2020 interim results

27 August 2020

PRIVATE AND CONFIDENTIAL

Supporting our stakeholders

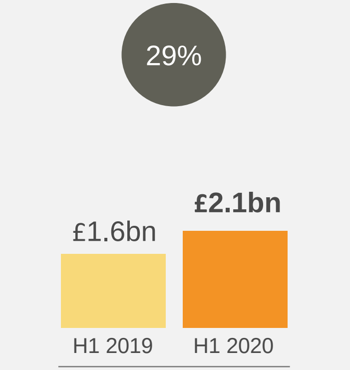
Responded quickly to support customers and colleagues	• Focused on keeping our colleagues safe:
	  • Majority of employees in the UK and India are working from home
	  • Offices adapted for appropriate distancing protocols
	  • Branches remained open for customers who prefer this option
	• Mortgage payment holidays granted to c. 26k mortgage accounts as at the end of June

Strong credit and risk management	• Low LTVs with the Group book LTV at 66% • Underlying impairment losses of £54.4m, predominantly driven by a £42m charge due to the adoption of more severe COVID-19 macroeconomic scenarios
Strong capital and liquidity position	• CET1 strengthened to 17.4% • Accepted for Bank of England's TFSME and CBILS • Successful integration of capital markets teams: largest securitisation to date of £1bn completed in March • Group's liquidity coverage ratio was 245% at 30 June, with strong demand for savings
Outlook	• Remain focused on supporting our customers, colleagues and communities • Encouraging recovery in application volumes (approaching 60% of pre-COVID levels) at higher pricing and tighter criteria • Expect double digit underlying loan book growth for 2020 excluding structured asset sales, underlying NIM broadly flat to first half and underlying cost to income ratio marginally higher versus the first half

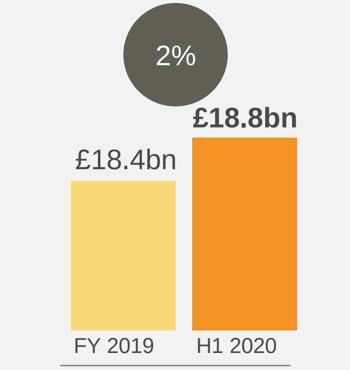
We prioritised supporting our customers and colleagues, providing help to those in need as a result of COVID-19

Financial highlights - statutory

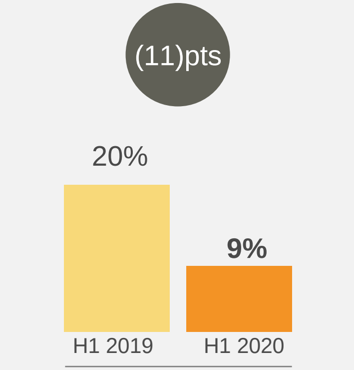
Gross new lending



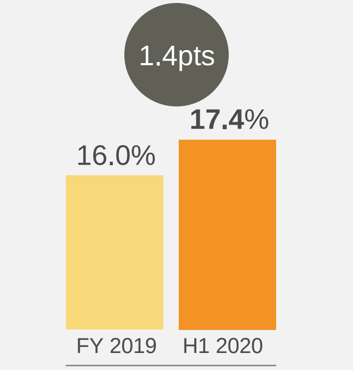
Net loan book



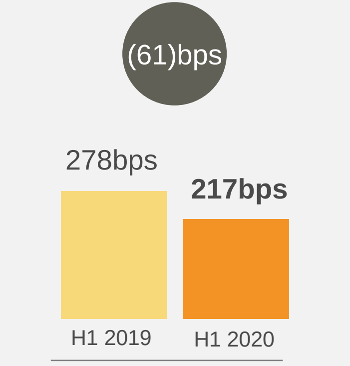
Return on equity



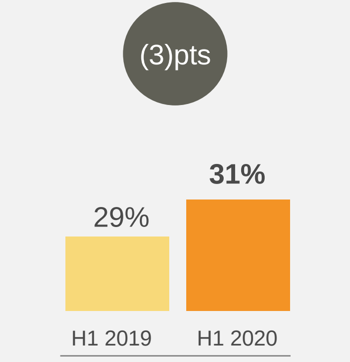
Fully loaded CET1 ratio



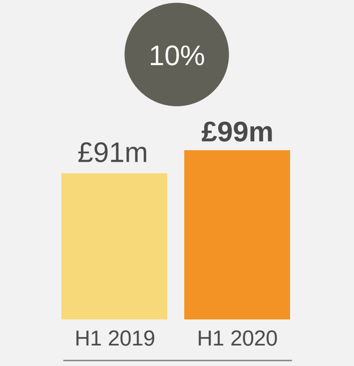
Net interest margin



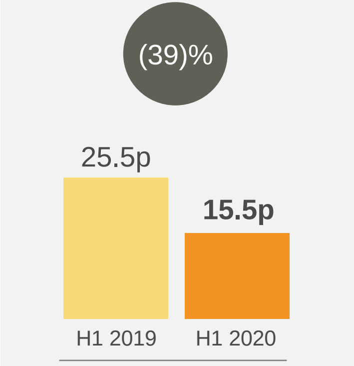
Cost to income ratio



Profit before tax



Basic EPS (pence per share)

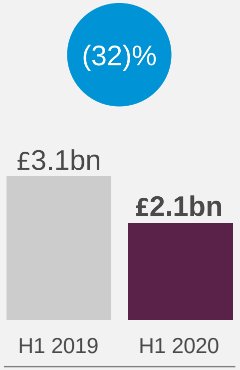


Group statutory H1 2020

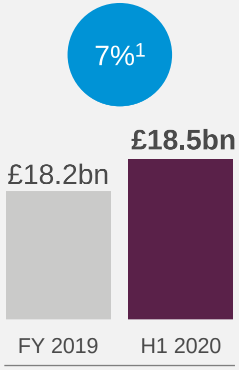
Group statutory H1 2019

Financial highlights - underlying

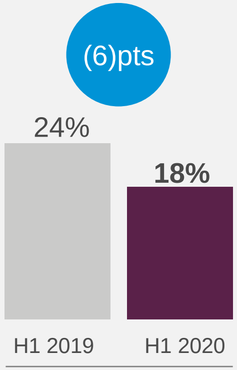
Gross new lending



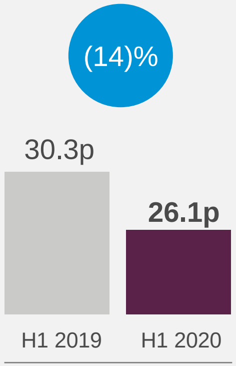
Net loan book



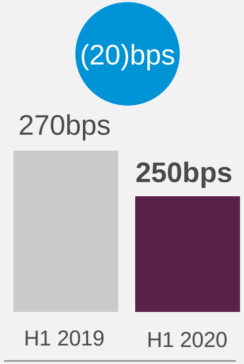
Return on equity



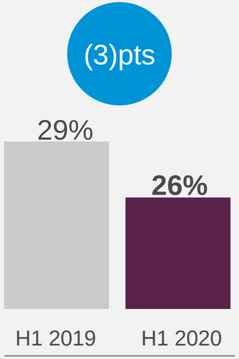
Basic EPS (pence per share)



