OneSavings Bank plc

Interim report for the six months ended 30 June 2016

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OneSavings Bank plc ("OSB"), the specialist lending and retail savings group, announces another strong set of results for the six months ended 30 June 2016.

Financial Highlights

- Underlying profit before taxation[1] increased 36% to £64.6m (1H 2015: £47.6m)
- Underlying loan book growth of 10%, excluding the impact of the Rochester Disposal[2], driven by 25% growth in gross organic origination to £973m, (1H 2015: £778m) and acquisitions of £131m (1H 2015: acquisition of £260m)
- Continued focus on cost efficiency and discipline alongside strong income growth drove a strong cost:income ratio[3] of 27% (1H 2015: 26%)
- Net Interest Margin (NIM)[4] of 307bps (1H 2015: 305bps)
- Underlying return on equity[5] of 29% (1H 2015: 31%)
- Interim dividend of 2.9p per share (1H 2015: 2.0p)[6]
- Fully-loaded Common Equity Tier 1 (CET1) capital ratio at 13.3% (1H2015: 11.0%, FY 2015: 11.6%)

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

"I am delighted that OneSavings Bank has delivered another strong set of results for the first half of 2016. We have achieved all of our financial objectives since IPO and the strength of our balance sheet, together with the high quality of our secured asset portfolio, positions us well in the current uncertain economic climate.

We have continued to grow the loan book through our specialist lending brands, with 25% growth in organic origination in the first half, supported by accretive portfolio acquisitions. This growth was delivered whilst achieving a NIM marginally ahead of full year guidance, in spite of significantly increasing liquidity as a prudent measure ahead of the UK referendum on EU membership, and whilst increasing our capital ratio following the sale of our economic interest in the Rochester Financing No.1 securitisation. We also maintained a best in class cost to income ratio and our underlying return on equity of 29% remained very strong despite the impact of the new Bank Corporation Tax Surcharge.

Our low loan to values (LTVs) and stringent stress testing protect our business against significant market volatility. Whilst there is uncertainty over house price inflation, particularly for higher value properties, the average loan size in our core businesses remains low at c. £250,000 and we have limited exposure to high value properties, with less than two percent of our total loan book secured on properties valued at greater than £2m and with an LTV above 65%. We remain focused on lending in London and the South-East, where the supply demand gap is at its greatest.

Application levels in our core businesses in the second half to date are significantly higher than the first half run rate. Our full year net loan book growth guidance remains in line with that previously given, at marginally ahead of our original 20% target, however this now excludes the impact of the Rochester disposal in May, as given current uncertainty we have tightened lending criteria in our more cyclical smaller businesses and are taking a more cautious approach when assessing portfolio purchases. However, we do see potential upside opportunities, supported by our strong capital position, for further accretive loan pool acquisitions, driven by reduced competition in this area, subject to us establishing the correct risk versus reward pricing for any such purchase. We expect NIM for the full year to be broadly in line with the first half. There are no changes to other guidance.

It is too soon to predict the medium to long-term impact of Brexit on the UK economy, but we will continue to concentrate on what we have proven we do best; using our broker relationships, manual underwriting expertise and secured lending strategy to lend responsibly to customers in underserved markets. We remain well placed to take advantage of opportunities that arise using these well proven capabilities."

Key Metrics

	H1 2016	H1 2015
Statutory Profit before Tax (£m)	100.0	46.6
Total Assets (£bn)	6.3	5.2
Net loan book (£bn)	5.4	4.6
Basic EPS[7] (pence)	30.2	15.0
Underlying basic EPS[8] (pence)	19.7	15.5
Loan to deposit ratio[9] (%)	85%	92%
3 Months+ Arrears[10] (%)	2.1	2.4
Loan loss ratio[11] (bps)	18	23
Customer Net Promoter Score (%)	59%	50%

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This announcement contains inside information

Results presentation

OneSavings Bank will be holding an interim results presentation for analysts at 9:30am on Wednesday 24 August at The Lincoln Centre, 18 Lincoln's Inn Fields, WC2A 3ED. The UK dial in is 020 3427 1915 and the passcode is 2258471. The presentation will be webcast and available from 9.30am on the OneSavings Bank website at osb.co.uk/investor relations/report and accounts. Registration is open immediately.

About OneSavings Bank plc

OneSavings Bank plc ('OSB') began trading as a bank on 1 February 2011 and was admitted to the main market of the London Stock Exchange in June 2014 (OSB.L). OSB joined the FTSE 250 index in June 2015.

OSB is a specialist lending and retail savings group authorised by the Prudential Regulation Authority, part of the Bank of England, and regulated by the Financial Conduct Authority and Prudential Regulation Authority.

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

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

[1] Before exceptional income of £34.7m (20151H: £nil), Initial Public Offering ('IPO') expenses of £nil in first half 2016 (20151H: £1.7m) and after deduction of coupons on equity PSBs of £0.7m in each period
[2] Loan book growth of 5% including the impact of the Rochester Disposal
[3] Administrative expenses as a percentage of total income after deduction of coupons on equity PSBs
[4] Net interest income, less coupons on PSBs classified as equity, as a percentage of average interest bearing assets including off balance sheet Funding for Lending Scheme (FLS) drawings, on an annualised basis
[5] Underlying profit after taxation (profit after taxation excluding exceptional income after tax of £25.7m in first half 2016 (20151H: £nil), IPO expenses after tax of £nil in the first half 2016 (20151H: £1.4m) and after deducting coupons on equity PSBs after tax of £0.6m (20151H: £0.6m) as a percentage of average shareholders' equity (excluding equity PSBs of £22m) of £326.3m in first half 2016 and £241.3m in first half 2015, on an annualised basis
[6] The proposed interim dividend of 2.9 pence per share for first half 2016, is based on one third of the total 2015 final dividend of 8.7 pence per share (1H 2015: 2.0p, one third of the annualised 2014 dividend of 5.9 pence per share)
[7] Statutory profit after tax divided by the weighted average number of ordinary shares in issue
[8] Underlying profit after taxation divided by the weighted average number of ordinary shares in issue
[9] Excluding the impact of the Funding for Lending scheme
[10] Portfolio arrears rate (excluding legacy problem loan book) of accounts for which there are missing or overdue payments by more than three months
[11] Impairment losses expressed as a percentage of average gross loans and advances, annualised

Important disclaimer

Visit www.osb.co.uk for more information. Certain statements made in this announcement are "forward looking statements" with respect to certain of the Group's plans, goals and expectations relating to its future financial condition, performance, results, strategic initiatives and objectives. Generally, words such as "may", "could", "will", "expect", "intend", "estimate", "anticipate", "aim", "outlook", "believe", "plan", "seek", "continue" or similar expressions identify forward looking statements.

These forward looking statements are not guarantees of future performance. By their nature, all forward looking statements are inherently speculative and involve risk and uncertainty because they relate to future events and circumstances which are beyond the Group's control, including amongst other things, UK economic business conditions, market-related risks such as fluctuations in interest rates, the policies and actions of regulatory authorities, the impact of competition, inflation, deflation, the timing impact and other uncertainties of future acquisitions or combinations within relevant industries, as well as the impact of tax and other legislation or regulations in the jurisdictions in which the Group operates. As a result, the Group's actual future financial condition, performance and results may differ materially from the plans, goals and expectations set forth in the Group's forward looking statements.

Forward looking statements in this announcement are current only as of the date on which such statements are made. The Group undertakes no obligation to update any forward looking statements, save as required by applicable law or regulation.

Nothing in this announcement shall be construed as a profit forecast.

OneSavings Bank plc

Interim Group Report and Financial Statements
For the six months ended 30 June 2016

OneSavings Bank plc is a specialist lending and retail savings group

£973m (2015H1: £778m) — **Gross new organic lending : up 25%**

307bps (2015H1: 305bps) — **Net interest margin up 2bps**

£100.0m (2015H1: £46.6m) — **Profit before tax: up 115%**

£64.6m (2015H1: £47.6m) — **Underlying profit before tax: up 36%**

30.2p (2015H1: 15.0p) — **Basic EPS: up 101%**

19.7p (2015H1: 15.5p) — **Underlying basic EPS: up 27%**

27% (2015H1: 26%) — **Strong cost:income ratio**

29% (2015H1: 31%) — **Underlying return on equity remains strong**

18bps (2015H1:23bps) — **Loan loss ratio: improved 5bps**

13.3% (2015H1: 11.0%) — **Fully-loaded common equity tier 1 ratio strengthened**

59% (2015H1: 50%) — **Customer NPS: up 9% points**

2.9p (2015H1: 2.0p) — **Interim dividend per share**

For definitions of key ratios please see footnotes above

Chief Executive's Statement

I am pleased to report that OneSavings Bank again met or exceeded all of its financial objectives in the first half of 2016. The 36% increase in underlying profit before taxation to £64.6m in the first half reflects strong growth in loans and advances and an improved net interest margin of 307bps, despite prudently increasing liquidity ahead of the EU referendum. Focused cost efficiency continued to drive an excellent cost:income ratio of 27%. Underlying return on equity of 29% remained very strong despite the impact of the new Bank Corporation Tax Surcharge.

Strong lending franchise

Growth in net loans and advances of 5% to £5.4bn (10% excluding the impact of the Rochester Disposal) in the first half demonstrates the strength of our lending franchises and our ability to take advantage of ongoing opportunities in our specialist market sub-sectors. Growth was driven by a 25% increase in gross organic origination to £973m and acquisitions of £131m. Completion volumes in our core businesses were strong in the first half, particularly in the first quarter as we fulfilled heightened demand to accelerate mortgage completions ahead of the stamp duty land tax (SDLT) changes.

Current mortgage application volumes are significantly higher than the run rate seen in the first half, and re-mortgaging activity continues to be buoyant, currently representing c.60% of our Buy-to-Let new origination. Our long-term proposition aimed at the professional Buy-to-Let investor, underpinned by prudent underwriting and deep distribution relationships, is well positioned to continue to deliver benefits. During 2016 we have continued our selective extension of distribution partners and invested in our sales capability, whilst maintaining an excellent broker Net Promoter Score of 56%. Our commitment to brokers has been enhanced during 2016 with the launch of a broker-led product retention programme.

We target professional landlords with multiple properties, who are better positioned to withstand market volatility and continue to look for opportunities to develop and grow portfolios. Professional landlords accounted for 72% of OSB completions by value during the first half of 2016 (H2 2015: 69%). We are London and South-East focused, where the supply demand gap is at its greatest, with an average loan size in our core businesses of c.£250,000. This average loan size demonstrates that our loan book primarily consists of normal family homes and smaller flats, typically subject to sustained high demand. Our exposure to high value properties is small, with less than 2% of our total loan book secured on properties valued at greater than £2m and with an LTV above 65%.

Our target market of professional landlords in the private rental sector has responded to forthcoming tax changes on interest deductions by increasingly holding property through limited companies and utilising efficient re-investment strategies to manage their tax affairs. The proportion of new purchase applications for Buy-to-Let mortgages through limited companies has continued to rise to 58% in June 2016 from 40% in December 2015.

Sustainable funding model

We continue to support lending growth through our stable and award winning retail funding franchise, with retail deposits up over £1.1bn year-on-year to £5.8bn. Our loan to deposit ratio as at 30 June was 85% excluding the impact of the Bank of England's Funding for Lending Scheme (FLS), delivering on our strategy to be primarily retail funded. Over 16,000 new savings customers joined the bank in the first half of 2016 and our retention rates on maturing bonds and ISAs remain exceptionally strong at 86%. We continue to diversify our funding through the FLS and have drawn down £576m to date. OSB significantly increased liquidity ahead of normal target levels as a prudent measure ahead of the EU referendum, ending June with a Liquidity Coverage Ratio (LCR) of 387%, significantly ahead of the regulatory minimum of 80%. However, no adverse liquidity events or unusual saver behaviour occurred post the result and as such the excess liquidity is currently being used to fund loan book growth.

Chief Executive's Statement

The strength and fairness of our retail savings proposition together with excellent customer service, quality brand 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, and is recognised by our excellent Net Promoter Score for customers of 59%.

I am delighted that our Kent Reliance savings brand received three major awards from Moneyfacts in 2016, including the flagship Best Bank Savings Provider for the second consecutive year and the Best Cash ISA Provider for the fourth year running. These awards are a testament to our savings proposition and our staff who deliver outstanding customer service.

