High quality assets achieving sustainable growth and returns

H1 2016 Results

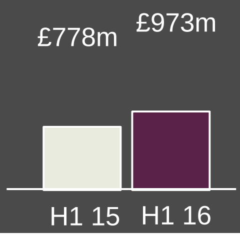
24 August 2016

Specialist
Personal
Flexible

Performance highlights

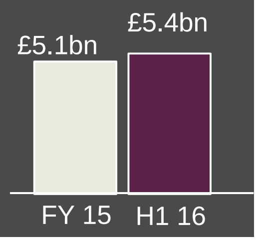
Gross organic Lending

+ 25%



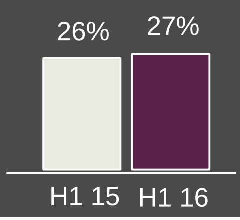
Loans and Advances

+ 10%[1]



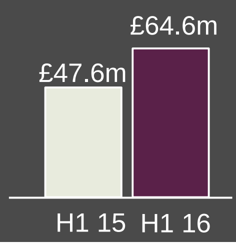
Cost : Income ratio

+ 1% point



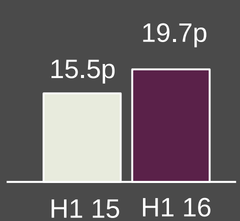
Underlying PBT

+36%



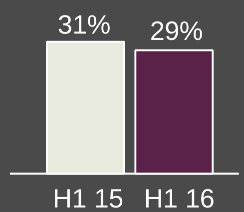
Underlying Basic EPS

+ 27%



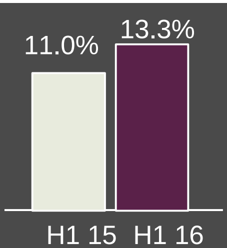
Underlying RoE

+4% points over target



Fully-loaded CET1 Ratio

+ 2.3% points



Interim dividend per share

2.9 pence per share

(H1 2015: 2.0p)

[1] Excluding the impact of the Rochester Disposal

Delivering on our financial objectives 2014 - 2016[1]

		H1 2016 result
Funding / Liquidity strength	Maintain loan to deposit ratio of <100%[2]	**85%**
Cost discipline	Cost:Income ratio of <35%	**27%**
Capital strength	CRD IV CET1 ratio >10%	**13.3%**
Shareholder returns	RoE of >25%	**29%[3]**
Dividend policy	Pay-out ratio of ≥25%	**2.9p[4]**

[1] Objectives relate to the current financial planning cycle that lasts until the end of 2016. This does not represent any forecast, target or expectation as to future results or performance and there can be no assurance that the objective will be met.

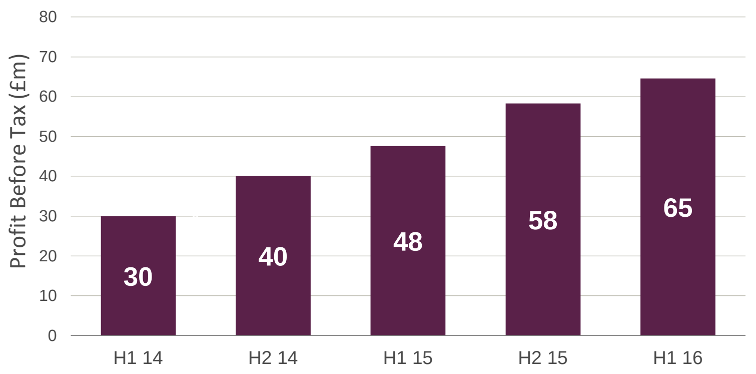
[2] Excluding the impact of any drawdown under the Funding for Lending Scheme (FLS).

[3] Underlying profit after taxation as a percentage of average shareholders' equity (excluding equity PSBs of £22m)

