LEI: 213800WTQKOQI8ELD692

OneSavings Bank plc: Trading update

Published: 06.05.2020

OneSavings Bank plc

Trading update

OneSavings Bank plc ('OSB' or 'the Group'), the specialist lending and retail savings group, today issues its trading update for the period from the 1st January 2020 to date.

Highlights

- Organic originations of £1.5bn in the first three months of 2020 (Q1 2019 statutory: £799m for OSB and £710m for Charter Court Financial Services Group ('CCFS')).
- Underlying[1] net loans and advances increased by 5% in the first quarter, excluding the impact of structured asset sales. On an underlying[1] basis, after structured asset sales, net loans and advances as at 31 March 2020 remained unchanged at £18.2bn (31 December 2019: pro forma underlying[2] £18.2bn). On a statutory basis, net loans and advances were £18.4bn (31 December 2019: £18.4bn).
- Underlying[1] and statutory retail deposits of £16.3bn as at 31 March 2020 (31 December 2019: pro forma underlying[2] £16.2bn, statutory £16.3bn).
- Underlying[1] net interest margin ('NIM') for the first three months of 2020 broadly flat to full year 2019 pro forma underlying[2] NIM of 266bps.
- On a pro forma basis the CET1 ratio would have been 17.2% as at the end of December 2019 (reported 16.0%), after removing the final dividend and reducing risk weighted assets ('RWAs') by c. £287m relating to structured asset sales in January 2020.
- Strong operational resilience across both the UK and India.

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

2. Pro forma underlying refers to ratios and results which assume that the Combination with CCFS occurred on 1 January 2018 and include 12 months of results from CCFS and exclude exceptional items, integration costs and other acquisition-related items arising from the Combination with CCFS.

Andy Golding, CEO of OneSavings Bank, said:

"I am extremely proud of the resilience that OSB has demonstrated in the current difficult conditions. Our customers are at the heart of everything we do and we have concentrated on delivering the continuity and quality of service they expect of us. We entered the crisis with exceptionally strong capital and liquidity positions which allowed us to rapidly assist those concerned about potential financial difficulty by offering payment holidays on a self-certified basis. We demonstrated our flexibility by redeploying our employees to meet the large increase in call volumes. We started the year with a strong pipeline of new business and continue to lend to new and existing customers, prudently and with a reduced suite of products. We have enhanced our underwriting to accept desktop valuations due to the inability to perform physical valuations at present.

The UK and global economies continue to experience unprecedented uncertainty stemming from COVID-19. It is too soon to say what the longer term impact will be on our business, but we entered this period with a strong and secured balance sheet, sensible LTVs and strong risk management capabilities equipping us well to navigate the current situation. I would like to finish by taking the opportunity to thank all of my colleagues for their resilience, dedication, support and hard work which have allowed us to continue to provide our customers with the quality service they expect through these difficult times."

Operational resilience

Our current priority is to assist our customers to the best of our ability through the coronavirus crisis, and it is paramount to protect the safety and wellbeing of our employees. More than 75% of our employees, including 85% in India, are currently working from home, supported by appropriate technology. Our small branch network remains open, and those who work in offices are doing so under strict distancing protocols. In India, we have been granted a number of Government licences for critical staff to attend offices in three locations, further enhancing our operational resilience.

As expected, the Group saw an increased level of enquiries relating to both mortgage and savings products as soon as the crisis began. Resources were redeployed to best respond to additional call volumes from mortgage borrowers requesting our assistance in providing payment holidays. We are pleased with how quickly we were able to act, and mortgage call volumes have now reduced to normal levels.

Integration

We are making good progress on the integration with CCFS. There are detailed plans for each workstream in place with a number of them already completed. An early success is the integration of the capital markets team, who delivered three successful securitisations and two remunerative structured asset sales during the first quarter.

Capital and liquidity

A strong capital and liquidity position is crucial in the current uncertain economic environment in order for us to maintain our position as a leading specialist lender and to continue to support all of our stakeholders.

OSB entered 2020 with an extremely strong CET1 ratio of 16.0% (pro forma CET1 of 17.2% as at 31 December 2019, after removing the final 2019 dividend and reducing RWAs by c. £287m relating to structured asset sales in January 2020).

The Group remains highly liquid and in March took early action to increase liquidity given the uncertain economic outlook, by drawing an additional £645m through the Index Long-Term Repo ('ILTR') scheme on 19 March. We closed the first quarter with total drawings under the scheme of £855m. To date, we have also seen steady net retail deposit inflows for both Kent Reliance and Charter Savings Bank, with strong demand during the ISA season and high levels of retention amongst customers with maturing fixed rate products.

The liquidity coverage ratios increased during the first quarter to 247% and 170% for OSB and Charter Court Financial Services, respectively (31 December 2019: 199% and 145%, respectively).

The Group has applied for the Bank of England's Term Funding Scheme for SMEs ('TFSME') and anticipates an initial borrowing allowance of c. £1.7bn. It is intended to use the funding from the initial allowance to refinance and extend the duration of drawings under the Bank of England's ILTR scheme and the previous TFS scheme.

In March 2020 the Group securitised £1bn of organically-originated mortgage assets under the Canterbury Finance programme retaining all of the notes, including £860m of AAA rated senior bonds. This transaction provides a sizeable pool of collateral that significantly increases the contingent wholesale funding options available to us through commercial repo transactions. Once approved, the bonds can also be used, in place of whole loan mortgage collateral, against the Bank of England ILTR, TFS and TFSME facilities at significantly reduced haircuts.

