OSB Group 2021 preliminary results

17 March 2022

Excellent results for 2021

Excellent results for 2021

- The Group achieved a record underlying profit before tax of £522m
- The statutory net loan book grew by 10% supported by £4.5bn of new lending
- Underlying return on equity improved to 24%
- Underlying net interest margin increased to 282bps
- Total dividend for 2021 of 26 pence per share

Strong credit and risk management

- Strong credit performance with balances over three months in arrears broadly stable at 1.1% (2020: 0.9%)
- Statutory impairment credit of £4.4m and £24.9m provision release for the year
- Positive economic indicators in 2021 enabled the Group to introduce new products in core Buy-to-Let and Residential sub-segments at pre-pandemic criteria in the second half and we have recently returned to the market with new commercial products under the InterBay brand

Strong capital and liquidity position

- CET1 strengthened to 19.6%, with a total capital ratio of 21.2%
- The Group announced a share repurchase programme of £100m to commence on 18 March
- Retail deposits reached £17.5bn complemented by £1.9bn securitisations across the Group

Building our business

- Integration is progressing well with c. £24m annualised run rate savings achieved by the end of 2021 at costs lower than originally expected
- The Group demonstrated its long term dedication to reducing the impact of climate change by joining the Net-Zero Banking Alliance and committing to achieve Net Zero greenhouse gas emissions by 2050

Outlook for 2022

- Although we remain cognisant of continued inflationary and geopolitical pressures in the economic outlook, based on the current pipeline and applications, we expect to deliver underlying net loan book growth of c. 10%
- Based on current pricing and funding costs, underlying NIM is expected to be broadly flat to 2021
- We expect underlying cost to income ratio to increase marginally, with potential for additional inflationary headwinds

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

2021: £20.9bn
(2020: £19.0bn)

Loan book growth of 10% for 2021

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

2021: £17.5bn
(2020: £16.6bn)

21 securitisations to date across the Group worth over £9.8bn

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

2021: 24%
(2020: 27%)

Savings customers NPS
+70 for OSB
+71 for CCFS

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
- Second charge

Gross underlying loan book
2021: £9.0bn
2020: £8.0bn

'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
2021: £11.0bn
2020: £10.0bn

'Bespoke'

InterBay Commercial
Heritable Development Finance

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

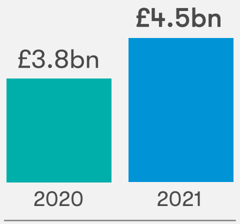
- Commercial
- Complex Buy-to-Let
- Semi-commercial
- Residential development finance
- Funding lines
- Asset finance

Gross loan book[1]
2021: £1.1bn
2020: £1.1bn

Financial highlights - statutory

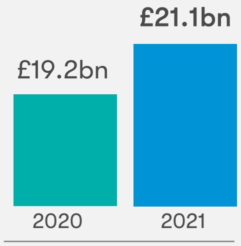
Gross new lending

20%



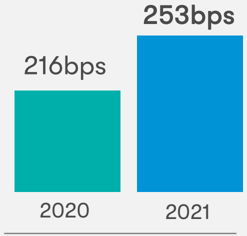
Net loan book

10%



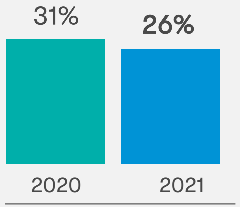
Net interest margin

37bps



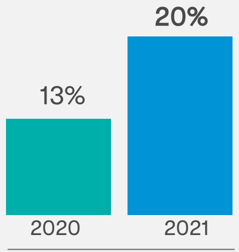
Cost to income ratio

(5)pts



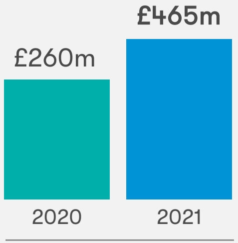
Return on equity

7pts



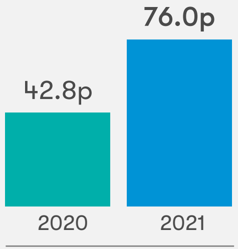
Profit before tax

78%



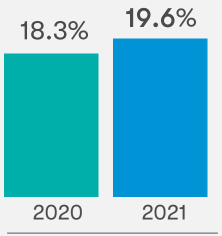
Basic EPS (pence per share)

