OSB GROUP PLC

2026 Interim results presentation transcript

(amended in places to improve accuracy and readability)

6 August 2026

Andy Golding, Chief Executive Officer
Good morning and thank you for joining OSB Group's 2026 half year results presentation. This morning, I'll take you through the key highlights for the first half, provide a view on the outlook for the remainder of 2026 and beyond before finishing off with insights into the macro drivers supporting our business. Then I'll hand over to Victoria for the financials in more detail before returning for concluding remarks.

Starting with a high-level view of the business.

In March 2025, at the Investor update, we set out our strategy to remain the number one specialist lender and also our plan to improve RoTE in the medium term. I'm pleased with the resilient financial and operational performance the group has delivered in the first half. We have done what we said we would do, particularly against the backdrop of an ongoing macroeconomic and geopolitical uncertainty, rising oil prices and the resulting volatility in swap rates and the impact on retail cost of funds. This slide highlights our three familiar themes.

Firstly, we continue to deliver against our lending growth plan. Net loan book growth of 1.3% reflects our discipline in maintaining attractive returns from new lending. Due to strong demand, we wrote more than £1bn of new business in Buy-to-let in the first half at sustainable margins. And this sub-segment, therefore, remained at 68% of the portfolio. Despite that backdrop of macroeconomic uncertainty, originations in our higher yielding sub segments also grew moderately. As expected, net interest margin reduced compared to the prior period, and I'll come back to that shortly. The strength of our underwriting expertise continues to be demonstrated in our low loan loss ratio and despite recent volatility remains in line with our long-term average.

Secondly, we've maintained our cost discipline and efficiency while also creating capacity for investment. Our culture of challenging cost helped contain core costs, which were down by 0.4%. Cost to income and MANEX ratios reflect our investment in the transformation programme and are in line with our expectations.

Finally, delivering attractive RoTEs and capital returns to shareholders continues to be our primary objective. The £187m of profit before tax translates to a first half RoTE of 13.3% and TNAV per share of 584p, up from 579p at the year end. Our commitment to rewarding shareholders is underlined by the 5% increase in the interim dividend. In addition, the £100m share buyback programme that we announced in March is progressing well, with circa 69m of shares repurchased so far. This will bring total capital distributions to shareholders over the last eighteen months to £360m demonstrating the strength of our capital generation and our commitment to shareholder returns.

In summary, I'm pleased with our resilient performance in the first half and the progress we've made on transformation.

Turning to our portfolio in greater detail. We remain disciplined in how we grow, balancing volume, capital allocation and returns. Those of you who've been following OSB will be familiar with our 'graphic equaliser' concept that demonstrates our progress in delivering our lending growth plan.

Our Buy-to-let franchise performed well, enhanced by the launch of the Rely brand towards the end of last year. Residential originations were broadly flat in the first half, although we expect momentum to build in the second half following the full rollout of our residential proposition on the new platform. Originations grew moderately in our higher-yielding sub segments despite the uncertain macroeconomic environment and the impact of higher mortgage rates on borrowers' purchase decisions. That said, our commitment to optimising and diversifying the loan book remains unchanged, but this journey won't be linear as we continue to manage the business to optimise risk adjusted returns.

Taken together, I'm pleased with how we've responded to the challenging market conditions while continuing to execute our plan. We've made good progress in the first half and continue to expect full year growth to be in line with 2025.

We're on track with our transformation programme. Management actions taken continue to deliver tangible benefits across the group, with the investments we've made over the last three and a half years now translating into stronger commercial performance, better customer outcomes, and greater efficiency.

As you can see from the chart, the new platform gives us greater pricing agility, helping us respond more dynamically to market conditions in both savings and lending, while maintaining our focus on returns. Combination of the new platform and the Rely brand has significantly enhanced the broker experience. For example, we can now deliver an Agreement in Principle in under ten minutes and complete cases in as little as two hours.

We're also seeing meaningful operational benefits with higher levels of automation and accelerated processing times. For example, automated valuations are now being used for around 10% of our cases originated through the new platform compared with none previously, improving both efficiency and customer outcomes.

With savings, we continue to expand the range of products on the new platform. Technology is enabling much faster execution with actions that previously took weeks now completed in around an hour. Importantly, these benefits extend well beyond operational efficiency. Over time, the platform will enable us to respond more quickly to changing market conditions, improve customer and broker retention through a better service proposition and generate greater operational leverage as the business grows. Together, these capabilities strengthen our ability to protect margins, improve productivity, and deliver sustainable returns over the medium term.