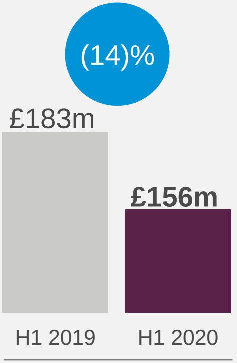
Net interest margin



Cost to income ratio



Profit before tax



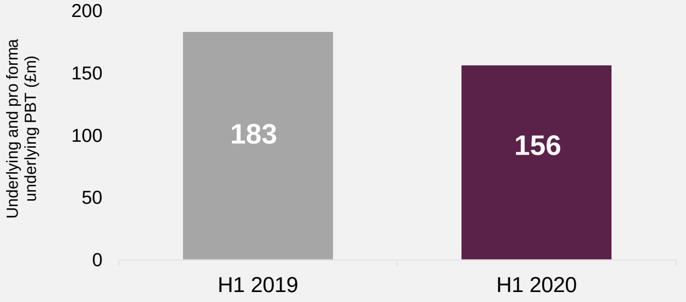
1. Excluding structured assets sales in January 2020

Group underlying H1 2020

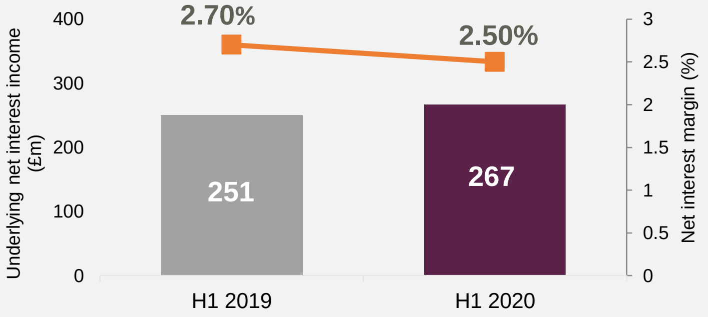
Group pro forma underlying H1 2019

Attractive underlying return on equity

1. Resilient underlying profit before tax

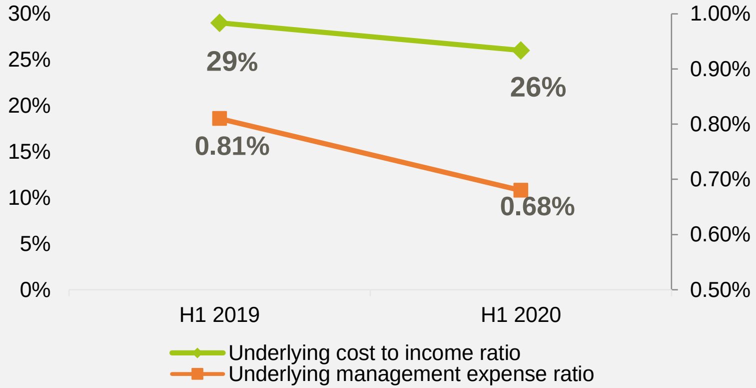


2. Loan book growth at attractive margins despite COVID-19

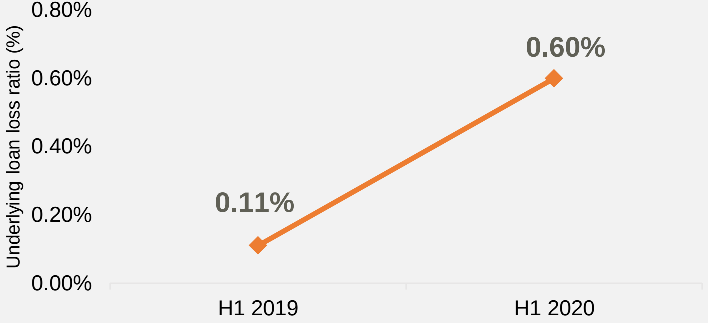


H1 2020 underlying RoE of 18%

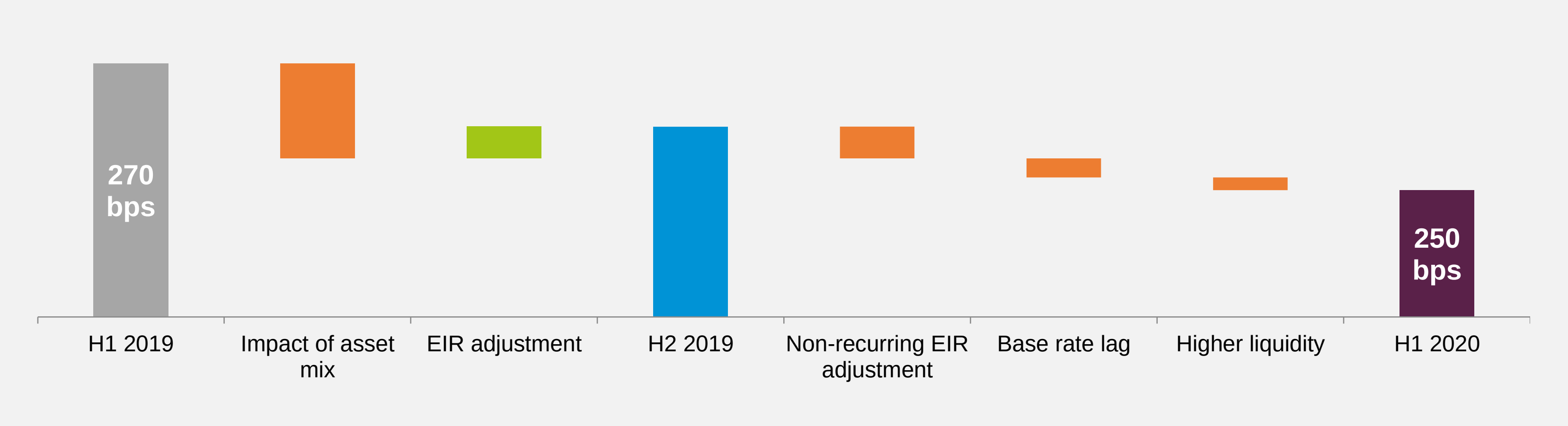
3. Focus on cost discipline and efficiency



4. Impairment losses impacted by COVID-19 scenarios



Underlying NIM progression



NIM reduced in the twelve months to 30 June 2020 due to a number of factors:

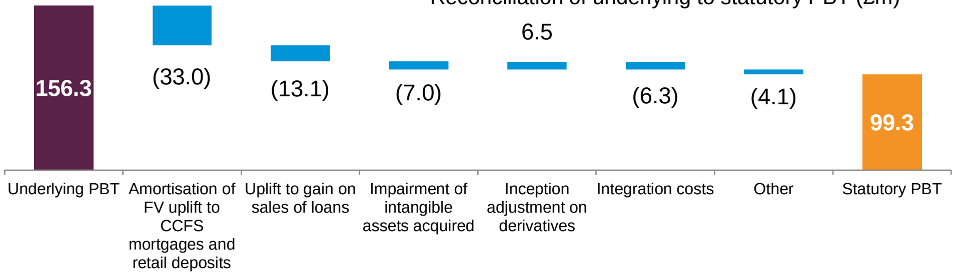
- Changing asset mix of the OSB loan book, refinancing onto lower front book pricing, which had largely run its course by the end of H1 2019
- In the first half of 2020, the Group prudently held higher levels of liquidity given the uncertain economic outlook
- The market had reduced new savings rates largely in-line with the base rate cuts by the end of June, and the final stage of back book repricing for our easy access accounts is effective by the end of the third quarter

Resilient results despite COVID-19 driven impairment losses

Underlying and pro forma underlying P&L

	H1 20 £m	H1 19 £m	Change £m	Change %
Net interest income	**266.8**	250.5	16.3	*7*
Gain on sale of loans	**33.0**	29.8	3.2	*11*
Net loss on financial instruments	**(18.6)**	(14.5)	(4.3)	*30*
Other income	**3.7**	2.3	1.4	*61*
Total income	**284.9**	268.3	16.6	*6*
Administrative expenses	**(74.1)**	(76.8)	2.7	*(4)*
Provisions	**(0.1)**	(0.1)	-	-
Impairment of financial assets	**(54.4)**	(8.6)	(45.8)	*533*
Profit before tax	**156.3**	182.8	(26.5)	*(14)*
Profit after tax	**119.2**	137.3	(18.1)	*(13)*
Basic EPS (pence per share)	**26.1**	30.3	(4.2)	*(14)*

Reconciliation of underlying to statutory PBT (£m)



- **NII** increased due to higher loan book
- **Gain on sale of structured assets** as the Group disposed of its remaining notes under the Canterbury No.1 securitisation and the notes in PMF 2020-1B in January 2020
- **Fair value loss on financial instruments** increased mainly due to fair value movements on mortgage pipeline swaps. This unrealised loss will unwind over the life of the swaps
- **Administrative expenses** reduced, reflecting initial benefit of synergies from integration realised to date and continued cost discipline
- **Impairment losses** include a £42m charge due to adopting more adverse COVID-19 related macroeconomic scenarios
- **Underlying PBT** reduced by 14%, reflecting higher level of impairments
- **Underlying EPS** fell to 26.1 pence per share, in-line with the decrease in profit after taxation.

Strong, secure balance sheet

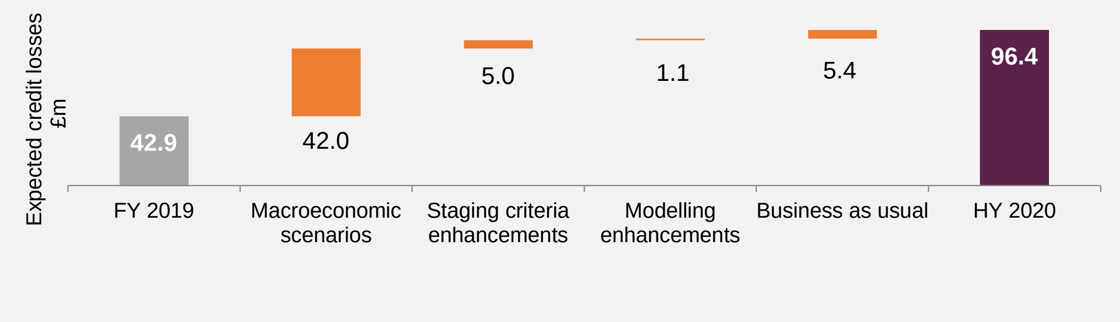
	H1 20 £m	FY 19 £m	Change £m	%
Lending				
Underlying net customer loans	**18,514**	18,151	363	*2*
o/w provisions	**(96)**	(43)	(53)	*123*
Funding and liquidity				
Customer deposits	**16,697**	16,255	442	*3*
Debt securities in issue	**326**	296	30	*10*
Term Funding Scheme	**2,568**	2,633	(65)	*(2)*
Indexed Long-Term Repo	**756**	291	465	*160*
TFSME	**100**	-	-	-
Other (incl warehouse funding & commercial repo)	**2**	145	(143)	*(99)*
Liquid assets	**3,353**	2,840	513	*18*

	OSB		CCFS	
	H1 20	FY 19	H1 20	FY 19
3 months + in arrears (%)	**1.3**	1.3	**0.5**	0.3
Interest coverage ratios (BTL origination) (%)	**203**	187	**205**	202
Average book LTV (%):				
Buy-to-Let/SME for OSB and Buy-to-Let for CCFS	**68**	68[1]	**74**	71
Residential	**58**	57[1]	**70**	67

1. The Group restated the comparative LTVs due to a change in aggregation methodology.

- **Underlying net loan book growth** of 2%, or 7% excluding impact of structured asset sales
- **Organic originations** in the first six months of £2.1bn, down 32%
- Group **LCR of 245%** as at 30 June as we took early action to increase liquidity
- Placed **£847m of RMBS bonds** into the market and **securitised £1bn** of own-originated mortgages under Canterbury 2
- Group weighted average **book LTV of 66%** and average **LTV of new business of 68%**
- **Strong credit quality** with stable 3 months in arrears balances: 1.3% for OSB and 0.5% for CCFS
- **Weighted average ICR** for Buy-to-Let origination demonstrates prudent approach to assessment of customer affordability

Impairment provisions reflect more adverse macroeconomic scenarios



As at 30 June 2020	Gross carrying amount £m	Expected credit losses £m	Coverage ratio [1] %
Stage 1	16,427.9	28.1	0.17%
Stage 2	1,941.7	26.7	1.38%
Stage 3 + POCI	464.1	41.6	8.96%
Total	**18,833.7**	**96.4**	**0.51%**
As at 31 December 2019			
Stage 1	17,286.9	5.6	0.03%
Stage 2	749.5	5.6	0.75%
Stage 3 + POCI	431.2	31.7	7.35%
Total	**18,467.6**	**42.9**	**0.23%**

- **Impairment losses** impacted by more adverse COVID-19 related macroeconomic scenarios:
  - Underlying loan loss ratio of 60bps
  - Higher risk payment holidays moved to stage 2
  - Business as usual loan loss ratio of 6bps
- Significant increase in coverage ratios as a result of conservative forward looking macroeconomic scenarios

[1] Coverage ratios versus loans and advances is the total IFRS 9 provision versus gross loans and advances.

