One Savings Bank

Achieving consistent and sustainable growth and returns with high quality assets

2016 Results

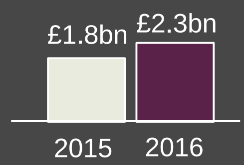
16 March 2017

Specialist
Personal
Flexible

Performance highlights

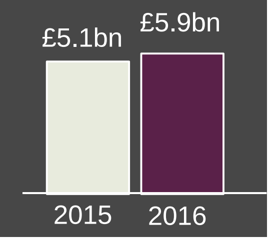
Gross organic lending

+28%



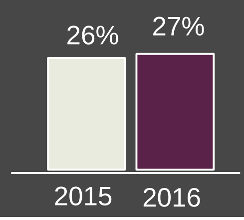
Loans and advances

+16%



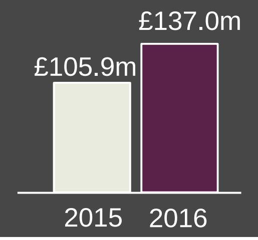
Cost:income ratio

+1% point



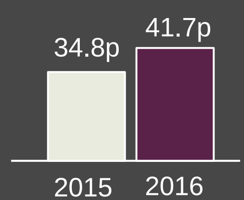
Underlying PBT

+29%



Underlying basic EPS

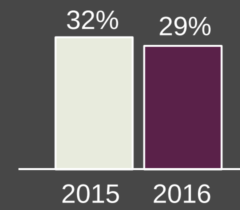
+20%



Return on equity

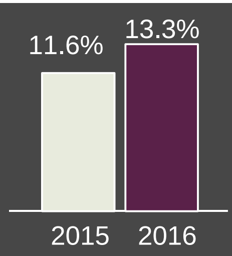
-3% points

32% excluding impact of the Bank Corporation Tax Surcharge



Fully-loaded CET1 capital ratio

+1.7% points



Dividend per share

10.5 pence per share

(2015: 8.7p)

Delivering on our financial objectives 2014 - 2016[1]

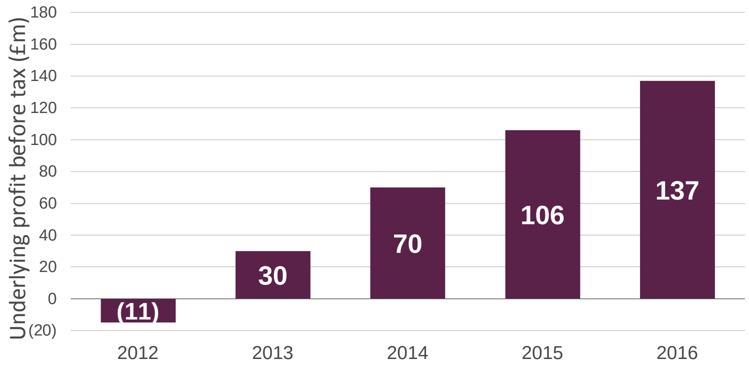
		2016 result
Funding / Liquidity strength	Maintain loan to deposit ratio of <100%	**90%[2]**
Cost discipline	Cost:income ratio of <35%	**27%**
Capital strength	CRD IV CET1 ratio >10%	**13.3%**
Shareholder returns	Return on equity of >25%	**29%[3]**
Dividend policy	Pay-out ratio of ≥25%	**25%[4]**

[1] Objectives relate to the current financial planning cycle that lasted 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) and Term Funding Scheme (TFS).
[3] Underlying profit after taxation as a percentage of average shareholders' equity (excluding equity PSBs of £22m).
[4] Pay-out ratio of at least 25% of underlying profit after taxation.

