OSB Group 2020 preliminary results

8 April 2021

Supporting our stakeholders in a challenging year

Responded quickly to support our customers and colleagues

- All areas of the business were adapted to ensure we could safely and confidently deliver the service our customers have come to expect
- Mortgage intermediaries continued to be supported as we grew our lending book
- Our branches remained open for savings customers who prefer this option

Strong credit and risk management

- The Group maintained a prudent appetite to risk and continues to control growth
- Strong credit performance, with balances greater than three months in arrears stable at 0.9% and active payment deferrals only 1.3% of the Group's loan book by value at the end of 2020

Strong capital and liquidity position

- CET1 and total capital ratios strengthened to 18.3%
- Participating in the Bank of England's TFSME and CBILS
- Group's liquidity coverage ratio was 198% at 31 December, with strong demand for savings

IFRS 9 impairment provision

- Impairment of £71m, due primarily to the impact of adopting COVID-19 forward-looking assumptions in our IFRS 9 models and a £20m funding line impairment[1]

Building our business

- Integration is progressing well with synergies for the first year achieved earlier than anticipated
- Two great cultures have been combined under a common purpose, vision and values
- A new ultimate holding company, OSB GROUP PLC (OSBG), was inserted in November 2020

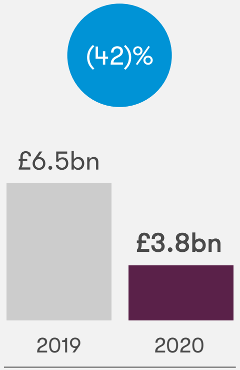
Outlook

- We remain focused on supporting our customers, colleagues and communities
- We have a strong pipeline of new business and applications in our core businesses are near pre COVID-19 levels
- Although we remain cognisant of continued uncertainty in the economic outlook, based on our pipeline and current applications, we expect to deliver underlying net loan book growth for 2021 of c. 10%
- We expect NIM to return to 2019 levels
- We expect underlying cost to income ratio to be marginally higher than in 2020

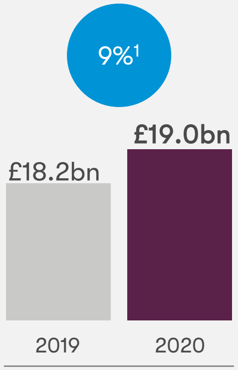
1. See Appendix for further information relating to the £20m funding line impairment

Financial highlights - underlying

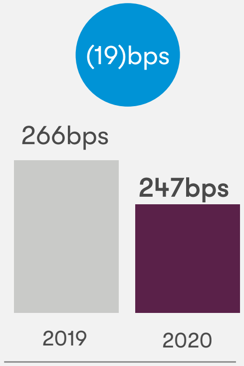
Gross new lending



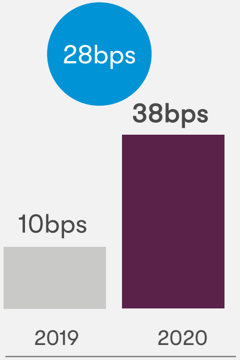
Net loan book



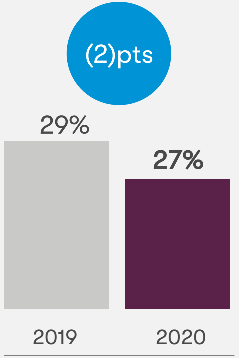
Net interest margin



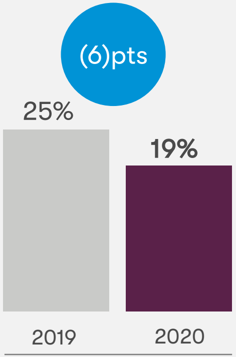
Loan loss ratio



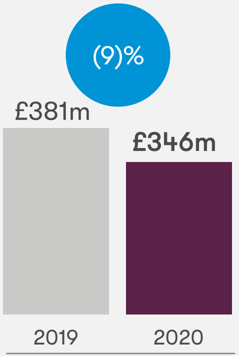
Cost to income ratio



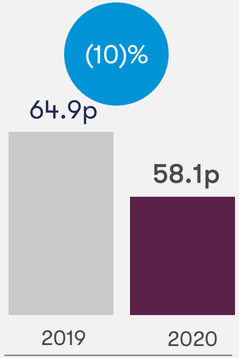
Return on equity



Profit before tax



Basic EPS (pence per share)



The Board has recommended payment of a dividend of **14.5 pence per share** for 2020, representing 25% of full year underlying earnings attributable to ordinary shareholders.

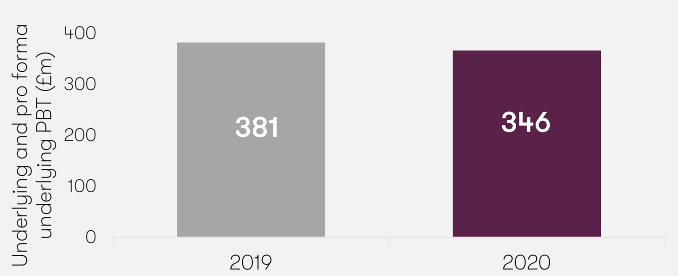
Group underlying 2020

Group pro forma underlying 2019

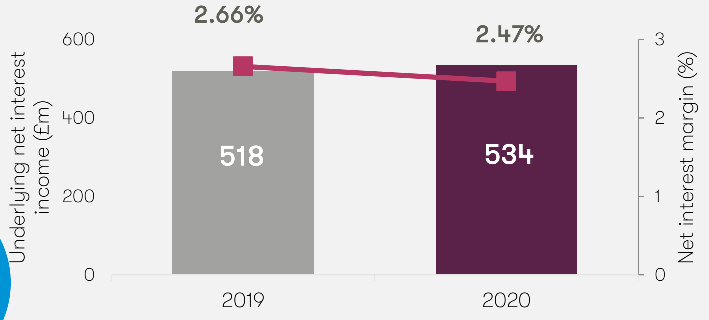
1. Excluding structured asset sales in January 2020

Attractive underlying return on equity

1. Resilient underlying profit before tax

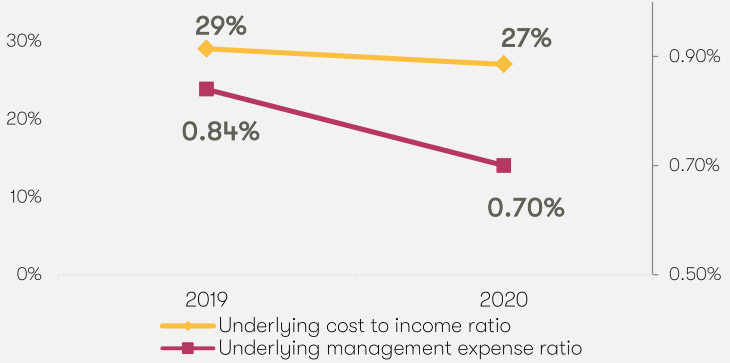


2. Loan book growth at attractive margins

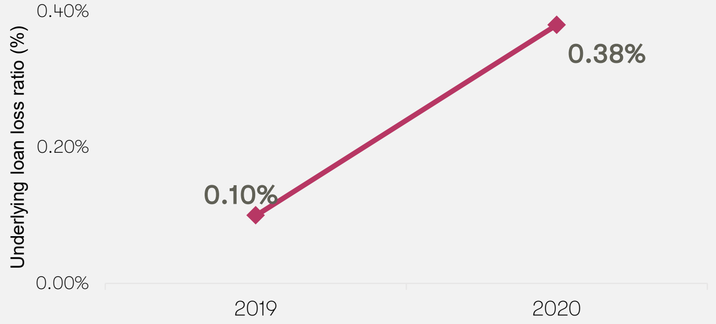


2020 underlying RoE of 19%

3. Focus on cost discipline and efficiency



4. Impairment losses impacted by COVID-19



Resilient results despite COVID-19 driven impairment losses

Underlying P&L[1]

