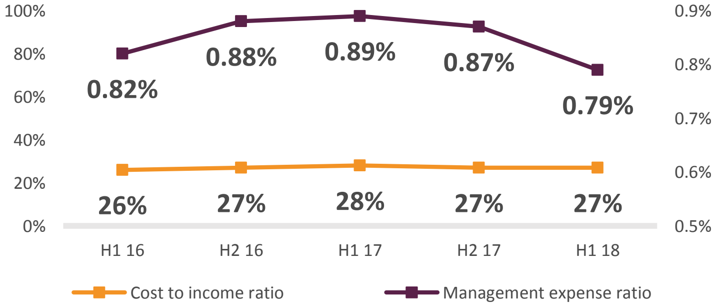


2. with attractive NIM[1] & robust loan book growth...

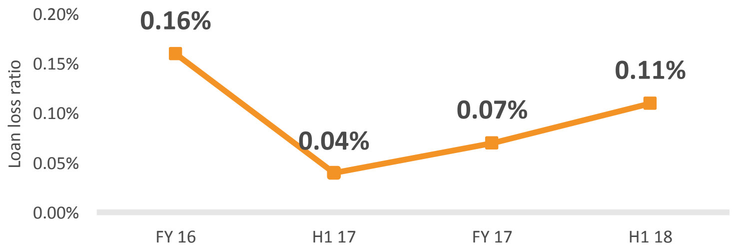


H1 2018 RoE of 26%

3. ongoing investment with well-controlled costs...



4. and strong credit quality[2]



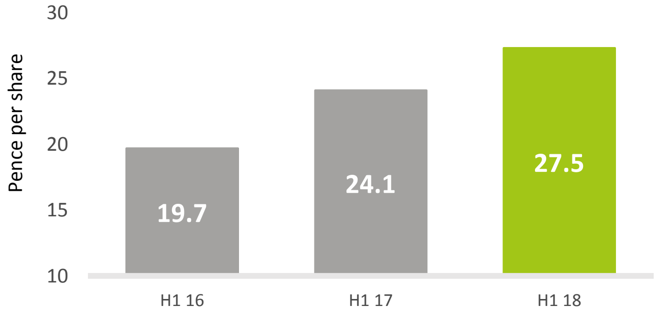
[1] The method of annualising NIM for the first half has been enhanced to use the actual day count instead of an assumed 182.5 days, to provide comparability with the full year NIM and the Bank's internal reporting approach. The comparatives have been restated accordingly.

[2] Under IAS 39 provisioning approach in 2017 and 2016 and under IFRS 9 approach in H1 2018

Strong profitability drives growth in shareholder value

	H1 2018 £m	H1 2017 £m	Change £m	Change %
Net interest income	135.2	117.1	18.1	*15*
Other expenses	(2.1)	(6.3)	4.2	*(67)*
Total income	**133.1**	**110.8**	**22.3**	***20***
Administrative expenses	(35.9)	(30.6)	(5.3)	*17*
FSCS and other regulatory provisions	(1.1)	(0.4)	(0.7)	*175*
Impairment losses	(4.3)	(1.4)	(2.9)	*207*
Statutory and underlying PBT	**91.8**	**78.4**	**13.4**	***17***
Tax	(22.3)	(19.4)	(2.9)	*15*
Statutory and underlying PAT	**69.5**	**59.0**	**10.5**	***18***

Underlying basic EPS



- Other expenses include £2.5m (H1 2017: £6.2m) further accelerated amortisation of fair value adjustments on cancelled swaps
- Increase in impairment losses to £4.3m under IFRS 9 and H1 2017 indexing benefit
- Underlying PBT up 17% reflecting strong balance sheet growth and net interest income
- Effective tax rate fell to 24.3% due to lower rate of corporation tax and reduction in Group's profits subject to the Bank Corporation Tax Surcharge
- Strong growth in EPS, up 14% compared with H1 2017

Strong growth whilst maintaining credit quality

	H1 2018 £m	FY 2017 £m	Change £m	Change %
Lending				
Net customer loans	8,097	7,306	791	*11*
Provisions	(23)	(22)	(1)	*5*
Funding and liquidity				
Customer deposits	7,424	6,650	774	*12*
Wholesale funding	41	26	15	*58*
Liquid assets	1,496	1,207	289	*24*
Liquidity ratio	16.7%	15.2%		*1.5pts*