Looking ahead, momentum continues into the second half. In savings, we'll continue to broaden the product offering, complete the migration of Kent Reliance customers onto the new platform, and prepare for the transfer of Charter Savings Bank onto the new platform as well. In lending, our residential mortgage proposition, which is currently in soft launch phase, will be rolled out more broadly to our broker network under the Precise brand, bringing the benefits we've already seen through the Buy-to-Let Rely launch to our residential customers.

Overall, I'm pleased with the progress we're making. Programme remains on track. Key milestones are being delivered successfully, and costs are absolutely in line with the plan.

The investment I described is also creating the foundations for our adoption of AI. In our contact centers, it is reducing note taking time by around 35% and saving colleagues time on complex calls. AI is also helping us reduce fraud and support document verification, preventing fraudulent applications worth approximately £8m. We're also using AI to support brokers by helping colleagues navigate complex credit policies more quickly and consistently, while internally we're seeing productivity improvements across software engineering and routine administrative tasks.

Importantly, this is not about replacing the expertise that differentiates OSB. Specialist lending will always rely on human judgment. We see AI as a tool that supports our people, helping them make better informed decisions and spend more time focused on our customers.

Looking ahead, we'll continue to build on the data and technology foundation we've created, exploring opportunities in areas including pricing, customer service, and back-office efficiency. While still at an early stage, we believe AI can further enhance the strengths that already differentiate OSB and support improved outcomes over time.

Looking at what we can control in our business, we've made good progress in the half. We set out our plan in March '25. Our guidance was based on stable funding costs and a more favourable set of macroeconomic assumptions. This slide highlights the elevated cost of retail funding as well as the volatility in the rates that we saw in H1 '26. It also shows how the macro environment has significantly changed since the plan start point in March '25 and for 2026 and more so in '27 across GDP growth, HPI, inflation, and interest rates.

The top right-hand chart shows the spread between average top quoted pay rates on one-year fixed rate deposits versus one-year swap rates. The spread was widest in February and then narrowed briefly in March to provide a short window for more attractive funding costs for us. Since March, the rate has widened again, and now it is at a similar level to February, resulting in higher than anticipated costs of funding in the market. We've highlighted a number of times and most recently at the full year 2025 and Q1 2026 that our ability to deliver the full year 2026 NIM of c225bps would depend on three factors: front book margin, back book dynamics and the cost of retail funds, with the cost of funds being the most uncertain and hardest to forecast.

The cost of funding in H1 '26 did average at circa SONIA +30bps, in line with our full year expectation. However, the volatility in funding costs in the half and market competition effect on the savings back book recycling was a headwind on NIM, with an H1 NIM of 223bps versus 226bps for the full year 2025. As we stand here today, we see no indication that the cost of retail funds will normalise this year. On this basis, we've revisited our NIM guidance and no longer assume normalisation of cost of funds.

We've updated our 2026 NIM guidance to 215-220bps from 225 preferring a range rather than a single number to reflect that level of uncertainty in the market. As a consequence of this change, we're now expecting to deliver an RoTE of closer to 12.5% for 2026. However, as we look into the medium term, the mechanical nature of factors which enable an RoTE uplift, together with the management actions underway, mean that our guidance of mid-teens RoTE in 2028 rising to the upper end of mid-teens RoTE in 2019 still stands.

Let me spend some time taking you through the return drivers together over the plan to 2029 and why we have confidence in this delivery. We see five key drivers. The first driver has a near term impact and is market driven. It's the cost of retail funds. As I've explained, as a consequence of the funding headwind, we now expect 2026 RoTE to be closer to 12.5%. If the funding cost pressures seen so far this year continue, this could result in a modest impact on our 2027 mid-teens RoTE aspiration.

Beyond '27 and into '28 and '29, there are four positive drivers that we've already discussed with you. The first two in green are mechanical: back book roll off and MREL. The high margin back book will roll off this year and the low margin back book will roll off into 2028, and this becomes increasingly supportive by 2028. Next, MREL debt, with call dates in September 2027 and January 2029, will reduce our cost of funding. Both of these result in a mechanical uplift in our RoTE outlook as the drag from these factors disappears.