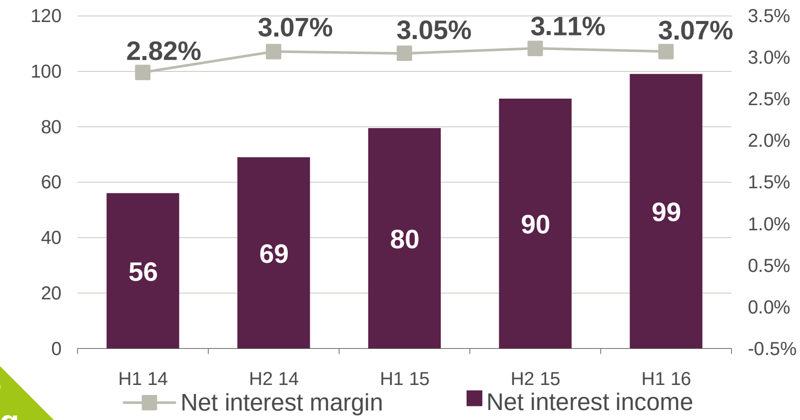
[4] The interim dividend is calculated as one-third of the prior year final dividend of 8.7 pence per share. Record date is 14 October and interim dividend to be paid on 4 November 2015.

Key Financial Indicators

1 Improved underlying profitability…

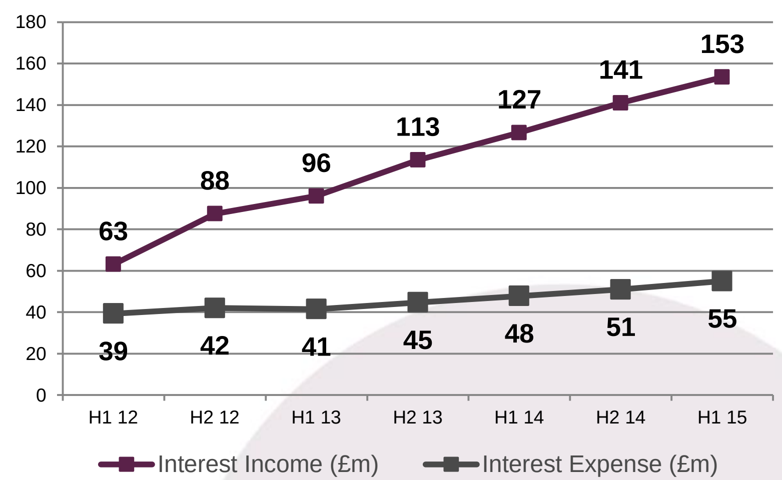


2 …driven by profitable new lending…

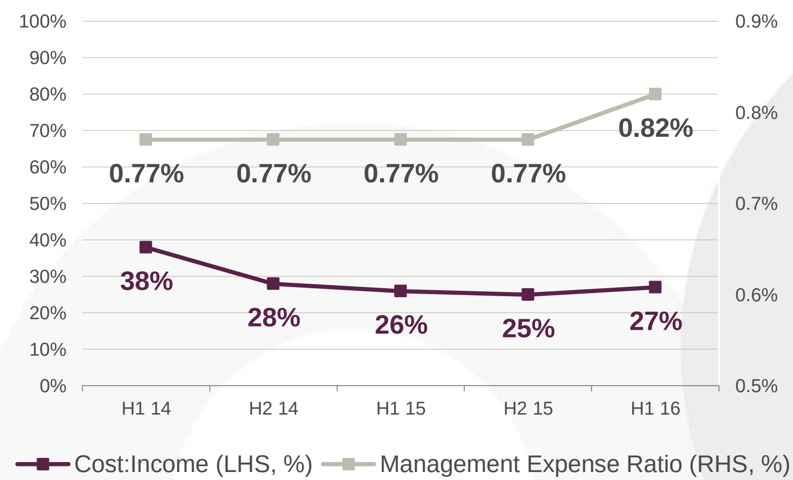


H1 2016 Underlying RoE of 29%

3 …well managed cost of funds / liquidity…



4 …and disciplined cost control



Income growth drives underlying profit up 36%

£m	H1 2016	H1 2015	Change £m	Change %
Net interest income	99.1	79.5	19.6	*43*
Other income / (expense)	(2.6)	(3.3)	(0.7)	*(22)*
Total income	**96.5**	**76.2**	**2.3**	***27***
Operating expenses	(25.4)	(19.7)	(4.3)	*(29)*
FSCS provisions	(0.9)	(3.4)	(2.5)	*(74)*
Impairments	(4.9)	(4.9)	(0.0)	*(0)*
PBT before exceptional items	**65.3**	**48.3**	**17.0**	***36***
Exceptional income/(expense)	34.7	(1.7)	36.1	*104*
Statutory PBT	**100.0**	**46.6**	**53.4**	***115***
Tax	(25.9)	(9.6)	(16.3)	*(170)*
Statutory PAT	**74.1**	**37.0**	**37.1**	***100***
Underlying PBT	64.6	47.6	17	36
Underlying profit for the period	47.8	37.8	10	26
Key Performance Indicators				
Net interest margin	3.07%	3.05%	2bps	
Cost / income ratio	27%	26%	1pps	
Impairments / avg gross loans	0.18%	0.23%	(5)Bps	
Underlying EPS	19.7p	15.5p	4.2p	*27*
Underlying RoE	29%	31%	(2)Pps	

