OSB Group 2021 interim results

19 August 2021

Record half-yearly results

Record results

- Underlying profit before tax up 62% to a record £253m (H1 2020: £156m)
- Net interest margin improved to 268bps (H1 2020: 250bps)
- Underlying return on equity of 24% (H1 2020: 18%)
- Underlying net loan book increased 6% in the period to £20.3bn supported by organic originations of £2.5bn at attractive margins and on tighter criteria than pre-COVID
- Integration is ahead of schedule and underlying cost to income ratio improved to 25% (H1 2020: 26%)
- Declared dividend of 4.9p per share in line with the Group's stated policy

Strong credit and risk management

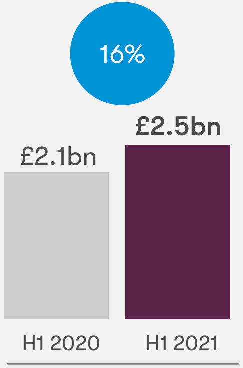
- The Group maintained a prudent risk appetite in the first six months of 2021
- Protected quality of loan book by controlling volumes in core Residential and Buy-to-Let segments, as well as more cyclical businesses, by maintaining a tighter risk appetite adopted in the pandemic, limiting LTVs and loan sizes
- Updated forward-looking macroeconomic scenarios and house price outperformance led to £24.4m provision release
- On an underlying basis, the impairment credit of £15.1m represented a loan loss ratio of -15bps (H1 2020: 60bps)
- 3 months + arrears balances stable at 1.3% for OSB and 0.5% for CCFS

Strong capital position

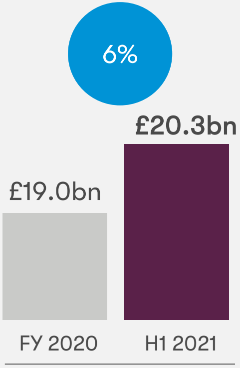
- Exceptionally strong CET1 ratio of 18.7% (FY 2020: 18.3%)
- The Board remains focused on establishing an optimal capital structure which supports both the strategy of the Group and shareholder distributions, including one-off returns of capital. The Board will update the market on our capital management framework as greater clarity is obtained on future capital requirements including Basel 3.1
- IRB project is progressing well and we are aiming to be ready to submit Module 1 application by the end of 2021

Financial highlights - underlying

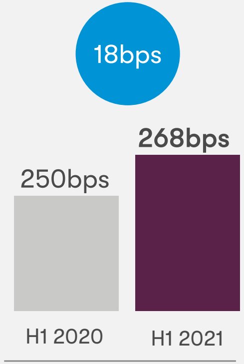
Gross new lending



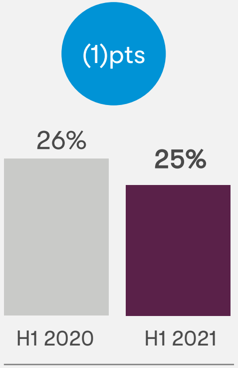
Net loan book



Net interest margin

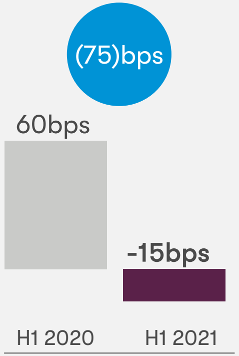


Cost to income ratio

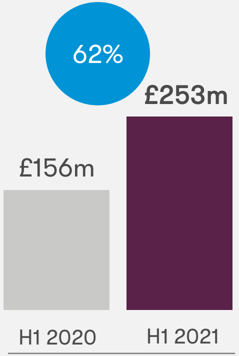


The Board has declared a dividend of 4.9 **pence per share** for the period, representing 1/3 of the total 2020 dividend, in line with the Group's stated policy

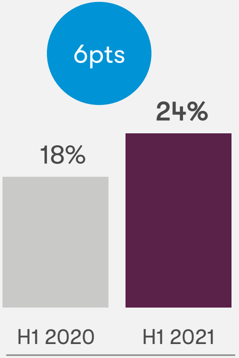
Loan loss ratio



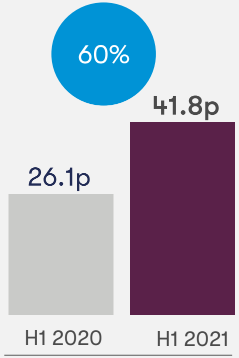
Profit before tax



Return on equity



Basic EPS (pence per share)



Group underlying H1 2021

Group underlying H1 and FY 2020

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

Statutory net loans to customers

H1 2021: £20.4bn
(FY 2020: £19.2bn)

Our key strengths

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

Sophisticated funding platform

Statutory retail deposits

H1 2021: £17.1bn
(FY 2020: £16.6bn)

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 TFS/TFSME schemes

Unique operating model

Statutory cost to income ratio

H1 2021: 28%
(H1 2020: 31%)

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 loan book
H1 2021: £8.6bn
FY 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
H1 2021: £10.7bn
FY 2020: £10.0bn

'Bespoke'

InterBay Commercial
Heritable Development Finance

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

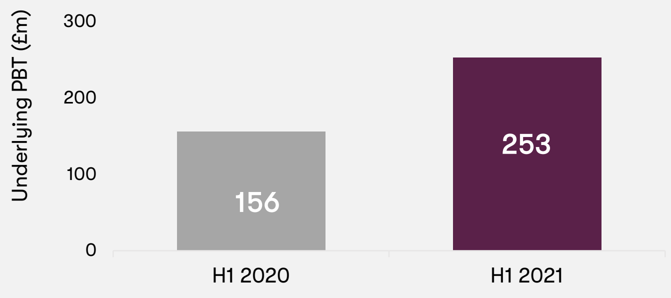
- Commercial
- Complex Buy-to-Let
- Semi-commercial
- Residential development finance
- Funding lines
- Asset finance

Gross loan book[1]
H1 2021: £1.1bn
FY 2020: £1.1bn

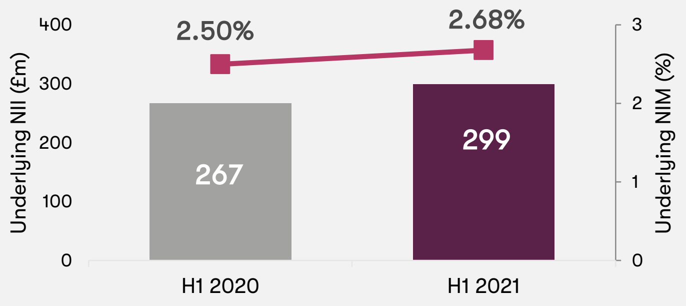
1. Complex Buy-to-Let is included in the 'Tailored' gross loan book and excluded from the 'Bespoke' gross loan book

