



# Creating a leading specialist lender in the UK

Recommended all-share combination of OSB and Charter Court

14 March 2019

# Agenda

OSB's 2018 results

Charter Court's 2018 results

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Overview of the combination

Strategic rationale

Financial benefits

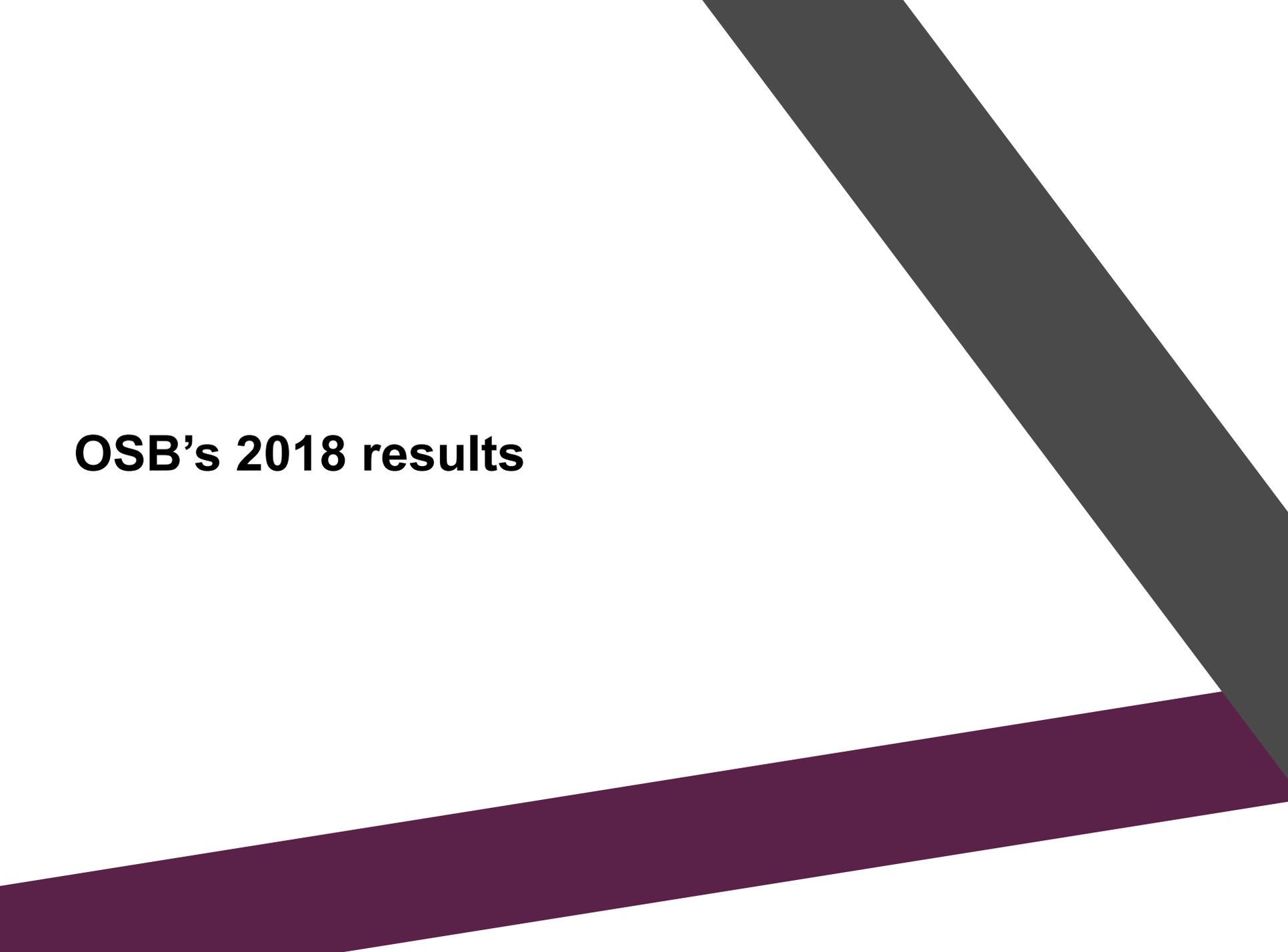
Expected transaction timetable

Summary

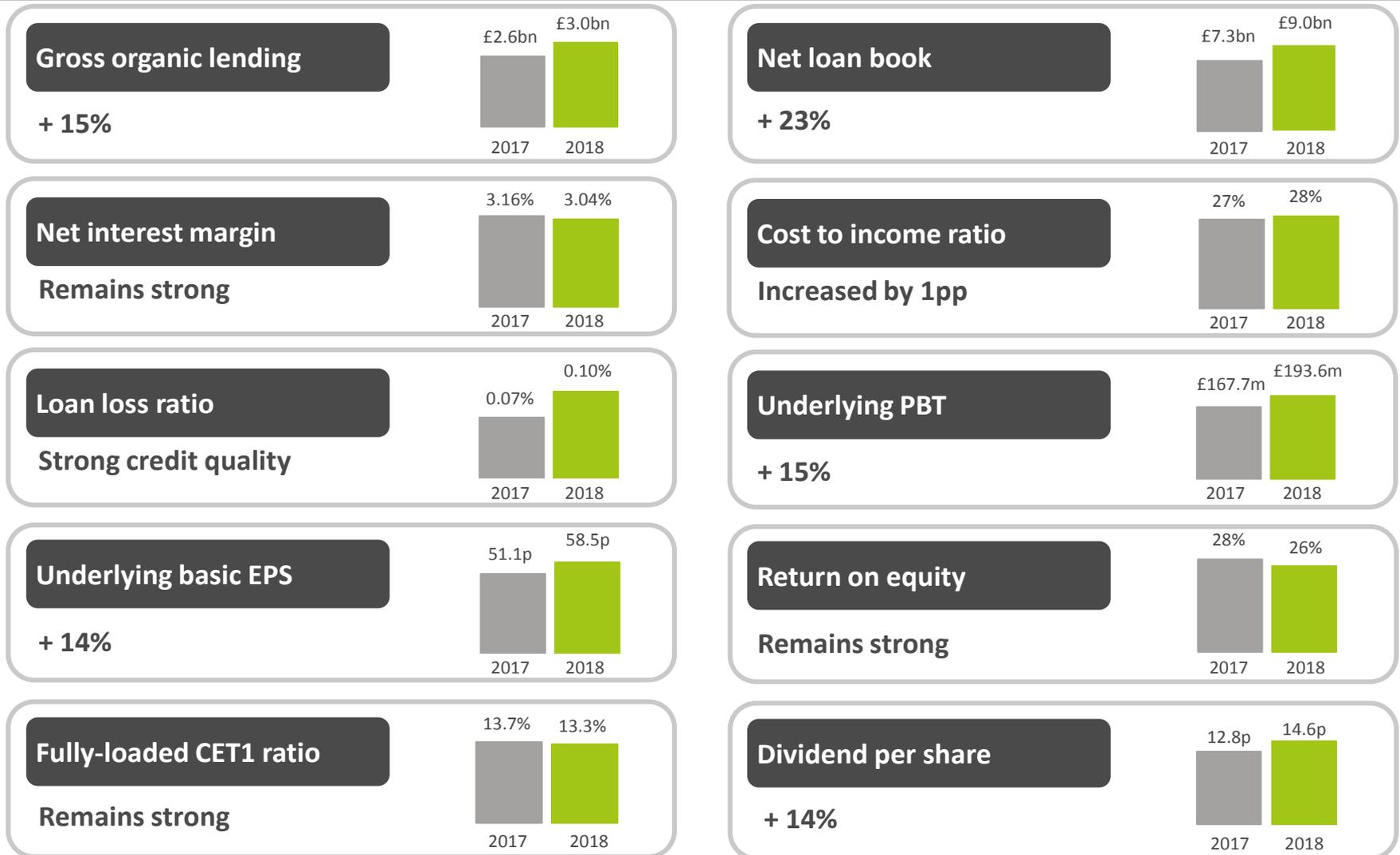
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Appendices

# **OSB's 2018 results**

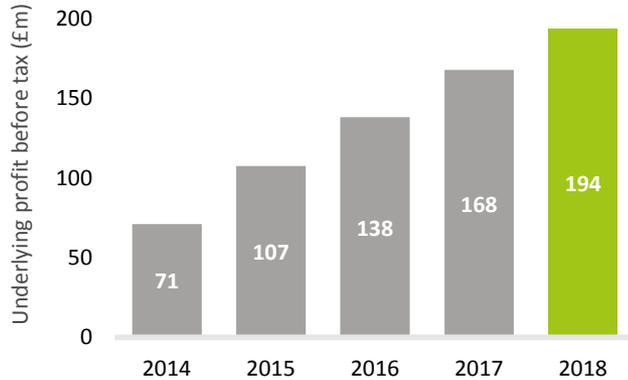
The slide features a white background with two prominent diagonal bars. A dark grey bar starts from the top right and extends towards the center. A purple bar starts from the bottom left and extends towards the center, meeting the grey bar. The text 'OSB's 2018 results' is positioned in the upper left quadrant.

# Another strong set of results for 2018

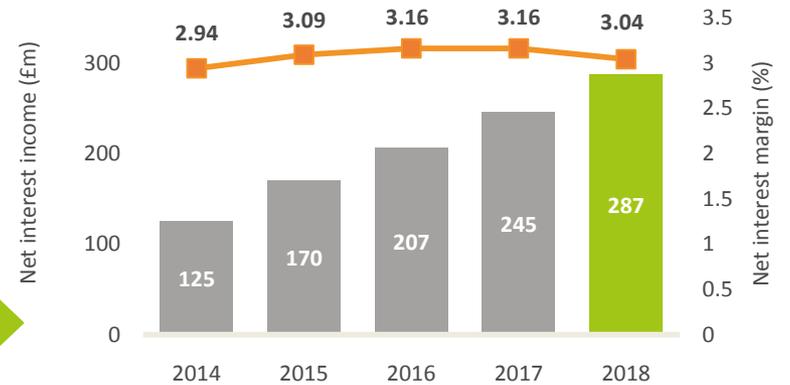


# A year of excellent performance

## 1 Continued growth in underlying earnings...

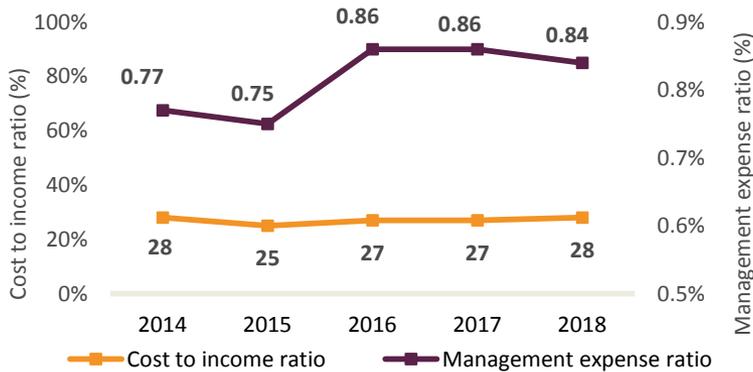


## 2 ...with strong NIM & robust loan book growth...



**2018  
RoE of 26%**

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



## 4 ...and strong credit quality



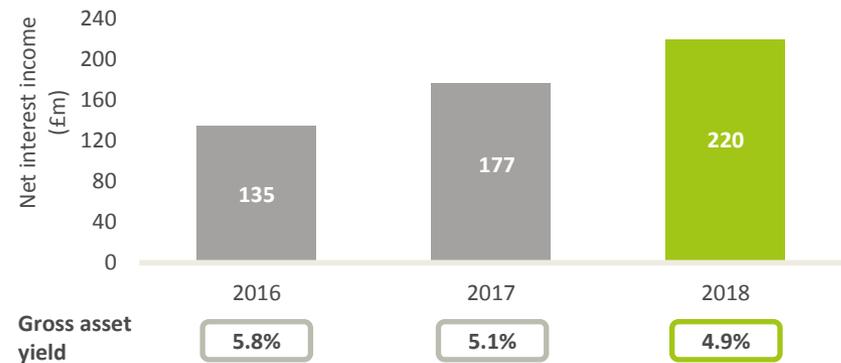
# Segmental results – BTL/SME<sup>1</sup>