The next two in blue are within management's control, and hence also areas we're confident about. The return enhancing portfolio diversification into higher margin areas as the Buy-to-Let book reduces to 60% of the loans over the period is a driver of RoTE enhancement. As is our transformation programme, investment will conclude in '27 with increasing benefits occurring thereafter, bringing the operational leverage benefits we're already seeing from the Kent Reliance savings and Rely Buy-to-Let to the rest of the business.

The operating environment has become more volatile than we anticipated when we first laid out our medium-term aspirations. Interest rate expectations, swap rate movements and customer behaviour have all become slightly less predictable. While this can influence the pace at which margins recover quarter to quarter, it does not alter the strategic action we are taking or our confidence in the medium-term earnings power of the franchise. Mechanical and management controlled positive RoTE drivers give us high confidence in our '28 mid-teens RoTE and '29 high end of mid-teens RoTE aspirations.

Our objective remains to sustainably deliver mid-teens return on tangible equity. The question is one of timing rather than destination. With that, I'll hand over to Victoria for further insights into the financials.

Victoria Hyde, Chief Financial Officer
Thank you, Andy, and good morning, everyone. The first half delivered resilient financial performance in line with our expectations. I will now walk through the detail.

Turning first to the P&L, let me call out a few key items. Net interest income was £340m for the first half, up 1% compared with the prior period, and I will provide more colour on the NIM dynamics on the next slide. The fair value loss on hedging activities reduced to £2.5m compared to £14.3m in the prior period. The key driver behind the loss was again fair value movements on our mortgage pipeline swaps.

Total administrative expenses, of which core costs were £117.4m increased by 4% as we continue to invest in our transformation programme. However, our core costs were down 0.4% compared to the prior period. This resulted in a 5% increase in profit before provisions and impairment to £204m for the first half. An impairment charge of £16m was recognised this half year. I will cover this charge in more detail later on.

Finally, profit before tax for the first six months of the year was £187m down 3% on prior period and basic EPS grew to 38.4p per share, up 3% primarily due to the lower weighted average number of shares.

Looking at the NIM movement from H2 2025, NIM reduced by 3bps to 223bps this half year. Higher cost of funds caused downward pressure as our retail savings book continued to recycle onto more costly spreads to SONIA compared to those in the second half of 2025.

The higher cost of retail funds was partially offset by lending spreads as back book dynamics rolled through in parallel to another six months of new business written at sustainable margins. We have also shown NIM excluding liquid assets, which was 262bps in the first half. This presentation of our NIM better reflects the performance of the underlying business. It also allows for a more meaningful comparison with our closest peers.

As Andy mentioned, we have updated our 2026 NIM guidance to a range of 215-220bps. The new guidance is based on the assumption of SONIA +40 for retail funding costs in the second half of 2026. This is an increase from our previous assumption as a result of strong competition and volatility we are currently seeing in the market. Our updated NIM guidance is shown on the right-hand side of the chart.

This slide provides an overview of our funding franchise. The overall makeup of the group's funding remained broadly unchanged. As at the 30th of June, 89% of our total funding came from retail deposits that we raised under our two savings brands, Kent Reliance and Charter Savings Bank. Retail deposits grew by 3% in the first six months of the year, reaching nearly £25bn.

The proportion of our fixed rate bonds versus easy access accounts remained broadly unchanged compared to year end, with fixed rate savings accounts representing 55%. The remainder of our funding came from debt and wholesale issuance, providing diversification and adding duration to our funding requirements.

As at the 30th of June, central bank funding reduced to £250m, providing us with significant capacity and flexibility to draw more in line with our funding requirements and improve our overall cost of funds as we manage our way through the final nine months of deposit migration to our new, more flexible platform.

Moving on to costs. A key part of our plan is that we tightly manage our cost base to allow us to invest in transformation. We demonstrated that we achieved this in the first half of the year. This and the following page highlight our cost discipline and transformation spend. Administrative expenses were in line with expectations at £136.5m, up 4% compared to the first half of 2025. The main driver of the growth was the cost of the transformation programme with a £5m increase compared to H1 2025. On the next slide, we provide more detail on our spend to date.

I'm pleased that the core cost reduced by 0.4% compared to the prior period as we optimise our UK real estate footprint. The cost to income ratio remained broadly flat at 40.1% compared to 40.3% in the prior period, and the management expense ratio was unchanged at 88bps. Looking forward, for 2026, we continue to expect administrative expenses of circa £280m excluding the costs of our new CEO. We remain disciplined in our core cost management and will continue to invest in our transformation programme in line with our plan.