Net interest margin ('NIM')

Underlying NIM[1] for the first quarter of 2020 was broadly flat to full year 2019 pro forma underlying NIM[2] of 266bps. However the cost of the additional liquidity the Group is prudently holding, and delays in the retail savings market passing on the base rate cuts in full, are a current and potential future drag on NIM. In partial mitigation, rates in the retail savings market are continuing to fall and the Group has kept pricing on fixed rate mortgages unchanged and also expects to benefit from the Bank of England TFSME scheme. The Group intends to use the TFSME to refinance its drawings under the TFS scheme for another four years and to refinance drawings under the ILTR scheme at a lower rate. The Group had previously planned to start repaying the original TFS scheme in 2020. In addition, NIM may also be impacted by changes in borrower behaviour, leading to revised prepayment rate, expected life and redemption profile assumptions in EIR income recognition.

New business

We are continuing to focus on serving our customers as well as we can, despite the wider standstill and impact of Government restrictions on the housing market. Towards the end of March and throughout April, we concentrated on our existing pipeline of applications, and ensured that resources were available to support those customers who wished to take a payment holiday.

OSB continues to support existing and new customers by accepting applications across our core businesses. However, given the current uncertain economic situation, we are operating with tightened criteria for LTVs and loan sizes to remain within our risk appetite, and meet valuer criteria for enhanced desktop valuations whilst physical property valuations remain unavailable. We continue to offer product transfers to qualifying customers whose mortgages approach maturity.

Payment holidays

OSB has responded rapidly to support our customers who may be facing financial difficulty by offering self-certified payment holidays of up to three months. Take-up levels have been high, but many people requesting payment holidays are doing so to prudently safeguard cashflow. Market research amongst Buy-to-Let landlords conducted on behalf of OSB[3] indicates that rents are still being received, with only 12-15% of landlords who have requested a payment holiday giving the reason as 'tenants having stopped paying rent'

As at the end of April 2020, the Group granted payment holidays to c.24k accounts, equivalent to 26.7% of the Group's mortgage book by value[4]. Volumes of requests were high when the scheme was first announced, but have since reduced significantly.

Credit

The percentage of loans and advances in three months plus arrears as at the end of March, was 1.3% for OSB and 0.4% for CCFS (31 December 2019: 1.3% and 0.3%, respectively). We have a high quality secured lending book with strong LTVs, with the weighted average LTV of the loan book at 68% for OSB and 70% for CCFS as at 31 December 2019.

The Group, in line with the industry and guidance from regulators, does not consider payment holidays as an automatic transfer from stage 1 to stage 2 under IFRS 9. It is too early to predict how borrowers will behave after the end of the payment holiday or what the potential macroeconomic impact of the current crisis will be. However the Group receives updated macroeconomic scenarios from its advisors on a regular basis, the latest version of which is shown in the table below. Applying these updated scenarios as at 31 March 2020 would result in an approximate doubling of the Group's expected credit loss provision balance versus the balance of £42.9m as at 31 December 2019.

			Scenario (%)	
Scenario	**Probability weighting (%)**	**Economic measure**	**Year end 2020**	**Year end 2021**
Base case	40	**GDP**	(6)	4
		Unemployment	7.8	7.1
		House price growth	(14.3)	(0.3)
Upside	30	**GDP**	(3)	4
		Unemployment	7.0	5.5
		House price growth	(11.9)	6.5
Downside	23	**GDP**	(9)	3
		Unemployment	9.3	9.5
		House price growth	(19.4)	(10.0)
Severe Downside	7	**GDP**	(10)	3
		Unemployment	9.8	10.4
		House price growth	(21.0)	(14.8)

The economic outlook remains uncertain, and the future level of arrears and impairment charges may worsen depending on the longevity of the COVID-19 pandemic and related containment measures, as well as the longer term effectiveness of central bank, government and other support measures.

2020 Executive remuneration

Members of the Group Executive Committee have volunteered to forgo their 2020 cash bonus. Half of their 2020 cash bonus will be retained in the business and the remaining half will be donated to charity. The minimum to be donated has been underwritten at £250k by the Group, with a £100k donation to Shelter which offers support and advice to those facing housing issues or homelessness across the UK. The remainder will be donated to charities that serve homeless people in the UK communities in which the Group is based and to provide medical equipment to a local hospital in India.

[1] Underlying NIM excludes exceptional items, integration costs and other acquisition-related items arising from the Combination with CCFS.
[2] Pro forma underlying NIM assumes that the Combination with CCFS occurred on 1 January 2018 and includes 12 months of results from CCFS and excludes exceptional items, integration costs and other acquisition-related items arising from the Combination with CCFS.
[3] Independent research conducted for OSB by BDRC and Savanta, April 2020.
[4] Excludes development finance, asset finance and funding lines.

Enquiries:

OneSavings Bank plc

Alastair Pate t: 01634 838 973

Brunswick Group

Robin Wrench / Simone Selzer t: 020 7404 5959

Analyst presentation

A webcast and a conference call will be held at 10:00am on Wednesday 6 May and both will be available on the OneSavings Bank website at www.osb.co.uk/investors/results-reports-presentations. Registration is open immediately.

About OneSavings Bank plc

OneSavings Bank 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. OSB is a specialist lending and retail savings Group authorised by the Prudential Regulation Authority, part of the Bank of England, and regulated by the Financial Conduct Authority and Prudential Regulation Authority.

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, InterBay Commercial and Prestige Finance. 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, the Term Funding Scheme and the Bank of England Indexed Long-Term Repo operation.

Charter Court Financial Services Group

CCFS focuses on providing Buy-to-Let and specialist residential mortgages, mortgage servicing, administration and credit consultancy and retail savings products. It operates through its three brands – Precise Mortgages, Exact Mortgage Experts 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, the Term Funding Scheme and the Bank of England Indexed Long-Term Repo operation.