OneSavings Bank plc: Interim report for the six months ended 30 June 2014

OneSavings Bank plc
Interim report for the six months ended 30 June 2014

OneSavings Bank plc ("OSB"), the specialist lending and retail savings group, announces its interim results for the six months ended 30 June 2014.

Financial highlights

- Underlying profit before taxation[1] increased fourfold to £29.7m (1H 2013: £7.3m[2])
- Net interest margin[3] improved by 121bps to 282bps (1H 2013: 161bps) driven by high-margin new lending and a continued reduction in funding costs
- Loans and advances grew by 13% in the first half of 2014 to £3.4bn (FY 2013: £3.0bn) due primarily to a significant increase in new lending in the BTL/SME segment
- Total assets grew by 12%, in line with the increase in loans and advances, to £4.2bn (FY 2013: £3.8bn)
- Common equity tier 1 ('CT1') capital ratio[4] strengthened to 11.0% (FY 2013: 8.4%)
- Underlying return on equity[5] up 10 percentage points to 30% (1H 2013: 20%)
- Underlying EPS[6] rose 83% to 11 pence per share (1H2013: 6 pence per share)

Operational/Corporate highlights

- Strong income growth and continued focus on cost control drive continued reduction in cost : income ratio[7] to 29% (1H 2013: 47%)
- Net Promoter Score remains high at 33.5% (1H 2013: 30.6%)
- Continued strong loan to deposit ratio of 94% (FY 2013: 93%) with growth in loans and advances funded by retail deposits
- Strong growth in total new lending up 78% to £649m (1H 2013: £364m)
- Successfully completed IPO at 170 pence per share in June 2014, raising £41.5m of gross primary proceeds generating £35.8m of new CT1 capital to support growth in the business

[1] Before exceptional IPO expenses of £5.6m in first half 2014 and after deduction of coupons on equity PSB's of £0.7m in each period
[2] Restated due to a change in accounting policy for FSCS levies in light of IFRIC 21's interpretation of IAS 37
[3] Net interest income, less coupons on perpetual subordinated bonds ('PSB's') classified as equity, as a percentage of average interest bearing assets, on an annualised basis
[4] Under Basel III CRDIV with 31 December 2013 estimated
[5] Underlying profit after taxation (profit after taxation excluding exceptional IPO expenses, including the tax effect, of £4.9m in first half 2014 and after deducting coupons on equity PSB's of £0.7m in each period) as a percentage of average shareholders' equity (excluding equity PSB's of £22m) on an annualised basis
[6] Underlying profit after taxation divided by the weighted average number of ordinary shares
[7] Administrative expenses as a percentage of total income after deduction of coupons on equity PSB's

Mike Fairey, Chairman of OneSavings Bank, said:
"OneSavings Bank has made a strong start in its life as a listed company. The successful completion

of the IPO in June this year is a great tribute to the hard work of the executive management team and staff across the business over the last three and a half years in creating a unique retail funded specialist lending business. I am delighted to have joined as Chairman to support OneSavings Bank's future development and growth as a publicly listed company."

Andy Golding, CEO of OneSavings Bank, said:

These results show the strength and opportunity in the business we have created. Our return on equity of 30% is a number of which we are particularly proud and this has been delivered at a time when we have also delivered a significant growth in lending. Underpinned by our strong retail funding base, the profitable lending growth, significantly improved efficiency and continued low level of impairments have all combined to drive a significant uplift in our earnings and returns. We have demonstrated our ability to deliver on the commitments we have made to our new shareholders and thank our staff for all their support during what has been a very busy period."

Enquiries:

OneSavings Bank plc
Andy Golding, CEO t: 01634 888615

Brunswick Group
Craig Breheny / Simone Selzer t: 020 7404 5959

Conference call
A conference call will be held with City analysts at 9.30am on 27th August 2014. The dial-in number is: +44 (0)1452 555566 and the conference code: 86991147. A replay of the call will be available on OneSavings Bank's website at www.onesavingsbank.co.uk.

About OneSavings Bank plc

OneSavings Bank plc ('OSB') began trading as a bank on 1 February 2011 when the trade and assets of Kent Reliance Building Society ('KRBS') were transferred into the business. 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 focuses on selected sub-sectors of the lending market in which it has established expertise,platforms and capabilities, and where opportunities have been identified for both high returns on a risk adjusted basis and strong growth. These include Residential Mortgages (comprising first charge, second charge and shared ownership), Buy-to-Let/SME and Personal Loans. OSB originates organically through specialist brokers and independent financial advisors.

OSB is predominantly funded by retail savings originated through the established Kent Reliance franchise, which includes a network of branches in the South East of England, as well as online and postal channels. Diversification of funding is currently provided by a securitisation and OSB joined the Funding for Lending Scheme in early 2014.

OneSavings Bank plc
Interim report for the six months ended 30 June 2014
Chairman's Statement

In welcoming you to OneSavings Bank plc's interim report, I do so as the new Chairman of the first bank to have joined the premium listed segment of the London Stock Exchange's main market in more than a decade. I have joined a business well placed to take advantage of a UK banking landscape that shows great demand for our specialist lending capabilities and customer centric business model.

I thank the executive team and management for successfully bringing OneSavings Bank to market and for continuing to develop operations and commercial opportunities in support of the Group's strategy, leading to the strong results announced today.

The Group has performed in line with our expectations during the first half. Underlying profit before tax was £29.7m before exceptional IPO expenses, up 306% on the same period in 2013.

The Board has been strengthened by the addition of three new, independent Non-Executive Directors, not including myself as the non-executive Chairman. Mary McNamara, Graham Allatt and Nathan Moss bring a great depth of experience to the Group in strategy, commercial, risk and credit management leadership. I would like to thank Sir Callum McCarthy and David Mills who stepped down from the Board in May for their instrumental roles in developing the business at a time of rapid change.

Finally I would like to thank Stephan Wilcke who stepped down in April as Chairman and Executive lead on mergers and acquisitions after two years. Stephan remains on the Board as a Non-Executive Director.

Mike Fairey
Chairman

OneSavings Bank plc
Interim report for the six months ended 30 June 2014
Chief Executive's Statement

I am very pleased to provide my first interim statement for OneSavings Bank plc following its successful listing on the London Stock Exchange in June this year.

The key underlying strengths in the business, expertise in identifying and serving specialist lending niches and the established retail savings franchise continue to perform well and helped drive the very strong result in the first half with a fourfold increase in underlying profit before tax and a 10 percentage point increase in the underlying return on equity compared to the same period in 2013. Net loans and advances were up 13% on year end 2013 at £3.4bn and growth in new lending, at margins that have continued to deliver a strong return on equity for each Group business, have driven a rise in the overall net interest margin to 282bps, up 121bps on the same period in 2013.

Our strategy is being delivered well in all areas. It is our goal to be a leading UK specialist lender in our chosen sub-sectors. Kent Reliance, InterBay Commercial and Prestige Finance all had record new lending in the first half and continue to demonstrate the important strengths in risk assessment and loan management through diligent underwriting and intermediary distribution. Impairment losses were 29bps on average gross loans and advances in the first half up 7bps on the same period in 2013, primarily due to collective provisions on the personal loan portfolio acquired as a performing book in July 2013. Arrears on new lending since the creation of the Bank on 1 February 2011 remain at negligible levels, testament to the strength of our bespoke underwriting and lending criteria. Our newest business, Heritable Development Finance, created in December 2013, is performing in line with expectations and a growing pipeline is now being converted into high quality residential development lending.

Retail deposits increased to £3.6bn up 12% on year end 2013, commensurate with the increase in loans and advances as the Bank remained predominantly retail funded. This growth was supported by attracting over twelve thousand new savings customers to the Bank in the first half of 2014, and our strategy centred on customer retention has continued to yield a strong outcome, with on average 91% of maturing fixed rate bond and ISA balances being retained in new products with us in the first half. This confirms the success of our customer-focused approach of offering long-term good value rates for existing customers.

We continue to control costs as the Bank grows, leveraging our operational structure and our wholly owned Indian operation, which conducts our core processing at a significant cost saving from similar services on-shore. This has helped our cost : income ratio improve to 29% (an 18 percentage point reduction on the same period in 2013). Infrastructure investments currently being made to online savings and mortgage processing will cause this to grow in the near-term, but within the Board's 35% target.

Underlying earnings per share of 11.0 pence grew 83% during the first half and the Group is well positioned to continue to grow and offer risk adjusted high returns to shareholders supported by a low loan to deposit ratio of 94% and a fully loaded CRD IV Common Equity Tier 1 Capital ('CT1') ratio of 11.0% and leverage ratio of 4%.

At IPO we awarded an equity share in OSB to our staff members, ensuring that they have a stake in the Bank's performance. We have enhanced staff benefits as part of our strategy of retaining and recruiting the best people to deliver our specialist lending and savings customer franchises and as a function of our team and the pride they have in the Group, our Net Promoter Score remains high at 33.5%. I would like to thank all Group staff for their continued dedication to our customers and our performance.