- LTVs remain low at 70% (2017: 69%) with only 0.6% of loans by value with LTVs exceeding 90% (2017: 0.7%)

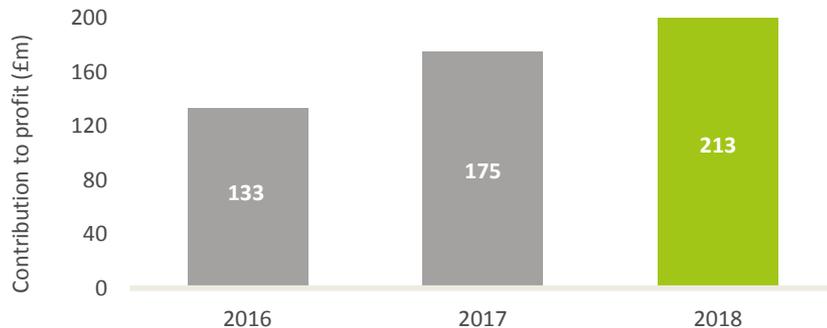
## 1. Gross loan book<sup>1</sup>



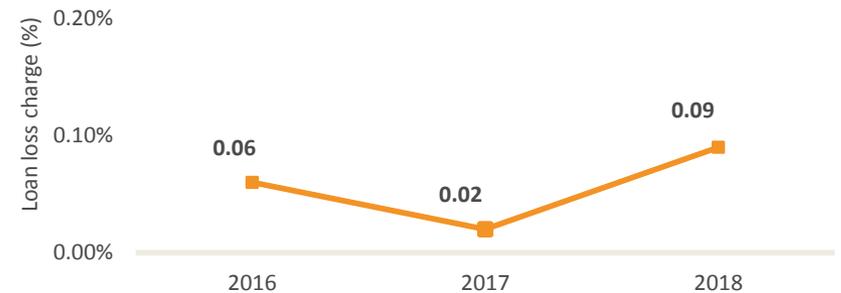
## 2. Net interest income<sup>1</sup>



## 3. Contribution to profit<sup>1,2</sup>



## 4. Loan loss charge as a % of average gross loans<sup>1</sup>



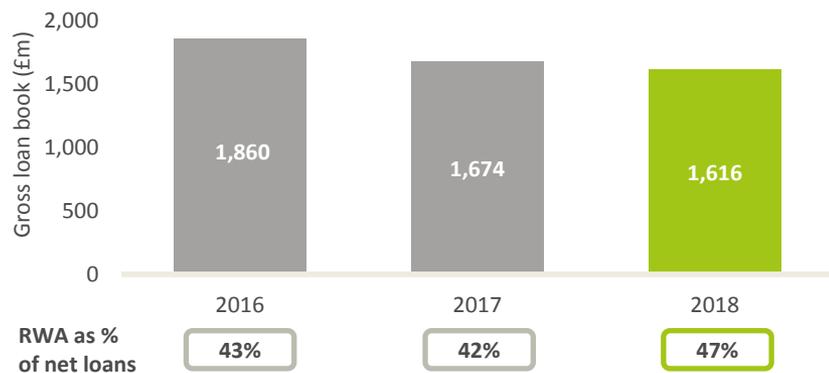
1. The personal loan portfolio was disposed of during the year. It is excluded from the loan loss ratio in graph 4 above.

2. Total income less impairment losses.

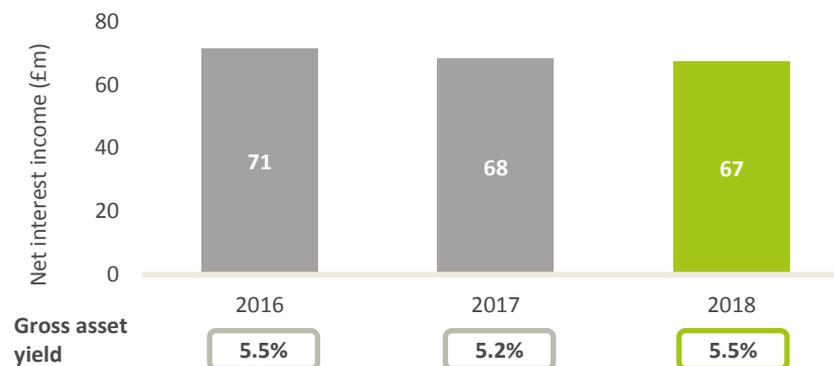
# Segmental results – Residential

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

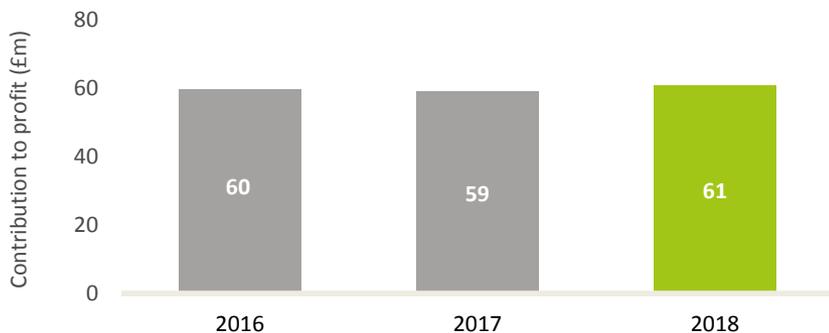
## 1. Gross loan book



## 2. Net interest income



## 3. Contribution to profit<sup>1</sup>



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



1. Total income less impairment losses.

# Strong growth and capital base

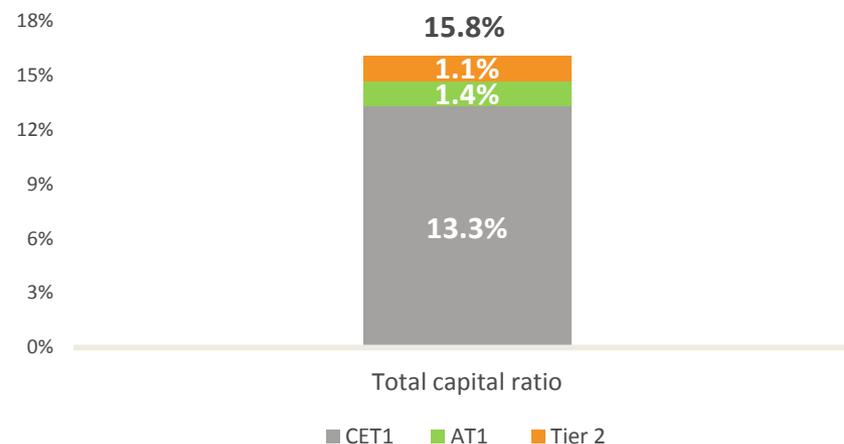
## Strong growth whilst improving credit quality

	2018 £m	2017 £m	Change	
			£m	%
<b>Lending</b>				
Net customer loans	8,983	7,306	1,677	23
o/w provisions	(22)	(22)	-	-
<b>Funding and liquidity</b>				
Customer deposits	8,072	6,650	1,422	21
Wholesale funding	34	26	8	31
Liquid assets	1,407	1,207	200	17
Term Funding Scheme	1,503	1,250	253	20
Liquidity ratio	14.5%	15.2%		(0.7)pp

	2018	2017
Loan loss ratio (bps)	10	7
3 months in arrears (%) <sup>1</sup>	1.5	1.2
Legacy problem loans (£m)	5.6	8.6
Average LTV (%):		
• mortgage book	66	64
• Buy-to-Let/SME	70	69
• Residential	56	56
Average LTV of new origination (%):		
• mortgage book	69	69
• Buy-to-Let/SME	70	70
• Residential	68	65

1. Excluding legacy problem loan book.

## Strong capital base



	2018	2017	Change
<b>Capital</b>			
Risk-weighted assets (RWAs) £m	4,212	3,349	25%
RWAs as % of total assets	40	39	1pp
Common Equity Tier 1 ratio %	13.3	13.7	(0.4)pp
Total capital ratio %	15.8	16.9	(1.1)pp
Leverage ratio %	5.9	6.0	(0.1)pp

# Summary

2018 was yet another year of strong growth: 15% increase in organic origination to £3.0bn

Strong credit profile: low arrears and strong LTV coverage, and high interest coverage on Buy-to-Let

Excellent customer results: customer NPS at +63 with retail savings bond retention at 95%

Successful launch of InterBay Asset Finance in 2018

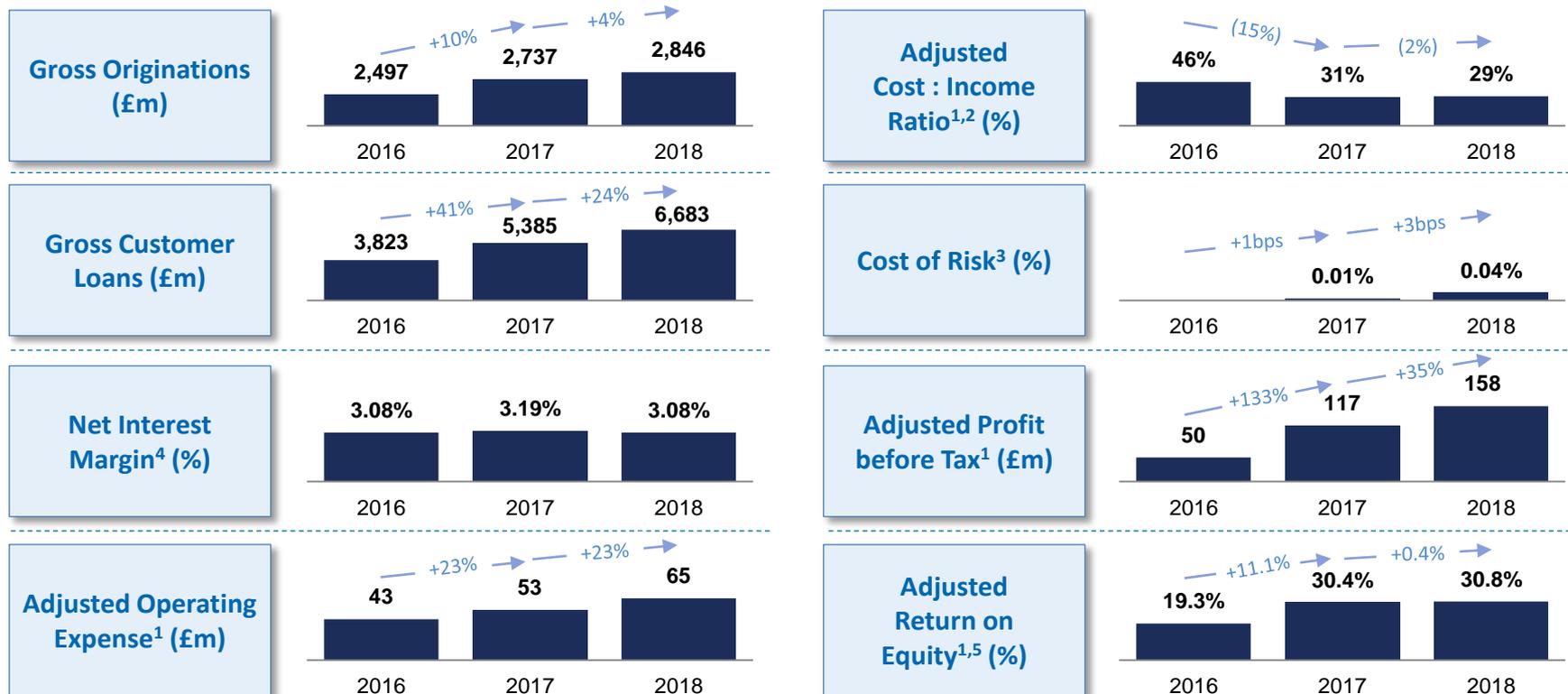
Continue to build our Heritable Residential Development Finance business following the acquisition of JV partners' interest