Robust credit risk management

Net loan book growth in the first half of 5% (10% excluding the impact of the Rochester Disposal), reflecting strong organic new lending supported by accretive portfolio acquisitions, was delivered whilst increasing our Common Equity Tier 1 ratio to 13.3%, comfortably above our stated financial objective. In current market conditions, our strong balance sheet allows OneSavings Bank to balance the relative attractiveness of market opportunities and return on capital.

We have continued our focus on disciplined lending following the EU referendum using lending criteria together with product targeting to position the business to grow its lower risk, low LTV portfolio. The weighted average LTV of the mortgage book remained low at 62% as at 30 June 2016, with an average LTV of 72% on new origination in the first half.

OSB is an expert manual underwriter and continues to exercise strong diligence over loan and customer assessment, leading to the Group's loan loss ratio falling to 18bps in the six months to 30 June 2016. We remain particularly pleased with the performance on the front book of mortgages. From more than 25,000 loans totalling £5.0bn organically originated since the creation of the Bank in February 2011, only 71 were more than three months in arrears as at 30 June 2016, with a total value of £10.5m and an average LTV of just 66%, reflecting the continued strength of the Bank's underwriting and lending criteria.

We welcome the PRA's increased focus on underwriting standards in the Buy-to-Let market. We have always assessed affordability for borrowers through our specialist underwriting model and we apply stringent stress tests. The weighted average Interest Coverage Ratio (ICR) for Buy-to-Let origination during the first half of 2016 increased to 161% from 159% during 2015, demonstrating our cautious approach to assessing customer affordability.

In its Internal Capital Adequacy Assessment Process (ICAAP), OSB applies a number of severe stress scenarios to its balance sheet including the PRA UK Variant Scenario to demonstrate that it can survive a substantial economic downturn while maintaining capital levels above minimum requirements. The UK Variant Scenario contains a severe reduction in house prices of almost 40% over the first 2 years of the 5-year stress period, as well as an increase in unemployment and interest rates, and a fall in GDP. OSB's secured balance sheet with low average LTVs and the underlying profitability of its existing loan book, allow it to survive such a stress without breaching capital requirements.

Operational excellence

Our low cost:income ratio of 27% reflects our efficient and scalable operating platform. A significant differentiator is our overseas operation, OSBIndia, which undertakes a range of primary processing services at a significantly lower cost than an equivalent UK-based operation. This is carried out at very high quality with excellent customer service, reflected in our improved and outstanding customer Net Promoter Score of 59%. We continue to focus on driving improved customer experience across our savings and lending franchises.

Chief Executive's Statement

Outlook

Trading conditions in our core businesses remain very strong with current application levels significantly higher than the run rate achieved in the first half.

We are clearly mindful of uncertainty arising from the result of the EU referendum. However we have a strong balance sheet and capital position, with our average LTVs for both residential and BTL/SME books low at 57% and 68%, respectively at 30 June 2016, and as detailed above, we have little exposure to high value high LTV properties. Our exposure to semi commercial and commercial lending is limited, at £249m as at 30 June 2016 (£230m at 31 December 2015) and the portfolio has a low weighted average LTV of 56% with an average loan size of £265,000. Our exposure to residential development loans is also low with loan commitments at £182m as at 30 June 2016 (31 December 2015 £139m).

We believe that our specialist underwriting capabilities are even more relevant in times of uncertainty as they give us a greater and deeper understanding of the risks that we can actively manage and price for. This, together with our strong service proposition, will increase the attractiveness of our products to customers given the flexibility and speed of turnaround that we offer versus the high street banks.

The Bank of England Monetary Policy Committee (MPC) announced a Bank base rate cut of 25bps on 4 August 2016 and signalled that rates could go lower if the economy worsens. OSB is reducing its standard variable rate (SVR) by the full 25bps effective from 1 September 2016. This reduction is not expected to have a significant impact on our net interest margin due to rate reductions on administered savings. Since the creation of OSB we have kept control of asset pricing in our core businesses, with the majority of new origination linked to our SVR or in naturally hedged fixed rate products. This control over pricing provides significant protection against further rate cuts. In addition, the MPC announced a new Term Funding Scheme (TFS) to provide four-year term funding for banks at close to Bank of England base rates, intended to broadly offset the impact of the lower base rate on bank new origination margins and to encourage continued lending into the 'real economy'.

We continue to manage the business prudently with careful business planning together with excellent credit risk management. Organic originations in the first half grew by 25% and application levels in our core businesses in the second half to date are significantly higher than the first half run rate. Our full year net loan book growth guidance remains in line with that previously given, at marginally ahead of our original 20% target, however this now excludes the impact of the Rochester disposal in May, as given current uncertainty we have tightened lending criteria in our more cyclical smaller businesses and are taking a more cautious approach when assessing portfolio purchases. However, we do see potential upside opportunities, supported by our strong capital position, for further accretive loan pool acquisitions, driven by reduced competition in this area, subject to us establishing the correct risk versus reward pricing for any such purchase. We expect NIM for the full year to be broadly in line with the first half. There are no changes to other guidance.

It is too soon to predict the medium to long-term impact of Brexit on the UK economy, but we will continue to concentrate on what we have proven we do best; using our relationships, manual underwriting expertise and secured lending strategy to lend responsibly to customers in underserved markets. We remain well placed to take advantage of opportunities that arise using these well proven capabilities. We expect our strong organic lending franchise to continue to deliver double digit net loan book growth through 2017, based on current application levels and market conditions, with further potential upside from accretive portfolio purchases.

Andy Golding

Chief Executive

Interim Management Report

Business Highlights

OneSavings Bank continued to deliver strong earnings and balance sheet growth during the first half of 2016, with an annualised underlying return on equity of 29% (first half 2015: 31%), basic earnings per share of 30.2p (first half 2015: 15.0p), underlying basic earnings per share of 19.7p (first half 2015: 15.5p), and a 5% increase in net loans and advances since 31 December 2015 (10% excluding the impact of the disposal of the Bank's economic interest in the Rochester Financing No.1 plc securitisation ('Rochester 1')).

The Bank sold its entire economic interest in Rochester 1 ('the Rochester Disposal') on 26 May 2016. Rochester 1 was issued on 16 October 2013 and securitised approximately £376m of acquired mortgages sold to it by the Bank. The sale resulted in derecognition of securitised mortgage assets from the Bank's balance sheet and the deconsolidation of Rochester 1. This removed a total of £239.8m of securitised mortgage assets and cash reserves from the securitisation vehicle, and, as a liability, the senior most notes (A1, A2 and B) of £171.6m from the Group's balance sheet. The transaction generated an exceptional pre-tax gain of £34.7m reflecting the significant increase in the fair value of the securitised mortgages since they were acquired by the Bank, and strengthened the Bank's CET1 ratio by c. 1.5%.

Statutory profit before taxation increased by 115% in the first half of 2016 to £100.0m (first half 2015: £46.6m) and underlying profit before taxation (excluding the exceptional gain from the Rochester Disposal and after deducting coupons on perpetual subordinated bonds ('PSBs') classified as equity) increased by 36% to £64.6m (first half 2015: £47.6m excluding exceptional IPO expenses and after deducting coupons on PSBs). This significant improvement in underlying profitability reflects the strength of our lending and funding franchises and efficient operating model.

Gross new organic lending of £973m was up 25% compared to £778m in the first half of 2015, as the Group took advantage of continued high demand for its core products. In addition, the Bank acquired portfolios of first and second charge mortgages for £131m in the first half of 2016 (first half of 2015: a portfolio of second charge residential mortgages for £260m).

The Bank continues to utilise the Bank of England's Funding for Lending (FLS) scheme. The Group has drawn down £576m to date.

Financial Review

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

	First half 2016	First half 2015
Summary Profit or Loss	**£m**	**£m**
Net interest income	**99.1**	79.5
Losses on financial instruments	**(1.7)**	(0.7)
Net fees and commissions	**0.5**	(0.2)
External servicing fees	**(1.4)**	(2.4)
Administrative expenses[1]	**(25.4)**	(19.6)
Regulatory provisions	**(0.9)**	(3.4)
Impairment losses	**(4.9)**	(4.9)
Exceptional income/(expense)	**34.7**	(1.7)
Profit before tax	**100.0**	46.6
Profit after tax	**74.1**	37.0
Underlying profit before tax	**64.6**	47.6
Underlying profit after tax	**47.8**	37.8

Interim Management Report

	First half 2016	First half 2015
Key ratios		
Net interest margin	**307bps**	305bps
Basic earnings per share, pence	**30.2**	15.0
Underlying basic earnings per share, pence	**19.7**	15.5
Underlying return on equity	**29%**	31%
Management expense ratio[2], annualised	**83bps**	77bps
Cost:income ratio	**27%**	26%
Impairment losses to average gross loans and advances, annualised	**18bps**	23bps

	30/06/2016	31/12/2015
Extracts from the Statement of Financial Position	**£m**	**£m**
Loans and advances	**5,413.4**	5,134.8
Retail deposits	**5,811.1**	5,363.8
Total assets	**6,314.9**	5,970.4
Key ratios		
Liquidity ratio[3]	**23.7%**	16.4%
Common equity tier 1 ratio	**13.3%**	11.6%
Total capital ratio	**15.6%**	14.1%
Total leverage ratio	**5.3%**	4.5%

[1] Including depreciation and amortisation
[2] Administrative expenses including depreciation and amortisation as a percentage of average total assets
[3] Including impact of FLS drawdown
For definitions of other key ratios please see footnotes above

Strong Profit Growth

The Group reported very strong profit growth in the first half of 2016 with profit before taxation of £100.0m, including an exceptional gain of £34.7m on the Rochester Disposal, up 115% (first half 2015: £46.6m).

Underlying profit before taxation (excluding the exceptional gain and after deducting coupons on equity PSBs) of £64.6m was up 36% (first half 2015: £47.6m excluding exceptional IPO expenses and after deducting coupons on equity PSBs) reflecting strong balance sheet growth and continued focus on cost efficiency and discipline.

Profit after taxation in the first half of 2016, including a £25.7m after tax exceptional gain on the Rochester Disposal, increased by 100% to £74.1m (first half 2015: £37.0m). This increase reflects the higher pre-tax profitability, partially offset by the impact of the Bank Corporation Tax Surcharge which increased the Bank's effective tax rate to 25.9% in the first half (H1 2015: 20.6%). Underlying profit after taxation (excluding the exceptional gain on the Rochester Disposal and after deducting coupons on equity PSBs, including the tax effects) increased by 27% to £47.8m (first half 2015: £37.8m before exceptional IPO costs and after deducting coupons on equity PSBs, including the tax effects) despite the impact of the new Bank Corporation Tax Surcharge.

Interim Management Report

Net Interest Margin (NIM)

The Group reported an increase in net interest income of 25% to £99.1m in the first half of 2016 (first half 2015: £79.5m) and NIM of 307bps (first half 2015: 305bps). The improved NIM, despite the drag of prudently increasing liquidity in the run up to the EU referendum, reflects the positive impacts of new organic origination and portfolio purchases, continued reduction in the cost of retail funds and the positive impact of funding from the FLS, more than offsetting the impact of the roll-off of the higher yielding personal loan portfolio.

Net Fees and Commissions

Net fees and commissions income of £0.5m in first half 2016 comprised fees and commissions receivable of £0.9m, up £0.7m from the first half of 2015, primarily due to higher servicing fee income, and fees and commissions expense of £0.4m, unchanged from the prior period.

External Servicing Fees

External servicing fees decreased to £1.4m in the first half of 2016 (first half 2015: £2.4m) due to the transfer of servicing for acquired second charge residential loan books to the Group's second charge platform Prestige Finance at the end of 2015 and the run-off of other acquired portfolios.

Efficient and Scalable Operating Platform

Administrative expenses, including depreciation, were up 29% to £25.4m for the first half of 2016 (first half 2015: £19.6m) reflecting the continued build out of the Group's operations and infrastructure to support growth in the business and meet the demands of new regulations, including model building for IFRS9 and internal ratings-based approach to risk weights (IRB), and improve operational efficiency.

