OSB Group 2022 interim results

11 August 2022

Excellent results for the first half of 2022

Financial performance	• The Group delivered a record underlying profit before tax of £294m • The net loan book grew by 3% in line with management expectations, supported by £2.3bn of new lending • Underlying return on equity remained strong at 24% • Underlying net interest margin increased to 302bps • Declared interim dividend of 8.7p per share in line with the Group's stated policy
Our lending franchise	• Applications grew strongly throughout the period, delivering a record pipeline • Relaunched our Residential mortgage proposition, building on the popularity of our complex prime and shared ownership mortgages • Launched the first in a range of mortgages targeting landlords wishing to improve the energy efficiency and EPC rating of their properties
Strong credit and risk management	• Strong credit performance with balances over three months in arrears of 1.1% in line with year end • Underlying loan loss ratio of 2bps representing an impairment charge of £2m • Impairment charge reflects an improved outlook as pandemic related concerns reduced and HPI outperformed, offset by a 10% increase in the downside weighting to address growing cost of living concerns
Strong capital and liquidity position	• CET1 strong at 18.9%, which includes the full impact of the announced £100m share repurchase, with a total capital ratio of 20.4% • The Group has repurchased £48.8m worth of shares under the £100m share repurchase programme • The Group intends to target a CET1 ratio of 14% once the capital stack has been optimised fully through Tier 2 and MREL issuance
Outlook for 2022	• Improved our full year underlying NIM guidance and now expect it to be broadly flat to the first half • Remain confident in delivering underlying net loan book growth of c. 10% based on current pipeline and applications • Continue to expect the underlying cost to income ratio to increase marginally from 2021

Who we are and what we do

Our Purpose is to help our customers, colleagues and communities prosper. We care about our stakeholders.

Specialist lending business

Underlying net loans to customers

H1 2022: £21.6bn
(FY 2021: £20.9bn)

Loan book growth of 3% for H1 2022

Our key strengths

- Differentiated brand propositions
- Complementary underwriting platforms with bespoke and manual, and automated digital risk assessment
- Strong mortgage origination
- Excellent loan performance
- Strong relationships with intermediaries

Sophisticated funding platform

Underlying retail deposits

H1 2022: £17.9bn
(FY 2021: £17.5bn)

22 securitisations to date across the Group worth over £11.1bn

Our key strengths

- Stable savings funding via Kent Reliance and Charter Savings Bank
- Capital markets expertise with high quality residential mortgage backed securities (RMBS) platforms
- Cost efficient and resilient funding platform supporting future growth
- Access to Bank of England TFSME scheme

Unique operating model

Underlying cost to income ratio

H1 2022: 23%
(H1 2021: 25%)

Savings customers NPS +69 for KR +70 for CSB

Our key strengths

- OSB India: Best-in-class customer service
- Credit expertise and mortgage administration service
- Continued, disciplined cost management
- Efficient, scalable and resilient infrastructure

Our Vision identifies the things we do to differentiate our businesses: **to be recognised as the UK's number one choice of specialist bank through our commitment to exceptional service, strong relationships and competitive products.**

Leading complementary brand propositions

To support achieving our vision we offer a unique breadth of complementary yet differentiated lending propositions to our customers.

'Off the peg'

Precise Mortgages

If the case fits the policy then it will work well and you will get a speedy agreement in principle

- Buy-to-Let
- Residential owner occupied
- Bridging

Gross underlying loan book
H1 2022: £9.4bn
FY 2021: £9.0bn

'Tailored'

KentReliance for Intermediaries

We can make adjustments to our policy to help get the case to fit

- Buy-to-Let
- Residential owner occupied

Gross loan book
H1 2022: £11.3bn
FY 2021: £11.0bn

'Bespoke'

InterBay Commercial
Heritable Development Finance

Unique to each case we structure the deal to the specifics of the case

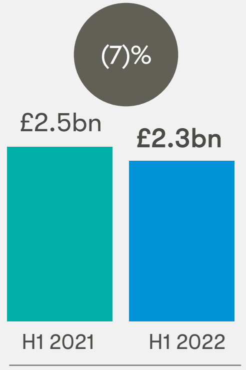
- Commercial
- Complex Buy-to-Let
- Semi-commercial
- Residential development finance
- Funding lines
- Asset finance

Gross loan book[1]
H1 2022: £1.1bn
FY 2021: £1.1bn

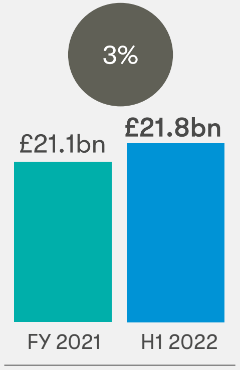
1. Complex Buy-to-Let is included in the 'Tailored' gross loan book and excluded from the 'Bespoke' gross loan book

Financial highlights - statutory

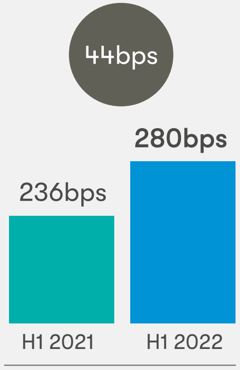
Gross new lending



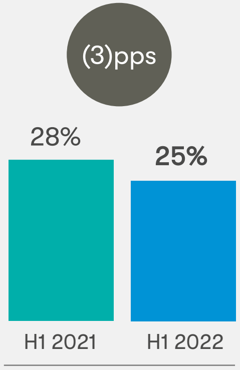
Net loan book



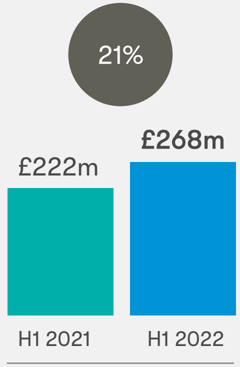
Net interest margin



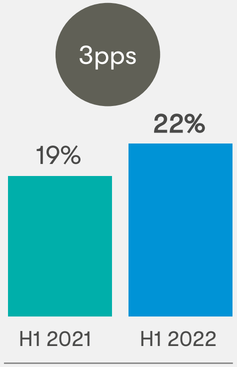
Cost to income ratio



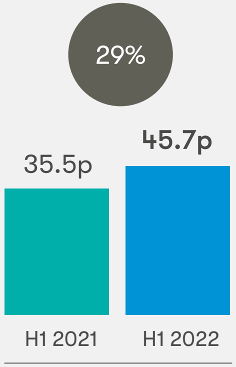
Profit before tax



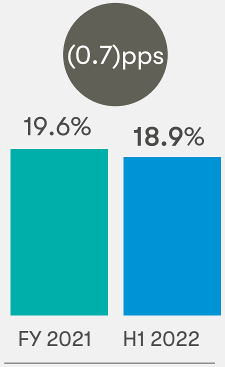
Return on equity



Basic EPS (pence per share)