78%



Fully loaded CET1 ratio

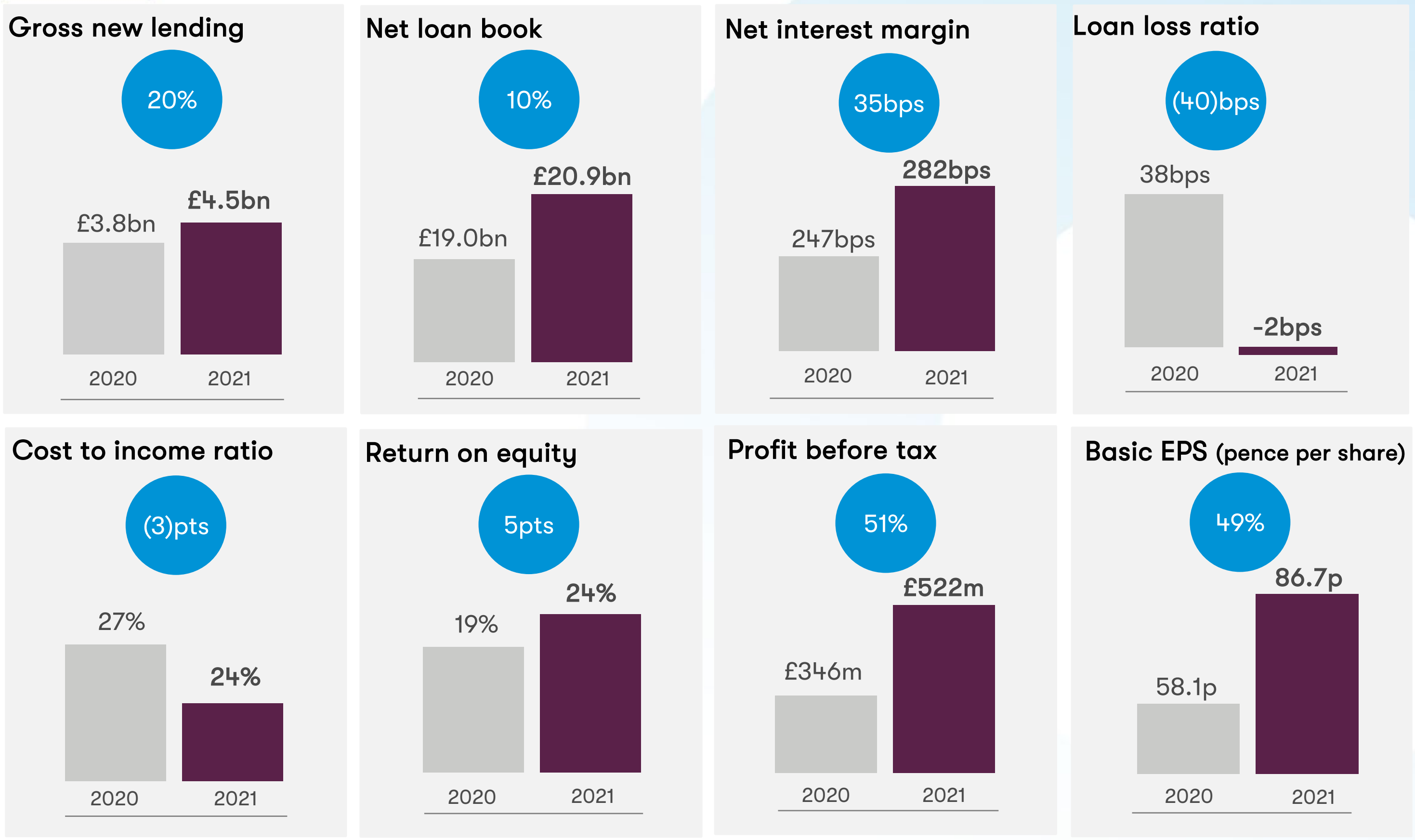
1.3pt



Group statutory 2021

Group statutory 2020

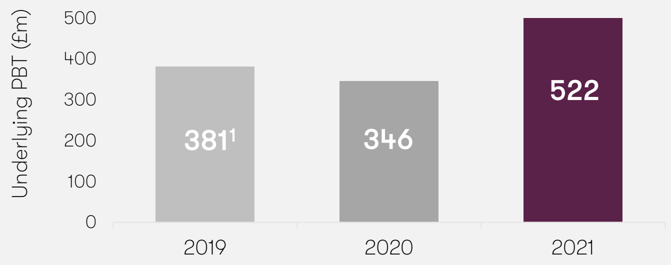
Financial highlights - underlying



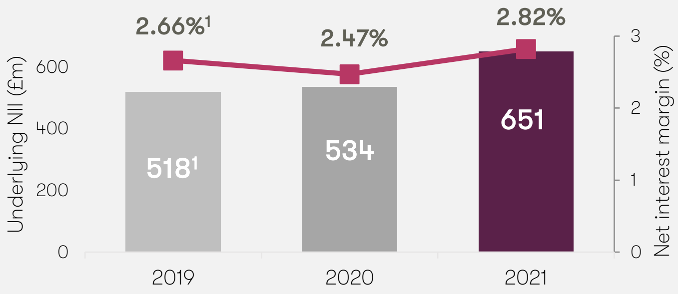
The total dividend for 2021 of **26 pence per share** representing a 30% payout ratio

Attractive underlying return on equity

1. Record underlying profit before tax

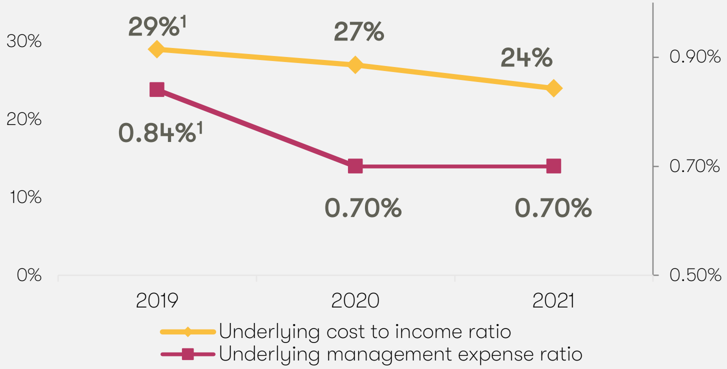


2. NII growth with strengthening NIM

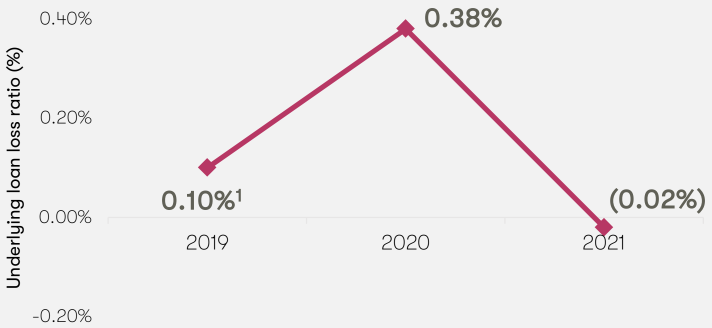


2021 underlying RoE of 24%

3. Focus on cost discipline and efficiency



4. Provision release in 2021



[1] Proforma underlying

Excellent results for 2021

Underlying P&L[1]

	2021 £m	2020 £m	Change £m	Change %
Net interest income	**650.5**	534.0	116.5	*22*
Net fair value gains/(losses) on financial instruments	**18.5**	(5.9)	24.4	*414*
Gain on sale of financial instruments	**2.3**	33.1	(30.8)	*(93)*
Other operating income	**7.9**	9.0	(1.1)	*(12)*
Total income	**679.2**	570.2	109.0	*19*
Administrative expenses	**(161.7)**	(152.7)	(9.0)	*6*
Provisions	**(0.2)**	(0.1)	(0.1)	*(100)*
Impairment of financial assets	**4.9**	(71.2)	76.1	*107*
Profit before taxation	**522.2**	346.2	176.0	*51*
Profit after taxation	**393.1**	264.9	128.2	*48*
Basic EPS (pence per share)	**86.7**	58.1	28.6	*49*
Dividend per share, pence	**26**	14.5	11.5	*79*

1. For reconciliation of underlying PBT to statutory PBT, see the Appendix on slide 19

- **Underlying NII up 22%** due to growth in the loan book and a lower cost of retail funds. It also included net effective interest rate reset gains of £18.6m to reflect updated prepayment assumptions based on customer behaviour
- **Fair value gains of £18.5m** related primarily to gains on mortgage pipeline swaps and associated amortisation from prior year losses
- **Administrative expenses** increased 6% due primarily to employee costs
- **Impairment credit of £4.9m** due primarily to the improved macroeconomic outlook
- **Underlying PBT increased by 51%,** due primarily to growth in the loan book, a lower cost of retail funds and an impairment credit
- **Underlying EPS grew** to 86.7 pence per share, in-line with the increase in profit after taxation

Strong, secure balance sheet

	2021 £m	2020 £m	Change £m	%
Lending				
Statutory net loans and advances to customers	**21,080**	19,231	1,849	10
Expected credit losses	**(102)**	(111)	(9)	(8)
Funding and liquidity				
Customer deposits	**17,526**	16,603	923	6
Debt securities in issue	**460**	422	38	9
Term Funding Scheme	**-**	2,569	(2,569)	(100)
Term Funding for SMEs	**4,203**	1,000	3,203	320
Liquid assets	**3,336**	3,148	218	7