The Group's annualised management expense ratio was up 6bps to 0.83% for the first half of 2016 (first half 2015: 0.77%) and its cost:income ratio was up 1 percentage point to 27% (first half 2015: 26%) reflecting this additional investment. Both ratios continue to reflect the benefit of the Bank's efficient and scalable low cost back office based in Bangalore, India.

Regulatory Provisions

Regulatory provisions expense, which is primarily in respect of the Financial Services Compensation Scheme (FSCS) levies, substantially decreased to £0.9m for the first half of 2016 (first half 2015: £3.4m). This includes the full annual charge recognised on 1 April in each year, based on retail savings balances as at the previous 31 December. The reduction is primarily due to the FSCS's announcement that it does not expect to collect contributions in respect of capital loan repayments for 2016, as well as a reduction to the Bank's accrual as at 31 December 2015 based on the FSCS's latest estimates for the prior year levy.

Impairment Losses

Impairment losses remained low at £4.9m in the first half of 2016 (first half 2015: £4.9m) with impairment losses as a ratio of average gross loans and advances decreasing to 18bps on an annualised basis (first half 2015: 23bps), primarily due to significantly lower losses on the Kent Reliance Building Society (KRBS) back book, offset by increased collective provisions predominantly on the acquired books.

Impairment losses on the personal loan portfolio decreased in the first half of 2016 to £0.1m (first half 2015: £0.5m) as the pace of growth in arrears continued to slow. Impairment losses on acquired mortgage portfolios increased to £5.0m in the first half of 2016 (first half 2015: £0.2m) as the Bank increased the prudency of assumptions in its collective provision models post the EU referendum.

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 25,000 loans totalling £5.0bn organically originated since the creation of the Bank in February 2011, there were only 71 cases more than three months in arrears as at 30 June 2016, with a total value of £10.5m and an average LTV of 66%.

Exceptional income/(expense)

Exceptional income in the first half of 2016 of £34.7m comprised of the gain on disposal of the Bank's entire economic interest in Rochester 1 (see Business Highlights above for further detail).

Exceptional expense in the first half of 2015 comprised of IPO related costs of £1.7m relating 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. From 1 January 2016 any further IPO related costs are reported within Operating Expenses due to their decreasing size (first half 2016 £0.1m).

Dividends

The Group's dividend policy is 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 2.9 pence per share for first half 2016, based on the 2015 full year dividend of 8.7 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 excluding the exceptional gain on the Rochester Disposal and after deducting coupons on perpetual subordinated bonds classified as equity (both including any tax effects).

Balance Sheet Growth

Loans and advances grew by 5% in the first half of 2016 to £5,413.4m (31 December 2015: £5,134.8m) due primarily to an increase in new lending in the BTL/SME segment and portfolio purchases totalling £131m, partly offset by the sale of OSB's economic interest in the Rochester Financing No.1 securitisation. Excluding the impact of the Rochester Disposal, loan book growth was 10% in the first half of 2016.

Retail deposits and total assets grew by 8% and 6% respectively in the first half with the impact of the build-up of higher liquidity in the run up to the EU referendum more than offsetting the impact of additional off balance sheet funding under the FLS. The Bank had drawn down a total of £576m under the FLS as at 30 June 2016 (31 December 2015: £161m).

Liquidity

OneSavings Bank operates under the PRA's liquidity regime. The Bank operates within a target liquidity runway in excess of the minimum regulatory requirement. The Bank prudently increased its liquidity above normal target levels in the run up to the EU referendum ending the first half with a liquidity ratio of 23.7% (31 December 2015: 16.4%). However, no adverse liquidity events or unusual saver behaviour occurred post the result, and as such the excess liquidity is currently being used to fund loan book growth. Our liquidity coverage ratio of 387% is significantly in excess of the regulatory minimum of 80%, including off balance sheet FLS drawdowns.

Interim Management Report

The Bank's retail savings franchise continues to provide the business with long-term sustainable funding for balance sheet growth as evidenced in the first half of 2016 by the continued strong retention rate for maturing deposits of 86% and an exceptional level of customer satisfaction with a Net Promoter Score of 59%.

Capital

The Bank's capital position strengthened in the first half with the fully-loaded CET1 ratio increasing to 13.3% as at 30 June 2016 (31 December 2015: 11.6%), primarily due to the Rochester Disposal.

The Bank had a Total Capital Ratio of 15.6% and a leverage ratio of 5.3% as at 30 June 2016 (31 December 2015: 14.1% and 4.5% respectively).

Interim Management Report

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 2016, £m	Total	BTL/SME	Residential mortgages	Personal loans
Gross loans to customers	5,444.1	3,540.1	1,875.1	28.9
Provision for impairment losses	(30.7)	(17.9)	(6.3)	(6.5)
Net loans to customers	5,413.4	3,522.2	1,868.8	22.4
Risk weighted assets	2,510.7	1,661.6	816.4	32.7

First half 2016, £m	Total	BTL/SME	Residential mortgages	Personal loans	Central
Net interest income	99.1	60.8	36.3	2.0	-
Other income / (expense)	(2.6)	(0.3)	(1.9)	(0.4)	-
Total income	96.5	60.5	34.4	1.6	-
Impairment losses	(4.9)	(0.6)	(4.2)	(0.1)	-
Contribution to profit	91.6	59.9	30.2	1.5	-

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	2,531.1	1,992.3	74.7
Risk weighted assets	2,162.5	1,201.4	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)	(0.2)	(2.4)	(0.7)	-
Total income	76.2	40.9	30.4	4.9	-
Impairment losses	(4.9)	(4.3)	(0.1)	(0.5)	-
Contribution to profit	71.3	36.6	30.3	4.4	-

As at 31 December 2015, £m	Total	BTL/SME	Residential mortgages	Personal loans
Gross loans to customers	5,162.1	3,105.5	2,007.1	49.5
Provision for impairment losses	(27.3)	(17.7)	(2.2)	(7.4)
Net loans to customers	5,134.8	3,087.8	2,004.9	42.1
Risk weighted assets	2,339.5	1,435.1	858.6	45.8

Full year 2015, £m	Total	BTL/SME	Residential mortgages	Personal loans	Central[1]
Net interest income	169.8	95.2	69.0	5.6	-
Other income / (expense)	(7.3)	(0.6)	(5.9)	(1.4)	0.6
Total income	162.5	94.6	63.1	4.2	0.6
Impairment losses	(10.6)	(5.3)	(2.4)	(2.9)	-
Contribution to profit	151.9	89.3	60.7	1.3	0.6

[1] Other income in the Central segment represents gains and losses on sales of investment securities

Interim Management Report

Buy-to-Let/SME

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

During the first half of 2016, the Group significantly increased its volume of new organic lending in this segment to £800m, an increase of 24% on first half 2015 new lending of £644m. This included strong growth in Buy-to-Let through the Kent Reliance and InterBay brands, where we continued to see strong growth opportunities.

The UK Buy-to-Let market continued to grow in 2016 with £19.7bn of transactions in the first five months of 2016 compared with £13bn for the same period in 2015. The expectation is that the higher SDLT and forthcoming tax changes to interest deductions will reduce the level of speculative and amateur investors, driving greater professionalism in the sector.

We have invested in our sales capability across all of our lending brands and extended distribution to reach a number of substantial new partners and deepen our existing relationships. We have improved our intermediary proposition with the introduction of a revised broker-led retention programme, the first of its kind in the specialist lending market. Product development has continued to increase our focus on the professional landlord community and we have tightened criteria for non-professionals. The Buy-to-Let loan portfolio grew by £410m in the first half of 2016 to a gross value of £3,120m (31 December 2015 £2,710m).

Our exposure to commercial real estate is limited, at a gross value of £249m as at 30 June 2016 (31 December 2015 £230m) and the portfolio has a low weighted average LTV of 56% and average loan size of £265,000.

In 2014, the Bank launched Heritable Development Finance to provide prudent development finance to smaller residential developers, with a preference for forging relationships with those active outside of London whilst avoiding exposure to the prime central London market. The business has continued to gain momentum in spite of new entrants to the market, as customers have sought an experienced and cautious lender. However, after the UK voted to leave the EU, we anticipate that the number of potential development schemes which can withstand our stringent stress testing may reduce until the outlook becomes clearer. The residential development funding gross loan book at the end of the first half of 2016 was £110m, with a further £72m committed (31 December 2015, £95m and £43m respectively).

In addition, the Bank continued to grow the provision of secured funding lines it provides to non-bank lenders which operate in certain high-yielding, specialist sub-segments, such as bridging finance and asset finance. Total credit approved limits are now £190m with total loans outstanding of £61m (31 December 2015: £116m and £70m respectively). During the first half of 2016, two new funding lines were added, with a further two credit lines approved and in the documentation process. The pipeline remains strong, however, following the UK's vote to leave the EU.

OSB's combined BTL/SME loan portfolio grew 14% during the first half of 2016, ending the period with a net carrying value of £3,522m (31 December 2015: £3,088m). The average LTV remained low at 68% (31 December 2015: 66%) with 1% of loans by value with LTV exceeding 90% (31 December 2015: 1%). The average LTV of new BTL/SME origination in the first half of 2016 was 74% (first half 2015: 72%).

The BTL/SME segment made a contribution to Group profit of £59.9m in the first half of 2016, up 64% compared to £36.6m in the first half of 2015, reflecting the positive impact of new lending, the falling cost of funds, and lower impairment losses of £0.6m (first half 2015: £4.3m).

Interim Management Report

Residential Mortgages

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

During the first half of 2016 the Group organically originated residential lending of £173m (first half 2015: £135m). 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 Finance brand.

The Bank also acquired portfolios of first and second charge residential mortgages for a total of £131m in the first half of 2016 (first half 2015: a second charge residential portfolio for £260m).

Our first charge residential book had a gross value of £1,299m as at 30 June 2016 (31 December 2015: £1,433m) with new organic lending in the first half of 2016 more than offset by the Rochester Disposal and redemptions on the back book and acquired mortgage portfolios in run-off.

The second charge residential loan book remained broadly flat as at 30 June 2016 with a gross value of £514m (31 December 2015: £518m) with organic origination and book acquisitions offset by redemptions on the organic book and acquired books in run-off.

OSB continued to grow the provision of secured funding lines it provides to non-bank lenders which operate in certain high-yielding, specialist sub-segments, such as residential bridge finance. Total credit approved limits are now £78m with total loans outstanding of £62m (31 December 2015: £69m and £56m respectively). During the first half of 2016, one new funding line was added, with a further credit line approved and in the documentation process.

OSB's total residential loan portfolio had a net carrying value of £1,869m as at 30 June 2016 (31 December 2015: £2,005m). The average LTV remained low at 57% (31 December 2015: 56%) with only 2% of loans by value with LTV's exceeding 90% (31 December 2015: 2%). The average LTV of new residential origination in the first half of 2016 was 65%.

Residential mortgages made a contribution to Group profit of £30.2m in the first half of 2016, down 0.3% compared to £30.3m in the first half 2015, reflecting the positive impact of new lending and portfolio purchases, and the falling cost of funds, offset by higher impairment losses of £4.2m (first half 2015: £0.1m) from the acquired mortgage portfolios and the impact of the Rochester Disposal. The Bank increased prudency in collective provision assumptions, especially for second charge mortgages post the EU referendum vote.

Personal Loans

OneSavings Bank 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 £22.4m as at 30 June 2016 (31 December 2015: £42.1m).

The portfolio made a contribution to profit of £1.5m in the first half of 2016 (first half 2015: £4.4m), however, the book is in run-off with a short remaining weighted average life. Impairment losses decreased to £0.1m in the first half of 2016 (first half 2015: £0.5m) as the pace of growth in arrears continued to slow. Arrears continue to run significantly below expectations at the time of purchase.

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Approach to Risk Management

Strategic Risk Management Framework

OneSavings Bank continues to enhance and leverage its Strategic Risk Management Framework (SRMF) in support of its strategic and business growth objectives. Its SRMF ensures an integrated approach to risk identification, assessment, management and reporting in the context of the Board approved risk appetite.

The SRMF is subject to ongoing evaluation and enhancement to ensure that it is commensurate with the size and complexity of the business model and underlying risk profile. The inherent flexibility afforded by the SRMF enables the Board and senior management to exercise effective risk oversight and respond to market and economic uncertainty and opportunities.