CET1 ratio

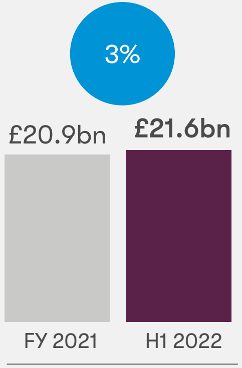


Group statutory H1 2022

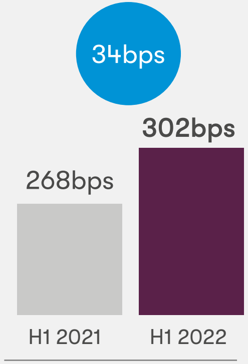
Group statutory H1 and FY 2021

Financial highlights – underlying

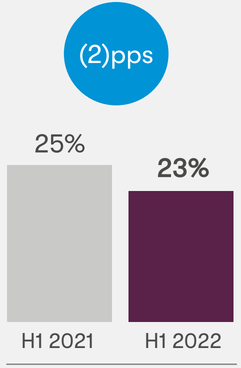
Net loan book



Net interest margin

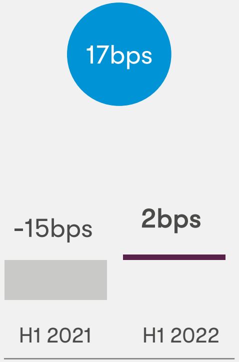


Cost to income ratio

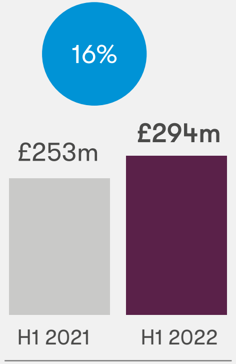


The Board has declared a dividend of **8.7 pence per share** for the period, representing 1/3 of the total 2021 dividend, in line with the Group's stated policy

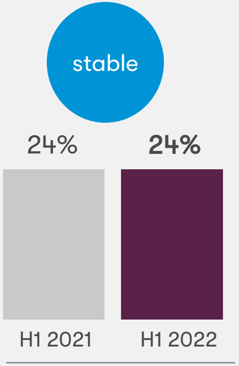
Loan loss ratio



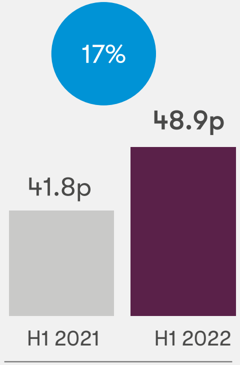
Profit before tax



Return on equity



Basic EPS (pence per share)

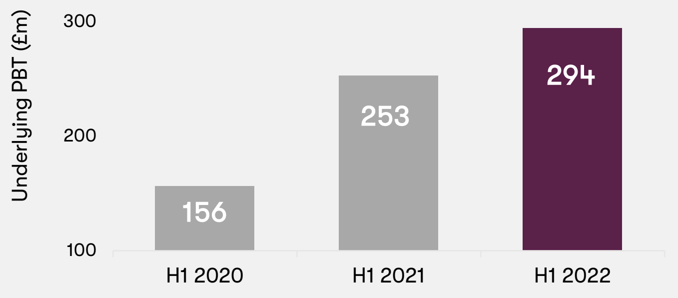


Group underlying H1 2022

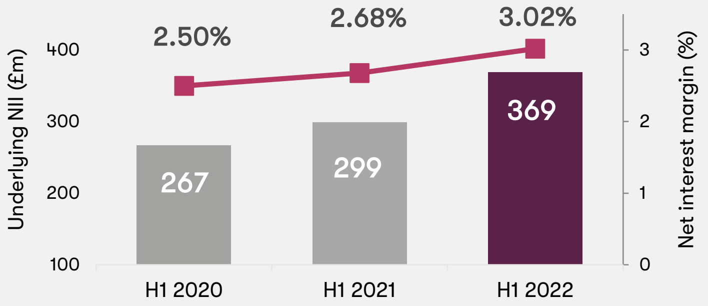
Group underlying H1 and FY 2021

Attractive underlying return on equity

1. Record half-yearly underlying profit before tax

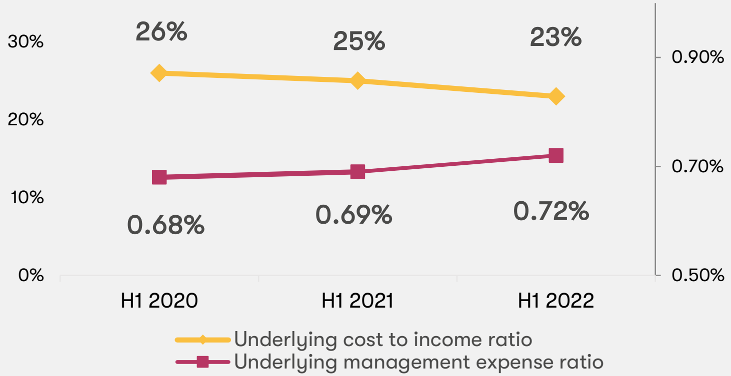


2. NII growth and improvement in margins

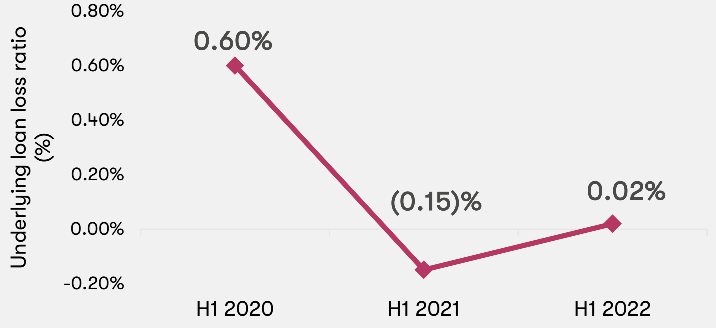


Underlying RoE of 24% unchanged from H1 '21

3. Focus on cost discipline and efficiency



4. Strong credit performance



Record underlying profit

Underlying P&L[1]

	H1 2022 £m	H1 2021 £m	Change £m	Change %
Net interest income	**369.2**	299.0	70.2	23
Gain on sale of financial instruments	**-**	2.3	(2.3)	(100)
Net fair value gains on financial instruments	**11.1**	10.5	0.6	6
Other operating income	**3.7**	4.6	(0.9)	(20)
Total income	**384.0**	316.4	67.6	21
Administrative expenses	**(89.1)**	(78.6)	(10.5)	13
Provisions	**1.2**	(0.1)	1.3	>(100)
Impairment of financial assets	**(2.0)**	15.1	(17.1)	>(100)
Profit before taxation	**294.1**	252.8	41.3	16
Profit after taxation	**223.3**	189.8	33.5	18
Basic EPS (pence per share)	**48.9**	41.8	7.1	17

- **Underlying NII grew by 23% to £369m,** largely reflecting growth in the loan book and a higher net interest margin
- **Fair value gains on financial instruments of £11.1m** on the Group's hedging activities, primarily attributable to a gain on pipeline mortgage swaps due to improved outlook on the SONIA yield curve
- **Impairment charge of £2.0m** reflecting the improved pandemic outlook and HPI outperformance, offset by a 10% increase in the downside weighting to address growing cost of living concerns
- **Underlying profit before tax of £294m,** reflecting the above
- **Underlying EPS of 48.9 pence per share** increased by 17%, commensurate with the increase in profit