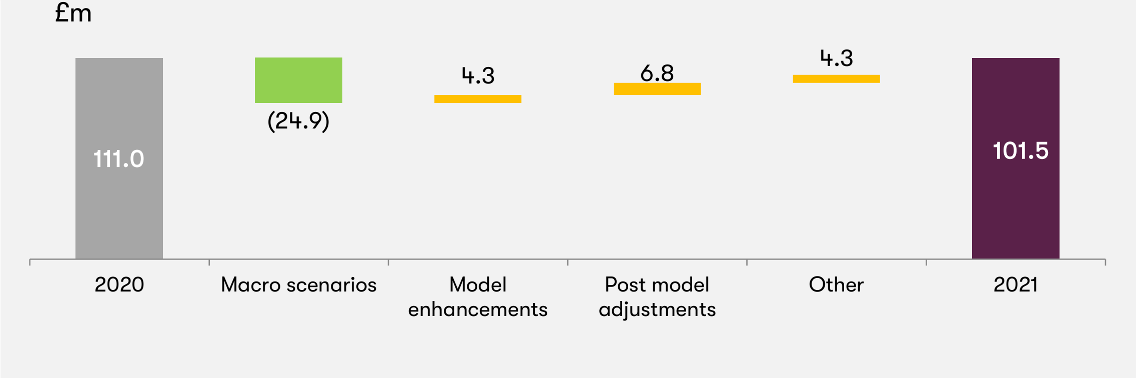
	OSB		CCFS	
	2021	2020	2021	2020
3 months + in arrears (%)	**1.4**	1.3	**0.7**	0.5
Interest coverage ratios (BTL origination) (%)	**199**	201	**188**	193
Average book LTV (%):				
Buy-to-Let/SME for OSB and Buy-to-Let for CCFS	**65**	67	**68**	69
Residential	**48**	54	**59**	62

- **Statutory and underlying net loan book growth** of 10% supported by **organic originations** of £4.5bn, up 20% compared with £3.8bn in 2020
- **Strong credit quality** with broadly stable 3 months plus in arrears balances: 1.4% for OSB and 0.7% for CCFS
- **Weighted average ICR** for Buy-to-Let origination demonstrates a prudent approach to assessment of customer affordability
- Weighted average LTVs reduced in the year supported by house price appreciation; weighted average **Group book LTV was 62%** (2020: 65%) and **69% for new business** written across the Group in the year (2020: 70%)

Improvement in underlying NIM

- **Underlying NIM improved** in the year to 282bps from 247bps due primarily to a lower cost of retail funds
- The underlying net interest income included **£18.6m of underlying net EIR reset gains** to reflect updated prepayment assumptions based on customer behaviour, which represented 8bps of benefit to underlying NIM
- The pricing and cost of retail funds we are currently seeing are expected to deliver an underlying NIM for 2022 broadly flat to 2021

Impairment provisions

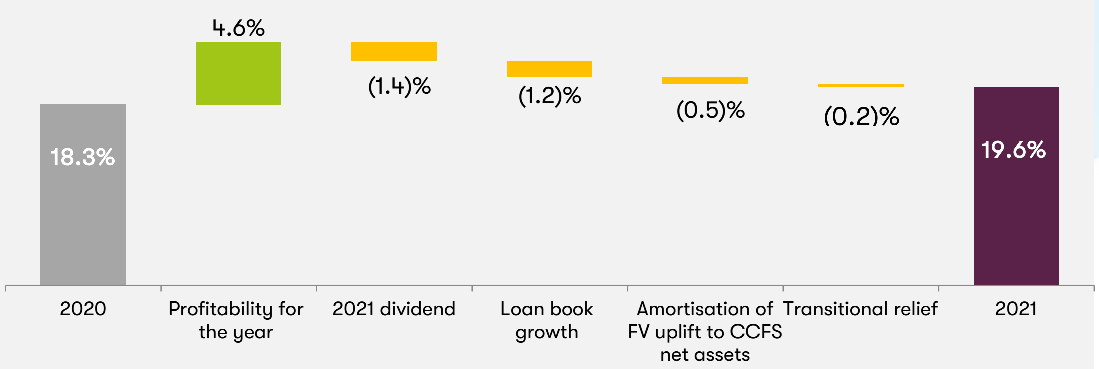


As at 31 December 2021	Gross carrying amount £m	Expected credit losses £m	Coverage ratio %
Stage 1	18,188.4	12.1	0.07%
Stage 2	2,413.6	25.0	1.04%
Stage 3 + POCI	562.1	64.4	11.46%
Total	**21,164.1**	**101.5**	**0.48%**
As at 31 December 2020			
Stage 1	16,116.3	21.2	0.13%
Stage 2	2,691.0	31.0	1.15%
Stage 3 + POCI	515.3	58.8	11.41%
Total	**19,322.6**	**111.0**	**0.57%**

- **Statutory impairment credit of £4.4m** representing -2bps of average gross loans and advances
  - £24.9m provision release due to less severe forward-looking macroeconomic scenarios (£22.2m release) and strong house price performance (£12.3m release), net of an additional 10% downside weighting (£9.6m charge) to reflect future risks from rising cost of living and affordability pressures from further rises in interest rates
  - £4.3m charge for model enhancements
  - £6.8m charge for pandemic-related post model adjustments
  - £4.3m of other provision increases net of write offs
- Impairment coverage levels remained above pre-pandemic levels, reflecting the continued uncertainty surrounding the macroeconomic outlook.
- See the Appendix for the macroeconomic scenarios

Strong capital base

CET1 %



Capital	2021	2020	Change
Risk weighted assets (RWAs) £m	**9,102**	8,566	**6%**
RWAs as % of total assets	**37**	38	**(1.0)ppt**
Common equity tier 1 ratio %	**19.6**	18.3	**1.3ppts**
Total capital ratio %	**21.2**	18.3	**2.9ppts**
Leverage ratio %	**7.9**	6.9	**1.0ppt**

- **Exceptionally strong CET1 of 19.6%** as at 31 December 2021 as a result of strong capital generation through profitability
- **Total capital ratio of 21.2% also** benefitted the issue of £150m of AT1 from the Group's holding company
- The capital ratios include transitional benefits of **c. 1.2%** 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

Capital management framework in action

Focused on shareholder value creation

	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's Board sets prudent risk appetite limits above regulatory minima
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 – **payout ratio increased to 30% for 2021**
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	• **£100m share repurchase** announced today • The Board remains committed to returning any additional excess capital to shareholders once we have greater clarity on Basel 3.1

The Board will update the market on our capital management framework, as we receive greater clarity on the impact of Basel 3.1 and its timing versus the Group attaining IRB accreditation.