OSB undertook a number of initiatives in the first half of 2016 to further enhance and integrate the SRMF. These initiatives included expanding the team, improving risk data quality and management, increased sophistication in risk analytics and enhanced risk reporting.

Strength of underwriting

The Group has a bespoke expertise-based, manual approach to loan underwriting in each market sub-sector in which it operates, specifically geared to each individual customer. Although we do use credit scores and credit history in this manual assessment, OSB does not use automated or scorecard-based decisions when underwriting new loans. This approach allows us to fully understand the individual risks of each case, and price accordingly.

All cases outside the mandate of the underwriting function, for example due to loan size, are reviewed by the Transactional Credit Committee (TCC). The voting members of the TCC include the CEO, CFO, Chief Credit Officer, Group Chief Operating Officer and Group Head of Real Estate, who bring a significant amount of underwriting experience and expertise to the process. All exceptions to lending policy are reviewed by both the Credit Committee and the Board Risk Committee.

Further detail around the SRMF can be found on pages 29-37 of the 2015 Annual Report, which can be accessed via the Group's website at www.osb.co.uk.

H1 2016 Highlights

OneSavings Bank’s risk profile has remained within its prudent and proportionate risk appetite objectives during the first half of 2016. Ongoing enhancements to risk assessment and reporting capabilities have enabled the Board and senior management to take appropriate actions to proactively manage the Group’s risk profile in the context of business, market and regulatory changes.

Credit risk

The loan book remains strong from an LTV, arrears and affordability perspective. This is highlighted by the following statistics:

- Average LTV increased marginally from 64% to 65% for new residential mortgage lending and increased from 72% to 74% for new Buy-to-let/SME lending;
- Average loan to incomes (LTIs) for residential mortgage lending reduced with 1.5% of new loans having LTIs over 4.5 in the first half of 2016 compared to 3.3% in 2015;
- Portfolio arrears rate[1] remained stable at 2.1% in June 2016 (2.1% Dec 2015);

[1] Excluding legacy problem loans

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- The weighted average Interest Coverage Ratio (ICR) for Buy-to-Let origination during the first half of 2016 increased to 161% from 159% during 2015, demonstrating our cautious approach to assessing customer affordability;
- Legacy problem loans reduced from £17.8m to £15.8m;
- The exposure to semi-commercial/commercial lending remains low at £249m with a weighted average LTV of 56%;
- The exposure to residential development finance remains low at £110m with a further £72m committed and a weighted average LTV of 58%; and
- The Group has limited exposure to high LTV loans on properties worth more than £2m. In total, less than 2% of its total loan book is secured on properties valued at greater than £2m with an LTV greater than 65%.

Loan to value analysis by band for all loans:

	As at 30-Jun-16			
	BTL/SME	**Residential**	**Total**	
Band	**£' m**	**£' m**	**£' m**	**%**
0 - 50%	**571.8**	**785.9**	**1,357.7**	**25%**
50% - 60%	**801.3**	**302.2**	**1,103.5**	**20%**
60% - 70%	**1,105.9**	**340.6**	**1,446.5**	**27%**
70% - 80%	**828.3**	**250.7**	**1,079.0**	**20%**
80% - 90%	**204.8**	**141.0**	**345.8**	**6%**
90% - 100%	**5.2**	**31.9**	**37.1**	**1%**
>100%	**22.8**	**22.8**	**45.6**	**1%**
Total mortgages before provisions	**3,540.1**	**1,875.1**	**5,415.2**	**100%**
Personal loans			**28.9**	
Total loans before provisions			**5,444.1**	

	As at 31-Dec-15			
	BTL/SME	Residential	Total	
Band	£' m	£' m	£' m	%
0 - 50%	452.2	771.3	1,223.5	24%
50% - 60%	618.3	331.7	950.0	19%
60% - 70%	960.6	364.1	1,324.7	26%
70% - 80%	780.0	303.3	1,083.3	21%
80% - 90%	259.0	172.0	431.0	8%
90% - 100%	10.0	43.2	53.2	1%
>100%	25.4	21.5	46.9	1%
Total mortgages before provisions	3,105.5	2,007.1	5,112.6	100%
Personal loans			49.5	
Total loans before provisions			5,162.1	

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Loan to value analysis by band for BTL/SME:

	As at 30-Jun-16				
	Buy-to-Let	**Commercial**	**Residential development**	**Funding lines**	**Total**
Band	**£' m**	**£' m**	**£' m**	**£' m**	**£' m**
0 - 50%	**475.6**	**80.1**	**16.1**	**-**	**571.8**
50% - 60%	**687.4**	**53.3**	**60.6**	**-**	**801.3**
60% - 70%	**939.2**	**77.2**	**28.2**	**61.3**	**1,105.9**
70% - 80%	**789.7**	**34.0**	**4.6**	**-**	**828.3**
80% - 90%	**204.4**	**0.4**	**-**	**-**	**204.8**
90% - 100%	**3.8**	**1.4**	**-**	**-**	**5.2**
>100%	**20.2**	**2.6**	**-**	**-**	**22.8**
Total mortgages before provisions	**3,120.3**	**249.0**	**109.5**	**61.3**	**3,540.1**

	As at 31-Dec-15				
	Buy-to-Let	Commercial	Residential development	Funding lines	Total
Band	£' m	£' m	£' m	£' m	£' m
0 - 50%	376.2	58.7	17.3	-	452.2
50% - 60%	517.6	50.5	50.2	-	618.3
60% - 70%	793.2	75.6	22.0	69.8	960.6
70% - 80%	736.8	37.7	5.5	-	780.0
80% - 90%	255.3	3.7	-	-	259.0
90% - 100%	8.6	1.4	-	-	10.0
>100%	22.8	2.6	-	-	25.4
Total mortgages before provisions	2,710.5	230.2	95.0	69.8	3,105.5

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Loan to value analysis by band for residential:

	As at 30-Jun-16			
	First charge	**Second charge**	**Funding line**	**Total**
Band	**£' m**	**£' m**	**£' m**	**£' m**
0 - 50%	**610.8**	**173.0**	**2.1**	**785.9**
50% - 60%	**189.5**	**110.7**	**2.0**	**302.2**
60% - 70%	**179.4**	**111.6**	**49.6**	**340.6**
70% - 80%	**169.1**	**75.3**	**6.3**	**250.7**
80% - 90%	**112.2**	**26.5**	**2.3**	**141.0**
90% - 100%	**22.5**	**9.4**	**-**	**31.9**
>100%	**15.2**	**7.5**	**0.1**	**22.8**
Total mortgages before provisions	**1,298.7**	**514.0**	**62.4**	**1,875.1**

	As at 31-Dec-15			
	First charge	Second charge	Funding line	Total
Band	£' m	£' m	£' m	£' m
0 - 50%	616.4	152.7	2.2	771.3
50% - 60%	217.8	111.8	2.1	331.7
60% - 70%	205.3	116.6	42.2	364.1
70% - 80%	210.8	85.5	7.0	303.3
80% - 90%	137.8	31.7	2.5	172.0
90% - 100%	31.9	11.3	-	43.2
>100%	13.2	8.2	0.1	21.5
Total mortgages before provisions	1,433.2	517.8	56.2	2,007.1

Geographical analysis by region

As a mortgage lender, the Group is exposed to the macroeconomic environment in general and house prices in particular. As the Bank has grown through the first half of 2016 its distribution of loans by region has remained stable across its core geographic markets of London (42%) and the South East (21%). House prices increased in those markets (London 4.9%, South-East 5.1%)[2]. There was also a

[2] House price movement data based on Land Registry HPI Index movement from December 2015 to May 2016

reduction in the value of loans in Jersey to £312.9m in the first half (£340.2m Dec 2015) and in Guernsey to £99.9m (£110.5m in Dec 2015).

Region	**As at 30-June-16**	
	£' m	**%**
East Anglia	**159.0**	**3%**
East Midlands	**177.7**	**3%**
Greater London	**2,287.3**	**42%**
Guernsey	**99.9**	**2%**
Jersey	**312.9**	**6%**
North East	**82.0**	**2%**
North West	**246.4**	**5%**
Northern Ireland	**17.0**	**0%**
Scotland	**57.2**	**1%**
South East	**1,142.1**	**21%**
South West	**336.7**	**6%**
Wales	**104.9**	**2%**
West Midlands	**270.8**	**5%**
Yorks & Humberside	**121.3**	**2%**
Total mortgages before provisions	**5,415.2**	**100%**
Personal loans	**28.9**	
Total loans before provisions	**5,444.1**	

Region	As at 31-Dec-15	
	£' m	%
East Anglia	146.9	3%
East Midlands	173.6	3%
Greater London	2,116.5	41%
Guernsey	110.5	2%
Jersey	340.2	7%
North East	74.0	1%
North West	247.9	5%
Northern Ireland	15.7	0%
Scotland	64.7	1%
South East	1,020.6	20%
South West	324.2	6%
Wales	105.5	2%
West Midlands	257.0	5%
Yorks & Humberside	115.3	2%
Total mortgages before provisions	5,112.6	100%
Personal loans	49.5	
Total loans before provisions	5,162.1	

Interim Management Report

Analysis of mortgage portfolio by arrears and collateral held

The tables below provide further information on collateral in the mortgage portfolio by payment due status.

As at 30-Jun-16

	Loan balance £' m
Not impaired:	
Not past due	**4,987.7**
Past due < 1 month	**138.6**
Past due 1 to 3 months	**147.6**
Past due 3 to 6 months	**44.1**
Past due 6 to 12 months	**29.5**
Past due over 12 months	**23.5**
Possessions[1]	**1.8**
	5,372.8
Impaired[2]:	
Not past due	**14.0**
Past due < 1 month	**0.2**
Past due 1 to 3 months	**0.3**
Past due 3 to 6 months	**2.0**
Past due 6 to 12 months	**3.4**
Past due over 12 months	**10.4**
Possessions	**12.1**
Total mortgages before provisions	**42.4**
Personal loans	**28.9**
Total loans before provisions	**5,444.1**

[1] Mortgages with properties in possession are not considered impaired if the fair value of collateral exceeds the value of debt.
[2] Impaired is defined as loans with a specific provision against them.

As at 31-Dec-15

	Loan balance £' m
Not impaired:	
Not past due	4,678.1
Past due < 1 month	210.5
Past due 1 to 3 months	90.5
Past due 3 to 6 months	37.8
Past due 6 to 12 months	26.3
Past due over 12 months	22.6
Possessions[1]	1.3
	5,067.1
Impaired[2]:	
Not past due	13.5
Past due < 1 month	0.1
Past due 1 to 3 months	0.3
Past due 3 to 6 months	2.7
Past due 6 to 12 months	5.3

Past due over 12 months	12.5
Possessions	11.1
Total mortgages before provisions	45.5
Personal loans	49.5
Total loans before provisions	5,162.1

Analysis of mortgage portfolio by arrears for BTL/SME

	Buy-to-Let	Commercial	Residential development	Funding lines	Total
	As at 30-June-16				
	£' m	£' m	£' m	£' m	£' m
Not impaired:					
Not past due	**3,014.3**	**230.6**	**109.5**	**61.3**	**3,415.7**
Past due < 1 month	**30.9**	**3.7**	**-**	**-**	**34.6**
Past due 1 to 3 months	**39.2**	**2.7**	**-**	**-**	**41.9**
Past due 3 to 6 months	**4.8**	**1.2**	**-**	**-**	**6.0**
Past due 6 to 12 months	**4.7**	**0.7**	**-**	**-**	**5.4**
Past due over 12 months	**0.4**	**1.2**	**-**	**-**	**1.6**
Possessions	**0.7**	**-**	**-**	**-**	**0.7**
	3,095.0	**240.1**	**109.5**	**61.3**	**3,505.9**

	Buy-to-Let	Commercial	Total
	As at 30-June-16		
	£' m	£' m	£' m
Impaired:			
Not past due	**8.8**	**4.4**	**13.2**
Past due < 1 month	**-**	**0.2**	**0.2**
Past due 1 to 3 months	**-**	**0.3**	**0.3**
Past due 3 to 6 months	**0.6**	**0.2**	**0.8**
Past due 6 to 12 months	**1.2**	**0.5**	**1.7**
Past due over 12 months	**7.1**	**0.7**	**7.8**
Possessions	**7.7**	**2.6**	**10.3**
	25.4	**8.9**	**34.3**