Trading conditions in our core Buy-to-Let market remain highly attractive and application levels for the first quarter to date are very strong



# **Charter Court's 2018 results**

# Performance highlights – FY 2018

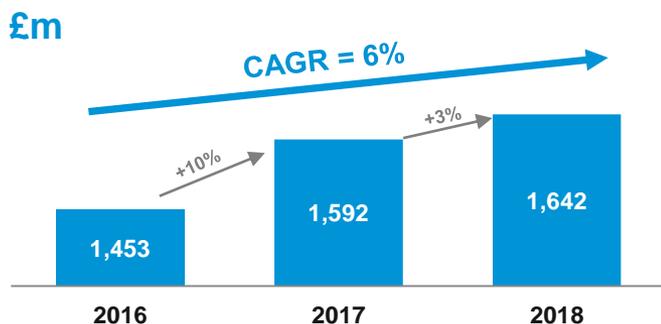


**Robust Performance in 2018 and Continued Track Record of Delivery Demonstrates that Charter Court Remains Resilient and is Able to Deliver Value for All Our Shareholders**

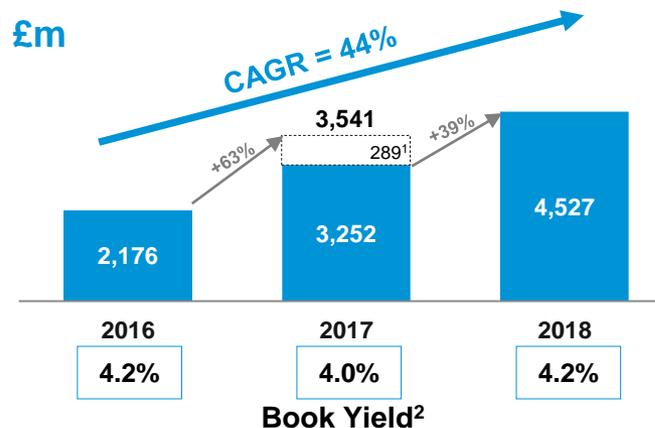
1. Adjusted for one-off costs such as IPO and aborted sales costs of c.£5m in FY 17
2. On a statutory basis cost income ratio was 48% in 2016, 34% in 2017, and 29% in 2018
3. Calculated as impairments divided by 13-point average net customer loans
4. Calculated based on 13-point average net loans for the year
5. Calculated as profit after tax divided by a 2-point average shareholders' equity for the period. On a statutory basis return on equity was 19% in 2016, 29% in 2017, and 31% in 2018

# Segmental results – BTL

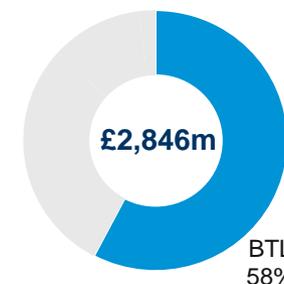
## Originations



## Gross BTL Loan Book Evolution



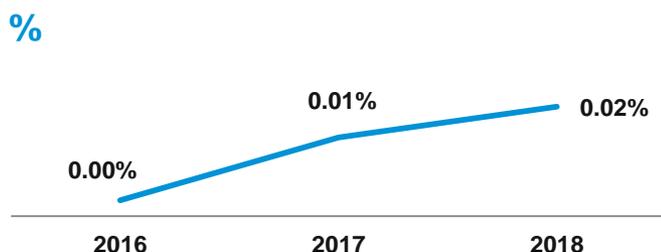
## 2018 Originations



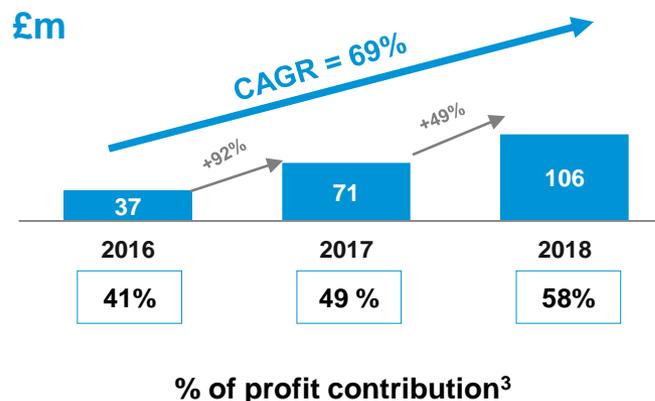
Average LTV: 73.9%

Average Loan Size: £169k

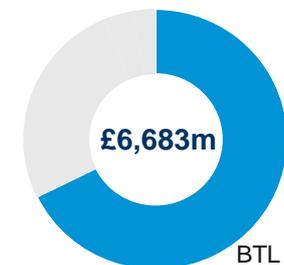
## Cost of Risk



## Segmental Contribution



## 2018 Loan Book



Average LTV: 72.8%

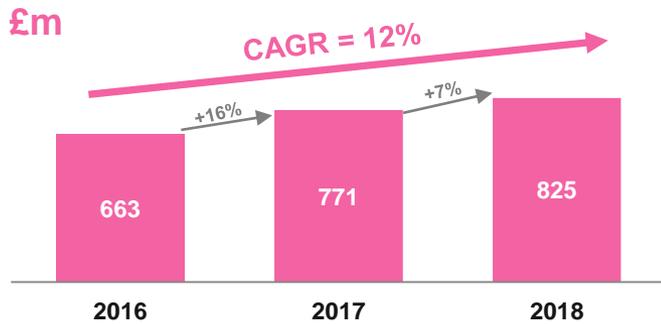
Average Loan Size: £189k



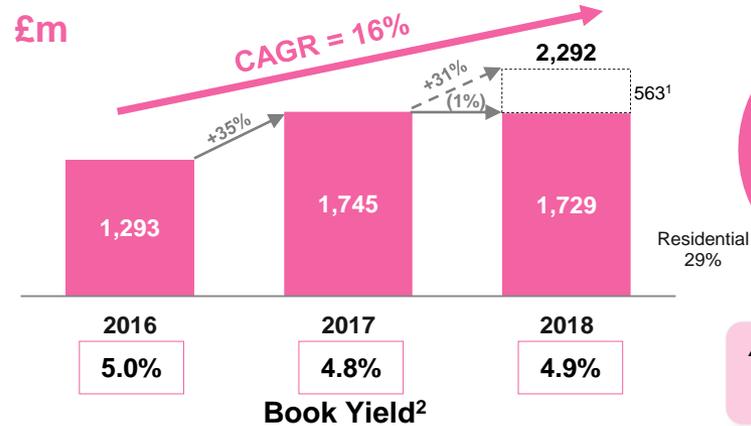
1. Reflects the year-end balance of the April 2017 structured sale of £300m loan balances  
 2. Based on a 13-point average throughout each year  
 3. Relates to profit contribution of the four segments only and excludes other income

# Segmental results – Specialist Residential

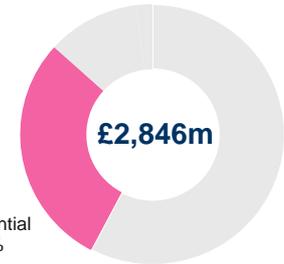
## Originations



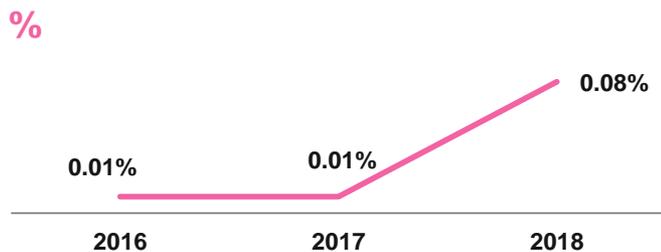
## Gross Residential Loan Book Evolution



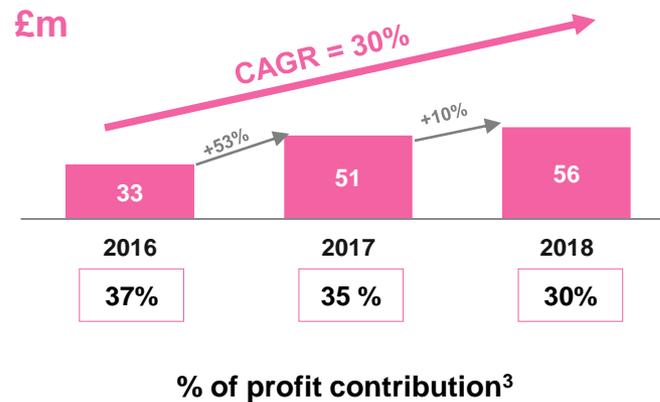
## 2018 Originations



## Cost of Risk



## Segmental Contribution



## 2018 Loan Book



1. Includes additional loan balance (£563m in 2018) derecognised owing to sale of residual notes in securitisation. Balance as of 31 December 2018

