OSB GROUP PLC

2024 Preliminary results presentation transcript

(amended in places to improve accuracy and readability)

13 March 2025

Andy Golding, Group CEO

Good morning, everyone, and thank you for joining OSB Group's 2024 Preliminary results presentation. I'm pleased to present this morning's results to you and excited to regroup at 10am for our Investor update where we'll share our medium-term aspirations.

In this results presentation, I'll take you through the key highlights for the year and then I'll hand over to Victoria for the financials in more detail and then return to take you through the outlook.

Firstly, I'll turn to our performance in 2024. This slide highlights three key themes that help summarise our strategy and the results for the year.

Firstly, we've been very disciplined in our approach to new lending. We focused on maintaining ROE on new lending during a period of high competition against a backdrop of a broadly subdued market in volume terms.

During the year, some lenders elected to drop pricing to a level below those that deliver our target returns and, as a result, excluding the impact of the de-recognition trade in December, the net loan book grew by 2.5%, broadly in line with our most recent guidance. And this is reflective of our pricing discipline.

Our net interest margin of 230 basis points is inclusive of a further EIR adjustment of £15.9m, reflects the transitionary impact of lower prevailing spreads on mortgages as products written in prior years reach maturity and fixed term savings recycled onto tighter spreads.

In addition, we've taken actions which have helped to reduce future EIR sensitivity to BAU levels.

An improvement in the macroeconomic outlook, specifically on HPI, resulted in an overall release of loan loss provision whilst maintaining a strong level of coverage.

Secondly, we've maintained our cost discipline and efficiency while also investing in our future. Our cost to income ratio is broadly in line with our expectations at 37% and whilst our focus on cost management limited core cost growth to only 3%.

Our transformation programme has continued to deliver, with foundational capabilities built that have enabled the rollout of our first product on the new savings platform for Kent Reliance customers. The new mobile app for intermediaries has proved very popular, with over 10% of our brokers now engaging with the app. You'll hear more about our transformation plans later today.

Finally, delivering attractive ROE and cash returns to shareholders continues to be our primary objective. The underlying £443m pre-tax profit for the year translates into a 16% ROE, which, together with a strong CET1 ratio, underpins our ability to return capital to shareholders.

In 2024, we completed two £50m buybacks and are confirming today a 5% increase in our full year 2024 dividend to 33.6 pence per share, consistent with our progressive dividend policy. This equates to a total return to shareholders of £226m in the year, including the buybacks undertaken.

I'm also delighted to announce a further share buyback of £100m over the next 12 months, which will commence tomorrow and further demonstrates the Board's continued commitment to return excess capital to shareholders and efficient capital management.

I'll now hand over to Victoria to walk you through the financials in more detail.

Victoria Hyde, Chief Financial Officer

Thank you, Andy. Turning first to the P&L, underlying net interest income reduced by 3%, reflecting factors we've talked about before, including lower prevailing spreads on mortgages and deposits as products written in prior years reached maturity and the cost of meeting our MREL requirements. I'll cover these later on the NIM slide.

These dynamics were partially offset by the non-recurrence of the adverse effective interest rate adjustment recognised in 2023.

Fair value losses on the pipeline mortgage swaps reduced in 2024 compared with prior year, mainly due to movements in the SONIA forward curve, which will reverse over the life of the swaps.

We also incurred a £2.4m loss on sale from the £1.25bn December securitisation and deconsolidation transaction. I'll cover administrative expenses and impairment later in this presentation. This resulted in a bottom-line underlying profit before tax of £443m, an increase of 4% on the prior year.

Underlying earnings per share of 82.2 pence increased due to the higher profit for the year and the lower share count following the two £50m buybacks announced in 2024.

The next slide summarises our strong secure balance sheet. Net loan book reduced by 2% in the year to £25.1bn, reflecting the derecognition of £1.25bn of Precise buy-to-let mortgages following the securitisation in December.

Adjusting for this transaction, the loan book would have increased by 2.5%, supported by £4bn of originations, which decreased by £700m from the prior period, reflecting our disciplined approach to new lending.

Retail deposits grew by 8% to almost £24bn as at the 31 December as the Group continued to attract new savers. This, in turn, allowed us to continue the repayment of our drawings under the Bank of England's TFSME scheme, which stood at £1.4bn at year end. We have since continued to make further repayments and, as at today, we have just under £800m remaining, and we are comfortable with our plan to repay fully by October 2025.

You can see that MREL debt increased by circa £400m due to the further issuance of senior notes in January, which allowed us to meet our interim MREL requirement of 22.5% of risk-weighted assets plus regulatory buffers ahead of the deadline.

The credit quality of our loan book remains strong. Whilst the three-month plus arrears percentage increased, reflecting the impact of a higher cost of borrowing on a small spread of borrowers, arrears plateaued in the fourth quarter at 1.7% as affordability for remortgaging customers improved.

