PRIVATE AND CONFIDENTIAL

One Savings Bank

Best in class specialist lending

H1 2017 Results

24 August 2017

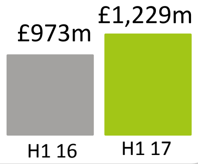
Another strong set of results for the first half of 2017

Unique business model…

…delivering yet another strong set of results

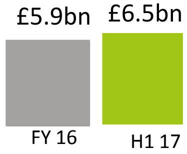
Gross organic lending

+ 26%



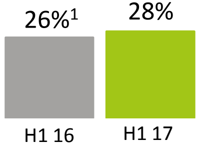
Loans and advances

+ 10%



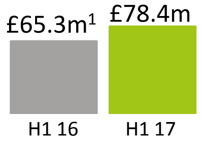
Cost to income ratio

Remaining strong



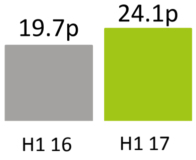
Underlying PBT

+ 20%



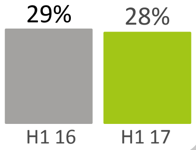
Underlying basic EPS

+ 22%



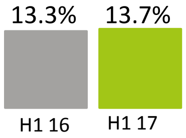
Return on equity

Still best in class



Fully-loaded CET1 ratio

+ 0.4% points



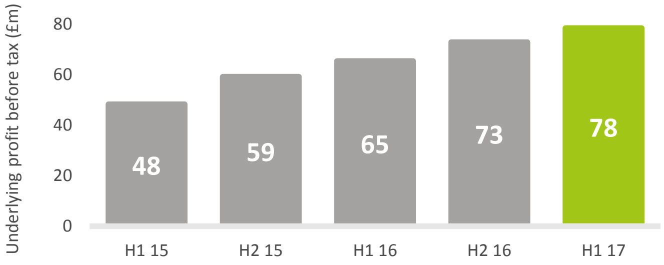
Interim dividend per share

3.5 pence per share (H1 2016: 2.9p)

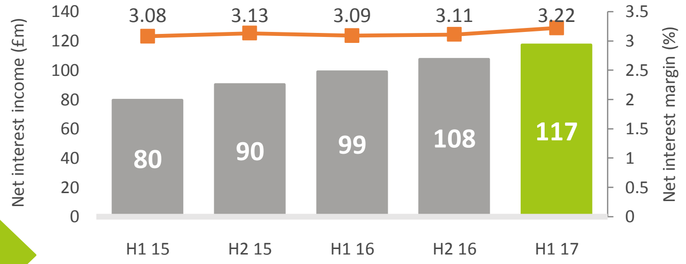
[1] Prior to 2017, OSB deducted coupons on equity Perpetual Subordinated Bonds ('PSBs') accounted for as dividends from underlying profit before and after tax, net interest margin and cost to income ratio. Following a review of market practice in advance of the Bank's AT1 issue, OSB will no longer deduct these coupons from the calculation of these key performance indicators. The comparatives have been restated accordingly. Interest payments on AT1 securities classified as dividends will be treated in the same way.