Andy outlined earlier the benefits of three and a half years of investment in transformation. On this slide, we summarise our expenditure since the start of the programme for your reference. There is no change to the expected spend on the programme until it completes at the end of 2027. On a semi-annual basis, you can see that the total transformation spend, including intangible asset movement, has passed its peak in H2 2025.

This slide presents the progress against our lending plan, combined with a disciplined approach to risk that we presented at the Investor update in March 2025. Net loan book grew by 1.3% in the first half to £26.3bn with Buy to Let sub segment representing 68% of total gross loans. We remain committed to our medium-term loan book diversification strategy and continue to see opportunities in these subsegments.

The growth in the loan book was supported by originations of £2.3bn an increase of 10% compared to the first half of 2025. We saw strong new business volumes in our core sub segments of Buy to Let and Residential. Originations grew moderately in our higher yielding sub segments despite macroeconomic uncertainty and elevated mortgage rates. For 2026, we continue to expect net loan book growth to be broadly similar to that achieved in 2025.

The next slide provides a waterfall of the movement in the impairment provision in the first half as well as the credit quality metrics of our secured loan book.

As you can see from the chart, balance sheet ECL provisions increased in the period due to a net charge of £7m. The charge was the result of an increase in provision for macroeconomic scenarios, accounts with arrears of three months or more, new lending and individually assessed provisions. These were partially offset by provision releases for model enhancements and PMA updates as well as stage migrations.

Overall, the P&L charge totalled £15.8m and represented a loan loss ratio of 12bps compared to 2bps in the prior period. It was broadly in line with the long-term average loan loss ratio of 10bps.

You can see that our balance sheet total coverage ratio increased to 50bps at the end of June compared with 47 at the end of 2025. Our provision balance continues to be more than 10x higher than the average yearly write-offs in the last five years.

Moving on to arrears. For the first six months of 2026, three months plus arrears decreased slightly to 1.6% from 1.7% at the end of 2025 as more stage three accounts exited our twelve-month cure period. We remain comfortable with our risk profile and our impairment provisions. We show here that if we were to move our IFRS 9 weighting 100% to our downside scenario, that our ECLs would only increase by £19m.

Next, capital. This half demonstrated another period of strong capital generation. Group CET1 ratio remained robust at 15.2% at the end of June. Our profitability net of loan book growth in the period was 90bps, up 10bps compared to the prior period. Before the effect of the £100m share repurchase programme announced in March, the CET1 would have been 16%, and the share repurchase had a 0.8% impact on the ratio. The group continues to generate enough capital to support loan book growth and a progressive dividend. The Board remains committed to returning excess capital to shareholders as we progress towards our new CET1 target, 13% to 13.5% post Basel 3.1%.

This slide presents movement in net loans and RWAs. In the first half of 2026, loan book grew by 1.3% and RWAs increased by 1.1%. The chart on the right shows that loan book growth accounted for a £0.2bn increase in RWAs, while mix and other items had a neutral impact on RWAs in the period.

We continue to expect the implementation of Basel 3.1 rules as written would reduce the CET1 ratio as of the 30th of June 2026 by 1.2% as a result of a 9% uplift in RWAs. This is compared to just over 1.3% and 9% respectively as at the 31st of December 2025. This would mean that after the impact of Basel 3.1 rules, the pro forma CET1 ratio as at the 30th of June 2026 would be 14%. From this pro forma position, the drivers to our 13% to 13.5% post Basel CET1 range will include RWA growth and shareholder returns underpinned by our profitability.

I will now pass back to Andy.

Andy Golding, Chief Executive Officer
Thank you, Victoria. So in summary, the group has delivered a resilient performance in the first half despite that macroeconomic uncertainty. We've continued to grow and diversify the loan book and sustainable margins leading to attractive ROTEs and we prioritise returns to shareholders.

Looking ahead, as we've explained this morning, we have updated our '26 full year NIM guidance to reflect the competitive pressure we've seen in the retail deposit market. And as a result, we've updated the '26 RoTE guidance to circa 12.5%.

However, we remain confident in the earnings power of the business. That confidence is underpinned by the mechanical benefits from MREL and back book roll off; alongside the strategic actions we're taking to diversify the lending book and the benefits the business will realise from the transformation programme. These positive RoTE drivers give us confidence in our 2028 mid-teens RoTE and our 2029 high end mid-teens RoTE aspirations.