Interest coverage ratios for buy-to-let originations in the year strengthened, reflecting a moderation in mortgage pricing and growth in rental income.

Our loan book is secured at sensible loan-to-values. The weighted average book LTV for the Group was stable at 64%. The new lending LTV was also unchanged at 68%, demonstrating the strength of our underwriting and quality of our security.

Before turning to the detail, I want to highlight a change to the presentation of our results from 2025. Since the combination with CCFS in 2019, we have presented our results on both a statutory and underlying basis, with the latter excluding acquisition adjustments. As we reached the end of 2024, these acquisition adjustments were fully amortised and therefore our results going forwards will be presented on a statutory basis only. Consequently, our 2025 guidance is also on a statutory basis, which is comparable to the 2024 underlying.

This slide presents the net interest margin dynamics from the December 2023 exit rate of 273 basis points where we left you at our last preliminary results.

Moving from left to right, lending margins in 2024 were a continued headwind to NIM as maturing fixed-term mortgages redeemed or switched faster onto lower prevailing spreads. The lending margin was impacted by a £15.9m EIR adjustment in December, reflecting a one-month reduction, from five months to four months, in the average time that Precise borrowers are assumed to spend on the higher reversion rate before refinancing.

Our fixed-rate deposit book continued recycling onto tighter spreads than those that prevailed throughout much of 2023 and that were written at a volatile period at the end of 2022.

In January, we issued £400m of MREL qualifying debt securities, which diluted NIM by eight basis points versus the December exit rate. We are now carrying a total of £950m of MREL debt on the balance sheet, and the adverse impact on NIM from this issued balance will progressively flatten off as it annualises.

Turning to guidance. NIM in 2025 is expected to be circa 225 basis points as both the lending spreads and net funding impacts on our overall NIM began to stabilise in the second half of 2024.

As I look at customer behaviour today, we have seen no material change from year-end assumptions in the length of time Precise borrowers remain on the revert rate, and our guidance for 2025 assumes no further change.

Following the Precise behavioural change that I referenced earlier and the beneficial impact of the deconsolidation transaction, the EIR sensitivity on the Precise book reduced to circa £27m at the year-end for a two-month reduction in the weighted average life on reversion. This sensitivity is expected to decrease by a further circa £10m by the end of 2025.

I'm pleased that the potential impact of EIR in NIM and earnings is now significantly less material than it has been over the last few years and back to within the BAU levels seen before 2023.

We maintained our strong focus on cost discipline and efficiency as we managed the cost base in an inflationary environment whilst investing in transformation. The admin expenses of £257m and a cost to income ratio of 37% on an underlying basis, came broadly in line with our expectations. The Group's core UK and India costs increased by 3% year-on-year.

Towards the end of last year, we took the difficult decision to undertake a redundancy programme, which affected 139 positions across the Group and led to a charge of £4.5m. As at the 31 December, the Group's number of employees was broadly flat to the prior year.

The new Bank of England levy added £3.3m to our cost base, a step up in 2024 that will roll into core costs in 2025. Our transformation programme completed its second full year, with the amount expensed increasing by £9.9m as the intensity of delivery ramped up. You can see further detail on the right-hand side and, later on this morning, we'll talk further about the benefits the transformation programme will bring to our business.

The underlying management expense ratio of 85 basis points was four basis points higher than in the prior year but is still very competitive versus peers.

Looking forward, we anticipate circa £270m of admin expenses in 2025. Within this, core costs, which were £238m in 2024, are expected to increase at below the rate of inflation whilst investment in transformation will continue to increase in line with our projected rollout profile.

The next slide provides a waterfall of the movement in the statutory impairment provision for the year. As you can see from the chart, the themes are consistent with those I presented at the August Interim announcement.

Further improvement in forward-looking macroeconomic scenarios in H2, particularly in respect of house prices, led to a £36.2m provision release in the year with a further £7.9m release was a reduction in post-model adjustments.

Changes in arrears led to a charge of £10.8m, although I note the rate of growth slowed significantly in the second half, and a further charge of £8.4m related to changes in the credit profile of borrowers as they transitioned through modelled IFRS 9 impairment stages.

Our total coverage ratio has decreased by six basis points but remains more than twice the level it was pre-pandemic at the end of 2019, or, to give another sense of perspective, our ECL balance sheet provision is more than 10 times the size of our average write-offs over the last five years. We will continue to proactively review our forward-looking macroeconomic scenarios and coverage ratio as the outlook evolves.

Turning to the capital position, you can see that the Group's CET1 ratio remains strong at 16.3% at the end of December. The waterfall illustrates our strong capital generation from profitability of 2.7%, the 0.5% released by the derecognition transaction completed in December and the 2% returned to shareholders in the form of dividends and share buybacks.