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	As at 31-Dec-15				
	Buy-to-Let	Commercial	Residential development	Funding lines	Total
	£' m	£' m	£' m	£' m	£' m
Not impaired:					
Not past due	2,593.1	214.6	95.1	69.8	2,972.6
Past due < 1 month	72.2	3.6	-	-	75.8
Past due 1 to 3 months	13.4	0.7	-	-	14.1
Past due 3 to 6 months	0.4	0.9	-	-	1.3
Past due 6 to 12 months	1.7	1.4	-	-	3.1
Past due over 12 months	0.7	0.4	-	-	1.1
Possessions	-	-	-	-	-
	2,681.5	221.6	95.1	69.8	3,068.0

	As at 31-Dec-15		
	Buy-to-Let	Commercial	Total
	£' m	£' m	£' m
Impaired:			
Not past due	8.9	4.4	13.3
Past due < 1 month	-	0.1	0.1
Past due 1 to 3 months	-	0.1	0.1
Past due 3 to 6 months	0.4	0.5	0.9
Past due 6 to 12 months	3.4	-	3.4
Past due over 12 months	8.7	0.7	9.4
Possessions	7.7	2.7	10.4
	29.1	8.5	37.6

Interim Management Report

Analysis of mortgage portfolio by arrears for Residential

	As at 30-June-16			
	First charge	**Second charge**	**Funding line**	**Total**
	£' m	**£' m**	**£' m**	**£' m**
Not impaired:				
Not past due	**1,103.7**	**406.0**	**62.3**	**1,572.0**
Past due < 1 month	**82.3**	**21.7**	**-**	**104.0**
Past due 1 to 3 months	**70.2**	**35.5**	**-**	**105.7**
Past due 3 to 6 months	**19.7**	**18.4**	**-**	**38.1**
Past due 6 to 12 months	**7.9**	**16.2**	**-**	**24.1**
Past due over 12 months	**5.7**	**16.2**	**-**	**21.9**
Possessions	**1.1**	**-**	**-**	**1.1**
	1,290.6	**514.0**	**62.3**	**1,866.9**

	As at 30-June-16	
	First charge	**Total**
	£' m	**£' m**
Impaired:		
Not past due	**0.7**	**0.7**
Past due < 1 month	**-**	**-**
Past due 1 to 3 months	**-**	**-**
Past due 3 to 6 months	**1.2**	**1.2**
Past due 6 to 12 months	**1.7**	**1.7**
Past due over 12 months	**2.6**	**2.6**
Possessions	**1.8**	**1.8**
	8.0	**8.0**

Interim Management Report

	As at 31-Dec-15			
	First charge	Second charge	Funding line	Total
	£' m	£' m	£' m	£' m
Not impaired:				
Not past due	1,254.9	394.4	56.2	1,705.5
Past due < 1 month	90.7	44.0	-	134.7
Past due 1 to 3 months	43.6	32.8	-	76.4
Past due 3 to 6 months	18.9	17.6	-	36.5
Past due 6 to 12 months	10.2	13.0	-	23.2
Past due over 12 months	5.5	16.0	-	21.5
Possessions	1.3	-	-	1.3
	1,425.1	517.8	56.2	1,999.1

	As at 31-Dec-15	
	First charge	Total
	£' m	£' m
Impaired:		
Not past due	0.2	0.2
Past due < 1 month	-	-
Past due 1 to 3 months	0.2	0.2
Past due 3 to 6 months	1.8	1.8
Past due 6 to 12 months	1.9	1.9
Past due over 12 months	3.1	3.1
Possessions	0.7	0.7
	7.9	7.9

Forbearance

OneSavings Bank operates a forbearance policy in situations where it becomes aware that an individual customer is experiencing financial hardship. The Group will consider all relevant forbearance options when attempting to reach an affordable and sustainable plan with the customer and seeks to ensure that any forbearance results in a fair customer outcome. There have been no significant changes to the approach in applying forbearance policy or the level of measures undertaken.

Interim Management Report

Forbearance measures undertaken

Forbearance Type	**H1 2016 Number of Accounts**	**June 2016 Month End Balances £m**	2015 Number of Accounts	December 2015 Month End Balances £m
Switch to interest only	**21**	**3.1**	106	10.7
Interest rate reduction	**3**	**2.2**	-	-
Term extension	**16**	**4.5**	59	3.5
Payment holiday	**8**	**0.2**	21	6.5
Payment concession	**35**	**3.3**	70	5.7
Capitalisation	**-**	**-**	4	0.2
Assistance with voluntary sale of property	**-**	**-**	11	7.7

Loan Type	**H1 2016 Number of Accounts**	**June 2016 Month End Balances £m**	2015 Number of Accounts	December 2015 Month End Balances £m
First charge owner occupier	**57**	**7.6**	200	21.0
Second charge owner occupier	**17**	**0.6**	38	1.3
Buy-to-Let	**9**	**5.2**	27	11.5
Commercial	**-**	**-**	6	0.5

Solvency risk

OneSavings Bank strengthened its capital position in the first half of 2016 following the sale of its economic interest in the Rochester 1 securitisation with a CET1 ratio of 13.3% as at 30 June 2016 (31 December 2015: 11.6%). See Business Review above for further details. In addition, the PRA announced on 5 July 2016 that the UK countercyclical capital buffer rate would be reduced from 0.5% to 0% through June 2017, but that an offsetting reduction in the PRA buffer could be taken with immediate effect, leading to a reduction in capital requirements across the industry.

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

Liquidity and funding risk

OneSavings Bank's lending strategy is supported by a strong retail savings franchise, which provides the Bank with a sustainable funding platform to support long-term balance sheet growth. This strength is reflected in very high retention levels on maturing fixed term products (86% in H12016) and strong customer satisfaction. In addition, only 8% of the Bank's retail deposits as at 30 June 2016 were above the FSCS protection level of £75k. Diversification of funding is also provided by participation in the Funding for Lending Scheme. The Bank also expects to utilise the new Term Funding Scheme (TFS) announced by the Bank of England on 4 August 2016.

OSB prudently increased its liquidity above normal target levels in the run up to the EU referendum vote, resulting in a liquidity ratio of 23.7% (31 December 2015: 16.4%) and liquidity coverage ratio of 387% as at 30 June 2016, significantly above the regulatory minimum of 80%.

Interim Management Report

Market risk

OneSavings Bank has a small amount of foreign exchange exposure, due to the Rupee denominated running costs of its back office in India. Rupee denominated running costs for 2016 were largely hedged in advance of the Brexit vote. £1.6m of operational expenses were denominated in Rupees in H1 2016 (full year 2015: £2.7m).

The Bank continued to manage interest rate risk and basis risk closely with increased focus on these risks in the run up to the EU referendum vote.

Principal risks & uncertainties

The principal risks and uncertainties faced by the Group include credit, market, liquidity, operational, regulatory and conduct risk, as detailed on pages 38-41 of the 2015 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 or risk appetite in the first half of 2016. However, there have been some changes in the external environment, in particular the vote for Britain to leave the European Union, which has led to uncertainty on the macroeconomic outlook for the UK, as well as further clarity on regulatory risk in the Buy-to-Let market following the publication of the PRA’s consultation on underwriting standards for Buy-to-Let.

EU Referendum

The UK’s decision to leave the European Union has led to significant uncertainty over the macroeconomic outlook for the country. OSB does not have direct exposure to the EU outside of the UK; however, its business is exposed to a potential downturn in the UK economy, in particular a slowdown in the housing market that could impact house prices and the demand for mortgages.

The Bank’s disciplined approach to lending with sensible LTVs and robust affordability testing provides significant mitigation against a UK economic downturn. The Bank has a deliberate bias towards lending in London and the South-East where the supply demand gap for housing is at its widest, however it has limited exposure to lending on high value properties, with less than 2% of the loan book secured against property valued at more than £2m and with LTVs in excess of 65%. Our exposure to commercial real estate is limited, at £249m as at 30 June 2016, and the portfolio has a low weighted average LTV of 56% and average loan size of £265,000.

A downturn in the UK economy could also lead to a rise in unemployment and/or interest rates that could impact customer affordability. Since the vote to leave, we have increased our focus on professional landlords and tightened criteria on our smaller residential development finance and funding line businesses which are more cyclical. Current impairment levels are exceptionally low and our commitment to manual underwriting and low risk, secured lending, positions us strongly in the market and against any potential downturn.

The Bank of England Monetary Policy Committee (MPC) announced a Bank base rate cut of 25bps on 4 August 2016 and signalled that rates could go lower if the economy worsens. OSB is reducing its standard variable rate (SVR) by the full 25bps effective from 1 September 2016. This reduction is not expected to have a significant impact on the Bank’s NIM due to rate reductions on administered savings. Since the creation of OSB in 2011 we have kept control of asset pricing in our core businesses, with the majority of new origination linked to our SVR or in naturally hedged short-term fixed rate products. This control over pricing provides significant protection against further rate cuts. In addition, the MPC’s announcement of a new Term Funding Scheme to provide four-year term funding for banks at close to base rate is intended to broadly offset the impact of the lower base rate on bank new origination margins to encourage continued lending into the ‘real economy’.

Interim Management Report

PRA consultation on underwriting standards for Buy-to-Let

At the end of March 2016 the PRA published its consultation paper on underwriting standards in the Buy-to-Let market. This contains proposals to use a minimum stressed interest rate for affordability testing of 5.5% for all lending, and that lenders must use a more detailed loan assessment for applications from landlords with four or more properties. The final rules will be announced during Q3 and we anticipate implementation prior to the end of 2016.

We have always assessed affordability for borrowers through our specialist underwriting model and we apply stringent stress tests. We believe that OSB's proven expertise-based manual underwriting approach is very well placed to meet the PRA's proposed underwriting requirements. Our in-house real estate team gives us the ability to fully assess proposals including the holding costs of individual properties. We are prudent in our approach to assessing customer affordability demonstrated by the weighted average ICR for Buy-to-Let origination during the first half of 2016 increasing to 161% from 159% during 2015.

The key issue in the UK housing market continues to be the undersupply of housing, both in stock and new properties. Added to long term demographic factors such as population growth, affordability, and household fragmentation, this ensures the private rented sector will remain crucial to its development over the long term. If the regulatory and fiscal changes 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.

Scenario generation and stress testing

OneSavings Bank uses scenario and stress testing to assess the adequacy of the Bank's capital and liquidity positions under extreme economic and business conditions. Stress and scenario analysis is used to inform and support Board and management decisions at defined intervals (daily, monthly and annually), as well as on an ad-hoc basis.

OSB has run a range of stress testing scenarios in its Individual Capital Adequacy Assessment Process (ICAAP), Individual Liquidity Adequacy Assessment Process (ILAAP) and Recovery and Resolution Plan (RRP) which demonstrate that it is well capitalised to survive a range of severe stresses, has a robust funding and liquidity profile and is supported by credible contingency plans. The underlying scenarios are informed by the business model sensitivities to key macro-economic and market factors, which directly impact the performance of the loan portfolio and funding profile, including GDP, HPI, Bank of England base rate, Libor and swap rates and unemployment.

In its ICAAP, OSB applies the PRA UK Variant Scenario stress to its balance sheet to demonstrate that it can survive a substantial economic downtown while maintaining capital levels above minimum requirements. The UK Variant Scenario contains a severe reduction in house prices of almost 40% over the first 2 years of the 5 year stress period as well as an increase in unemployment and interest rates, and a fall in GDP. OSB's low average LTVs and the underlying profitability of its existing loan book allow it to survive such a stress without breaching capital requirements.

Enhancements to Risk Management Capabilities

This section sets out enhancements made to risk management capabilities during the first half of 2016. Further detail around risk management capabilities can be found on pages 34-35 of the 2015 Annual Report, which can be accessed via the Group's website at www.osb.co.uk.

Credit Risk Management Information

Improvements in management information (MI) continue to enhance Board and senior management engagement through timely and insightful risk based information. Through a credit risk MI enhancement project, focusing in particular on forward looking MI, the Bank now receives and utilises credit bureau data to enhance the "through the life" view of its borrowers. As part of the project the following items have all been incorporated into monthly Board and management credit risk reporting.