1. For reconciliation of underlying PBT to statutory PBT, see the Appendix

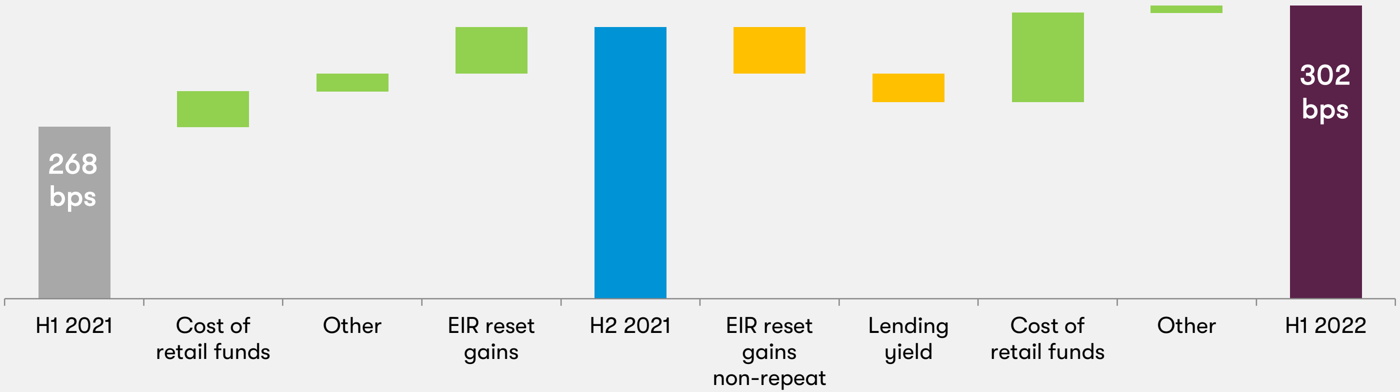
Strong, secure balance sheet

	H1 2022 £m	FY 2021 £m	Change £m	Change %
Lending				
Statutory net loans and advances to customers	**21,759**	21,080	679	3
Expected credit losses	**(102)**	(102)	-	-
Funding and liquidity				
Customer deposits	**17,939**	17,526	413	2
Debt securities in issue	**367**	460	(93)	(20)
Term Funding for SMEs	**4,212**	4,203	9	-
Indexed Long-Term Repo	**220**	-	220	100
Liquid assets	**3,586**	3,336	250	7

	OSB		CCFS	
	H1 2022	FY 2021	H1 2022	FY 2021
3 months + in arrears (%)	**1.3**	1.4	**0.8**	0.7
Interest coverage ratios (BTL origination) (%)	**211**	199	**197**	188
Average book LTV (%):				
Buy-to-Let/SME for OSB and Buy-to-Let for CCFS	**63**	65	**67**	68
Residential	**46**	48	**58**	59

- **Statutory and underlying net loan book** growth of 3% supported by £2.3bn of **organic originations** in the period
- **Customer deposits reached £17.9bn,** as both Banks continued to attract new retail savers
- **Strong credit quality** with the Group's Group 3+ months in arrears balances broadly stable
- **Strengthened weighted average ICR** for Buy-to-Let origination demonstrates a prudent approach to assessment of customer affordability
- Weighted average **LTVs** fell, supported by house price appreciation; weighted average **book LTV of 61%** (FY 2021: 62%) and weighted average **LTV of new business 71%** (H1 2021: 69%)

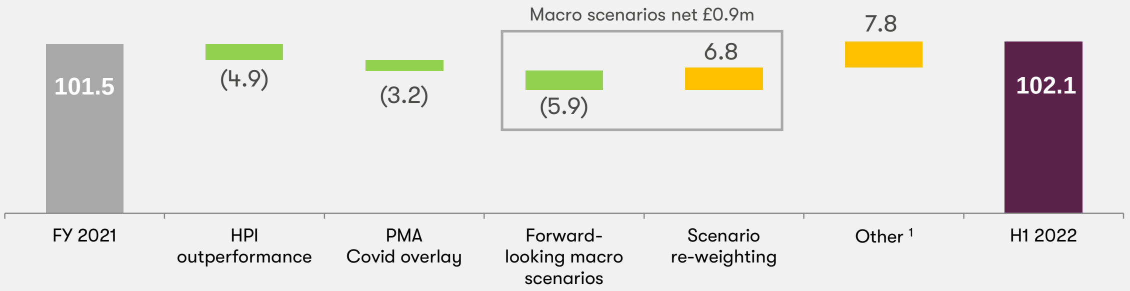
Improvement in underlying NIM



- **Underlying NIM improved** to 302bps in the first half of 2022 from 268bps in the prior period, due primarily to a lower cost of retail funds reflecting delays in the market passing on the Bank of England base rate rises to savers and the benefit of wider swap spreads
- The **lending yield** reduction includes the impact of widening swap spreads and delays in these and rate rises being passed through to mortgage pricing
- **Other** primarily relates to the benefit of increased other funding from Bank of England schemes, higher capital and reserves and favourable swap margin calls

Impairment provisions

Expected credit losses £m

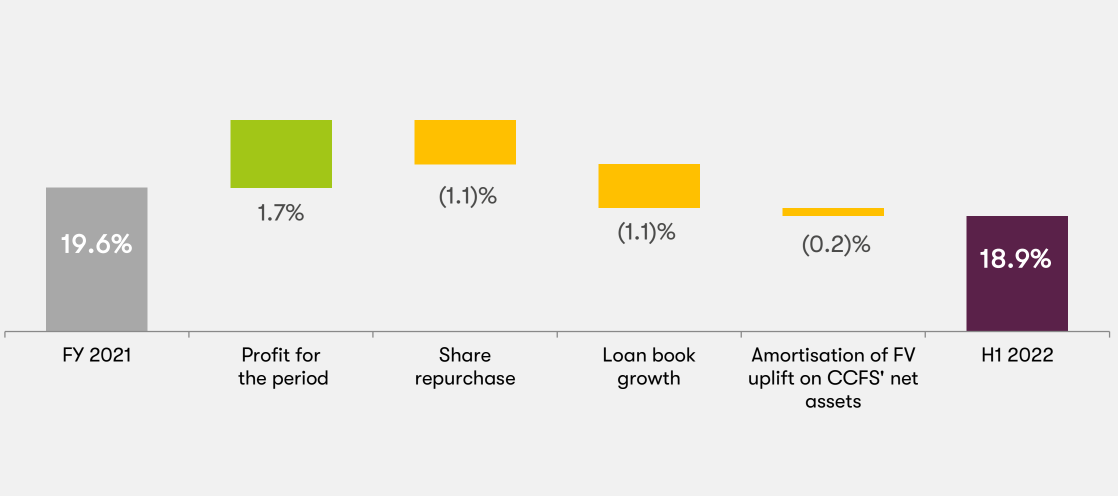


As at 30 June 2022	Gross carrying amount £m	Expected credit losses £m	Coverage ratio %
Stage 1	18,702.0	8.8	0.05%
Stage 2	2,561.6	27.3	1.07%
Stage 3 + POCI	580.6	66.0	11.37%
Total	**21,844.2**	**102.1**	**0.47%**
As at 31 December 2021			
Stage 1	18,188.4	12.1	0.07%
Stage 2	2,413.6	25.0	1.04%
Stage 3 + POCI	562.1	64.4	11.46%
Total	**21,164.1**	**101.5**	**0.48%**

- **Statutory impairment charge of £1.6m** representing 1bp of average gross loans and advances:
  - £14.0m of provision release due to:
    - house price appreciation in the first half
    - release of pandemic related post model adjustments
    - improved outlook leading to less severe forward-looking macroeconomic scenarios
  - £6.8m charge following an additional 10% downside weighting to account for the rising cost of living concerns
  - £8.8m of other charges largely relating to standard provision movements due to loan book growth and credit profile changes
- Impairment coverage levels remained above pre-pandemic levels, reflecting the continued uncertainty surrounding the macroeconomic outlook
- See the Appendix for the macroeconomic scenarios and pre-pandemic coverage ratios

1. Excludes £0.9m of write-offs. May not cast due to rounding

Strong capital base



Capital	H1 2022	FY 2021	Change
Risk weighted assets (RWAs) £m	9,640	9,102	6%
RWAs as % of total assets	38	37	1pp
Common equity tier 1 ratio %	18.9	19.6	(70)bps
Total capital ratio %	20.4	21.2	(80)bps
Leverage ratio %	8.8[1]	7.9	90bps