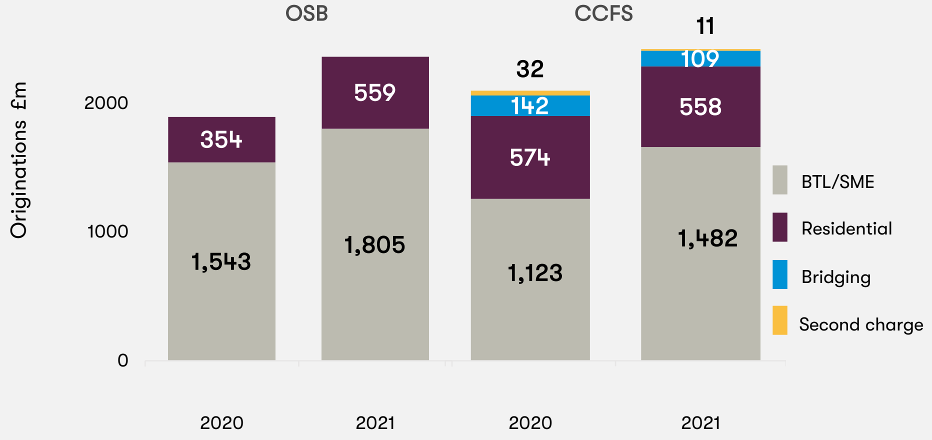
Our ESG Framework

In 2021, we formalised our approach to environmental, social and governance (ESG) matters setting ambitious goals.

Environment	• 10.2% reduction in operational carbon footprint for 2021 against 2019 baseline • 100% of electricity purchased in the UK was from renewable tariffs • We are offsetting the operational emissions of 2021 and 2020 using quality, verified offsetting projects, aligned to our priorities • The Group is pledging to achieve net zero emissions, through its operating footprint by 2030 and across its business activities by 2050 and has joined the United Nations Net Zero Banking Alliance
Social responsibility	• 32% of senior management roles are undertaken by women • 176 employees were promoted in 2021 • Nearly £395k was donated to good causes • Our Group-wide Diversity and Inclusion Working Group engaged in a range of activities including initiatives supporting mental health in the workplace
Governance	• Climate risk governance established with Sarah Hedger appointed as our Board ESG champion • ESG Sustainability Director appointed to lead the Group's ESG team

Our award-winning lending franchises

Recovery in originations in 2021



Net loan book up 10% for 2021

- Demand was strong and the Group remained a lender of choice in our Buy-to-Let and Residential sub-segments
- Introduced new products at pre-pandemic criteria in our core Buy-to-Let and Residential segments at attractive margins
- Recently returned to the market with products at pre-pandemic criteria in commercial and semi-commercial sub-segments
- Active but continue to control lending on our more cyclical business lines:
  - Bridging
  - Development finance
  - Funding lines
  - Second charge

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

OSB: 199%

CCFS: 188%

Good retention
Borrowers continue to choose new products with OSB Choices retention scheme, 71% choosing new product within 3 months (2020: 75%).

Well-positioned
Professional landlords remained at 82% of OSB BTL completions by value in 2021.

Specialist property types made up 26% of CCFS BTL completions in 2021

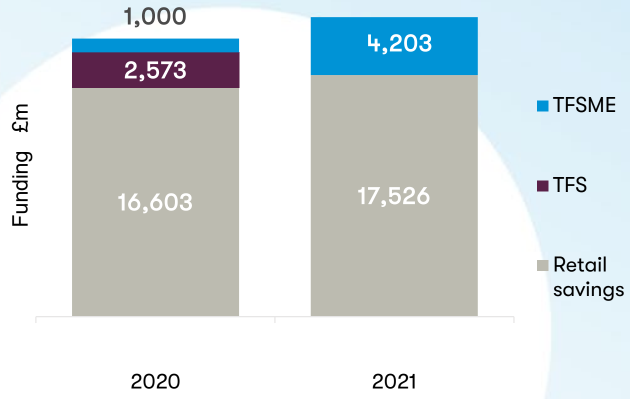
Sophisticated funding platform

The Group remained predominantly retail funded with £17.5bn of retail deposits as at the end of 2021, up 6% in the year.

	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.18k	90%	+70
Charter Savings Bank	c.25k	85%	+71

- The Group fully repaid its TFS drawings in the year and replaced them with TFSME drawings of £4.2bn extending the repayment profile
- The Group issued its largest ever securitisation transaction, Canterbury No. 4, in July 2021. This transaction securitised c. £1.7bn of mortgage loans and provided the Group with c. £1.4bn of AAA rated senior bonds which can be used as collateral in commercial and central bank repo facilities, or be sold into the market at short notice for liquidity purposes

Retail savings complemented by increasingly diversified funding sources:



Summary and outlook

Returning to our key messages from today:

Excellent results in 2021

- The Group saw strong financial and operational performance in 2021 with record profits, £4.5bn of new lending at attractive margins, increased NIM and a class leading underlying return on equity of 24%
- Strong focus on cost discipline and efficiency with underlying management expense ratio broadly stable at 70bps
- Strong capital position and proven capital generation through profitability has enabled a £100m share repurchase programme and additionally, an increase in the 2021 ordinary dividend payout ratio to 30% which represents a total dividend of 26 pence per share
- We made significant progress on important projects including our approach to climate change and sustainability. The Board has committed to be carbon neutral for our direct emissions in 2021 through reduction initiatives and emissions removal credits, in addition to setting a target of achieving Net Zero greenhouse gas emissions by 2050

Outlook for 2022

- We have a healthy pipeline of new business and are successfully leveraging our unique multi-brand propositions to drive strong current applications volumes in our core market sub-segments
- Although we remain cognisant of continued inflationary and geopolitical pressures in the economic outlook, based on current new business volumes and our focus on retention, we expect to deliver underlying net loan book growth of c. 10%
- Based on current pricing and funding costs, underlying NIM is expected to be broadly flat to 2021
- We expect underlying cost to income ratio to increase marginally, with potential for additional inflationary headwinds

2021 preliminary results appendices

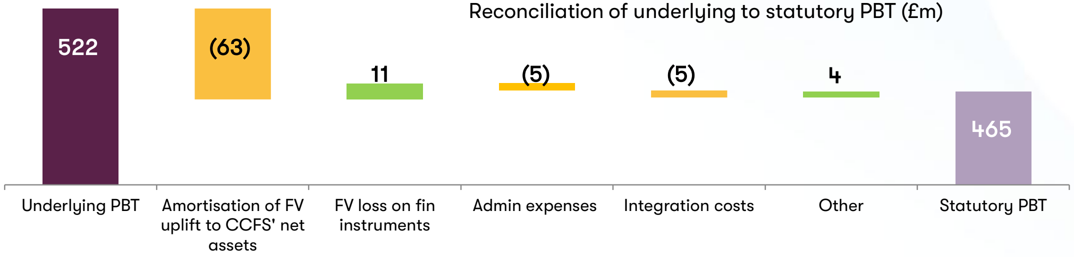
17 March 2022

Strong statutory results

Statutory P&L

	2021 £m	2020 £m	Change £m	Change %
Net interest income	**587.6**	472.2	115.4	*24*
Fair value gain/(loss) on financial instruments	**29.5**	7.4	22.1	*299*
Gain/(loss) on sale of loans	**4.0**	20.0	(16.0)	*(80)*
Other operating income	**7.9**	9.0	(1.1)	*(12)*
Total income	**629.0**	508.6	120.4	*24*
Administrative expenses	**(166.5)**	(157.0)	(9.5)	*(6)*
Provisions	**(0.2)**	(0.1)	(0.1)	(100)
Impairment of financial assets	**4.4**	(71.0)	(75.4)	*106*
Impairment of intangible assets	**3.1**	(7.0)	(10.1)	*144*
Integration costs	**(5.0)**	(9.8)	4.8	*49*
Exceptional items	**(0.2)**	(3.3)	3.1	*94*
Profit before tax	**464.6**	260.4	204.2	*78*
Profit after tax	**345.3**	196.3	149.0	*76*
Basic EPS (pence per share)	**76.0**	42.8	33.2	*78*