With that, we'll now turn to Q&A.

Q&A

Andy Golding, Chief Executive Officer
Ben, I think you were first with a question. So why don't you dive in and we'll try and get it fixed while we do it this way around.

So the first one is what are the factors that get us to the top and the bottom in the implied equity rates? Victoria will cover that one in a minute. And what was the second one there?

Ben Toms, RBC
And just a more broader question, really. What's driving deposit competition? Do you think it's structural hedge tailwinds for the bigger banks? And if that's the case, could the headwind persist until 2030, which is the time when structural hedges stop being positive to the big banks' top lines?

Andy Golding, Chief Executive Officer
Yes. So why don't I tackle the second one first and talk about some of the generic factors and then we'll come back to Victoria on more specifics around the numbers. So I mean, look, we're in a position at the moment where normally we can duck and dive a bit in terms of deposit competition, but we are doing a number of things as a function of the transformation programme right now. So you can see from our numbers, we've skinned down the amount that we're borrowing from the Bank of England on long term repo.

And that's because we want to have lots of collateral headroom for the time when we are doing the migration of the Charter Savings Bank portfolio, which is a significant retail savings portfolio across onto the new system. We'll not have products on sale under that brand for a period. We'll need to have additional sources liquidity, that's why we've created that headroom. That's a bit of a headwind to us because actually long-term index repo funding is a little bit cheaper than where the retail market is right now. So that's having a bit of downward pressure for us.

In the market there is a lot of competition. There's quite a few new providers that are piggybacking on the back of other people's banking licenses, etcetera. And with a view of pulling in retail funding with high shiny rates and then hoping they can convince the savers to become bond customers, etcetera. And I think everyone is just making sure that they've got plenty of liquidity.

We're in a position where we are just about to migrate all of the Kent Reliance ISA customers across onto the new platform. That's the last of the Kent Reliance migrations, which means for a little while we haven't really had ISA products on sale and ISAs are one of the cheaper forms of retail funding. So we've been at a slight disadvantage or we're at a slight disadvantage as we come into H2 that is having a bit of tailwind impact sorry, headwind impact in terms of the overall NIM. But as we move through '27 and complete that migration, we'll be in a much more BAU position and can get back to ducking and diving and optimising as we go through the market. So hopefully, that gives you a bit of a steer in terms of the competitive dynamic and some of our positioning in it right now.

Victoria, do you want to touch on the other ones?

Victoria Hyde, Chief Financial Officer
Yes, hi Ben. So in terms of your question about the range, yes, as you say, mathematically that is the sort of NIM range you would come to. I mean, the reason we've gone for a range is just due to the amount of uncertainty that is there around cost of funding in our NIM guidance. You know, as we've talked about it before, there are three drivers of our NIM. We will continue on writing sustainable front book margins. The back book dynamics as we've talked about before, we have got some of the high margin rolling off in '26 and then the low margin starts to roll off in '27 and beyond.

But the main reason, as we sit here today and look at what's going to drive the, you know, where we exit and how that rolls into '27 is going to be that cost of funding. And that comprises front book, which we have said is that sort of SONIA +40 level. And if we look back at the average in H1, we were up at that level at the start of the year, it came down for a month to sort of SONIA +10. So it is very volatile out there and that's why we've gone with the range. We have got the retention mix and also, you've got back book churn.

So part of that, in H1 is we saw the last year for ISAs, as we saw more of the back book people churning from, perhaps lower rate easy access into more of fixed rate bonds. It is hard to predict, and I guess that's why we've gone for a range, but top or bottom predominantly will be driven by that cost of funds. We have pointed out, as you say, that it really is too early to tell for '27, there's a lot that can happen between now and year end. Hence we sort of just pointed out, look, if that funding persists, it's a slight downward pressure on our 2027 aspiration of that medium term mid-teens RoTE.

Ben Toms, RBC
Thank you, both.

Rob Noble, Deutsche Bank
Morning. So just a few small questions. So I see paid down central ank facilities substantially in H1. Given that cost of retail funding you've been talking about, what's stopping you using that more or what's been stopping you using it more extensively this half? And can you use it more extensively going forward?

