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OSB GROUP PLC

OSB GROUP PLC (OSBG), the specialist lending and retail savings Group, today issues a trading update for the year to 31 December 2020

Alongside the Group's core Buy-to-Let and Residential sub-segments, the Group also provides funding lines to third parties secured primarily against property-related mortgages[1]. We have very recently become aware of potential fraudulent activity by one of these third parties, where our funding line is secured against lease receivables and the underlying hard assets. The Group had an outstanding receivable against this funding line of £28.6m as at 31 December 2020. The Group believes that this is an isolated incident and is appointing Smith & Williamson LLP to carry out an investigation of the third-party company on the Group's behalf. Until the investigation has progressed sufficiently we will not know to what extent the receivable has been impaired, with a maximum potential credit loss of £28.6m as at 31 December 2020. This has consequently led to a short delay in the Group publishing its preliminary results for the year, which will now take place on 8 April 2021.

The following (unaudited) expected highlights for the year ended 31 December 2020 would not be impacted by an impairment of the £28.6m funding line receivable, which would increase expected credit losses for the year

- Gross originations of £3.8bn (2019 pro forma underlying: £6.5bn) reflecting the impact of COVID-19
- Net interest margin of 247bps on an underlying[2] basis (2019: pro forma underlying[3] 266bps) impacted by a delay in passing on the base rate cuts in full to retail savers, which was completed by the end of the third quarter
- On an underlying[2] basis cost to income ratio improving to 27% (2019: pro forma underlying[3] 29%) benefitting from delivery of synergies, lower discretionary spend during lockdowns and continued focus on cost discipline and efficiency
- Strong credit performance, with balances greater than three months in arrears stable at 0.9% at the end of 2020 (2019: 0.9%) and the majority of customers granted COVID-19 payment deferrals having resumed payment. Active deferrals only 1.3% of the Group's loan book by value at 31 December 2020
- Integration is progressing well, with run rate savings of more than £15m delivered by the first anniversary of the Combination, significantly ahead of schedule. The Group expects to marginally exceed its run-rate pledge by the end of the third year. Integration costs to date are lower than originally expected, with final costs expected to be marginally below the end of year three target
- The Board intends to recommend a dividend for 2020 in line with our stated dividend policy of 25% of full year underlying[2] earnings attributable to ordinary shareholders

The following (unaudited) expected highlights are provided prior to an impairment of the £28.6m funding line receivable, which would increase expected credit losses for the year, and impact each of the metrics set out below

- Underlying[2] profit before tax of £366.2m (2019: pro forma underlying[3] £381.1m)
- Net loan book growth, after expected credit losses, of 4% to £19.0bn on an underlying[2] basis (2019: pro forma underlying[3] £18.2bn), or 10% excluding the impact of structured asset sales

- Full year expected credit losses broadly flat to the first half

- Underlying[2] return on equity (RoE) of 20% despite significantly higher expected credit losses under IFRS 9 and a strengthened equity position (2019: 25% pro forma underlying[3])

- Underlying[2] basic earnings per share (EPS) down 5% to 61.4 pence (2019: pro forma underlying[3] 64.9 pence)

- Common Equity Tier 1 (CET1) ratio strengthened to over 18% due to additional profitability in the second half. The potential impact of a 100% impairment of the funding line receivable of £28.6m would equate to only a 0.2% point reduction in the CET1 ratio as at 31 December 2020[4]

Headline 2021 Guidance

Based on our pipeline, current application levels and risk appetite, we currently expect to deliver underlying net loan book growth for 2021 of c.10%, although we remain cognisant of continued uncertainty in the economic outlook. Based on current pricing and cost of funds, we expect underlying NIM for 2021 to return to 2019 levels. We expect the underlying cost to income ratio to be marginally higher in 2021, as the ratio in 2020 benefitted from higher income from gains on structured asset sales and lower discretionary spending in lockdowns.

1 The Group's gross loans to customers include £175.7m in relation to funding lines of which 66% is secured on property-related mortgages.

2 Underlying refers to results and ratios which exclude exceptional items, integration costs and other acquisition-related items arising from the Combination with CCFS.

3 Pro forma underlying refers to ratios and results which assume that the Combination with CCFS occurred on 1 January 2019 and exclude exceptional items, integration costs and other acquisition-related items arising from the Combination with CCFS.

4 Based on expected total risk weighted assets of £8.6bn.

Andy Golding, CEO of OSB Group, said:

"Whilst I am disappointed at the very recent discovery of a potential fraud at one of the non-bank lenders we provide secured funding to, we believe that this is an isolated incident and are committed to expediting our investigation and publishing our full preliminary results on 8 April 2021.

I am proud of the Group's performance in a very challenging year. Our business model proved its financial and operational resilience in 2020. Our customers, clients, colleagues and communities were always front of mind as we supported all stakeholders to the best of our ability, whether that was by providing mortgage payment deferrals, supporting colleagues' well-being or continuing to allow our customers to access financial services in the easiest and safest way.