Strong growth in profitability

1. Continued growth in underlying profitability[1]…

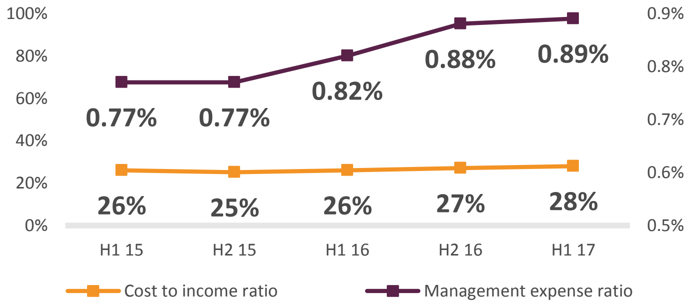


2. with strengthened NIM & robust loan book growth[1]…

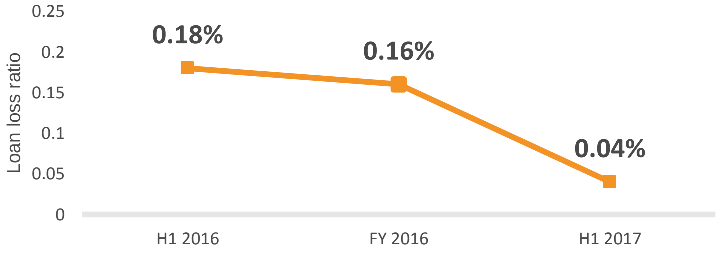


H1 2017 RoE of 28%

3. ongoing investment with well-controlled costs[1] …



4. and strong credit quality

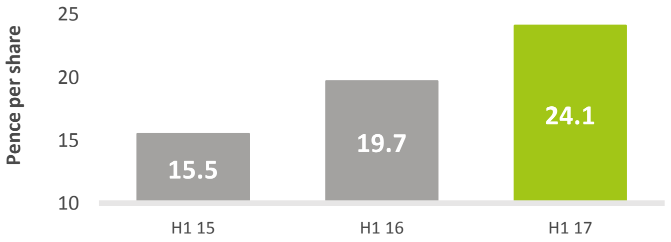


[1] Underlying profit before tax, net interest margin and cost to income ratio have been restated, see footnote on slide 1

Strong profitability drives growth in shareholder returns

	H1 2017 £m	H1 2016 £m	Change £m	Change %
Net interest income	117.1	99.1	18.0	*18*
Other expenses	(6.3)	(2.6)	(3.7)	*150*
Total income	**110.8**	**96.5**	**14.3**	***15***
Operating expenses	(30.6)	(25.4)	(5.2)	*20*
FSCS provisions	(0.4)	(0.9)	0.5	*(55)*
Impairments	(1.4)	(4.9)	3.5	*(71)*
Exceptional gain on sale	-	34.7	(34.7)	*(100)*
Statutory PBT	**78.4**	**100.0**	**(21.6)**	***(22)***
Tax	(19.4)	(25.9)	6.5	*(25)*
Statutory PAT	**59.0**	**74.1**	**(15.1)**	***(20)***
Underlying PBT	78.4	65.3[1]	13.1	20
Underlying PAT	59.0	48.4[1]	10.6	22

Underlying basic EPS



- Other expenses include £6.2m (H1 2016: £1.6m) further amortisation of fair value adjustments on cancelled swaps
- Impairment - improved loan loss ratio primarily due to lower losses on acquired residential portfolios
- Underlying PBT up 20% reflecting strong balance sheet growth and net interest income
- Effective tax rate at 24.7% due to lower rate of corporation tax and reduction in Group's profits subject to the Bank Corporation Tax Surcharge
- Strong growth trend in EPS, up 22% vs H1 2016.

[1] Restated, see footnote 1 on slide 2

Strong growth whilst improving credit quality

	H1 2017 £m	FY 2016 £m	Change £m	Change %
Lending				
Net customer loans	6,547	5,939	608	*10*
o/w gross customer loans	6,569	5,964	605	*10*
o/w provisions	(23)	(25)	2	*(8)*
Funding and liquidity				
Customer deposits	6,047	5,952	95	*2*
Wholesale funding	19	5	14	*280*
Liquid assets	599	560	39	*7*
Funding for Lending Scheme	390	525	(135)	*(26)*
Term Funding Scheme	551	101	450	*445*
Liquidity ratio	14.9%	17.9%		*(3)pps*