Attractive underlying return on equity

1. Record half-yearly underlying profit before tax

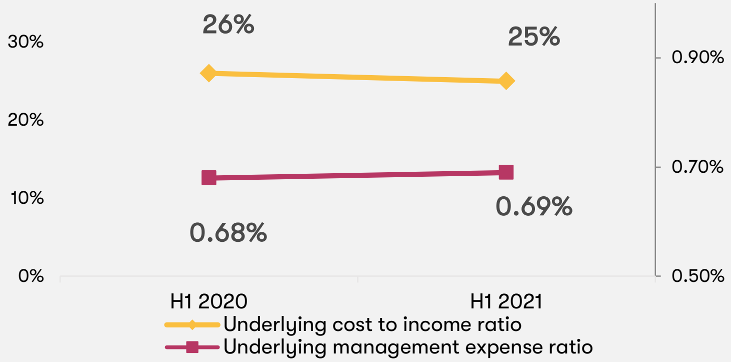


2. Loan book growth at stronger margins

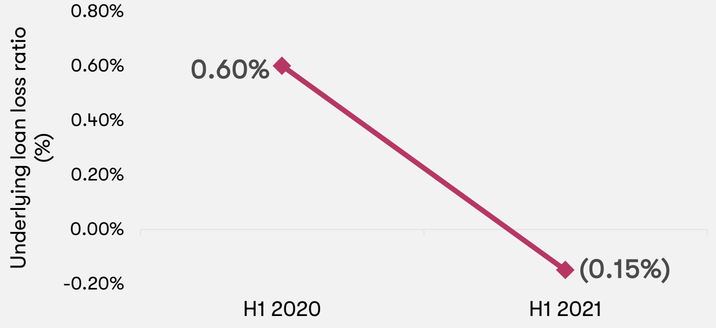


H1 2021 underlying RoE of 24% (H1 20: 18%)

3. Focus on cost discipline and efficiency



4. Release of impairment provisions in the period



Excellent results for the period

Underlying P&L[1]

	H1 2021 £m	H1 2020 £m	Change £m	Change %
Net interest income	**299.0**	266.8	32.2	12
Gain on sale of financial instruments	**2.3**	33.0	(30.7)	(93)
Net fair value gain/(loss) on financial instruments	**10.5**	(18.6)	29.1	(156)
Other operating income	**4.6**	3.7	0.9	24
Total income	**316.4**	284.9	31.5	11
Administrative expenses	**(78.6)**	(74.1)	(4.5)	6
Provisions	**(0.1)**	(0.1)	-	-
Impairment of financial assets	**15.1**	(54.4)	69.5	(128)
Profit before taxation	**252.8**	156.3	96.5	62
Profit after taxation	**189.8**	119.2	70.6	59
Basic EPS (pence per share)	**41.8**	26.1	15.7	60

- Underlying **net interest income grew by 12% to £299m,** primarily reflecting growth in the loan book and a lower cost of retail funds
- **Underlying gain on sale of £2.3m** related to the disposal of A2 notes in the PMF 2019-1B securitisation (H1 2020: £33m related to disposal of remaining notes under Canterbury No.1 and PMF 2020-1B securitisations)
- **Fair value gain on financial instruments of £10.5m** on Group's hedging activities, with the majority being a gain on pipeline mortgage swaps due to improved outlook on the LIBOR and SONIA yield curves
- **Impairment credit of £15.1m** reflecting less severe forward-looking macroeconomic scenarios and house price outperformance
- **Record underlying profit before tax of £253m,** reflecting the above

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

Strong, secure balance sheet

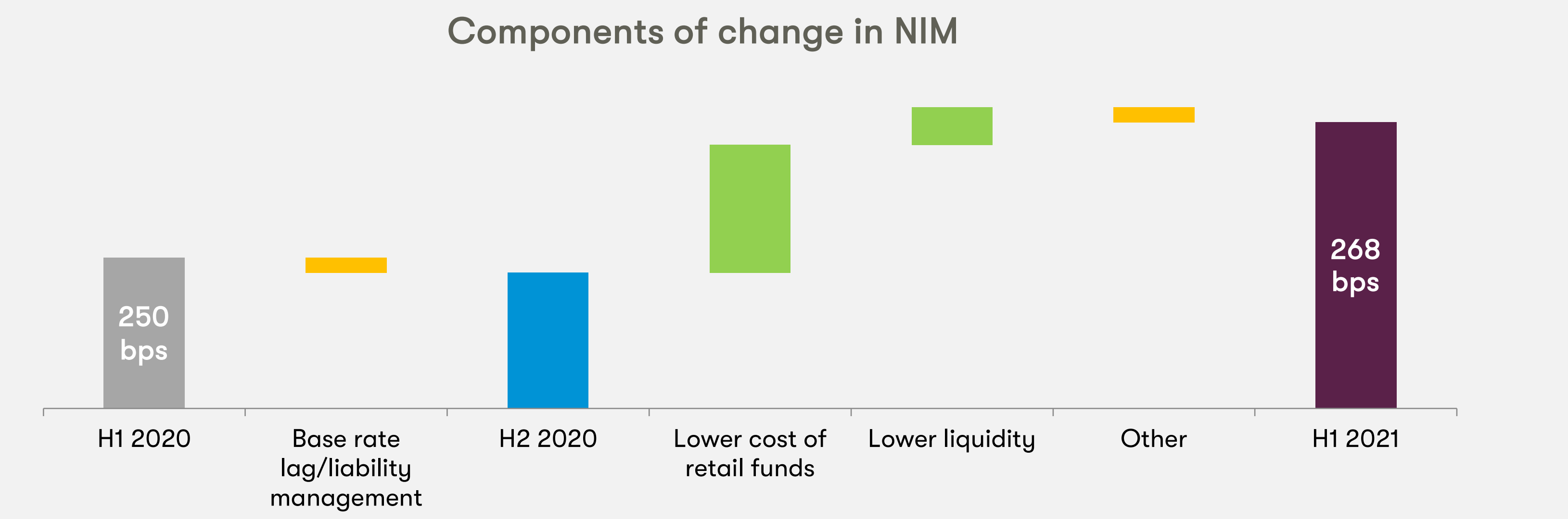
	H1 2021 £m	FY 2020 £m	Change £m	%
Lending				
Underlying loans and advances to customers	**20,254**	19,021	1,233	6
Impairment provisions	**(94)**	(111)	17	15
Funding and liquidity				
Customer deposits	**17,095**	16,600	495	3
Debt securities in issue	**357**	422	(65)	(15)
Term Funding Scheme	**2,299**	2,569	(270)	(11)
Term Funding for SMEs	**1,445**	1,000	445	45
Liquid assets	**2,633**	3,148	(515)	(16)

	OSB		CCFS	
	H1 2021	FY 2020	H1 2021	FY 2020
3 months + in arrears (%)	**1.3**	1.3	**0.5**	0.5
Interest coverage ratios (BTL origination) (%)	**197**	201	**192**	193
Average book LTV (%):				
Buy-to-Let/SME for OSB and Buy-to-Let for CCFS	**67**	67	**69**	69
Residential	**51**	54	**61**	62

- **Underlying net loan book** grew by 6% supported by £2.5bn of **organic originations** in the period
- **Customer deposits** reached £17.1bn, as both Banks continued to attract new retail savers
- The Group continued to benefit from the **Bank of England's funding schemes** with combined drawings under TFS and TFSME of £3.7bn
- **Strong credit quality** with stable 3 months plus in arrears balances
- **Weighted average ICR** for Buy-to-Let origination demonstrates prudent approach to assessment of customer affordability
- Weighted average **LTVs** fell, supported by house price appreciation; weighted average **book LTV of 64%** (FY 2020: 65%) and weighted average **LTV of new business 69%** (H1 2020: restated 71%[1])