In September, the PRA released their near final rules regarding the implementation of Basel 3.1, which we now expect to reduce our CET1 ratio by just over 1% if it had been fully implemented on the 31 December 2024; a smaller impact compared to our previous guidance of just under 2%. This improvement is largely due to a favourable clarification of the property revaluation rules for determining LTV banding.

Today, the Board has announced a new £100m share buyback to commence tomorrow, expected to complete over the next 12 months. The quantum of impact on CET1 ratio will be similar to the buybacks in the prior year at circa 0.9%.

Looking forward, we continue to target a CET1 ratio of 14%. We are on a glide path to this level and expect to operate above this target ahead of the implementation of the Basel 3.1 rules. Thank you. I will now pass back to Andy.

Andy Golding, Chief Executive Officer
Thank you, Victoria. Here we set out our 2025 guidance together with a directional view of 2026 and, later this morning, we will share our medium-term aspirations.

As you'll hear later, 2025 and 2026 are transition years for OSB as we complete our transformation programme, some of the dynamics which have impacted our NIM stabilised, and we maintain our momentum for growth across each of the asset classes.

For now, I'm going to focus on our guidance for 2025 and, when we regather later, we'll give you more colour of the medium term.

So, during 2025, we'll continue to work towards optimising the lending book and delivering a diversified portfolio, growing into high yielding segments. Jon Hall, our MD of Mortgages and Savings, will talk about this later on this morning. However, given our focus on returns and the profile of lending reaching reversion this year, we anticipate low single-digit loan book growth with similar dynamics to those seen in 2024.

NIM, in 2025, is expected to be circa 225 basis points, and we anticipate £270m worth of administrative expenses for the year as we continue to invest in the business and, again, we'll tell you more about our transformation programme later on.

We anticipate that this guidance will deliver a low-teens ROTE in 2025 and, later, we'll set out our plans to improve this as we look ahead. In the meantime, we'll continue to prioritise returns to shareholders with the increase in the dividend per share by circa 5%.

In addition to moving to a statutory view of our financials, we are aligning with industry practice to report return on tangible equity rather than return on equity. Both ROE and ROTE resulted in a reported 16% level in 2024 and, in the presentation earlier, we've been clear on the intangible that relates to transformation. In 2026, we expect broadly similar dynamics.

This year's performance provides a strong foundation for our future aspirations, and I look forward to presenting that to you later this morning. The details of the Investor Update are on the slide and available on our website, and I do hope you're able to join us at 10am.

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Questions and Answers

Benjamin Toms, RBC
Morning, both. Thank you for taking my questions. It's incredibly difficult to keep them to just the next two years but I'll try my best.

Your NIM guidance for the next couple of years is 2.25%. My feeling is that, as you go through the next couple of years, headwinds will fall away. You should have a significant tailwind from loan book mix shift. Is that the right way to think about it, and would you expect NIM to build as we come out of 2026?

And then secondly, on the investment spend, it grew significantly in 2024. Should we expect it to grow a little bit in 2025 or plateauing in 2026 and falling from there? Can you talk a little bit about what that investment spend is being spent on in the next couple of years? Is it investment in tech capabilities, facilitating volumes or is it investment in efficiency, allowing you to generate cost savings? Thank you.

Andy Golding, Chief Executive Officer
Thanks, Ben. I mean, I'll touch on the NIM point because actually I share your thought process, and I don't disagree with you at all. I mean, clearly, we have to give guidance based on what we see today in terms of cost of funds, the dynamics that are coming through the loan book and, of course, what we know about what's rolling through the back book versus the strong yields that we're putting on at the front end.

But, yeah, we all know that as interest rates come off, OSB historically has seen improvement in its NIM as interest rates reduce and, as you say, there are, probably, potentially, a few tailwinds, but we have to guide what we see today because there's a lot going on in the geopolitical environment and the macroeconomy that we're not in control of. So, hopefully that touches on the NIM point. Victoria, do you want to talk about the cost?

Victoria Hyde, Chief Financial Officer
Yes, I was going to say, Ben, you will see a lot more on this at 10am, but I would say, yes, our investment spend, we'll give you all the details about our transformation programme, but, yeah, I would agree with your general sentiment that yes, we have an increase in that cost through our transition period and then that will taper off and it will drive further efficiency.

In terms of where that spend is, yes, it is tech capability. As I say, we are looking to change the way our cost is structured and be more tech enabled to create operational leverage for the future. But I would say there is an awful lot that you will find out on that at 10am. So, we will give you a lot more detail and answer all of those questions and more, hopefully, in the next session.

Andy Golding, Chief Executive Officer
Thanks, Ben.