	2020 £m	2019 £m	Change £m	Change %
Net interest income	**534.0**	518.4	15.6	*3*
Gain on sale of financial instruments	**33.1**	58.6	(25.5)	*(44)*
Net fair value loss on financial instruments	**(5.9)**	(20.3)	14.4	*(71)*
Other operating income	**9.0**	5.8	3.2	55
Total income	**570.2**	562.5	7.7	*1*
Administrative expenses	**(152.7)**	(165.1)	12.4	*(8)*
Provisions	**(0.1)**	-	-	-
Impairment of financial assets	**(71.2)**	(16.3)	(54.9)	*337*
Profit before taxation	**346.2**	381.1	(34.9)	*(9)*
Profit after taxation	**264.9**	294.2	(29.3)	*(10)*
Basic EPS (pence per share)	**58.1**	64.9	(6.8)	*(10)*

1. For reconciliation of underlying PBT to statutory PBT, see Appendix slide 17

- Underlying **NII** 3% growth year on year
- **Gain on sale of financial instruments** related to disposal of remaining notes from Canterbury No.1 and PMF 2020-1B securitisations in January 2020
- **Fair value loss on financial instruments** included fair value losses on mortgage pipline swaps post hedging inception adjustments
- **Administrative expenses** reduced due to delivery of Combination synergies and lower discretionary spend during lockdowns
- **Impairment losses** increased as the Group adopted more adverse forward-looking COVID-19 assumptions and recognised a £20m funding line impairment
- Underlying **PBT** reduced by 9%, due primarily to higher impairment losses
- Underlying **EPS** fell to 58.1 pence per share, in-line with the decrease in profit after taxation

Strong, secure balance sheet

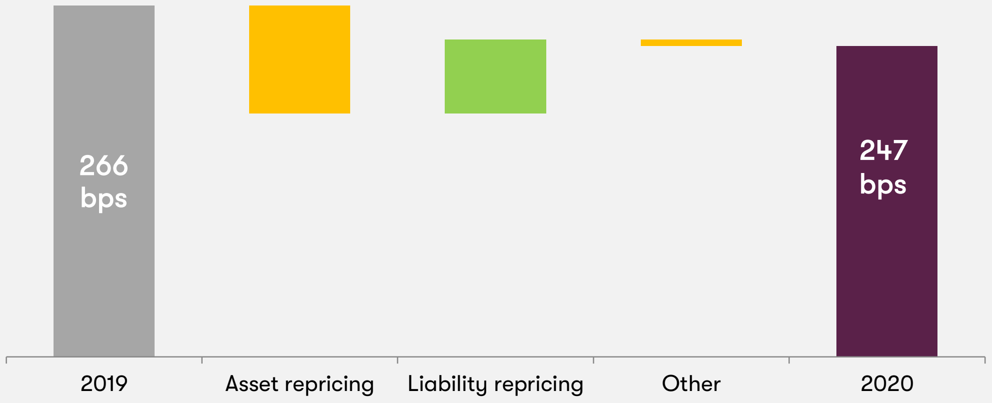
	2020 £m	2019 £m	Change £m	%
Lending				
Underlying loans and advances to customers	**19,021**	18,151	870	5
o/w provisions	**(111)**	(43)	(68)	158
Funding and liquidity				
Customer deposits	**16,603**	16,255	348	2
Debt securities in issue	**422**	296	126	43
Term Funding Scheme	**2,569**	2,633	(65)	(2)
Indexed Long-Term Repo	**-**	291	-	-
TFSME	**1,000**	-	-	-
Other (incl warehouse funding & commercial repo)	**-**	145	-	-
Liquid assets	**3,148**	2,840	308	11

	OSB		CCFS	
	2020	**2019**	**2020**	**2019**
3 months + in arrears (%)	**1.3**	1.3	**0.5**	0.3
Interest coverage ratios (BTL origination) (%)	**201**	199[1]	**193**	187[1]
Average book LTV (%):				
Buy-to-Let/SME for OSB and Buy-to-Let for CCFS	**67**	68[1]	**69**	71
Residential	**54**	57[1]	**62**	65[1]

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

- **Underlying net loan book growth** of 5%, or 9% excluding impact of structured asset sales
- **Organic originations** in the year of £3.8bn, down 42% compared with £6.5bn pro forma underlying in 2019
- Group **LCR of 198%** as at 31 December, significantly in excess of 2020 regulatory minimum
- **Strong credit quality** with stable 3 months plus in arrears balances: 1.3% for OSB and 0.5% for CCFS
- **Active payment deferrals** only 1.3% of the Group's loan book by value by year end with low levels of new arrears on accounts exiting payment deferrals
- **Weighted average ICR** for Buy-to-Let origination demonstrates prudent approach to assessment of customer affordability
- Weighted average **book LTV** of 64% for OSB and 67% for CCFS (2019: 65% and 69%, respectively[1])

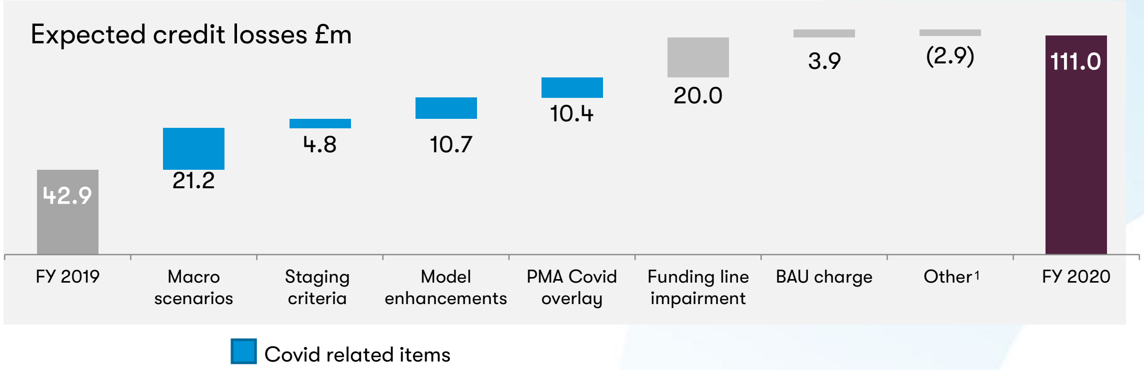
Underlying NIM progression



- **Underlying NIM guidance for 2021 -** based on current asset yields and funding costs, we expect NIM for 2021 to return to 2019 levels

- **Underlying NIM** reduced in 2020 to 247bps from 266bps primarily as a result of the dilutive impact of a delay in passing on the base rate cuts in full to retail savers
- The **full impact of the base rate cuts** was passed on to retail savers by the end of the third quarter of 2020
- The **NIM run rate in the fourth quarter improved significantly** as the base rate cuts were passed on and we maintained our discipline and control over mortgage pricing
- **Average liquidity levels** were broadly flat year on year