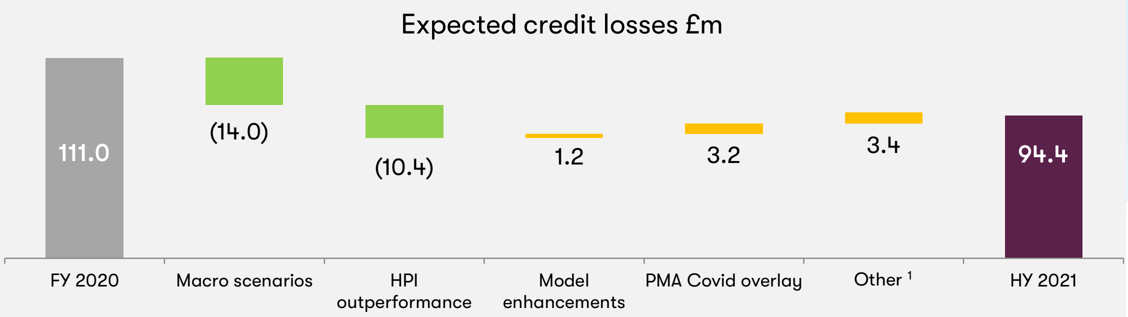
1. Prior period LTV restated due to a change in calculation methodology

Improvement in underlying NIM



- **Underlying NIM** improved to 268bps in the first half of 2021 from 250bps in the prior period, primarily due to a lower cost of retail funds and lower average liquidity levels as the Group utilised excess liquidity prudently built up at the start of the pandemic
- **Underlying NIM** in the second half of 2021 expected to benefit from further reductions in the cost of funds. Full year 2021 underlying NIM now expected to be c.270bps

Release of impairment provisions

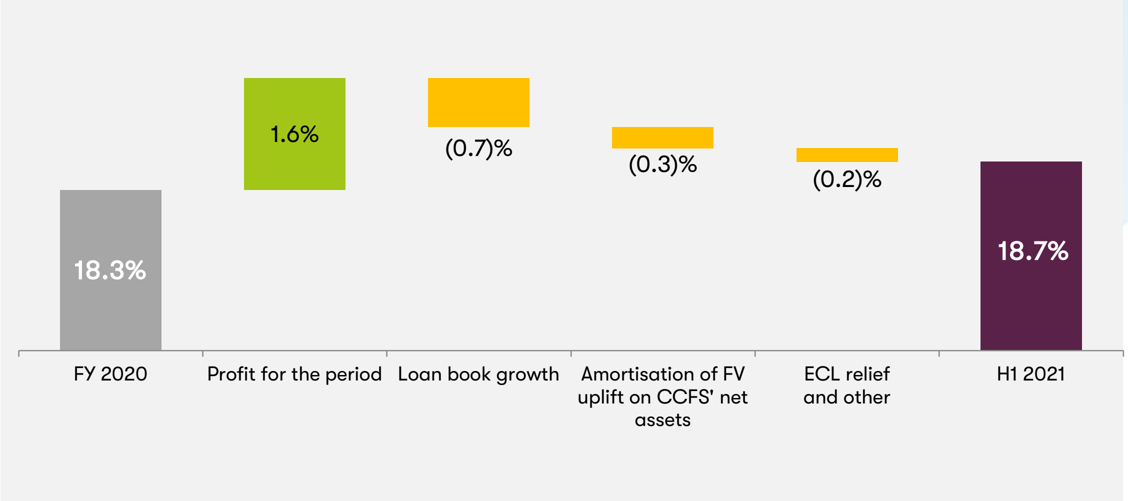


As at 30 June 2021	Gross carrying amount £m	Expected credit losses £m	Coverage ratio %
Stage 1	17,355.4	11.4	0.07%
Stage 2	2,620.5	23.9	0.91%
Stage 3 + POCI	528.6	59.1	11.18%
Total	**20,504.5**	**94.4**	**0.46%**
As at 31 December 2020			
Stage 1	16,116.3	21.2	0.13%
Stage 2	2,691.0	31.0	1.15%
Stage 3 + POCI	515.3	58.8	11.41%
Total	**19,322.6**	**111.0**	**0.57%**

- **Statutory impairment credit of £14.6m included:**
  - £24.4m of provision release due to:
    - improved outlook led to less severe forward-looking macroeconomic scenarios being used in the Group's IFRS 9 models
    - house price outperformance in the first half versus modelled assumptions
  - £1.2m charge due to model enhancements
  - £3.2m of post model adjustments (PMA) due to potential credit profile stress post the end of the furlough scheme
  - £5.4m of other charges largely relating to standard provision movements due to loan book growth and credit profile changes representing c.5bps of annualised loan loss charge.
- Coverage ratios reduced as a result of positive indexing and less severe forward-looking macroeconomic scenarios

1. Excludes £2.0m of write-offs

Strong capital base

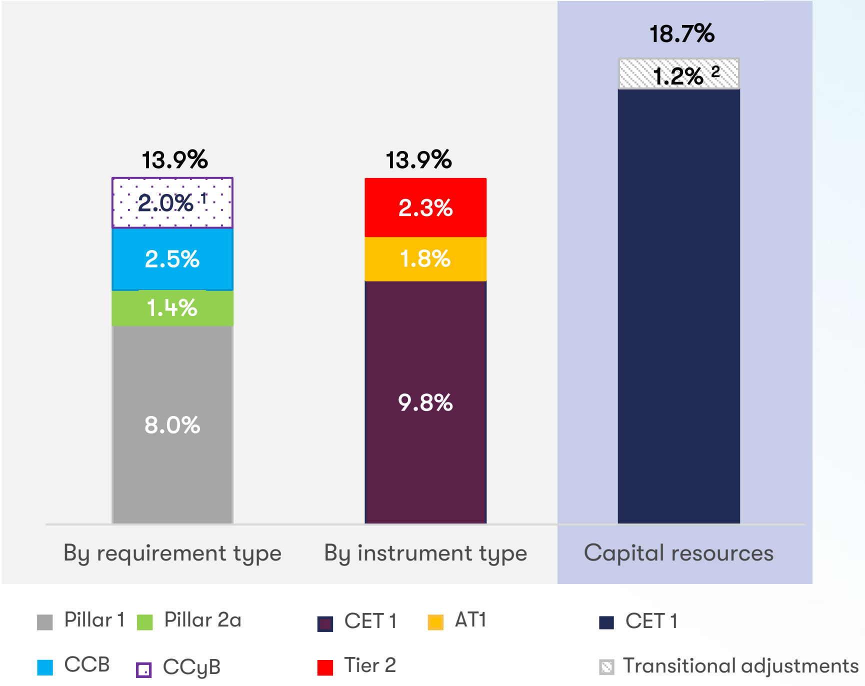


- **Exceptionally strong CET1 and total capital ratios of 18.7%** as at the end of June 2021, benefiting from capital generation from profitability in the period