- Credit bureau behavioural score analysis
- Credit bureau indebtedness score analysis
- Roll rate analysis
- Group wide forbearance performance reporting
- Group wide debt service coverage ratio for Buy-to-Let lending

These improvements in MI are designed to identify changes in the risk profile of borrowers over time and inform appropriate contact strategies prior to the emergence of arrears and inform appropriate collection and forbearance activities if required.

Early warning indicators

The Bank's suite of early warning indicators covering solvency, credit, market, liquidity and operational risk were enhanced in the first half of 2016 and are reviewed on a monthly basis (or more regularly where appropriate) by senior management and Board committees. In addition, a range of macroeconomic early warning indicators have been created including indicators relating to house prices, new build housing registration volumes, exchange rates and unemployment.

Risk analytics

OneSavings Bank has strengthened its Risk Management Function throughout the first half of 2016 making new hires in its credit risk, market and liquidity risk, operational risk, enterprise risk and compliance teams. This has enabled a number of enhancements to risk analytics including an updated mortgage affordability calculator with more granularity of living costs and an enhanced group wide Risk and Control Self-Assessment (RCSA) process identifying a range of risks at the group level with a series of mitigating plans now in place.

OSB initiated a comprehensive programme of credit risk model design and development in the first half of 2016. A model based approach to estimating default probabilities, recoveries and exposures will be leveraged to support compliance with IFRS9 requirements, build capability for transitioning to IRB approach to capital assessment and enhanced risk assessment capabilities. OSB has engaged an external company to support the credit risk modelling design and development initiative.

Statement of Director's 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

Eric Anstee

Andrew Doman

Rod Duke

Mike Fairey

Andy Golding

Tim Hanford

Margaret Hassall

Malcolm McCaig

Mary McNamara

David Morgan

Nathan Moss

April Talintyre

By order of the Board

Date: 23 August 2016

Independent Review Report to OneSavings Bank plc

Introduction

We have been engaged by the Group to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2016 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 Group in accordance with the terms of our engagement to assist the Group 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 Group 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 Group 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 Group 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.

Independent Review Report to OneSavings Bank plc

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 2016 is not prepared, in all material respects, in accordance with IAS 34 as adopted by the EU and the DTR of the UK FCA.

Pamela McIntyre
for and on behalf of KPMG LLP
Chartered Accountants
15 Canada Square
London
E14 5GL

23 August 2016

OneSavings Bank plc

Interim report for the six months ended 30 June 2016

Condensed Consolidated Statement of Profit or Loss

	Notes	Six months ended 30-Jun-16 (Unaudited) £'m	Six months ended 30-Jun-15 (Unaudited) £'m	Year ended 31-Dec-15 (Audited) £'m
Interest receivable and similar income	2	**153.4**	126.6	268.2
Interest payable and similar charges	3	**(54.3)**	(47.1)	(98.4)
Net interest income		**99.1**	79.5	169.8
Fair value losses on financial instruments		**(1.7)**	(0.7)	(3.2)
Gains on sales of financial instruments		**-**	-	0.6
Fees and commissions receivable		**0.9**	0.2	1.1
Fees and commissions payable		**(0.4)**	(0.4)	(1.1)
External servicing fees		**(1.4)**	(2.4)	(4.7)
Total income		**96.5**	76.2	162.5
Administrative expenses	4	**(24.2)**	(18.8)	(39.4)
Depreciation and amortisation		**(1.2)**	(0.8)	(1.7)
FSCS and other provisions		**(0.9)**	(3.4)	(3.4)
Operating profit		**70.2**	53.2	118.0
Impairment losses	10	**(4.9)**	(4.9)	(10.6)
Profit before exceptional items		**65.3**	48.3	107.4
Exceptional items	5	**34.7**	(1.7)	(2.1)
Profit before taxation		**100.0**	46.6	105.3
Taxation	6	**(25.9)**	(9.6)	(21.2)
Profit for the year		**74.1**	37.0	84.1
Dividend, pence per share	7	**2.9**	2.0	8.7
Earnings per share, pence per share				
Basic	8	**30.2**	15.0	34.1
Diluted	8	**30.1**	15.0	34.0

The accompanying notes form an integral part of these condensed financial statements

Condensed Consolidated Statement of Other Comprehensive Income

	Six months ended 30-Jun-16 (Unaudited) £'m	Six months ended 30-Jun-15 (Unaudited) £'m	Year ended 31-Dec-15 (Audited) £'m
Items which may be reclassified to profit or loss:			
Fair value changes on available-for-sale securities			
Arising in the period	**(0.8)**	(0.6)	(0.5)
Transferred to profit or loss	**0.7**	(0.0)	(0.6)
Revaluation of foreign operations	**0.4**	(0.9)	(0.5)
Tax on items in other comprehensive income	**0.1**	0.1	0.2
Other comprehensive income for the year	**0.4**	(1.4)	(1.4)
Profit for the year	**74.1**	37.0	84.1
Total comprehensive income for the year	**74.5**	35.6	82.7

The accompanying notes form an integral part of these condensed financial statements

OneSavings Bank plc

Interim report for the six months ended 30 June 2016

Condensed Consolidated Statement of Financial Position

	Notes	As at 30-Jun-16 (Unaudited) £'m	As at 30-Jun-15 (Unaudited) £'m	As at 31-Dec-15 (Audited) £'m
Assets				
Cash in hand		**0.4**	0.3	0.4
Loans and advances to credit institutions		**449.2**	383.4	354.7
Investment securities		**351.2**	158.7	393.4
Loans and advances to customers	9	**5,413.4**	4,598.1	5,134.8
Derivative assets		**0.3**	1.0	1.0
Fair value hedges – assets		**67.3**	62.4	58.2
Deferred taxation asset		**3.2**	2.9	3.4
Intangible assets		**3.9**	2.8	3.1
Property, plant and equipment		**13.0**	7.1	9.6
Other assets		**13.0**	11.5	11.8
Total assets		**6,314.9**	5,228.2	5,970.4
Liabilities				
Amounts owed to retail depositors		**5,811.1**	4,635.5	5,363.8
Amounts owed to credit institutions		**1.7**	2.3	1.5
Amounts owed to other customers		**0.5**	2.5	5.9
Debt securities in issue		**-**	210.2	188.4
Derivative liabilities		**27.0**	21.4	19.8
Fair value hedges – liabilities		**5.1**	1.6	1.4
Current taxation liability		**19.4**	6.0	9.2
Deferred taxation liability		**-**	0.1	-
Other liabilities		**29.3**	23.6	18.9
FSCS and other provisions		**3.2**	5.0	2.3
Subordinated liabilities		**25.0**	27.6	24.6
Perpetual subordinated bonds		**15.4**	15.3	15.3
		5,937.7	4,951.1	5,651.1
Equity				
Share capital		**2.4**	2.4	2.4
Share premium		**157.9**	157.9	157.9
Retained earnings		**201.2**	101.9	144.0
Other reserves		**15.7**	14.9	15.0
		377.2	277.1	319.3
Total equity and liabilities		**6,314.9**	5,228.2	5,970.4

The accompanying notes form an integral part of these condensed financial statements

Condensed Consolidated Statement of Changes in Equity

	Share capital £'m	Share premium £'m	Capital contribution £'m	Transfer reserve £'m	Foreign exchange reserve £'m	Available-for-sale reserve £'m	Share-based payment reserve £'m	Retained earnings £'m	Equity bonds[1] £'m	Total £'m
Balance at 1 January 2016	**2.4**	**157.9**	**5.8**	**(12.8)**	**(0.8)**	**(0.1)**	**0.9**	**144.0**	**22.0**	**319.3**
Profit for the year	-	-	-	-	-	-	-	74.1	-	74.1
Coupon paid on equity bonds[2]	-	-	-	-	-	-	-	(0.6)	-	(0.6)
Dividends paid								(16.3)		(16.3)
Other comprehensive income	-	-	-	-	0.4	-	-	-	-	0.4
Share based payments[3]	-	-	0.3	-	-	-	-	-	-	0.3
Balance at 30 June 2016 (Unaudited)	**2.4**	**157.9**	**6.1**	**(12.8)**	**(0.4)**	**(0.1)**	**0.9**	**201.2**	**22.0**	**377.2**

[1] Equity bonds comprise £22m of perpetual subordinated bonds.
[2] Coupon paid on equity bonds is shown net of tax.
[3] The tax effect in excess of the related cumulative remuneration expense is recognised directly in equity within the share-based payment reserve and re-classified to retained earnings upon vesting.

The accompanying notes form part of the financial statements

OneSavings Bank plc

Interim report for the six months ended 30 June 2016

Condensed Consolidated Statement of Changes in Equity

	Share capital £'m	Share premium £'m	Capital contribution £'m	Transfer reserve £'m	Foreign exchange reserve £'m	Available-for-sale reserve £'m	Share-based payment reserve £'m	Retained earnings £'m	Equity bonds[1] £'m	Total £'m
Balance at 1 January 2015	2.4	157.9	4.5	(12.8)	(0.3)	0.8	0.1	75.0	22.0	249.6
Profit for the year	-	-	-	-	-	-	-	37.0	-	37.0
Coupon paid on equity bonds[2]	-	-	-	-	-	-	-	(0.6)	-	(0.6)
Dividends paid	-	-	-	-	-	-	-	(9.5)	-	(9.5)
Other comprehensive income	-	-	-	-	(0.9)	(0.5)	-	-	-	(1.4)
Share based payments[3]	-	-	1.2	-	-	-	0.8	-	-	2.0
Balance at 30 June 2015 **(Unaudited)**	2.4	157.9	5.7	(12.8)	(1.2)	0.3	0.9	101.9	22.0	277.1

[1] Equity bonds comprise £22m of perpetual subordinated bonds.
[2] Coupon paid on equity bonds is shown net of tax.
[3] The tax effect in excess of the related cumulative remuneration expense is recognised directly in equity within the share-based payment reserve and re-classified to retained earnings upon vesting.

The accompanying notes form part of the financial statements

Condensed Consolidated Statement of Changes in Equity

	Share capital £'m	Share premium £'m	Capital contribution £'m	Transfer reserve £'m	Foreign exchange reserve £'m	Available-for-sale reserve £'m	Share-based payment reserve £'m	Retained earnings £'m	Equity bonds[1] £'m	Total £'m
Balance at 1 January 2015	2.4	157.9	4.5	(12.8)	(0.3)	0.8	0.1	75.0	22.0	249.6
Profit for the year	-	-	-	-	-	-	-	84.1	-	84.1
Coupon paid on equity bonds[2]	-	-	-	-	-	-	-	(1.2)	-	(1.2)
Dividends paid	-	-	-	-	-	-	-	(14.3)	-	(14.3)
Other comprehensive income	-	-	-	-	(0.5)	(0.9)	-	-	-	(1.4)
Share based payments[3]	-	-	1.3	-	-	-	0.8	0.4	-	2.5
Balance at 31 December 2015 (Audited)	2.4	157.9	5.8	(12.8)	(0.8)	(0.1)	0.9	144.0	22.0	319.3

[1] Equity bonds comprise £22m of perpetual subordinated bonds.
[2] Coupon paid on equity bonds is shown net of tax.
[3] The tax effect in excess of the related cumulative remuneration expense is recognised directly in equity within the share-based payment reserve and re-classified to retained earnings upon vesting.