Impairment provisions reflect impact of Covid-19

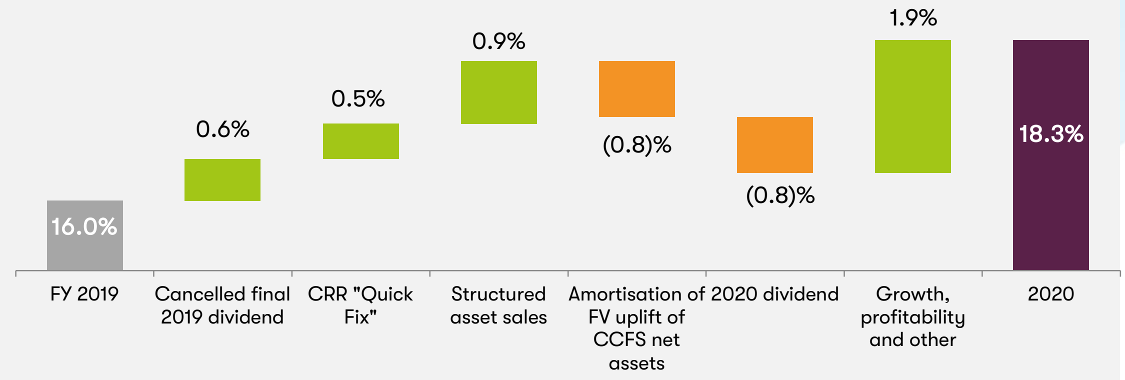


As at 31 December 2020	Gross carrying amount £m	Expected credit losses £m	Coverage ratio %
Stage 1	16,116.3	21.2	0.13%
Stage 2	2,691.0	31.0	1.15%
Stage 3 + POCI	515.3	58.8	11.41%
Total	**19,322.6**	**111.0**	**0.57%**
As at 31 December 2019			
Stage 1	17,286.9	5.6	0.03%
Stage 2	749.5	5.6	0.75%
Stage 3 + POCI	431.2	31.7	7.35%
Total	**18,467.6**	**42.9**	**0.23%**

- **Statutory impairment losses of £71.0m** and underlying impairment losses of £71.2m in 2020 representing 38bps of average gross loans and advances
  - £21.2m relating to more adverse forward looking COVID-19 macroeconomic scenarios
  - £4.8m of adjustments to Group's staging criteria in line with PRA guidance which moved certain higher risk accounts with payment deferrals to stage 2
  - £10.7m of COVID-related model enhancements in line with recent actual borrowers' experience
  - £10.4m of post model adjustments
  - £20m funding line impairment
- Significant increase in coverage ratios as a result of adopting forward looking COVID-19 assumptions

1. Includes write-offs and other non-P&L items

Strong capital base



Capital	2020	2019	Change
Risk weighted assets (RWAs) £m	**8,566**	8,383	**2.2%**
RWAs as % of total assets	**38**	39	**(1)pts**
Common equity tier 1 ratio %	**18.3**	16.0	**2.3pts**
Total capital ratio %	**18.3**	17.3	**1pts**
Leverage ratio %	**6.9**	6.5	**0.4pts**

- **Exceptionally strong CET1 of 18.3%** as at 31 December 2020
- **Total capital ratio of 18.3%** as following the insertion of OSBG as the ultimate holding company, AT1 securities and PSBs issued by OSB no longer qualify as regulatory capital at the Group level
- The capital ratios include transitional benefits of c. 1.7% 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 9.41% (Pillar 1 + Pillar 2a including a static integration add-on of £19.5m)
- **Full bail-in MREL requirement** from July 2025 with interim requirement of 18% of RWAs by July 2023. First anticipated debt issue in the first half of 2022, subject to market conditions

Stronger together - integration update

On 4 October 2019, OneSavings Bank plc (OSB) combined with Charter Court Financial Services Group plc (CCFS), creating a leading specialist lender.

Integration is ahead of target

- Progress towards achieving the synergies from the Combination has been strong. By the first anniversary of the Combination we had delivered run rate savings of £15m, well ahead of our £6.6m target and representing more than 65% of our end of three year target run rate.
- We continue to find additional synergies and are ahead of schedule towards realising the planned run rate savings for the end of year two, with a projected end of year three run rate marginally in excess of the £22m target.

We are seeing the benefits

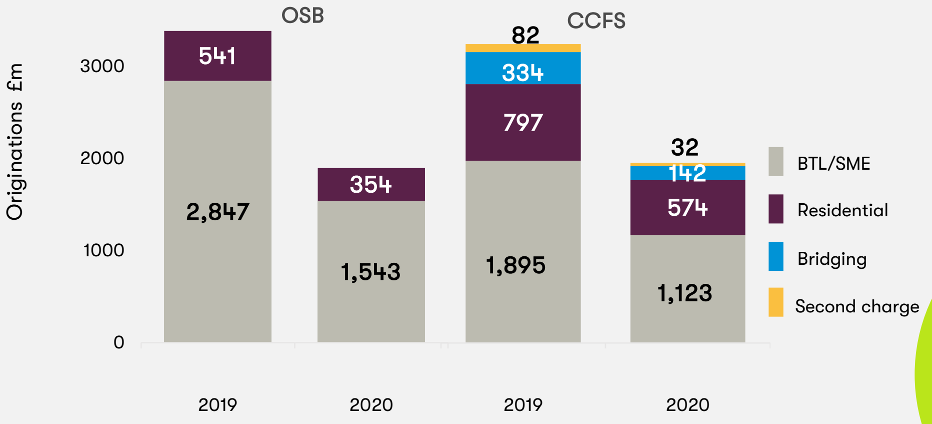
- The synergies realised during 2020 from these efficiencies were equivalent to a c. 2% points improvement in the Group's underlying cost to income ratio.
- Group wide, we are sharing best practice and learning to enhance our processes and find efficiencies and benefits of scale.
- The Group completed four securitisation transactions with a combined value of £2.8bn across the Canterbury Finance, Precise Mortgage Funding and Charter Mortgage Funding programmes.

A common purpose

- We have taken two great cultures and combined them as one under a common purpose: 'To help our customers, colleagues and communities prosper.'
- Our values are also combined and we have added more emphasis on stewardship, ensuring we act positively with conscience and have environmental, social and governance factors front of mind when making decisions.

Our award-winning lending franchises

Originations in 2020 impacted by Covid-19 pandemic



Underlying loan book up 9% excluding asset sales

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

OSB: 201%

CCFS: 193%

Good retention
Borrowers continue to choose new products with OSB Choices retention scheme, 75% choosing new product within 3 months (2019: 69%).

Well-positioned
Professional landlords accounted for 84% of OSB BTL completions by value in 2020 (2019: 81%).