- Underlying PBT up 36% reflecting strong balance sheet growth and continued focus on cost efficiency and discipline
- FSCS provision substantially decreased due to lower announced levies for 2016/17
- Impairments - improved loan loss ratio despite prudently increasing assumptions in collective provisions
- Exceptional income of £34.7m in the first half from the Rochester Disposal
- Effective tax rate – increased due to the new 8% Bank Corporation Tax Surcharge

Significant loan growth

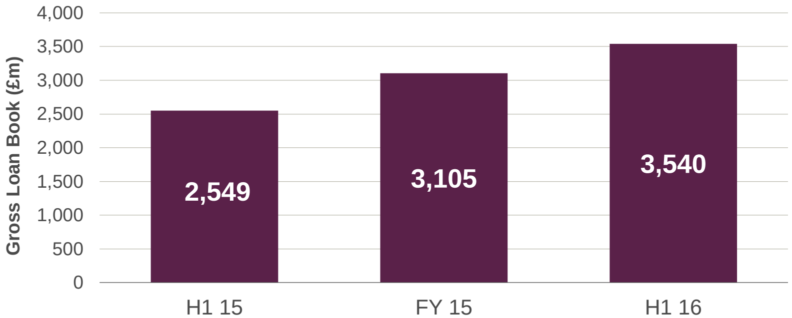
£m	H1 2016	FY 2015	Change	
			£m	%
Lending				
Net customer loans	5,413	5,135	278	*5%*
o/w gross customer loans	5,441	5,162	279	*5%*
o/w provisions	(31)	(27)	(4)	*(15)%*
Funding and liquidity				
Customer deposits	5,811	5,364	447	*8%*
Wholesale funding	2	196	(194)	
Liquid assets	800	748	52	*7%*
Funding for Lending Scheme	576	161	415	*258%*
Liquidity ratio	23.7%	16.4%	7.3%	

- Underlying loan book growth of 10% supported by 25% growth in organic origination and portfolio purchases of £131m; 5% including the impact of the Rochester Disposal
- FLS – we continue to utilise FLS with current drawdowns of £576m
- Liquidity ratio increased prudently ahead of EU referendum
- Wholesale funding has reduced to £2m due to the Rochester Disposal

Segmental Results – BTL / SME

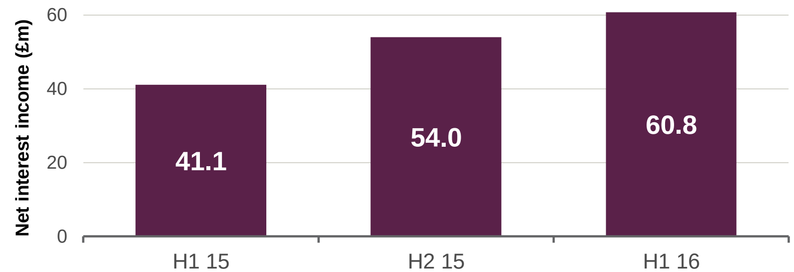
- LTVs remain low at 68% (2015: 66%) with only 1% of loans by value with LTVs exceeding 90% (2015: 1%)