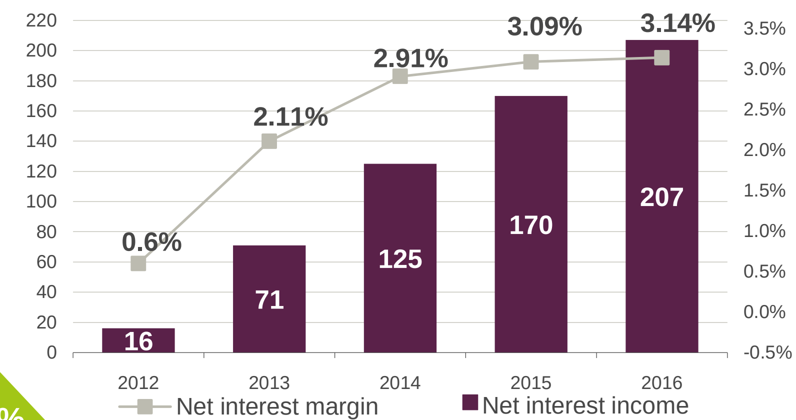
Key Financial Indicators

One Savings Bank

1 Improved underlying profitability…

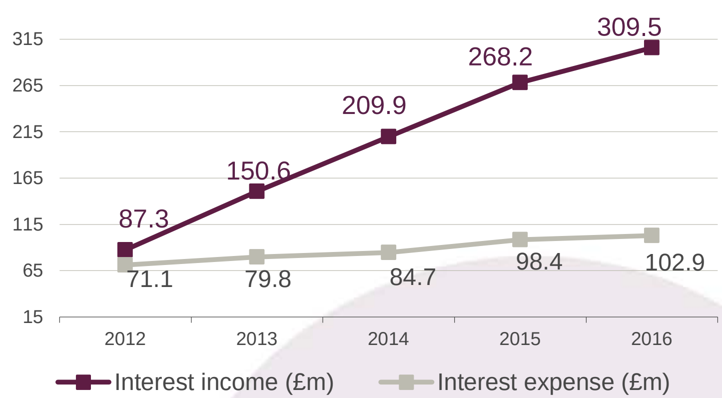


2 …driven by profitable new lending…

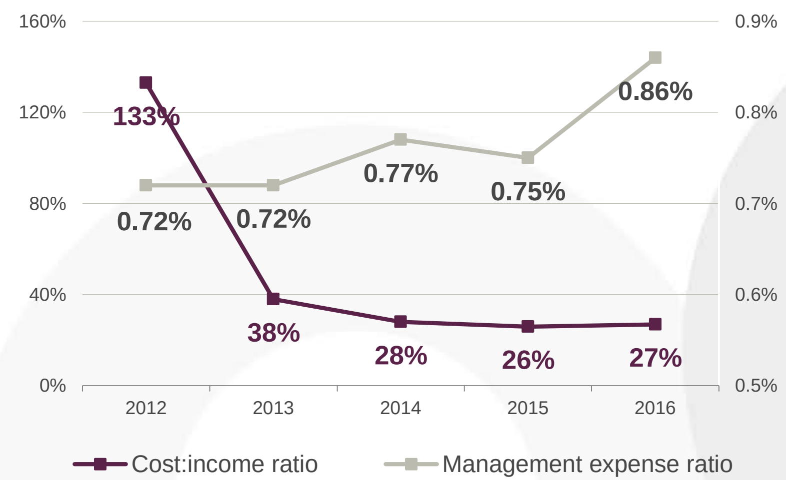


2016
RoE of 29%
32% excl. Bank Corporation Tax Surcharge

3 …well managed cost of funds / liquidity…



4 …and disciplined cost control



Income growth drives underlying profit up 29%

£m	2016	2015	Change £m	Change %
Net interest income	206.6	169.8	36.8	*22*
Other income / (expense)	(5.2)	(7.3)	2.1	*(29)*
Total income	**201.4**	**162.5**	**38.9**	***24***
Operating expenses	(53.7)	(41.1)	(12.6)	*31*
FSCS provisions	(0.5)	(3.4)	2.9	*(85)*
Impairment losses	(9.0)	(10.6)	1.6	*(15)*
PBT before exceptional items	**138.2**	**107.4**	**30.8**	***29***
Exceptional items	24.9	(2.1)	27.0	*nm*
Statutory PBT	**163.1**	**105.3**	**57.8**	***55***
Tax	(42.2)	(21.2)	(21.0)	*(99)*
Statutory PAT	**120.9**	**84.1**	**36.8**	***44***
Underlying PBT	137.0	105.9	31.1	29
Underlying PAT	101.5	84.5	17.0	20
Key Performance Indicators				
Net interest margin	3.14%	3.09%	5bps	
Cost:income ratio	27%	26%	1pps	
Impairments/average gross loans	0.16%	0.23%	(7)bps	
Underlying EPS	41.7p	34.8p	6.9p	*20*
Return on equity	29%	32%	(3)pps	