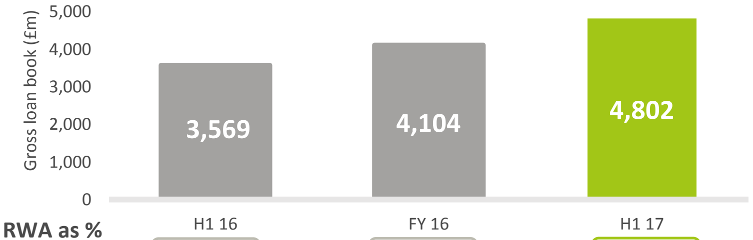
	H1 2017	FY 2016	H1 2016
Loan loss ratio (bps)	4	16	18
3 months in arrears %	1.4	1.4	2.1
Legacy problem loans (£m)	11.9	13.8	15.8
Average LTV of mortgage book %	64	63	62
Average LTV of new origination %	69	69	72

- Net loan book growth of 10% supported by 26% growth in organic origination to £1,229m
- FLS and TFS – continue to transition from the FLS to the TFS, with net new funding of £315m in H1 2017
- Liquidity coverage ratio of 189% significantly ahead of the 2017 regulatory minimum requirement of 90%
- Average LTV of new origination improved to 69% (H1 2016: 72%) more closely clustered around the average due to a reduced volume of higher LTV lending following the Brexit vote result

Segmental results – BTL/SME[1]

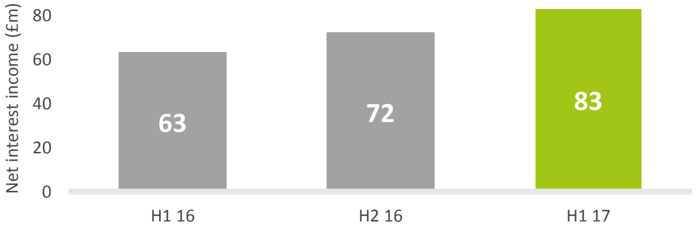
- LTVs remain low at 69% (2016: 69%) with only 1% of loans by value with LTVs exceeding 90% (2016: 0.4%)

1. Gross loan book



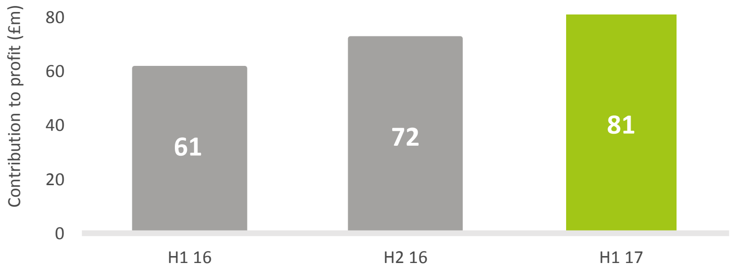
RWA as % of net loans	H1 16	FY 16	H1 17
	48%	48%	47%

2. Net interest income

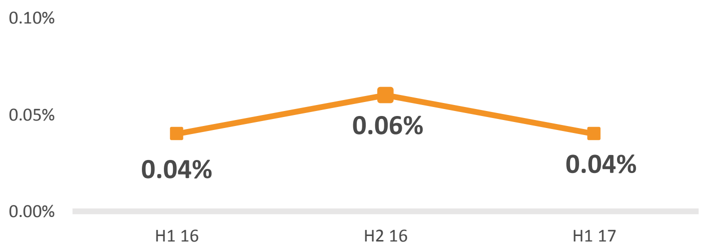


Gross asset yield	H1 16	H2 16	H1 17
	5.8%	5.8%	5.2%

3. Contribution to profit[2]



4. Loan loss charge as a % of average gross loans[1]

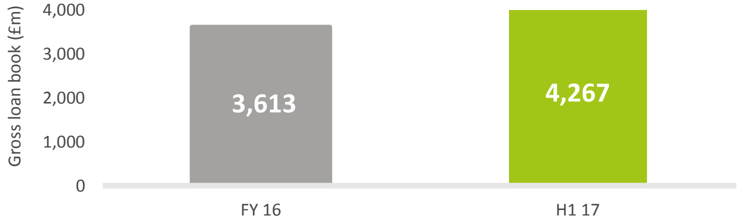


[1] The personal loan portfolio has largely completed its run-off and is therefore no longer considered as a separate segment by the Group. The remaining net loan book of £2.3m (31 December 2016: £9.1m) and negative contribution to profit for the period of £0.7m (H1 2016: contribution to profit of £1.5m) have been reported in the Buy-to-Let/SME segment with comparatives restated accordingly. However, personal loans were excluded from the loan loss ratio in graph 4 above.