1 Gross loan book



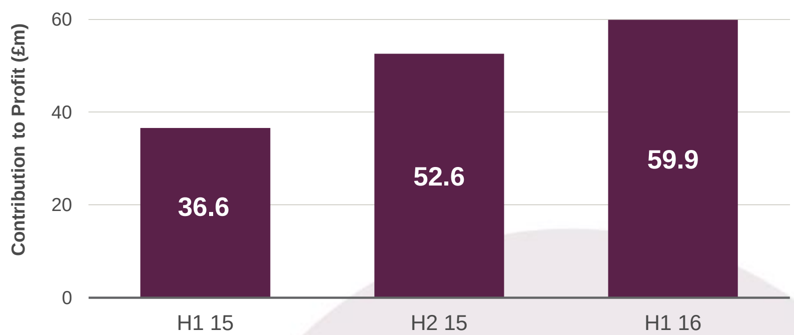
RWA as a % of net loans	47%	46%	47%

2 Net interest income

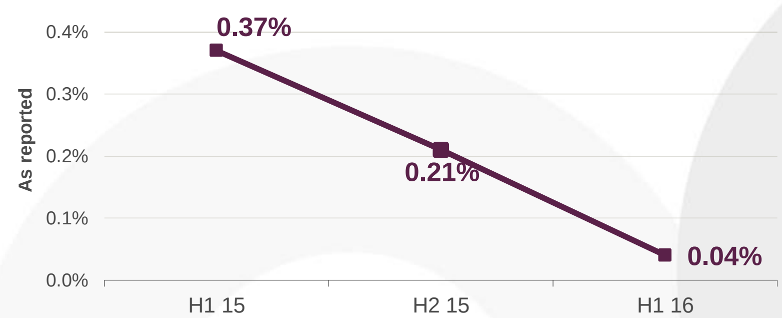


Gross asset yield	5.8%	5.8%	5.7%

3 Contribution to profit[1]



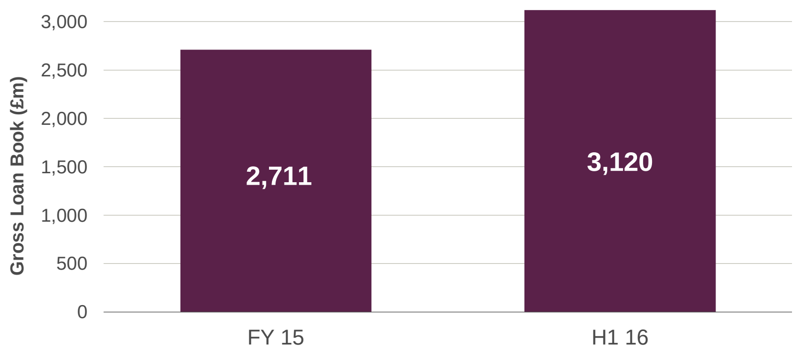
4 Loan loss charge as % of average gross loans



[1] Total income less impairment losses

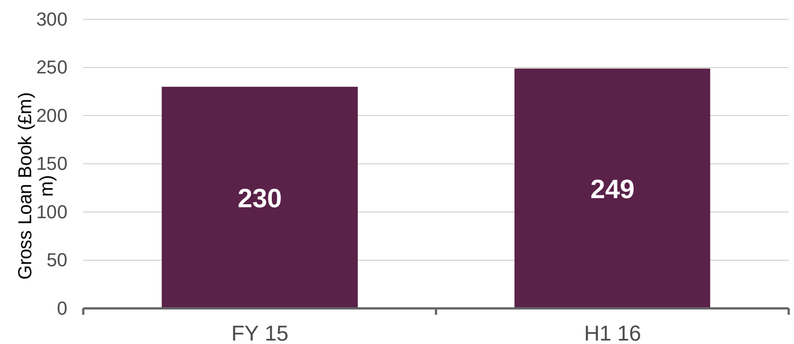
Segmental Results – BTL / SME

1 Buy-to-Let (£m)



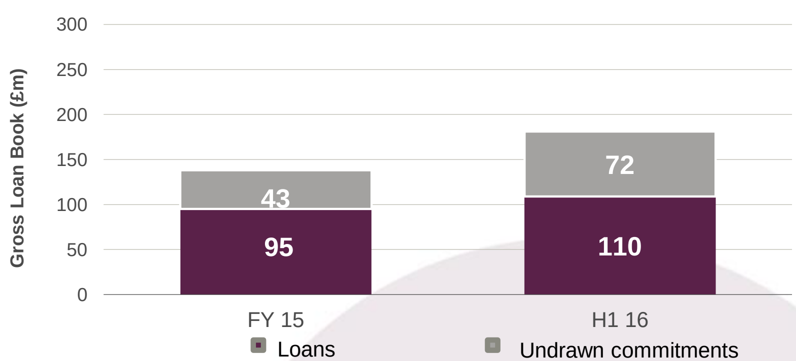
- Average Interest rate coverage (ICR) was 161% during H1 2016 (2015: 159%)
- Limited company applications increased to 58% in June 2016 (40% in December 2015)