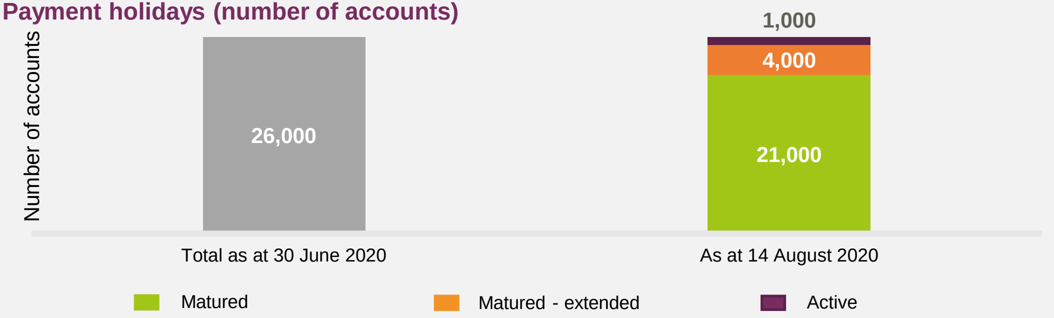
Conservative forward-looking macroeconomic scenarios

Scenario	Probability weighting %	Economic measure	Scenario % Year end 2020	Year end 2021	Year end 2022
Base case	40	GDP Unemployment House price growth	(5.9) 7.7 (14.3)	3.8 7.1 (0.3)	3.6 6.6 7.0
Upside	30	GDP Unemployment House price growth	(2.6) 7.0 (11.9)	3.7 5.5 6.5	3.6 5.2 9.0
Downside	23	GDP Unemployment House price growth	(8.9) 9.3 (19.4)	3.4 9.5 (10.1)	3.9 9.2 3.0
Severe downside	7	GDP Unemployment House price growth Commercial real estate	(10.0) 9.8 (21.0) (13.4)	3.5 10.4 (14.8) (30.5)	3.9 10.3 (1.3) 5.0

Scenarios show annual movements for economic measures

Payment holidays reducing

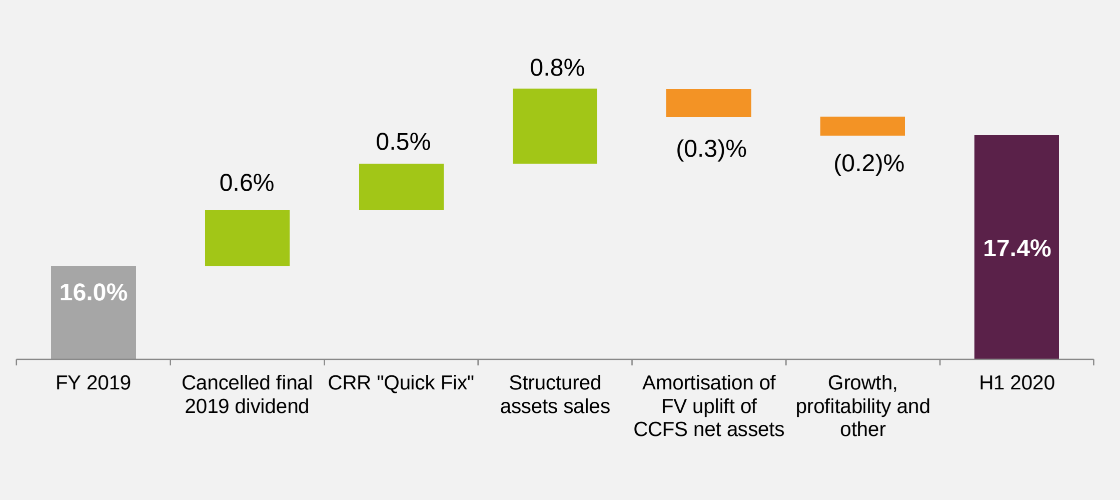
Payment holidays (number of accounts)



Payment holidays (value £m)

- The Group granted payment holidays to c. 26k accounts as at the end of June, which was 28% of the loan book by value
- From the payment holidays in place as at end June, only 16% (by account number) and 18% (by value) of those maturing by 14 August have an extension
- Currently a low incidence of first payment holiday requests

Strong capital base



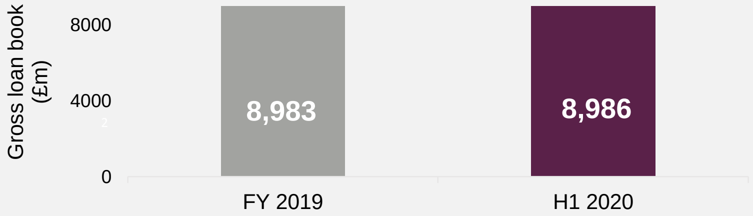
Capital	H1 2020	2019	Change
Risk weighted assets (RWAs) £m	**8,477**	8,383	1.1%
RWAs as % of total assets	**38**	39	(1)pps
Common equity tier 1 ratio %	**17.4**	16.0	1.4pps
Total capital ratio %	**18.6**	17.3	1.3pps
Leverage ratio %	**6.8**	6.5	0.3pps

- **CET1 %** remains exceptionally strong at 17.4% as at 30 June 2020
- **Pillar 2a** requirement of 1.67% of RWAs, excluding a static integration add-on
- Full bail-in **MREL** requirement from July 2025; expect interim requirement of 18% of RWAs by July 2023, with first anticipated debt issue at the end of 2021, subject to market conditions
- Encouraging **IRB progress** post Combination; planning to submit module 1 to the Prudential Regulation Authority next year

OSB segment results – BTL/SME

Average book LTV remains low at 68% (FY 2019: restated 68%[1]) with only 2.0% of loans by value with LTVs exceeding 90% (FY 2019: 1.8%) and average new origination LTV of 71% (HY 2019: 70%).

1. Gross loan book



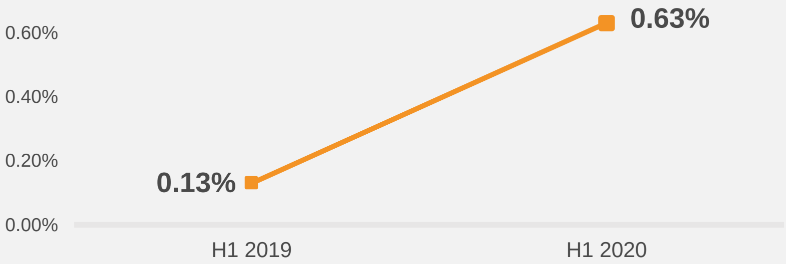
RWA as % of net loans: 47% (FY 2019) | 48% (H1 2020)

2. Net interest income

Gross asset yield: 4.7% (H1 2019) | 4.4% (H1 2020)

3. Contribution to profit[2]

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

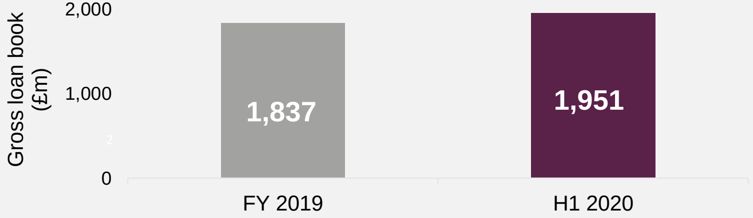


1. The Group restated the comparative LTV due to a change in aggregation methodology at the segment level
2. Total income less impairment losses

OSB segment results – Residential

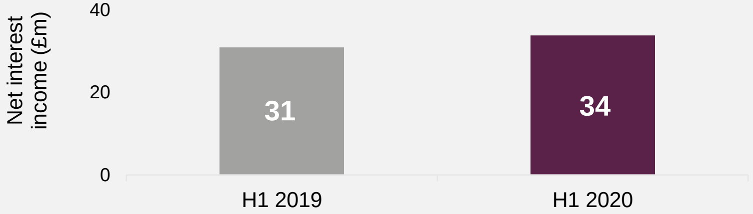
Average book LTV remains low at 58% (FY 2019: restated 57%[1]) with only 5.2% of loans by value with LTVs exceeding 90% (FY 2019: 3.3%) and average origination LTV of 69% (HY 2019: 70%).