- Underlying PBT up 29% 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 items due to gain on the Rochester 1 disposal of £34.7m offset by £9.8m loss on amortisation on fair value adjustments on hedged assets (2015: £2.1m of IPO expenses)
- Effective tax rate increased due to the new 8% Bank Corporation Tax Surcharge

Underlying loan book growth 20%

excluding impact of Rochester 1 disposal

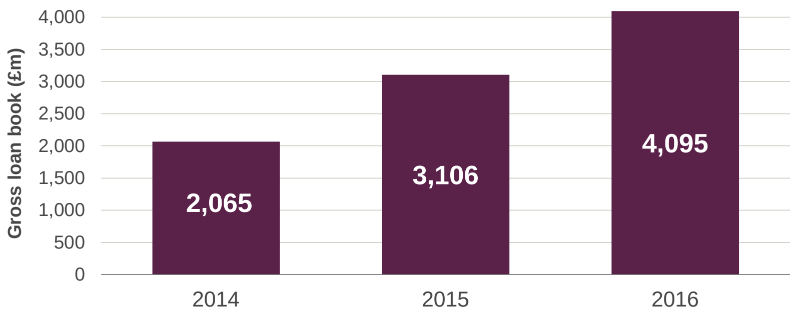
£m	2016	2015	Change £m	Change %
Lending				
Net customer loans	5,939	5,135	804	*16*
Gross customer loans	5,964	5,162	802	*16*
Provisions	(25.0)	(27.3)	2.3	*(8)*
Funding and liquidity				
Liquid assets	560	748	(188)	*25*
Customer deposits	5,952	5,364	588	*11*
Wholesale funding	5	196	(191)	*(97)*
Funding for Lending Scheme	525	161	364	*226*
Term Funding Scheme	101	-	n/a	*n/a*
Liquidity ratio	17.9%	16.4%	1.5%	

- Underlying loan book growth of 16% supported by 28% growth in organic origination and portfolio purchases for £181m; 20% excluding the impact of the Rochester 1 disposal
- FLS/TFS – we continue to utilise FLS with drawdowns of £525m and the Group was accepted to the TFS scheme with drawdowns of £101m at year end
- Liquidity Coverage ratio of 239% significantly ahead of 2016 regulatory minimum of 80%
- Wholesale funding has decreased to £5m due to Rochester 1 disposal along with its debt securities

Segmental results – BTL/SME

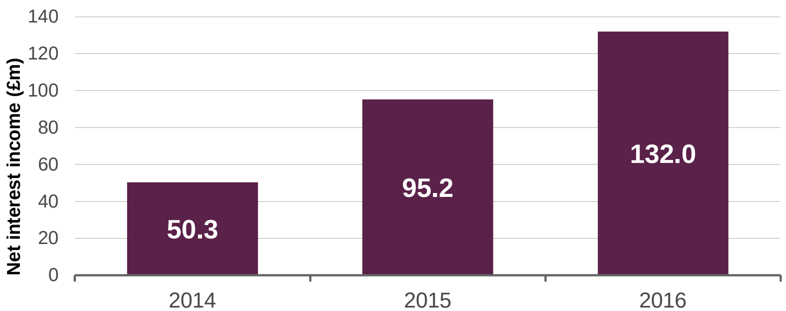
- LTVs remain low at 69% (2015: 66%) with only 0.4% of loans exceeding 90% LTV (2015: 1%)

1 Gross loan book



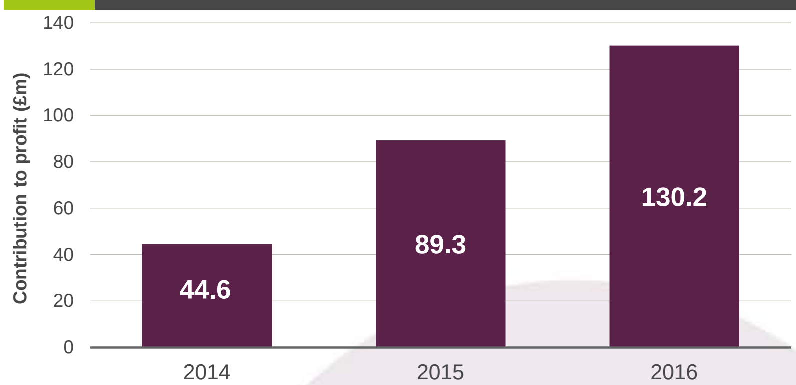
	2014	2015	2016
RWA as a % of net loans	48%	46%	47%