2 Semi-commercial/Commercial (£m)



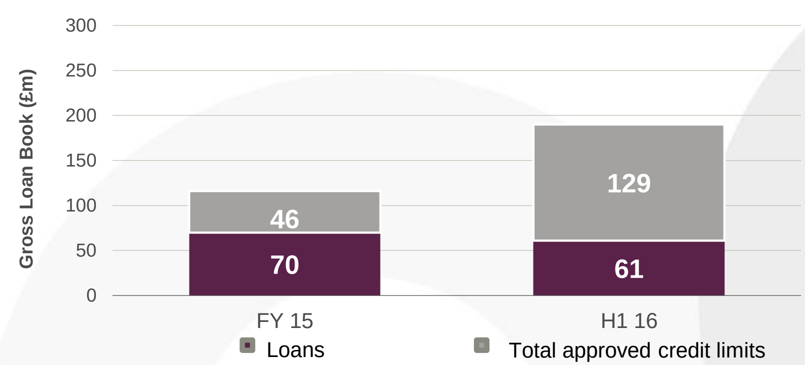
- Weighted average LTV – 56%
- Average loan size £265,000

3 Development finance (£m)



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

4 BTL/SME Funding lines (£m)



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

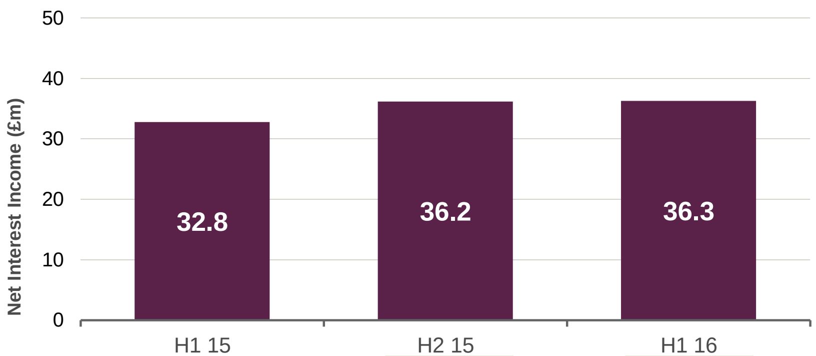
Segmental Results – Residential

- LTVs remain low at 57% (2015: 56%) with only 2% of loans by value with LTVs exceeding 90% (2015: 2%)
- 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, significantly below the regulatory limit of 15%