Specialist property types made up 30% of CCFS BTL completions in 2020

Current position

- Encouraged by volumes and quality of new applications, which are near pre COVID-19 level in Buy-to-Let and Residential sub-segments
- Controlled increase in business volumes in our core Buy-to-Let and Residential sub-segments
- Recently introduced product range continues to reflect the Group's prudent risk appetite
- Active but reduced growth in more cyclical business lines:
  - Commercial
  - Bridging
  - Development finance
  - Funding lines
  - Second charge

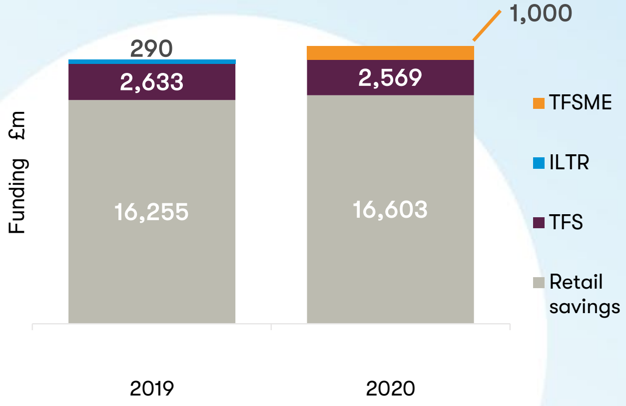
Sophisticated funding model

The combined Group remains predominantly retail funded.

The Group had £16.6bn of retail deposits, up 2% 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.25k	93%	+67
Charter Savings Bank	c.21k	77%	+72

Retail savings complemented by increasingly diversified funding sources:



- In the first half of 2020, the Group was accepted to the Bank of England's TFSME with drawings of £1bn as at 31 December 2020. Drawings under the TFS were £2.6bn as the end of 2020, both offering access to attractively priced funding.
- The Group completed two fully retained transactions under Canterbury programme and one each under the PMF and the CMF programmes in the year.
- In January 2020, the Group disposed of its remaining notes under the Canterbury No.1 and PMF 2020-1B securitisations generating a gain of £33.0m on an underlying basis.

Summary and outlook

Returning to our key messages from today:

Resilience of the OSB Group in 2020

- All areas of the business adapted for our customers and employees in response to the pandemic
- Protected the business during pandemic with controlled growth, higher pricing and tighter underwriting criteria
- Strong financial performance despite higher impairments and subdued originations
- Strong progress on integration and ahead of our target synergies
- Completed four securitisation transactions in the year
- The Group was accepted for TFSME and CBILS
- New ultimate listed holding company inserted to facilitate issuance of MREL debt
- Dividend of 14.5 pence per share recommended by the Board

Outlook

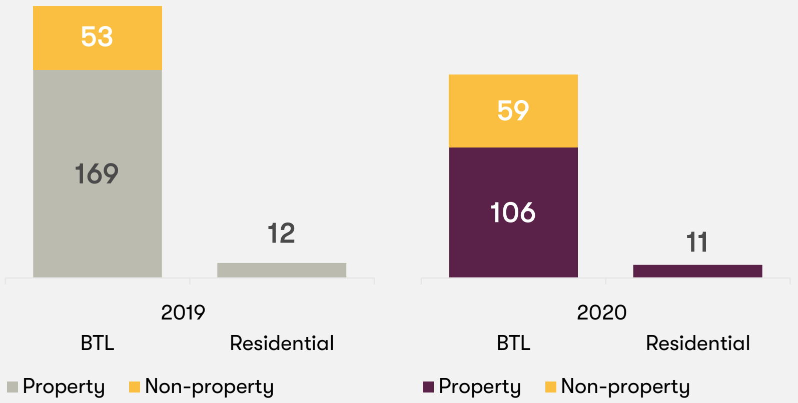
- We remain focused on supporting our customers, colleagues and communities
- We have a strong pipeline of new business and applications in our core Buy-to-Let and Residential sub-segments are near pre COVID-19 levels
- Although we remain cognisant of continued uncertainty in the economic outlook, based on our pipeline and current applications, we expect to deliver underlying net loan book growth for 2021 of c. 10%
- Based on current pricing and cost of funds we expect underlying NIM to return to 2019 levels
- We expect underlying cost to income ratio to be marginally higher in 2021

2020 preliminary results appendices

8 April 2021

Funding lines

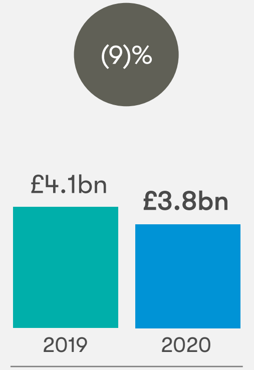
Group's funding lines gross loans, £m



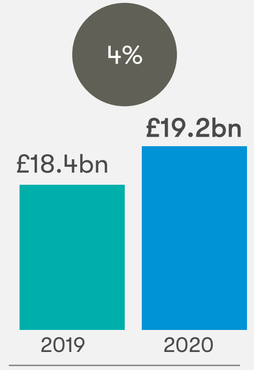
- As announced in a trading update on 17 March 2020, the Group became aware of potential fraudulent activity by a third party in one of its non-property funding lines. The Group recognised an **impairment of £20.0m** in 2020
- The Group believes it to be an isolated event following an internal review
- 66% of the funding lines were property-related as at 31 December 2020 (2019: 77%)
- The Board has commissioned an external review of processes and controls in relation to the funding lines business and will make enhancements based on recommendations received

Financial highlights - statutory

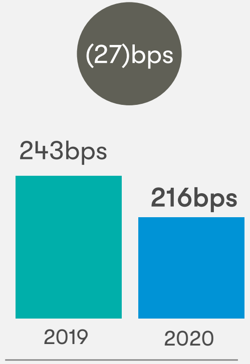
Gross new lending



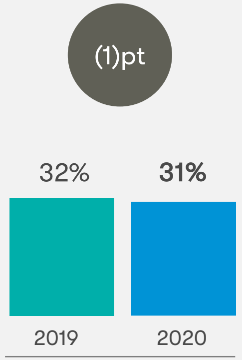
Net loan book



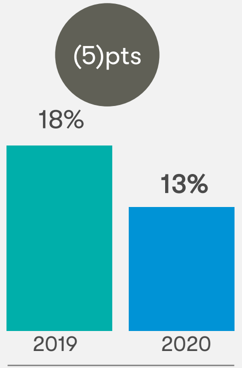
Net interest margin



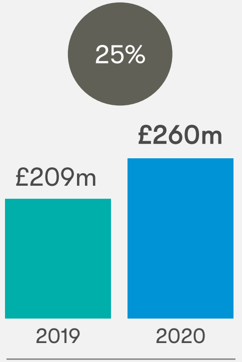
Cost to income ratio



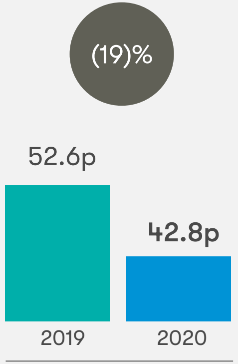
Return on equity



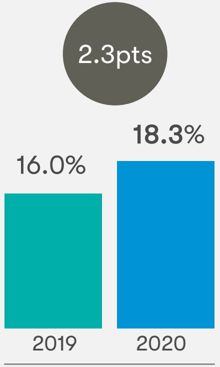
Profit before tax



Basic EPS (pence per share)