We entered 2020 in a position of strength, with an attractive pipeline, growth opportunities and robust capital position. Lockdowns inevitably impacted our business and we reacted by tightening our risk appetite to protect margin and credit quality over growth. I am pleased that applications have now recovered to near pre-COVID levels in our core Buy-to-Let and Residential sub-segments on tighter criteria and we have a strong pipeline of new business. We continue to control volumes in our more cyclical product lines, in accordance with the economic outlook and our prudent approach to risk management.

Whilst we remain cognisant of the ongoing uncertainty over the true impact of the pandemic when government support comes to an end, the foundations of our business remain extremely robust. We have a very strong capital position and a resilient business model, all of which position us well to respond to the challenges and opportunities ahead and to deploy our resources to deliver attractive, sustainable returns to our shareholders over the long-term.''

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About OSB GROUP PLC

OSB began trading as a bank on 1 February 2011 and was admitted to the main market of the London Stock Exchange in June 2014 (OSB.L). OSB joined the FTSE 250 index in June 2015. On 4 October 2019, OSB acquired Charter Court Financial Services Group plc (CCFS) and its subsidiary businesses. On 30 November 2020, OSB GROUP PLC became the listed entity and holding company for the OSB Group. The Group provides specialist lending and retail savings and is authorised by the Prudential Regulation Authority, part of the Bank of England, and regulated by the Financial Conduct Authority and Prudential Regulation Authority. The Group reports under two segments, OneSavings Bank and Charter Court Financial Services.

OneSavings Bank

OSB primarily targets market sub-sectors that offer high growth potential and attractive risk-adjusted returns in which it can take a leading position and where it has established expertise, platforms and capabilities. These include private rented sector Buy-to-Let, commercial and semi-commercial mortgages, residential development finance, bespoke and specialist residential lending, secured funding lines and asset finance.

OSB originates mortgages organically via specialist brokers and independent financial advisers through its specialist brands including Kent Reliance for Intermediaries and InterBay Commercial. It is differentiated through its use of highly skilled, bespoke underwriting and efficient operating model.

OSB is predominantly funded by retail savings originated through the long-established Kent Reliance name, which includes online and postal channels as well as a network of branches in the South East of England. Diversification of funding is currently provided by securitisation programmes and the Bank of England funding schemes including, the Term Funding Scheme and the Term Funding Scheme for SMEs.

Charter Court Financial Services Group

CCFS focuses on providing Buy-to-Let and specialist residential mortgages, mortgage servicing, administration and retail savings products. It operates through its brands: Precise Mortgages and Charter Savings Bank.

It is differentiated through risk management expertise and best-of-breed automated technology and systems, ensuring efficient processing, strong credit and collateral risk control and speed of product development and innovation. These factors have enabled strong balance sheet growth whilst maintaining high credit quality mortgage assets.

CCFS is predominantly funded by retail savings originated through its Charter Savings Bank brand. Diversification of funding is currently provided by securitisation programmes and the Bank of England funding schemes including, the Term Funding Scheme and the Term Funding Scheme for SMEs.

currencies; policies of the Bank of England, the European Central Bank and other G8 central banks; the ability to access sufficient sources of capital, liquidity and funding when required; changes to OSBG's credit ratings; the ability to derive cost savings; changing demographic developments, and changing customer behaviour, including consumer spending, saving and borrowing habits; changes in customer preferences; changes to borrower or counterparty credit quality; instability in the global financial markets, including Eurozone instability, the potential for countries to exit the European Union (the EU) or the Eurozone, and the impact of any sovereign credit rating downgrade or other sovereign financial issues; technological changes and risks to cyber security; natural and other disasters, adverse weather and similar contingencies outside OSBG's control; inadequate or failed internal or external processes, people and systems; terrorist acts and other acts of war or hostility and responses to those acts; geopolitical, pandemic or other such events; changes in laws, regulations, taxation, accounting standards or practices, including as a result of an exit by the UK from the EU; regulatory capital or liquidity requirements and similar contingencies outside OSBG's control; the policies and actions of governmental or regulatory authorities in the UK, the EU or elsewhere including the implementation and interpretation of key legislation and regulation; the ability to attract and retain senior management and other employees; the extent of any future impairment charges or write-downs caused by, but not limited to, depressed asset valuations, market disruptions and illiquid markets; market relating trends and developments; exposure to regulatory scrutiny, legal proceedings, regulatory investigations or complaints; changes in competition and pricing environments; the inability to hedge certain risks economically; the adequacy of loss reserves; the actions of competitors, including non-bank financial services and lending companies; and the success of OSBG in managing the risks of the foregoing.

Accordingly, no reliance may be placed on any forward-looking statement and no representation, warranty or assurance is made that any of these statements or forecasts will come to pass or that any forecast results will be achieved. Any forward-looking statements made in this document speak only as of the date they are made and it should not be assumed that they have been revised or updated in the light of new information of future events. Except as required by the Prudential Regulation Authority, the Financial Conduct Authority, the London Stock Exchange PLC or applicable law, OSBG expressly disclaims any obligation or undertaking to release publicly any updates or revisions to any forward-looking statements contained in this document to reflect any change in OSBG's expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based. For additional information on possible risks to OSBG's business, please see the Risk review in the OSBG 2020 Annual Report and Accounts. Copies of this are available at www.osb.co.uk and on request from OSBG.

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