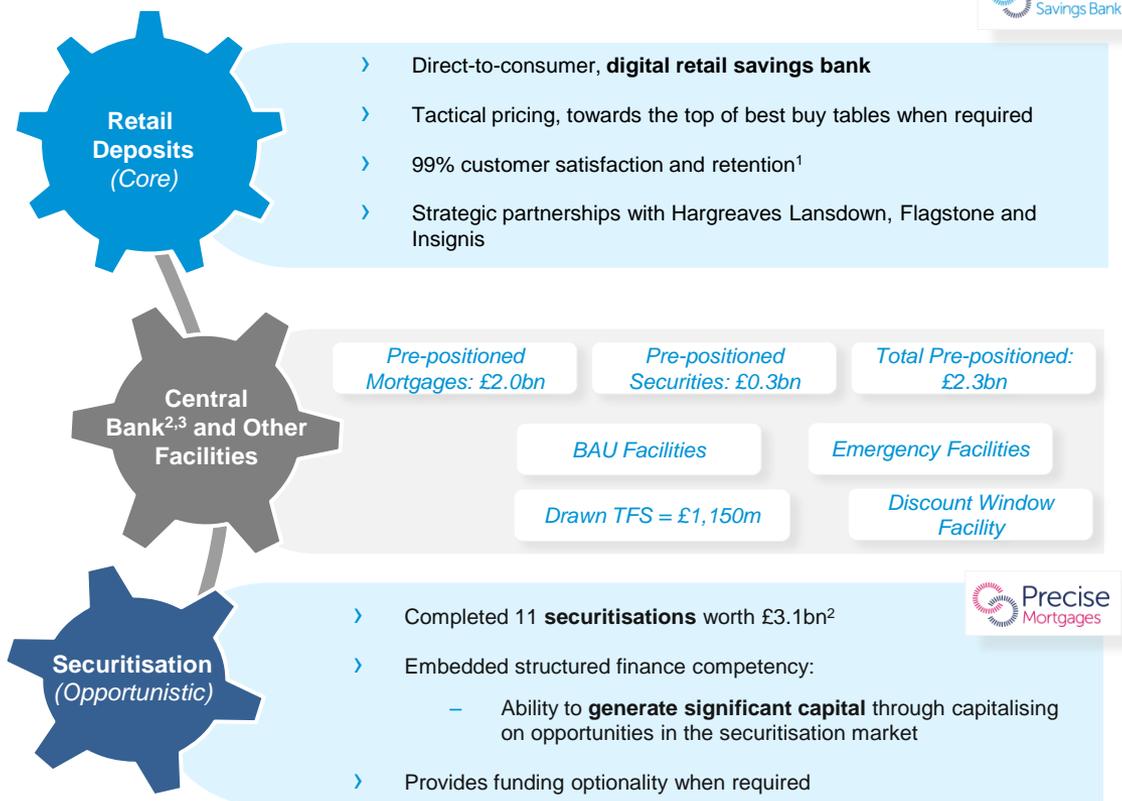
2. Based on a 13-point average throughout each year

3. Relates to profit contribution of the four segments only and excludes other income

# Diversified funding structure

## Well positioned for an environment post FLS and TFS

Ability to dynamically adjust funding mix to optimise funding costs  
Not overly reliant on a particular funding channel



Funding Source	2016	2017	2018
<b>Retail<sup>4</sup></b>			
Balances (£m)	3,413	4,398	4,942
Cost of Funding <sup>5</sup> (%)	1.8%	1.5%	1.6%
<b>Central Bank and other facilities</b>			
Balances (£m)	41	1,098	1,444
Cost of Funding <sup>5</sup> (%)	0.7%	0.3%	0.7%
<b>Securitisation</b>			
Balances (£m)	425	527	754
Cost of Funding <sup>5</sup> (%)	2.0%	1.6%	1.8%
<b>Blended Total – Interest Bearing Balances<sup>6</sup></b>			
Balances (£m)	3,879	6,022	7,140
Cost of Funding <sup>5</sup> (%)	1.7%	1.3%	1.5%

**Funding strategy involves optimising the use of retail deposits, wholesale facilities and capital markets complemented by a sophisticated treasury function with an ability to react quickly to market conditions to optimise the cost of funding**

1. Based on customer surveys conducted by the Company  
2. As at December 2018  
3. Includes TFS funding (Bank of England facilities)  
4. Excludes accrued interest

5. Average swap-adjusted cost of funding per product. Central Bank and other facilities and blended total cost of funds include FLS. Based on a 13-point average interest bearing funding balances through the year  
6. Includes repos and warehouse facilities

# Capital and liquidity

## Robust capital and liquidity positions

### Capital Position

- › CET 1 ratio of 15.7% as at 31 December 2018, comfortably above our minimum target
- › RWAs calculated using **standardised risk weightings**
- › Well capitalised for future growth:
  - Vast majority of the regulatory capital currently held in CET1
  - Leverage ratio currently comfortably exceeds minimum requirements

### IRB

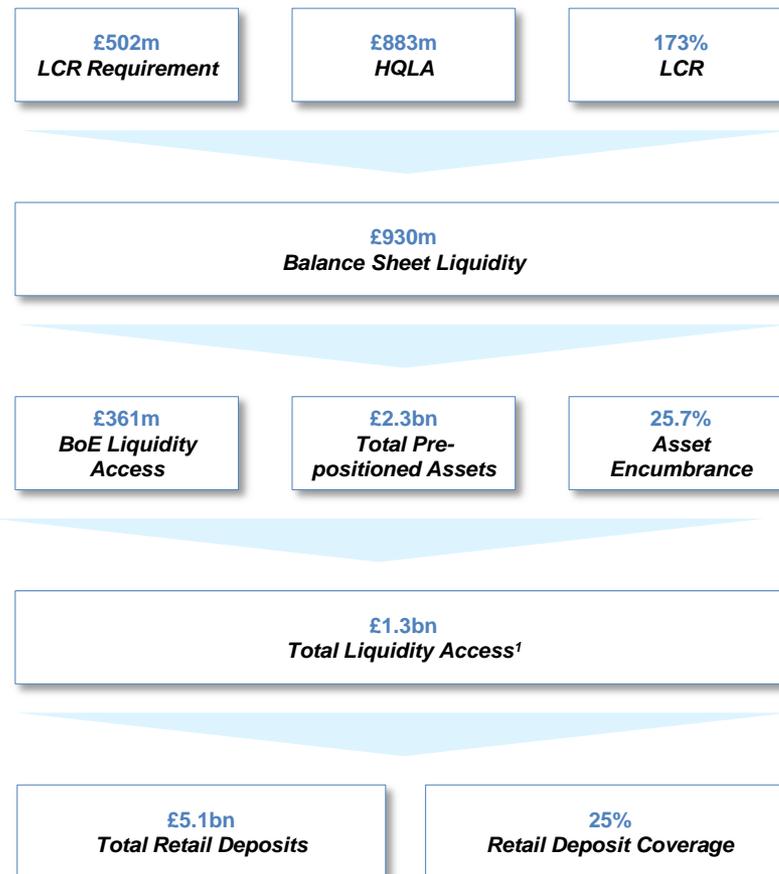
- › Charter Court hopes to achieve an IRB status in advance of the implementation of the new capital regime
- › In addition to the expected capital benefits, through IRB, Charter Court will benefit from sophistication of risk management and measurement;
- › IRB rating system will support more informed risk and pricing decisions, dynamic portfolio monitoring and strengthening risk governance;

The Group has made good progress in pursuit of an IRB waiver through:

- › Building on the IFRS 9 model suite to measure credit risk on a pseudo-IRB basis for the ICAAP;
- › Completing the required data augmentation, data warehousing and commencing the upgrade of models to meet the IRB requirements;
- › Making enhancements to the model governance framework; and
- › Commencing the documentation and self assessment required to enter the application process.

1. Liquidity value after haircut applied to assets pre-positioned

### Key Liquidity Measures (Dec-18)



## **Our Strategy has Resulted in Continuous Growth Over the Last 3 Years**

**Continued to deliver in line or in excess of our IPO targets**

**Charter Court goes from strength to strength as it takes advantages of underserved market sub-sectors**

**FY18 proved the resilience of our diversified funding model**

**Formed new partnerships to enhance our award winning retail savings platform**

**Headroom for growth in our core markets as we continue to innovate**

**Continues to be an employer of choice**



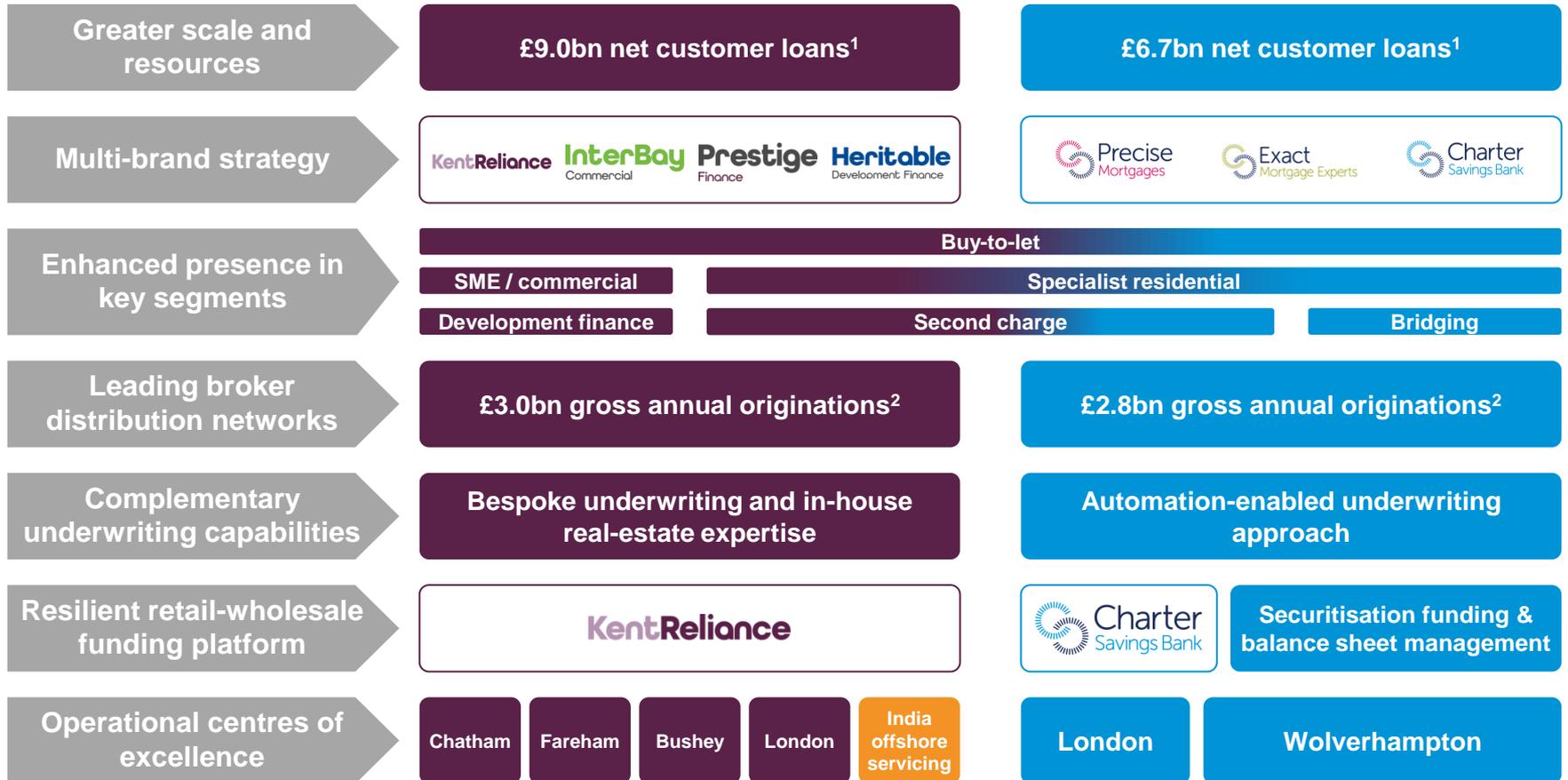
# Overview of the combination

# Strategic rationale

- 1 Create a leading specialist lender in the UK with greater scale and resources to deploy on growth opportunities
- 2 Leverage complementary strengths to create a comprehensive and diversified platform across product capabilities, brands and team cultures
- 3 Leverage complementary underwriting capabilities to enhance the customer proposition
- 4 Establish a well-balanced, resilient and diversified retail-wholesale funding platform
- 5 Maintain two leading, independent distribution platforms to create an enhanced proposition to the broker community
- 6 Maintain operational centres of excellence to drive service levels and platform efficiency

