OneSavings Bank plc

Interim Group Report and Financial Statements
For the six months ended 30 June 2015

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OneSavings Bank plc is a specialist lending and retail savings group

Certain statements made in these Interim Group Report and Financial Statements are forward looking statements. Such statements are based on current expectations and are subject to a number of risks and uncertainties that could cause actual events or results to differ materially from any expected future events or results referred to in these forward looking statements.

Performance Highlights

£778m (2014H1: £649m) — Gross new organic lending: up 20%

305bps (2014H1: 282bps) — Net interest margin[1]: up 23bps

£46.6m (2014H1: £24.8m) — Profit before tax: up 88%

£47.6m (2014H1: £29.7m[2]) — Underlying profit before tax[2]: up 60%

15.0p (2014H1: 8.8p) — Basic EPS[3]: up 70%

15.5p (2014H1: 11.0p) — Underlying basic EPS[4]: up 41%

26% (2014H1: 29%) — Cost:income ratio[5]: improved 3% points

31% (2014H1: 30%) — Underlying return on equity[6]: up 1% point

23bps (2014H1: 29bps) — Loan loss ratio[7]: improved 6bps

11.0% (2014H1: 11.0%) — Fully-loaded common equity tier 1 ratio

50% (2014H1: 34%) — Customer NPS: up 16% points

2.0p (2014H1: nil) — Interim dividend per share[8]

1 Net interest income, less coupons on perpetual subordinated bonds ('PSBs') classified as equity, as a percentage of average interest bearing assets, on an annualised basis.
2 Before exceptional Initial Public Offering ('IPO') expenses of £1.7m in first half 2015 (2014H1: £5.6m) and after deduction of coupons on equity PSBs of £0.7m in each period.
3 Previously reported as 9.2p per share before deduction of coupons on perpetual subordinated bonds classified as equity.
4 Underlying profit after taxation; profit after taxation excluding exceptional IPO expenses, including the tax effect, of £1.4m in first half 2015 (2014H1: £4.9m) and after deducting coupons on equity PSBs of £0.6m in each period (after tax) divided by the weighted average number of ordinary shares.
5 Administrative expenses, including depreciation and amortisation, as a percentage of total income after deduction of coupons on equity PSBs.
6 Underlying profit after taxation as a percentage of average shareholders' equity (excluding equity PSBs of £22m) of £241.3m in first half 2015 and £163.6m in first half 2014, on an annualised basis.
7 Impairment losses expressed as a percentage of average gross loans and advances, annualised.
8 Based on one third of the annualised 2014 dividend of 5.9 pence per share (2014 final two-thirds dividend of 3.9 pence per share).

Chief Executive's Statement

It is just over a year since OneSavings Bank listed on the London Stock Exchange and I am pleased to report that the company continues to exceed all of our financial objectives and became a member of the FTSE 250 in June. The 60% increase in underlying profit before taxation to £47.6m in the first half, reflects strong growth in loans and advances, further improvement in our net interest margin to 305bps, and focused cost efficiency driving an improved cost to income ratio of 26%. The net result of this is an underlying return on equity of 31%. Despite the recent announcement of a Bank Corporation Tax Surcharge, we remain confident that we can continue to deliver on all of our financial objectives including a return on equity of greater than 25% in 2016.

One specialist lender

Our ability to grow net loans and advances by 17% to £4.6bn in the first half demonstrates the opportunities that exist in our specialist lending sub-sectors and the strength of our lending franchises. Application volumes in our core businesses continued to be strong in the first half, remain of high quality and we are not experiencing competitive price pressure in our core business.

Where we have seen price pressure from new entrants in the smaller second charge residential market, we have responded through product innovation. New product ranges include second charge Buy-to Let (BTL) loans for our key target audience of professional landlords, which are originated and serviced through our second charge platform, Prestige. These help landlords who have cheap first charge tracker mortgages to release equity to expand their portfolios, whilst optimising their portfolio cost of borrowing.

We continue to innovate products in other sub-sectors, including extending our range of refurbishment products for Buy-to-Let landlords through our InterBay brand. Our Group wide distribution capability provides us with competitive advantage in launching new products in these specialist markets.

We remain pleased with the momentum gained in our Heritable residential development finance business, since its launch in early 2014, characterised by a growing loan book and pipeline which are ahead of plan despite new entrants to the market. The quality of the pipeline remains strong with new applications coming from a mixture of repeat business from the team's extensive existing relationships, referrals and other new customers looking for funding from an experienced lender.

I am very pleased that the Kent Reliance brand won the What Mortgage Best Buy-to-Let Lender award for the second year running in 2015.

One fair place to save

We continue to support lending growth through our stable retail funding franchise with retail deposits up almost £1bn year-on-year to £4.6bn. Over 9,600 new savings customers joined the bank in the first half of 2015 and our retention rates on maturing bonds and ISA's remain exceptionally strong at over 90%.

The strength and fairness of our retail savings proposition coupled with excellent customer service and high retention rates continue to allow the Bank to raise significant funds without needing to price at the very top of the best buy tables.

I am delighted that our Kent Reliance savings brand received three major awards from Moneyfacts in 2015, including the flagship Best Bank Savings Provider and the Best Cash ISA Provider for the third year running. These awards are a testament to our savings proposition and our staff who deliver outstanding customer service.

One unique operating model

Our low cost to income ratio reflects our efficient and scalable operating platform; OSBIndia, which also provides excellent customer service as reflected in our outstanding customer net promoter score of over 50%. We continue to focus on driving improved customer experience across our savings and lending franchises.

The Bank has secured additional office space in both the UK and India to support planned growth. A new head office building in Chatham opened in the third quarter and new premises in Bangalore are expected to be operational by the end of the year.

Maintaining a strong balance sheet

First half growth of 17% in the loan book, reflecting strong organic new lending supported by an accretive portfolio acquisition, was delivered whilst maintaining a capital ratio of 11.0%, comfortably above our financial objective.

The weighted average loan to value ('LTV') of the mortgage book remained strong at 61% as at 30 June 2015, with an average LTV of 71% on new origination.

The Group's loan loss ratio fell to 23bps in the first half of 2015 and I remain very pleased with the performance of the front book of mortgages. From more than 17,000 loans totalling £3.5bn organically originated since the creation of the Bank in February 2011, only 40 were in arrears of three months or more as at 30 June 2015, with a total value of less than £10m and an average LTV of 56%. This reflects the continued strength of the Bank's underwriting and lending criteria.

Responding to changing regulation and tax

The Chancellor announced a change to mortgage interest relief for individual landlords in his summer budget. OSB specialises in, and targets, the professional landlord segment of the private rental sector, many of whom run their businesses through limited companies, or utilise efficient re-investment strategies to manage their affairs. Landlords who have chosen to borrow in their own name have until 2017 to plan any changes to their portfolios; furthermore the tax changes will be gradually implemented over a four year period allowing landlords to adapt to these changes.

The sheer demand and demographic growth prospects for private rented property in the UK are likely to keep the market growing despite this and other proposed regulatory changes for Buy-to-Let lending. If, however, they act as a deterrent to inexperienced amateur landlords entering the market, then this will likely benefit the broader private rented sector in the longer term.

In his summer budget the Chancellor also announced intended changes to the tax regime for deposit taking institutions in the United Kingdom through the introduction of a Bank Corporation Tax Surcharge. In common with other deposit funded institutions it will ultimately reduce the Bank's post tax shareholder returns and capital available to fund new lending, but we remain confident in meeting all of our financial objectives, including our return on equity target of greater than 25% in 2016.

Market and outlook

The UK economy continues to perform well and the outlook remains positive and supportive of a growing mortgage market.