Fully loaded CET1 ratio



Group statutory 2020

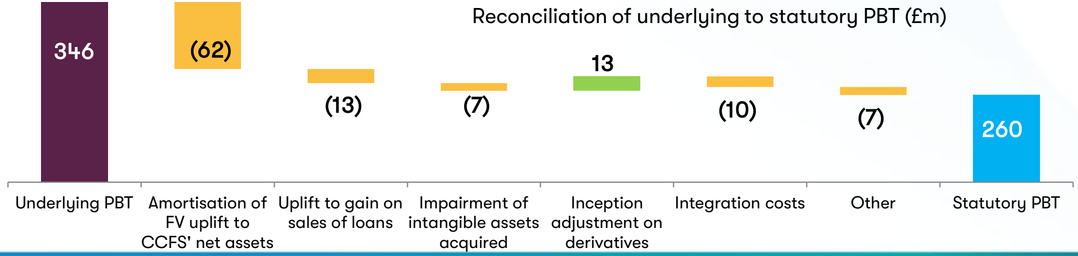
Group statutory 2019

Strong statutory results despite COVID-19 related impairment charge

Statutory P&L

	2020 £m	2019 £m	Change £m	%
Net interest income	472.2	344.7	127.5	37
Gain/(loss) on sale of loans	20.0	(0.1)	20.1	-
Fair value gain/(loss) on financial instruments	7.4	(3.3)	10.7	324
Other operating income	9.0	2.1	6.9	329
Total income	508.6	343.3	165.3	48
Administrative expenses	(157.0)	(108.7)	(48.3)	44
Provisions	(0.1)	-	(0.1)	-
Impairment of financial assets	(71.0)	(15.6)	(55.4)	355
Impairment of intangible assets	(7.0)	-	(7.0)	-
Gain on combination with CCFS	-	10.8	(10.8)	-
Integration costs	(9.8)	(5.2)	(4.6)	88
Exceptional items	(3.3)	(15.6)	12.3	79
Profit before tax	260.4	209.1	51.3	25
Profit after tax	196.3	158.8	37.5	24
Basic EPS (pence per share)	42.8	52.6	(9.8)	(19)

Reconciliation of underlying to statutory PBT (£m)

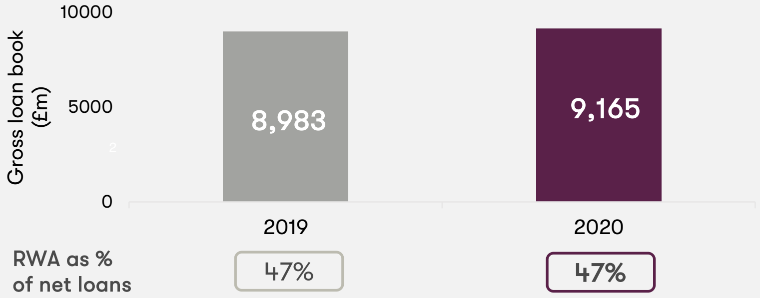


- **NII** increased due to inclusion of CCFS' NII
- **Gain on sale of loans** as the Group disposed of its remaining notes under the Canterbury No.1 and PMF 2020-1B securitisations
- **Administrative expenses** increased largely as a result of including CCFS' administrative costs
- **Impairment losses** increased to £71m as the Group adopted more adverse forward-looking COVID-19 assumptions and recognised a £20m funding line impairment
- **Impairment of intangible assets** in relation to the broker receivable intangible assets recognised on the acquisition of CCFS, due to impact of COVID-19 on lending volumes
- **Integration costs** largely related to staff costs
- **Statutory PBT** up 25% due to inclusion of CCFS' profits
- **Statutory basic EPS** fell to 42.8 pence per share

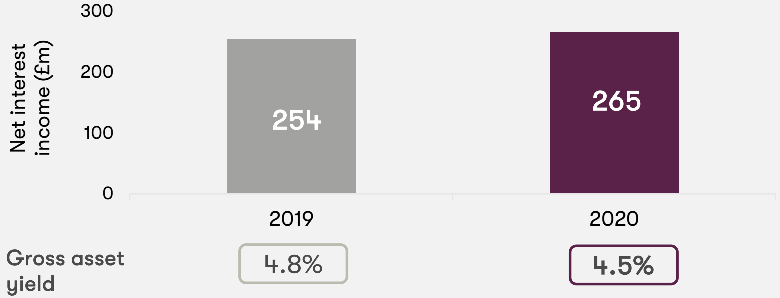
OSB segment results – BTL/SME

Average book LTV remains low at 67% (2019: restated 68%[1]) with only 2.9% of loans by value with LTVs exceeding 90% (2019: 1.8%) and average new origination LTV of 71% (2019: restated 71%[1]).

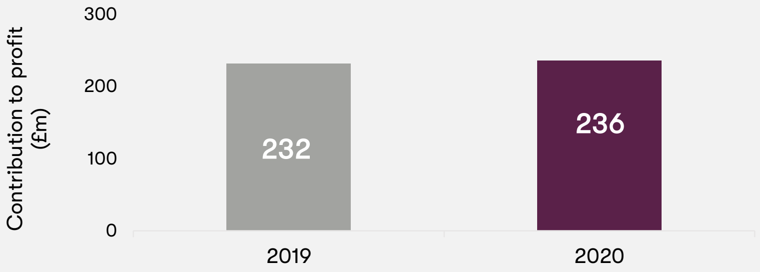
1. Gross loan book



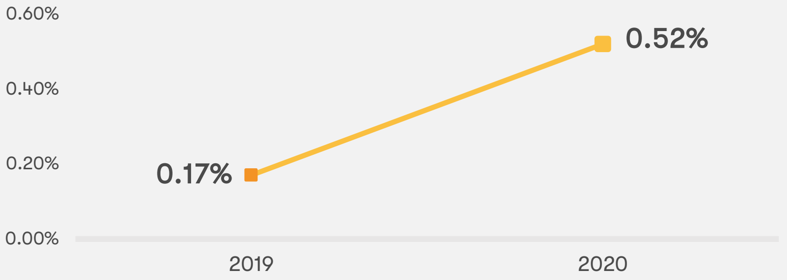
2. Net interest income



3. Contribution to profit[2]



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

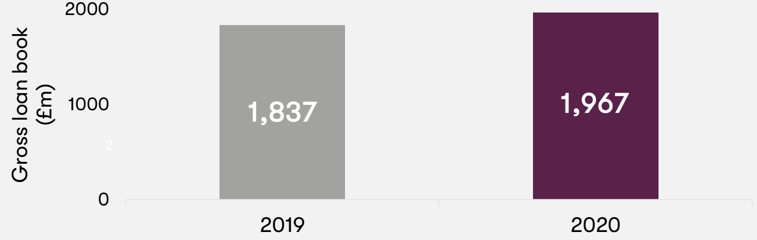


1. The Group restated the comparative LTV due to a change in calculation methodology
2. Total income less impairment losses

OSB segment results – Residential

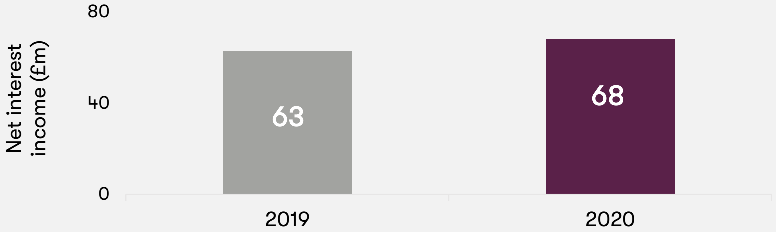
Average book LTV remains low at 54% (2019: restated 57%[1]) with only 1.6% of loans by value with LTVs exceeding 90% (2019: 3.3%) and average origination LTV reduced to 61% (2019: restated 70%[1]).