[2] Total income less impairment losses

Segmental results – BTL/SME sub-segments

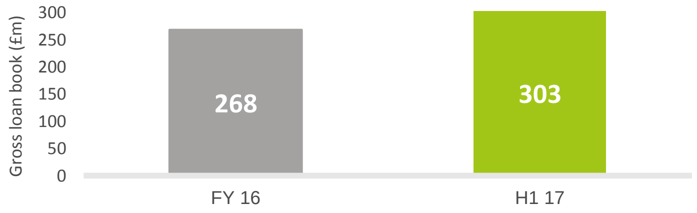
1. Buy-to-Let[1]



- Average interest rate coverage (ICR) was 190% during H1 2017 (2016: 171%)

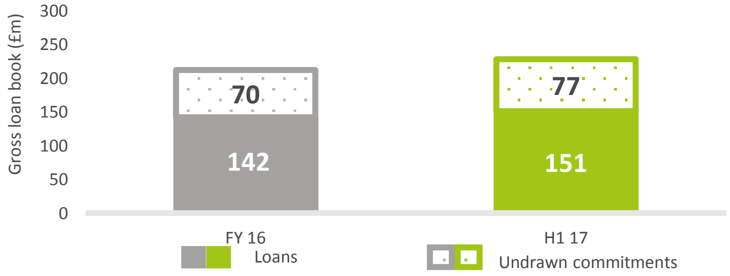
[1] See footnote 1 on slide 6

2. Semi-commercial/Commercial



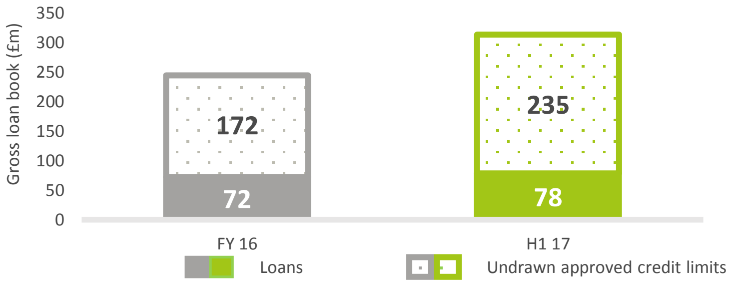
- Weighted average LTV: 61%
- Average loan size: £295,000

3. Residential development



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

4. Funding lines

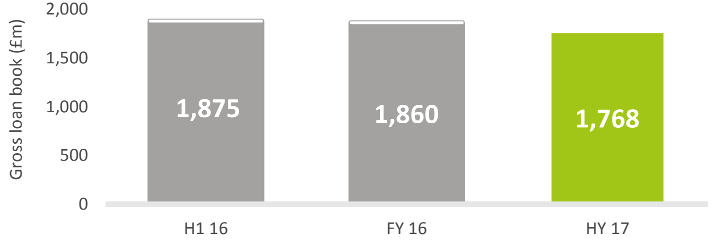


- Secured funding lines to non-bank lenders
- High yielding, secured, specialist sub-segments such as bridging finance and asset finance