		H1 2018	FY 2017	H1 2017
Loan loss ratio (bps)[1]		11	7	4
3 months in arrears %		1.3	1.2	1.4
Legacy problem loans (£m)		6.0	8.6	11.9
Average LTV (%)	- mortgage book	65	64	64
	- Buy-to-Let/SME	69	69	69
	- Residential	56	56	58
Average LTV of new origination (%):				
	- mortgage book	69	69	69
	- Buy-to-Let/SME	70	70	70
	- Residential	65	65	66

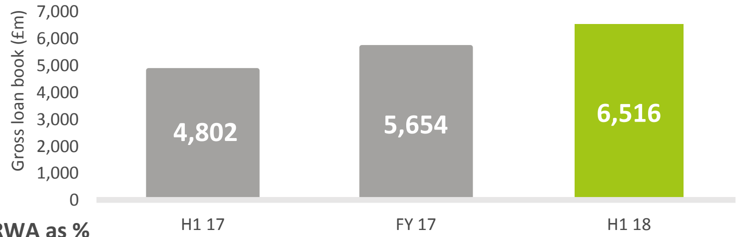
- Net loan book growth of 11% in the first half supported by 17% growth in organic origination to £1,444m
- Total drawings under Term Funding Scheme of £1.5bn as at 30 June 2018 (31 December £1.25bn)
- Liquidity coverage ratio of 245% significantly ahead of the 2018 regulatory minimum requirement of 100%
- Average LTV of new origination remained flat at 69% (H1 2017: 69%) and continues to be closely clustered around the average due to a reduced volume of higher LTV lending following the Brexit vote result
- Underlying loan loss ratio remained low, primarily due to the positive impact of enhanced indexing of property values in the 2017 comparative period, and the portfolio arrears rate remained broadly stable

[1] Under IAS 39 provisioning approach in 2017 and 2016 and under IFRS 9 approach in H1 2018

Segmental results – BTL/SME

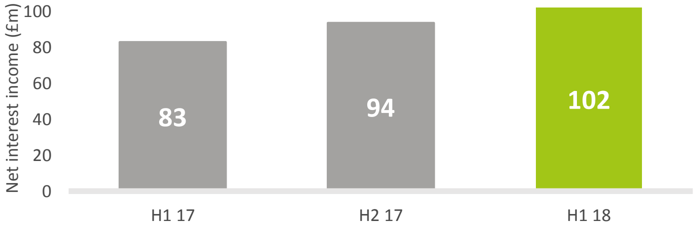
- Average book LTV remains low at 69% (FY 2017: 69%) with only 0.3% of loans by value with LTVs exceeding 90% (FY 2017: 0.7%)

1. Gross loan book



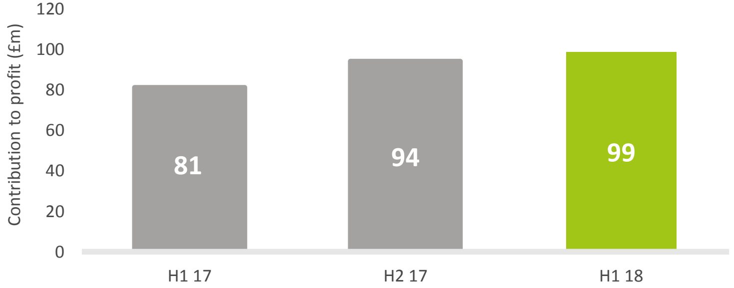
	H1 17	FY 17	H1 18
RWA as % of net loans	47%	47%	48%