Conditions have been variable in the UK mortgage market in the first half of 2014, with the implementation of the Mortgage Market Review and the recent PRA consultation on the Financial Policy Committee's recommendations regarding loan to income caps for residential mortgages. Despite this we continue to see good opportunities for growth and strong risk-adjusted returns for our shareholders whilst maintaining our target CT1 ratio.

I am delighted that during the first half of 2014 we won the MoneyFacts award for Best Cash ISA provider for the second year running and we also won the What Mortgage Best Buy To Let Lender award for the first time. Both of these awards support our funding and lending strategy and customer proposition.

Our specialism and expertise in our chosen market sub-sectors coupled with our strong financial performance ensure that we are well placed to continue to execute our strategy and we remain confident in the outlook for the Group for the remainder of the year.

Andy Golding
Chief Executive

OneSavings Bank plc
Interim report for the six months ended 30 June 2014
Interim Management Report

Group Overview

Our Business

OneSavings Bank plc ('OSB', 'the Bank' or 'the Group') began trading as a bank on 1st February 2011 when the trade and assets of Kent Reliance Building Society ('KRBS') were transferred into the business. 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 focuses on specialist lending activities in selected sub-sectors of the market where it has established expertise, platforms and capabilities, and which offer high risk-adjusted returns and strong growth opportunities. OSB's core specialist lending segments include Residential Mortgages (comprising first charge, second charge and shared ownership) and Buy-to-Let/SME.

Participation in these specialist lending segments requires bespoke underwriting, experienced teams and strong relationships with specialist distributors; capabilities firmly established at OSB.

OSB originates organically through specialist brokers and independent financial advisors (for Group branded products) as well as through secured funding lines (for third-party branded products). OSB has also demonstrated its capability and expertise to successfully and profitably source loan portfolios inorganically.

The Bank is predominantly funded by retail savings originated through the established Kent Reliance franchise. Diversification of funding is currently provided by a securitisation.

A robust risk management framework is in place to support OSB's current and envisaged future requirements. Back-office functions are largely performed by the Bank's own staff in India, providing a scalable low-cost operating platform that delivers a high quality of service.

Business Highlights

OSB continued to deliver strong earnings and balance sheet growth during the first half of 2014, with an annualised underlying return on equity of 30% (first half 2013: 20%) and underlying earnings per share of 11.0p (first half 2013: 6.0p) and a 13% increase in loans and advances since 31 December 2013.

Underlying profit before taxation (excluding exceptional IPO expenses of £5.6m in the first half of 2014 and after deducting coupons on perpetual subordinated bonds ('PSBs') classified as equity of £0.7m in each period) increased fourfold to £29.7m in the first half of 2014 from £7.3m in the first half of 2013. This significant improvement in profitability reflects the impact of risk adjusted high margin new lending further diluting the low-yielding back book inherited from KRBS and a continued reduction in the Bank's cost of retail funds.

Total new lending of £649m in the first half of 2014 was up 78% compared to £364m in the first half of 2013, with increases in both the Residential Mortgages and BTL/SME lending segments.

Gross new organic lending of £649m was up 114% compared to £303m in the first half of 2013, as the strong upwards trend in mortgage applications and completions achieved in 2013 was maintained.

The Bank did not make any new mortgage portfolio purchases in the first half of 2014 (first half 2013: total portfolio purchases of £61m with a gross value of £84m).

The Bank raised £41.5m of gross primary proceeds in its Initial Public Offering ('IPO') on 10 June 2014, providing £35.8m of net primary proceeds after underwriting commissions and other IPO related costs of £5.7m. These net proceeds were raised to increase Common Equity Tier 1 capital, support future growth and for general corporate purposes.

The Mortgage Market Review (MMR), which came into effect in April 2014, represented the most significant regulatory change in the residential mortgage market since October 2004, and introduced a range of measures designed to ensure good lending practices and consumer outcomes. Principal amongst the changes were the need to have better qualified staff to deliver advice and a more robust assessment of affordability. The effect was market disruptive for direct lenders who incurred costs in retraining staff and in introducing a wide range of new approaches to affordability assessment, resulting in delays and difficulties in obtaining a mortgage for some consumers.

The Bank was not significantly impacted by MMR given its intermediary only residential lending model and manual affordability driven underwriting process, and as such was well placed to take advantage of the disruption in the direct lending portion of the residential mortgage market following MMR.

Financial Review

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

	First half 2014	**First half 2013[2,10]**
Summary Profit or Loss	**£m**	**£m**
Net interest income	55.7	24.5
Gains / (losses) on financial instruments	(0.0)	0.6
Net fees and commissions	0.2	(0.6)
External servicing fees	(2.7)	(1.1)

Administrative expenses[1]	(15.4)	(10.7)
Regulatory provisions	(2.7)	(2.1)
Impairment losses	(4.7)	(2.6)
Exceptional IPO expenses	(5.6)	-
Profit before tax	24.8	8.0
Profit after tax	**20.3**	**10.7**
Underlying profit before taxation[3]	29.7	7.3
Underlying profit after taxation[4]	**24.5**	**10.0**
Net interest margin[5]	282bps	161bps
Earnings per share, pence per share	9.2	6.5
Underlying earnings per share[6], pence per share	11.0	6.0
Underlying return on equity[7]	30%	20%
Management expense ratio (annualised)	0.77%	0.70%
Cost : income ratio[8]	29%	47%
Impairment losses to average gross loans and advances (annualised)	0.29%	0.22%

	30/06/2014	**31/12/2013**
Extracts from the Statement of Financial Position	**£m**	**£m**
Loans and advances	3,422.6	3,041.2
Retail deposits	3,647.9	3,251.6
Total assets	4,219.2	3,763.9
Liquidity ratio	18.0%	17.9%
Common equity tier 1 ratio[9]	11.0%	9.2%
Total capital ratio[9]	14.7%	13.5%

[1] Including depreciation and amortisation.
[2] Restated due to a change in accounting for FSCS levies in light of IFRIC 21's interpretation of IAS37.
[3] Before exceptional Initial Public Offering ('IPO') expenses of £5.6m in first half 2014 and after deduction of coupons on equity PSBs of £0.7m in each period.
[4] Profit after taxation excluding exceptional IPO costs (including the tax effect) of £4.9m in first half 2014 and after deducting coupons on equity PSBs of £0.7m in each period.
[5] Net interest income, less coupons on perpetual subordinated bonds ('PSBs') classified as equity, as a percentage of average interest bearing assets, on an annualised basis.
[6] Underlying profit after taxation divided by the weighted average number of ordinary shares.
[7] Underlying profit after taxation as a percentage of average shareholders' equity (excluding equity PSBs of £22m) of £163.6m in first half 2014 (which includes the impact of net primary IPO proceeds of £35.8m) and £98.4m in first half 2013, on an annualised basis.
[8] Administrative expenses as a percentage of total income after deduction of coupons on equity PSBs.
[9] Under Basel III / CRD IV as at 30 June 2014 and Basel II as at 31 December 2013.
[10] Certain fee income and expense that forms an integral part of the effective interest rate on loans and advances previously reported in fees and commissions receivable and payable in the first half of 2013 has been reclassified to interest receivable and similar income.

Strong Profit Growth

The Group reported very strong profit growth with underlying profit before taxation of £29.7m for the first half of 2014 (first half 2013 restated: £7.3m). This included a £2.3m gain on the sale of the Bank's RMBS portfolio in January 2014.

Underlying profit after taxation was £24.5m. The underlying profit after taxation of £10.0m in the first half of 2013 included the benefit of the recognition of a deferred tax asset of £4.7m in respect of trading tax losses in the Interbay Group, which resumed lending in late 2012 after its acquisition by the Bank.

Net Interest Margin

The Group showed strong improvement in its net interest margin ('NIM') during the first half of 2014 reporting net interest income of £55.7m (first half 2013: £24.5m) and NIM of 282bps (first half 2013: 161bps). The NIM improvement reflects the positive impact of high-margin organic origination and portfolio purchases since the start of 2013 further diluting the low-yielding back book inherited from KRBS and a continued reduction in the Bank's cost of retail funds.

While retail deposits are still expensive relative to LIBOR by long term historical standards, they have become cheaper over the past 18 months, as the unprecedented deposit price competition between banks during the financial crisis eased once wholesale funding markets improved and UK banks could access cheap marginal liquidity through the Funding for Lending Scheme ('FLS').

The lowering of retail deposit pricing seen during 2013 is not yet fully reflected in the Bank's results for the first half of 2014, as a significant portion of the Bank's retail deposits are one and two year fixed-term deposits with a commensurate lag in re-pricing expected through 2015. The consequential improvement in NIM is expected to be largely offset by the impact of the roll-off of the higher-margin personal loan portfolio net of new mortgage lending.