Segmental results – Residential

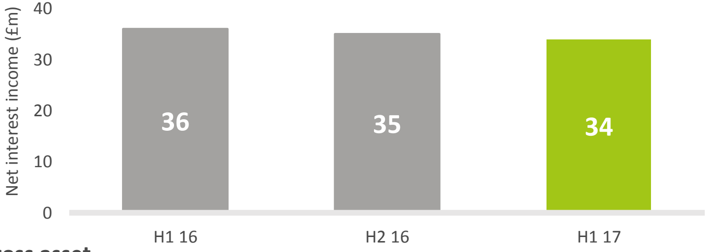
- LTVs remain low at 58% (2016: 58%) with only 2% of loans by value with LTVs exceeding 90% (2016: 3%)
- Average loan to incomes (LTIs) for residential mortgage lending increased with 3.7% of new loans having LTIs over 4.5 in the first half of 2017 compared to 2.6% in FY 2016. The average four quarter rolling average of LTIs over 4.5 however still remains at 3.6% at 30 June 2017, significantly below the regulatory limit of 15%

1. Gross loan book



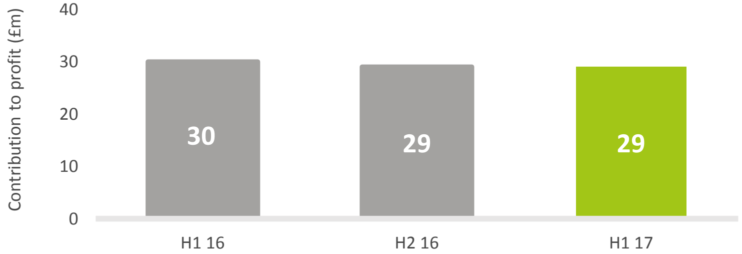
RWA as % of net loans	44%	43%	43%

2. Net interest income



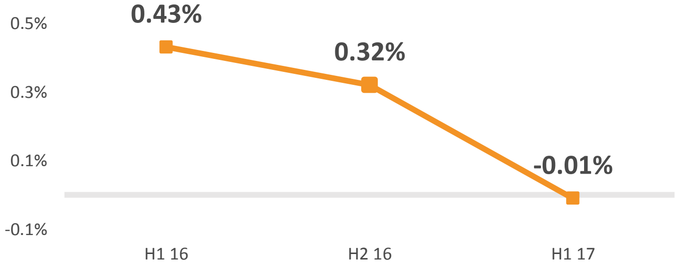
Gross asset yield	5.8%	5.1%	5.0%

3. Contribution to profit[1]



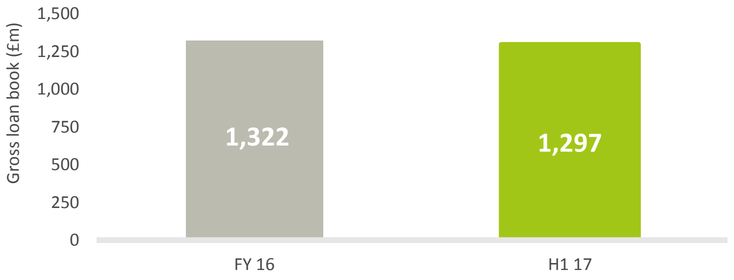
[1] Total income less impairment losses

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

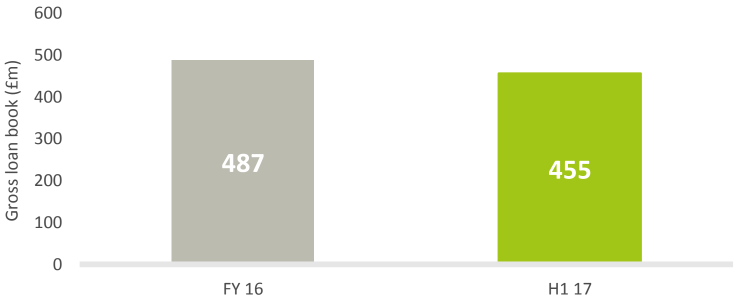


Segmental results – Residential sub-segments

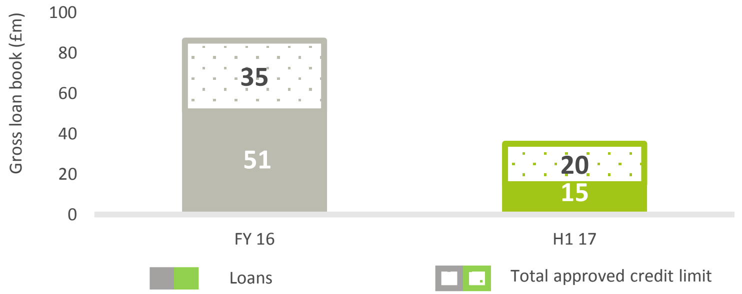
1. First charge mortgages



2. Second charge mortgages



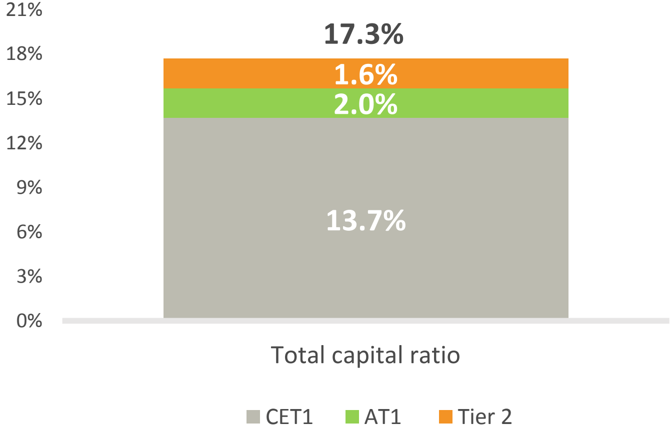
3. Funding lines



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. 7% with organic origination and book acquisitions 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
- Reduction in funding line loans outstanding due to maturity of a £34m line at the start of the year