We enjoyed strong growth in our core markets in the first half, ending the period with a record pipeline. On-going application volumes have continued to grow in the third quarter to date and we expect loan book growth for the full year marginally ahead of the 29% growth experienced in 2014.

Demand for our core products has enabled the Bank to maintain or increase pricing where necessary to help manage volumes and whilst we continue to expect some pricing pressures from competition, we are not yet experiencing it in our core markets.

Having made a portfolio purchase in the first half of the year, we continue to focus on organic origination as our core growth strategy. However, we will continue to actively consider inorganic opportunities as they arise where they meet our strict financial and strategic objectives.

The second half of 2015 will see investment in the on-going development of the Group, including increases in core headcount and further infrastructure investment to support the Bank's growth plans.

Our specialism, continued innovation in products and expertise, together with our strong financial performance ensure that we are well placed to continue to execute our strategy and we remain confident in the outlook for the Group.

Andy Golding
Chief Executive

Interim Management Report

Business Highlights

OSB continued to deliver strong earnings and balance sheet growth during the first half of 2015, with an annualised underlying return on equity of 31% (first half 2014: 30%), basic earnings per share of 15.0p (first half 2014: 8.8p), underlying basic earnings per share of 15.5p (first half 2014: 11.0p), and a 17% increase in net loans and advances since 31 December 2014 (11% excluding the impact of the second charge residential portfolio purchase in the first half of 2015).

Profit before taxation increased by 88% in the first half of 2015 to £46.6m (first half 2014: £24.8m) and underlying profit before taxation (excluding exceptional IPO expenses and after deducting coupons on perpetual subordinated bonds ('PSBs') classified as equity) increased by 60% to £47.6m (first half 2014: £29.7m). This significant improvement in profitability reflects the impact of risk adjusted high margin new lending and a continued reduction in the Bank's cost of funds.

Gross new organic lending of £778m was up 20% compared to £649m in the first half of 2014, as the strong upwards trend in BTL/SME mortgage applications and completions achieved in 2014 was maintained.

In addition, the Bank acquired a portfolio of second charge residential mortgages in the first half of 2015 for £260m. There were no portfolio purchases in the first half of 2014.

The Bank joined the Bank of England's Funding for Lending Scheme (FLS) and was accepted as a mortgage collateral counterparty in 2014. The Bank pre-positioned pools of mortgage collateral with the Bank of England in February 2015 and drew down £345m of funding from the scheme in the first half of 2015 to help fund the loan book growth.

Financial Review

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

	First half 2015	First half 2014
Summary Profit or Loss	**£m**	**£m**
Net interest income	79.5	55.7
Gains / (losses) on financial instruments	(0.7)	(0.0)
Net fees and commissions	(0.2)	0.2
External servicing fees	(2.4)	(2.7)
Administrative expenses[1]	(19.7)	(15.4)
Regulatory provisions	(3.4)	(2.7)
Impairment losses	(4.9)	(4.7)
Exceptional IPO expenses	(1.7)	(5.6)
Profit before tax	46.6	24.8
Profit after tax	**37.0**	**20.3**
Underlying profit before tax[2]	47.6	29.7
Underlying profit after tax[3]	**37.8**	**24.5**
Key ratios		
Net interest margin[4]	305bps	282bps
Basic earnings per share[5], pence	15.0	8.8
Underlying basic earnings per share[6], pence	15.5	11.0
Underlying return on equity[7]	31%	30%
Management expense ratio, annualised	77bps	77bps
Cost : income ratio[8]	26%	29%
Impairment losses to average gross loans and advances, annualised	23bps	29bps

	30/06/2015	31/12/2014
Extracts from the Statement of Financial Position	**£m**	**£m**
Loans and advances	4,598.1	3,919.4
Retail deposits	4,635.5	4,331.6
Total assets	5,228.2	4,936.5
Key ratios		
Liquidity ratio[9]	18.3%	20.1%
Common equity tier 1 ratio	11.0%	11.4%
Total capital ratio	13.8%	14.8%

1 Including depreciation and amortisation
2 Before exceptional Initial Public Offering ('IPO') expenses of £1.7m in first half 2015 (2014H1: £5.6m) and after deduction of coupons on equity PSBs of £0.7m in each period.
3 Profit after taxation excluding exceptional IPO costs, including the tax effect, of £1.4m in first half 2015 (2014H1: £4.9m) and after deducting coupons on equity PSBs of £0.6m in each period (after tax).
4 Net interest income, less coupons on perpetual subordinated bonds ('PSBs') classified as equity, as a percentage of average interest bearing assets, on an annualised basis.
5 Previously reported in the first half 2014 as 9.2p per share before deduction of coupons on perpetual subordinated bonds classified as equity
6 Underlying profit after taxation divided by the weighted average number of ordinary shares.
7 Underlying profit after taxation as a percentage of average shareholders' equity (excluding equity PSBs of £22m) of £241.3m in first half 2015 and £163.6m in first half 2014, on an annualised basis.
8 Administrative expenses as a percentage of total income after deduction of coupons on equity PSBs.
9 Including impact of FLS drawdown.

Strong Profit Growth

The Group reported very strong profit growth in the first half of 2015 with profit before taxation of £46.6m up 88% (first half 2014: £24.8m). Underlying profit before taxation of £47.6m was up 60% (first half 2014: £29.7m). Profit after taxation increased by 82% to £37.0m (first half 2014: £20.3m) and underlying profit after taxation increased by 54% to £37.8m (first half 2014: £24.5m).

Net Interest Margin

The Group showed strong improvement in its net interest margin ('NIM') during the first half of 2015 reporting net interest income of £79.5m (first half 2014: £55.7m) and NIM of 305bps (first half 2014: 282bps). The NIM improvement reflects the positive impact of high-margin organic origination and portfolio purchases further diluting the low-yielding back book inherited from KRBS and offsetting the impact of the roll-off of the higher yielding personal loan portfolio, as well as a continued reduction in the Bank's cost of funds.

The lower cost of funds reflects the positive impact of funding from the FLS in the first half of 2015 and a continued reduction in the cost of retail funds as maturing fixed term deposits rolled on to slightly lower prevailing rates.

Efficient and Scalable Operating Platform

Administrative expenses including depreciation were up 28% to £19.7m for the first half of 2015 (first half 2014: £15.4m) reflecting the continued build out of the Group's operations and infrastructure to support growth in the business, meet the demands of new regulations and improve operational efficiency.

The Group's annualised management expense ratio was 0.77% for the first half of 2015 (first half 2014: 0.77%) and its cost:income ratio fell to 26% (first half 2014: 29%) reflecting the Bank's continued focus on cost control as it grows. Both ratios reflect the benefit of the Bank's efficient and scalable low cost back office based in Bangalore, India.

Regulatory Provisions

Regulatory provisions, which are primarily in respect of FSCS levies, increased to £3.4m for the first half of 2015 (first half 2014: £2.7m). This represents the full annual charge recognised on 1 April in each year, based on retail savings balances as at the previous 31 December and reflects the increase in the Bank's share of UK protected deposits, partially offset by an overall decrease in the FSCS's expected capital losses.

Impairment Losses

Impairment losses increased slightly to £4.9m in the first half of 2015 (first half 2014: £4.7m) with lower losses from acquired portfolios more than offset by higher losses from the KRBS back book. However, the impairment loss as a ratio of average gross loans and advances decreased to 23bps (first half 2014: 29bps).

Impairment losses on the personal loan portfolio decreased in the first half of 2015 to £0.5m (first half 2014: £1.6m) as the pace of growth in arrears slowed. Impairment losses on acquired mortgage portfolios decreased to £0.2m in the first half of 2015 (first half 2014: £1.6m) reflecting the impact of improved arrears levels in other acquired portfolios, partially offset by the impact of non-performing loans in the second charge residential portfolio purchased in March 2015.