Grace Dargan, Barclays
Good morning. Thanks, both, for doing this call now. If I could just come back on NIM and then ask around capital return. So on the 2026 NIM guide, I guess you're talking about similar levels to 2025. How could we interpret similar levels? Are you talking a couple of bps here and there or are we talking more of a range of 220 to 230, how you're thinking about that?

And then, secondly, on the commitment to return excess capital, I mean, that's great. How should we be thinking about the pace of that? And, I guess, noting your comments, should we be thinking about just a pay down to 15% at least until Jan '27? Thank you.

Victoria Hyde, Chief Financial Officer
Okay, so, yeah, obviously, Grace, 2026 is a fair way away and we know things can change, but I would say, at the minute, when I think of similar levels, I'm probably thinking of a few bps here and there. I mean, we know we have one more benchmark MREL issuance before that goes live in 2027, and I would say, at the minute we're assuming that funding remains relatively stable, it has been. So, assuming that doesn't change, we are looking at, sort of, a few bps here and there.

As we've, sort of, mentioned the 2025 guidance, these factors of lending and funding are starting to stabilise and, as you say, we see that continuing through 2026 as the sort of, loan book - the back book impact is mitigated by the front book growth. So, hopefully the lending component stays broadly flat and then funding, again, relatively stable. The TFSME will be gone by then.

So, yes, we're really talking modestly similar, but obviously, we will update on that as we get through this year on the interims and, naturally, we're striving to optimise and focus on every basis point. So, you know, we're certainly looking to optimise 2026.

And then your question on capital – yes, it's just over 1%, so, yes, we look to keep to a glide path towards that just over 15%. If you look at where we're landing, we've got the £100m that will come out, we're confident on our ability to keep generating good returns and organic generation of capital, and then we'll assess later in the year for next year. You know, we've been firmer on our dividend, and the Board is committed to return excess capital, but we will see that, sort of, drift down to the to the 14% in 2027. Thank you.

Edward Firth, KBW
Morning, everybody. I just have two questions, actually – the first one is on consensus. I don't really like to ask questions about consensus but there seems to be some confusion in the market this morning about whether you're guiding to a downgrade or not for 2025, and you sent us the numbers so I might as well just ask you, the way I look at it, seems the cost is a little bit higher than consensus but, other than that, everything looks to be broadly in line. So, my first question is am I missing something there or not? That would be the first question.

And then the second question is on capital return. Is there a maximum that you can do? I mean, obviously, physically, there must be, there must be a limit to what you can buy back. It just seems to me that if Basel 3 is only going to be 1% now, at 16, you're generating capital all the time, you're not growing very much. How do you, physically, actually, get the capital back? I mean, do you, ultimately, just go for a special dividend or can you do more than £100m, or have you been told that is the most you can do without disturbing the stock price? It seems to me there are challenges in getting that capital back, and I just wonder how we should think about that in terms of the maximum you can do, the maximum buyback you can do, etc? Thanks very much.

Victoria Hyde, Chief Financial Officer
Yeah, so thanks. Ed. I'll take your question on consensus. So, yes, we did publish our company compiled for 2025. You know, when we look at those key metrics, NIM is around 220, 224. So, yes, our guidance is circa 225, so I think we're aligned there and, again, yeah, our ROE of about 13.5%. So, I would say we are, broadly aligned to consensus. So, I don't think, as you say, there's costs, yes, slightly up, but I would say there's no real themes, I think, that we're wildly different from.

Andy Golding, Chief Executive Officer
Okay, thanks. I mean, and on the capital side, I share your curiosity around that. I mean, clearly, we want to get through a glide path to our target post Basel 3.1 being fully implemented at 14%. We generate a fairly healthy chunk of capital every year, and, you know, we've increased the dividend over the next few years to demonstrate that, you know, we're really on board with our progressive dividend per share policy, and £100m, you know, it's a sizable buyback in terms of the volume of stocks traded.

I'm not saying it's the maximum we could do, but given everything that's going on from a geopolitical perspective, given we have got to put a glide path in place to Basel 3.1, it seems like a sensible level. And, of course, market opportunities, if they expand, we want to make sure we've got some capital power to be able to take advantage of those opportunities if we see attractive ROTEs to be made in the markets in which we operate.

So, I think we're doing a good job at returning capital to shareholders, I think the dividend is meaningful, I think the buybacks are meaningful, and I can't really say any more than the Board is absolutely committed to where we can and it's appropriate returning that excess.

Edward Firth, KBW
Great. Thanks so much indeed.

Andy Golding, Chief Executive Officer
Thanks, Ed.

Okay. It sounds as if everyone's holding their powder dry for post our 10am, which is good because I think we will be able to share a lot more about the Group and our future direction of travel. So, thank you for joining this call this morning and look forward to speaking to many of you later on.

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