1 Gross loan book

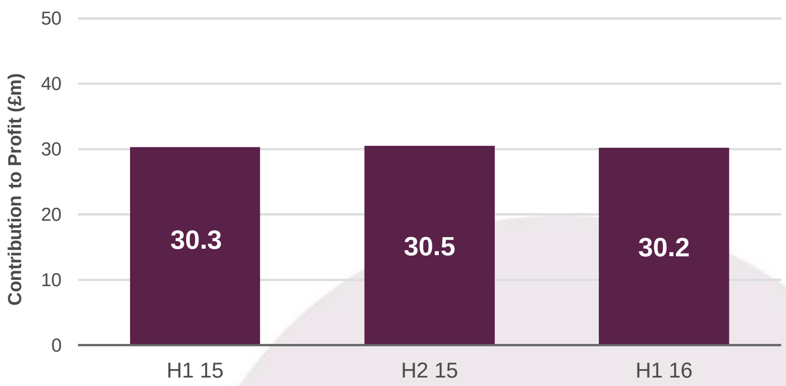
RWA as a % of net loans	44%	43%	44%

2 Net interest income

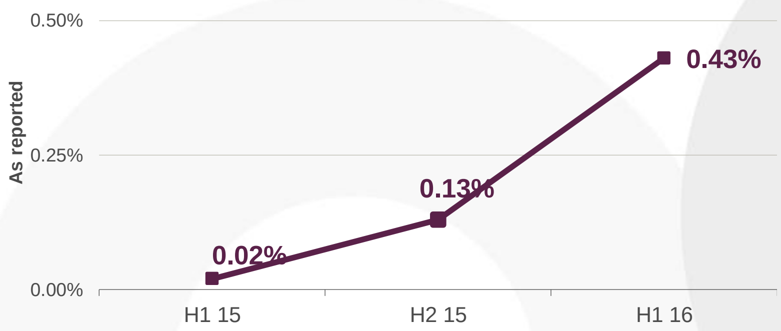


Gross asset yield	5.9%	5.8%	5.8%

3 Contribution to profit[1]



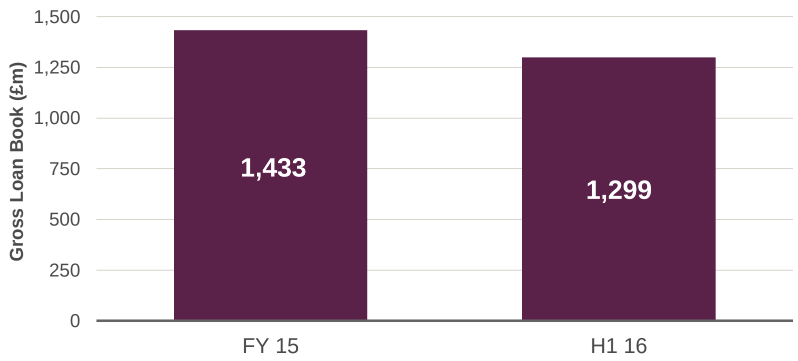
4 Loan loss charge as % of average gross loans