The Bank has the potential to reduce its cost of funding further by funding new lending through the FLS having joined the scheme in the first half of 2014, subject to agreeing mortgage collateral and encumbrance limits with the Bank of England.

Efficient and Scalable Operating Platform

Administrative expenses including depreciation were up 44% to £15.4m for the first half of 2014 (first half 2013: £10.7m) reflecting the build out of the operations to support growth in the business, the demands of new regulations, enhancements to the resilience of the Bank's IT infrastructure and upgrades to the Bank's savings and mortgage technology to improve operational efficiency.

The Group's annualised management expense ratio was 0.77% for the first half of 2014 (first half 2013: 0.70%) however its cost: income ratio fell to 29% (first half 2013: 47%) reflecting the Bank's continued focus on cost control as it grows. Both ratios reflect the benefit of the Bank's efficient and scalable low cost back office based in Bangalore, India.

Regulatory Provisions

Regulatory provisions, which are primarily in respect of FSCS levies, increased to £2.7m for the first half of 2014 (first half 2013 restated: £2.1m). This represents the full annual charge recognised on 1 April in each year, based on retail savings balances as at the previous 31 December.

The Bank changed its accounting policy for FSCS levies in the second half of 2013 in light of IFRIC 21's interpretation of IAS 37, resulting in a restatement of FSCS levies for the first half of 2013. Further details are set out in Note 6 to the Interim Financial Statements.

Impairment Losses

Impairment losses increased to £4.7m in the first half of 2014 (first half 2013: £2.6m) representing 29bps on average gross loans and advances (first half 2013: 22bps) and included £1.6m in relation to the personal loan portfolio purchased in July 2013 as a performing book and £0.3m (first half 2013:

£1.2m) relating to the accelerated workout of the ring-fenced legacy problem loan book inherited from KRBS.

Impairment losses on acquired mortgage portfolios increased to £1.6m in the first half of 2014 (first half 2013: £0.2m) in part due to new portfolios purchased but remained well below levels forecast at the time of acquisition.

The performance of the front book of mortgages, organically originated since the creation of the Bank in February 2011, remains extremely strong with only 22 accounts three months or more in arrears as at 30 June 2014 reflecting the strength of the Bank's underwriting and lending criteria.

Exceptional IPO Expenses

Total IPO related costs were £5.7m of which £2.4m attributable to the primary issuance was taken directly to equity. The remaining £3.3m was taken to exceptional IPO expenses in the profit and loss.

Exceptional IPO expenses of £5.6m in the profit and loss also include an expense of £2.3m representing 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 which vested on admission. These options were granted by OSB Holdco Ltd, the Bank's major shareholder and as such the expense is offset fully by an additional capital contribution.

See Notes 1d and 7 to the Interim Financial Statements for more details.

Dividends

Following the Bank's IPO in June 2014, the Directors are targeting a dividend pay-out ratio of at least 25 per cent. of underlying profit after taxation being profit for the year less coupons on perpetual subordinated bonds classified as equity and before exceptional IPO expenses (including any tax effects).

Dividend payments will be made on an approximate one-third: two-thirds split for interim and final dividends respectively. The Directors intend to commence dividend payments with a final dividend in respect of 2014, payable in the first half of 2015, and as such no interim dividend has been declared.

Balance Sheet Growth

Loans and advances grew by 13% in the first half of 2014 to £3,422.6m (31 December 2013: £3,041.2m) with a commensurate increase in retail deposits and total assets. The growth in loans and advances was due primarily to a significant increase in new lending in the BTL/SME and residential segments, partly offset by redemptions in the organic back book and acquired mortgage portfolios in run-off.

Liquidity

OSB operates under the PRA's Individual Liquidity Adequacy Assessment ('ILAA') regime. The Bank operates within a target liquidity runway in excess of the minimum regulatory requirement. The Bank continued to manage its liquidity efficiently in the first half of 2014 having successfully spread savings maturities more evenly throughout the year and demonstrated a strong retention track record on fixed term bond and ISA maturities. The Group's liquidity ratio as at 30 June 2014 was 18.0% (31 December 2013: 17.9%) and was within its current target liquidity range of 17% to 20% of liabilities.

Capital

The PRA issued Policy Statement PS7/13 in December 2013 containing the final rules and supervisory statements implementing the Capital Requirements Directive (2013/36/EU) (CRD) and the Capital Requirements Regulation (575/2013) (CRR), jointly CRD IV, effective from 1 January 2014.

A summary of the impact of CRD IV on the Bank can be found on page 20 of the 2013 Annual Report.

The Bank's Common Equity Tier 1 Capital ratio ('CT1 ratio') under CRD IV increased to 11.0% as at 30 June 2014 (31 December 2013: estimated at 8.4% under CRD IV and 9.2% under Basel II) reflecting the positive impact of the net primary proceeds of £35.8m at IPO and verified interim profits, partially offset by a new deduction for foreseeable dividends of £4.1m following the issuance of the European Banking Authority's ('EBA') final technical standard on own funds.

The deduction for foreseeable dividends apportions a share of the potential final dividend for 2014 to the interim profits, based on the Bank's target minimum pay-out ratio announced at IPO and as outlined above.

The PRA has announced the acceleration of the majority of the transitional arrangements set out in CRD IV, such that in the UK, CRD IV is now substantially in force. The Bank's fully loaded CT1 ratio is therefore expected to be similar to the reported ratio of 11.0% subject to any further refinement of technical standards by the EBA.

The Bank had a Total Capital Ratio of 14.7% and a leverage ratio of 4% as at 30 June 2014.

Segmental Business and Financial Review

The following table shows the Group's loans and advances and contribution to profit by segment*:

30 June 2014, £m	**Residential mortgages**	**BTL/SME**	**Personal loans**
Gross loans to customers	1,759.8	1,541.1	153.8
Provision for impairment losses	(3.9)	(24.6)	(3.5)
Net loans to customers	1,755.9	1,516.5	150.3
Risk weighted assets	761.7	746.7	123.2

31 December 2013, £m	**Residential mortgages**	**BTL/SME**	**Personal loans**
Gross loans to customers	1,764.6	1,098.8	205.3
Provision for impairment losses	(3.1)	(22.4)	(2.1)
Net loans to customers	1,761.5	1,076.4	203.2
Risk weighted assets**	739.1	520.8	162.6

First half 2014, £m	**Residential mortgages**	**BTL/SME**	**Personal loans**
Net interest income	26.5	19.0	10.2
Other income / (expense)	(3.4)	(0.5)	(0.8)
Total income	23.1	18.5	9.4
Impairment losses	(1.5)	(1.6)	(1.6)
Contribution to profit	21.6	16.9	7.8
Pro-forma contribution to profit***	22.1	16.7	7.8

First half 2013, £m	**Residential mortgages**	**BTL/SME**	**Personal loans**
Net interest income	18.4	6.1	-
Other income / (expense)	(2.1)	1.1	-
Total income	16.3	7.2	-

Impairment losses	(0.5)	(2.1)	-
Contribution to profit	15.8	5.1	-
Pro-forma contribution to profit***	16.5	5.6	-

* Operating segments only. Full segmental analysis is presented in note 15.
** Certain risk-weighted assets not previously allocated to operating segments have now been fully allocated to segments.
*** Pro-forma contribution to profit excludes impairment losses relating to the workout of the legacy problem loan book

Residential Mortgages

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

During the first half of 2014 the Group increased its volume of organically-originated residential lending to £130m, an increase of 26% on first half 2013 new lending of £103m. This included strong growth in first charge residential lending in the UK, particularly in London and the South East, through the Kent Reliance brand as well as in second charge lending through the Prestige brand.

The Bank did not make any new residential mortgage portfolio purchases in the first half of 2014 (first half 2013: total portfolio purchases of £61m with a gross value of £84m).

OSB's total residential loan portfolio had a net carrying value of £1,755.9m as at 30 June 2014 (31 December 2013: £1,761.5m) with new lending in the first half of 2014 offset by redemptions on the organic back book and acquired mortgage portfolios in run-off. The average loan to value ('LTV') remained low at 54% (31 December 2013: 51%) with only 2.7% of loans by value with LTV's exceeding 90% (31 December 2013: 3.3%).

New organic origination and inorganic portfolio purchases since 2011 have helped dilute the impact of the low-yielding back book inherited from KRBS and the residential portfolio made a contribution to profit of £21.6m in the first half of 2014 (first half 2013: £15.8m).

The Residential Mortgages segment's contribution to profit on a pro-forma basis, excluding impairment losses of £0.5m (first half 2013: £0.7m) on the ring-fenced legacy problem book inherited from KRBS was £22.1m in the first half of 2014 (first half 2013: £16.5m). Loan losses on this book reflect the accelerated workout of the book.

Buy-to-Let/SME

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

During the first half of 2014, the Group significantly increased its volume of new organic lending in this segment to £519m, an increase of 160% on first half 2013 new lending of £200m. This included strong growth in Buy-to-Let ('BTL') lending in the UK particularly in London and the South East through the Kent Reliance brand.