The performance of the front book of mortgages remains strong, reflecting the continued strength of the Bank's underwriting and lending criteria. From more than 17,000 loans totalling £3.5bn organically originated since the creation of the Bank in February 2011, there were only 40 cases three months or more in arrears as at 30 June 2015, with a total value of £9.7m and an average LTV of 56%.

Exceptional IPO Expenses

Total IPO related costs of £1.7m in the first half of 2015 relate to nil price options over the Bank's shares granted to certain Directors, senior managers and other employees of the Bank at admission, with future vesting provisions. These options were granted by OSB Holdco Ltd, the Bank's major shareholder and as such the expense (with the exception of the associated employers' national insurance) is offset fully by an additional capital contribution. Total IPO expenses of £5.6m charged to profit and loss in the first half of 2014 included £2.3m in respect of nil price options over the Bank's shares granted to certain Directors, senior managers and other employees of the Bank at admission, which vested on admission (offset fully by an additional capital contribution) and £3.3m of other IPO related expenses. A further £2.4m of costs attributable to the primary issuance were taken directly to equity in the first half of 2014.

Dividends

Going forward, the Board intends to declare interim dividends based on one third of the prior year's total dividend. To that end the Board has declared an interim dividend of 2.0 pence per share for first half 2015, based on the annualised 2014 final dividend of 5.9 pence per share (2014 final two-thirds dividend: 3.9 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 taxation, being profit for the year less coupons on perpetual subordinated bonds classified as equity and before exceptional IPO expenses (including any tax effects).

Balance Sheet Growth

Loans and advances grew by 17% in the first half of 2015 to £4,598.1m (31 December 2014: £3,919.4m) due primarily to a significant increase in new lending in the BTL/SME segment and the purchase of a second charge residential loan portfolio, partly offset by redemptions in the organic back book and acquired portfolios in run-off.

Retail deposits and total assets grew by 7% and 6% respectively as the growth in the loan book was in part funded by draw downs under the FLS totalling £345m.

Liquidity

OSB operates under the PRA's Individual Liquidity Adequacy Assessment ('ILAA') regime. The Bank operates within a target liquidity runway in excess of the minimum regulatory requirement. The Bank continued to manage its liquidity efficiently in the first half of 2015 having successfully spread savings maturities more evenly throughout the year and continued to demonstrate a strong retention track record on fixed term bond and ISA maturities.

The Group's liquidity ratio as at 30 June 2015 was 18.3%, including impact of FLS drawdown (30 June 2014: 18.0%). The Group's liquidity ratio as at 31 December 2014 was 20.1% as the Bank built up additional liquidity in December in advance of pensioner bonds expected to launch at higher than market rates in January 2015. Actual outflows into pensioner bonds in early 2015 were well inside the Bank's conservative projections.

Capital

The Bank has maintained a CET1 capital position comfortably above its financial objective, following significant balance sheet growth in the first half of 2015, supported by first half profits (after foreseeable dividends). The fully-loaded Common Equity Tier 1 Capital ratio ('CET1 ratio') was 11.0% as at 30 June 2015 (31 December 2014: 11.4%).
The Bank had a Total Capital Ratio of 13.8 and a leverage ratio of 4.6% as at 30 June 2015 (31 December 2014: 14.8% and 4.2% respectively).

Segmental Business and Financial Review

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

As at 30 June 2015, £m	Total	BTL/SME	Residential mortgages	Personal loans
Gross loans to customers	4,627.4	2,549.3	1,994.9	83.2
Provision for impairment losses	(29.3)	(18.2)	(2.6)	(8.5)
Net loans to customers	4,598.1	2,531.2	1,992.2	74.7
Risk weighted assets	2,162.5	1,201.5	884.1	77.0

First half 2015, £m	Total	BTL/SME	Residential mortgages	Personal loans	Central
Net interest income	79.5	41.1	32.8	5.6	-
Other income / (expense)	(3.3)	(0.1)	(2.4)	(0.7)	-
Total income	76.2	40.9	30.4	4.9	-
Impairment losses	(4.9)	(4.2)	(0.1)	(0.5)	-
Contribution to profit	71.4	36.7	30.3	4.4	-

30 June 2014, £m	Total	BTL/SME	Residential mortgages	Personal loans
Gross loans to customers	3,454.7	1,541.1	1,759.8	153.8
Provision for impairment losses	(32.1)	(24.6)	(3.9)	(3.5)
Net loans to customers	3,422.6	1,516.5	1,755.9	150.3
Risk weighted assets	1,631.6	746.7	761.7	123.2

First half 2014, £m	Total	BTL/SME	Residential mortgages	Personal loans	Central
Net interest income	55.7	19.0	26.5	10.2	-
Other income / (expense)	(2.5)	(0.5)	(3.4)	(0.8)	2.3
Total income	53.2	18.5	23.1	9.4	2.3
Impairment losses	(4.7)	(1.6)	(1.5)	(1.6)	-
Contribution to profit	48.5	16.9	21.6	7.8	2.3

Segmental Business and Financial Review

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

31 December 2014, £m	Total	BTL/SME	Residential mortgages	Personal loans
Gross loans to customers	3,945.4	2,064.9	1,763.4	117.1
Provision for impairment losses	(26.0)	(15.4)	(2.6)	(8.0)
Net loans to customers	3,919.4	2,049.5	1,760.8	109.2
Risk weighted assets	1,829.3	990.1	738.1	101.1

2014, £m	Total	BTL/SME	Residential mortgages	Personal loans	Central
Net interest income	125.2	50.3	57.1	17.7	-
Other income / (expense)	(6.3)	(1.0)	(6.1)	(1.5)	2.3
Total income	118.9	49.4	51.0	16.3	2.3
Impairment losses	(11.7)	(4.7)	(1.1)	(5.9)	-
Contribution to profit	107.2	44.6	49.9	10.4	2.3

Buy-to-Let/SME

This segment comprises secured lending on property for investment and commercial purposes.

During the first half of 2015, the Group significantly increased its volume of new organic lending in this segment to £644m, an increase of 24% on first half 2014 new lending of £519m. This included strong growth in Buy-to-Let ('BTL') through the Kent Reliance and InterBay brands, where we continued to see strong growth opportunities at risk-adjusted high returns.

The UK BTL market continued to grow in the first half of 2015 and whilst this has attracted a number of new lenders, we have not seen price pressure or any reduction in demand for our core product range.

The strength of our distribution relationships and our ability to serve the market with a range of propositions across our brands has driven this demand and is a significant competitive advantage. Product innovation has also been a contributory factor and we have responded to market demands with new propositions for professional landlords including extending our suite of refurbishment products from InterBay, and introducing a new range of second charge BTL products from Prestige.

Capital values and total returns for commercial property in the UK have shown continued growth during the first half of 2015. Against this backdrop, the Group continued to grow its commercial and semi-commercial lending through the InterBay brand, following proactive distribution strategies with specialist commercial broker partners that operate solely in these asset classes.

The Bank launched its Heritable residential development finance business in early 2014. The business continues to gain momentum with a growing loan book and pipeline in spite of new entrants to the market. The quality of the pipeline remains strong with new applications from the team's extensive existing relationships, referrals and other new customers looking for funding from an experienced lender.

In addition, the Bank continued to grow the collateralised funding lines it provides to other lenders which include bridging, development financing and asset finance.

OSB's BTL/SME loan portfolio grew 24% during the first half of 2015, ending the period with a net carrying value of £2,531.2m (31 December 2014: £2,049.5m). The average loan to value ('LTV') remained low at 67% (31 December 2014: 68%) with 2% of loans by value with LTV's exceeding 90% (31 December 2014: 2%). The average LTV of new BTL/SME origination in the first half of 2015 was 72%.