2 Net interest income

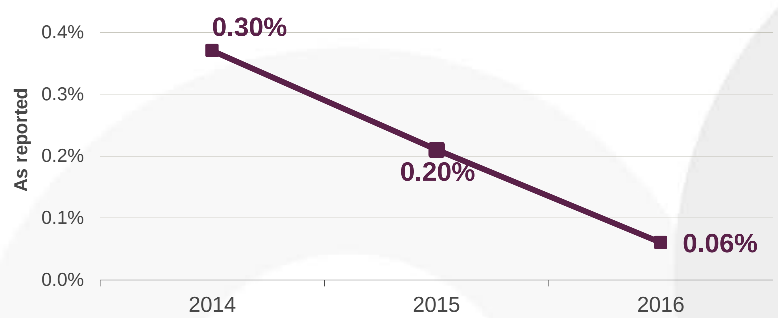


	2014	2015	2016
Gross asset yield	5.6%	5.8%	5.7%

3 Contribution to profit[1]



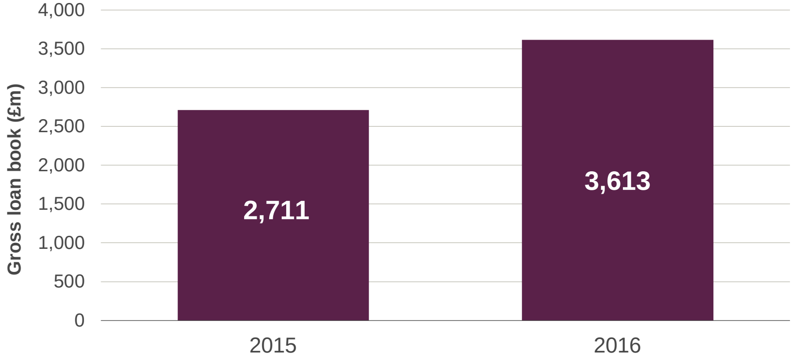
4 Loan loss charge as % of average gross loans o/s



[1] Total income less impairment losses

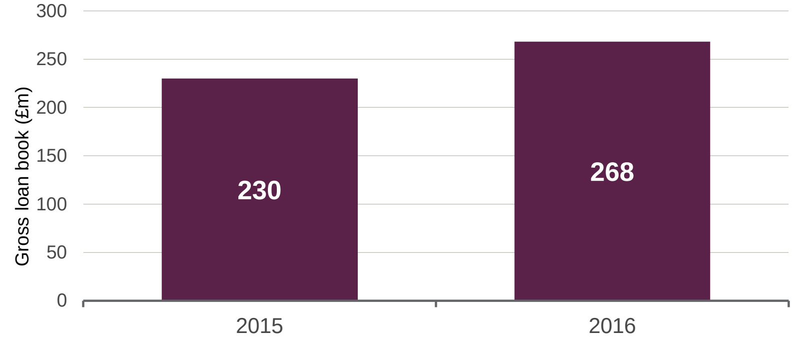
Segmental results – BTL/SME sub-segments

1 Buy-to-Let (£m)



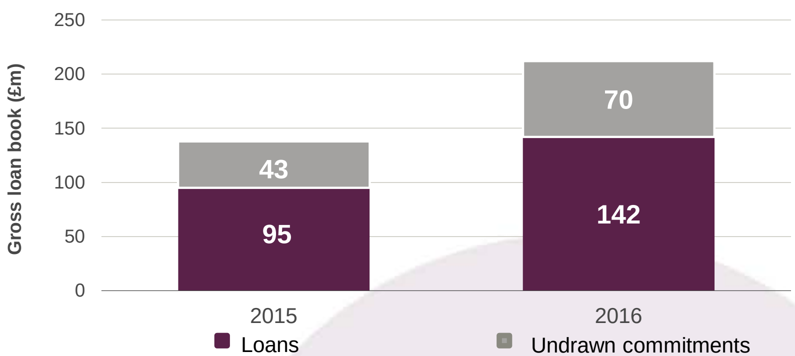
- Average interest rate coverage (ICR) was 171% for 2016 (2015: 159%)
- Limited company applications increased to 55% in Q4 2016 (December 2015: 40%)