The Interbay Group, the Group's SME lender, also saw rapid growth in pipeline and completed loans during the first half of 2014.

OSB acquired the operating infrastructure, systems and staff of Heritable Partners Ltd in December 2013, and has built a strong pipeline of development finance loans through that brand in the first half of 2014 which is now starting to convert into high quality residential development lending.

OSB's BTL/SME loan portfolio grew 41% during the first half of 2014, ending the period with a net carrying value of £1,516.5m (31 December 2013: £1,076.4m). The average loan to value ('LTV') remained low at 73% (31 December 2013: 71%) with only 4.3% of loans by value with LTV's exceeding 90% (31 December 2013: 5.4%).

The BTL/SME segment made a contribution to profit of £16.9m in the first half of 2014 (first half 2013: £5.1m) reflecting the positive impact of risk-adjusted high margin new lending and falling cost of funds.

The Buy-to-Let/SME segment's contribution to profit on a pro-forma basis, excluding impairment write-backs of £0.2m (first half 2013: losses of £0.5m) on the ring-fenced legacy problem book inherited from KRBS was £16.7m in the first half of 2014 (first half 2013: £5.6m). Loan losses on this book reflect the accelerated workout of the book.

Personal Loans

OSB 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 £150.3m as at 30 June 2014, down 26% during the first half of 2014 (31 December 2013: £203.2m). The portfolio made a contribution to profit of £7.8m in the first half of 2014, however, the book is in run-off with a short remaining weighted average life.

Principal Risks and Uncertainties

The Group considers a range of stress scenarios as part of its business planning and risk management. The principal risks facing the Group include credit, interest rate, liquidity, operational and conduct risk. A more detailed review of these risks and others faced by the Group and the actions taken to mitigate them are set out in the Risk Management section of the 2013 Annual Report on pages 26 to 31 which can be accessed via the Group's website at www.OSB.co.uk.

During the first half of 2014, there has been no material change to the Bank's business model, risk management approach or risk appetite.

Outlook For The Remaining Six Months

The UK economy has performed well in the first half of 2014 with a GDP growth rate of over 3% on an annualised basis and the Bank of England ('BoE') forecasting it to remain above 2.5% through 2015. During this period, unemployment levels have continuously decreased (the unemployment rate was 6.4% in June 2014) without leading to a significant increase in weekly earnings growth that has averaged 1%. Inflation, as measured by the Consumer Price Index (CPI), has also remained below the BoE's target level of 2% (at an average of 1.7% on an annualised basis) and the BoE expects CPI inflation to remain at or below 2% for the next few years.

Given the strong recovery, the market is predicting the first BoE rate rise in the first half of 2015; although the BoE's Monetary Policy Committee (MPC) has stated that it will consider the spare capacity in the UK economy before an increase in the base rate is deemed necessary. However, the outlook for inflation is benign and the MPC has also commented that headwinds on the economy will allow only gradual rate rises. As a result, market expectations are that the base rate will only increase to around 2.25% in the second half of 2017.

During the first half of 2014, the UK housing market has experienced strong growth with house prices (as measured by ONS House Price data) increasing by an average of 9.1% on an annualised basis and mortgage activity stronger than the Council of Mortgage Lenders ('CML') had anticipated. Accordingly, CML have raised their forecasts modestly and now expect gross lending in 2014 to be circa £200bn. The CML forecast mortgage lending to continue to grow in 2015, albeit at a slower level as the housing market cools.

OSB ended the first half of 2014 with record mortgage pipelines across its principal brands and is well placed to take advantage of expected mortgage market growth and the improving economic backdrop to continue to grow its high-margin lending in the second half of the year.

Furthermore, the economic recovery characterised by strong GDP growth, rising house prices, low inflation and falling unemployment should lessen the impact of rising interest rates on affordability and repossessions.

The BoE's Financial Policy Committee has announced new recommendations for first charge residential mortgage lending including affordability measurements and limits on high income multiple lending. The PRA's consultation paper on these recommendations is not expected to have a significant impact on OSB given the Group's current level of high income multiple lending and affordability measures, which include interest rate stresses.

The Bank has not made any portfolio purchases so far in 2014. The Bank remains focused on organic origination as its core growth strategy; however, it will continue to actively consider inorganic opportunities as they arise.

The second half of 2014 will see investment in the on-going development of the Group, including increases in core headcount and further infrastructure investment to support the Bank's growth plans.

OneSavings Bank plc
Interim report for the six months ended 30 June 2014
Statement of Directors' 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

Rod Duke

Mike Fairey

Andy Golding

Tim Hanford

Malcolm McCaig

Mary McNamara

David Morgan

Nathan Moss

April Talintyre

Stephan Wilcke

By order of the Board

Date: 26 August 2014

OneSavings Bank plc
Interim report for the six months ended 30 June 2014
Independent Review Report to OneSavings Bank plc

Introduction

We have been engaged by the company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2014 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 company in accordance with the terms of our engagement to assist the company 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 company 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 company 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 company 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.

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 2014 is not prepared, in all material respects, in accordance with IAS 34 as adopted by the EU and the DTR of the UK FCA.

Richard Gabbertas
for and on behalf of KPMG LLP
Chartered Accountants
1 The Embankment
Neville Street
Leeds LS1 4DW

26 August 2014

OneSavings Bank plc
Interim report for the six months ended 30 June 2014
Consolidated Statement of Profit or Loss

	Notes	**Six months ended**	**Six months ended**	**Year ended**
		30-Jun-14	**30-Jun-13**	**31-Dec-13**
		(Unaudited)	**(Unaudited, restated)**	**(Audited)**
		£'000	**£'000**	**£'000**
Interest receivable and similar income	2	**96,432**	**63,098**	**150,607**
Interest payable and similar charges	3	**(40,706)**	**(38,564)**	**(79,841)**
Net interest income		**55,726**	**24,534**	**70,766**
Fair value gains / (losses) on financial instruments	4	**(2,268)**	**667**	**(840)**
Gains / (losses) on sales of financial instruments		**2,258**	**(24)**	**(24)**
Fees and commissions receivable		**430**	**37**	**728**
Fees and commissions payable		**(248)**	**(631)**	**(1,696)**
External servicing fees		**(2,689)**	**(1,091)**	**(3,503)**
Total income		**53,209**	**23,492**	**65,431**
Administrative expenses	5	**(15,096)**	**(10,350)**	**(23,986)**
Depreciation and amortisation		**(323)**	**(350)**	**(547)**
Operating profit		**37,790**	**12,792**	**40,898**
Regulatory provisions	6	**(2,723)**	**(2,148)**	**(2,152)**
Impairment losses	11	**(4,674)**	**(2,616)**	**(7,329)**
Profit before exceptional IPO		**30,393**	**8,028**	**31,417**

expenses				
Exceptional IPO expenses	7	**(5,576)**	**-**	**-**
Profit before taxation		**24,817**	**8,028**	**31,417**
Taxation	8	**(4,479)**	**2,691**	**(4,646)**
Profit for the period		**20,338**	**10,719**	**26,771**
Earnings per share				
Basic and diluted, pence per share	9	9.2	6.5	14.2

OneSavings Bank plc
Interim report for the six months ended 30 June 2014
Consolidated Statement of Other Comprehensive Income

	Six months ended 30-Jun-14 (Unaudited) £'000	Six months ended 30-Jun-13 (Unaudited) £'000	Year ended 31-Dec-13 (Audited) £'000
Items which may be reclassified to profit or loss:			
Fair value changes on available-for-sale securities	**724**	**(977)**	**(1,836)**
Revaluation of foreign operations	**(802)**	**40**	**372**
Tax relating to other comprehensive income	**(156)**	**(18)**	**395**
Total other comprehensive income for the period	**(234)**	**(955)**	**(1,069)**

OneSavings Bank plc
Interim report for the six months ended 30 June 2014
Consolidated Statement of Financial Position

	Note	30-Jun-14 (Unaudited) £'000	30-Jun-13 (Unaudited, restated) £'000	31-Dec-13 (Audited) £'000
Assets				
Liquid assets				
Cash in hand and balances with the Bank of England		**262**	**298**	**267**
Loans and advances to credit institutions		**397,358**	**183,352**	**269,101**
Investment securities		**305,058**	**402,690**	**361,045**
		702,678	**586,340**	**630,413**
Loans and advances to customers	10	**3,422,585**	**2,445,116**	**3,041,248**