- **CET1 ratio remained strong at 18.9%** and included the full impact of the £100m share repurchase programme
- The capital ratios include transitional benefits of c.0.8% points from acquisition related adjustments (primarily the remaining fair value uplift on the acquired CCFS net assets) and IFRS 9 capital add-backs
- **Current minimum capital requirement** of 9.5% (Pillar 1 + Pillar 2a including a static integration add-on of £19.5m)
- **Full bail-in MREL requirement** from July 2026 with interim requirement of 18% of RWAs by July 2024. First anticipated debt issue in Q1 2023, subject to market conditions
- As at 10 August 2022, the Group had repurchased £48.8m worth of shares under its £100m share repurchase programme

1. In line with the latest UK Leverage Ratio Framework which came into effect on 1 January 2022, the leverage ratio now excludes claims on central banks. As at 31 December 2021, the ratio would have been 8.9% on a like for like basis

Capital management framework in action

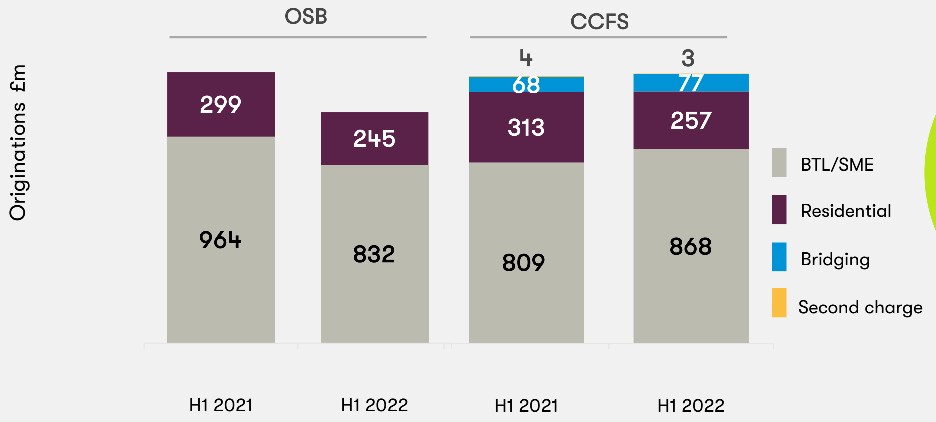
The Board is confident that the Group's business strategy and proven capital generation capability can support both strong net loan book growth and further capital returns to shareholders, including a progressive dividend per share.

Regulatory capital	• Primary objective is to hold sufficient, but not excessive levels of regulatory capital to support the Group's stated strategy • BOE preferred resolution strategy is single point of entry bail-in at the group parent level • The Group intends to target a CET1 ratio of 14% once the capital stack has been optimised fully through Tier 2 and MREL issuance
1 Organic growth	• The Group's primary growth strategy is through organic lending across its core lending segments • In addition, the Group will explore adjacent areas with opportunities for attractive growth in the medium term
2 Ordinary dividends	• Support the Group's dividend policy – 30% payout ratio in 2021 • The Group intends to deliver a progressive dividend per share
3 Inorganic growth opportunities	• Assess value enhancing, inorganic growth opportunities, including portfolio acquisitions and other opportunities to profitably deploy capital
4 Returns of excess capital to shareholders	• The £100m share repurchase programme is progressing well, repurchased £48.8m worth of shares by 10 August 2022 • The Board remains committed to returning any excess capital to shareholders

The Board intends to provide a further update to the market on its capital management framework once greater clarity is obtained on the impact of Basel 3.1 and its timing versus the Group attaining IRB accreditation.

Our award-winning lending franchises

Strong originations in the first half of 2022



Underlying loan book up 3%

- Applications grew strongly throughout the period, delivering a record pipeline
- Increased originations in Commercial and semi-Commercial as the Group launched a new set of products under the InterBay brand
- Relaunched its residential proposition, building on the popularity of our complex prime and shared ownership mortgages
- Introduced the first of a range of mortgage products targeted at enhancing EPC rating through refurbishment
- Precise Mortgages remained the highest ranked[1] brand for BTL mortgages

WINNER
Best Specialist Lender
KENT RELIANCE FOR INTERMEDIARIES

WINNER!
Best Lender Specialist
PRECISE MORTGAGES
THE MAS AWARDS 2022

Strong security

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

OSB: 211%
CCFS: 197%

Good retention

Borrowers continue to choose new products with OSB Choices retention scheme, 62% choosing new product within 3 months (H1 2021: 76%)

Well-positioned

Professional landlords accounted for 83% of OSB BTL completions by value in H1 2022 (H1 2021: 81%)

Limited company mortgages represented 76% of KR and 66% of Precise completions

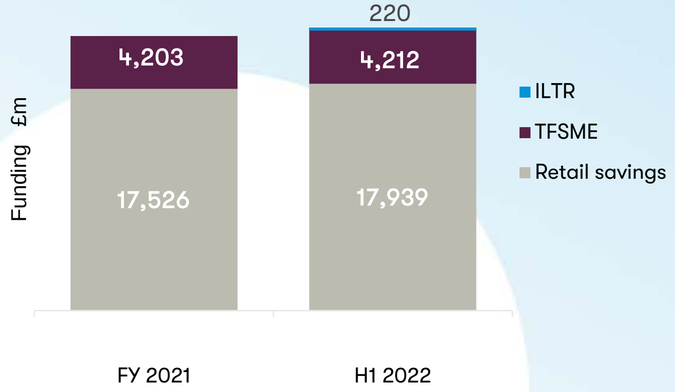
1. based on unprompted willingness to recommend in the BVA BDRC's Project Mercury survey in Q1 2022

Sophisticated funding model

The Group remains predominantly retail funded with £17.9bn of retail deposits, up 2% in the first six months of 2022.

	Attract	Retain	Satisfy
	We continue to attract new savings customers New accounts opened:	We retain a very high percentage of customers with maturing fixed rate bonds and ISAs	High quality of customer service - consistently high NPS
KentReliance	c.31k	95%	+69
Charter Savings Bank	c.42k	89%	+70

Retail savings complemented by diversified funding sources:



- Term Funding Scheme for SMEs of £4.2bn, unchanged from the end of 2021
- Completed Canterbury No. 5 securitisation in August 2022, a fully retained transaction of £1.3bn Buy-to-Let mortgages
- During the first half, the Group drew down £220.3m of additional funding under the Indexed Long-Term Repo scheme

Best Fixed Rate Savings Provider

ISA Provider of the Year

BEST CASH ISA PROVIDER

Summary and outlook

Returning to our key messages from today:

Excellent results in H1 2022

- The Group saw strong financial and operational performance with record profit in the first half, £2.3bn of new lending, increased NIM and a class-leading underlying return on equity of 24%
- The credit performance of the Group's loan book remained strong with stable arrears and an underlying loan loss ratio of 2bps, reflecting our underwriting expertise and a robust rental market
- CET1 ratio of 18.9% remained strong
- Dividend of 8.7 pence per share, representing one-third of the total 2021 dividend
- The £100m share repurchase programme is progressing well, £48.8m worth of shares repurchased by 10 August 2022