Reconciliation of underlying to statutory PBT (£m)



- **NII** increased by 24% due to growth in the loan book, lower cost of retail funds and an impairment credit for the year
- **Fair value gain on financial instruments** related primarily to gains on mortgage pipeline swaps
- **Administrative expenses** increased primarily due to employee costs
- **Impairment credit of £4.9m** due primarily to the improved macroeconomic outlook
- **Impairment of intangible assets** due to a partial reversal of impairment on broker relationship intangible
- **Integration costs** largely related to redundancy costs and professional fees
- **Statutory PBT** up 78% due to lower cost of retail funds and an impairement credit for the year
- **Statutory basic EPS up** to 76.0 pence per share

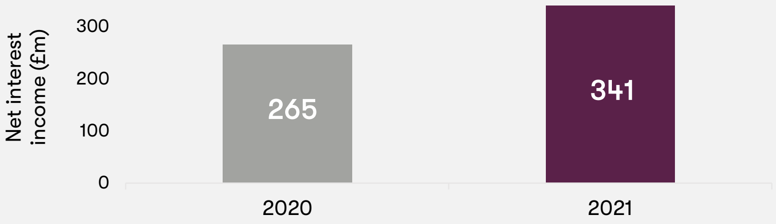
OSB segment results – BTL/SME

Average book LTV reduced to 65% (2020: 67%) with only 2.5% of loans by value with LTVs exceeding 90% (2020: 2.9%) and average new origination LTV of 73% (2020: 71%).

1. Gross loan book

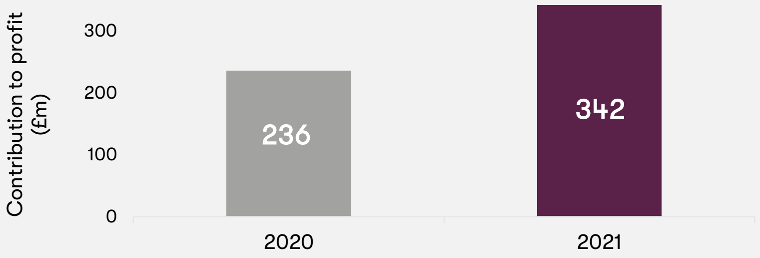
RWA as % of net loans	47%	46%

2. Net interest income

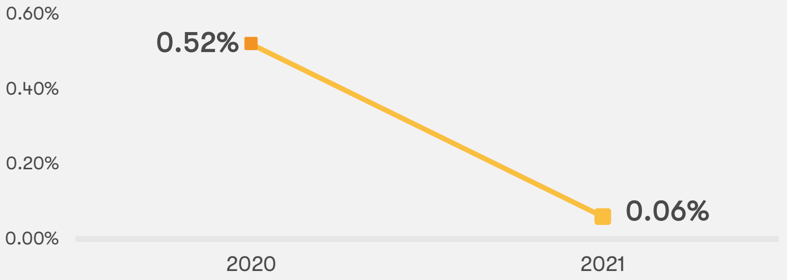


Gross asset yield	4.5%	4.6%

3. Contribution to profit[1]



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

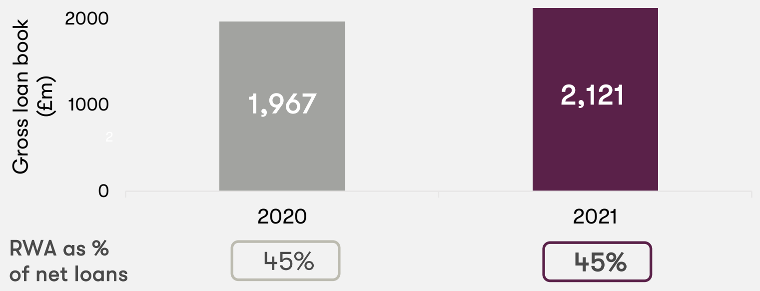


1. Total income less impairment losses

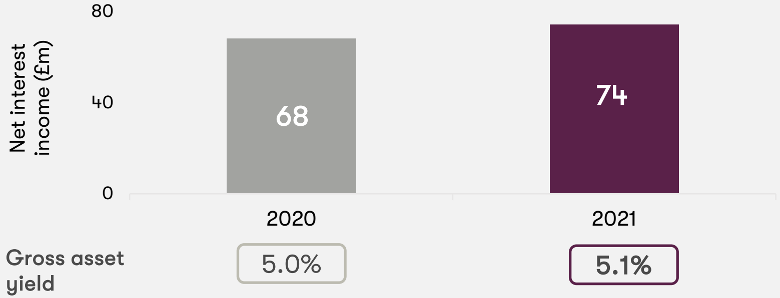
OSB segment results – Residential

Average book LTV reduced to 48% (2020: 54%) with only 0.8% of loans by value with LTVs exceeding 90% (2020: 1.6%) and average origination LTV reduced to 50% (2020: 61%).