2 Semi-commercial/Commercial (£m)



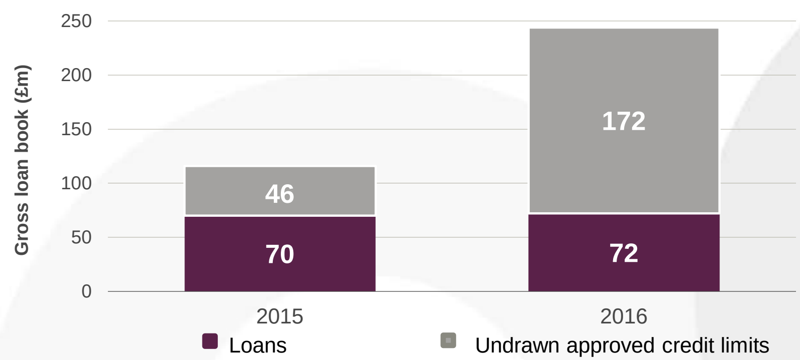
- Weighted average LTV – 59%
- Average loan size £270,000

3 Residential development (£m)



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

4 Funding lines (£m)

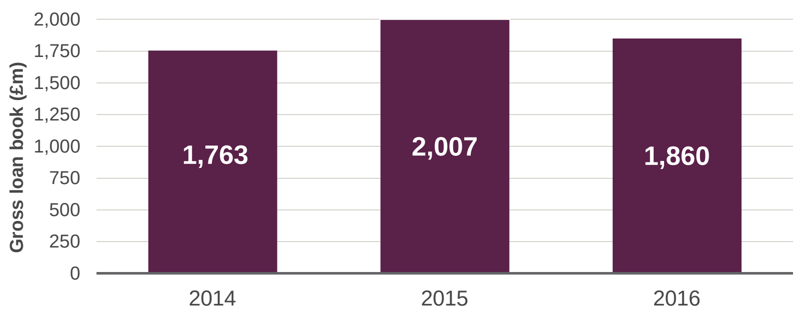


- Secured funding lines to non-bank lenders
- High yielding, secured, specialist sub-segments such as bridging finance and asset finance

Segmental results – Residential

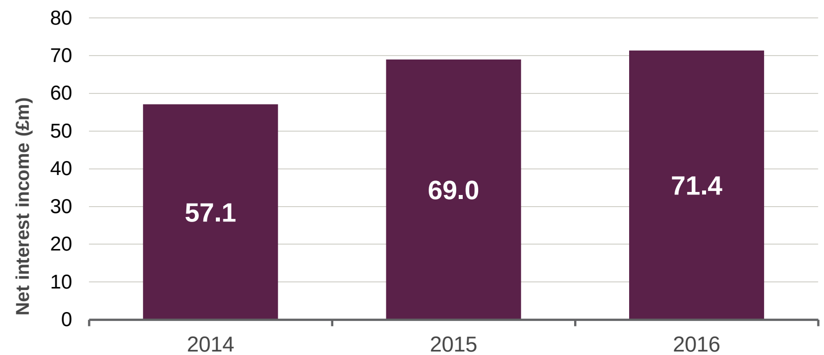
- LTVs remain low at 58% (2015: 56%) with only 3% of loans by value with LTVs exceeding 90% (2015: 2%)
- Average loan to incomes (LTIs) for residential mortgage lending reduced with 2.6% of new loans having LTIs over 4.5 in 2016 compared to 3.3% in 2015, significantly below the regulatory limit of 15%