1. Gross loan book



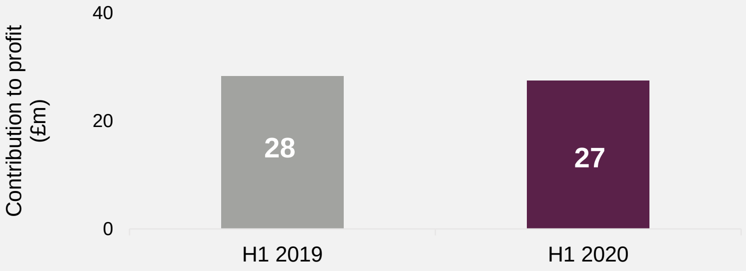
RWA as % of net loans	46%	43%

2. Net interest income

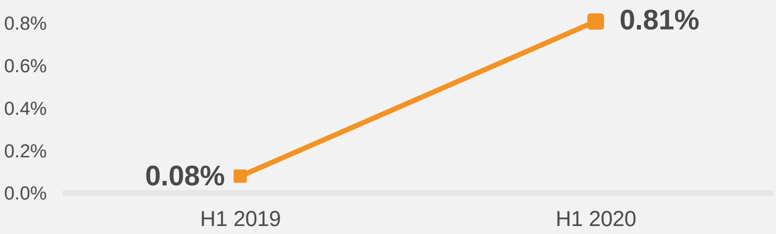


Gross asset yield	5.2%	5.1%

3. Contribution to profit[2]



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

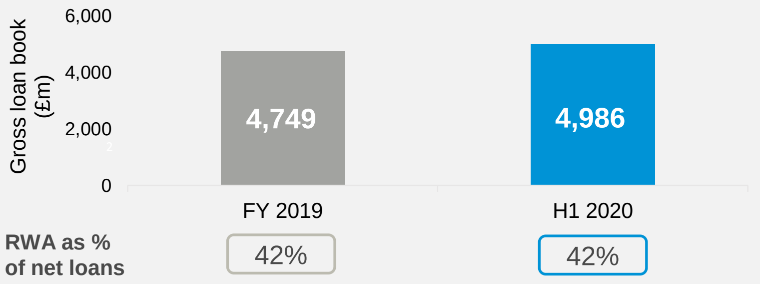


1. The Group restated the comparative LTVs due to a change in aggregation methodology
2. Total income less impairment losses

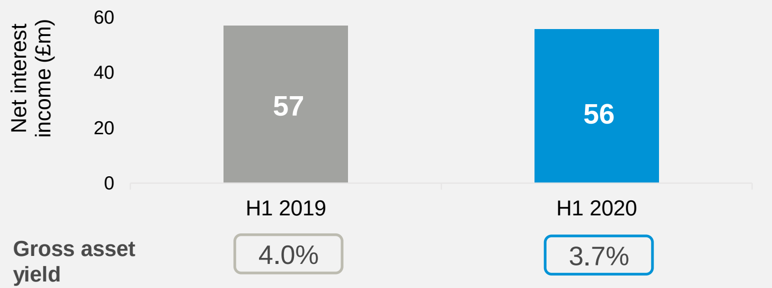
CCFS segment results – BTL sub-segment

Average book LTV remains low at 74% (FY 2019: 71%), average origination LTV was 73% (HY 2019: 71%).

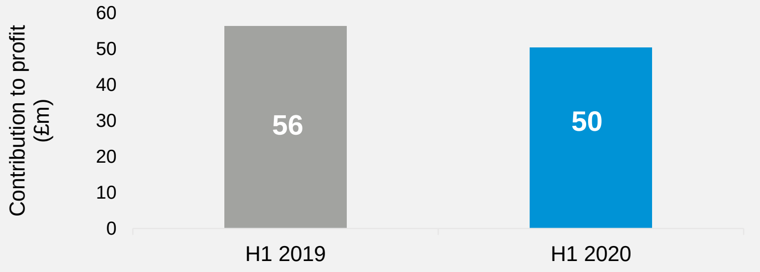
1. Gross loan book



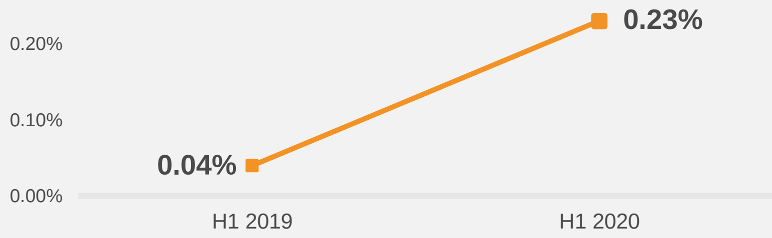
2. Net interest income



3. Contribution to profit[1]



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

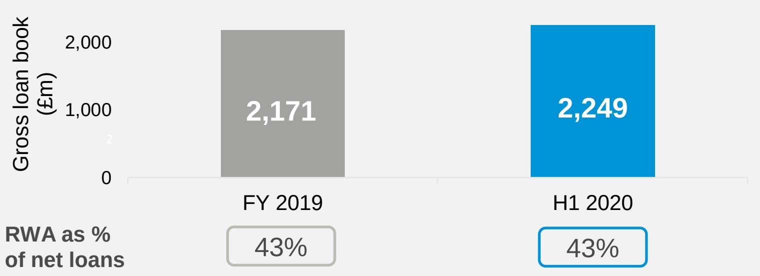


1. Total income less impairment losses

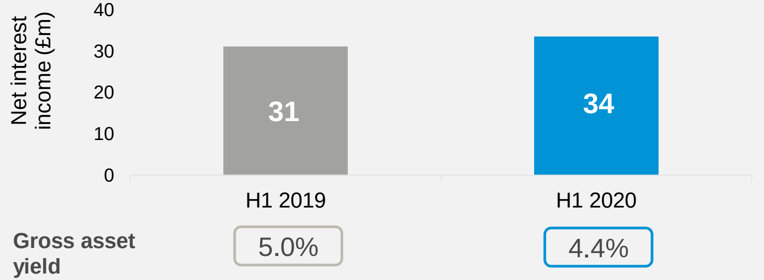
CCFS segment results – Residential sub-segment

Average book LTV remains low at 70% (FY 2019: 67%), average origination LTV was 71% (HY 2019: 72%).