Then on the EIR gain in H1, I think there's a gain at a group level and there's a loss in CCFS book. So what's actually going on there? And how long are you now assuming customers spend on the reversion rates in each of the books?

And then just on costs. So I see the cost guidance as a footnote, excluding the CEO buyout costs. Can you give us an idea of how much they are? I presume its sort of more than £5m for it to be literally explicitly separated from the cost guide. Thanks.

Andy Golding, Chief Executive Officer
Yes. Okay. Thanks, Rob. I'll touch on the first one in terms of central bank. I mean we have got bucket loads of collateral lodged with the Bank of England ready to draw on, but we are using that for safety and security from a liquidity management perspective when we have to effectively shut acquisition down under the Charter Savings Bank brand and do the migration across to the new platform.

So we're just basically creating a surety and a safety set of headroom by having paid down the facilities now at the point that we don't need the liquidity, and then we'll ramp that facility back up at the point that we can't gather liquidity through the Charter Savings Bank brand while we do the migration.

So that's the logic behind that one. And I think it is just it's a good liquidity management decision. And I think what I hope shareholders would rather me as the CEO of this bank worry about making sure we've got access to plenty of cash than one or two basis points of NIM here and there. So that's the thinking behind that one. I'll ask Victoria to cover the EIR gain and probably wouldn't be appropriate for me to talk about CEO costs. So I'll ask her to cover that one as well.

Victoria Hyde, Chief Financial Officer
Thanks for those questions. So yes, as you say, there was a £4.6m gain on EIR. You know, we always look at it each half of year and the latest behaviours and so some of that is the alignment to current behaviours. As you've noted, yes, there was an up down between CCFS and Kent Reliance, our two entities. We continue enhancing our modelling, so some of the work we did in this first half is we were down to the fine lines around at what points people pay in the month around reversion and really looking to align how we model and build those curves going forwards.

So I would say, you know, whilst we also did the behaviours, we are looking to sort of really, refine and build out our modelling so we've got the best sort of balanced forecast and views of this going forwards and it was that second sort of modelling piece that gave us the more of the up down and some of the tail assumptions on Kent Reliance versus Precise.

In terms of where the weighted average lives are now, the most sensitive historically we've had was the five-year Precise Buy to Let portfolio, so that's down to about three months now, it's just under. I think previously, last year when we updated it, it was 3.6, so that's down just under three. And then Kent Reliance has always been, it's about 2.2 months. That hasn't really moved much in the four years that I've been here. So that's at 2.2.

We're still noting, you see, the sensitivity to that two months move is down to about 16m and it's really this year's cohort and some of next year's that are the most sensitive. So it is chipping down. But as, you know, you're seeing now we're down to that sort of three-ish months, and Kent's at two, we expect that variability to keep on reducing. So that was the EIR.

You know, cost of the new CEO, I mean, we haven't disclosed that as yet as he's not arrived, it will be in the DRR report in the next year's ARA. You'll notice we have kept cost guidance at the 280, there's a lot happening in H2 including, new CEO arrival, we've got go live of the residential and ISAs, residential mortgages and ISAs in our transformation. We will always be looking to absorb what we can into that 280, but it's all too early to commit at the minute. So that's why we've kept it to 280 and we'll comment on the CEO transition costs as we get closer and he arrives.

Rob Noble, Deutsche Bank
Great, thank you very much.

Andy Golding, Chief Executive Officer
Thanks, Rob.

Grace Dargan, Barclays
Hi, good morning. Thank you for taking my questions. And again, just to reiterate the comments, best of luck, Andy, going forward.

So on my two questions, maybe firstly, just on the transformation. I know you just talked about the Charter Savings change. I guess, looking forward, should we expect any other disruptions? How long will you be out the market on that savings product? And is there anything else we should be thinking about? And indeed, as a result of those transformations, do we have another lever to help support '27 RoTE?

And then on the second side, just thinking about lending, maybe you could talk about the pipeline into H2 on the specific areas, so thinking about development finance, asset finance, etcetera, what you're seeing there? Thank you.

Andy Golding, Chief Executive Officer
Sure. Yes. Look, I mean, on transformation, we are trying to and the Board have a very low risk appetite for getting it wrong, right. I think you've heard me say it before, Grace, none of us want to do a TSB where you do a system change and everything falls over and your customers get very annoyed with you, which is why we are doing it product by product set, cohort by cohort. And as I said, ISAs is the one from the Kent brand, which is occurring at the moment. Charter will be done

in blocks, but there'll be relatively large cohort blocks of product type. And therefore, some products will be off sale for a month or so.