Stronger capital base, enhanced by AT1



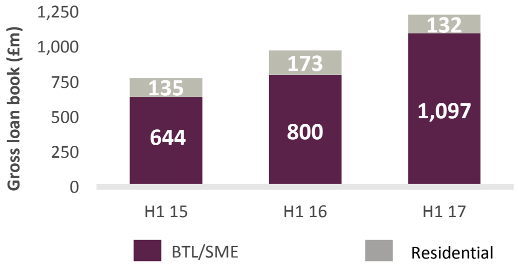
	H1 2017	FY 2016	Change
Capital			
Risk-weighted assets (RWAs) £m	2,991	2,743	248
RWAs as % of total assets	42	42	-
Common equity tier 1 ratio %	13.7	13.3	0.4%
Total capital ratio %	17.3	15.1	2.2%
Leverage ratio %	6.5	5.5	1.0%

- Strong capital generation through profitability
- Successful issuance of £60m AT1 securities in May 2017 to optimise the capital stack and support general expenses and growth of the business
- Pillar 2a requirement of 1.2% of risk weighted assets
- We anticipate maintaining a CET1 ratio at a minimum of 12% going forward
- Progressing towards IRB with the required models delivered in late 2016 and running in parallel throughout the first half of 2017

Our award winning lending franchise performed strongly

Growth

Organic lending up 26%



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Retention

Significant increase in borrowers choosing new products with our 'Choices' retention scheme

=

Net loan book growth of 10%

10%

Performance

Loan performance

Only 122 loans in 3m+ arrears (£21m), out of >33,500 loans (£7bn) originated since the Bank's creation in 2011

Well-positioned

Professional landlords account for 77% of Buy-to-Let completions by value during the first half of 2017 (68% in H2 2016)

