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THIS ANNOUNCEMENT CONTAINS INSIDE INFORMATION

6 July 2023

Trading update

OSB GROUP PLC (OSBG or the Group), the specialist lending and retail savings Group, today issues a trading update ahead of its 2023 interim results.

- The Group remains on track to deliver c.7% growth in its underlying net loan book for 2023
- A reduction in the expected time spent on the reversion rate by Precise Mortgages customers is estimated to result in an adverse underlying effective interest rate (EIR) adjustment of £160m to £180m in the first half of 2023
- Excluding this EIR adjustment, the underlying net interest margin (NIM) for the first half of 2023 is anticipated to be marginally ahead of expectation. Second half NIM is anticipated to be broadly flat to 2022
- Administrative expenses in the first half of 2023 are slightly below expectation
- The Group's capital and liquidity positions remain strong

As the first half of 2023 progressed, the Group observed a step change in the behaviour of Precise Mortgages owner-occupied and Buy-to-Let customers reaching the end of their initial fixed term. As interest rates have continued to rise, leading to further increases in the Bank Base Rate (BBR) linked reversion rate, and as the Group continued to develop its Precise retention programme, customers are choosing to refinance earlier and spend less time on the higher reversion rate than expected, compared to previously observed behavioural trends.

In line with IFRS 9, the Group applies the effective interest rate (EIR) methodology to revenue recognition. This method seeks to recognise interest income evenly over the expected life of a mortgage, based on expected future cash flows and taking into account behavioural aspects, including time spent on the reversion rate, in addition to contractual terms. The Group uses observed trends in customer behaviour to periodically update modelled assumptions for the expected time spent on the higher reversion rate. Once a change in customer behaviour becomes apparent, and is expected to persist, the Group is required to recognise an immediate adjustment to the carrying value of the loan book through net interest income.

Significant judgement is required in estimating how long customers will spend on the higher reversion rate in the future. The Group has reviewed customer behaviour in the first half of the year and has revised the expected future behaviour of Precise Mortgages customers once they reach the end of their initial fixed rate period. Consequently, the Group anticipates that Precise Mortgages customers will now spend an average of five months on the reversion rate and the reduction in the reversion period will lead to an estimated adverse EIR adjustment of £160m to £180m on an underlying basis in the first half of 2023.

OSBG will release its half year results for the six months ended 30 June 2023 on 10 August 2023.

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Background information about the Group's core brands

The Precise Mortgages brand was acquired through the Combination of OneSavings Bank and Charter Court Financial Services in 2019. Its Buy-to-Let and Residential mortgages were designed to offer a modest step-up in reversion rate, linked to BBR, at product maturity versus the initial fixed rate and open market rates. Borrowers typically spend a period of time on the reversion rate before choosing a new product or a new mortgage provider. The step-up in the reversion rate has increased materially as a result of the rapid rise in BBR resulting in borrowers refinancing more quickly. In October 2022, the Group established a proactive retention programme for Precise Mortgages borrowers, similar to the *Choices* programme in Kent Reliance, leading to an improved retention rate in the first half.

The Kent Reliance (KR) brand has historically had a materially higher reversion rate linked to its standard variable rate (SVR), resulting in a significant step-up to the reversion rate versus the initial fixed and open market rates, leading to borrowers refinancing more quickly. Kent Reliance has a well-established broker led retention programme, *Choices,* to encourage borrowers to switch to a new product quickly rather than refinance away from the Group after a period on the higher reversion rate. The behaviour of KR customers in reversion is therefore less sensitive to increasing interest rates than for Precise customers. The *Choices* programme has been successful in retaining borrowers by engaging with them before the end of their fixed term and offering preferential rates compared with new customer rates to reflect the Group's lower processing costs. In 2022, 72% of borrowers chose a new KR product within 3 months of their product maturing.

Background information on EIR accounting for mortgages

In accordance with IFRS 9, the Group recognises interest income from mortgages using the effective interest rate (EIR) method, which aims to recognise interest income evenly over the expected life of the mortgages.

The EIR method requires that an effective interest rate is calculated at origination, that considers all contractual and behavioural cash flows associated with the mortgage, including fees, early redemption charges and the average time the customer spends on the reversion rate after the initial fixed rate period. This has the effect of bringing forward expected income from the reversion period.

The reversion rate is linked to BBR and if this remains static, there is no change to the EIR calculated at origination.

If BBR increases, the EIR methodology prescribes that the EIR is recalculated immediately to reflect the higher anticipated income in the reversion period, which leads to higher revenue recognition over the expected remaining life of the mortgage.

A change in customer behaviour which emerges over time, for example customers spending less time on the reversion rate before refinancing, can also lead to a change in the expected revenue to be recognised. Such a change would cause a reduction in the anticipated total amount of interest received from the customer over the revised expected life of the mortgage. Similarly, an expectation of a longer period spent on the reversion rate would lead to an increase in the anticipated total amount of interest received over the revised, longer life of a mortgage.

Once a trend in customer behaviour is observed, the EIR accounting treatment for such behavioural changes requires an immediate adjustment to the carrying value of loans and advances to customers, to reflect the present value of the revised future cash flows discounted at the latest EIR, which reflects current rates, with a corresponding gain or loss recognised in the income statement.

In the current rapidly rising rate environment, changes in BBR are observable immediately and are reflected in revised EIRs, whereas trends in customer behaviour take more time to emerge. This will result in a dynamic where a behavioural-driven adjustment, for example due to customers spending less time on the higher reversion rate, is in part providing for future income not yet recognised, due to the EIR (and future interest accruals) still reflecting the amount of time customers were originally expected to spend on revert.

About OSB GROUP 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. 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)

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's Term Funding Scheme with additional incentives for SMEs.

Charter Court Financial Services Group (CCFS)

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's Term Funding Scheme with additional incentives for SMEs.