Outlook

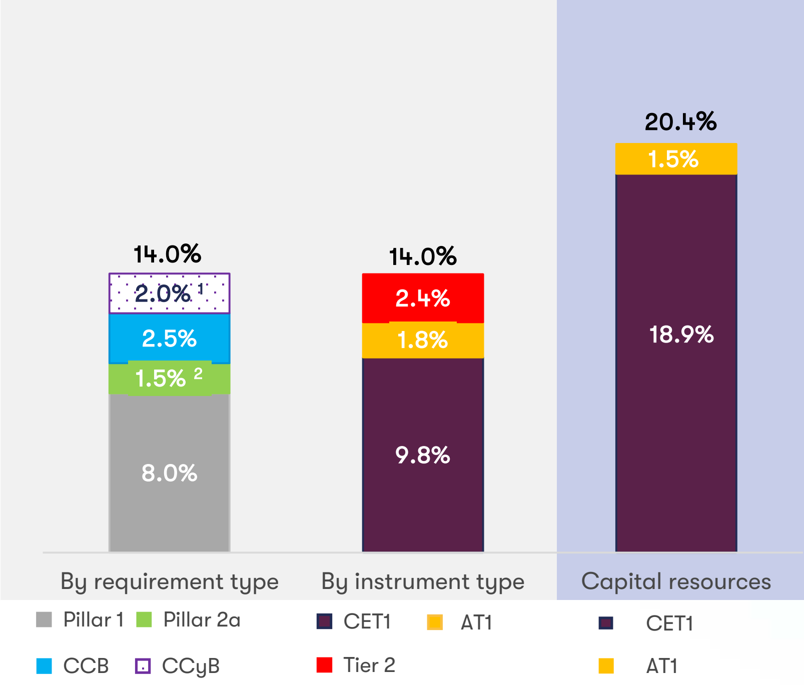
- We recognise the somewhat uncertain outlook for the UK economy and the impact of the increasing cost of living, and continue to monitor our lending book closely for any early signs of stress
- We have a record pipeline of new business and are seeing robust demand for our mortgages
- We remain confident in delivering underlying net loan book growth of c. 10% for 2022 based on the current pipeline and applications
- We have improved our full year underlying NIM guidance and now expect it to be broadly flat to the first half
- We continue to expect the underlying cost to income ratio in 2022 to increase marginally from 2021

OSB Group 2022 interim results - Appendices

11 August 2022

Components of Group capital

Capital resources and requirements as a percentage of RWAs



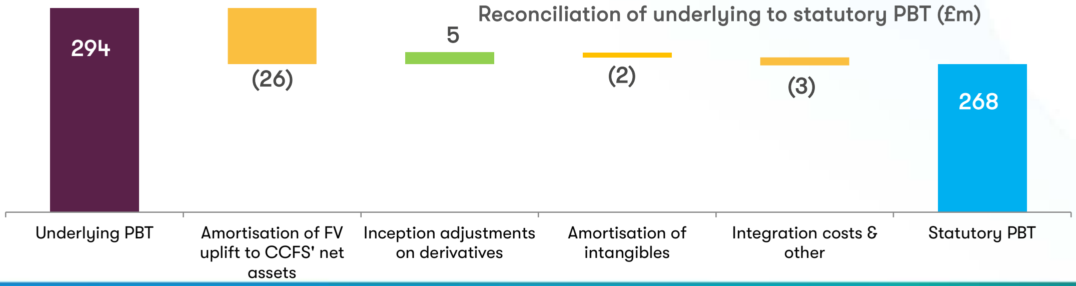
- Capital requirements shown are as at 30 June 2022. They include standard regulatory buffers (CCB, CCyB) for illustrative purposes
- The Pillar 2a requirement of 1.27% of RWAs excludes a static integration add-on of £19.5m[2]
- **Current minimum capital requirement** of 9.5% (Pillar 1 and Pillar 2a)
- Optimal mix of instrument type to meet minimum capital requirement includes CET1, AT1 and Tier 2
- Current capital ratio includes c.0.8% of transitional adjustments which will amortise over time[3]
- In addition, Board and management buffers are maintained above regulatory minimum to support planned growth in-between profit verifications
- The Group is currently well in excess of minimum regulatory capital requirements
- The Group is subject to an interim MREL requirement of 18% of RWAs by July 2024 with full bail-in MREL of 2x Pillar 1 and Pillar 2a from July 2026

1. CCyB reintroduction to 1% in December 2022 and 2% in July 2023
2. The Pillar 2a total of 1.5% includes the static integration add-on
3. Transitional adjustments relate to FV uplift on CCFS' net assets and COVID-19 transitional adjustments relating to the ECLs and other IFRS 9 add backs

Strong statutory results

Statutory P&L

	H1 2022 £m	H1 2021 £m	Change £m	Change %
Net interest income	**343.4**	265.3	78.1	29
Fair value gains on financial instruments	**16.4**	16.1	0.3	2
Gain on sale of financial instruments	**-**	4.0	(4.0)	(100)
Other operating income	**3.7**	4.6	(0.9)	(20)
Total income	**363.5**	290.0	73.5	25
Administrative expenses	**(91.3)**	(80.5)	(10.8)	13
Provisions	**1.2**	(0.1)	1.3	>(100)
Impairment of financial assets	**(1.6)**	14.6	(16.2)	>(100)
Integration costs	**(3.7)**	(1.9)	(1.8)	95
Exceptional items	**-**	(0.2)	0.2	100
Profit before tax	**268.1**	221.9	46.2	21
Profit after tax	**208.9**	161.5	47.4	29
Basic EPS (pence per share)	**45.7**	35.5	10.2	29

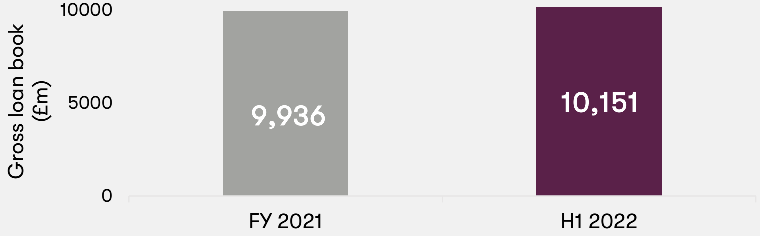


- **Net interest income** grew 29% to £343.4m largely reflecting growth in the loan book and a higher net interest margin
- **Fair value gain of £16.4m** on Group's hedging activities primarily due to improved outlook on the SONIA yield curve
- **Credit impairment charge of £1.6m** reflecting the improved pandemic outlook and HPI outperformance, offset by a 10% increase in the downside weighting to address growing cost of living concerns
- **Statutory PBT increased by 21%** to £268.1m
- **Statutory basic EPS** increased by 29% to 45.7 pence per share

OSB segment results – BTL/SME

Average book LTV reduced to 63% (FY 2021: 65%) with only 2.5% of loans by value with LTVs exceeding 90% (FY 2021: 2.5%) and average new origination LTV was 74% (H1 2021: 73%).