Capital	H1 2021	FY 2020	Change
Risk weighted assets (RWAs) £m	**8,913**	8,566	**4%**
RWAs as % of total assets	**38**	38	**-**
Common equity tier 1 ratio %	**18.7**	18.3	**40bps**
Total capital ratio %	**18.7**	18.3	**40bps**
Leverage ratio %	**7.0**	6.9	**10bps**

Components of Group capital

Capital resources and requirements as a percentage of RWAs



- Capital requirements shown are as at 30 June. They include standard regulatory buffers (CCB, CCyB) for illustrative purposes
- The Pillar 2a requirement of 1.4% of RWAs includes a static integration add-on of £19.5m (0.22% of RWAs at 30 June 2021)
- **Current minimum capital requirement** of 9.4% (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 2023 with full bail-in MREL of 2x Pillar 1 and Pillar 2a from July 2025

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

Capital management framework

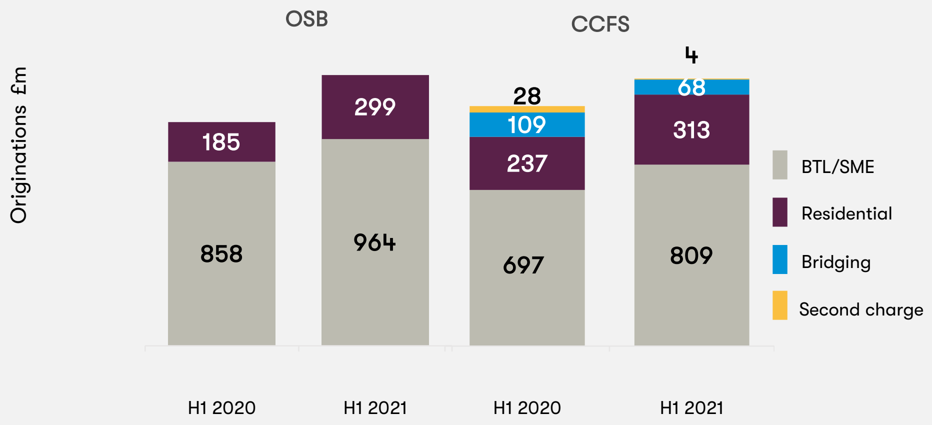
Focused on shareholder value creation

	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 consistent dividend policy - at least 25% of underlying profit
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	• Should excess capital emerge the Board will consider additional shareholder return through special dividends and / or share buybacks subject to regulatory approval

The Board will update the market on our capital management framework, including the evolution of our target capital ratios and distribution policy to supplement dividends as greater clarity is obtained on the final approach that the UK will take to the implementation of Basel 3.1 and the timing of becoming an Internal Ratings Based bank.

Our award-winning lending franchises

Recovery in originations in the first half of 2021



Underlying loan book up 6%

- Encouraged by volumes and quality of new applications we are seeing in Buy-to-Let and Residential sub-segments
- Recently reintroduced products in our core sub-segments with risk appetite closer to pre-pandemic level as we build the Group's pipeline, principally for 2022 completions
- Controlled lending in our more cyclical sub-segments:
    - Commercial
    - Bridging
    - Development finance
    - Funding lines
    - Second charge
- We are confident to deliver underlying net loan book growth of c.10% for 2021

Strong security

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

OSB: 197%, CCFS: 192%

Low LTVs with the book LTV of 63% for OSB and 66% for CCFS

Good retention

Borrowers continue to choose new products with OSB Choices retention scheme, 76% retention scheme, 76% choosing new product within 3 months (H1 2020: 69%)

Well-positioned

Professional landlords accounted for 81% of OSB BTL completions by value in H1 2021 (H1 2020: 94%)

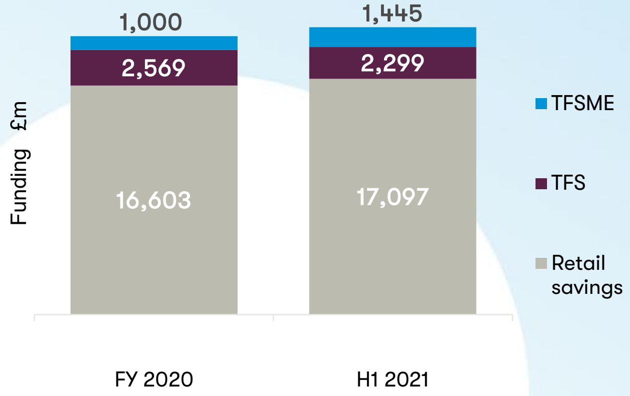
Limited company made up 72% of CCFS BTL completions (H1 2020: 52%)

Sophisticated funding model

The combined Group remains predominantly retail funded with £17.1bn of retail deposits, up 3% in the first six months of 2021.

	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.9k	89%	+68
Charter Savings Bank	c.17k	86%	+70

Retail savings complemented by diversified funding sources:



- In the first half of 2021, the Group continued to replace the funding under the expiring Bank of England's TFS scheme with new drawings under the TFSME scheme, both attractively priced.
- In July, the Group completed its largest securitisation to date securitising £1.7bn of prime Buy-to-Let mortgage assets originated by OneSavings Bank under the Canterbury programme. This transaction created £1.4bn of retained AAA rated senior bonds and significantly increased the contingent wholesale funding options available to the Group.

moneynet 4 YEARS RUNNING 2018 - 2021
Best Fixed Rate Savings Provider

WINNER Moneyfacts Consumer Awards 2021
Online Savings Provider of the Year

moneynet TRIPLE GOLD 2019/20/21
Savings Provider Of The Year

Summary and outlook

Returning to our key messages from today:

Record results in the first half of 2021

- Strong financial performance due to lower cost of retail funds and a release of provisions
- Reintroduction of products in our core sub-segments in Q3 with risk appetite closer to pre-pandemic level, building the Group's pipeline, principally for 2022 completions
- Active in more cyclical business lines but with continued controlled lending and tighter criteria
- Strong progress on integration and ahead of our target run-rate synergies, delivering c.£22m by the end of the first half
- Largest securitisation to date of £1.7bn of Buy-to-Let assets completed in July
- Taking first steps to optimise the composition of the Group's capital structure
- Dividend of 4.9 pence per share declared by the Board, representing one-third of the total 2020 dividend, in line with the Group's stated policy