The BTL/SME segment made a contribution to Group profit of £36.7m in the first half of 2015 up 117% compared to £16.9m in the first half 2014, reflecting the positive impact of risk-adjusted high margin new lending and the falling cost of funds, partially offset by higher impairment losses of £4.2m, primarily from the KRBS back book (first half 2014: £1.6m).

Residential Mortgages

This segment comprises lending to customers who live in their own homes, secured either via first or second charges against the residential home.

During the first half of 2015 the Group organically originated residential lending of £135m (first half 2014: £130m). This included first charge residential lending in the UK, predominantly in London and the South East, through the Kent Reliance brand as well as second charge lending through the Prestige brand. The Bank also continues to provide collateralised funding lines to other lenders who provide residential bridge financing.

The Bank acquired a portfolio of UK second charge residential mortgages in the first half of 2015 for £260m. The portfolio was purchased at a small premium to par reflecting the attractive characteristics of the portfolio, including a weighted average interest rate of 9% and LTV of c.70%. In addition the portfolio is predominantly performing and is well diversified across the UK regions. The loans will be serviced by the Group's second charge platform, Prestige, to leverage cost efficiencies and asset management capabilities and enhance the return from the portfolio, whilst ensuring fair treatment of customers.

OSB's total residential loan portfolio had a net carrying value of £1,992.2m as at 30 June 2015 (31 December 2014: £1,760.8m). The growth in the residential loan book was due to the purchase of the portfolio of second charge loans, with new organic lending in the first half of 2015 offset by redemptions on the organic back book and acquired mortgage portfolios in run-off. The average loan to value ('LTV') remained low at 54% (31 December 2014: 54%) with only 3% of loans by value with LTV's exceeding 90% (31 December 2014: 1%) following the UK second charge portfolio acquisition. The average LTV of new residential origination in the first half of 2015 was 67%.

Residential mortgages made a contribution to Group profit of £30.3m in the first half of 2015 up 40% compared to £21.6m in the first half 2014, reflecting the positive impact of high-margin new lending and the portfolio purchase, the falling cost of funds and lower impairment losses from the acquired mortgage portfolios.

£22.1m in the first half of 2014 (first half 2013: £16.5m). Loan losses on this book reflect the accelerated workout of the book.

Personal Loans

OSB acquired the performing former Northern Rock consumer loan portfolio from UKAR in July 2013 for £258m. This portfolio of high-margin, seasoned, performing loans currently represents OSB's only unsecured loans. The portfolio, which was purchased at a discount, has a net carrying value after collective provisions of £74.7m as at 30 June 2015 (31 December 2014: £109.2m).

The portfolio made a contribution to profit of £4.4m in the first half of 2015 (first half 2014: £7.8m), however, the book is in run-off with a short remaining weighted average life. Impairment losses decreased to £0.5m in the first half of 2015 (first half 2014: £1.6m) as the pace of growth in arrears slowed. Arrears continue to run significantly below expectations at the time of purchase.

Principal Risks and Uncertainties

The principal risks and uncertainties faced by the Group include credit risk, market risk, liquidity risk, operational risk, regulatory risk, and conduct risk. The Group manages these through a robust risk management framework that consists of well-established strategy and clearly articulated risk appetite, robust governance structures, policies that specify responsibility for management and requirements for measuring and reporting, and management information that enables monitoring.

During the first half of 2015, the risks were largely consistent with those faced at 2014 year end, and full discussion can be found in pages 30-33 of the Annual Report which can be accessed via the Group's website at www.OSB.co.uk. There have been no material changes in the Group's business model, management approach, or risk appetite over the first half of 2015. However, there have been some changes in the external environment, which have elevated certain risks faced by the Group.

Regulatory risk was the main area of increased risk highlighted in the 2014 Annual Report, specifically the risk of changes in the regulatory capital regime that could lead to increases in the level and quality of capital that the Group needs to hold to meet regulatory requirements. These potential changes include proposed changes to standardised risk weights by the Basel Committee, which are still in a consultation phase and it will be a number of years before any final rules are expected to be effective in Europe, providing ample time to respond to any such changes.

There has been increased focus by the UK regulator and the Chancellor on the Buy-to-Let market and private rented sector leading to an enhanced risk of change at short notice that could impact the sector. The Bank of England's July 2015 Financial Stability Report highlighted Buy-to-Let lending as a potential risk to financial stability and noted that HM Treasury would consult on tools for the Bank of England's Financial Policy Committee relating to Buy-to-Let lending in 2015. In addition the Chancellor announced a change to mortgage interest relief for individual landlords in his summer budget which could impact the demand for Buy-to-Let mortgages, although many professional landlords, the Bank's target market, who run their businesses through limited companies, or utilise efficient re-investment strategies to manage their affairs should be able to largely mitigate the impact of the change. Other landlords who have chosen to borrow in their own name have until 2017 to plan any changes to their portfolios to address the tax changes, which will be gradually implemented over a four year period. The strong demand and demographic growth prospects for private rented property in the UK are also expected to help mitigate the impact of these and other proposed regulatory changes on Buy-to-Let lending.

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 European Union;
- the interim management report includes a fair review of the information required by:

  (a) DTR 4.2.7R of the Disclosure and Transparency Rules, being an indication of important events that have occurred during the 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 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

Rod Duke

Mike Fairey

Andy Golding

Tim Hanford

Malcolm McCaig

Mary McNamara

David Morgan

Nathan Moss

April Talintyre

Stephan Wilcke

By order of the Board
Date: 25 August 2015

Financial Statements

Independent Review Report to OneSavings Bank plc

Introduction

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 2015 which comprises the Consolidated Statement of Profit or Loss, the Consolidated Statement of Other Comprehensive Income, the Consolidated Statement of Financial Position, the Consolidated Statement of Changes in Equity and the Consolidated Statement of Cash Flows and the related explanatory notes. 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 the terms of our engagement to assist the company in meeting the requirements of the Disclosure and Transparency Rules ("the DTR") of the UK's Financial Conduct Authority ("the UK FCA"). Our review has been undertaken so that we might state to the company those matters we are required to state to it in this 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 reached.

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 DTR of the UK FCA.

As disclosed in note 1, the annual financial statements of the group are prepared in accordance with IFRSs as adopted by the EU. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with IAS 34 Interim Financial Reporting as adopted by the EU.

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 Auditing Practices Board for use in the UK. A review of interim financial information consists of making enquiries, 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 Ireland) 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 2015 is not prepared, in all material respects, in accordance with IAS 34 as adopted by the EU and the DTR of the UK FCA.

Richard Gabbertas
for and on behalf of KPMG LLP
Chartered Accountants
1 The Embankment
Neville Street
Leeds LS1 4DW

25 August 2015

Consolidated Statement of Profit or Loss

	Notes	Six months ended 30-Jun-15 (Unaudited) £'000	Six months ended 30-Jun-14 (Unaudited) £'000	Year ended 31-Dec-14 (Audited) £'000
Interest receivable and similar income	2	126,619	96,432	209,882
Interest payable and similar charges	3	(47,096)	(40,706)	(84,681)
Net interest income		79,523	55,726	125,201
Fair value losses on financial instruments		(692)	(2,268)	(4,323)
Gains on sales of financial instruments		-	2,258	2,258
Fees and commissions receivable		228	430	875
Fees and commissions payable		(421)	(248)	(507)
External servicing fees		(2,398)	(2,689)	(4,593)
Total income		76,240	53,209	118,911
Administrative expenses	4	(18,861)	(15,096)	(32,390)
Depreciation and amortisation		(822)	(323)	(896)
FSCS and other provisions		(3,395)	(2,723)	(2,767)
Operating profit		53,162	35,067	82,858
Impairment losses	10	(4,870)	(4,674)	(11,685)
Profit before exceptional IPO expenses		48,292	30,393	71,173
Exceptional IPO expenses	5	(1,695)	(5,576)	(7,428)
Profit before taxation		46,597	24,817	63,745
Taxation	6	(9,616)	(4,479)	(12,208)
Profit for the year		36,981	20,338	51,537
Dividend, pence per share	7	2.0	-	3.9
Earnings per share, pence per share				
Basic	8	15.0	8.8	21.7
Diluted	8	15.0	8.8	21.7