1. Gross loan book

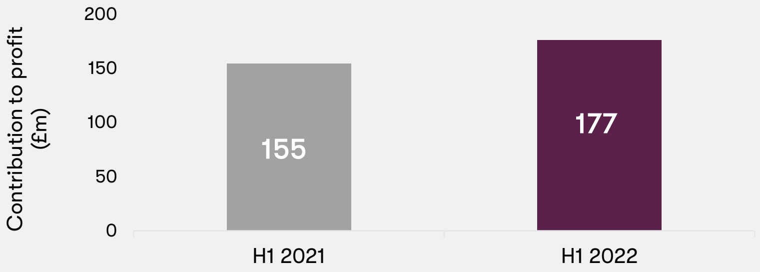


RWA as % of net loans	46%	47%

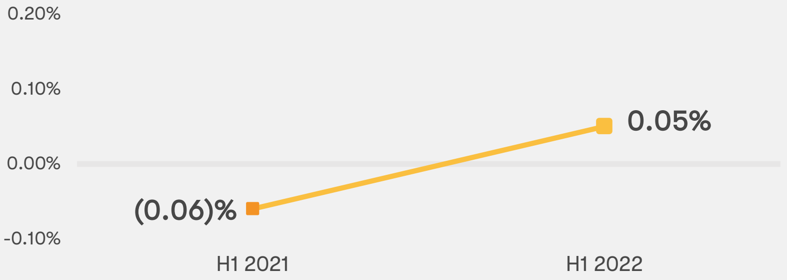
2. Net interest income

Gross asset yield	4.4%	4.4%

3. Contribution to profit[1]



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

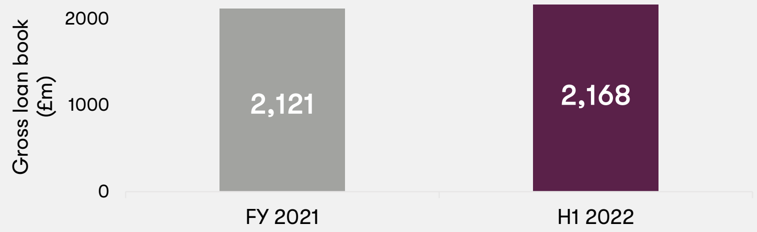


1. Total income less impairment losses

OSB segment results – Residential

Average book LTV reduced to 46% (FY 2021: 48%) with only 0.6% of loans by value with LTVs exceeding 90% (FY 2021: 0.8%) and average origination LTV was to 61% (H1 2021: 48%).

1. Gross loan book



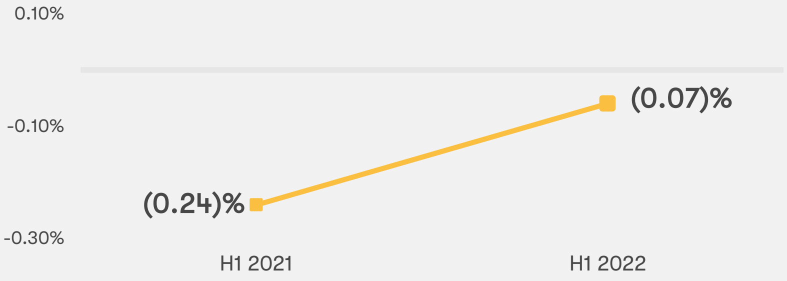
RWA as % of net loans: FY 2021 45% | H1 2022 44%

2. Net interest income

Gross asset yield: H1 2021 5.2% | H1 2022 4.9%

3. Contribution to profit[1]

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

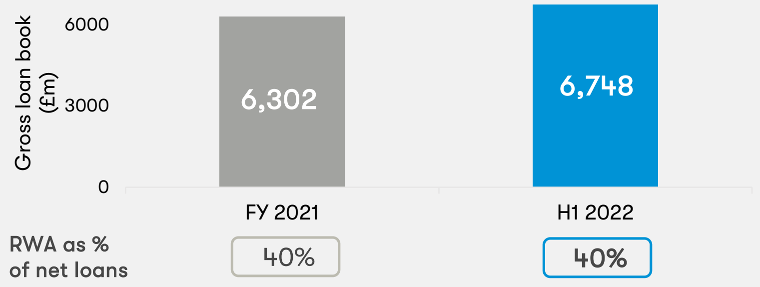


1. Total income less impairment losses

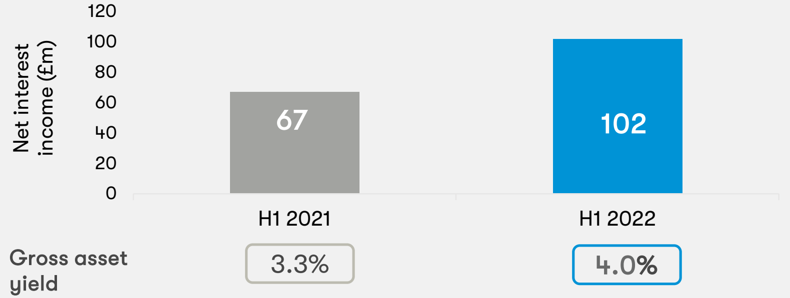
CCFS segment results – BTL sub-segment

Average book LTV remains low at 67% (FY 2021: 68%), average origination LTV was 74% (H1 2021: 74%).

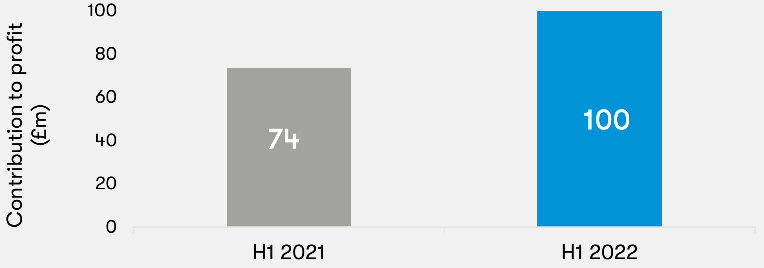
1. Gross loan book



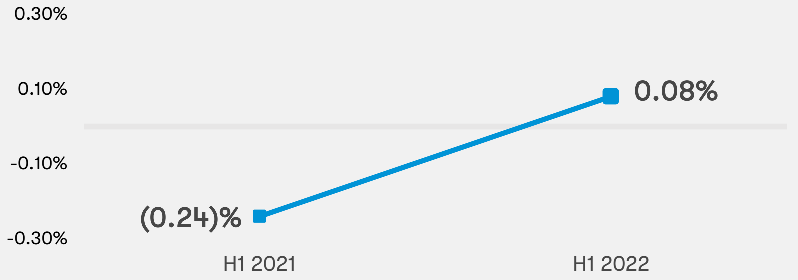
2. Net interest income



3. Contribution to profit[1]



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

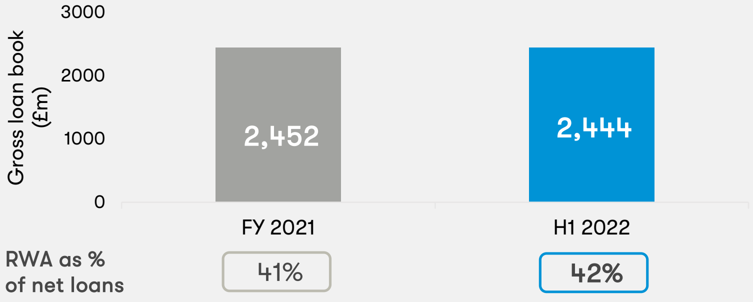


1. Total income less impairment losses

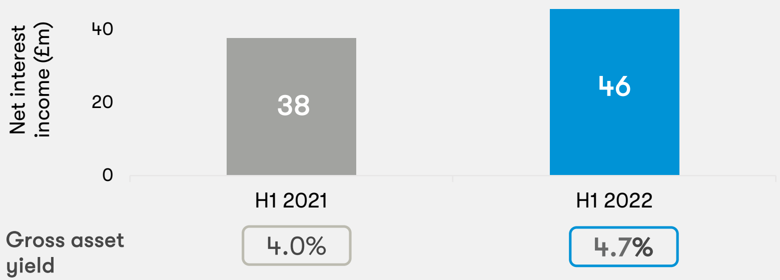
CCFS segment results – Residential sub-segment

Average book LTV remains low at 58% (FY 2021: 59%), average origination LTV was 66% (H1 2021: 65%).