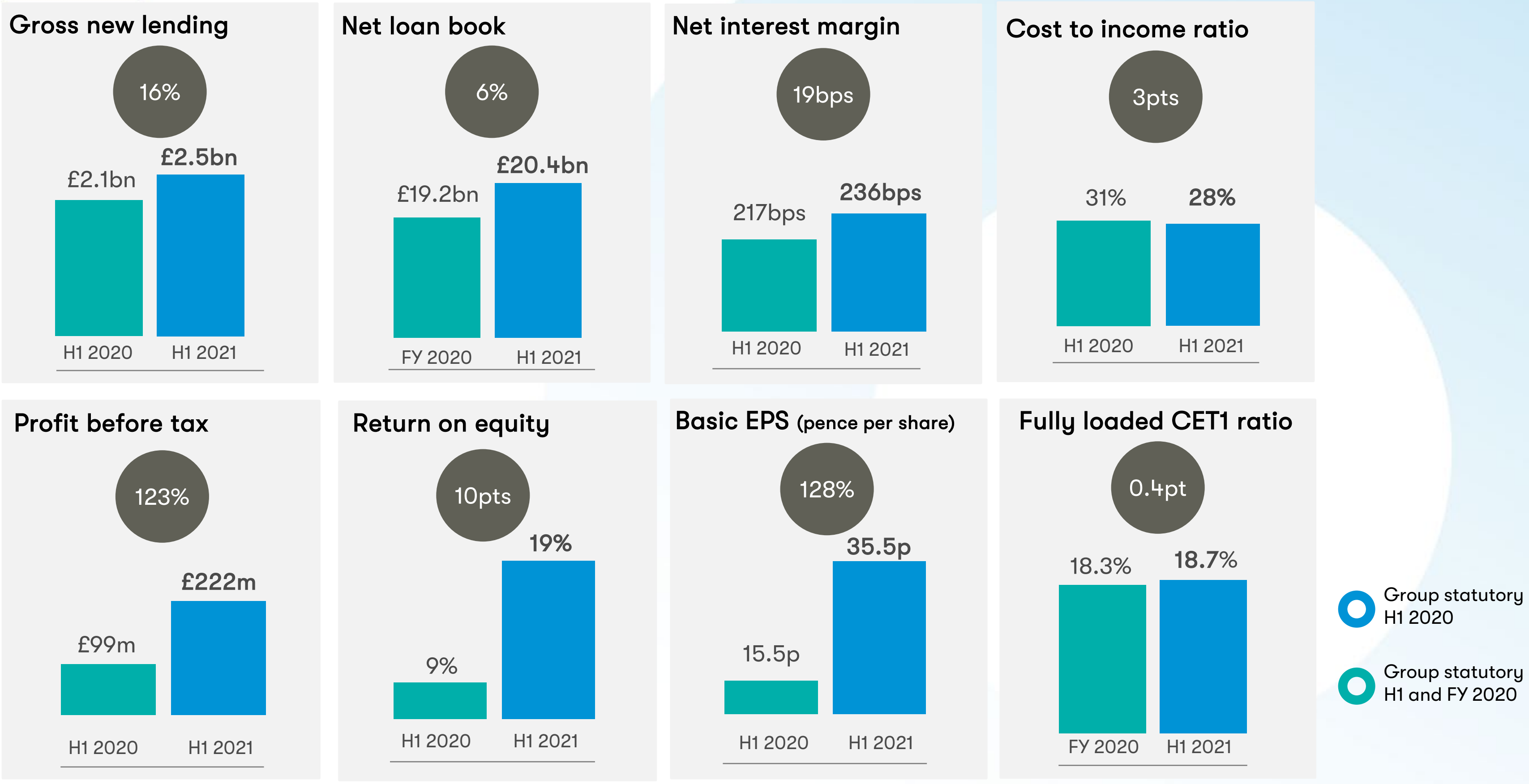
Outlook

- We have a strong pipeline of new business and applications in our core Buy-to-Let and Residential sub-segments
- Although we remain cognisant of continued uncertainty in the economic outlook, based on our pipeline and current applications, we are confident to deliver underlying net loan book growth for 2021 of c.10%
- We now expect underlying NIM to be c.270bps for 2021
- We expect underlying cost to income ratio to be marginally higher than in the first half

OSB Group 2021 interim results - Appendices

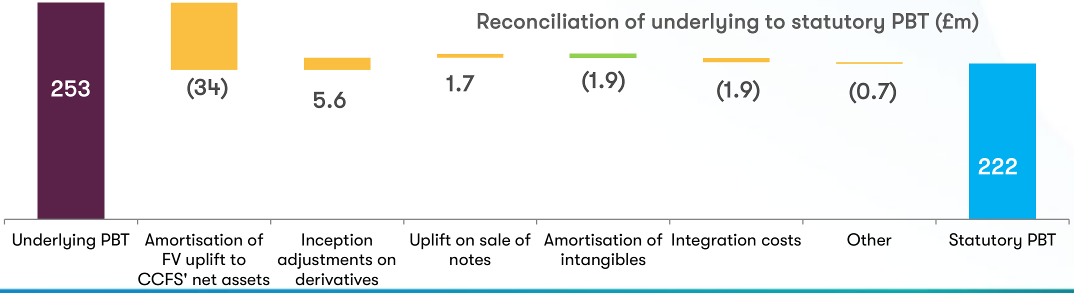
19 August 2021

Financial highlights - statutory



Strong statutory results

	Statutory P&L			
	H1 2021 £m	H1 2020 £m	Change £m	Change %
Net interest income	**265.3**	233.8	31.5	13
Fair value gain/(loss) on financial instruments	**16.1**	(12.1)	28.2	233
Gain on sale of financial instruments	**4.0**	19.9	(15.9)	(80)
Other operating income	**4.6**	3.7	0.9	24
Total income	**290.0**	245.3	44.7	18
Administrative expenses	**(80.5)**	(76.7)	(3.8)	(5)
Provisions	**(0.1)**	(0.1)	-	-
Impairment of financial assets	**14.6**	(54.2)	68.8	127
Impairment of intangible assets	**-**	(7.0)	7.0	100
Integration costs	**(1.9)**	(6.3)	4.4	70
Exceptional items	**(0.2)**	(1.7)	1.5	88
Profit before tax	**221.9**	99.3	122.6	123
Profit after tax	**161.5**	72.0	89.5	124
Basic EPS (pence per share)	**35.5**	15.5	20.0	129

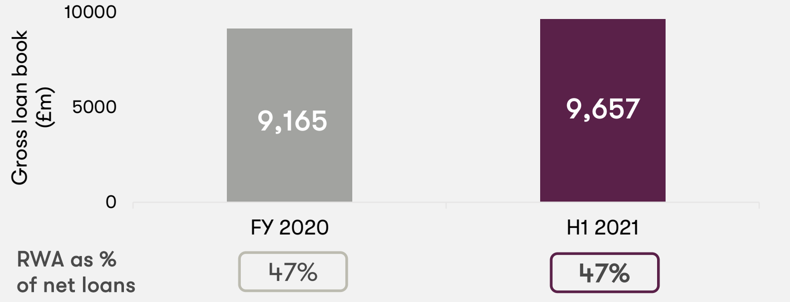


- **Net interest income** grew 13% to £265.3m due to reduction in the cost of retail funds
- **Fair value gain of £16.1m** on Group's hedging activities due to improved outlook on the LIBOR and SONIA yield curves
- **Impairment credit of £14.6m** reflecting less severe forward-looking macroeconomic scenarios and house price outperformance
- **Statutory PBT** more than doubled to £221.9m
- **Statutory basic EPS** increased to 35.5 pence per share

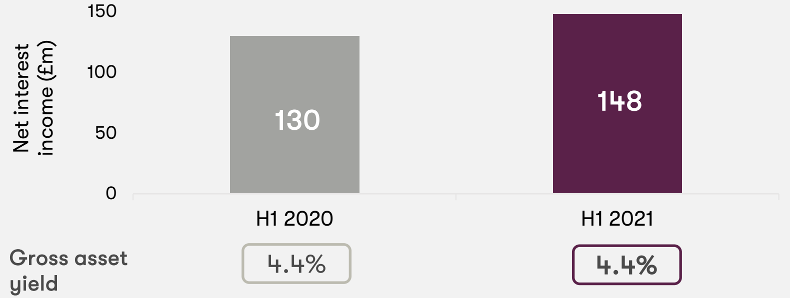
OSB segment results – BTL/SME

Average book LTV remains low at 67% (FY 2020: 67%) with 3.4% of loans by value with LTVs exceeding 90% (FY 2020: 2.9%) and average new origination LTV of 73% (H1 2020: 71%).