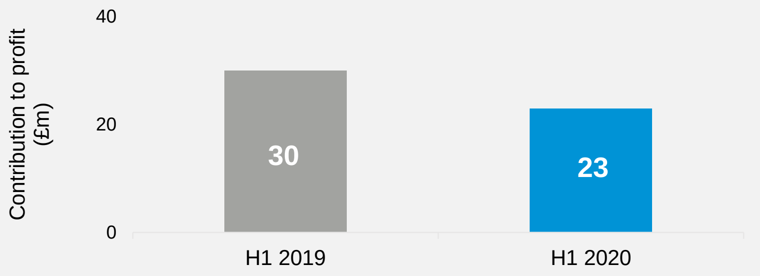
1. Gross loan book



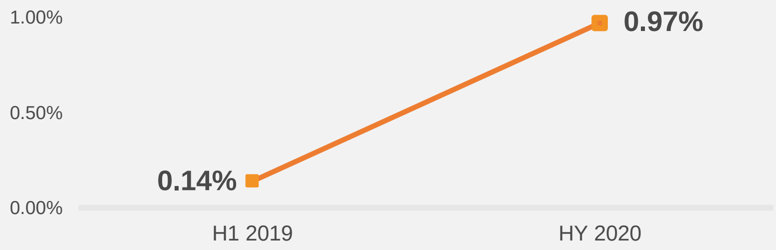
2. Net interest income



3. Contribution to profit[1]



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



1. Total income less impairment losses

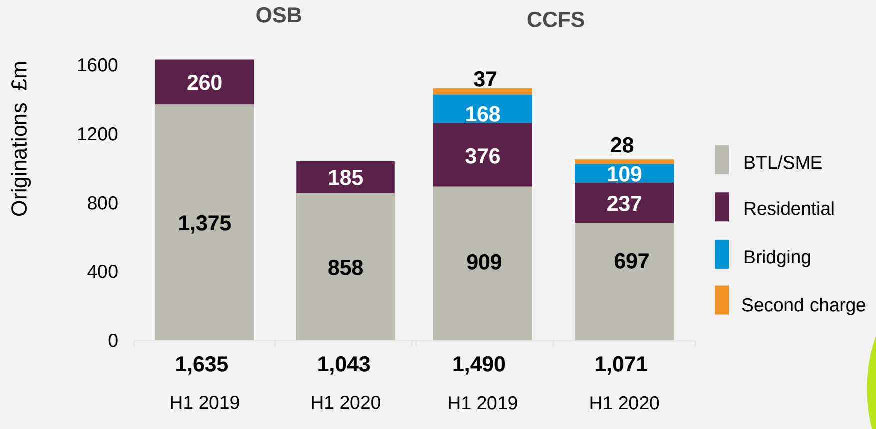
Stronger together – the industrial logic remains sound

On 4 October 2019, OneSavings Bank plc (OSB) combined with Charter Court Financial Services Group plc (CCFS), creating a leading specialist lender.

Integration on track	Integrating OSB and CCFS continues to achieve cost efficiencies and we are on track to deliver the benefits expected in the first year following the Combination. In light of the pandemic, the Board will take the opportunity to review whether we still want to fully consolidate locations and suppliers or maintain the additional operational resilience.
We are sharing best practice	Group wide, we are sharing best practice and learning to enhance our processes and find efficiencies and benefits of scale. We have successfully integrated our capital markets team, with gains on structured assets sales of £33m on an underlying basis in the first six months of 2020.
The proposition remains strong	We are seeing the benefits of our combined lending and funding franchises, our secured loan book and strong risk management capabilities.
The talent pool is rich	The skill set and capability of our team have been evident both in BAU/integration and in recent contingency planning scenarios linked to the current unprecedented situation.

Our award-winning lending franchises

Organic lending during the first half impacted by significant slowdown in the second quarter



Loan book up 7%
excl asset sales in H1 2020

Strong security

Weighted average interest coverage ratios for Buy-to-Let origination demonstrate prudent approach to assessment of customer affordability.

OSB: 203%

CCFS: 205%

Good retention

Borrowers continue to choose new products with OSB Choices retention scheme, 69% choosing new product within 3 months (H1 2019: 76%).

Well-positioned

Professional landlords account for 94% of OSB Buy-to-Let completions by value during H1 2020 (H1 2019: 81%).

Applications via Ltd companies increased to 52% for CCFS Buy-to-Let (H1 2019: 49%).

Current position

Encouraged by volumes and quality of new applications, approaching 60% of pre COVID-19 levels

Controlled increase in business volumes in our core Buy-to-Let and Residential market segments

Recently-introduced product range continues to reflect the Group's prudent risk appetite

Active but reduced growth in other market segments

- Commercial
- Bridging
- Development finance
- Funding lines
- Second charge

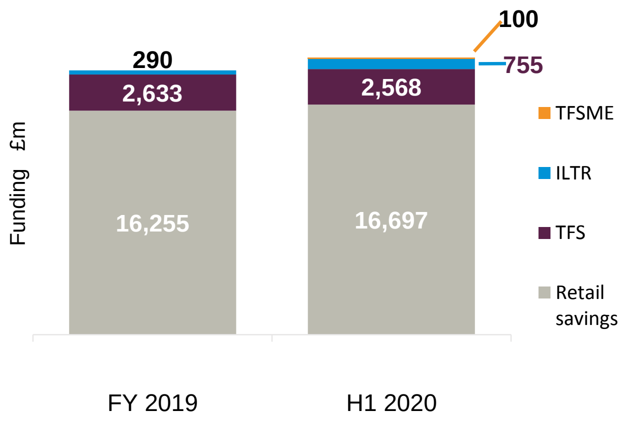
Sophisticated funding model

Combined Group remains predominantly retail funded.

The Group had **£16.7bn** of retail deposits, up 3% from year end.

	Attract	Retain	Satisfy
	We continue to attract new savings customers	We retain a very high percentage of customers with maturing fixed rate bonds and ISAs	High quality of customer service - consistently high NPS
KentReliance	c.14k	95%	+67
Charter Savings Bank	c.8k	86%	+83

Retail savings complemented by increasingly diversified funding sources:



Increased securitisation capacity

Early success of the integration – capital markets teams combined

In January 2020, the Group disposed of its remaining notes under the Canterbury No.1 securitisation and PMF 2020-1B generating a gain of £33.0m on an underlying basis

In March, we completed our largest deal to date, securitising £1bn of prime Buy-to-Let originated assets and retaining all of the notes

Summary and outlook

Returning to our key messages from today:

COVID-19	• We have not yet seen any decline in HPI • The housing market has been stimulated and is functioning well • Application volumes are approaching 60% of pre-COVID levels at tighter criteria and higher prices • We are seeing an encouraging experience with repayment holidays
Successful Combination	• Integration is on track to deliver planned synergies to date • Despite the majority of our employees working from home, colleagues across both Banks are working well together and we have truly become one team • In light of the pandemic, the Board is reviewing whether we still want to fully consolidate locations and suppliers or maintain additional operational resilience. This is not expected to have a material impact on synergies.
Strong risk management	• The macroeconomic scenarios we use in our ECL modelling are prudent • Arrears performance is stable with 3 months in arrears balances at 1.3% for OSB and 0.5% for CCFS • Group LTVs are low with average book LTV of 66% and new business LTV of 68% • The Group remains well-capitalised and highly liquid
Outlook	• We expect to deliver double digit underlying net loan book growth for the full year, excluding the impact of structured asset sales in January • Based on curent pricing, we expect underlying NIM for the full year to be broadly flat to the first half, with the base rate cuts passed on to retail depositors in full by the end of the third quarter • We also expect the underlying cost to income ratio for the full year to be marginally higher versus the first half, due to higher other income in the first half from the gain on structured asset sales

one Savings Bank

2020 interim results - Appendices

27 August 2020

PRIVATE AND CONFIDENTIAL

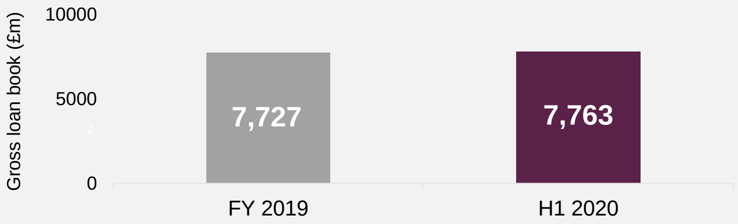
Results impacted by COVID-19 driven impairment losses

Statutory P&L	H1 20 £m	H1 19 £m	Change £m	Change %
Net interest income	**233.8**	150.5	83.3	*55*
Gain on sale of loans	**19.9**	-	-	*100*
Net loss on financial instruments	**(12.1)**	(7.4)	(4.7)	*64*
Other income	**3.7**	0.2	3.5	*1750*
Total income	**245.3**	143.3	102.0	*71*
Administrative expenses	**(76.7)**	(40.9)	(35.8)	*88*
Provisions	**(0.1)**	(0.1)	-	-
Impairment losses	**(54.2)**	(5.9)	(48.3)	*819*
Impairment of non-financial assets	**(7.0)**	-	(7.0)	-
Integration costs	**(6.3)**	-	(6.3)	-
Exceptional items	**(1.7)**	(5.9)	4.2	*(71)*
Profit before tax	**99.3**	90.5	8.8	*10*
Profit after tax	**72.0**	65.3	6.7	*10*
Basic EPS (pence per share)	**15.5**	25.5	(10.0)	*(39)*

- **NII** increased due to inclusion of CCFS' NII
- **Gain on sale of structured assets sales** as the Group disposed of its remaining notes under the Canterbury No.1 securitisation and PMF 2020-1B
- **Fair value loss on financial instruments** due mainly to fair value movements on mortgage pipeline swaps. This unrealised loss will unwind over the life of the swaps
- **Administrative expenses** nearly doubled, largely as a result of including CCFS' administrative costs
- **Impairment losses** increased to £54.2m in the first half, including a £41m charge due to COVID-19 related more adverse macroeconomic scenarios
- **Impairment of non-financial assets** in relation to the intangible assets recognised on the acquisition of CCFS
- **Integration costs** largely related to staff costs
- **Statutory PBT** up 10% due to inclusion of CCFS
- **Statutory EPS** fell to 15.5 pence per share as the increase in profit after taxation was more than offset by the impact of the additional shares issued for the all-share Combination with CCFS

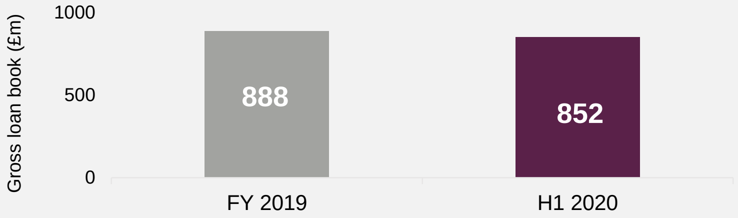
OSB segment results – BTL/SME sub-segments

1. Buy-to-Let



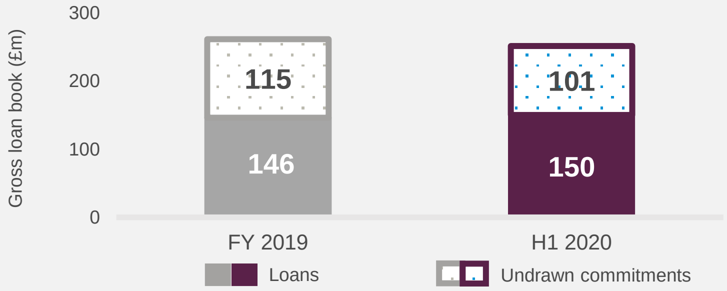
- Average interest rate coverage (ICR) was 203% during H1 2020 (FY 2019: 187%)

2. Semi-commercial/Commercial



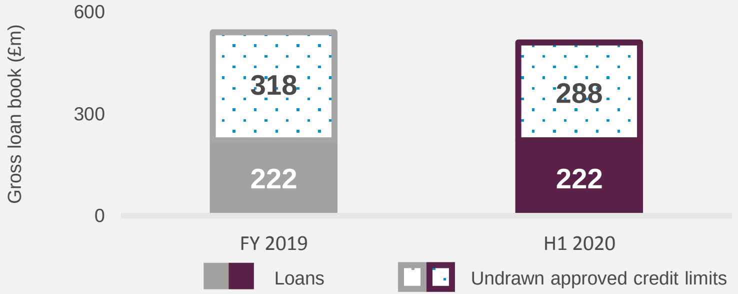
- Weighted average LTV: 67% (FY 2019: 67%)
- Average loan size c. £385k (FY 2019: c. £375k)

3. Residential development



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

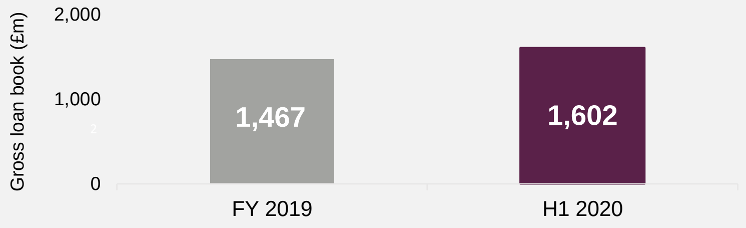
4. Funding lines



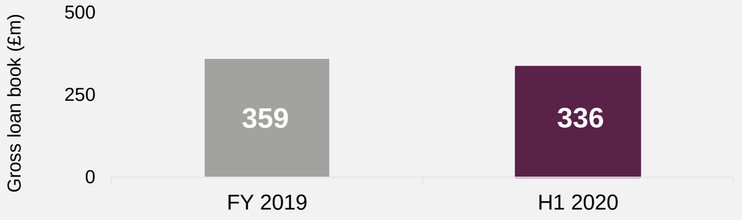
- Secured funding lines to non-bank lenders
- High yielding, secured, specialist sub-segments such as bridging finance and asset finance