Derivative assets		881	668	757
Fair value hedges - assets		64,627	70,616	67,863
Deferred taxation asset		6,176	17,860	10,901
Intangible assets		1,540	848	1,117
Property, plant and equipment		6,358	4,075	4,955
Other assets		14,355	2,818	6,632
Total assets		4,219,200	3,128,341	3,763,886
Liabilities				
Amounts owed to retail depositors		3,647,857	2,897,639	3,251,576
Amounts owed to credit institutions		491	468	1,438
Amounts owed to other customers		6,074	16,787	2,351
Debt securities in issue		259,381	-	273,759
Derivative liabilities		22,348	30,470	22,566
Current taxation liability		-	-	69
Other liabilities		20,175	12,016	12,826
FSCS and other provisions	6	3,995	3,210	1,281
Subordinated liabilities		27,578	27,573	27,579
Perpetual subordinated bonds		15,290	15,213	15,263
		4,003,189	3,003,376	3,608,708
Equity				
Share capital		2,431	1,113	1,265
Share premium		157,901	105,037	119,885
Retained earnings		44,212	5,946	21,273
Other reserves		11,467	12,869	12,755
		216,011	124,965	155,178
Total equity and liabilities		4,219,200	3,128,341	3,763,886

OneSavings Bank plc
Interim report for the six months ended 30 June 2014
Consolidated Statement of Changes in Equity

	Share capital	Capital contribution	Share premium	Foreign exchange reserve	Transfer reserve	Available-for-sale reserve	Retained earnings	Equity bonds*	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Balance at 1st January 2014	1,265	3,326	119,885	403	(12,818)	(156)	21,273	22,000	155,178
Profit for the period	-	-	-	-	-	-	20,338	-	20,338
Coupon paid on equity bonds	-	-	-	-	-	-	(725)	-	(725)
Other comprehensiv	-	-	-	(802)	-	568	-	-	(234)

e income									
Capital reorganisation (note 12)	**922**	**(3,326)**	**(922)**	**-**	**-**	**-**	**3,326**	**-**	**-**
Share issue	**244**	**-**	**41,307**	**-**	**-**	**-**	**-**	**-**	**41,551**
Share issue related costs	**-**	**-**	**(2,369)**	**-**	**-**	**-**	**-**	**-**	**(2,369)**
Share based payments	**-**	**2,272**	**-**	**-**	**-**	**-**	**-**	**-**	**2,272**
Balance at 30 June 2014 (Unaudited)	**2,431**	**2,272**	**157,901**	**(399)**	**(12,818)**	**412**	**44,212**	**22,000**	**216,011**

	Share capital	Capital contribution	Share premium	Foreign exchange reserve	Transfer reserve	Available-for-sale reserve	Retained earnings	Equity bonds*	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Balance at 1st January 2013	**1,001**	**3,326**	**105,149**	**31**	**(12,818)**	**1,285**	**(4,048)**	**22,000**	**115,926**
Profit for the period	**-**	**-**	**-**	**-**	**-**	**-**	**10,719**	**-**	**10,719**
Coupon paid on equity bonds	**-**	**-**	**-**	**-**	**-**	**-**	**(725)**	**-**	**(725)**
Other comprehensive income	**-**	**-**	**-**	**40**	**-**	**(995)**	**-**	**-**	**(955)**
Capital reorganisation	**112**	**-**	**(112)**	**-**	**-**	**-**	**-**	**-**	**-**
Balance at 30 June 2013 (Unaudited, restated)	**1,113**	**3,326**	**105,037**	**71**	**(12,818)**	**290**	**5,946**	**22,000**	**124,965**

	Share capital	Capital contribution	Share premium	Foreign exchange reserve	Transfer reserve	Available-for-sale reserve	Retained earnings	Equity bonds*	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Balance at 1st January 2013	**1,001**	**3,326**	**105,149**	**31**	**(12,818)**	**1,285**	**(4,048)**	**22,000**	**115,926**
Profit for the year	**-**	**-**	**-**	**-**	**-**	**-**	**26,771**	**-**	**26,771**
Coupon paid on equity bonds	**-**	**-**	**-**	**-**	**-**	**-**	**(1,450)**	**-**	**(1,450)**

Other comprehensive income	-	-	-	372	-	(1,441)	-	-	(1,069)
Capital injections	264	-	14,736	-	-	-	-	-	15,000
Balance at 31 December 2013 (Audited)	**1,265**	**3,326**	**119,885**	**403**	**(12,818)**	**(156)**	**21,273**	**22,000**	**155,178**

* Equity bonds comprise £22m of 6.591% perpetual subordinated bonds.

OneSavings Bank plc
Interim report for the six months ended 30 June 2014
Consolidated Statement of Cash Flows

	Six months ended	Six months ended	Year ended
	30-Jun-14	30-Jun-13	31-Dec-13
	(Unaudited)	(Unaudited, restated)	(Audited)
	£'000	£'000	£'000
Cash flows from operating activities			
Profit before tax	24,817	8,028	31,417
Adjustments for non-cash items:			
Depreciation and amortisation	323	350	547
Interest on subordinated liabilities	620	620	1,256
Interest on perpetual subordinated bonds	618	622	1,255
Net impairment charge on loans and advances	4,674	2,616	7,329
(Gain) / loss on sale of financial instruments	(2,258)	24	24
Provisions	2,723	2,148	2,152
Fair value (gains) / losses on financial instruments	2,268	(667)	840
Share based payments	2,272	-	-
Exchange differences on foreign operations	(798)	-	452
	35,259	13,741	45,272
Changes in operating assets and liabilities			
Decrease / (increase) in loans and advances to credit institutions	(126)	87,024	87,024
(Increase) in loans to customers	(386,010)	(251,682)	(852,528)
Increase in retail deposits	396,281	152,993	506,930
(Increase) in other assets	(7,723)	(2,032)	(3,964)
(Decrease) in derivatives and hedged items	626	(21,070)	(27,817)
(Decrease) in bank and other deposits	2,776	(7,698)	(21,164)
Net increase in other liabilities	7,331	133	3,586
Cash (used in) / generated from operating activities	48,414	(28,591)	(262,661)

Provisions paid	**(9)**	**-**	**(3,187)**
Tax (paid) / received	**(504)**	**2,691**	**(489)**
Net cash from operating activities	**47,901**	**(25,900)**	**(266,337)**
Cash flows from investing activities			
Net sales / (purchases) of investment securities	**58,245**	**6,712**	**47,434**
Purchases of equipment and intangible assets	**(2,149)**	**(132)**	**(1,559)**
Cash (used in) / generated from investing activities	**56,096**	**6,580**	**45,875**
Cash flows from financing activities			
Coupon paid on equity bonds	**(725)**	**(725)**	**(1,450)**
Interest paid on bonds and subordinated debt	**(1,211)**	**(1,205)**	**(2,437)**
Proceeds from share issues	**41,551**	**-**	**15,000**
Share issue (IPO) costs paid	**(982)**	**-**	**-**
Net issue / (repayment) of debt	**(14,378)**	**-**	**273,759**
Cash generated from / (used in) from financing activities	**24,255**	**(1,930)**	**284,872**
Net increase / (decrease) in cash and cash equivalents	**128,252**	**(21,250)**	**64,410**
Cash and cash equivalents at the beginning of the period			
Cash in hand and balances with the Bank of England	**267**	**282**	**282**
Loans and advances to credit institutions repayable on demand	**269,101**	**204,676**	**204,676**
	269,368	**204,958**	**204,958**
Cash and cash equivalents at the end of the period			
Cash in hand and balances with the Bank of England	**262**	**298**	**267**
Loans and advances to credit institutions repayable on demand	**397,358**	**183,410**	**269,101**
	397,620	**183,708**	**269,368**
Movement in cash and cash equivalents	**128,252**	**(21,250)**	**64,410**

OneSavings Bank plc
Interim report for the six months ended 30 June 2014
Notes to the 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 annual financial statements as at and for the year ended 31 December 2013.

The information in this Interim Report 2014 is unaudited and does not constitute statutory accounts within the meaning of section 434 of the Companies Act 2006. The statutory accounts for the year ended 31 December 2013 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 26 August 2014.

b) New accounting standards

The accounting policies used are consistent with those set out on pages 50 to 58 of the 2013 Annual Report except for the adoption of the following standards and amendments effective from 1 January 2014.

- IFRS 10, Consolidated Financial Statements: This new standard partly replaces IAS 27, Separate Financial Statements and SIC 12, Consolidation - Special Purpose Entities. The new standard defines the principle of control and establishes control as the basis for determining which entities are consolidated in the consolidated financial statements. A review of OSB's business in light of IFRS 10 did not change the accounting treatment of its subsidiaries.
- IFRS 11, Joint Arrangements: This new standard replaces IAS 31, Interests in Joint Ventures and SIC 13, Jointly Controlled Entities - Non-Monetary Contributions by Venturers. The new standard removes the choice to apply the proportionate consolidation method, requiring all joint arrangements to be accounted for under the equity method. The Group's entities were reviewed in light of the new requirements and considered to be outside the scope of IFRS 11.
- IFRS 12, Disclosure of Interests in Other Entities: This standard applies to entities that have an interest in a subsidiary, a joint arrangement, an associate or an unconsolidated structured entity. IFRS 12 was assessed for the Rochester securitisation vehicle and no changes were required.
- Amendments to IAS 27, Separate Financial Statements and IAS 28, Investments in Associates and Joint Ventures triggered by publication of IFRS 10-12 have not had a material effect on the financial statements.

c) Standards adopted as a result of the public share issue

As a result of the public share issue several existing standards became applicable to the Group:

- IAS 33, Earnings Per Share: This standard requires disclosure of basic EPS and diluted EPS. The Basic EPS is based on the weighted average number of ordinary shares during the period. The diluted EPS also includes dilutive potential ordinary shares (such as options and convertible instruments) if they meet certain criteria. When the number of shares increases as a result of a capitalisation, bonus issue, or share split, basic and diluted EPS for all presented periods are adjusted retrospectively. The earnings per share are calculated based on the new number of shares to reflect changes to the capital structure further disclosed in note 12.