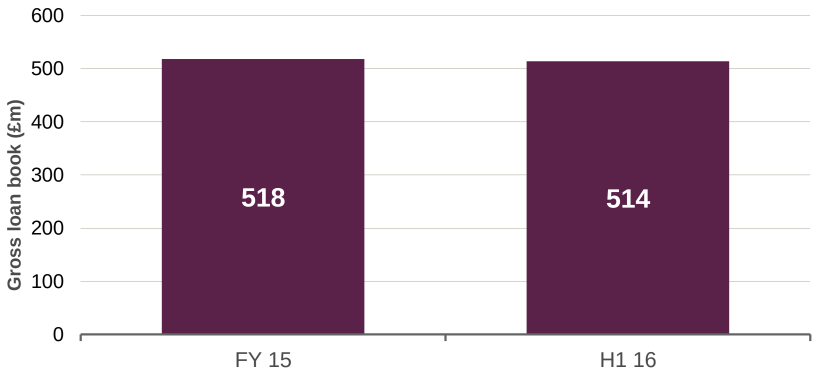
[1] Total income less impairment losses

Segmental Results – Residential breakdown

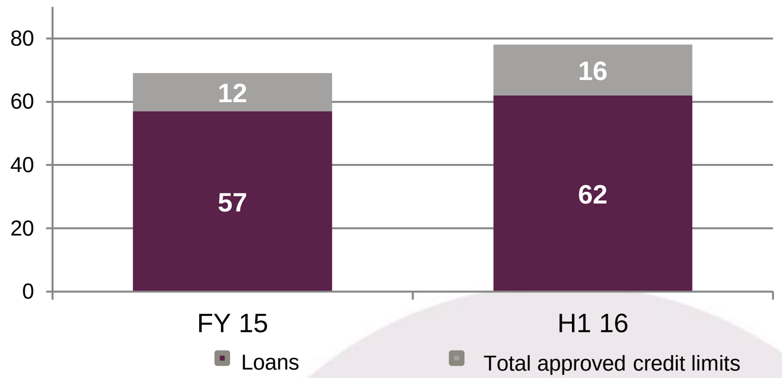
1 First charge mortgages



2 Second charge mortgages



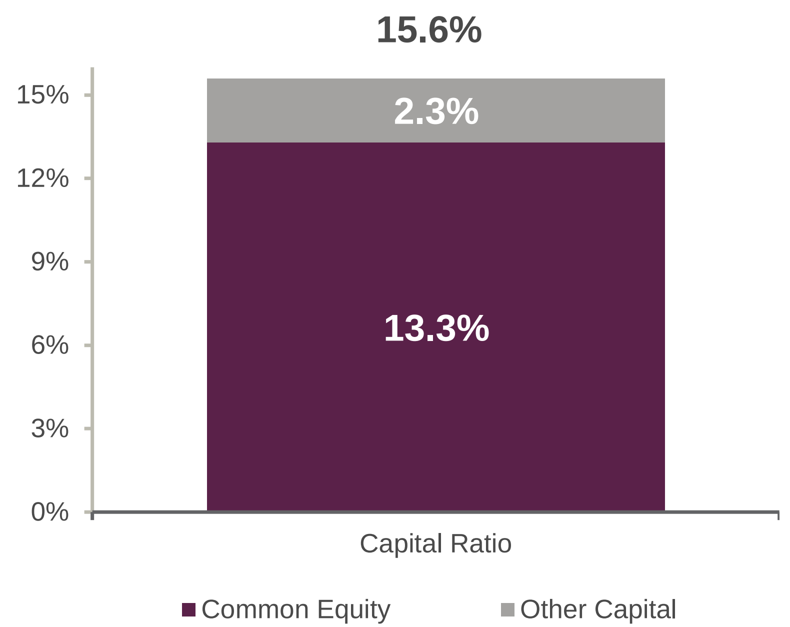
3 Residential funding lines



4 Summary

- First charge new organic lending in the first half was more than offset by the impact of the Rochester Disposal and redemptions
- Second charge book remained broadly flat with organic origination and book acquisitions offset by redemptions on the organic book and acquired books in run-off
- OSB grew provision of secured funding lines to non-bank lenders such as residential bridge finance with total approved credit limits of £78m

Strong balance sheet



£m	H1 2016	FY 2015	Change
Capital			
Risk-weighted assets (RWAs) £'m	2,511	2,340	171
RWAs as % of total assets	40%	39%	1%
Common equity tier 1 ratio %	13.3%	11.4%	1.9%
Total capital ratio %	15.6%	14.1%	1.5%
Leverage ratio %	5.3%	4.5%	0.8%

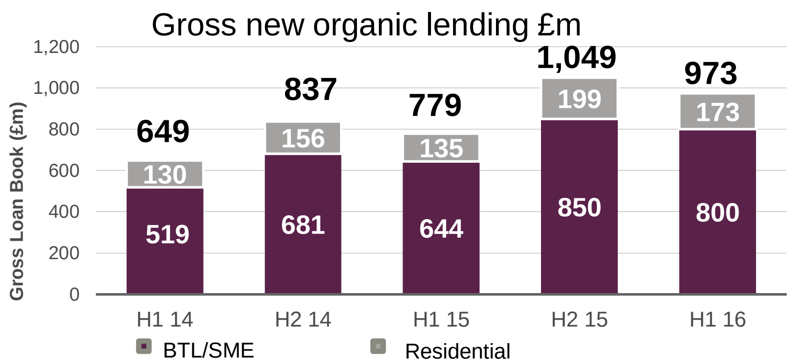
- The weighted average LTV of the mortgage book remained low at 62% as at 30 June 2016, with an average LTV of 72% on new origination in the first half.
- Portfolio arrears rate remained stable at 2.1% in June 2016 (2.1% Dec 2015) excluding legacy problem loans
- Legacy problem loans reduced from £17.8m to £15.8m;
- Limited exposure to high value properties, less than 2% of total loan book valued at greater than £2m and with an LTV above 65%

Current trading – 2016 full year outlook

- **H2 to date application volumes significantly up on H1 run rate**
- **Full year loan book growth of marginally higher than 20% (excluding the impact of Rochester disposal)**
- **Potential upside from portfolio acquisitions**
- **NIM in line with H1**
- **Full year cost:income ratio in line with H1**
- **Consistent portfolio arrears, prudently provisioned**

Lending customer franchise

1 Growth



Organic lending growth continues, £973m for the period, up 25% from H1 2015

2 Strong performance

Only 71 loans in 3m+ arrears (£10.5m), out of >25,000 loans (£5.0bn) originated since the Bank's creation in 2011 (2015: 48 loans, £5.1m)

Limited company Buy-to-Let applications for the Group increased to 58% in June 2016 (40% in December 2015)

Professional landlords account for 72% of Buy-to-Let completions by value during the first half (69% in H2 2015)

3 Momentum

We continue to have momentum across our core trading brands, current applications run rate is higher than in the first half

Remortgage activity is buoyant currently representing c.60% of Buy-to-Let origination

KentReliance InterBay Commercial Prestige Finance

4 Award winning

KentReliance a multiple award winner each year including being recognised as Best Specialist lender in the 2016 What Mortgage awards

Sustainable funding model

1 Growth

Our stable retail funding franchise continues to grow, ensuring long term, stable funding

£1.1bn Retail deposits up more than £1.1bn year-on-year to £5.8bn

16,000 More than 16,000 new savings customers so far this year

2 Recommendation and retention

Retention rates on maturing Bonds and ISAs remain exceptionally strong at 86%

We continue to lead on customer satisfaction with our excellent Net Promoter Score of 59%