1 Gross loan book



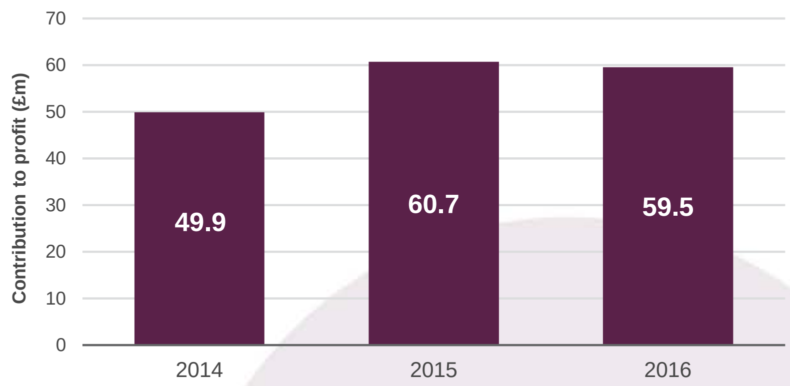
RWA as a % of net loans	42%	43%	43%

2 Net interest income

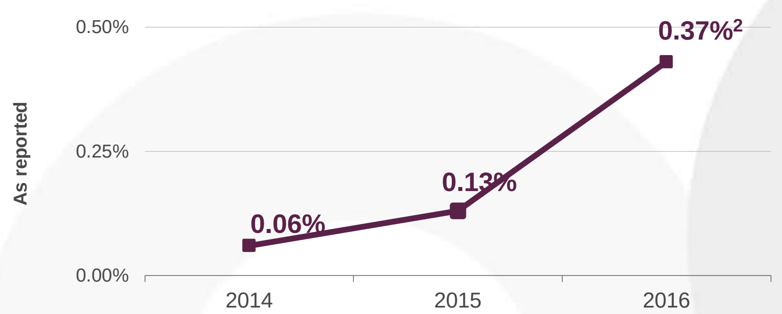


Gross asset yield	5.9%	5.8%	5.5%

3 Contribution to profit[1]



4 Loan loss charge as % of average gross loans

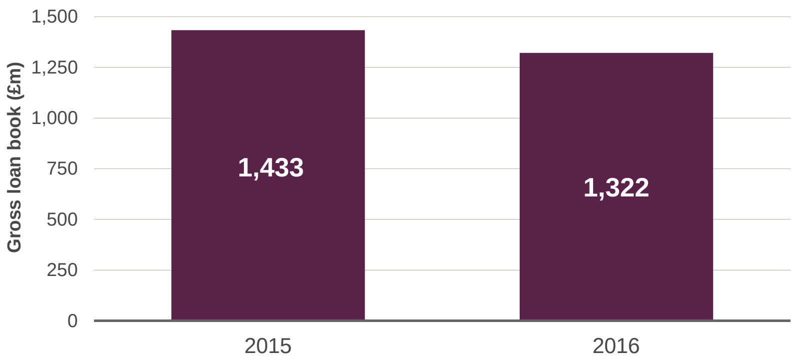


1 Total income less impairment losses

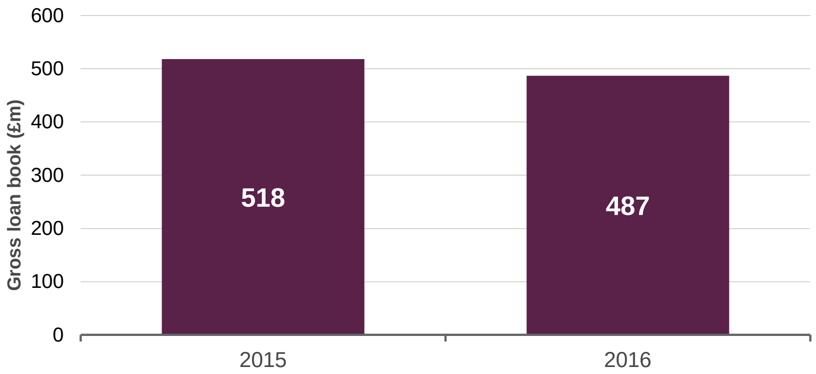
2 Loan loss ratio increased due to additional prudence in collectively assessed provision assumptions primarily impacting acquired mortgage portfolios