- IFRS 2, Share-based Payment: requires the entity to recognise share-based payments at fair value of the shares at the time of transaction and expense them when the goods or services are consumed. Share based payments without a vesting period are assumed to relate to past services and expensed immediately. When share based payments mature after a vesting period, the fair value of shares issued to employees is spread over the vesting period. The number of shares that will eventually vest is estimated based on employee turnover.

d) IPO expenses

Qualifying costs attributable to the primary issuance were debited directly to equity. They include incremental costs that are directly attributable to issuing the primary shares such as advisory and underwriting fees. Other costs associated with both the primary issuance and secondary sale of shares were allocated between profit or loss and equity based on the number of primary and secondary shares sold during the issue.

e) Going concern

The Board undertakes regular rigorous assessments of whether the Bank 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.

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.

f) 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 2013, as described on pages 57 to 58 of the 2013 Annual Report.

2. Interest receivable and similar income

	Six months ended	Six months ended	Year ended
	30-Jun-14	30-Jun-13	31-Dec-13
	(Unaudited)	(Unaudited, restated)	(Audited)
	£'000	£'000	£'000
On residential mortgages	51,667	49,855	100,135
On BTL/SME mortgages	35,246	17,282	42,729
On personal loans	12,609	-	14,488
On reverse repo transactions	290	-	39
On investment securities	836	1,930	3,386
On other liquid assets	523	1,069	1,942
Net expense on derivative financial instruments	(4,739)	(7,038)	(12,112)

	96,432	63,098	150,607

3. Interest payable and similar charges

	Six months ended	Six months ended	Year ended
	30-Jun-14	30-Jun-13	31-Dec-13
	(Unaudited)	(Unaudited, restated)	(Audited)
	£'000	£'000	£'000
On retail deposits	37,212	38,383	77,987
On Perpetual Subordinated Bonds	618	618	1,255
On subordinated liabilities	620	620	1,256
On wholesale borrowings	3,364	171	1,550
Net income on derivative financial instruments	(1,108)	(1,228)	(2,207)
	40,706	38,564	79,841

4. Fair value gains / (losses) on financial instruments

	Six months ended	Six months ended	Year ended
	30-Jun-14	30-Jun-13	31-Dec-13
	(Unaudited)	(Unaudited, restated)	(Audited)
	£'000	£'000	£'000
Ineffective portion of hedges	(790)	693	673
Amortisation of cancelled swaps	(1,640)	(1,072)	(2,755)
Net gains / (losses) on unmatched swaps	122	1,046	1,135
Net debt valuation adjustment	40	-	107
	(2,268)	667	(840)

The debt valuation adjustment (DVA) is calculated on the Group's derivative liabilities and represents exposure of their holders to the risk of the Group's default.

5. Administrative expenses

	Six months ended	Six months ended	Year ended
	30-Jun-14	30-Jun-13	31-Dec-13
	(Unaudited)	(Unaudited, restated)	(Audited)
	£'000	£'000	£'000
Staff costs	8,673	6,819	13,421
Facilities costs	968	743	1,296
Marketing costs	458	272	661
Support costs	1,520	934	2,441
Professional fees	1,130	681	2,386

Other costs	**2,347**	**901**	**3,781**
	15,096	**10,350**	**23,986**

6. FSCS and other provisions

As described in note 27 to the 2013 Annual Report, the Group is required to make payments to the FSCS as a result of its participation in the retail savings market.

The Bank changed its accounting policy for FSCS levies in the second half of 2013 in light of IFRIC 21's interpretation of IAS 37, resulting in a restatement of FSCS levies for the first half of 2013. Previously the trigger date for recognising a liability for the annual levy was assumed to be 31 December each year based on retail savings balances at that date but this was revised to the following 1 April. As a result, there was no FSCS levy cost originally recognised in the first half of 2013 which has now been restated to include an annual levy cost of £2.1m based on retail savings balances as at 31 December 2012.

7. Exceptional IPO expenses

Exceptional IPO expenses consist of expenses incurred in connection with the stock exchange listing (IPO) and share based awards vested on IPO. These non-recurring expenses were presented separately to provide better comparability of the current reporting period with previous years.

Exceptional IPO expenses are summarised in the table below:

	Total	Charged to profit or loss	Charged to reserves
	£'000	**£'000**	**£'000**
IPO related costs	**5,673**	**3,304**	**2,369**
Share awards vested on IPO	**2,272**	**2,272**	**-**
	7,945	**5,576**	**2,369**

Share awards represent 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 which vested on admission. These options were granted by OSB Holdco Ltd, the Bank's major shareholder and as such the expense is offset fully by an additional capital contribution.

Note 1d explains the basis of split of IPO costs between profit or loss and reserves.

8. Taxation

The taxation for the period represents mainly deferred tax as the Group continues to utilise its accumulated tax losses. The deferred tax asset was recognised with reference to projections of future taxable profits and will be utilised fully within the planning horizon.

The taxation charge or credit for the presented periods is summarised below:

	Six months ended	Six months ended	Year ended
	30-Jun-14	**30-Jun-13**	**31-Dec-13**
	(Unaudited)	**(Unaudited, restated)**	**(Audited)**
	£'000	**£'000**	**£'000**

Current taxation	-	-	(69)
Deferred taxation	**(4,479)**	**2,691**	**(4,577)**
Total taxation	**(4,479)**	**2,691**	**(4,646)**

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:

	Six months ended	**Six months ended**	**Year ended**
	30-Jun-14	**30-Jun-13**	**31-Dec-13**
	(Unaudited)	**(Unaudited, restated)**	**(Audited)**
	£'000	**£'000**	**£'000**
Profit before taxation	**24,817**	**8,028**	**31,417**
Profit multiplied by the weighted average rate of corporation taxation in the UK during six months of 2014 of 21.5% (2013: 23.25%)	**(5,336)**	**(1,867)**	**(7,304)**
Taxation effects of:			
Expenses not deductible for taxation purposes	**(521)**	**(74)**	**(147)**
Adjustments in respect of earlier years	**1,075**	**-**	**(1,330)**
Coupon on PSBs	**156**	**-**	**337**
Capital allowances	**43**	**29**	**29**
Recognition of deferred taxation - Interbay group	**-**	**4,716**	**4,185**
Re-measurement of deferred taxation - change in taxation rate	**104**	**(113)**	**(416)**
Total taxation (charge) / credit	**(4,479)**	**2,691**	**(4,646)**
Effective tax rate	18.0%	(33.5%)	14.8%

In 2014 the effective tax rate differed from the nominal rate mainly due to the IPO related exceptional costs which are not tax deductible and adjustments to prior periods.

9. Earnings per share

Earnings per share (EPS) are based on the profit for the period and the number of ordinary shares. Basic EPS are calculated by dividing profit by the weighted average number of ordinary shares. Diluted earnings per share take into account share options, awards and preference shares which can be converted to ordinary shares.

The Group calculates basic and diluted EPS and underlying EPS based on the following definitions of profit for the period:

	Six months ended	**Six months ended**	**Year ended**
	30-Jun-14	**30-Jun-13**	**31-Dec-13**
	(Unaudited)	**(Unaudited)**	**(Audited)**
Profit for the period, £'000	**20,338**	**10,719**	**26,771**
Adjustments:			
Exceptional IPO expenses	**5,576**	**-**	**-**
Tax on exceptional IPO expenses	**(678)**	**-**	**-**

Coupon on perpetual bonds classified as equity	**(725)**	**(725)**	**(1,450)**
Underlying profit for the period, £'000	**24,511**	**9,994**	**25,321**

When the number of shares increases as a result of a capitalisation, bonus issue or share split IAS 33 requires that earnings per share for all periods should be presented on the new basis. The table below presents EPS for all periods based on the number of shares after the reorganisation described in note 12.