1. Gross loan book



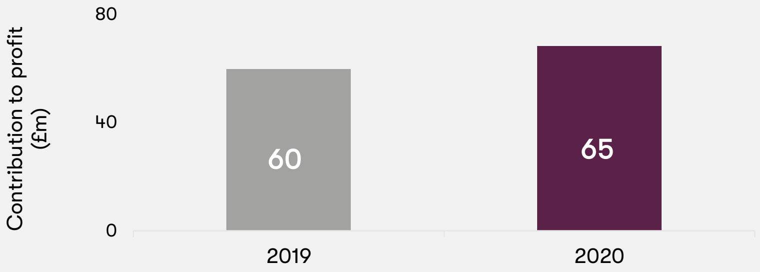
RWA as % of net loans	2019	2020
	46%	45%

2. Net interest income

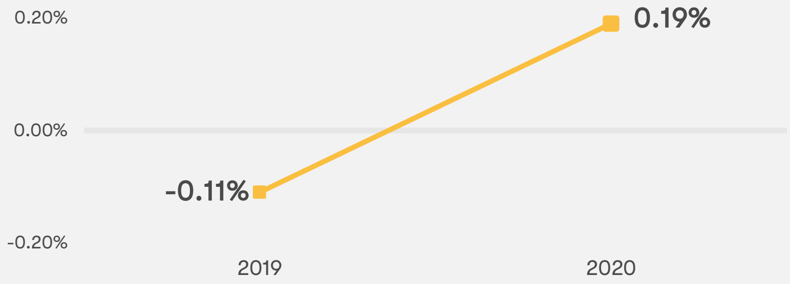


Gross asset yield	2019	2020
	5.3%	5.0%

3. Contribution to profit[2]



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

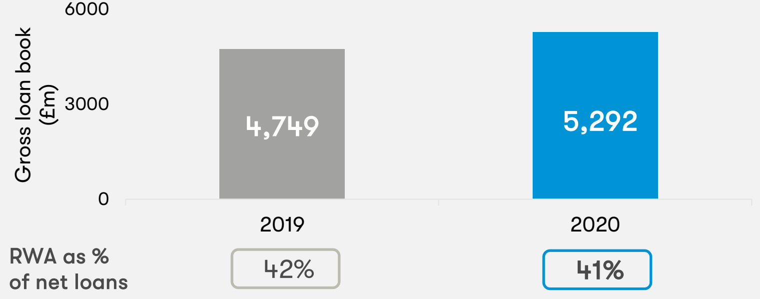


1. The Group restated the comparative LTV due to a change in calculation methodology
2. Total income less impairment losses

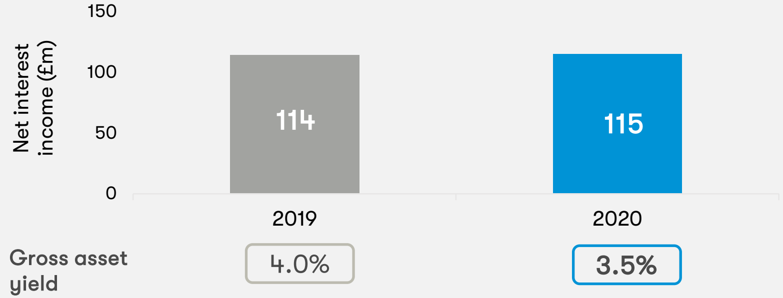
CCFS segment results – BTL sub-segment

Average book LTV remains low at 69% (2019: 71%), average origination LTV was 74% (2019: 73%).

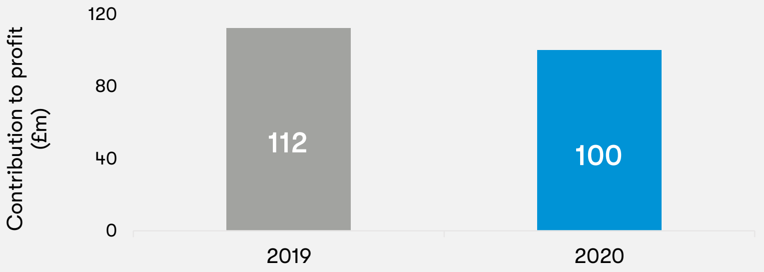
1. Gross loan book



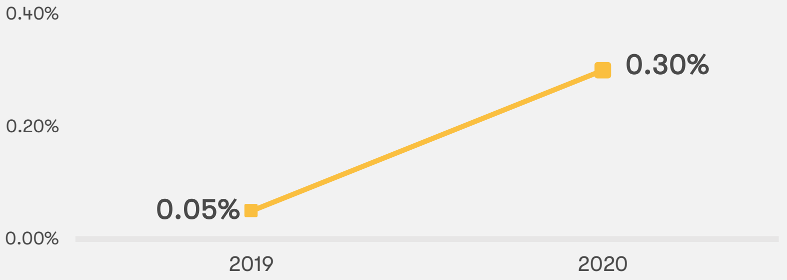
2. Net interest income



3. Contribution to profit[1]



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

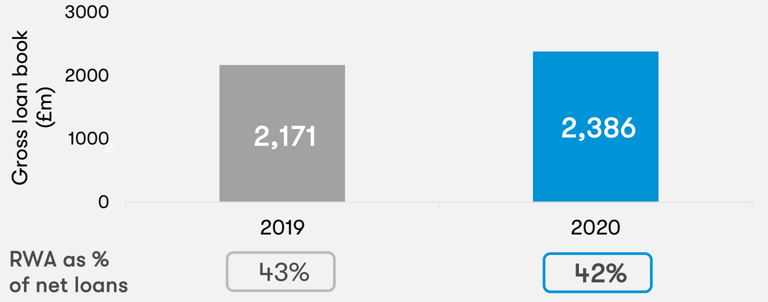


1. Total income less impairment losses

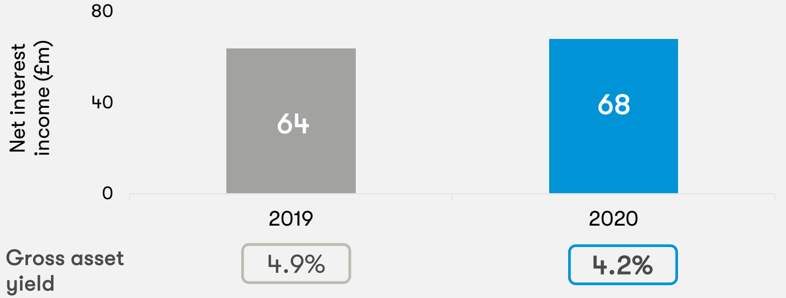
CCFS segment results – Residential sub-segment

Average book LTV remains low at 62% (FY 2019: restated 65%[1]), average origination LTV was 67% (FY 2019: restated 68%[1]).