Creating a leading specialist lender in the UK

# Creating a leading specialist lender in the UK



1. As at 31 December 2018.  
2. For the year ended 31 December 2018.

# Governance



## Combined Group Board

	one Savings Bank Board	Charter Court Financial Services Board	Combined Group Board	
Chair	David Weymouth	Sir Malcolm Williamson	Sir Malcolm Williamson	
Deputy Chair		Philip Jenks	David Weymouth	
CEO	Andy Golding	Ian Lonergan	Andy Golding	
CFO	April Talintyre	Sebastien Maloney	April Talintyre	
CRO		Peter Elcock		
SID	Rod Duke	Noël Harwerth	Noël Harwerth	
NEDs	Graham Allatt	Tim Brooke	Tim Brooke	Graham Allatt
	Eric Anstee	Rajan Kapoor	Rajan Kapoor	Eric Anstee
	Margaret Hassall	Ian Ward	Ian Ward	Margaret Hassall
	Mary McNamara		Rod Duke	Mary McNamara
	Sarah Hedger		Sarah Hedger	

- David Weymouth to chair Board Integration Committee
- Philip Jenks to be retained as an adviser to the Integration Committee of the Combined Group for up to 12 months following completion
- Ian Lonergan to become Integration Director for up to 18 months following completion
- Sebastien Maloney to be retained as an adviser for up to 12 months following completion
- Peter Elcock will take on the group risk role with responsibility for the integration and convergence of the risk frameworks and function. Hasan Kazmi will remain CRO for the existing OSB business

Combined Group Board drawn from existing OSB and Charter Court Boards

# Transaction terms

## Key terms

- Recommended all-share combination to be effected by means of a court-sanctioned scheme of arrangement between Charter Court and its shareholders<sup>1</sup>
- **0.8253** new OSB shares for each Charter Court share

## Pro forma ownership

- Immediately following completion:
  - OSB shareholders will own **c.55%** of the Combined Group
  - Charter Court shareholders will own **c.45%** of the Combined Group
- Recommendation of both Boards and irrevocable undertakings from the Directors of OSB and Charter Court<sup>2</sup>
- Statements of support for the combination from Elliott (irrevocable undertaking) and Merian (letter of intent)<sup>2</sup>

## Financial effects

- Expected that the combination will result in **£22m<sup>3</sup>** of pre-tax cost synergies on an annual run-rate basis by the third anniversary of the completion of the combination<sup>4</sup>
- Anticipated to be earnings accretive for the shareholders of both OSB and Charter Court in 2021<sup>5</sup>
  - Excluding the additional financing costs related to the phased implementation of the Combined Group's expected MREL requirement
- Additional MREL financing costs expected to be more than offset by expected pre-tax cost synergies on an annual run-rate basis<sup>6</sup>
- Further potential benefits: potential for quantified cost synergies to be driven across a growing cost base and future planned expenses could potentially be avoided

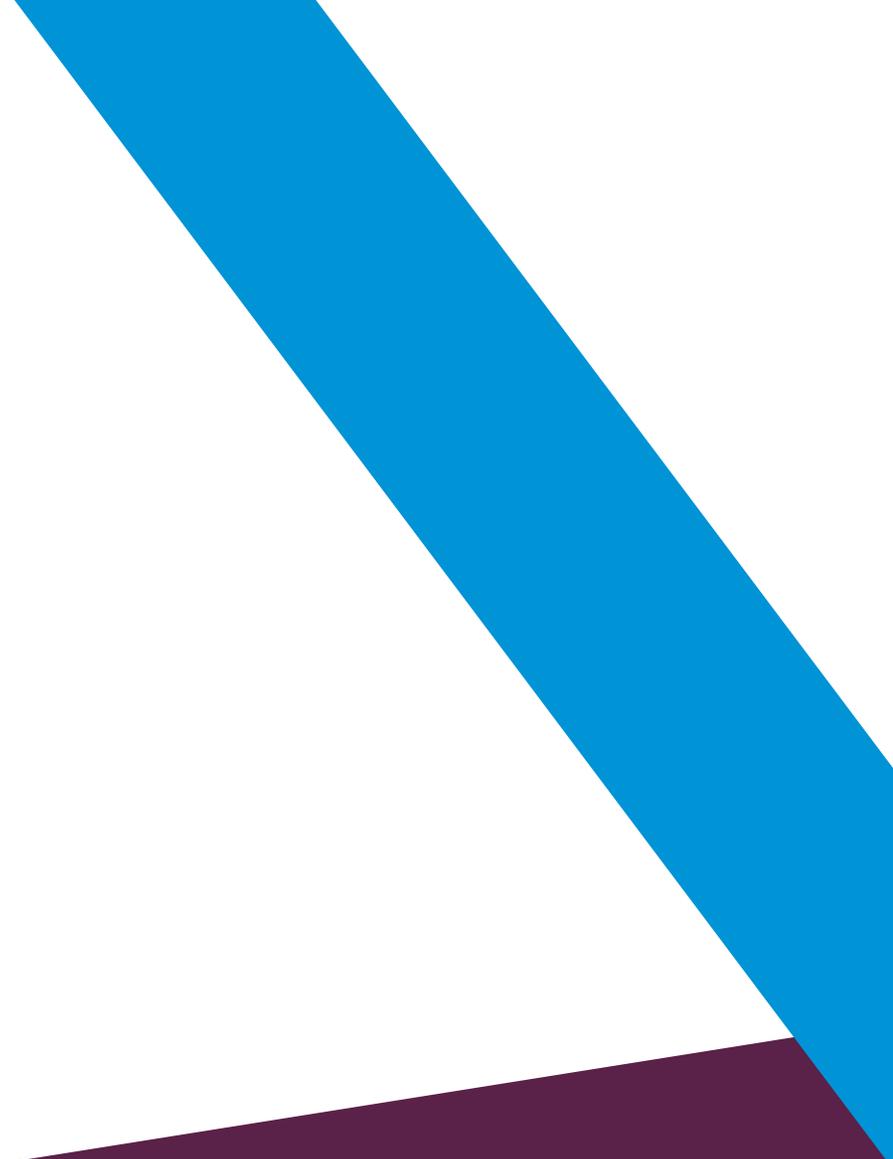
## Dividends

- Combined Group expected to adopt a policy of paying out at least **25%** of underlying profit after taxation<sup>7</sup> – consistent with OSB's and Charter Court's current dividend policies

Completion expected in Q3 2019

1. With the Panel's permission and subject to Charter Court's approval, or in certain other scenarios agreed between OSB and Charter Court, this may be effected as a takeover offer by OSB with a 75% acceptance condition  
2. Full details of irrevocable undertakings and letters of intent are included in the Rule 2.7 Announcement.  
3. Based on the pro forma results of the Combined Group, were the combination to have completed on 1 January 2018.  
4. This statement includes a quantified financial benefits statement made by the OSB directors which has been reported on for the purposes of the City Code. See Appendix for further details.  
5. Earnings accretive on an underlying basis. This statement is not intended, and should not be construed, as a profit forecast.  
6. The OSB directors expect the additional MREL financing costs to be more than offset by run-rate cost synergies.  
7. Underlying profit after taxation attributable to ordinary shareholders.

**Strategic rationale**



# Leverage complementary strengths

## Complementary product capabilities and expertise

- Bring together complementary product capabilities and expertise with a best-of-both approach
  - OSB's **leading franchises in specialist buy-to-let mortgages** in the UK, including **complex origination, commercial real estate and development finance**
  - Charter Court's **strong proposition in specialist residential, new build and buy-to-let mortgages** in the UK
  - Mutual strengths in **bridge financing** and **second charge loans**

Buy-to-let



SME / commercial



Specialist residential



Second charge



Bridging



Residential development

## Enhance capabilities and presence in key segments

- **Accelerate OSB's growth in specialist residential mortgages** by leveraging Charter Court's automation-enabled underwriting and technology platform
- **Expanding Charter Court's buy-to-let offering** by leveraging best practice across the Combined Group
- **Increase capacity for investment in new products and services**, in line with OSB's and Charter Court's current risk appetite

Create enhanced data insights and analysis by combining each company's data sets and analytic capabilities

# Maintain two leading, independent broker distribution platforms



Two leading, independent broker distribution platforms

**KentReliance**  
**Prestige**  
Finance

**InterBay**  
Commercial  
**Heritable**  
Development Finance

**Precise**  
Mortgages

Increase breadth of channels to market

✓ Direct to broker

✓ Packager channel

Broad range of complementary products

Buy-to-let

SME / commercial

Specialist residential

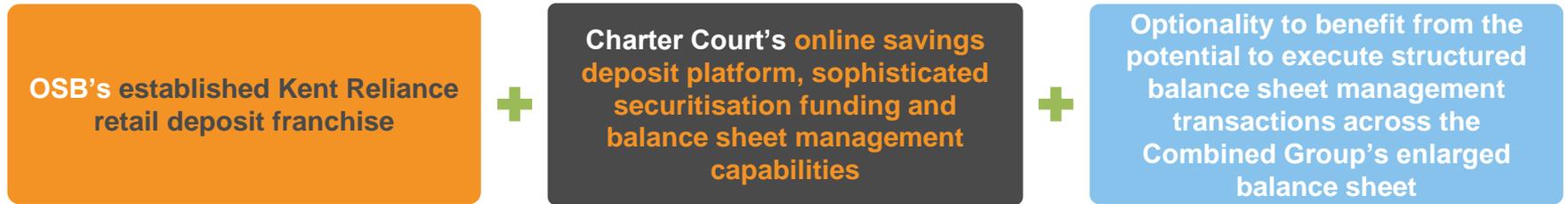
Second charge

Bridging

Residential development

Improved proposition and service levels with no disruption to the broker distribution network

# Establish a well-balanced, resilient and diversified retail-wholesale funding platform



	<p><b>£8.1bn<sup>1</sup></b> of deposits</p>	<ul style="list-style-type: none"> <li>• Branch / postal / online</li> <li>• In-house retail deposit platform</li> </ul>
	<p><b>£5.1bn<sup>1</sup></b> of deposits</p>	<ul style="list-style-type: none"> <li>• Online</li> <li>• Operations currently outsourced to Newcastle Building Society</li> </ul>
<p>Charter Court's securitisation platform</p>	<p><b>£3.1bn<sup>1</sup></b> raised to date</p>	<ul style="list-style-type: none"> <li>• Frequent issuer – 11 transactions since 2013</li> <li>• Proven ability to access funding via RMBS market</li> </ul>
<p>Charter Court's balance sheet management capabilities</p>	<p><b>&gt; £1.5bn<sup>1</sup></b> of structured sales</p>	<ul style="list-style-type: none"> <li>• Charter Court's in-house capital markets expertise to be inherited by the Combined Group</li> </ul>