1. Gross loan book

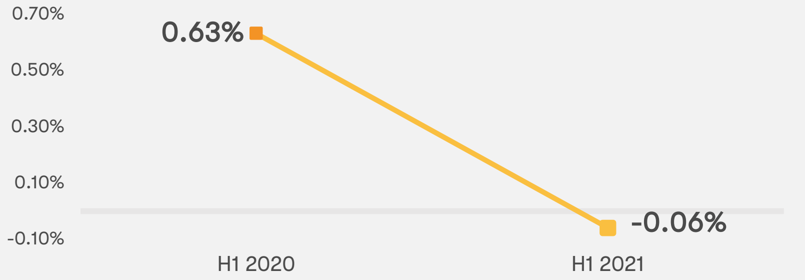


2. Net interest income



3. Contribution to profit[1]

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

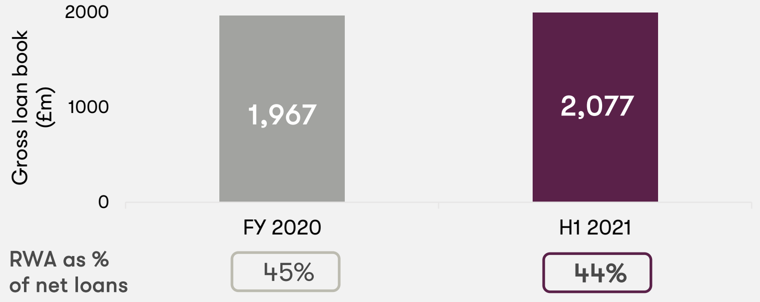


1. Total income less impairment losses

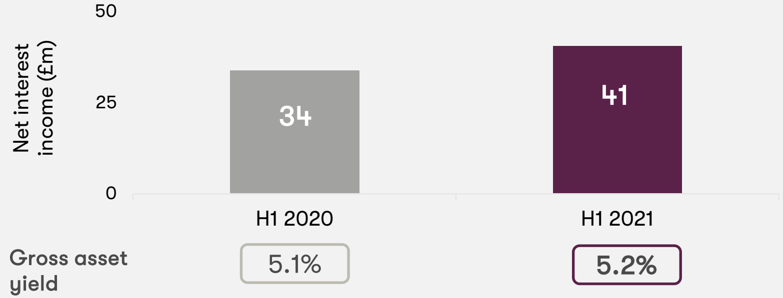
OSB segment results – Residential

Average book LTV remains low at 51% (FY 2020: 54%) with only 0.9% of loans by value with LTVs exceeding 90% (FY 2020: 1.6%) and average origination LTV reduced to 48% (H1 2020: 69%).

1. Gross loan book

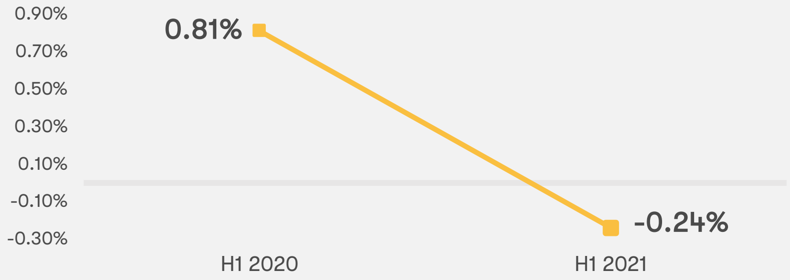


2. Net interest income



3. Contribution to profit[1]

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

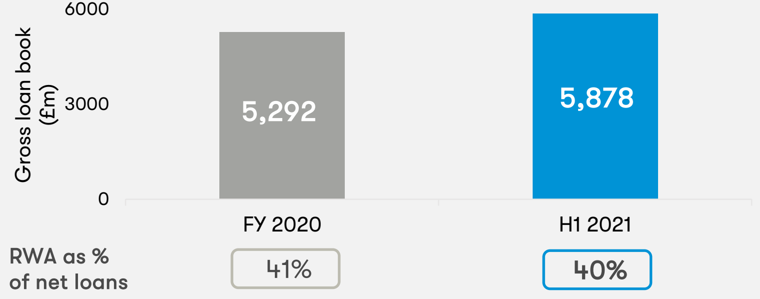


1. Total income less impairment losses

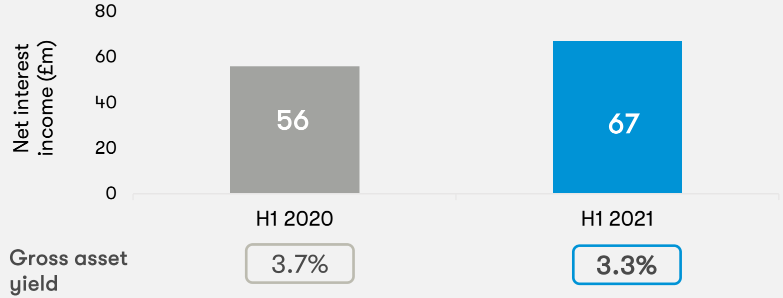
CCFS segment results – BTL sub-segment

Average book LTV remains low at 69% (FY 2020: 69%), average origination LTV was 74% (H1 2020: 73%).