1. Gross loan book

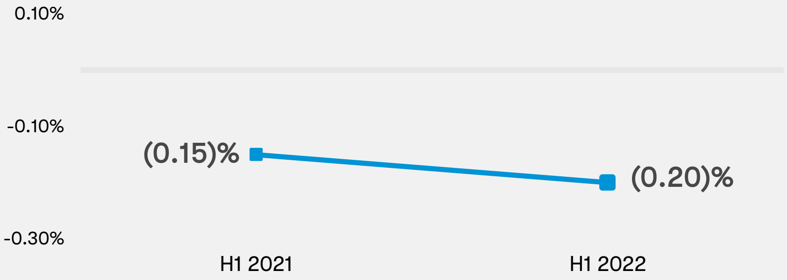


2. Net interest income



3. Contribution to profit[1]

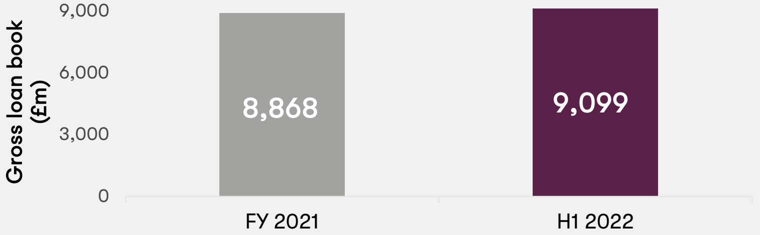
4. Loan loss charge as a % of average gross loans



1. Total income less impairment losses

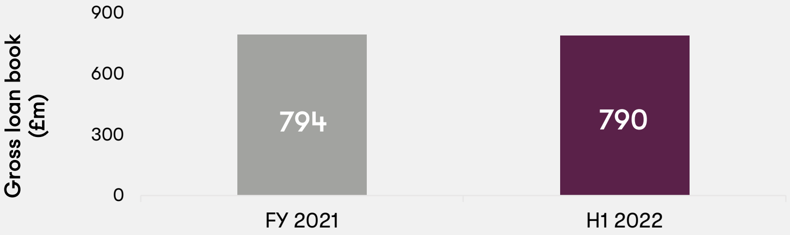
OSB segment results – BTL/SME sub-segments

1. Buy-to-Let



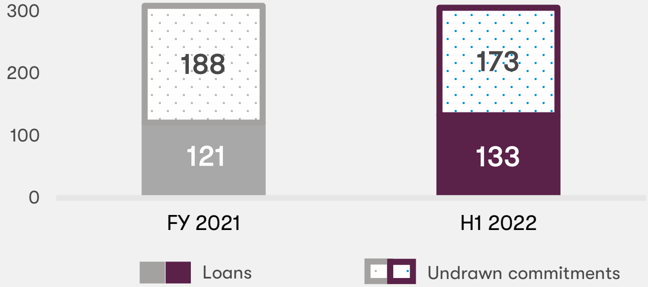
- The weighted average interest coverage ratio (ICR) was 211% during H1 2022 (H1 2021: 197%)

2. Semi-commercial/Commercial



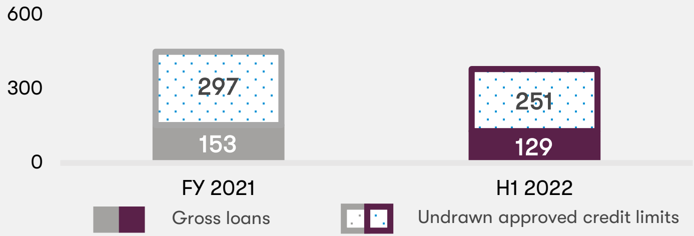
- Weighted average LTV of commercial book: 65% (FY 2021: 69%)
- Average loan size c. £375k (FY 2021: £380k)

3. Residential development



- Increased rates of sales by Heritable's developer customers led to very strong repayments in the first half of 2022

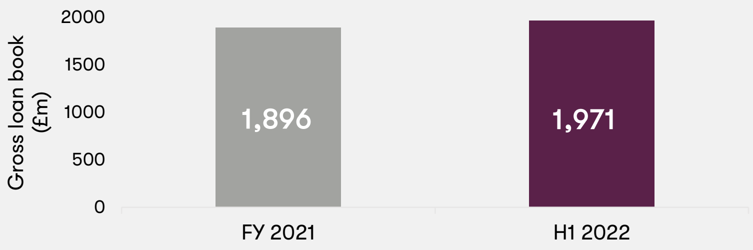
4. Funding lines



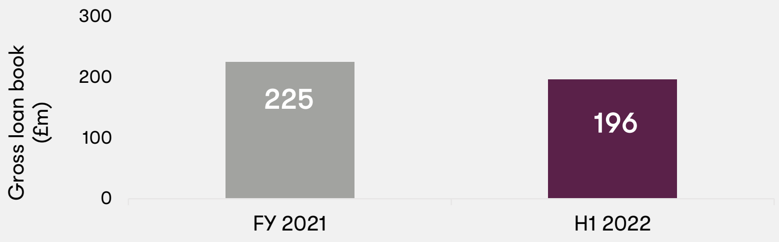
- Secured funding lines to non-bank lenders
- High yielding, secured, specialist sub-segments primarily property-related

OSB segment results – Residential sub-segments

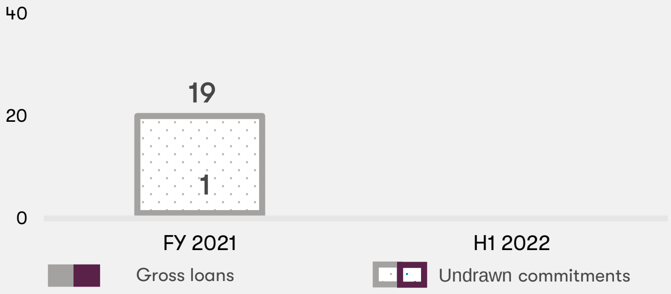
1. First charge mortgages



2. Second charge mortgages



3. Funding lines

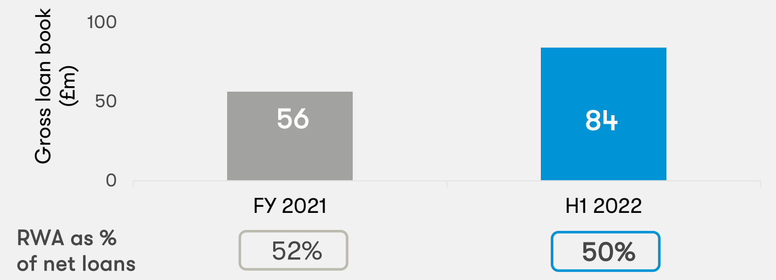


- First charge gross loan book increased by 4% as the Group relaunched its residential proposition under the Kent Reliance brand introducing a new range for complex prime borrowers
- OSB's second charge book is in run-off
- OSB provided no secured funding lines with the final exposure repaid during the period

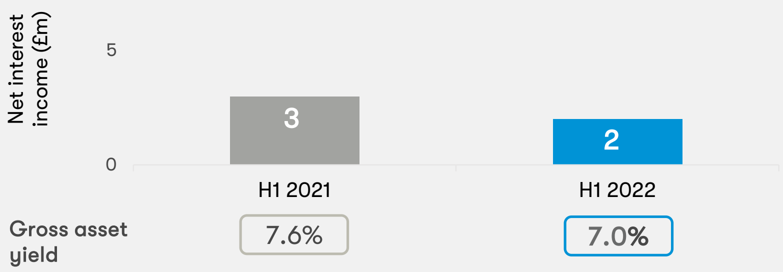
CCFS segment results – Bridging

Continued improvement in bridging products offering, including a relaunched and rebranded refurbishment product in April 2022