	Six months ended	**Six months ended**	**Year ended**
	30-Jun-14	**30-Jun-13**	**31-Dec-13**
Restated number of shares	**(Unaudited)**	**(Unaudited)**	**(Unaudited)**
Weighted average number of shares, thousands	**222,014**	**165,888**	**188,867**
Earnings per share, pence per share			
Basic and diluted	**9.2**	**6.5**	**14.2**
Underlying basic and diluted	**11.0**	**6.0**	**13.4**

10. Loans and advances to customers

	30-Jun-14	**30-Jun-13**	**31-Dec-13**
	(Unaudited)	**(Unaudited, restated)**	**(Audited)**
	£'000	**£'000**	**£'000**
Residential mortgages	**1,759,771**	**1,695,313**	**1,764,639**
BTL/SME mortgages	**1,541,094**	**773,102**	**1,098,834**
Personal loans	**153,790**	**-**	**205,308**
Provisions (note 11)	**(32,070)**	**(23,299)**	**(27,533)**
	3,422,585	**2,445,116**	**3,041,248**

11. Provisions for impairment losses on loans and advances

	Individual	**Collective**	**Total**
	£'000	**£'000**	**£'000**
Group			
At 1st January 2014	**24,462**	**3,071**	**27,533**
Write offs in period	**(137)**	**-**	**(137)**
Charge/(credit) for the period net of recoveries	**1,295**	**3,379**	**4,674**
At 30 June 2014 (Unaudited)	**25,620**	**6,450**	**32,070**

	Individual	**Collective**	**Total**
	£'000	**£'000**	**£'000**
At 1st January 2013	**28,428**	**2,544**	**30,972**
Write offs in period	**(10,289)**	**-**	**(10,289)**
Charge/(credit) for the period net of recoveries	**3,719**	**(1,103)**	**2,616**
At 30 June 2013 (Unaudited)	**21,858**	**1,441**	**23,299**

	Individual	Collective	Total
	£'000	£'000	£'000
At 1st January 2013	**28,428**	**2,544**	**30,972**
Write offs in year	**(10,768)**	**-**	**(10,768)**
Charge/(credit) for the year net of recoveries	**6,802**	**527**	**7,329**
At 31 December 2013 (Audited)	**24,462**	**3,071**	**27,533**

12. Share Capital

	Value	Premium	Total
	£'000	£'000	£'000
Ordinary shares	**2,431**	**157,901**	**160,332**
As at 30 June 2014 (unaudited)	**2,431**	**157,901**	**160,332**

	Value	Premium	Total
	£'000	£'000	£'000
Ordinary A shares	**26**	**25,974**	**26,000**
Ordinary B shares	**21**	**78,393**	**78,414**
Ordinary E shares	**150**	**-**	**150**
Convertible Preference shares	**916**	**670**	**1,586**
As at 30 June 2013 (unaudited)	**1,113**	**105,037**	**106,150**

	Value	Premium	Total
	£'000	£'000	£'000
Ordinary A shares	**26**	**25,974**	**26,000**
Ordinary B shares	**22**	**93,241**	**93,263**
Ordinary E shares	**150**	**-**	**150**
Convertible Preference shares	**1,067**	**670**	**1,737**
As at 31 December 2013 (audited)	**1,265**	**119,885**	**121,150**

In 2014 the Group reorganised its share capital to prepare for floatation on the London Stock Exchange. The restructuring can be summarised as follows:

- The convertible preference shares were converted into B ordinary shares on a one-for-one basis and redesignated as ordinary shares;
- The A shares were converted into 3,389 ordinary shares and 22,611 deferred shares;
- All E shares were transferred to the B shareholder and converted into 1,000 ordinary shares and 149,000 deferred shares;
- A new deferred share was issued and the proceeds of such issue used to repurchase all of the deferred shares (including the one newly issued), resulting in the total number of shares in issue being 1,093,191 ordinary shares;
- A one-for-one bonus issue of 1,093,191 ordinary shares was made;
- Each ordinary share of £1.00 each was sub-divided into 100 ordinary shares of £0.01 each, resulting in there being 218,638,200 ordinary shares of £0.01 in issue.

The reorganisation resulted in a net increase in share capital and a corresponding decrease in share premium of £0.9m. As shares issued in connection with Interbay and Prestige acquisitions ceased to exist, the related capital contribution of £3.3m was reclassified to retained earnings.

Following the reorganisation, 24,441,765 new shares were issued in the initial public offering (IPO) at £1.70 per share. As at 30 June 2014, there were 243,079,965 shares in circulation.

13. Carrying amounts and fair values

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

As at 30 June 2014 (Unaudited)	Carrying amount	Fair value			
		Level 1	Level 2	Level 3	Total
	£'000	£'000	£'000	£'000	£'000
Financial instruments measured at fair value					
Financial assets					
Investment securities	305,058	304,690	368	-	305,058
Derivative assets	881	-	881	-	881
	305,939	304,690	1,249	-	305,939
Financial liabilities					
Derivative liabilities	(22,348)	-	(22,348)	-	(22,348)
Financial instruments not measured at fair value					
Financial assets					
Cash in hand and balances with the Bank of England	262	-	262	-	262
Loans and advances to credit institutions	397,358	-	397,358	-	397,358
Loans and advances to customers	3,422,585	-	-	3,735,768	3,735,768
	3,820,205	-	397,620	3,735,768	4,133,388
Financial liabilities					
Amounts owed to retail depositors	(3,647,857)	-	(3,673,570)	-	(3,673,570)
Amounts owed to credit institutions	(491)	-	(491)	-	(491)
Amounts owed to other customers	(6,074)	-	(6,080)	-	(6,080)
Debt securities in issue	(259,381)	-	(259,381)	-	(259,381)
Subordinated liabilities	(27,578)	-	(28,731)	-	(28,731)
Perpetual subordinated bonds	(15,290)	-	(15,565)	-	(15,565)
	(3,956,671)	-	(3,983,818)	-	(3,983,818)

As at 30 June 2013 (Unaudited)	Carrying amount	Fair value			
		Level 1	Level 2	Level 3	Total
	£'000	£'000	£'000	£'000	£'000
Financial instruments measured at fair value					

Financial assets					
Investment securities	**376,633**	**376,109**	**524**	**-**	**376,633**
Derivative assets	**668**	**-**	**668**	**-**	**668**
	377,301	**376,109**	**1,192**	**-**	**377,301**
Financial liabilities					
Derivative liabilities	**(30,470)**	**-**	**(30,470)**	**-**	**(30,470)**
Financial instruments not measured at fair value					
Financial assets					
Cash in hand and balances with the Bank of England	**298**	**-**	**298**	**-**	**298**
Loans and advances to credit institutions	**183,352**	**-**	**183,352**	**-**	**183,352**
Investment securities	**26,057**	**-**	**28,275**	**-**	**28,275**
Loans and advances to customers	**2,445,116**	**-**	**-**	**2,787,591**	**2,787,591**
	2,654,822	**-**	**211,924**	**2,787,591**	**2,999,515**
Financial liabilities					
Amounts owed to retail depositors	**(2,897,639)**	**-**	**(2,942,914)**	**-**	**(2,942,914)**
Amounts owed to credit institutions	**(468)**	**-**	**(468)**	**-**	**(468)**
Amounts owed to other customers	**(16,787)**	**-**	**(16,827)**	**-**	**(16,827)**
Subordinated liabilities	**(27,573)**	**-**	**(29,337)**	**-**	**(29,337)**
Perpetual subordinated bonds	**(15,213)**	**-**	**(16,636)**	**-**	**(16,636)**
	(2,957,680)	**-**	**(3,006,183)**	**-**	**(3,006,183)**

As at 31 December 2013 (Audited)	**Carrying amount**	**Fair value**			
		Level 1	**Level 2**	**Level 3**	**Total**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**
Financial instruments measured at fair value					
Financial assets					
Investment securities	**339,603**	**339,171**	**432**	**-**	**339,603**
Derivative assets	**757**	**757**	**-**	**-**	**757**
	340,360	**339,928**	**432**	**-**	**340,360**
Financial liabilities					
Derivative liabilities	**(22,566)**	**-**	**(22,566)**	**-**	**(22,566)**
Financial instruments not measured at fair value					
Financial assets					
Cash in hand and balances with the Bank of England	**267**	**-**	**267**	**-**	**267**
Investment securities	**21,442**	**-**	**18,302**	**-**	**18,302**
Loans and advances to credit institutions	**269,101**	**-**	**269,101**	**-**	**269,101**

Loans and advances to customers	**3,041,248**	**-**	**-**	**3,439,255**	**3,439,255**
	3,332,058	**-**	**287,670**	**3,439,255**	**3,726,925**
Financial liabilities					
Amounts owed to retail depositors	**(3,251,576)**	**-**	**(3,296,988)**	**-**	**(3,296,988)**
Amounts owed to credit institutions	**(1,438)**	**-**	**(1,438)**	**-**	**(1,438)**
Amounts owed to other customers	**(2,351)**	**-**	**(2,369)**	**-**	**(2,369)**
Debt securities in issue	**(273,759)**	**-**	**(273,759)**	**-**	**(273,759)**
Subordinated liabilities	**(27,579)**	**-**	**(28,918)**	**-**	**(28,918)**
Perpetual subordinated bonds	**(15,263)**	**-**	**(15,710)**	**-**	**(15,710)**
	(3,571,966)	**-**	**(3,619,182)**	**-**	**(3,619,182)**

Valuation techniques used in each of the fair value levels are disclosed in note 29 of the 2013 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 is based on the present value of expected cash flows discounted at the market rates and 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 loans and advances to customers represents gross receivable balances revalued using current interest rates less impairment provisions. The difference between the fair value and carrying value therefore includes purchase discounts on acquired mortgage books.