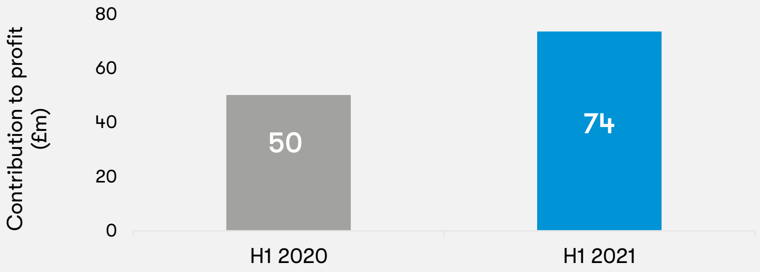
1. Gross loan book



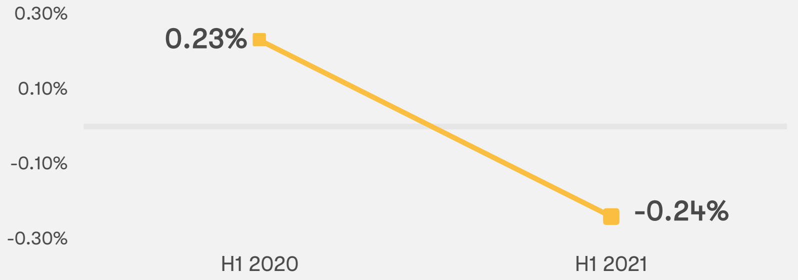
2. Net interest income



3. Contribution to profit[1]



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

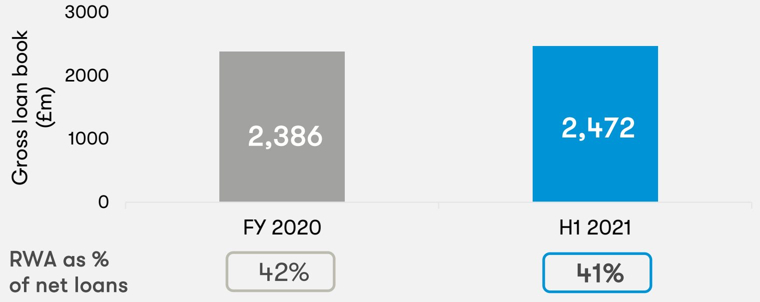


1. Total income less impairment losses

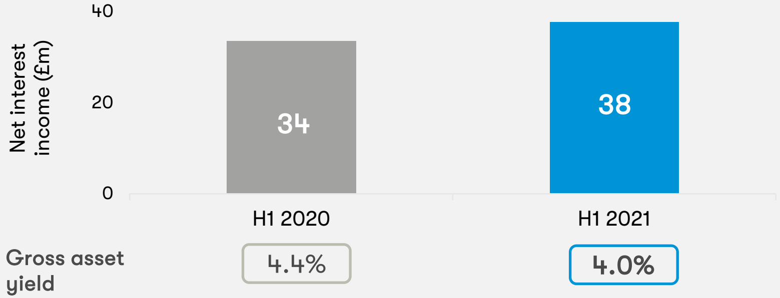
CCFS segment results – Residential sub-segment

Average book LTV remains low at 61% (FY 2020: 62%), average origination LTV was 65% (H1 2020: 71%).

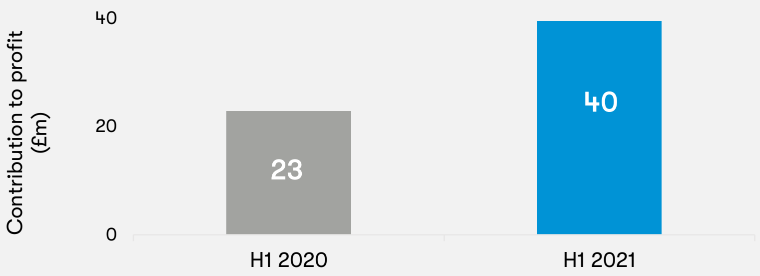
1. Gross loan book



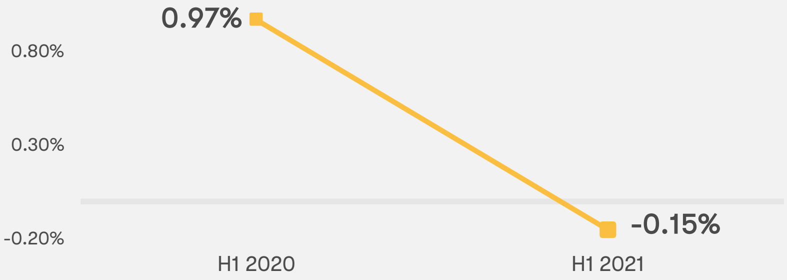
2. Net interest income



3. Contribution to profit[1]



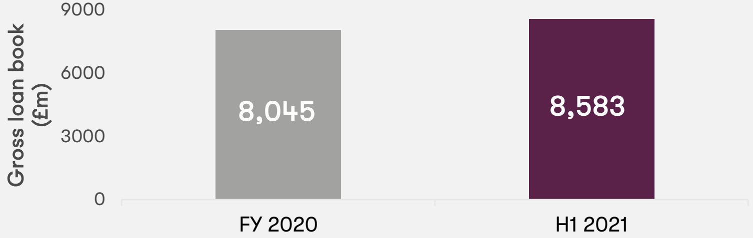
4. Loan loss charge as a % of average gross loans



1. Total income less impairment losses

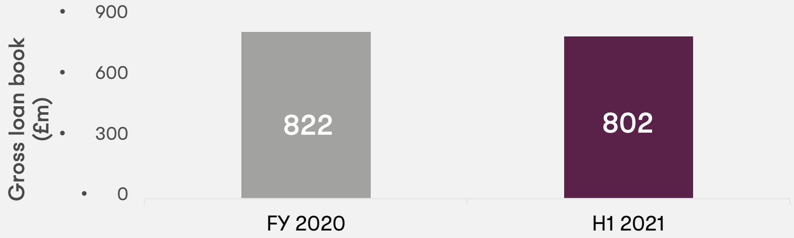
OSB segment results – BTL/SME sub-segments

1. Buy-to-Let



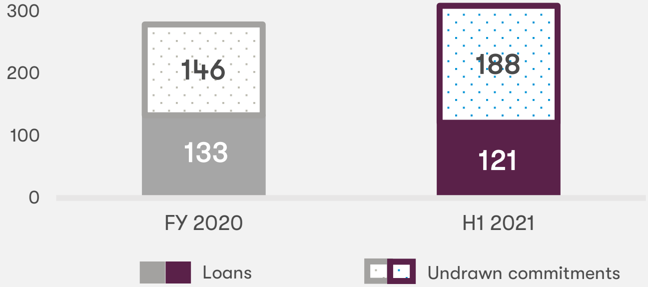
- The weighted average interest coverage ratio (ICR) was 197% during 2021 (H1 2020: restated 208%[1])

2. Semi-commercial/Commercial



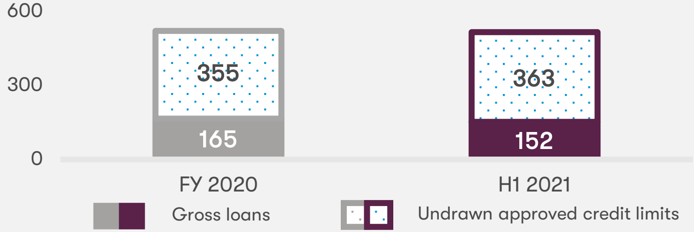
- Weighted average LTV of commercial book: 71% (FY 2020: 71%)
- Average loan size c. £385k (FY 2020: £385k)

3. Residential development



- Increased rates of sales by Heritable's developer customers led to very strong repayments

4. Funding lines

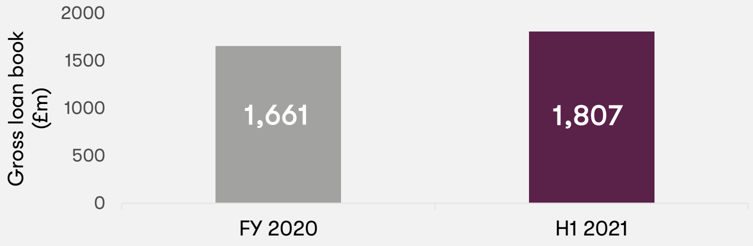


- Secured funding lines to non-bank lenders, primarily secured against property-related mortgages

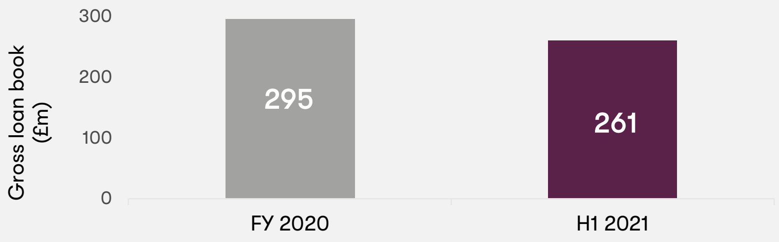
1. The Group restated the ICR due to a change in calculation methodology.