Segmental Results – Residential sub-segments

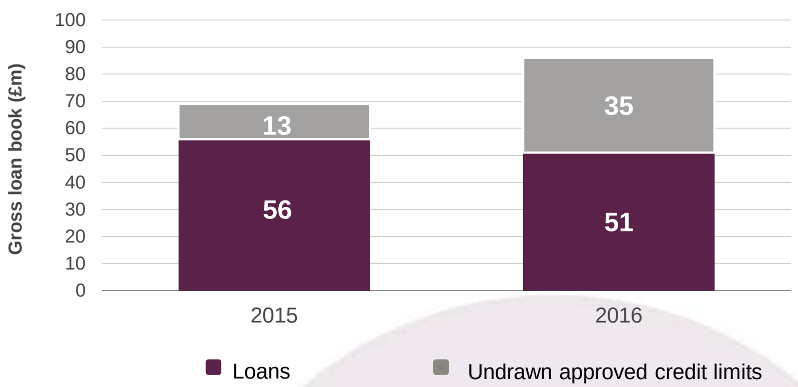
1 First charge mortgages



2 Second charge mortgages



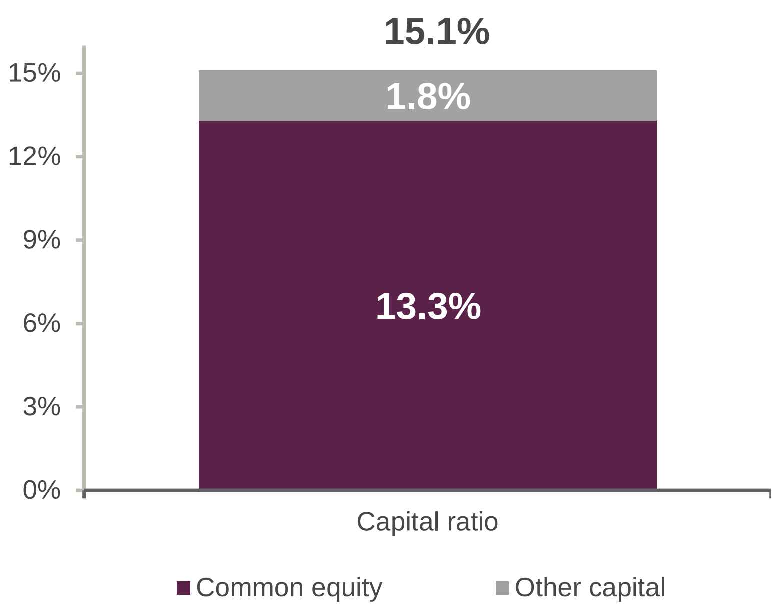
3 Residential funding lines



4 Summary

- First charge new organic lending in 2016 and portfolio acquisitions for £181m (portfolios of first and second charge mortgages) were more than offset by the impact of the Rochester 1 disposal and redemptions.
- Second charge book fell slightly 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 £86m.

Strong balance sheet

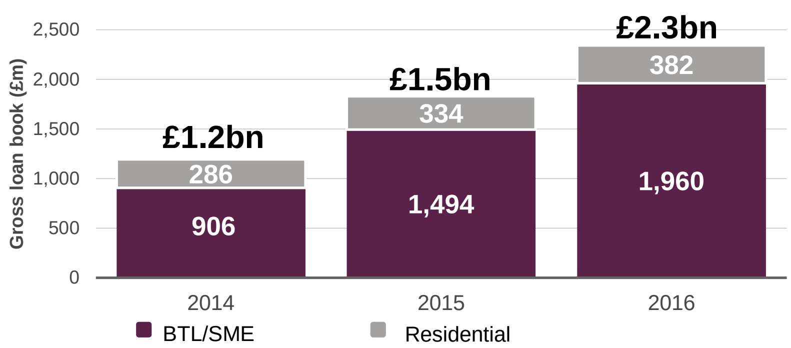


	2016	2015	Change
Capital			
Risk-weighted assets (RWAs) £'m	2,743	2,340	403
RWAs as % of total assets	42%	39%	3%
Common equity tier 1 ratio %	13.3%	11.6%	1.7%
Total capital ratio %	15.1%	14.1%	1.0%
Leverage ratio %	5.5%	4.5%	1.0%

- Pillar 2a requirement of 1.2% of risk weighted assets
- The weighted average LTV of the mortgage book remained low at 63% as at 31 December 2016, with an average LTV of 69% on new origination in the year.
- Portfolio arrears rate, excluding legacy problem loans, reduced to 1.4% as at 31 December 2016 (2015: 2.3%) due to the sale of NPLs in the personal loan portfolio and falling arrears balances in organic and acquired loan books
- Legacy problem loans reduced from £17.8m to £13.8m.
- Limited exposure to high value properties, with only 2% of total loan book valued at greater than £2m and with an LTV above 65%.

Lending customer franchise

1 Organic lending growth



Organic lending growth continues, up 28% on 2015

2 Strong performance

Only 91 loans in 3m+ arrears (£8.6m), out of >29,000 loans (£5.9bn) originated since the Bank's creation in 2011 (2015: 48 loans, £5.1m)

Limited company Buy-to-Let applications for our Kent Reliance brand increased to 57% in H2 2016 (40% in December 2015)

Professional landlords account for 68% of Buy-to-Let completions by value in H2 2016 (60% in H2 2015)

Broker NPS remains strong at 48%

3 Momentum

We entered 2017 with a strong pipeline of new business and are currently seeing very strong application levels in our core businesses