Award winning

lending — mortgage strategy AWARDS '17 Best Specialist Lender WINNER

mortgage strategy AWARDS '17 Best BDM Team WINNER — distribution

Established brands

KentReliance

InterBay Commercial

Prestige Finance

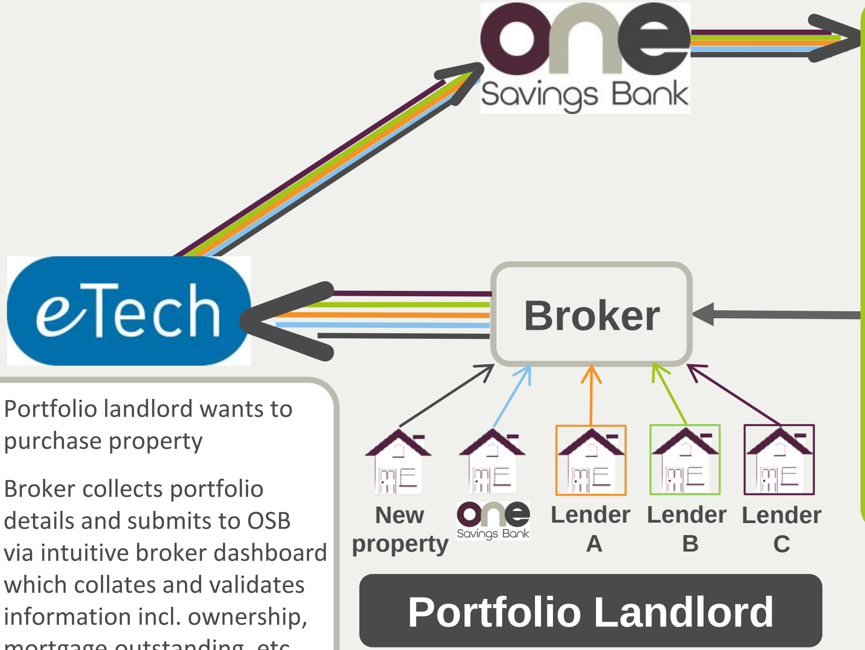
Heritable Development Finance

And are well-positioned to develop it further…

- OSB has announced its online portfolio submission platform ahead of the PRA's portfolio landlord underwriting standards coming into effect on 1st October
- Application process is simple for broker and landlord, with clear interfaces
- This will mitigate the increased administrative burden for portfolio landlords, brokers and lenders
- It has been developed with brokers and has been very well received

"Once again, OSB is blazing a trail amongst the specialist lenders"

Steve Olejnik, COO, Mortgages for Business



- Portfolio landlord wants to purchase property
- Broker collects portfolio details and submits to OSB via intuitive broker dashboard which collates and validates information incl. ownership, mortgage outstanding, etc.
- Portfolio details sent to OSB underwriters along with mortgage application

- OSB expert underwriters receive application along with the validated portfolio details
- Depth of additional underwrite is simple based on information received
- Decision making is swift and high quality providing certainty for broker and landlord

…clever tech, clever people - combining technology with our experienced, manual underwriting

Stable funding and award winning savings franchise

Growth

Retail deposits up

Retail deposits up 2% in the period

£6bn

+

Recruiting new customers

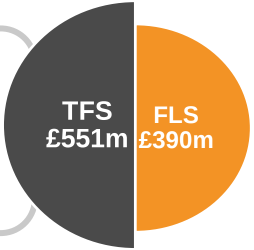
We continue to attract new savings customers

9000

+

Diversification

We continue to transition our funding from the FLS to the TFS



Performance

Strong customer retention

Retention rates on maturing Bonds and ISAs remain exceptionally strong

87%

Liquidity coverage ratio

Liquidity coverage ratio significantly ahead of the regulatory 90% minimum

189%

Award winning

Winning awards consistently over multiple years

ISA Provider of the Year

Summary and outlook

- The first half of 2017 was yet another period of strong growth: 26% increase in organic origination to £1.2bn
- Strong credit profile: low arrears and LTVs
- Excellent customer results: customer NPS at 60%, retail savings bond retention at 87%
- Trading conditions in our core BTL market remain positive and applications levels for the third quarter to date are strong
- Full year net loan book growth of at least high-teens through organic lending
- Well capitalised to take advantage of inorganic opportunities that provide long-term value and meet our strategic objectives
- NIM for full year to be broadly flat to 2016
- Full year cost to income ratio broadly flat to H1 2017
- CET1 to remain at a minimum of 12% going forward

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