The accompanying notes on pages 26 – 40 form an integral part of these condensed financial statements

Consolidated Statement of Other Comprehensive Income

	Six months ended 30-Jun-15 (Unaudited) £'000	Six months ended 30-Jun-14 (Unaudited) £'000	Year ended 31-Dec-14 (Audited) £'000
Items which may be reclassified to profit or loss:			
Fair value changes on available-for-sale securities			
Arising in the year	**(559)**	**558**	**1,013**
Transferred to profit or loss	**(40)**	**166**	**166**
Revaluation of foreign operations	**(904)**	**(802)**	**(696)**
Tax on items in other comprehensive income	**144**	**(156)**	**(238)**
Other comprehensive income for the year	**(1,359)**	**(234)**	**245**
Profit for the year	**36,981**	**20,338**	**51,537**
Total comprehensive income for the year	**35,622**	**20,104**	**51,782**

The accompanying notes on pages 26 – 40 form an integral part of these condensed financial statements

Condensed Consolidated Statement of Financial Position

	Notes	As at 30-Jun-15 (Unaudited) £'000	As at 30-Jun-14 (Unaudited) £'000	As at 31-Dec-14 (Audited) £'000
Assets				
Cash in hand		281	262	288
Loans and advances to credit institutions		383,383	397,358	767,318
Investment securities		158,691	305,058	158,597
Loans and advances to customers	9	4,598,119	3,422,585	3,919,397
Derivative assets		970	881	937
Fair value hedges - assets		62,377	64,627	68,738
Deferred taxation asset		2,948	6,176	3,563
Intangible assets		2,778	1,540	2,305
Property, plant and equipment		7,134	6,358	3,104
Other assets		11,479	14,355	12,280
Total assets		5,228,160	4,219,200	4,936,527
Liabilities				
Amounts owed to retail depositors		4,635,454	3,647,857	4,331,639
Amounts owed to credit institutions		2,291	491	23,009
Amounts owed to other customers		2,533	6,074	4,353
Debt securities in issue		210,169	259,381	238,390
Derivative liabilities		21,380	22,348	25,447
Fair value hedges - liabilities		1,558	-	3,126
Current taxation liability		6,038	-	2,945
Deferred taxation liability		66	-	-
Other liabilities		23,779	20,175	13,609
FSCS and other provisions		4,991	3,995	1,598
Subordinated liabilities		27,561	27,578	27,573
Perpetual subordinated bonds		15,263	15,290	15,234
		4,951,083	4,003,189	4,686,923
Equity				
Share capital		2,431	2,431	2,431
Share premium		157,901	157,901	157,901
Retained earnings		101,921	44,212	74,998
Other reserves		14,824	11,467	14,274
		277,077	216,011	249,604
Total equity and liabilities		5,228,160	4,219,200	4,936,527

The accompanying notes on pages 26 – 40 form an integral part of these condensed financial statements

Condensed Consolidated Statement of Changes in Equity

	Share capital £'000	Capital premium £'000	Share contribution £'000	Transfer reserve £'000	Foreign exchange reserve £'000	Available-for-sale reserve £'000	Share-based payment reserve £'000	Retained earnings £'000	Equity bonds[1] £'000	Total £'000
Balance at 1 January 2015	2,431	157,901	4,468	(12,818)	(293)	785	132	74,998	22,000	249,604
Profit for the year	-	-	-	-	-	-	-	36,981	-	36,981
Coupon paid on equity bonds[2]	-	-	-	-	-	-	-	(578)	-	(578)
Dividends paid								(9,480)		(9,480)
Other comprehensive income	-	-	-	-	(904)	(455)	-	-	-	(1,359)
Share based payments	-	-	1,237	-	-	-	672	-	-	1,909
Balance at 30 June 2015 (Unaudited)	2,431	157,901	5,705	(12,818)	(1,197)	330	804	101,921	22,000	277,077

	Share capital £'000	Capital premium £'000	Share contribution £'000	Transfer reserve £'000	Foreign exchange reserve £'000	Available-for-sale reserve £'000	Share-based payment reserve £'000	Retained earnings £'000	Equity bonds[1] £'000	Total £'000
Balance at 1st January 2014	1,265	119,885	3,326	(12,818)	403	(156)	-	21,273	22,000	155,178
Profit for the period	-	-	-	-	-	-	-	20,338	-	20,338
Coupon paid on equity bonds[2]	-	-	-	-	-	-	-	(725)	-	(725)
Other comprehensive income	-	-	-	-	(802)	568	-	-	-	(234)
Capital reorganisation[3]	922	(922)	(3,326)	-	-	-	-	3,326	-	-
Share issue	244	41,307	-	-	-	-	-	-	-	41,551
Share issue related costs	-	(2,369)	-	-	-	-	-	-	-	(2,369)
Share based payments	-	-	2,272	-	-	-	-	-	-	2,272
Balance at 30 June 2014 (Unaudited)	2,431	157,901	2,272	(12,818)	(399)	412	-	44,212	22,000	216,011

1 Equity bonds comprise £22m of 6.591% perpetual subordinated bonds.
2 Coupon paid on equity bonds is shown before tax.
3 See 2014 Annual Report and Accounts p. 99.

Condensed Consolidated Statement of Changes in Equity

	Share capital £'000	Capital premium £'000	Share contribution £'000	Transfer reserve £'000	Foreign exchange reserve £'000	Available-for-sale reserve £'000	Share-based payment reserve £'000	Retained earnings £'000	Equity bonds[1] £'000	Total £'000
Balance at 1 January 2014	**1,265**	**119,885**	**3,326**	**(12,818)**	**403**	**(156)**	**-**	**21,273**	**22,000**	**155,178**
Profit for the period	-	-	-	-	-	-	-	51,537	-	51,537
Coupon paid on equity bonds[2]	-	-	-	-	-	-	-	(1,138)	-	(1,138)
Other comprehensive income	-	-	-	-	(696)	941	-	-	-	245
Capital reorganisation[3]	922	(922)	(2,626)	-	-	-	-	3,326	-	700
Share issue	244	41,307	-	-	-	-	-	-	-	41,551
Share issue related costs	-	(2,369)	-	-	-	-	-	-	-	(2,369)
Share based payments	-	-	3,768	-	-	-	132	-	-	3,900
Balance at 31 December 2014 (Audited)	**2,431**	**157,901**	**4,468**	**(12,818)**	**(293)**	**785**	**132**	**74,998**	**22,000**	**249,604**

1 Equity bonds comprise £22m of 6.591% perpetual subordinated bonds.
2 Coupon paid on equity bonds is shown before tax.
3 See 2014 Annual Report and Accounts p. 99.