2. Net interest income

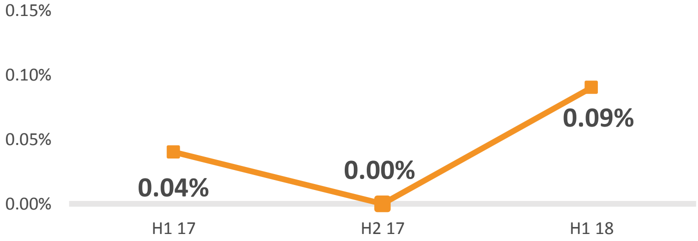


	H1 17	H2 17	H1 18
Gross asset yield[1]	5.1%	5.0%	4.8%

3. Contribution to profit[2]



4. Loan loss charge as a % of average gross loans[3]



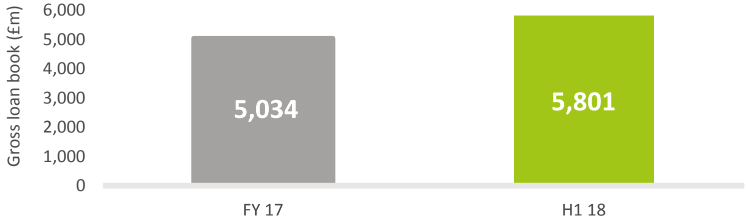
[1] The comparative information for residential mortgages has been restated following a change in allocation, with an additional £2.1m of interest income disclosed compared to the previously reported balance. This has decreased the BTL/SME mortgages interest income by £2.1m.

[2] Total income less impairment losses

[3] Under IAS 39 provisioning approach in 2017 and under IFRS 9 approach in H1 2018. The loan loss ratio excludes personal loans.

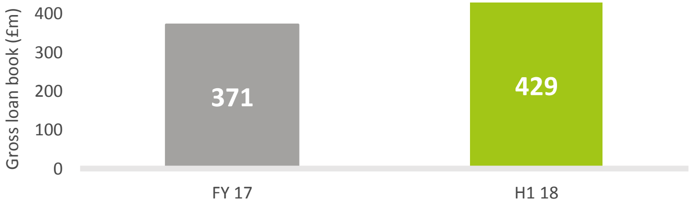
Segmental results – BTL/SME sub-segments

1. Buy-to-Let



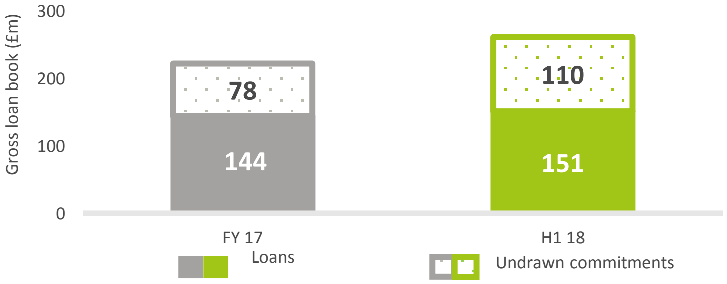
- Average interest rate coverage (ICR) was 192% during H1 2018 (2017: 185%)

2. Semi-commercial/Commercial



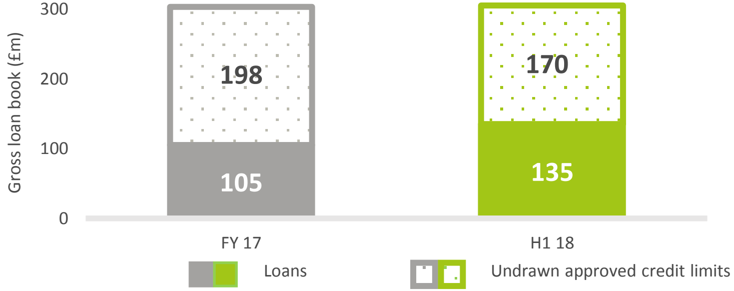
- Weighted average LTV: 64%
- Average loan size: £340,000

3. Residential development



- Target smaller developers, active outside London
- Experienced and prudent team

4. Funding lines

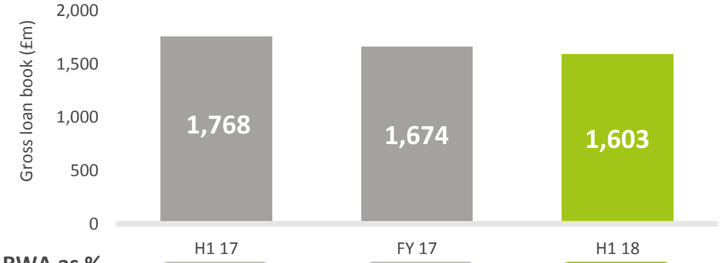


- Secured funding lines to non-bank lenders
- High yielding, secured, specialist sub-segments such as bridging finance and asset finance