1. As at 31 December 2018.

**Financial benefits**



# Expected financial benefits of the combination

## Meaningful cost synergies

- Expected that the combination will result in **£22m<sup>1</sup>** of pre-tax cost synergies on an annual run-rate basis by the third anniversary of the completion of the combination<sup>2</sup>
- Expected to improve cost efficiencies and benefits by leveraging OSB's India-based lending, savings and support operations and capabilities
- One-off pre-tax costs to achieve of **c.£39m**, phased broadly evenly across a three year period following completion

## High quality loan book, and resilient and diversified funding platform

- High quality specialist mortgage loan book with low impairment rates – net customer loans of **£15.6bn<sup>3</sup>**
- Resilient and diversified funding base with **>77%** customer deposit funding<sup>3</sup> – customer deposits of **£13.2bn<sup>3</sup>**
- Well proven securitisation funding capability and balance sheet management capabilities
- Optionality to benefit from the potential to execute structured balance sheet management transactions

## Robust pro forma capital position

- Strong capital position post completion
- Increased scale to facilitate capital optimisation and diversification potential
- Appropriate CET1 capital buffer over regulatory minimum capital requirements to be maintained
- Well placed to address expected future MREL requirements
  - Expected increase in financing costs more than offset by run-rate cost synergies

**Anticipated to be earnings accretive for the shareholders of both OSB and Charter Court in 2021<sup>4</sup> (excluding the additional financing costs related to the phased implementation of the Combined Group's expected MREL requirement which would be more than offset by expected pre-tax cost synergies on an annual run-rate basis)<sup>5</sup>**

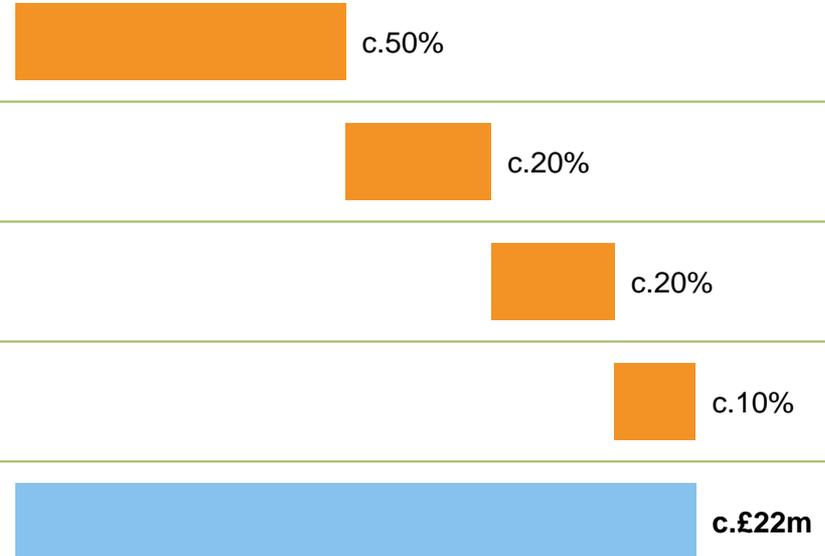
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4. Earnings accretive on an underlying basis. This statement is not intended, and should not be construed, as a profit forecast.  
5. The OSB directors expect the additional MREL financing costs to be more than offset by run-rate cost synergies.

# Meaningful cost synergies

## Efficient target operating model

- 1 • Appropriate removal of duplicate senior management roles and central and support functions
  - 2 • Efficiencies from combined lending operations
  - 3 • Bringing Charter Court's savings account operations in-house
  - 4 • Other operational efficiencies
- Expected that the combination will result in **£22m**<sup>1</sup> of pre-tax cost synergies on an annual run-rate basis by the third anniversary of the completion of the combination<sup>2</sup>

## Meaningful cost synergies<sup>1</sup>



## Phasing of cost synergies

- **c.30%** of these cost synergies to be achieved by the end of the first 12-month period, **c.75%** by the end of the second 12-month period and the full run-rate by the third anniversary of completion of the combination

## Costs to achieve

- One-off pre-tax costs to achieve of **c.£39m**, phased broadly evenly across a three year period following completion

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 2. This slide includes a quantified financial benefits statement made by the OSB directors which has been reported on for the purposes of the City Code. See Appendix for further details.

# Robust pro forma capital position

## Strong capital position

- Strong capital position post completion
- Increased scale to facilitate capital optimisation and diversification potential
- IRB accreditation projects initiated
- Appropriate CET1 capital buffer over regulatory minimum capital requirements to be maintained

Appropriate CET1 capital buffer to be maintained with upside potential from capital optimisation and diversification potential

# Achievable integration plan based on low-risk approach

## Achievable integration plan

- Low-risk approach to integration
- No current plans for large-scale IT integration
- Operational integration will be concluded by the third anniversary of completion
- Achievability of integration plan is further assisted by:
  - Similarities across OSB's and Charter Court's business models and lending platforms
  - Experience gained from previous commercial collaboration between OSB and Charter Court
  - OSB's and Charter Court's experience of operating a multi-brand franchise
  - Complementary and highly-engaged cultures across both workforces

## Integration oversight and governance

- Integration plan and its delivery to be overseen by a Board Integration Committee
- Clear focus on maintaining operational excellence and the careful delivery of the expected cost synergies and other benefits of the combination
- Board Integration Committee to be chaired by David Weymouth, Deputy Chairman of the Combined Group
- Ian Lonergan, the current CEO of Charter Court, to become Integration Director for up to 18 months following completion to ensure OSB and Charter Court's capabilities are brought together to deliver the benefits of the combination
- Sebastien Maloney, CFO of Charter Court, to be retained as an adviser to the Combined Group for up to 12 months following completion to ensure Charter Court's in-house capital markets and balance sheet management capabilities are maintained for the benefit of the Combined Group

Achievable integration plan with no current plans for large-scale IT integration



# **Expected transaction timetable**

# Expected transaction timetable

<b>Q2 2019</b>	<b>Shareholder documentation published</b>	<ul style="list-style-type: none"><li>• Charter Court offer / scheme document</li><li>• OSB prospectus and circular</li></ul>
<b>Q2 2019</b>	<b>OSB and Charter Court shareholder meetings</b>	<ul style="list-style-type: none"><li>• OSB shareholders vote to:<ul style="list-style-type: none"><li>- Approve the transaction (as a Class 1 transaction for OSB for the purposes of the Listing Rules)</li><li>- Approve issuance of consideration shares</li></ul></li><li>• Charter Court shareholders vote to:<ul style="list-style-type: none"><li>- Approve scheme and pass various resolutions to approve, implement and effect the combination</li></ul></li></ul>
<b>Q3 2019</b>	<b>Completion</b>	<ul style="list-style-type: none"><li>• Subject to satisfaction of conditions (including shareholder and regulatory approvals)</li></ul>

# Summary



# Creating a leading specialist lender in the UK

## Strategic rationale

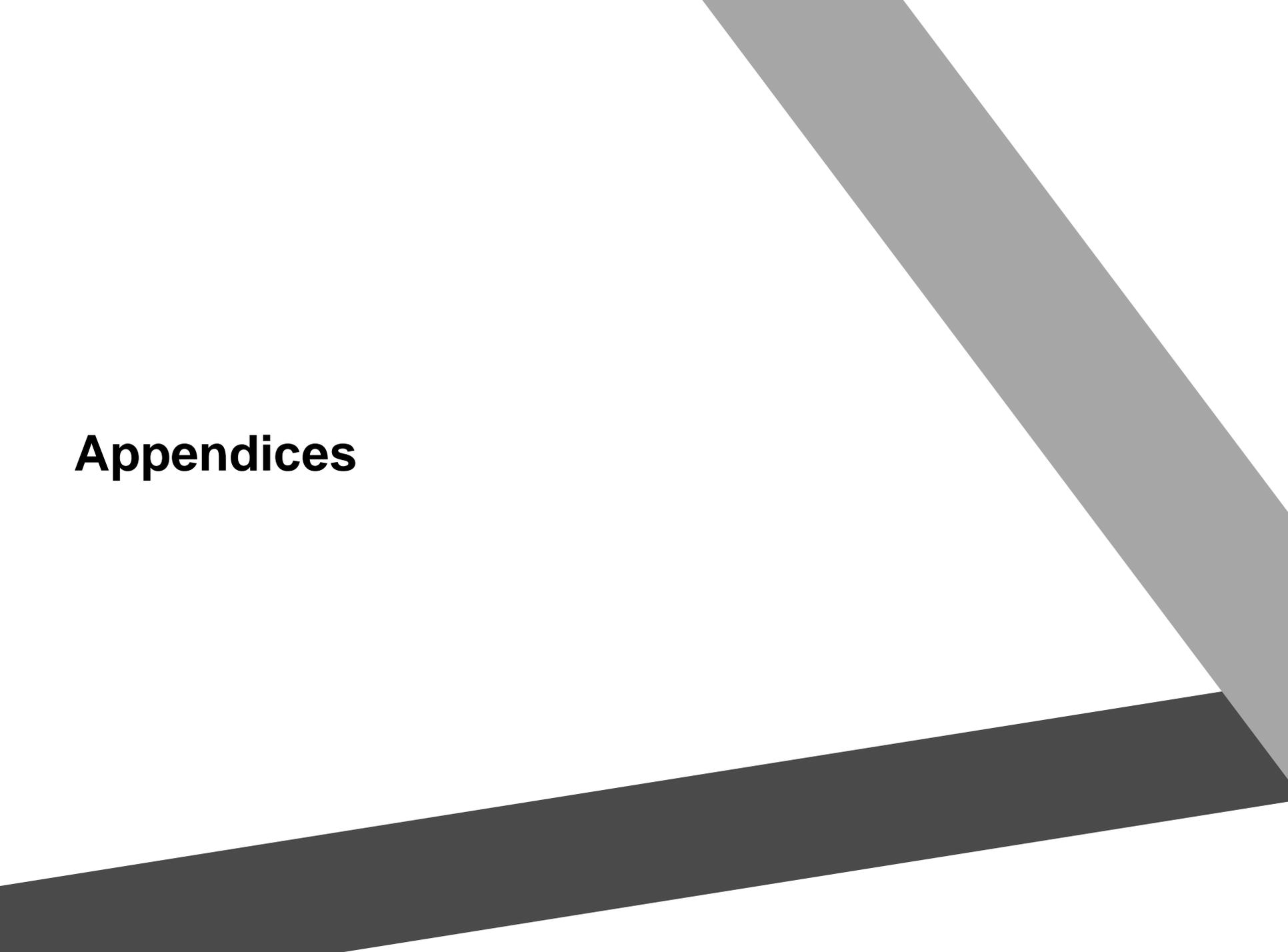
- Create a leading specialist lender in the UK with greater scale and resources to deploy on growth opportunities
- Leverage complementary strengths to create a comprehensive and diversified platform across product capabilities, brands and team cultures
- Leverage complementary underwriting capabilities to enhance the customer proposition
- Establish a well-balanced, resilient and diversified retail-wholesale funding platform
- Maintain two leading, independent distribution platforms to create an enhanced proposition to the broker community
- Maintain operational centres of excellence to drive service levels and platform efficiency

## Expected financial benefits

- Realise meaningful cost synergies with further potential benefits
- Diversified, high quality loan book and funding platform
- Robust pro forma capital position
- Strong capital generation to support a strong dividend policy
- Anticipated to be earnings accretive to shareholders of OSB and Charter Court in 2021<sup>1</sup>

1. Excluding the additional financing costs related to the phased implementation of the Combined Group's expected MREL requirement. Additional MREL financing costs expected to be more than offset by expected pre-tax cost synergies on an annual run-rate basis. Earnings accretive on an underlying basis. This statement is not intended, and should not be construed, as a profit forecast.