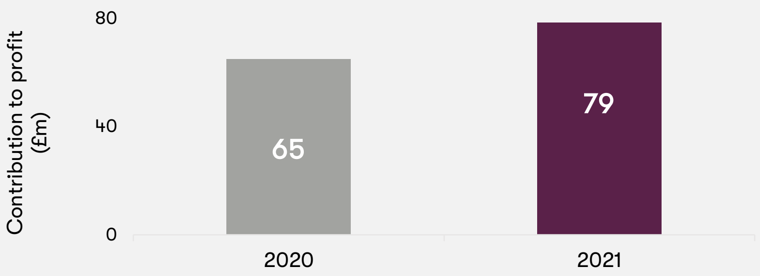
1. Gross loan book



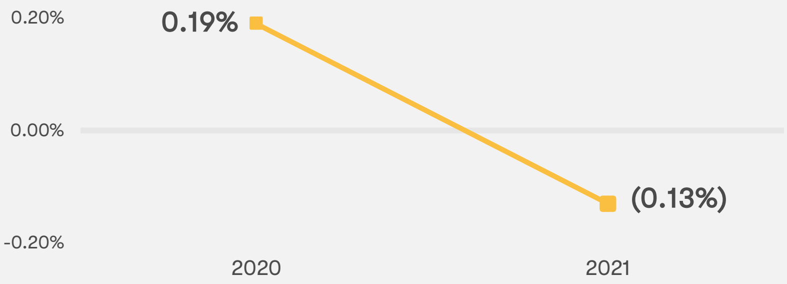
2. Net interest income



3. Contribution to profit[1]



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

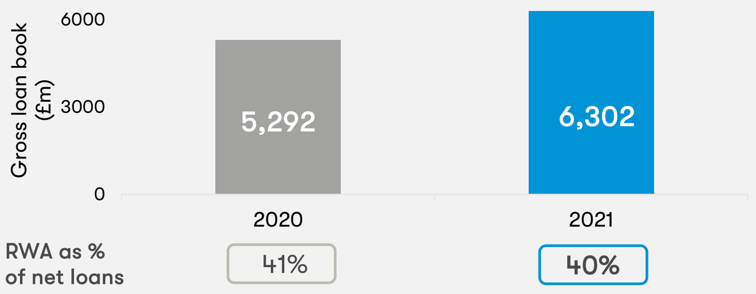


1. Total income less impairment losses

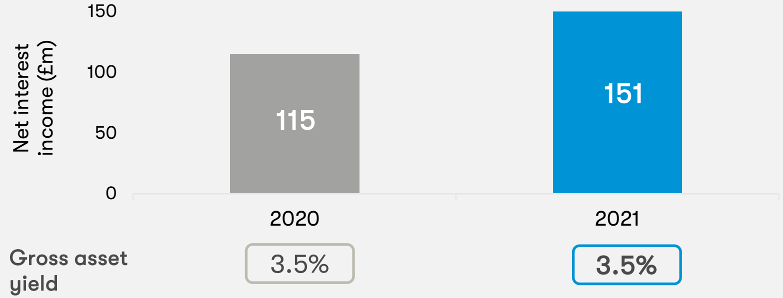
CCFS segment results – BTL sub-segment

Average book LTV remains low at 68% (2020: 69%), average origination LTV was 74% (2020: 74%).

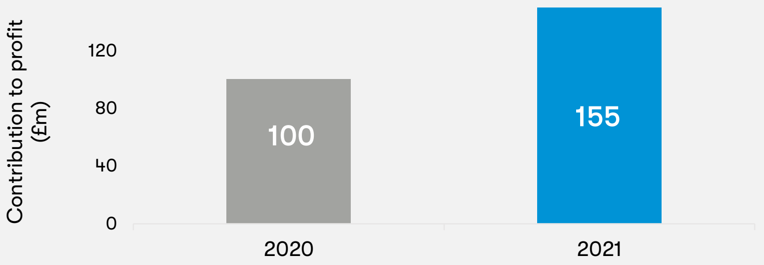
1. Gross loan book



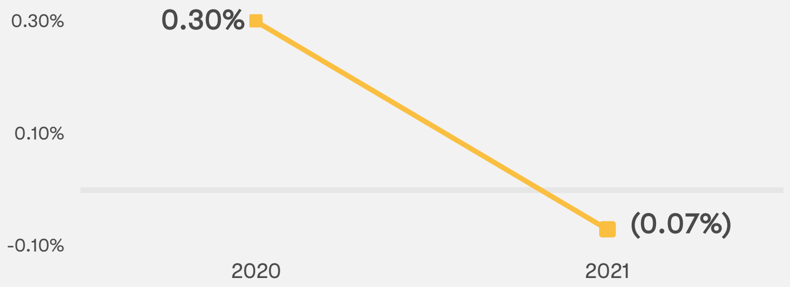
2. Net interest income



3. Contribution to profit[1]



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

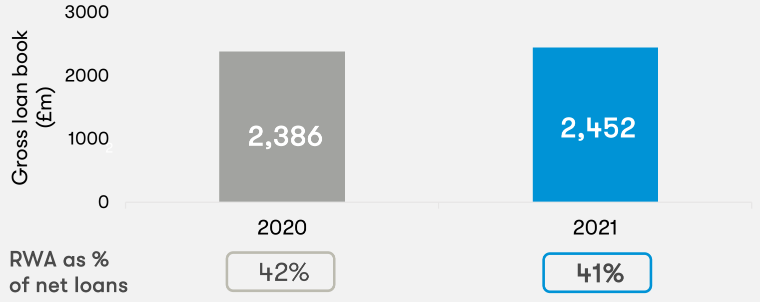


1. Total income less impairment losses

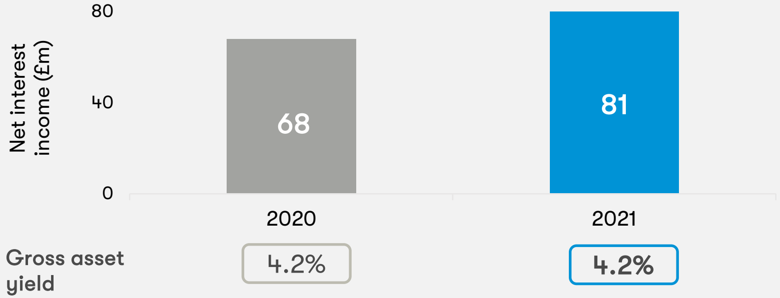
CCFS segment results – Residential sub-segment

Average book LTV reduced to 59% (2020: 62%), average origination LTV was 66% (2020: 67%).

1. Gross loan book

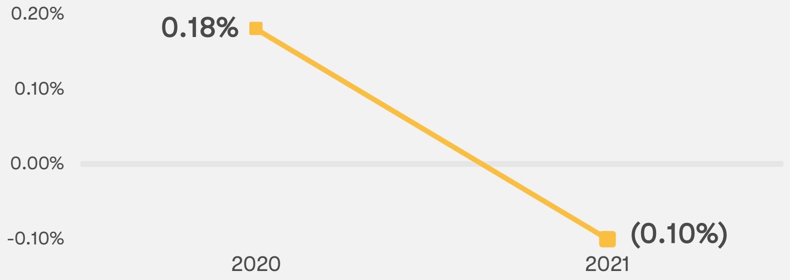


2. Net interest income



3. Contribution to profit[2]

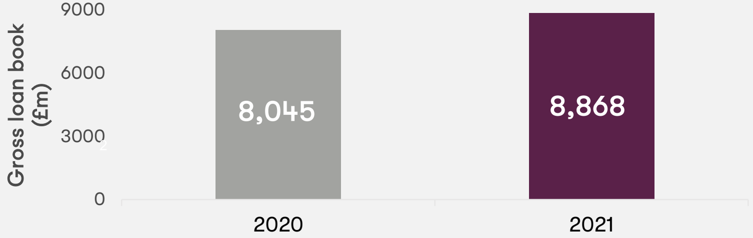
4. Loan loss charge as a % of average gross loans



1. Total income less impairment losses

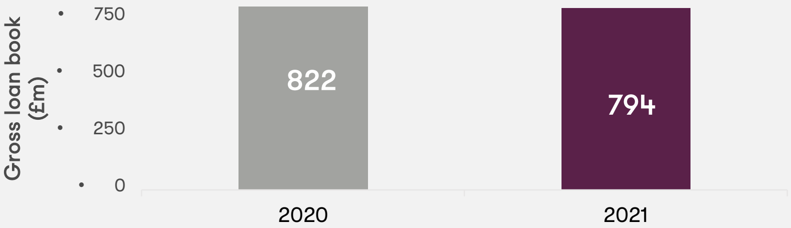
OSB segment results – BTL/SME sub-segments