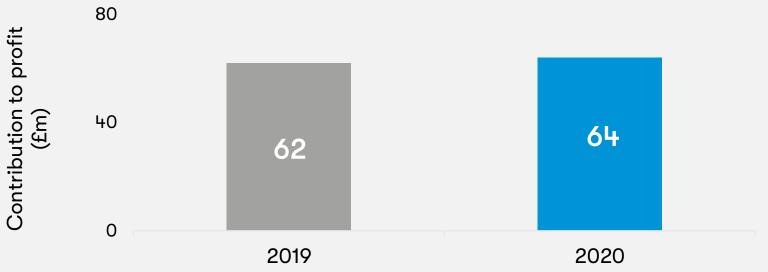
1. Gross loan book



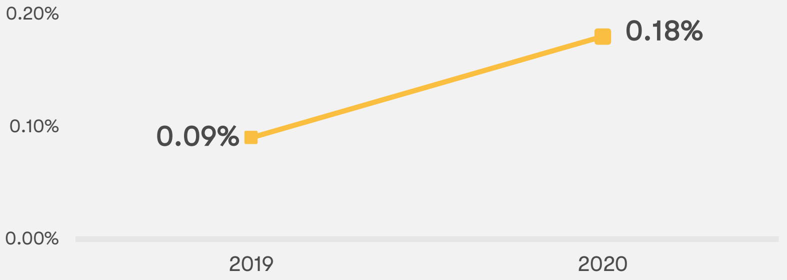
2. Net interest income



3. Contribution to profit[2]



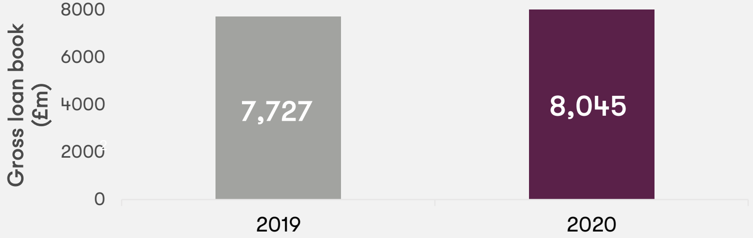
4. Loan loss charge as a % of average gross loans



1. The Group restated the comparative LTV due to a change in calculation methodology
2. Total income less impairment losses

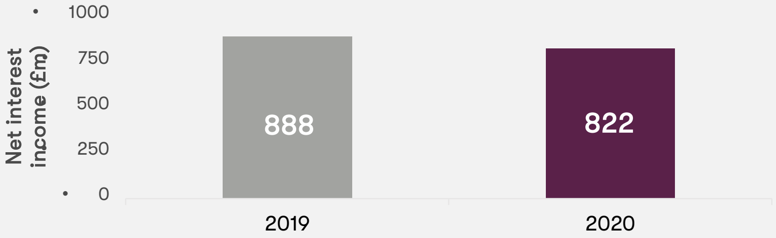
OSB segment results – BTL/SME sub-segments

1. Buy-to-Let



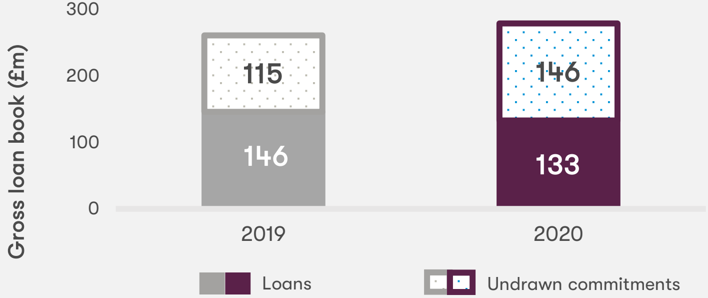
- The weighted average interest coverage ratio (ICR) was 201% during 2020 (2019: restated 199%[1])

2. Semi-commercial/Commercial



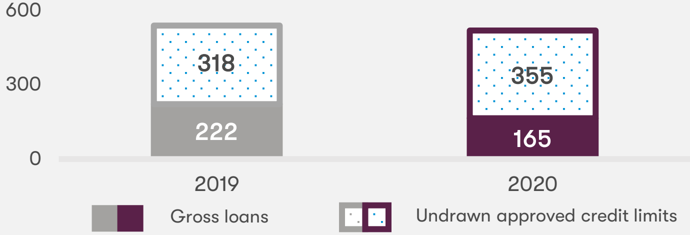
- Weighted average book LTV: 71% (2019: 67%)
- Average loan size c. £385k (2019: c. £375k)

3. Residential development



- Development sites were closed in Q2 2020 with increased activity in H2 2020 and very strong repayments

4. Funding lines

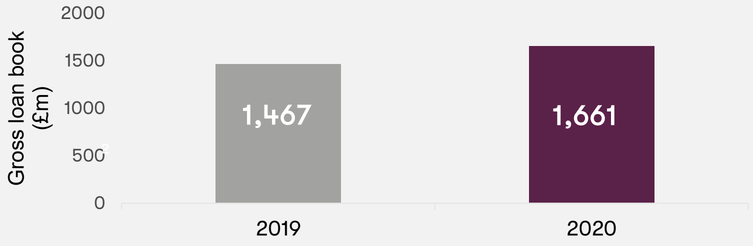


- Secured funding lines to non-bank lenders
- High yielding, secured, specialist sub-segments primarily property-related

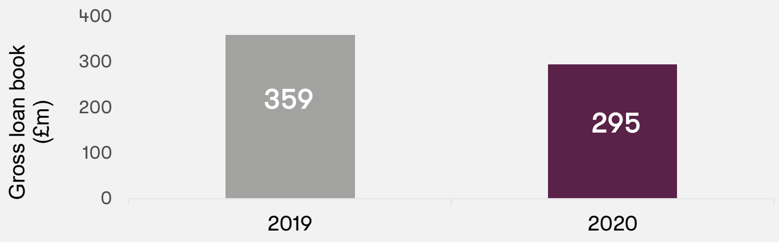
1. The Group restated the ICR due to a change in calculation methodology.

OSB segment results – Residential sub-segments

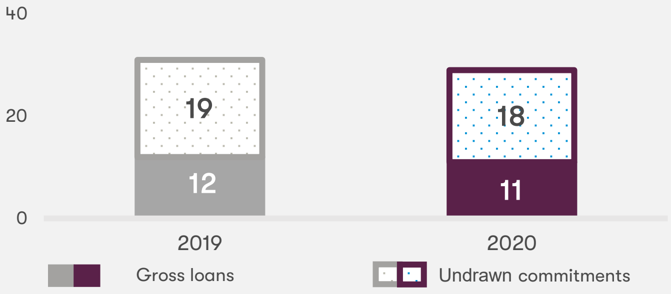
1. First charge mortgages



2. Second charge mortgages



3. Funding lines

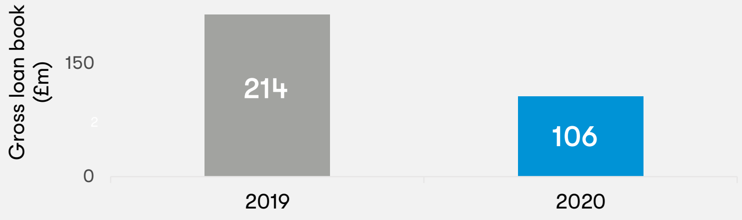


- First charge gross loan book increased by 13% largely due to the success of OSB's shared ownership proposition
- OSB's second charge book is in run-off and currently second charge loans are provided under the Precise Mortgages brand
- Residential funding lines in high-yielding and specialist sub-segments such as residential first and second charge finance

CCFS segment results – Bridging

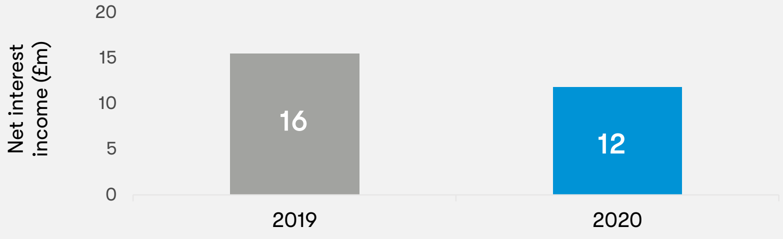
Withdrew products during lockdown with cautious return to market in the second half of the year