Segmental results – Residential

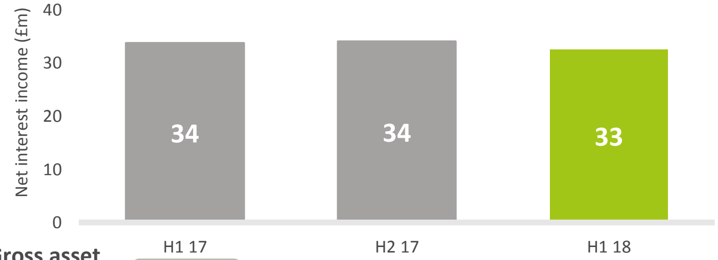
- Average book LTV remains low at 56% (2017: 56%) with only 3% of loans by value with LTVs exceeding 90% (2017: 3%)

1. Gross loan book



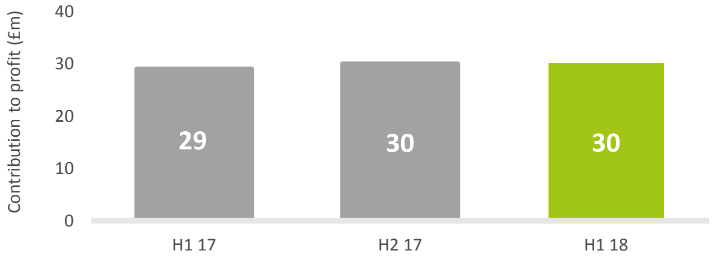
	H1 17	FY 17	H1 18
RWA as % of net loans	43%	42%	47%

2. Net interest income

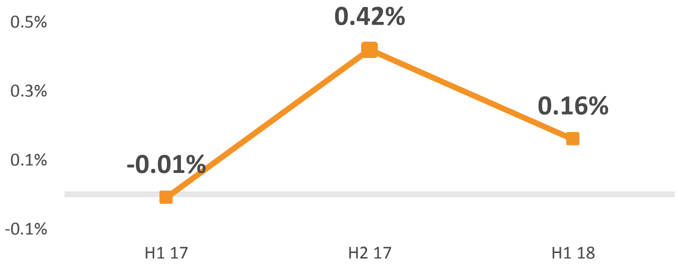


	H1 17	H2 17	H1 18
Gross asset yield[1]	5.3%	5.3%	5.4%

3. Contribution to profit[2]



4. Loan loss charge as a % of average gross loans[3]



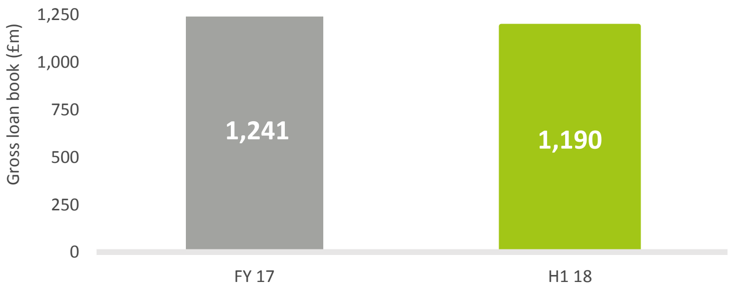
[1] See footnote 1 on slide 6

[2] Total income less impairment losses

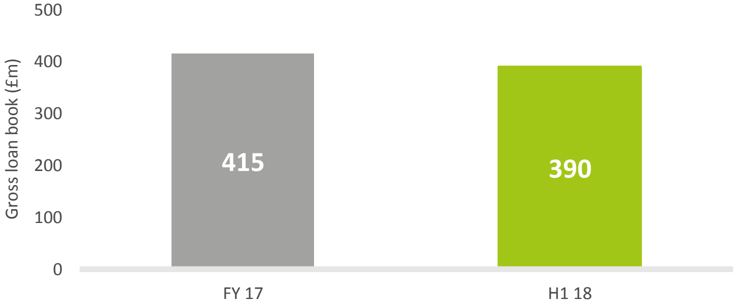
[3] Under IAS 39 provisioning approach in 2017 and under IFRS 9 approach in H1 2018