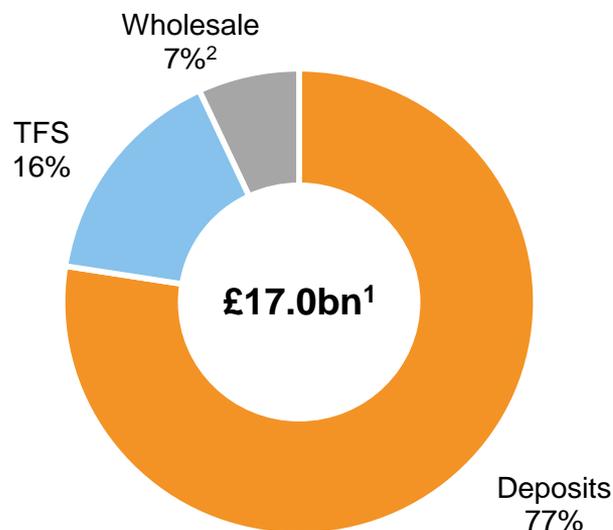
# Appendices



# Resilient and diversified funding model

## Diversified funding model

Funding balances as at 31 December 2018



## Advantageous funding capabilities

- Establish a well-balanced, resilient and diversified retail-wholesale funding platform
- Stable, deposit-led funding platform
  - Ability to utilise Charter Court's sophisticated securitisation funding and balance sheet management capabilities
- Increased scale of the Combined Group and its resilient and diversified funding model should enable refinancing of TFS on more advantageous terms
- Well placed to address expected future MREL requirements
  - Expected increase in financing costs<sup>3</sup> more than offset by expected pre-tax cost synergies on an annual run-rate basis

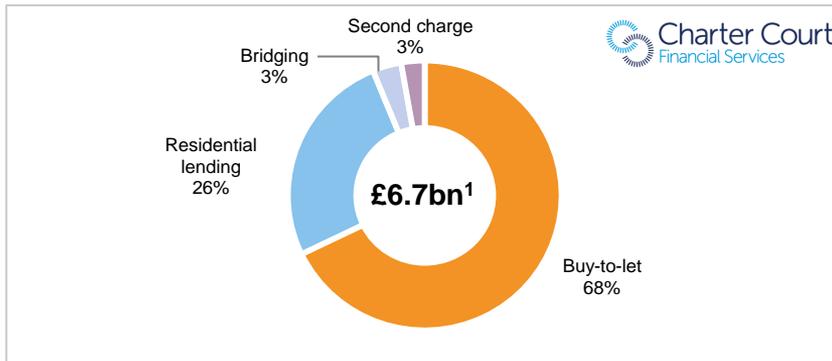
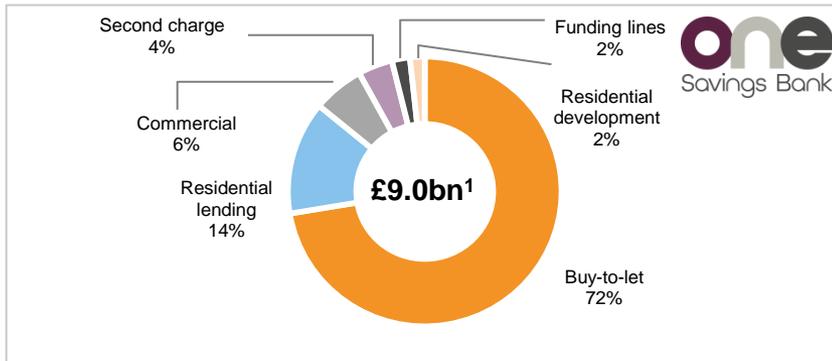
Stable, deposit-led funding to be combined with sophisticated securitisation funding and balance sheet management capabilities

1. Based on the pro forma results of the Combined Group, were the combination to have completed on 31 December 2018.  
2. Includes subordinated liabilities, perpetual subordinated bonds, Bank of England ILTR balances and swap margin amounts received as reported by OSB, and asset backed loan notes, sale and repurchase agreements, and collateral received on interest rate swap contracts as reported by Charter Court.  
3. As a result of the Combined Group's expected MREL requirement.

# Larger and diversified specialist portfolio

## Net loans

Net loans as at 31 December 2018



## High quality and secured portfolios

Cost of risk<sup>1</sup>



- Larger and diversified specialist portfolio
- Familiar asset classes and complementary product capabilities
- Low impairment rates
- Combined data sets to enhance data analytics

Focused on specialist buy-to-let mortgages, but with greater presence and capabilities in specialist residential mortgages

1. As at 31 December 2018.

# Overview of OSB

## Financial performance and key metrics

(£m)	2017 <sup>1</sup>	2018 <sup>1</sup>
Net interest income	245.4	287.3
Non-interest income	0.5	0.6
Other income <sup>3</sup>	(7.8)	(5.8)
Operating expenses <sup>4</sup>	(66.0)	(80.4)
Impairments	(4.4)	(8.1)
<b>Profit before tax</b>	<b>167.7</b>	<b>183.8</b>
<b>Profit after tax</b>	<b>126.9</b>	<b>140.3</b>
Net loans (£bn)	7.3	9.0
Deposits (£bn)	6.7	8.1
RWAs (£bn)	3.3	4.2
Net interest margin	3.16%	3.04%
Cost of risk	0.07%	0.10%
Cost : income ratio <sup>5</sup>	27%	28%
Return on equity <sup>6</sup>	28%	26%
CET 1 ratio	13.7%	13.3%

1. Financial year ended 31 December.

2. As at 31 December 2018.

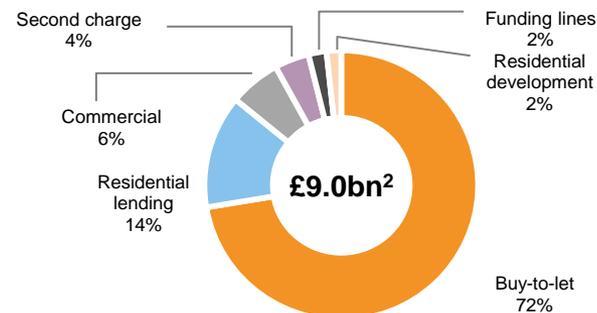
3. Other income includes fair value losses on financial instruments, loss on sale of financial instruments and external servicing fees.

4. Operating expenses include administrative expenses, depreciation and amortisation and FSCS and other regulatory provisions.

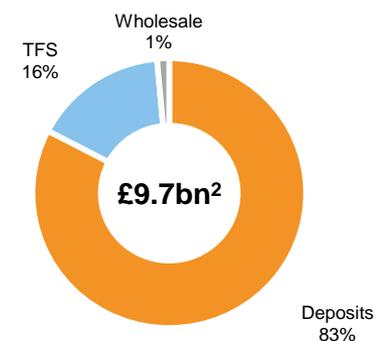
5. Administrative expenses, including depreciation and amortisation, as a percentage of total income.

6. Profit after tax excluding exceptional items after tax and after deducting coupons on equity PSBs and AT1 securities as a percentage of average shareholders' equity (excluding equity PSBs and AT1 securities).

## Net loans<sup>2</sup>



## Funding balances<sup>2</sup>



# Overview of Charter Court

## Financial performance and key metrics

(£m)	2017 <sup>1</sup>	2018 <sup>1</sup>
Net interest income	144.1	180.5
Non-interest income	8.5	8.0
Other income <sup>3</sup>	17.6	36.4
Operating expenses	(58.0)	(64.6)
Impairments	(0.5)	(2.1)
<b>Profit before tax</b>	<b>111.7</b>	<b>158.2</b>
<b>Profit after tax</b>	<b>81.3</b>	<b>120.8</b>
Net loans (£bn)	5.4	6.7
Deposits (£bn)	4.4	5.1
RWAs (£bn)	2.1	2.7
Net interest margin	3.19%	3.08%
Cost of risk	0.01%	0.04%
Cost : income ratio <sup>4</sup>	34%	29%
Return on equity <sup>5</sup>	29%	31%
CET 1 ratio	15.6%	15.7%

1. Financial year ended 31 December.

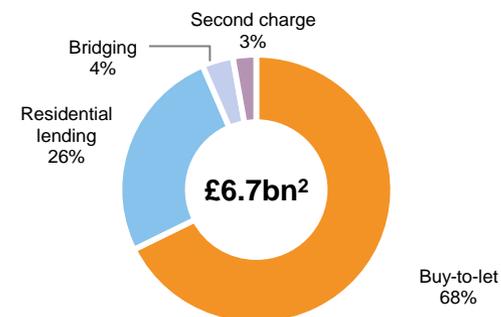
2. As at 31 December 2018.

3. Includes gains on sale of loans and net losses from derivative financial instruments.

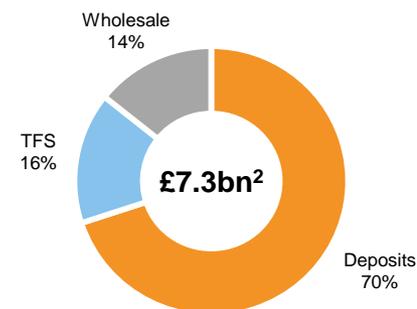
4. Statutory cost : income ratio. Rounded.