1. Gross loan book

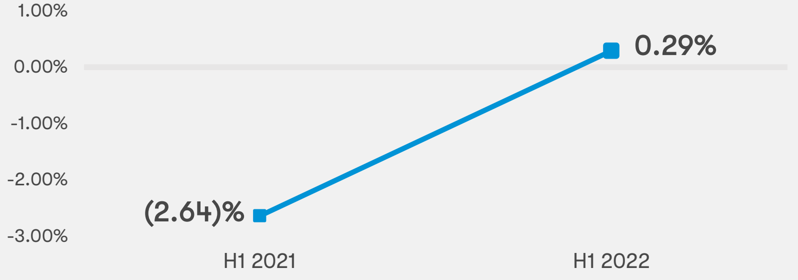


2. Net interest income



3. Contribution to profit[1]

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

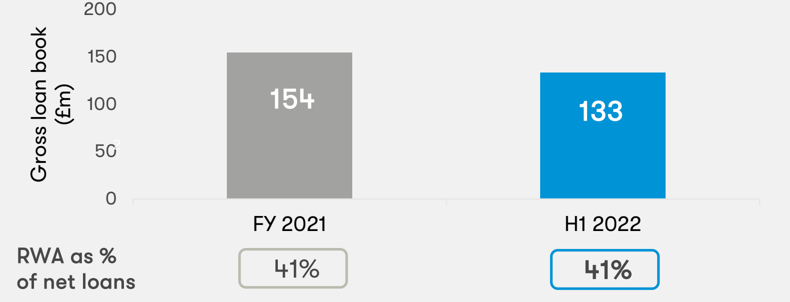


[1] Total income less impairment losses

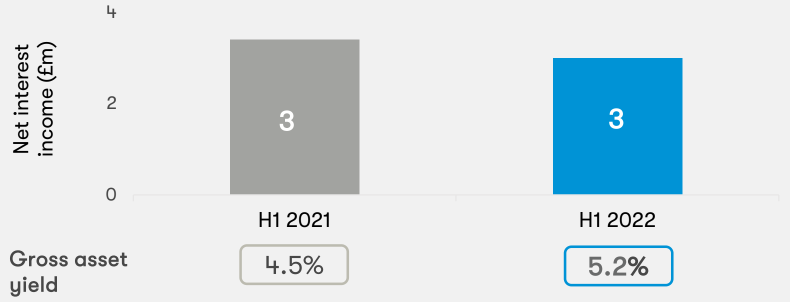
CCFS segment results – Second charge

Second charge products have recently been withdrawn

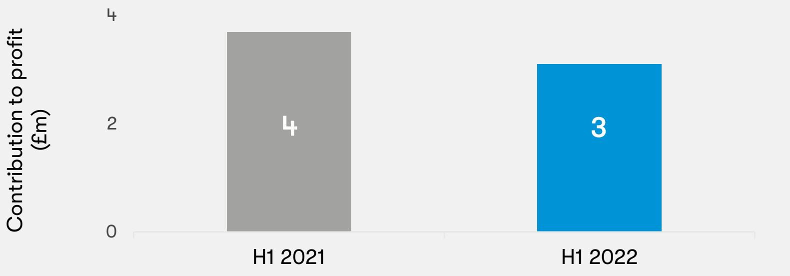
1. Gross loan book



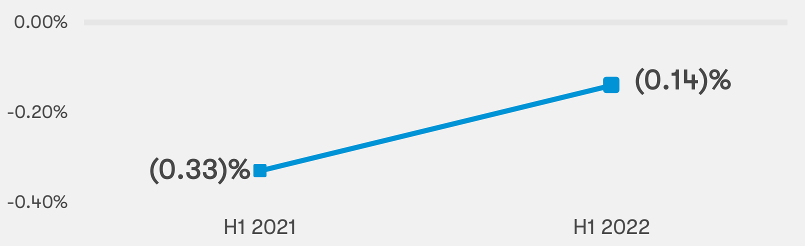
2. Net interest income



3. Contribution to profit[1]



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



[1] Total income less impairment losses

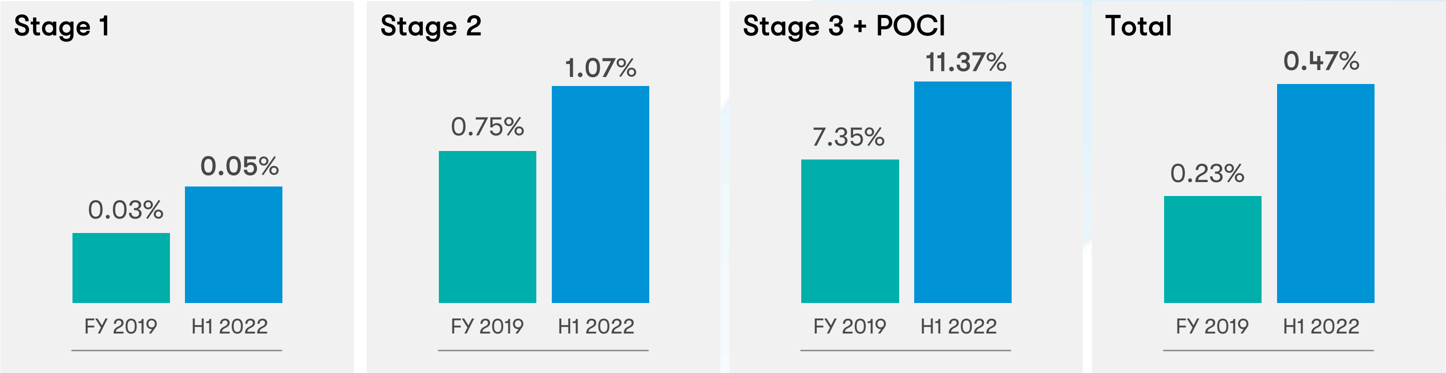
Updated forward-looking macroeconomic scenarios

Downside weighting increased by 10% in forward-looking macroeconomic scenarios to address growing cost of living concerns.

Scenario	Probability weighting %	Economic measure	Scenario[1] %		
			Year end 2022	Year end 2023	Year end 2024
Base case	40	GDP Unemployment rate House price growth	3.7 3.8 4.9	1.8 3.7 (0.8)	2.1 3.7 (0.3)
Upside	10	GDP Unemployment rate House price growth	4.7 3.6 9.1	3.8 3.5 1.9	2.6 3.6 2.1
Downside	38	GDP Unemployment rate House price growth	0.7 5.9 (2.3)	0.2 6.1 (9.8)	1.7 6.3 (10.7)
Severe downside	12	GDP Unemployment rate House price growth	(0.7) 6.2 (6.0)	(0.8) 6.4 (14.6)	1.5 6.6 (16.9)

1. Scenarios show annual movement for GDP and house price growth and year end positions for unemployment. House price growth includes indexation up to and including 31 March 2022 and forecast estimates thereafter

Pre-pandemic impairment coverage



As at 30 June 2022	Gross carrying amount £m	Expected credit losses £m	Coverage ratio %
Stage 1	18,702.0	8.8	0.05%
Stage 2	2,561.6	27.3	1.07%
Stage 3 + POCI	580.6	66.0	11.37%
Total	**21,844.2**	**102.1**	**0.47%**
As at 31 December 2019			
Stage 1	17,286.9	5.6	0.03%
Stage 2	749.5	5.6	0.75%
Stage 3 + POCI	431.2	31.7	7.35%
Total	**18,467.6**	**42.9**	**0.23%**

osb
Group

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