The accompanying notes form part of the financial statements

Condensed Consolidated Statement of Cash Flows

	Six months ended 30-Jun-16 (Unaudited) £'m	Six months ended 30-Jun-15 (Unaudited) £'m	Year ended 31-Dec-15 (Audited) £'m
Cash flows from operating activities			
Profit before tax	**100.0**	46.6	105.3
Adjustments for non-cash items:			
Depreciation and amortisation	**1.2**	0.8	1.7
Interest on subordinated liabilities	**0.6**	0.6	1.3
Interest on perpetual subordinated bonds	**0.4**	0.5	1.0
Impairment charge on loans	**4.9**	4.9	10.6
(Gain) / loss on sale of financial instruments	**-**	-	(0.6)
(Gain) on sale of disposal of Rochester 1[1]	**(34.7)**	-	-
FSCS and other provisions	**0.9**	3.4	3.4
Fair value losses on financial instruments	**1.7**	0.7	3.2
Share based payments	**0.4**	1.4	1.8
Changes in operating assets and liabilities			
(Increase) in loans to customers	**(500.2)**	(683.7)	(1,226.0)
Increase in retail deposits	**447.3**	303.8	1,032.2
(Increase) / decrease in other assets	**(1.2)**	0.8	0.5
Increase / (decrease) in derivatives and hedged items	**0.7**	-	-
Increase / (decrease) in bank and other deposits	**(5.2)**	(22.5)	(20.0)
Net increase in other liabilities	**9.7**	10.2	5.3
Exchange differences on working capital	**0.4**	(0.9)	(0.5)
Cash generated from / (used in) operating activities	**26.9**	(333.4)	(80.8)
Interest paid on bonds and subordinated debt	**(0.5)**	(1.1)	(2.2)
FSCS and other provisions paid	**-**	-	(2.7)
Tax paid	**(15.3)**	(5.0)	(13.6)
Net cash from operating activities	**11.1**	(339.5)	(99.3)

[1] The Bank sold its entire economic interest in Rochester 1 ('the Rochester Disposal') on 26 May 2016. The transaction generated an exceptional pre-tax gain of £34.7m reflecting the significant increase in the fair value of the securitised mortgages since they were acquired by the Bank.

OneSavings Bank plc

Interim report for the six months ended 30 June 2016

Condensed Consolidated Statement of Cash Flows

	Six months ended 30-Jun-16 (Unaudited) £'m	Six months ended 30-Jun-15 (Unaudited) £'m	Year ended 31-Dec-15 (Audited) £'m
Cash flows from investing activities			
Sales of investment securities	**361.3**	79.1	213.8
Purchases of investment securities	**(319.1)**	(79.8)	(449.1)
Purchases of equipment and intangible assets	**(5.3)**	(5.3)	(9.1)
Disposal of Rochester 1, net of disposed cash	**80.2**	-	-
Cash generated from investing activities	**117.1**	(6.0)	(244.4)
Cash flows from financing activities			
Coupon paid on equity bonds	**(0.7)**	(0.7)	(1.5)
Dividends paid	**(16.3)**	(9.5)	(14.3)
Repayment of debt	**(16.7)**	(28.2)	(53.0)
Cash (used in) / generated from financing activities	**(33.7)**	(38.4)	(68.8)
Net increase in cash and cash equivalents	**94.5**	(383.9)	(412.5)
Cash and cash equivalents at the beginning of the period			
Cash in hand	**0.4**	0.3	0.3
Loans and advances to credit institutions repayable on demand	**354.7**	767.3	767.3
	355.1	767.6	767.6
Cash and cash equivalents at the end of the period			
Cash in hand	**0.4**	0.3	0.4
Loans and advances to credit institutions repayable on demand	**449.2**	383.4	354.7
	449.6	383.7	355.1
Movement in cash and cash equivalents	**94.5**	(383.9)	(412.5)

The accompanying notes form part of the financial statements

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 Interim Report as at 30 June 2015 and last Annual Report for the year ended 31 December 2015.

The comparative figures for the year ended 31 December 2015 are not the Group's statutory accounts for that financial year. The statutory accounts for the year ended 31 December 2015 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 23 August 2016.

b) Accounting standards

The accounting policies used are consistent with those set out on pages 93 to 100 of the 2015 Annual Report.

The current IFRS 9 project described on page 99 of the 2015 Annual Report is progressing according to plan. The impact assessment phase has been completed and the Bank is currently in the design and modelling phase of its Expected Credit Loss models. The Bank has engaged external consultants to work alongside existing teams to complete the development of IFRS 9 models, controls and procedures by the end of 2016, which will allow OSB to parallel run and test IFRS 9 models during 2017. At this stage it is not possible to quantify the potential impact of IFRS 9, however the Group will provide a further update in the 2016 annual accounts and should be in a position to provide initial quantitative indications during 2017.

c) Going concern

The Board undertakes regular rigorous assessments of whether the Group 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.

Notes to the Condensed Consolidated Financial Statements

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.

d) 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 2015, as described on pages 98 to 99 of the 2015 Annual Report. Estimates and assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised in the period in which the estimate is revised and in any future periods affected.

Notes to the Condensed Consolidated Financial Statements

2. Interest receivable and similar income

	Six months ended 30-Jun-16 (Unaudited) £'m	Six months ended 30-Jun-15 (Unaudited) £'m	Year ended 31-Dec-15 (Audited) £'m
On BTL/SME mortgages	**94.8**	66.5	149.7
On residential mortgages	**59.4**	55.9	115.9
On personal loans	**2.4**	6.7	7.5
On investment securities	**0.6**	0.8	1.6
On other liquid assets	**1.0**	1.2	2.8
Net expense on derivative financial instruments	**(4.8)**	(4.5)	(9.3)
	153.4	126.6	268.2

3. Interest payable and similar charges

	Six months ended 30-Jun-16 (Unaudited) £'m	Six months ended 30-Jun-15 (Unaudited) £'m	Year ended 31-Dec-15 (Audited) £'m
On retail deposits	**53.1**	45.1	94.8
On Perpetual Subordinated Bonds	**0.4**	0.5	1.0
On subordinated liabilities	**0.6**	0.6	1.3
On wholesale borrowings	**2.3**	3.1	5.7
Net income on derivative financial instruments	**(2.1)**	(2.2)	(4.4)
	54.3	47.1	98.4

Notes to the Condensed Consolidated Financial Statements

4. Administrative expenses

	Six months ended 30-Jun-16 (Unaudited) £'m	Six months ended 30-Jun-15 (Unaudited) £'m	Year ended 31-Dec-15 (Audited) £'m
Staff costs[1]	**13.0**	11.0	21.6
Facilities costs	**1.2**	1.1	2.2
Marketing costs	**1.4**	0.7	1.9
Support costs	**3.3**	2.3	5.1
Professional fees	**3.1**	1.9	4.6
Other costs[2]	**2.2**	1.8	4.0
	24.2	18.8	39.4

[1] Staff costs include £0.1m relating to IPO share awards reported in prior periods within exceptional items, and £0.3m of 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 618 (first half 2015: 491).

5. Exceptional items

Exceptional items to June 2016 consist of the gain on disposal of the Group's entire economic interest in Rochester Financing No.1 plc, securitisation vehicle. The sale resulted in derecognition of securitised mortgage assets from the Bank's balance sheet and the deconsolidation of Rochester Financing No.1 plc. This removed a total of £239.8m of securitised mortgage assets and cash reserves in the vehicle and £171.6m of debt securities in issue from the Group's balance sheet.

Exceptional items in 2015 consist of expenses incurred in connection with share based IPO awards granted to certain Directors, Senior Managers and employees of the Bank at admission. With the decrease in this expense (as the awards have vested to £0.1m for the first half of 2016), the separate line disclosure is no longer warranted with the expense included within staff costs.

Exceptional items are summarised in the tables below:

Credited to profit or loss	Six months ended 30-Jun-16 (Unaudited) £'m	Six months ended 30-Jun-15 (Unaudited) £'m	Year ended 31-Dec-15 (Audited) £'m
Gain on disposal of Rochester Financing No.1 plc	**34.7**	-	-
	34.7	-	-

Notes to the Condensed Consolidated Financial Statements

Charged to profit or loss	Six months ended 30-Jun-16 (Unaudited) £'m	Six months ended 30-Jun-15 (Unaudited) £'m	Year ended 31-Dec-15 (Audited) £'m
IPO related costs	**-**	0.5	0.8
IPO share awards with future vesting provisions[1]	**-**	1.2	1.3
	-	1.7	2.1

[1] IPO share awards with future vesting provisions and related national insurance for 2016 are £0.1m included within staff costs.

Share awards represented 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.

Other IPO related costs consisted 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-16 (Unaudited) £'m	Six months ended 30-Jun-15 (Unaudited) £'m	Year ended 31-Dec-15 (Audited) £'m
Corporation tax	**(25.9)**	(9.0)	(20.8)
Total current taxation	**(25.9)**	(9.0)	(20.8)
Deferred taxation	**-**	(0.6)	(0.4)
Total taxation	**(25.9)**	(9.6)	(21.2)

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:

Notes to the Condensed Consolidated Financial Statements

	Six months ended 30-Jun-16 (Unaudited) £'m	Six months ended 30-Jun-15 (Unaudited) £'m	Year ended 31-Dec-15 (Audited) £'m
Profit before taxation	**100.0**	46.6	105.3
Profit multiplied by the weighted average rate of corporation taxation in the UK during 2016 of 20% (2015: 20.25%)	**(20.0)**	(9.4)	(21.3)
Taxation effects of:			
Expenses not deductible for taxation purposes	**-**	(0.2)	(0.0)
Adjustments in respect of earlier years	**-**	-	0.3
Bank corporation tax surcharge [1]	**(5.9)**	-	-
Capital allowances	**-**	0.1	(0.1)
Re-measurement of deferred taxation - change in taxation rate	**-**	(0.1)	(0.2)
Other	**-**	-	0.1
Total taxation charge	**(25.9)**	(9.6)	(21.2)

[1] Introduced from 1 January 2016 and charged at 8% on all taxable profits above £25.0m in the parent company which is a retail deposit taker.

7. Dividends

During the period, the Group paid the following dividends:

	Six months ended 30-Jun-16 (Unaudited) £'m	Six months ended 30-Jun-16 (Unaudited) Pence per share	Six months ended 30-Jun-15 (Unaudited) £'m	Six months ended 30-Jun-15 (Unaudited) Pence per share	Year ended 31-Dec-15 (Audited) £'m	Year ended 31-Dec-15 (Audited) Pence per share
Final dividend for the prior year	**16.3**	**6.7**	9.5	3.9	9.5	3.9
Interim dividend for the current year	**-**	**-**	-	-	4.8	2.0
	16.3		9.5		14.3	

The directors propose an interim dividend for the first half of 2.9 pence per share, based on one third of the total 2015 dividend of 8.7 pence per share, payable on 6 November 2016 with a record date of 16 October 2016. 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 in issue. Basic EPS are calculated by dividing profit attributable to ordinary shareholders by the weighted average number of ordinary shares in issue during the 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-16 (Unaudited) £'m	Six months ended 30-Jun-15 (Unaudited) £'m	Year ended 31-Dec-15 (Audited) £'m
Profit for the year	**74.1**	37.0	84.1
Adjustments:			
Coupon on perpetual subordinated bonds classified as equity	**(0.7)**	(0.7)	(1.5)
Tax on coupon	**0.1**	0.1	0.3
Profit attributable to ordinary shareholders	**73.5**	36.4	82.9

Earnings per share are summarised in the table below:

	Six months ended 30-Jun-16 (Unaudited)	Six months ended 30-Jun-15 (Unaudited)	Year ended 31-Dec-15 (Audited)
Weighted average number of shares, millions			
Basic	**243.1**	243.1	243.1
Diluted	**243.9**	243.5	243.8

Earnings per share, pence per share	Six months ended 30-Jun-16	Six months ended 30-Jun-15	Year ended 31-Dec-15
Basic	**30.2**	15.0	34.1
Diluted	**30.1**	15.0	34.0

Notes to the Condensed Consolidated Financial Statements

9. Loans and advances to customers

	As at 30-Jun-16 (Unaudited) £'m	As at 30-Jun-15 (Unaudited) £'m	As at 31-Dec-15 (Audited) £'m
BTL/SME mortgages	**3,540.1**	2,549.3	3,105.5
Residential mortgages	**1,875.1**	1,994.9	2,007.1
Personal loans	**28.9**	83.2	49.5
Provisions (see note 10)	**(30.7)**	(29.3)	(27.3)
	5,413.4	4,598.1	5,134.8

10. Provisions for impairment losses on loans and advances

	Individual £'m	Collective £'m	Total £'m
At 1st January 2016	**18.2**	**9.1**	**27.3**
Write offs in period	**(0.1)**	**(1.4)**	**(1.5)**
Charge/(credit) for the period net of recoveries	**1.0**	**3.9**	**4.9**
At 30 June 2016 (Unaudited)	**19.1**	**11.6**	**30.7**