14. 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 significantly changed in 2014 due to the introduction of new reporting requirements known as Basel III / CRD IV and the public share issue described in note 12.

The regulatory capital of the Group is presented below.

	30-Jun-14	30-Jun-13	31-Dec-13
	(Unaudited)	(Unaudited, restated)	(Audited)
	£'000	£'000	£'000
Common equity tier 1 capital			
Called up share capital	**2,431**	**197**	**198**
Share premium account / Capital contribution	**160,173**	**106,421**	**121,157**
Retained earnings and verified interim profits	**36,401**	**6,869**	**23,361**
Transfer reserve	**(12,818)**	**(12,818)**	**(12,818)**
Other reserves	**412**	**290**	**(156)**
Deductions from common equity tier 1 capital			
Intangible assets	**(1,540)**	**(848)**	**(1,117)**
Deferred tax asset	**(6,176)**	**-**	**-**
Investments in subsidiaries	**-**	**-**	**-**
Common equity tier 1 capital	**178,883**	**100,111**	**130,625**
Additional Tier 1 capital			
Convertible preference shares	**-**	**804**	**1,067**

Share premium on preference shares	**-**	**-**	**670**
Total Tier 1 Capital	**178,883**	**100,915**	**132,362**
Tier 2 capital			
Subordinated debt	**55,860**	**58,768**	**57,127**
Collective Provisions	**6,450**	**1,441**	**3,072**
Deductions from tier 2 capital	**(2,000)**	**-**	**-**
Total Tier 2 Capital	**60,310**	**60,209**	**60,199**
Other regulatory adjustments	**-**	**-**	**-**
Total regulatory capital	**239,193**	**161,124**	**192,561**

Regulatory capital as at 30 June 2013 and 31 December 2013 is presented as originally prepared under Basel II rules in force at the time of preparation and not restated for Basel III / CRD IV. It is not directly comparable to the capital as at 30 June 2014.

The impact of CRD IV is explained in more detail on page 20 of the 2013 Annual Report.

15. Operating segments

During 2013, the Group introduced segmental assessment of its lending by product, focusing on the customer need and reason for a loan. It now distinguishes three segments within its operations: Residential Mortgages, Buy-to-Let/SME Mortgages and Personal Loans. The classification has not changed since the 2013 Annual Report.

The Group's segmental analysis is presented below:

Six months ended 30 June 2014 (Unaudited)	**Residential mortgages**	**BTL/SME**	**Personal loans**	**Central**	**Total**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**
Balances at the reporting date					
Gross loans and advances to customers	**1,759,771**	**1,541,094**	**153,790**	**-**	**3,454,655**
Provision for impairment losses on loans and advances	**(3,903)**	**(24,637)**	**(3,530)**	**-**	**(32,070)**
Loans and advances to customers	**1,755,868**	**1,516,457**	**150,260**	**-**	**3,422,585**
Risk weighted assets	**761,672**	**746,710**	**123,222**	**-**	**1,631,604**
Profit or loss for the year					
Net interest income	**26,534**	**18,986**	**10,206**	**-**	**55,726**
Other income / (expense)	**(3,437)**	**(512)**	**(826)**	**2,258**	**(2,517)**
Total income	**23,097**	**18,474**	**9,380**	**2,258**	**53,209**
Impairment losses	**(1,477)**	**(1,599)**	**(1,598)**	**-**	**(4,674)**
Contribution to profit	**21,620**	**16,875**	**7,782**	**2,258**	**48,535**
Operating expenses					**(15,419)**
Exceptional IPO expenses					**(5,576)**

Regulatory provisions	**(2,723)**
Profit before taxation	**24,817**
Taxation	**(4,479)**
Profit for the period	**20,338**

Six months ended 30 June 2013 (Unaudited)	**Residential mortgages**	**BTL/SME**	**Personal loans**	**Central**	**Total**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**
Balances at the reporting date					
Gross loans and advances to customers	**1,695,313**	**773,102**	**-**	**-**	**2,468,415**
Provision for impairment losses on loans and advances	**(2,438)**	**(20,861)**	**-**		**(23,299)**
Loans and advances to customers	**1,692,875**	**752,241**	**-**		**2,445,116**
Risk weighted assets	**763,867**	**407,321**	**-**	**-**	**1,171,189**
Profit or loss for the year					
Net interest income	**18,404**	**6,130**	**-**	**-**	**24,534**
Other income / (expense)	**(2,073)**	**1,031**	**-**	**-**	**(1,042)**
Total income	**16,331**	**7,161**	**-**	**-**	**23,492**
Impairment losses	**(513)**	**(2,103)**	**-**	**-**	**(2,616)**
Contribution to profit	**15,818**	**5,058**	**-**		**20,876**
Operating expenses					**(10,700)**
Regulatory provisions					**(2,148)**
Profit before taxation					**8,028**
Taxation					**2,691**
Profit for the period					**10,719**

Year ended 31 December 2013 (Audited)	**Residential mortgages**	**BTL/SME**	**Personal loans**	**Central**	**Total**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**
Balances at the reporting date					
Gross loans and advances to customers	**1,764,639**	**1,098,834**	**205,308**	**-**	**3,068,781**
Provision for impairment losses on loans and advances	**(3,075)**	**(22,360)**	**(2,098)**	**-**	**(27,533)**
Loans and advances to customers	**1,761,564**	**1,076,474**	**203,210**	**-**	**3,041,248**
Risk weighted assets*	**739,091**	**520,768**	**162,674**	**-**	**1,422,533**
Profit or loss for the year					
Net interest income	**42,334**	**17,199**	**11,233**	**-**	**70,766**
Other income / (expense)	**(3,999)**	**(531)**	**(805)**	**-**	**(5,335)**
Total income	**38,335**	**16,668**	**10,428**	**-**	**65,431**
Impairment losses	**(543)**	**(4,688)**	**(2,098)**	**-**	**(7,329)**
Contribution to profit	**37,792**	**11,980**	**8,330**	**-**	**58,102**
Operating expenses					**(24,533)**
Regulatory provisions					**(2,152)**

Profit before taxation	**31,417**
Taxation	**(4,646)**
Profit for the period	**26,771**

* Certain risk-weighted assets not previously allocated to operating segments as at 31 December 2013 have now been fully allocated to segments.

16. Related parties

The Group had no related party transactions during the period to 30 June 2014 that would materially affect the position or performance of the Group. Details of transactions for the year ended 31 December 2013 can be found in the 2013 Annual Report. Following the purchase of the agency agreement from Kent Reliance Provident Society (KRPS), KRPS operating costs and financial relations between the Group and KRPS became minimal.

Transactions with Key Management Personnel

OSB Holdco Ltd, one of the Bank's shareholders, granted nil price options over OSB shares ('IPO Awards') to certain Directors, senior managers and certain other employees of the Group on admission. Rod Duke and Malcolm McCaig received options over 106,481 and 159,722 OSB shares respectively which fully vested on admission. Additional options over 3,141,197 OSB shares were granted to senior managers and certain other employees of the Group subject to differing vesting provisions. These awards are not subject to performance conditions but will (subject to good leaver provisions) lapse if the option holder ceases to be employed by the group prior to vesting. Options forfeited by leavers will be cancelled with the underlying shares transferred for nil consideration to Kent Reliance Provident Society. Certain former directors of the Bank also received IPO Awards which vested on admission. Mike Fairey received an award of 30,000 OSB shares on admission in consideration for his services in preparing the Bank for admission.

Share capital reorganisation

In the first half of 2014, the Group reorganised its share capital in preparation for floatation on the London Stock Exchange. Further details can be found in note 12.

17. 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 2014
Company Information

Registered and head office
Reliance House
Sun Pier
Chatham
Kent
ME4 4ET

Company number
7312896

Internet
www.osb.co.uk

Auditors
KPMG LLP
Chartered Accountants
1 The Embankment
Neville Street
Leeds LS1 4DW

Solicitors
Ashurst LLP
Broadwalk House
5 Appold Street
London EC2A 2HA

Registrars
Equiniti Limited
Aspect House
Spencer Road
Lancing
West Sussex BN99 6DA

Brokers
Barclays Bank PLC
5 The North Colonnade
London E14 4BB

RBC Europe Limited (trading as RBC Capital Markets)
Riverbank House
2 Swan Lane
London EC4R 3BF

Media and public relations
Brunswick Group LLP
16 Lincoln's Inn Fields
London WC2A 3ED