1. Buy-to-Let



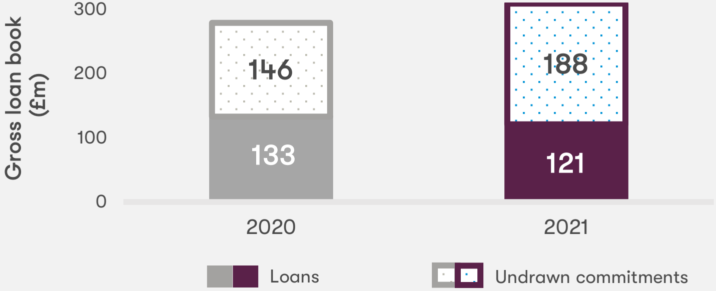
- The weighted average interest coverage ratio (ICR) was 199% during 2021 (2020: 201%)

2. Semi-commercial/Commercial



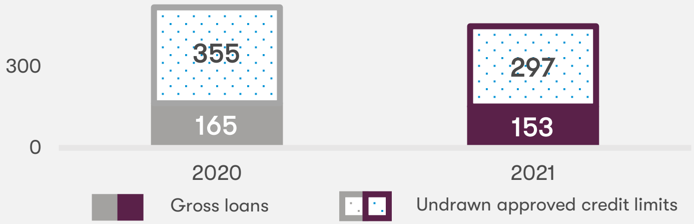
- Weighted average book LTV: 69% (2020: 71%)
- Average loan size £380k (2020: £385k)

3. Residential development



- Heritable had high rates of sales leading to high levels of repayments in 2021

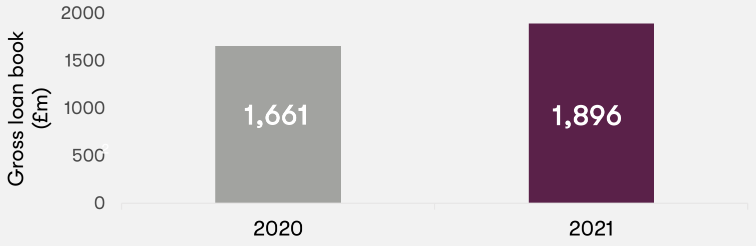
4. Funding lines



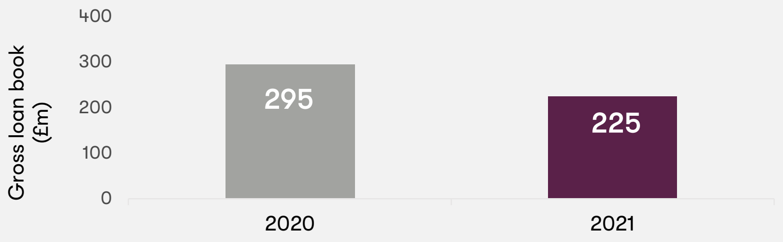
- Secured funding lines to non-bank lenders
- High yielding, secured, specialist sub-segments primarily property-related

OSB segment results – Residential sub-segments

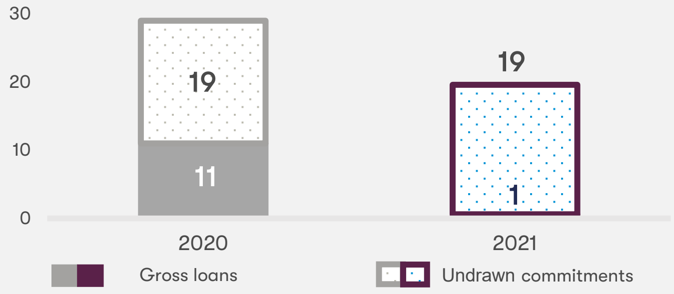
1. First charge mortgages



2. Second charge mortgages



3. Funding lines

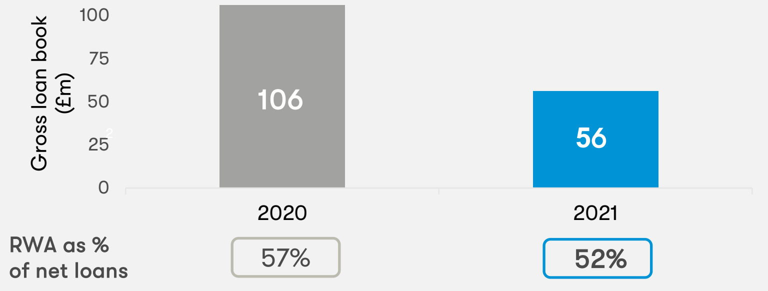


- First charge gross loan book increased by 14% largely due to the success of OSB's shared ownership proposition
- OSB's second charge book is in run-off and currently second charge loans are provided under the Precise Mortgages brand
- Residential funding lines loan balances reduced in the year as the Group continued to adopted a cautious approach

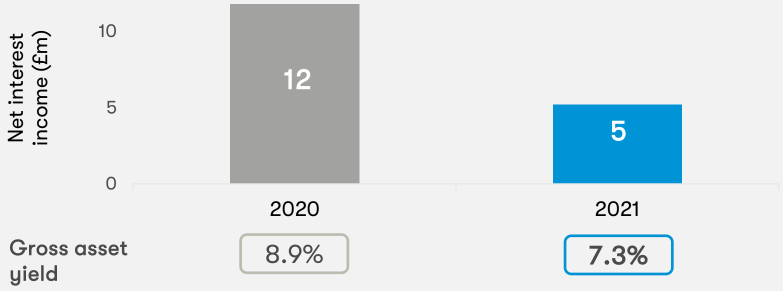
CCFS segment results – Bridging

Controlled return to market in the second half of the year with relaxation of lending criteria