	Individual £'m	Collective £'m	Total £'m
At 1st January 2015	16.2	9.9	26.1
Write offs in period	(1.7)	-	(1.7)
Charge/(credit) for the period net of recoveries	4.2	0.7	4.9
At 30 June 2015 (Unaudited)	18.7	10.6	29.3

	Individual £'m	Collective £'m	Total £'m
At 1st January 2015	16.2	9.9	26.1
Write offs in period	(3.1)	(6.3)	(9.4)
Charge/(credit) for the period net of recoveries	5.1	5.5	10.6
At 31 December 2015 (Audited)	18.2	9.1	27.3

Notes to the Condensed Consolidated Financial Statements

11. Carrying amounts and fair values

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

As at 30 June 2016 (Unaudited)	Carrying amount	Principal amount	Fair value			
			Level 1	Level 2	Level 3	Total
	£'m	£'m	£'m	£'m	£'m	£'m
Financial instruments measured at fair value						
Financial assets						
Investment securities	**351.2**	**351.6**	**351.2**	**-**	**-**	**351.2**
Derivative assets	**0.3**	**497.4**	**-**	**0.3**	**-**	**0.3**
	351.5	**849.0**	**351.2**	**0.3**	**-**	**351.5**
Financial liabilities						
Derivative liabilities	**(27.0)**	**(2,161.1)**	**-**	**(27.0)**	**-**	**(27.0)**
Financial instruments not measured at fair value						
Financial assets						
Cash in hand	**0.4**	**0.4**	**-**	**0.4**	**-**	**0.4**
Loans and advances to credit institutions	**449.2**	**445.1**	**-**	**449.2**	**-**	**449.2**
Loans and advances to customers	**5,413.4**	**5,545.0**	**-**	**-**	**5,722.3**	**5,722.3**
	5,863.0	**5,990.5**	**-**	**449.6**	**5,722.3**	**6,171.9**
Financial liabilities						
Amounts owed to retail depositors	**(5,811.1)**	**(5,783.4)**	**-**	**(5,826.7)**	**-**	**(5,826.7)**
Amounts owed to credit institutions	**(1.7)**	**(1.6)**	**-**	**(1.7)**	**-**	**(1.7)**
Amounts owed to other customers	**(0.5)**	**(0.5)**	**-**	**(0.5)**	**-**	**(0.5)**
Debt securities in issue [1]	**-**	**-**	**-**	**-**	**-**	**-**
Subordinated liabilities	**(25.0)**	**(24.4)**	**-**	**(24.6)**	**-**	**(24.6)**
Perpetual subordinated bonds [2]	**(15.4)**	**(15.0)**	**(13.9)**	**-**	**-**	**(13.9)**
	(5,853.7)	**(5,824.9)**	**(13.9)**	**(5,853.5)**	**-**	**(5,867.4)**

[1] Debt securities in issue related wholly to the Rochester Financing No.1 plc securitisation vehicle. In May 2016, the Group disposed of the entire economic interest in Rochester Financing No.1 plc, resulting in its deconsolidation and derecognition of related debt.
[2] During the period, the Group updated the methodology to value perpetual subordinated bonds using quoted market prices.

As at 30 June 2015 (Unaudited)	Carrying amount	Principal amount	Fair value			
			Level 1	Level 2	Level 3	Total
	£'m	£'m	£'m	£'m	£'m	£'m
Financial instruments measured at fair value						
Financial assets						
Investment securities	158.7	154.6	158.3	0.4	-	158.7
Derivative assets	1.0	371.4	-	1.0	-	1.0
	159.7	526.0	158.3	1.4	-	159.7
Financial liabilities						
Derivative liabilities	(21.4)	(2,163.7)	-	(21.4)	-	(21.4)

Notes to the Condensed Consolidated Financial Statements

Financial instruments not measured at fair value						
Financial assets						
Cash in hand and balances with the Bank of England	0.3	0.3	-	0.3	-	0.3
Loans and advances to credit institutions	383.4	381.3	-	383.4	-	383.4
Loans and advances to customers	4,598.1	4,770.1	-	-	4,918.3	4,918.3
	4,981.8	5,151.7	-	383.7	4,918.3	5,302.0
Financial liabilities						
Amounts owed to retail depositors	(4,635.5)	(4,613.5)	-	(4,674.6)	-	(4,674.6)
Amounts owed to credit institutions	(2.3)	(2.3)	-	(2.3)	-	(2.3)
Amounts owed to other customers	(2.5)	(2.5)	-	(2.5)	-	(2.5)
Debt securities in issue	(210.2)	(209.5)	-	-	(208.4)	(208.4)
Subordinated liabilities	(27.6)	(27.4)	-	(28.4)	-	(28.4)
Perpetual subordinated bonds	(15.3)	(15.0)	-	(18.1)	-	(18.1)
	(4,893.4)	(4,870.2)	-	(4,725.9)	(208.4)	(4,934.3)

As at 31 December 2015 (Audited)	**Carrying amount**	**Principal amount**	**Fair value**			
			Level 1	**Level 2**	**Level 3**	**Total**
	£'m	**£'m**	**£'m**	**£'m**	**£'m**	**£'m**
Financial instruments measured at fair value						
Financial assets						
Investment securities	393.4	394.0	393.4	-	-	393.4
Derivative assets	1.0	469.4	-	1.0	-	1.0
	394.4	863.4	393.4	1.0	-	394.4
Financial liabilities						
Derivative liabilities	(19.8)	(2,022.9)	-	(19.8)	-	(19.8)
Financial instruments not measured at fair value						
Financial assets						
Cash in hand	0.4	0.4	-	0.4	-	0.4
Loans and advances to credit institutions	354.7	350.5	-	354.7	-	354.7
Loans and advances to customers	5,134.8	5,307.4	-	-	5,459.3	5,459.3
	5,489.9	5,658.3	-	355.1	5,459.3	5,814.4
Financial liabilities						
Amounts owed to retail depositors	(5,363.8)	(5,317.3)	-	(5,405.3)	-	(5,405.3)
Amounts owed to credit institutions	(1.5)	(1.4)	-	(1.4)	-	(1.4)
Amounts owed to other customers	(5.9)	(5.6)	-	(5.6)	-	(5.6)
Debt securities in issue	(188.4)	(187.8)	-	-	(188.5)	(188.5)
Subordinated liabilities	(24.6)	(24.4)	-	(25.1)	-	(25.1)
Perpetual subordinated bonds	(15.3)	(15.0)	-	(17.8)	-	(17.8)
	(5,599.5)	(5,551.5)	-	(5,455.2)	(188.5)	(5,643.7)

Notes to the Condensed Consolidated Financial Statements

Valuation techniques used in each of the fair value levels are disclosed in note 33 of the 2015 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 uses observable inputs and is based on the present value of expected cash flows discounted at the market rates, while 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.

The fair value of financial instruments measured at level 3 includes loans and advances to customers and debt securities in issue. In the statement of financial position, both of these categories are presented at amortised cost. The fair value is measured only for the purposes of this disclosure.

Loans to customers belong to level 3 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 above unobservable inputs on collectability rates and redemption profiles. The fair value of issued debt securities is 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-16 (Unaudited) £'m	As at 30-Jun-15 (Unaudited) £'m	As at 31-Dec-15 (Audited) £'m
Common equity tier 1 capital			
Called up share capital	**2.4**	2.4	2.4
Share premium, capital contribution and share-based payment reserve	**164.9**	164.2	164.4
Retained earnings	**184.7**	88.7	122.9
Transfer reserve	**(12.8)**	(12.8)	(12.8)
Other reserves	**(0.1)**	0.3	(0.1)
Deductions from common equity tier 1 capital			
Intangible assets	**(3.9)**	(2.8)	(2.9)
Deferred tax asset	**(1.8)**	(2.4)	(1.9)
Common equity tier 1 capital	**333.4**	237.6	272.0
Total Tier 1 Capital	**333.4**	237.6	272.0
Tier 2 capital			
Subordinated debt	**50.2**	52.2	50.6
Collective Provisions	**11.6**	10.6	9.1
Deductions from tier 2 capital	**(4.0)**	(3.0)	(3.0)
Total Tier 2 Capital	**57.8**	59.8	56.7
Total regulatory capital	**391.2**	297.4	328.7

The Bank has solo consolidation waivers for most of its subsidiaries. The impact of this has been included in the above table.

Within retained earnings foreseeable dividends in the period are deducted in line with the Group's dividend policy.

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 2015 Annual Report.

The Group's segmental analysis is presented below:

Six months ended 30-Jun-16 (Unaudited)	**BTL/SME £'m**	**Residential mortgages £'m**	**Personal loans £'m**	**Central £'m**	**Total £'m**
Balances at the reporting date					
Gross loans and advances to customers	**3,540.1**	**1,875.1**	**28.9**	**-**	**5,444.1**
Provision for impairment losses on loans and advances	**(17.9)**	**(6.3)**	**(6.5)**	**-**	**(30.7)**
Loans and advances to customers	**3,522.2**	**1,868.8**	**22.4**	**-**	**5,413.4**
Profit or loss for the period					
Net interest income	**60.8**	**36.3**	**2.0**	**-**	**99.1**
Other income / (expense)	**(0.3)**	**(1.9)**	**(0.4)**	**-**	**(2.6)**
Total income	**60.5**	**34.4**	**1.6**	**-**	**96.5**
Impairment losses	**(0.6)**	**(4.2)**	**(0.1)**	**-**	**(4.9)**
Contribution to profit	**59.9**	**30.2**	**1.5**	**-**	**91.6**
Operating expenses					**(25.4)**
Exceptional items					**34.7**
FSCS and other provisions					**(0.9)**
Profit before taxation					**100.0**
Taxation					**(25.9)**
Profit for the year					**74.1**

Notes to the Condensed Consolidated Financial Statements

Six months ended 30-Jun-15 (Unaudited)	**BTL/SME £'m**	**Residential mortgages £'m**	**Personal loans £'m**	**Central £'m**	**Total £'m**
Balances at the reporting date					
Gross loans and advances to customers	2,549.3	1,994.9	83.2	-	4,627.4
Provision for impairment losses on loans and advances	(18.2)	(2.6)	(8.5)	-	(29.3)
Loans and advances to customers	2,531.1	1,992.3	74.7	-	4,598.1
Profit or loss for the period					
Net interest income	41.1	32.8	5.6	-	79.5
Other income / (expense)	(0.2)	(2.4)	(0.7)	-	(3.3)
Total income	40.9	30.4	4.9	-	76.2
Impairment losses	(4.3)	(0.1)	(0.5)	-	(4.9)
Contribution to profit	36.6	30.3	4.4	-	71.3
Operating expenses					(19.6)
Exceptional IPO expenses					(1.7)
FSCS and other provisions					(3.4)
Profit before taxation					46.6
Taxation					(9.6)
Profit for the year					37.0

Year ended 31-Dec-15 (Audited)	**BTL/SME £'m**	**Residential mortgages £'m**	**Personal loans £'m**	**Central £'m**	**Total £'m**
Balances at the reporting date					
Gross loans and advances to customers	3,105.5	2,007.1	49.5	-	5,162.1
Provision for impairment losses on loans and advances	(17.7)	(2.2)	(7.4)	-	(27.3)
Loans and advances to customers	3,087.8	2,004.9	42.1	-	5,134.8
Profit or loss for the year					
Net interest income	95.2	69.0	5.6	-	169.8
Other income / (expense)	(0.6)	(5.9)	(1.4)	0.6	(7.3)
Total income	94.6	63.1	4.2	0.6	162.5
Impairment losses	(5.3)	(2.4)	(2.9)	-	(10.6)
Contribution to profit	89.3	60.7	1.3	0.6	151.9
Operating expenses					(41.1)
Exceptional IPO expenses					(2.1)
FSCS and other provisions					(3.4)
Profit before taxation					105.3
Taxation					(21.2)
Profit for the year					84.1

14. Related parties

The Group had no related party transactions during the period to 30 June 2016 that would materially affect the position or performance of the Group. Details of transactions for the year ended 31 December 2015 can be found in the 2015 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. The impact of these awards in the six months ended 30 June 2016 is reported within staff costs.

15. Events after the reporting date

There have been no material events after the reporting date.

OneSavings Bank plc

Interim report for the six months ended 30 June 2016

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