Condensed Consolidated Statement of Cash Flows

	Six months ended 30-Jun-15 (Unaudited) £'000	Six months ended 30-Jun-14 (Unaudited) £'000	Year ended 31-Dec-14 (Audited) £'000
Cash flows from operating activities			
Profit before tax	46,597	24,817	63,745
Adjustments for non-cash items:			
Depreciation and amortisation	822	323	896
Interest on subordinated liabilities	619	620	1,261
Interest on perpetual subordinated bonds	479	618	1,144
Impairment charge on loans net of write offs	3,233	4,674	(1,496)
(Gain) / loss on sale of financial instruments	-	(2,258)	(2,258)
FSCS and other provisions	3,395	2,723	2,767
Fair value losses on financial instruments	692	2,268	4,323
Share based payments	1,410	2,272	3,785
Changes in operating assets and liabilities			
Decrease in loans and advances to credit institutions	-	(126)	-
(Increase) in loans to customers	(681,955)	(386,010)	(876,653)
Increase in retail deposits	303,815	396,281	1,080,063
(Increase) / decrease in other assets	801	(7,723)	(2,849)
Increase / (decrease) in derivatives and hedged items	1	626	629
Increase / (decrease) in bank and other deposits	(22,538)	2,776	23,573
Net increase in other liabilities	10,170	7,331	3,772
Exchange differences on working capital	(904)	(798)	(695)
Cash generated from / (used in) operating activities	(333,363)	48,414	302,007
Interest paid on bonds and subordinated debt	(1,081)	(1,211)	(2,442)
FSCS and other provisions paid	(2)	(9)	(2,450)
Tax paid	(5,052)	(504)	(1,517)
Net cash from operating activities	(339,498)	46,690	295,598

Condensed Consolidated Statement of Cash Flows

	Six months ended 30-Jun-15 (Unaudited) £'000	Six months ended 30-Jun-14 (Unaudited) £'000	Year ended 31-Dec-14 (Audited) £'000
Cash flows from investing activities			
Net sales of investment securities	(693)	58,245	205,885
Purchases of equipment and intangible assets	(5,325)	(2,149)	(2,980)
Cash generated from investing activities	(6,018)	56,096	202,905
Cash flows from financing activities			
Coupon paid on equity bonds	(725)	(725)	(1,450)
Proceeds from share issues and capital contributions	-	41,551	42,251
Share issue (IPO) costs paid	-	(982)	(5,699)
Net issue / (repayment) of debt	(28,221)	(14,378)	(35,367)
Dividends paid	(9,480)	-	-
Cash (used in) / generated from financing activities	(38,426)	25,466	(265)
Net increase in cash and cash equivalents	(383,942)	128,252	498,238
Cash and cash equivalents at the beginning of the period			
Cash in hand	288	267	267
Loans and advances to credit institutions repayable on demand	767,318	269,101	269,101
	767,606	269,368	269,368
Cash and cash equivalents at the end of the period			
Cash in hand	281	262	288
Loans and advances to credit institutions repayable on demand	383,383	397,358	767,318
	383,664	397,620	767,606
Movement in cash and cash equivalents	(383,942)	128,252	498,238

Notes to the Condensed Consolidated Financial Statements

1. Accounting Policies

a) Basis of preparation

These Interim Group Financial Statements have been prepared in accordance with the Disclosure and Transparency Rules of the Financial Conduct Authority and in accordance with 'International Accounting Standard 34 Interim Financial Reporting' as adopted by the European Union (EU).

The accounting policies, presentation and methods of computation are consistent with those applied by the Group in its latest audited financial statements, which were prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU and interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC). 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 annual financial statements as at and for the year ended 31 December 2014.

The comparative figures for the year ended 31 December 2014 are not the Group's statutory accounts for that financial year. The statutory accounts for the year ended 31 December 2014 have been delivered to the Registrar of Companies in England and Wales in accordance with section 447 of the Companies Act 2006. The auditor has reported on those accounts. Its report was unqualified; did not include a reference to any matters to which the auditors 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 26 August 2015

b) New accounting standards

The accounting policies used are consistent with those set out on pages 50 to 58 of the 2014 Annual Report except for the adoption of the standards and amendments effective from 1 January 2015.

The Group adopted the amendment to IFRS 13 Fair Value Measurement which became effective on 1 January 2015. It clarifies that the portfolio exception includes all contracts accounted for within the scope of IAS 39 Financial Instruments: Recognition and Measurement regardless of whether they meet the definition of financial assets or liabilities as defined in IAS 32 Financial Instruments: Presentation. This amendment does not have a material impact on the Group.

c) Changes in accounting estimates

During the period an additional category has been added to reflect the economic useful life of fixtures and fittings in the new buildings at 10 years. Prior to this category expenditure of this nature would have been depreciated at either 5 years or 50 years. The new useful lives have been applied prospectively to the net carrying values as at 1 Jan 2015, resulting in a reduction in the depreciation charge for the period of £4k.

d) Going concern

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

Projections for OneSavings Bank plc have been prepared, covering its future performance, capital and liquidity, for a period in excess of 12 months from the date of approval of these financial statements including stress scenarios. These projections show that the Group has sufficient capital to continue to meet its regulatory capital requirements as set out by the Prudential Regulation Authority.

The directors therefore have a reasonable expectation that the Group has sufficient resources to continue in operational existence for the foreseeable future and as a result it is appropriate to prepare these financial statements on a going concern basis.

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. There have been no significant changes in the basis upon which estimates have been determined compared to that applied at 31 December 2014, as described on pages 81 to 82 of the 2014 Annual Report.

2. Interest receivable and similar income

	Six months ended 30-Jun-15 (Unaudited) £'000	Six months ended 30-Jun-14 (Unaudited) £'000	Year ended 31-Dec-14 (Audited) £'000
On BTL/SME mortgages	66,468	35,246	88,001
On residential mortgages	55,892	51,667	105,754
On personal loans	6,733	12,609	21,576
On reverse repo transactions	-	290	460
On investment securities	808	836	1,684
On other liquid assets	1,207	523	1,661
Net expense on derivative financial instruments	(4,489)	(4,739)	(9,254)
	126,619	96,432	209,882

3. Interest payable and similar charges

	Six months ended 30-Jun-15 (Unaudited) £'000	Six months ended 30-Jun-14 (Unaudited) £'000	Year ended 31-Dec-14 (Audited) £'000
On retail deposits	45,141	37,212	78,672
On perpetual subordinated bonds	479	618	1,144
On subordinated liabilities	619	620	1,261
On wholesale borrowings	3,054	3,364	6,407
Net income on derivative financial instruments	(2,197)	(1,108)	(2,803)
	47,096	40,706	84,681

4. Administrative expenses

	Six months ended 30-Jun-15 (Unaudited) £'000	Six months ended 30-Jun-14 (Unaudited) £'000	Year ended 31-Dec-14 (Audited) £'000
Staff costs[1]	10,983	8,673	18,701
Facilities costs	1,122	968	2,157
Marketing costs	742	458	1,316
Support costs	2,258	1,520	3,201
Professional fees	1,945	1,130	3,136
Other costs[2]	1,811	2,347	3,879
	18,861	15,096	32,390

1 Staff costs include £152k relating to share based executive management compensation.
2 Other costs mainly consist of irrecoverable VAT expense.

The average number of persons employed by the Group (including executive Directors) during the period was 491 (first half 2014: 399).

5. Exceptional IPO expenses

Exceptional IPO expenses consist of expenses incurred in connection with the stock exchange listing (IPO) and share based awards granted on IPO. These non-recurring expenses are presented separately to provide better comparability of the current reporting period with previous years.

Exceptional IPO expenses are summarised in the table below:

	Six months ended 30-Jun-15 (Unaudited) £'000	Six months ended 30-Jun-14 (Unaudited) £'000	Year ended 31-Dec-14 (Audited) £'000
Charged to profit or loss			
IPO related costs	458	3,304	3,660
Share awards vested on IPO	-	2,272	2,272
IPO share awards with future vesting provisions	1,237	-	1,496
	1,695	5,576	7,428

	Six months ended 30-Jun-15 (Unaudited) £'000	Six months ended 30-Jun-14 (Unaudited) £'000	Year ended 31-Dec-14 (Audited) £'000
Charged to profit or loss			
IPO related costs	-	2,369	2,369
	-	2,369	2,369

Share awards represent the fair value at grant date of nil price options over OSB shares granted to certain Directors, senior managers and other employees of the Bank at admission. These options were granted by OSB Holdco Ltd, the Bank's major shareholder and as such the expense is fully covered by an additional capital contribution.