1. Gross loan book



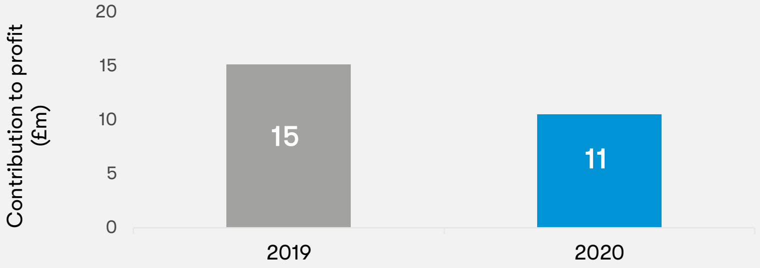
RWA as % of net loans: 60% (2019), 57% (2020)

2. Net interest income

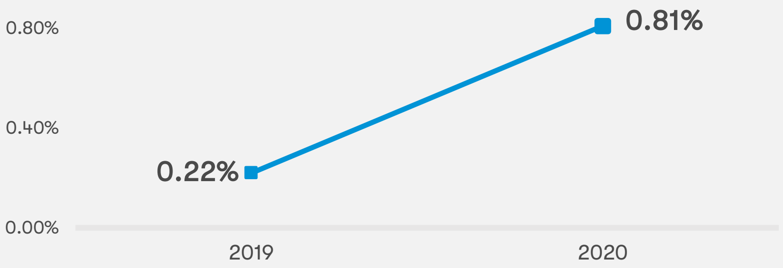


Gross asset yield: 8.5% (2019), 8.9% (2020)

3. Contribution to profit[1]



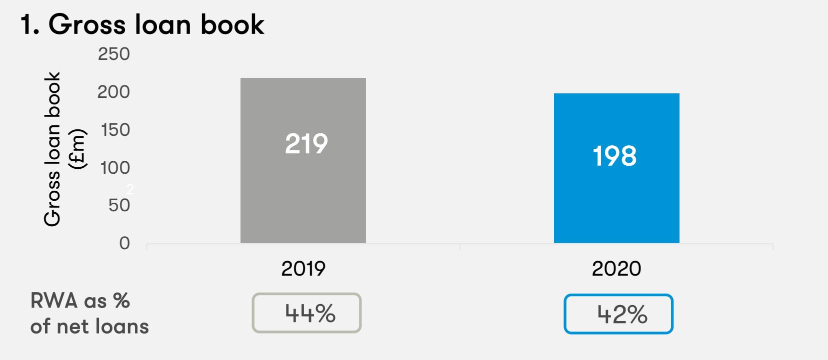
4. Loan loss charge as a % of average gross loans

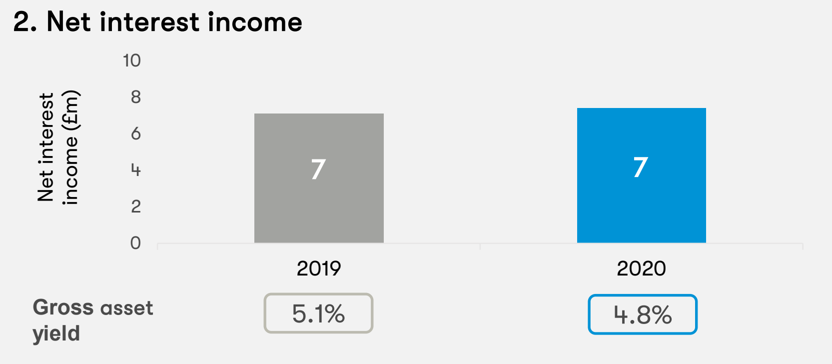


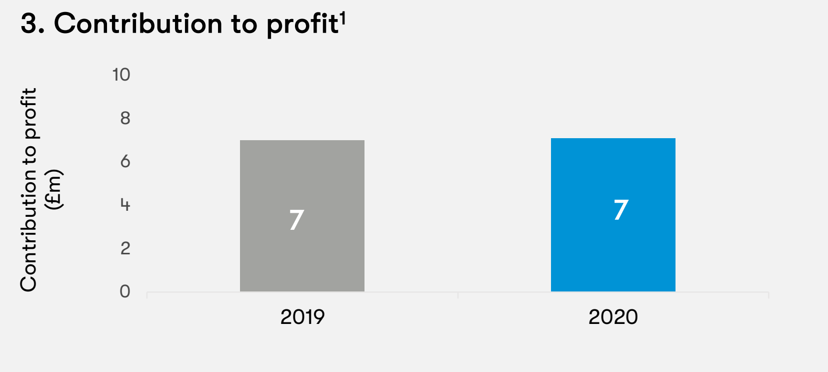
[1] Total income less impairment losses

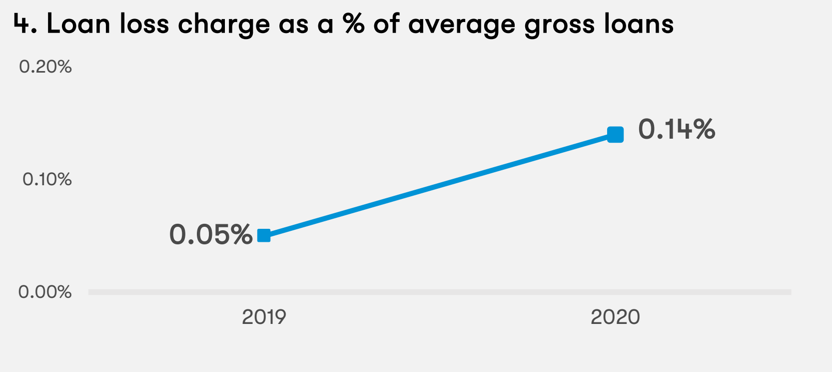
CCFS segment results – Second charge

Withdrew products and reintroduced with a revised, more limited product set









[1] Total income less impairment losses

Conservative forward-looking macroeconomic scenarios

Post the onset of the COVID-19 pandemic, the Group implemented a suite of adverse economic scenarios which incorporated the potential impact of the lockdown periods on economic activity and the unwind of government support measures.

Scenario	Probability weighting %	Economic measure	Scenario %: 5 year average (yearly growth %)	Scenario %: Cumulative growth/(fall) to peak/(trough) (%)
Base case	40	GDP	3.2	(5.8)
		House Price Index (HPI)	2.1	(8.5)
		Bank Base Rate (BBR)	0.5	1.4
		Unemployment rate	6.9	3.7
		Commercial Real Estate Index (CRE)	2.1	(8.5)
Upside	30	GDP	3.6	(5.6)
		House Price Index (HPI)	3.6	(6.3)
		Bank Base Rate (BBR)	0.8	1.7
		Unemployment rate	6.1	3.1
		Commercial Real Estate Index (CRE)	3.6	(6.3)
Downside	23	GDP	2.6	(6.7)
		House Price Index (HPI)	(0.4)	(18.9)
		Bank Base Rate (BBR)	0.1	0.0
		Unemployment rate	8.8	5.8
		Commercial Real Estate Index (CRE)	(0.4)	(18.9)
Severe downside	7	GDP	2.2	(8.0)
		House Price Index (HPI)	(2.2)	(26.4)
		Bank Base Rate (BBR)	0.1	0.0
		Unemployment rate	9.6	6.5
		Commercial Real Estate Index (CRE)	(5.5)	(40.0)

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