Segmental results – Residential sub-segments

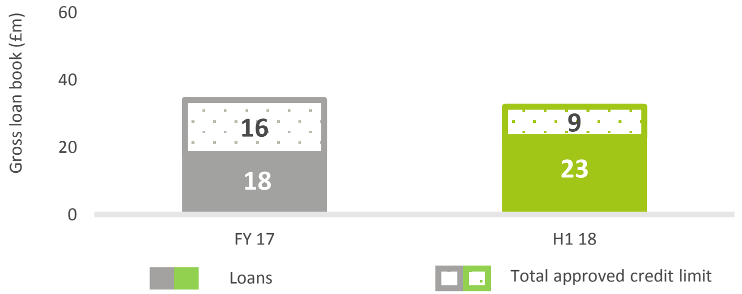
1. First charge mortgages



2. Second charge mortgages



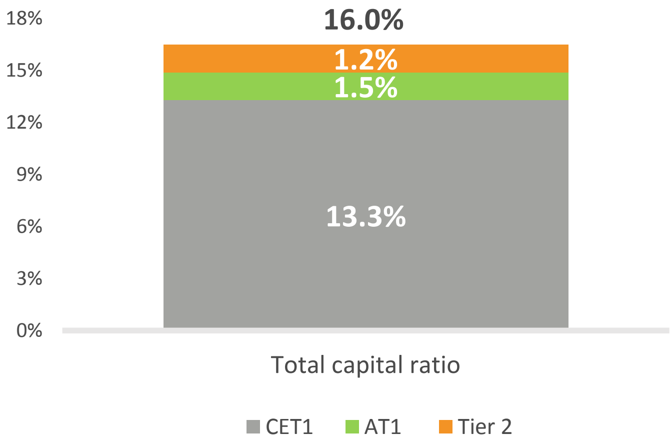
3. Funding lines



4. Summary

- First charge new organic lending in the first half was more than offset by redemptions on the back book and acquired mortgage portfolios in run-off
- Second charge book reduced by c.6% with organic origination offset by redemptions on the organic book and acquired books in run-off as we continue to price for risk in a market that has seen downward price pressure below our risk appetite

Strong capital base



	H1 2018	FY 2017	Change
Capital			
Risk-weighted assets (RWAs) £m	3,844	3,349	15%
RWAs as % of total assets	40	39	1pt
Common equity tier 1 ratio %	13.3	13.7	(0.4)pts
Total capital ratio %	16.0	16.9	(0.9)pts
Leverage ratio %	5.8	6.0	(0.2)pts

- Strong capital generation through profitability to support growth
- Pillar 2a requirement of 1.1% of risk weighted assets
- Progressing towards IRB with the required three year use test to complete in 2019 with further PRA dialogue and formal application to follow

Capital Management Framework

Focused on shareholder value creation

	Regulatory capital	• Primary objective is to hold sufficient, but not excessive levels of regulatory capital to support our stated strategy • CET1 ratio at a minimum of 12%
1	**Organic growth**	• OSB's primary growth strategy is organic lending growth across its core lending segments • Additionally explore adjacent areas where we see opportunities for attractive growth in the medium term, e.g. new residential product range, launch of asset finance business
2	**Ordinary dividends**	• Support Group's consistent dividend policy - at least 25% of underlying profit
3	**Inorganic growth opportunities**	• Assess value enhancing, inorganic growth opportunities, including portfolio acquisitions and other opportunities to profitably deploy capital
4	**Returns of excess capital to shareholders**	• Should excess capital emerge the Board will consider additional shareholder return through special dividends and / or share buybacks

Forward guidance

Full year net loan book growth of high-teens through organic lending

NIM for full year of c.3% reflecting current asset pricing and five year swap spreads