Following the listing, other IPO related costs consist of employer's national insurance on IPO share awards.

6. Taxation

The taxation for the period comprises current and deferred tax.

The taxation charge or credit for the presented periods is summarised below:

	Six months ended 30-Jun-15 (Unaudited) £'000	Six months ended 30-Jun-14 (Unaudited) £'000	Year ended 31-Dec-14 (Audited) £'000
Corporation tax	(8,960)	-	(4,755)
Total current taxation	(8,960)		(4,755)
Deferred taxation	(656)	(4,479)	(7,453)
Total taxation	(9,616)	(4,479)	(12,208)

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-14 (Unaudited) £'000	Six months ended 30-Jun-13 (Unaudited) £'000	Year ended 31-Dec-13 (Audited) £'000
Profit before taxation	46,597	24,817	63,745
Profit multiplied by the weighted average rate of corporation taxation in the UK during 2015 of 20.25% (2014: 21.5%)	(9,436)	(5,336)	(13,705)
Taxation effects of:			
Expenses not deductible for taxation purposes	(186)	(521)	(641)
Adjustments in respect of earlier years	-	1,075	2,235
Coupon on PSBs classified as equity	-	156	-
Capital allowances	95	43	43
Re-measurement of deferred taxation - change in taxation rate	(89)	104	(96)
Other	-	-	(44)
Total taxation charge	(9,616)	(4,479)	(12,208)

7. Dividends

During the period, the Group paid its maiden final dividend of 3.9 pence per share (2014: nil) in respect of 2014, representing two thirds of a total dividend. The directors propose an interim dividend for the first half of 2.0 pence per share, based on one third of the annualised 2014 dividend of 5.9 pence per share, payable on 6 November 2015 with a record date of 16 October 2015. This dividend is not reflected in these financial statements as it was declared after the reporting date.

8. Earnings per share

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

For the purpose of calculating earnings per share, profit attributable to ordinary shareholders is arrived at by adjusting profit for the year for the after-tax amount of the coupon on perpetual subordinated bonds classified as equity:

	Six months ended 30-Jun-15 (Unaudited) £'000	Six months ended 30-Jun-14 (Unaudited) £'000	Year ended 31-Dec-14 (Audited) £'000
Profit for the year	**36,981**	**20,338**	**51,537**
Adjustments			
Coupon on perpetual subordinated bonds classified as equity	**(725)**	**(725)**	**(1,450)**
Tax on coupon[1]	**147**	**-**	**312**
Profit attributable to ordinary shareholders	**36,403**	**19,613**	**50,399**

[1]The tax deduction for the equity perpetual subordinated bonds coupon was taken through the profit and loss in the first half of 2014.

In the first half of 2014, the Group reorganised its share capital. In accordance with IAS 33, earnings per share for all periods have been prepared on the basis of the new structure after the reorganisation, as summarised in the table below:

	Six months ended 30-Jun-15 (Unaudited)	Six months ended 30-Jun-14 (Unaudited)	Year ended 31-Dec-14 (Audited)
Weighted average number of shares, millions			
Basic	**243.1**	**222.0**	**232.6**
Diluted	**243.5**	**222.0**	**232.7**

	Six months ended 30-Jun-15	Six months ended 30-Jun-14	Year ended 31-Dec-14
Basic	**15.0**	**8.8**	**21.7**
Diluted	**15.0**	**8.8**	**21.7**
Underlying earnings per share, pence per share			
Basic	**15.5**	**11.0**	**24.4**
Diluted	**15.5**	**11.0**	**24.4**

[2]Previously reported as 9.2p per share before deduction of coupons on perpetual subordinated bonds classified as equity.

9. Loans and advances to customers

	As at 30-Jun-15 (Unaudited)	As at 30-Jun-14 (Unaudited)	As at 31-Dec-14 (Audited)
BTL/SME mortgages	2,549,340	1,541,094	2,064,905
Residential mortgages	1,994,875	1,759,771	1,763,391
Personal loans	83,174	153,790	117,138
Provisions (see note 10)	(29,270)	(32,070)	(26,037)
	4,598,119	3,422,585	3,919,397

10. Provisions for impairment losses on loans and advances

	Individual £'000	Collective £'000	Total £'000
Group			
At 1st January 2015	16,161	9,876	26,037
Write offs in period	(1,637)	-	(1,637)
Charge/(credit) for the period net of recoveries	4,136	734	4,870
At 30 June 2015 (Unaudited)	18,660	10,610	29,270

	Individual £'000	Collective £'000	Total £'000
Group			
At 1st January 2014	24,462	3,071	27,533
Write offs in period	(13,181)	-	(13,181)
Charge/(credit) for the period net of recoveries	1,295	3,379	4,674
At 30 June 2014 (Unaudited)	25,620	6,450	32,070

	Individual £'000	Collective £'000	Total £'000
Group			
At 1st January 2014	24,462	3,071	27,533
Write offs in period	(137)	-	(137)
Charge/(credit) for the period net of recoveries	4,880	6,805	11,685
At 31 December 2014 (Audited)	16,161	9,876	26,037

11. Carrying amounts and fair values

The following tables show the carrying amounts and fair values of financial instruments, including the levels of the fair value hierarchy used for their measurement.

As at 30 June 2015 (Unaudited)	Carrying amount	Fair value			
	£'000	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Financial instruments measured at fair value					
Financial assets					
Investment securities	158,691	158,275	416	-	158,691
Derivative assets	970	-	970	-	970
	159,661	158,275	1,386	-	159,661
Financial liabilities					
Derivative liabilities	(21,380)	-	(21,380)	-	(21,380)
Financial instruments not measured at fair value					
Financial assets					
Cash in hand	281	-	281	-	281
Loans and advances to credit institutions	383,383	-	383,383	-	383,383
Loans and advances to customers	4,598,119	-	-	4,918,321	4,918,321
	4,981,783	-	383,664	4,918,321	5,301,985
Financial liabilities					
Amounts owed to retail depositors	(4,635,454)	-	(4,674,647)	-	(4,674,647)
Amounts owed to credit institutions	(2,291)	-	(2,291)	-	(2,291)
Amounts owed to other customers	(2,533)	-	(2,534)	-	(2,534)
Debt securities in issue	(210,169)	-	-	(208,439)	(208,439)
Subordinated liabilities	(27,561)	-	(28,417)	-	(28,417)
Perpetual subordinated bonds	(15,263)	-	(18,058)	-	(18,058)
	(4,893,271)	-	(4,725,947)	(208,439)	(4,934,386)

As at 30 June 2014 (Unaudited)	Carrying amount	Fair value			
	£'000	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Financial instruments measured at fair value					
Financial assets					
Investment securities	305,058	304,690	368	-	305,058
Derivative assets	881	-	881	-	881
	305,939	304,690	1,249	-	305,939
Financial liabilities					
Derivative liabilities	(22,348)	-	(22,348)	-	(22,348)
Financial instruments not measured at fair value					
Financial assets					
Cash in hand and balances with the Bank of England	262	-	262	-	262
Loans and advances to credit institutions	397,358	-	397,358	-	397,358
Loans and advances to customers	3,422,585	-	-	3,735,768	3,735,768
	3,820,205	-	397,620	3,735,768	4,133,388
Financial liabilities					
Amounts owed to retail depositors	(3,647,857)	-	(3,673,570)	-	(3,673,570)
Amounts owed to credit institutions	(491)	-	(491)	-	(491)
Amounts owed to other customers	(6,074)	-	(6,080)	-	(6,080)
Debt securities in issue	(259,381)	-	-	(259,381)	(259,381)
Subordinated liabilities	(27,578)	-	(28,731)	-	(28,731)
Perpetual subordinated bonds	(15,290)	-	(15,565)	-	(15,565)
	(3,956,671)	-	(3,724,437)	(259,381)	(3,983,818)