OSB segment results – Residential sub-segments

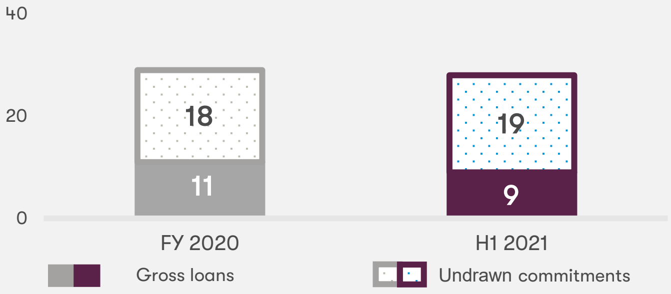
1. First charge mortgages



2. Second charge mortgages



3. Funding lines

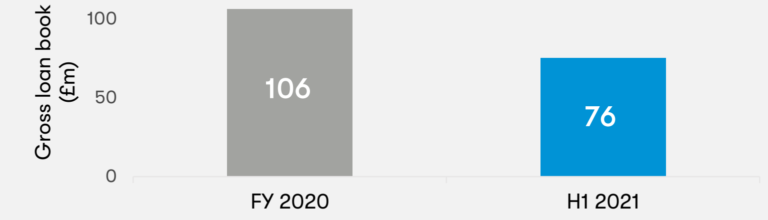


- First charge gross loan book increased by 9% largely due to the success of OSB's shared ownership proposition
- OSB's second charge book is in run-off and currently second charge loans are provided under the Precise Mortgages brand
- Residential funding lines in high-yielding and specialist sub-segments such as residential first and second charge finance

CCFS segment results – Bridging

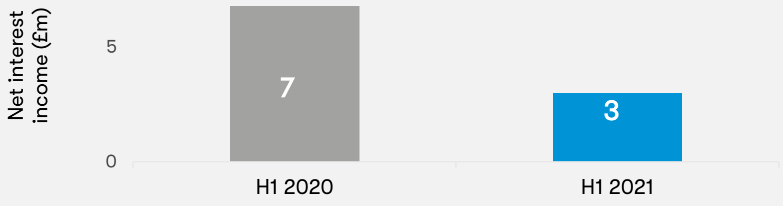
The Group continued to control volumes with limited products at restricted lending criteria and higher pricing than pre-pandemic.

1. Gross loan book



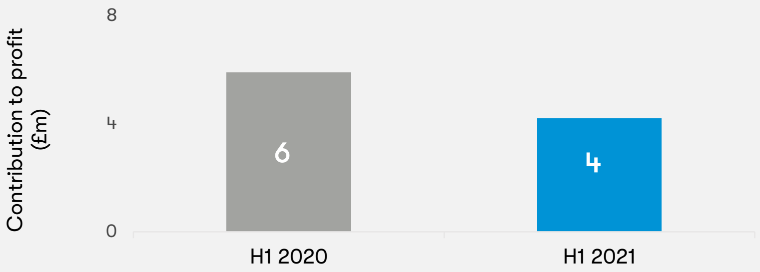
RWA as % of net loans: 57% (FY 2020), 52% (H1 2021)

2. Net interest income

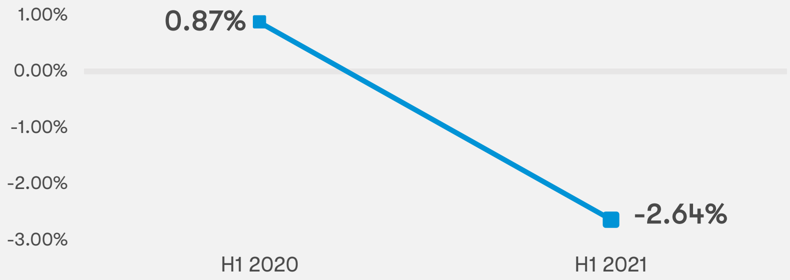


Gross asset yield: 8.0% (H1 2020), 7.6% (H1 2021)

3. Contribution to profit[1]



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

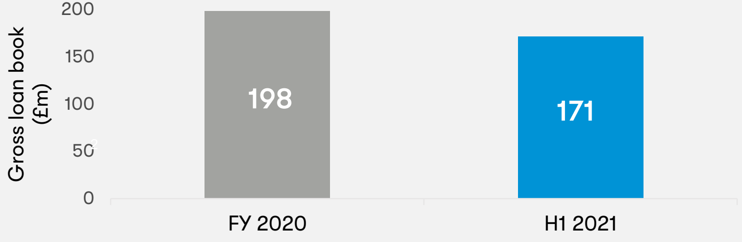


[1] Total income less impairment losses

CCFS segment results – Second charge

Significant lending policy restrictions remained in place as a result of the pandemic.

1. Gross loan book



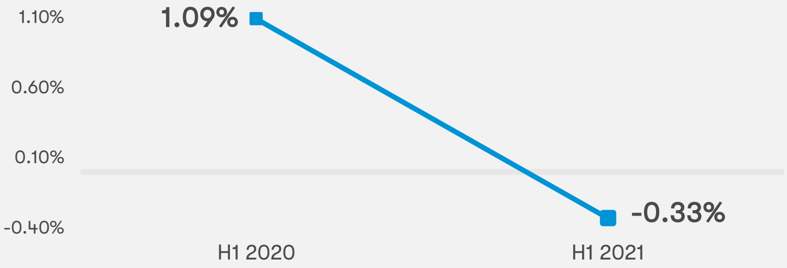
RWA as % of net loans	42%	40%

2. Net interest income

Gross asset yield	5.2%	4.5%

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

Scenario	Probability weighting %	Economic measure	Scenario % Year end 2021	Year end 2022	Year end 2023
Base case	40	GDP Unemployment rate House price growth	6.8 5.8 0.2	5.6 4.9 (4.9)	2.0 4.5 0.2
Upside	30	GDP Unemployment rate House price growth	8.4 4.8 4.0	7.3 4.3 (2.7)	2.4 4.0 5.5
Downside	23	GDP Unemployment rate House price growth	3.9 7.2 (6.9)	3.9 6.9 (14.0)	1.7 6.7 (6.6)
Severe downside	7	GDP Unemployment rate House price growth	2.4 7.7 (10.4)	2.8 7.3 (18.7)	1.5 7.0 (11.6)

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