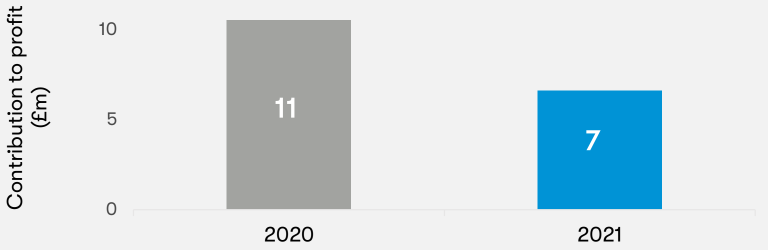
1. Gross loan book



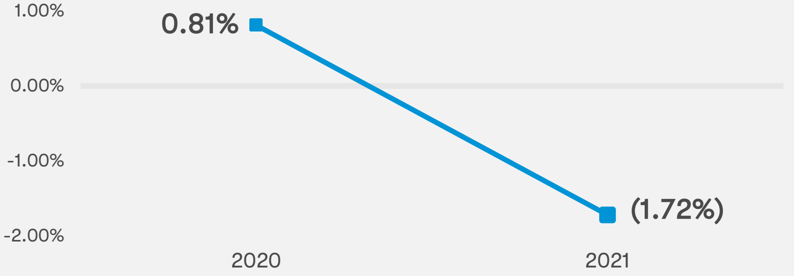
2. Net interest income



3. Contribution to profit[1]



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

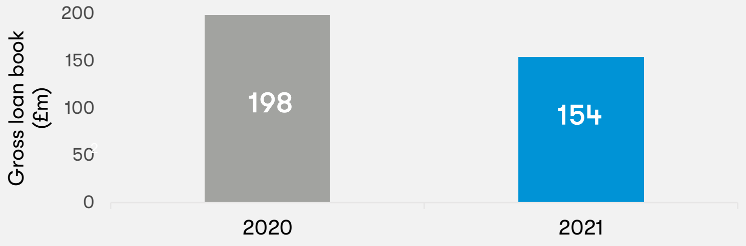


1. Total income less impairment losses

CCFS segment results – Second charge

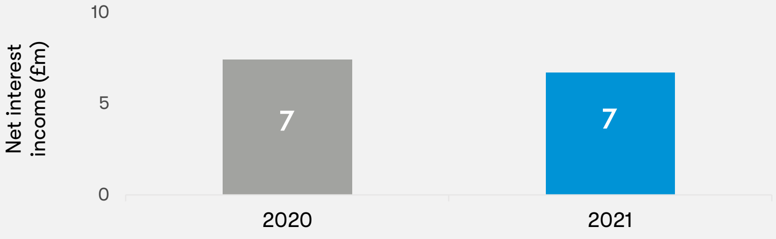
Lending policy restrictions applied in 2021, with controlled relaxation of LTV

1. Gross loan book



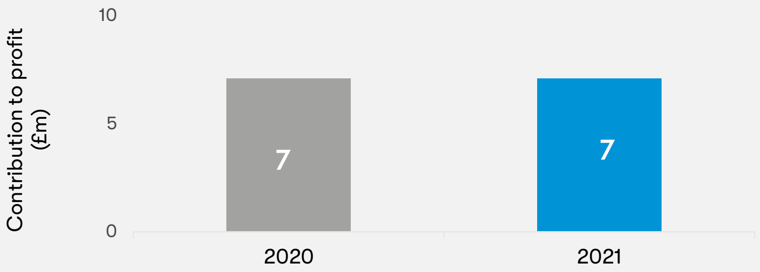
RWA as % of net loans	2020	2021
	42%	41%

2. Net interest income

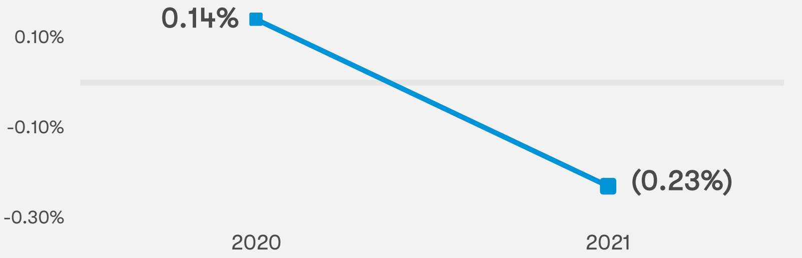


Gross asset yield	2020	2021
	4.8%	4.5%

3. Contribution to profit[1]



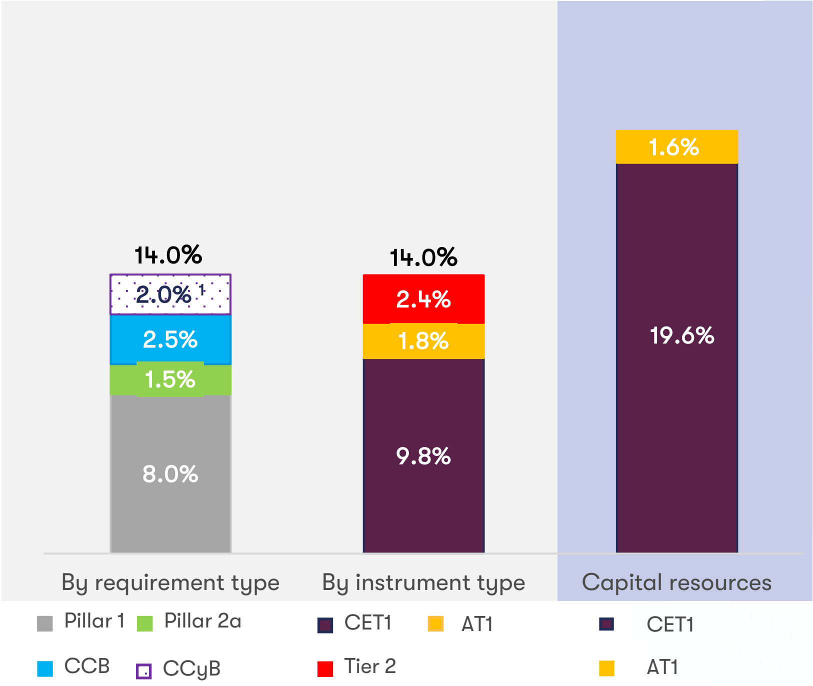
4. Loan loss charge as a % of average gross loans



1. Total income less impairment losses

Components of Group capital

Capital resources and requirements as a percentage of RWAs



- Capital requirements shown are as at 31 December 2021. 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
- **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.1.2% of transitional adjustments which will amortise over time
- In addition, Board and management buffers are maintained above regulatory minimums 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. Assumed reintroduction of CCyB in the future
2. 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

Updated forward-looking macroeconomic scenarios

Forecast macroeconomic scenarios over a five year period

Scenario	Probability weighting %	Economic measure	Scenario % 5 year average (yearly growth %)	Scenario % Cumulative growth/(fall) to peak/(trough) (%)
Base case	40	GDP	3.3	14.5
		House Price Index (HPI)	1.9	(3.5)
		Bank Base Rate (BBR)	0.3	0.7
		Unemployment rate	4.2	0.1
		Commercial Real Estate Index (CRE)	1.9	(3.5)
Upside	20	GDP	4.0	18.5
		House Price Index (HPI)	4.5	(1.0)
		Bank Base Rate (BBR)	1.1	1.7
		Unemployment rate	3.7	(1.2)
		Commercial Real Estate Index (CRE)	4.5	(1.0)
Downside	28	GDP	2.3	1.2
		House Price Index (HPI)	(2.9)	(22.2)
		Bank Base Rate (BBR)	(0.1)	(0.4)
		Unemployment rate	6.1	1.8
		Commercial Real Estate Index (CRE)	(2.9)	(22.2)
Severe downside	12	GDP	1.7	(0.4)
		House Price Index (HPI)	(5.8)	(33.9)
		Bank Base Rate (BBR)	(0.3)	(0.6)
		Unemployment rate	6.5	2.1
		Commercial Real Estate Index (CRE)	(5.8)	(33.9)

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