As at 31 December 2014 (Audited)	Carrying amount	Fair value			
	£'000	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Financial instruments measured at fair value					
Financial assets					
Investment securities	158,597	158,181	416	-	158,597
Derivative assets	937	-	937	-	937
	159,534	158,181	1,353	-	159,534
Financial liabilities					
Derivative liabilities	(25,447)	-	(25,447)	-	(25,447)
Financial instruments not measured at fair value					
Financial assets					
Cash in hand	288	-	288	-	288
Loans and advances to credit institutions	767,318	767,318	-	767,318	269,101
Loans and advances to customers	3,919,397	-	-	4,297,190	4,297,190
	4,687,003	-	767,606	4,297,190	5,064,796
Financial liabilities					
Amounts owed to retail depositors	(4,331,639)	-	(4,377,204)	-	(4,377,204)
Amounts owed to credit institutions	(23,009)	-	(23,009)	-	(23,009)
Amounts owed to other customers	(4,353)	-	(4,353)	-	(4,353)
Debt securities in issue	(238,390)	-	-	(238,390)	(238,390)
Subordinated liabilities	(27,573)	-	(28,703)	-	(28,703)
Perpetual subordinated bonds	(15,234)	-	(18,500)	-	(18,500)
	(4,640,198)	-	(4,451,769)	(238,390)	(4,690,159)

Valuation techniques used in each of the fair value levels are disclosed in note 29 of the 2014 Annual Report. Level 1 valuation techniques are based entirely on quoted market prices in an actively traded market. Fair value of financial instruments measured at level 2 is based on the present value of expected cash flows discounted at the market rates and level 3 uses one or more unobservable inputs. Fair values in levels 2 and 3 would increase if the expected cash flows increased or took place earlier and decrease if the market rates were higher. There were no transfers between valuation hierarchy levels.

Financial instruments with fair value measured at level 3 include loans and advances to customers and debt securities in issue. Neither loans to customers nor debt securities in issue are measured at fair value in the statement of financial position.

Loans to customers belong to this level because their valuation uses unobservable inputs on collectability rates and redemption profiles. Their fair value is calculated using modelled receipts of interest and principal which are discounted at market rates.

Debt securities in issue are classified as level 3 because their principal is repaid using the cash flows from the underlying securitised mortgages, which in turn use the same unobservable inputs on collectability rates and redemption profiles. The fair value of issued debt securities was calculated using modelled payments of interest and principal using collections from the underlying mortgages which are discounted at market rates.

12. 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 all the periods presented.

The regulatory capital of the Group is presented below.

	As at 30-Jun-15 (Unaudited) £'000	As at 30-Jun-14 (Unaudited) £'000	As at 31-Dec-14 (Audited) £'000
Common equity tier 1 capital			
Called up share capital	2,431	2,431	2,431
Share premium, capital contribution and share-based payment reserve	164,221	160,173	162,369
Retained earnings	88,661	36,401	60,886
Transfer reserve	(12,818)	(12,818)	(12,818)
Other reserves	330	412	785
Deductions from common equity tier 1 capital			
Intangible assets	(2,778)	(1,540)	(2,305)
Deferred tax asset[1]	(2,409)	(6,176)	(3,563)
Common equity tier 1 capital	237,638	178,883	207,785
Total Tier 1 Capital	237,638	178,883	207,785
Tier 2 capital			
Subordinated debt	52,214	55,860	54,219
Collective Provisions	10,610	6,450	9,876
Deductions from tier 2 capital	(3,000)	(2,000)	(2,000)
Total Tier 2 Capital	59,824	60,310	62,095
Total regulatory capital	297,462	239,193	269,880

[1]This comprises the portion of the deferred tax asset relating to trading losses

13. Operating segments

The Group distinguishes three segments within its operations: Buy-to-Let/SME Mortgages, Residential Mortgages and Personal Loans. The classification has not changed since the 2014 Annual Report.

The Group's segmental analysis is presented below:

Six months ended 30-Jun-15	BTL/SME £'000	Residential mortgages £'000	Personal loans £'000	Central £'000	Total £'000
Balances at the reporting date					
Gross loans and advances to customers	2,549,340	1,994,875	83,174	-	4,627,389
Provision for impairment losses on loans and advances	(18,175)	(2,627)	(8,468)	-	(29,270)
Loans and advances to customers	2,531,165	1,992,248	74,706	-	4,598,119
Profit or loss for the period					
Net interest income	41,078	32,826	5,619	-	79,523
Other income / (expense)	(132)	(2,413)	(738)	-	(3,283)
Total income	40,946	30,413	4,881	-	76,240
Impairment losses	(4,224)	(147)	(499)	-	(4,870)
Contribution to profit	36,722	30,266	4,382	-	71,370
Operating expenses					(19,683)
Exceptional IPO expenses					(1,695)
FSCS and other provisions					(3,395)
Profit before taxation					46,597
Taxation					(9,616)
Profit for the period					36,981

Six months ended 30-Jun-14	BTL/SME £'000	Residential mortgages £'000	Personal loans £'000	Central £'000	Total £'000
Balances at the reporting date					
Gross loans and advances to customers	1,541,094	1,759,771	153,790	-	3,454,655
Provision for impairment losses on loans and advances	(24,637)	(3,903)	(3,530)	-	(32,070)
Loans and advances to customers	1,516,457	1,755,868	150,260	-	3,422,585
Profit or loss for the period					
Net interest income	18,986	26,534	10,206	-	55,726
Other income / (expense)	(512)	(3,437)	(826)	2,258	(2,517)
Total income	18,474	23,097	9,380	2,258	53,209
Impairment losses	(1,599)	(1,477)	(1,598)	-	(4,674)
Contribution to profit	16,875	21,620	7,782	2,258	48,535
Operating expenses					(15,419)
Exceptional IPO expenses					(5,576)
FSCS and other provisions					(2,723)
Profit before taxation					24,817
Taxation					(4,479)
Profit for the period					20,338

Year ended 31-Dec-14	BTL/SME £'000	Residential mortgages £'000	Personal loans £'000	Central £'000	Total £'000
Balances at the reporting date					
Gross loans and advances to customers	2,064,905	1,763,391	117,138	-	3,945,434
Provision for impairment losses on loans and advances	(15,429)	(2,639)	(7,969)	-	(26,037)
Loans and advances to customers	2,049,476	1,760,752	109,169	-	3,919,397
Profit or loss for the period					
Net interest income	50,310	57,146	17,745	-	125,201
Other income / (expense)	(960)	(6,118)	(1,470)	2,258	(6,290)
Total income	49,350	51,028	16,275	2,258	118,911
Impairment losses	(4,721)	(1,093)	(5,871)	-	(11,685)
Contribution to profit	44,629	49,935	10,404	2,258	107,226
Operating expenses					(33,286)
Exceptional IPO expenses					(7,428)
FSCS and other provisions					(2,767)
Profit before taxation					63,745
Taxation					(12,208)
Profit for the period					51,537

14. Related parties

The Group had no related party transactions during the period to 30 June 2015 that would materially affect the position or performance of the Group. Details of transactions for the year ended 31 December 2014 can be found in the 2014 Annual Report.

Transactions with Key Management Personnel

During the period, the Group issued executive management awards under the Deferred Share Bonus Plan and Performance Share Plan as described in note 8 of the 2014 Annual Report. The impact of these awards in the six months ended 30 June 2015 is reported within staff costs.

15. Events after the reporting date

There have been no material events after the reporting date.

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