OSB segment results – Residential sub-segments

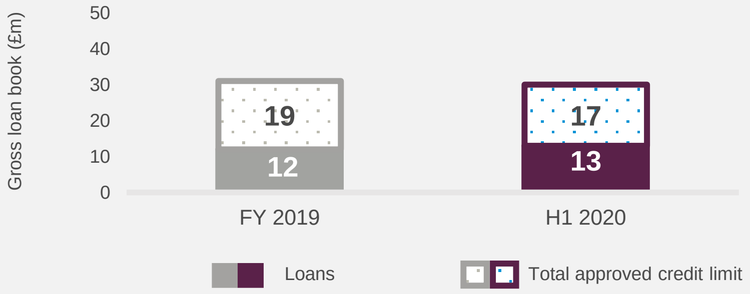
1. First charge mortgages



2. Second charge mortgages



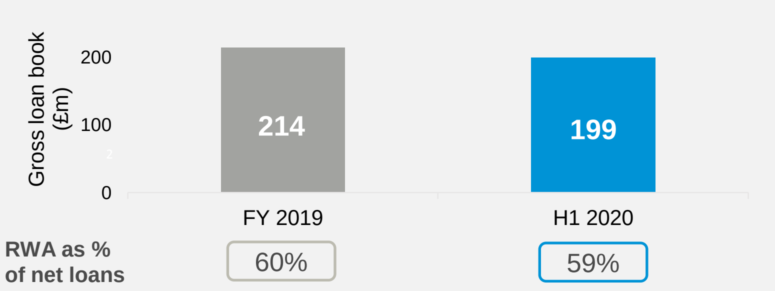
3. Funding lines



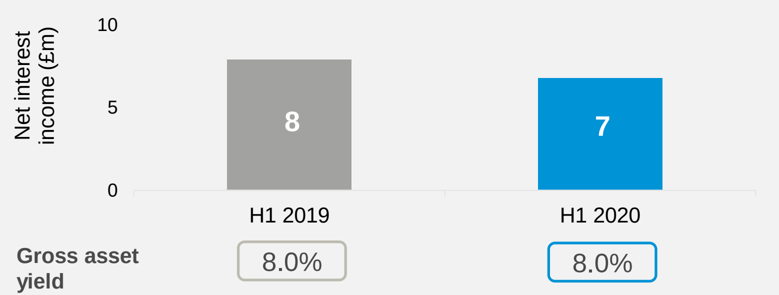
CCFS segment results – Bridging

Withdrew products during lockdown and returned to the market later than with residential and BTL

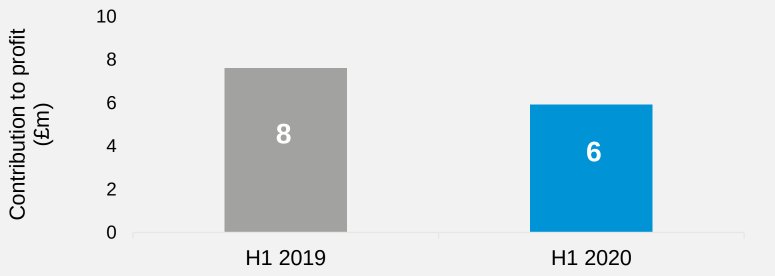
1. Gross loan book



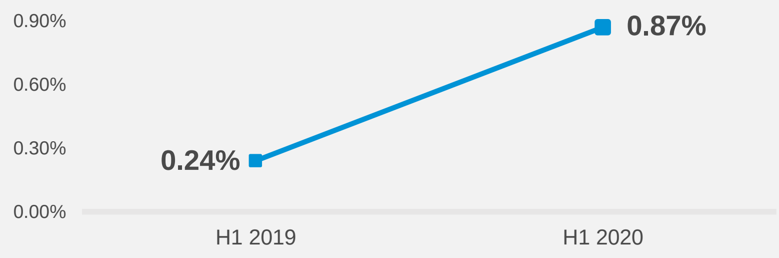
2. Net interest income



3. Contribution to profit[1]



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

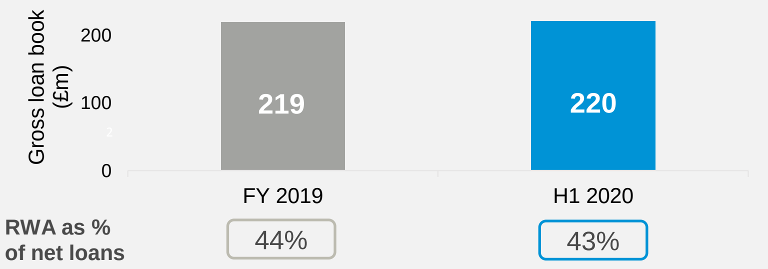


[1] Total income less impairment losses

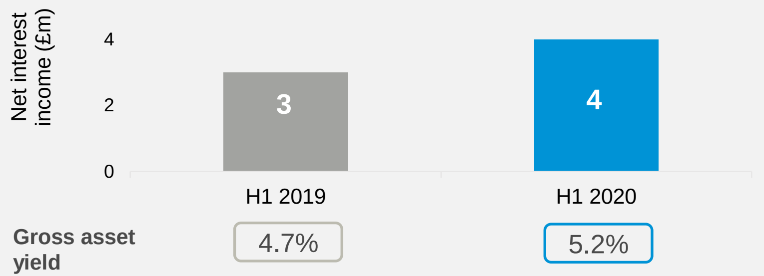
CCFS segment results – Second charge

Withdrew products and reintroduced with a revised, more limited product set

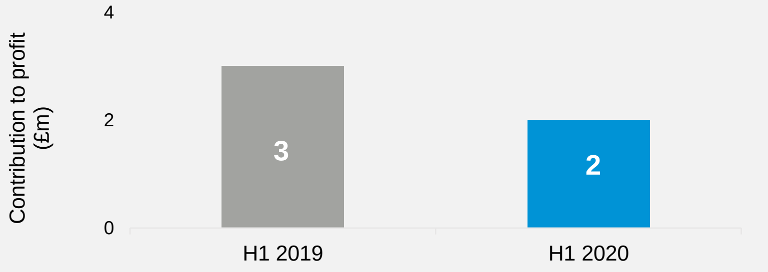
1. Gross loan book



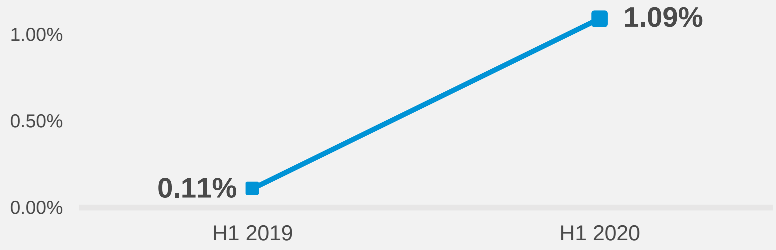
2. Net interest income



3. Contribution to profit[1]



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



[1] Total income less impairment losses

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