Remortgage activity is buoyant currently representing c.58% of Buy-to-Let completions

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 by What Mortgage awards

Sustainable funding model

1 Growth

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

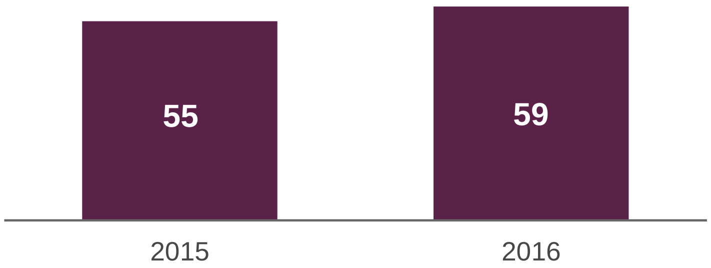
£0.6bn Retail deposits up more than £0.6bn year-on-year to £6.0bn

27,000 Nearly 27,000 new savings customers in 2016

2 Recommendation and retention

Retention rates on maturing Bonds and ISAs remain exceptionally strong at 87%

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 90% excluding the impact of FLS and TFS

We continue to diversify our funding through the FLS and TFS, we had drawn down £525m under FLS and £101m under TFS at year end

Strong liquidity coverage ratio significantly ahead of the regulatory 80% minimum

Summary

- **2016 was another year of strong growth: 28% increase in organic origination to £2.3bn**
- **Strong financials: we have yet again achieved or exceeded all of the financial objectives set at IPO**
- **Strong credit profile: low arrears and LTVs**
- **Excellent customer results: customer NPS at 59%, retention at 87%**
- **Well capitalised to take advantage of market opportunities**

Confident outlook

- Confidence in our core BTL market remains strong
- 2017: we expect to deliver net loan growth in the mid teens through organic lending……
- ……and keep NIM and cost to income ratio broadly flat to 2016
- We anticipate maintaining a CET1 level at a minimum of 12% going forward
- Dividend policy remains minimum 25% of underlying profit after tax for 2017
- Our manual underwriting expertise and strong broker relationships position us well for changes in 2017
- Therefore our business model means we remain well positioned to take advantage of opportunities in our core markets in 2017

Appendix: Balance Sheet

Group	2016 £m	2015 £m
Assets		
Cash in hand	**0.4**	0.4
Loans and advances to credit institutions	**417.8**	354.7
Investment securities	**141.7**	393.4
Loans and advances to customers	**5,939.2**	5,134.8
Derivative assets	**1.8**	1.0
Fair value hedges - assets	**46.9**	58.2
Deferred taxation asset	**3.4**	3.4
Intangible assets	**4.7**	3.1
Property, plant and equipment	**13.1**	9.6
Other assets	**11.9**	11.8
Total assets	**6,580.9**	5,970.4

Group	2016 £m	2015 £m
Liabilities		
Amounts owed to retail depositors	**5,952.4**	5,363.8
Amounts owed to credit institutions	**101.7**	1.5
Amounts owed to other customers	**4.0**	5.9
Debt securities in issue	**-**	188.4
Derivative liabilities	**24.4**	19.8
Fair value hedges - liabilities	**1.9**	1.4
Current taxation liability	**21.1**	9.2
Other liabilities	**18.6**	18.9
FSCS and other provisions	**1.5**	2.3
Subordinated liabilities	**21.6**	24.6
Perpetual Subordinated Bonds	**15.3**	15.3
Total liabilities	**6,162.5**	5,651.1
Equity		
Share capital	**2.4**	2.4
Share premium	**157.9**	157.9
Retained earnings	**240.7**	144.0
Other reserves	**17.4**	15.0
Total liabilities and equity	**6,580.9**	5,970.4

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Non-IFRS performance measures

OneSavings Bank believes that the non-IFRS performance measures included in this document provide valuable information to the readers as they enable the reader to identify a more consistent basis for comparing the business' performance between financial periods, and provide more detail concerning the elements of performance which the Group is most directly able to influence or are relevant for an assessment of the Group. They also reflect an important aspect of the way in which operating targets are defined and performance is monitored by OneSavings Bank's Board. However, any non-IFRS performance measures in this document are not a substitute for IFRS measures and readers should consider the IFRS measures as well. Refer to Alternative performance measures in the Financial review for further details, reconciliations and calculations of non-IFRS performance measures included throughout this document, and the most directly comparable IFRS measures.

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