5. Statutory return on equity. Rounded.

## Net loans<sup>2</sup>



## Funding balances<sup>2</sup>



# Quantified Financial Benefits Statement

The statements labelled by way of a footnote as including a quantified financial benefits statement in slides 16, 20 and 21 of these presentation slides, arising in connection with OSB's strategy for integrating Charter Court's business, includes a "quantified financial benefits statement" for the purposes of Rule 28 of the City Code, which has been reported on previously (as set out in the final section of this Appendix I) in accordance with the requirements of the City Code in the following form (the "**Quantified Financial Benefits Statement**"):

*The Board of OSB is confident that, as a direct result of the Combination, the Combined Group will generate meaningful cost synergies and create additional shareholder value. The OSB Board, having reviewed and analysed the potential cost synergies of the Combination, and taking into account the factors they can influence, believes that the Combination will result in £22 million of pre-tax cost synergies on an annual run-rate basis (based on the pro forma results of the Combined Group for the year ended 31 December 2018) by the third anniversary of the completion of the Combination.*

*The OSB Board expects approximately 30% of these cost synergies to be achieved by the end of the first 12-month period following completion of the Combination, approximately 75% by the end of the second 12-month period following completion of the Combination and the full run-rate by the third anniversary of completion of the Combination. On this basis, approximately 10% of the cost synergies are expected to be recognised in the first 12-month period following completion of the Combination, approximately 40% in the second 12-month period following completion of the Combination and approximately 90% in the 12-month period ending on the third anniversary of completion of the Combination.*

*The Board of OSB expects these anticipated quantified cost synergies will accrue as a direct result of the Combination and would not be achieved on a standalone basis. The quantified cost synergies, which are expected to originate from the cost bases of both OSB and Charter Court, are expected to be realised from:*

- A. the appropriate removal of duplicate senior management roles and central and support functions (expected to contribute approximately 50% of the full run-rate pre-tax cost synergies);*
- B. efficiencies from combined lending operations (expected to contribute approximately 20% of the full run-rate pre-tax cost synergies);*
- C. bringing Charter Court's savings account operations in-house (expected to contribute approximately 20% of the full run-rate pre-tax cost synergies); and*
- D. other operational efficiencies (expected to contribute approximately 10% of the full run-rate pre-tax cost synergies).*

*It is expected that the realisation of these quantified cost synergies would give rise to one-off pre-tax costs to achieve of approximately £39 million. These are expected to be phased broadly evenly across a three year period following completion of the Combination.*

*Aside from the one-off exceptional costs referred to above and the costs associated with the potential acceleration of the Combined Group's expected MREL requirement, the Board of OSB does not expect any material pre-tax dis-synergies to arise in connection with the Combination.*

# Quantified Financial Benefits Statement (continued)

## Bases of belief for the Quantified Financial Benefits Statement

In preparing the Quantified Financial Benefits Statement, Charter Court has provided OSB with certain operating and financial information to facilitate a detailed analysis in support of evaluating the potential synergies available from the Combination. In circumstances where data has been limited for commercial, regulatory or other reasons, OSB management has made estimates and assumptions to aid its development of individual synergy initiatives. The assessment and quantification of the potential synergies have, in turn, been informed by the OSB management's industry experience and knowledge of the existing businesses, together with close consultation with Charter Court.

The cost base used as the basis for the quantified exercise is the combined 2018 cost bases for OSB and Charter Court, consistent with OSB's audited preliminary results announcement for the financial year ended 31 December 2018 (released by OSB on 14 March 2019) and Charter Court's audited preliminary results announcement for the financial year ended 31 December 2018, provided by Charter Court to OSB (and released by Charter Court on 14 March 2019).

The assessment and quantification of the potential synergies have in turn been informed by OSB management's industry experience as well as their experience of executing and integrating past acquisitions.

In general, the synergy assumptions have in turn been risk adjusted, exercising a degree of prudence in the calculation of the estimated synergy benefit set out above.

The OSB Board has, in addition, made the following assumptions, all of which are outside the influence of OSB:

- there will be no material impact on the underlying operations of either OSB or Charter Court or their ability to continue to conduct their businesses;
- there will be no material change to macroeconomic, political, regulatory or legal conditions in the markets or regions in which OSB and Charter Court operate that will materially impact on the implementation or costs to achieve the proposed cost savings;
- there will be no material change in current foreign exchange rates; and
- there will be no change in tax legislation or tax rates or other legislation in the United Kingdom that could materially impact the ability to achieve any benefits.

In addition, the OSB Board has assumed that the cost synergies are substantively within OSB's control, albeit that certain elements are dependent in part on negotiations with third parties.

## Reports

As required by Rule 28.1(a) of the City Code, KPMG, as reporting accountants to OSB, and Rothschild & Co and Barclays, as financial advisers to OSB, have provided the reports required under that Rule. Copies of these reports are included in Appendix IV of the announcement made by OSB and Charter Court on 14 March 2019 pursuant to Rule 2.7 of the City Code (the "Rule 2.7 Announcement"). Each of KPMG, Rothschild & Co and Barclays has given and not withdrawn its consent to the publication of its report in the Rule 2.7 Announcement in the form and context in which it is included.

## Notes

1. The statements of estimated synergies relate to future actions and circumstances which, by their nature, involve risks, uncertainties and contingencies. As a result, the synergies referred to may not be achieved, or may be achieved later or sooner than estimated, or those achieved could be materially different from those estimated.
2. No statement in the Quantified Financial Benefits Statement, or this Announcement generally, should be construed as a profit forecast or interpreted to mean that OSB's earnings in the full first full year following the Combination, or in any subsequent period, would necessarily match or be greater than or be less than those of OSB and/or Charter Court for the relevant preceding financial period or any other period.
3. Due to the scale of the Combined Group, there may be additional changes to the Combined Group's operations. As a result, and given the fact that the changes relate to the future, the resulting synergies may be materially greater or less than those estimated.

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Statements of estimated cost savings and synergies relate to future actions and circumstances which, by their nature, involve risks, uncertainties and contingencies. As a result, the cost savings and synergies referred to may not be achieved, may be achieved later or sooner than estimated, or those achieved could be materially different from those estimated. For the purposes of Rule 28 of the City Code on Takeovers and Mergers (“**City Code**”), quantified financial benefits statements contained in this presentation are the responsibility of OSB and the OSB directors. Neither Charter Court nor its directors will be responsible for any quantified financial benefits statement, or any statement on synergies or any information set out in this presentation relating to OSB or its group. Neither OSB nor its directors will be responsible for any information set out in this presentation relating to Charter Court or its group. Neither the quantified financial benefits statement nor any other statement in this presentation should be construed as a profit forecast or interpreted to mean that the combined group’s earnings in the first full year following implementation of the Combination, or in any subsequent period, would necessarily match or be greater than or be less than those of OSB or Charter Court for the relevant preceding financial period or any other period. The bases of belief, principal assumptions and sources of information in respect of any quantified financial benefit statement are set out in the announcement published on 14 March 2019 in connection with the Combination. Each of the OSB directors, whose names are set out on the “Board of Directors” page of the OSB website at [www.osb.co.uk/who-we-are/our-board-of-directors](http://www.osb.co.uk/who-we-are/our-board-of-directors) and each of the Charter Court directors, whose names are set out on the “Board of Directors” page of the Charter Court website at [www.chartercourtfsc.co.uk/InvestorRelations/BoardOfDirectors](http://www.chartercourtfsc.co.uk/InvestorRelations/BoardOfDirectors), accepts responsibility for the information contained in this presentation other than, in relation to the Charter Court directors, any quantified financial benefits statement or any statement on synergies or any financial information or any other information set out in this presentation relating to OSB and its group and, in relation to the OSB directors, any financial information or any other information set out in this presentation relating to Charter Court or its group. To the best of the OSB and the Charter Court directors’ knowledge and belief (who have taken all reasonable care to ensure that such is the case), the information contained in the relevant slides in this presentation is in accordance with the facts and, where appropriate, does not omit anything likely to affect the import of such information. As a result of rounding, the totals of data presented in this presentation may vary slightly from the actual arithmetic totals of such data.

# Legal Disclaimer (continued)

The companies in which OSB directly and indirectly owns investments are separate entities. In this presentation “OSB” is sometimes used for convenience where references are made to OSB and its subsidiaries in general. Likewise, the words “we”, “us” and “our” are also used to refer to subsidiaries in general or to those who work for them. These expressions are also used where no useful purpose is served by identifying the particular company or companies. Similar references are made to “Charter Court” with similar logical application.

This document may contain certain ‘forward-looking statements’ with respect to OSB’s, Charter Court’s or the combined group’s plans and their current goals and expectations relating to future financial condition, performance, results, strategy and objectives. For example, statements containing words such as ‘may’, ‘will’, ‘should’, ‘continue’, ‘aims’, ‘estimates’, ‘projects’, ‘believes’, ‘intends’, ‘expects’, ‘plans’, ‘pursues’, ‘seeks’, ‘targets’, ‘goals’, ‘risks’, ‘outlook’ and ‘anticipates’, and words of similar meaning, may be forward-looking. By their nature, all forward-looking statements involve risk and uncertainty because they are based on information available at the time they are made, including current expectations and assumptions, and relate to future events and circumstances which may be or are beyond OSB or Charter Court’s control. As a result, OSB or Charter Court’s actual future financial condition, performance and results may differ materially from the plans, goals, strategy and expectations set forth in the forward-looking statements. Persons receiving this document should not place undue reliance on forward-looking statements. For a discussion of important factors which could cause actual results to differ from forward looking statements relating to OSB, refer to OSB’s Annual Report and Accounts for the year ended 31 December 2017. For a discussion of important factors which could cause actual results to differ from forward looking statements relating to Charter Court, refer to Charter Court’s Annual Report and Accounts for the year ended 31 December 2017. Neither OSB nor Charter Court undertake any obligation to update any of the forward-looking statements contained in this document or any other forward-looking statements it may make. Past performance is not an indicator of future results and the results of OSB and Charter Court in this document may not be indicative of, and are not an estimate, forecast or projection of, OSB, Charter Court, or the combined group’s future results.

The Combination relates to the securities of a UK company and is subject to UK procedural and disclosure requirements that are different from those of the U.S. Any financial statements or other information included in this presentation may have been prepared in accordance with non-U.S. accounting standards that may not be comparable to the financial statements of U.S. companies or companies whose financial statements are prepared in accordance with generally accepted accounting principles in the U.S. It may be difficult for U.S. holders of shares in Charter Court to enforce their rights and any claims they may have arising under the U.S. federal securities laws in connection with the Combination, since OSB is located in a country other than the U.S., and some or all of its officers and directors may be residents of countries other than the United States. U.S. holders of shares in Charter Court or OSB may not be able to sue OSB or its officers or directors in a non-U.S. court for violations of the U.S. securities laws. Further, it may be difficult to compel OSB and its affiliates to subject themselves to the jurisdiction or judgment of a U.S. court. You should be aware that OSB or its nominees, or its brokers (acting as agents), may purchase or arrange to purchase Charter Court shares otherwise than under any offer or scheme related to the Combination, such as in open market or privately negotiated purchases. The Combination is expected to be implemented under a scheme of arrangement provided for under English company law. Securities issued pursuant to the scheme will not be registered under any US state securities laws and may only be issued to persons resident in a state pursuant to an exemption from the registration requirements of the securities laws of such state. If so, it is expected that any securities to be issued under the Combination would be issued in reliance upon the exemption from the registration requirements of the U.S. Securities Act of 1933, as amended (the “**US Securities Act**”), provided by section 3(a)(10) thereof and would not be registered under the US Securities Act and also would not be subject to the tender offer rules under the US Securities Exchange Act of 1934, as amended (the “**US Exchange Act**”). The Combination may be implemented by way of a takeover offer under English law. If so, the Combination will be made in compliance with applicable United States laws and regulations, including any applicable exemptions provided under Rules 14d-1(c) and 14d-1(d) under the US Exchange Act.

This presentation should be read in conjunction with the announcement made by OSB and Charter Court on 14 March 2019 pursuant to Rule 2.7 of the City Code, the scheme document to be published by Charter Court and the prospectus and shareholder circular to be published by OSB (the “**Public Documents**”) in connection with the Combination, which are available or will be made available in due course at [www.osb.co.uk/investors](http://www.osb.co.uk/investors) and [www.chartercourtfcs.co.uk/InvestorRelations](http://www.chartercourtfcs.co.uk/InvestorRelations). Any decision taken in relation to the Combination should only be taken by reference to the information set out in (or otherwise incorporated by reference into) the Public Documents.