3 Recognition

Our strong, fair proposition and our staff's outstanding service, are demonstrated through receiving 3 major awards from Moneyfacts for the second year in succession including Best Bank Savings Provider

4 Prudent funding

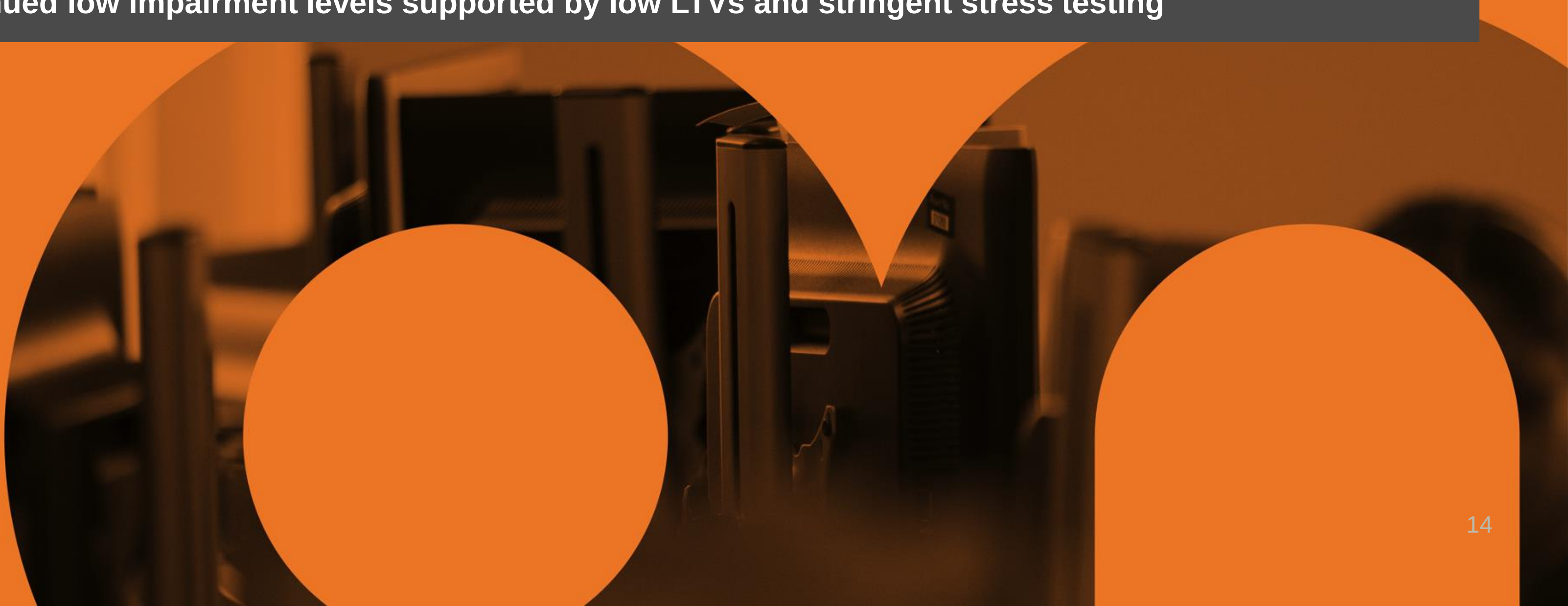
Loan to deposit ratio of 85% excluding the impact of FLS

We continue to diversify our funding through the FLS and have drawn down £576m to date

Liquidity coverage ratio of 387% at end June reflecting the decision to increase liquidity ahead of the EU referendum, significantly ahead of the regulatory 80% minimum

Summary

- The first half of 2016 was another period of strong performance: achieved all financial objectives since IPO and produced an underlying RoE of 29%
- 25% growth in organic origination with application run rate higher now than in the first half
- Increased capital ratio following the Rochester Disposal
- Enhanced proposition to professional landlords and tightened criteria in more cyclical smaller businesses
- Continued low impairment levels supported by low LTVs and stringent stress testing



Confident outlook

Confidence in our core BTL market remains strong

2017: we will continue to deliver double digit net loan growth through organic lending…

……and we see further opportunities for accretive acquisitions

Therefore our business model means we remain well positioned for growth in 2017

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