Cost income ratio for full year of c.30% reflecting the planned investment spend weighted to the second half of 2018

CET1 ratio to remain at a minimum of 12%

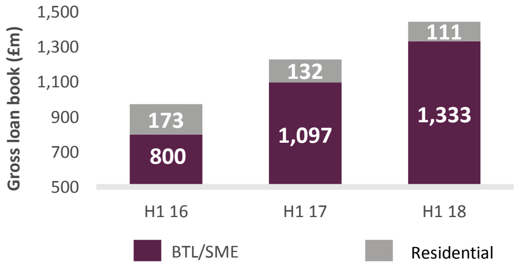
Dividend policy remains a payout ratio of at least 25%

Our award-winning lending franchise performed strongly

One Savings Bank

Growth

Organic lending up 17%



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Retention

Significant increase in borrowers choosing new products with our 'Choices' retention scheme, c.60% choosing new product within 3 months

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Net loan book growth

11%

Performance

Loan performance

Only 187 loans in 3m+ arrears (£32m), out of >43,500 loans (£9.6bn) originated since the Bank's creation in 2011

Well-positioned

Professional landlords account for 79% of Buy-to-Let completions by value during the first half of 2018 (77% in H1 2017)

Award winning

WINNER Moneyfacts Award 2018 Best Specialist Mortgage Provider

MORTGAGE STRATEGY AWARDS '18 Best Buy-to-Let Lender WINNER

MORTGAGE STRATEGY AWARDS '18 Best Specialist Lender WINNER

Established brands

KentReliance

InterBay Commercial

Prestige Finance

Heritable Development Finance

Opportunities in adjacent markets

	Residential	InterBay Commercial	InterBay Asset Finance
Build on	Strong expertise in bespoke residential lending + Excellent relationships with distribution	Our strong intermediary relationships and well-regarded InterBay brand + Core products and recently introduced products inc. bridge finance	Experience in recruiting teams and building high performing businesses + Knowledge of SMEs and small corporate businesses
Invest in	Enhanced mortgage origination platform, inc. automated decisioning + IRB	Expanded distribution	Infrastructure and systems + Experienced, high calibre asset finance professionals
To achieve	Increased volumes of residential owner occupied lending at attractive risk-adjusted returns, particularly once we transition to IRB	Growing commercial and semi-commercial lending	Become a meaningful funder in the UK asset finance market in the medium-long term
Progress	• New residential product range launched at the end of Q2 18; good level of applications • Building pipeline in advance of planned automated decisioning • Continued progress towards IRB application	• Expanded distribution in H1 2018 through commercial and mainstream brokers • Good pipeline of low LTV, high quality bridge finance business	• Team and infrastructure in place • Soft launch in H2 2018 • We anticipate funding initial transactions in H2 2018

One Savings Bank

Stable funding and award-winning savings franchise

Growth

Retail deposits up 12% in the period

£7.4bn

+

We continue to attract new savings customers

23k

+

Diversification through TFS balance

£1.5bn

Performance

Retention rates on maturing Bonds and ISAs remain exceptionally strong

96%

Quality of customer service - consistently high NPS

+60

Liquidity coverage ratio significantly ahead of the regulatory 100% minimum

245%

Opportunities

Markets

- Online retail expansion
- Diversification of funding sources to complement retail
- Commercial savings, open banking
- Wholesale funding

+

Investment

- Enhanced digital proposition for retail savers
- Reaching more commercial customers
- Securitisation

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Benefits

- Stronger savings franchise
- New sources of lower rate funding inc. wholesale
- Diversified funding

Summary and outlook

The first half of 2018 was yet another period of strong growth: 17% increase in organic origination to £1.4bn

Strong credit profile: low arrears and sensible LTVs, with high interest cover on Buy-to-Let

Excellent customer satisfaction and loyalty: customer NPS at +60, retail savings bond retention at 96%

Trading conditions in our core professional BTL market are competitive but we see opportunities for growth in our core and adjacent markets

Successful soft launch of new residential product range in advance of planned automation and IRB

Asset finance business recently established with an experienced team. We anticipate funding our first transactions later this year

We expect to be in a position to return to the RMBS market in Q4 2018

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