So we won't have ISAs for a month and a bit, then we won't have easy access for a month and a bit, we won't have bonds for a month and a bit. But once it's done, all bets are back on basically and the entire range with that functionality and with a significantly enhanced customer proposition and that ability to broaden the product range and price much more agile style across the entire range, that will be there as soon as it's done.

And that does give us operational benefit in terms of being a bit more selective about how we fund and where we fund. And we think it will also give us a strong customer retention benefit. So once we come out the other side of it, I think that's a tailwind to net interest margin in terms of helping us manage the funding cost going forward. I think that's the first thing I'd say, which is very positive.

You asked me about pipeline. I mean our pipeline is very good. You specifically mentioned development finance. That's one where the opportunities that are being popped in front of us, if they are from an existing borrower who's got plenty of cash put in the scheme, we can see the saleability of the scheme we're still lending. The team in Development Finance will make good money this year in terms of their contribution to the group's overall profit. But we are not out there looking at schemes where there's not a lot of cash around and the resale doesn't look good and all of that sort of stuff. We're just being a little bit risk off on it because the market is pretty soggy right now for trading stock out. We've seen some of the large house builders having to heavily discount or end up with sort of tail end rumps of schemes that they're just really struggling to sell. So we're obviously being a bit careful.

The commercial market softened in the first half of the year, but we've picked and chosen our way through that and have grown the commercial book a little bit. The bridging market is still active because when there is sogginess in residential transaction market as there has been, sometimes bridging is the solution to that particular problem. And we want to continue to drive that up, particularly once we switch over all of our residential proposition under the Precise brand to the new platform that will just give us much quicker product development pricing ability to drop into the components of the market.

So our pipeline looks healthy. We're going into the second half or we're well into the second half now with a healthy pipeline. The teams are very focused on that diversification play. And Buy to Let has continued to be a stalwart where our borrowers have wanted to refinance and some of that has come to us on the way through. So it looks in pretty good shape.

Grace Dargan, Barclays
Perfect. That's super helpful. Thank you.

Andy Golding, Chief Executive Officer
Thanks, Grace.

Ed Firth, KBW
Morning. Hi. Yes, thanks very much. I suppose just a couple of supplementary questions. The one, in terms of the central bank funding, because that's obviously a marked divergence with some of your peers or one of your peers in particular.

Andy Golding, Chief Executive Officer
I think I have explained why, though, Ed.

Ed Firth, KBW
Yeah. No. No. Absolutely. And this makes it completely clear. So all I wanted to ask was, have you got a sense as to what that impact was on your margin? If you had been able to fully utilise that as you would have done in a normal business as usual manner, have you got some sort of sense as to what that was, a five, ten basis point hit to margin? Or just some quantum would be super helpful for us to sort of try and understand exactly what that difference makes.

Andy Golding, Chief Executive Officer
Yes, it's not a set of numbers we publish, but I mean if I did the fag packet maths right now, we've got 2 - 2 and a half billion quid worth of drawing capacity that we could utilise under the index long term repo scheme. And our ILTR is SONIA +15bps. And at the moment, the planning assumption for retail is SONIA +40bps. So that gives you an idea of the delta.

Ed Firth, KBW
Yes, that's very easy. That's actually perfect. Thanks very much, indeed. Okay, that's very helpful. And then the second one was in terms of your chart, that very helpful bridge chart you showed, slide 9, to the mid-teens RoTE. In terms of the

cost of funding that you're assuming there, are you assuming the cost of retail funds remains as it is today? Or are you assuming some sort of normalisation or benefit going forward?

So I'm just trying to sense, is that mid-teens, RoTE, is that like a business as usual today that you can hit it? Or we do still need some benefit there?

Victoria Hyde, Chief Financial Officer
Yeah, I mean, that mid-teens, I guess, you know, there's a range in that. I suppose we are pretty confident in the other four drivers that can drive benefit to get into that range, you know, and that would include a slightly higher, not as high as SONIA +40 all the way through for the next four years, but, you know, a more elevated cost naturally, we will strive to optimise as we go through in the other four and it's those other four that give us that sort of confidence to delivery despite some more elevated cost of funds. But, you know, that will deliver us within that range of mid-teens.

Ed Firth, KBW
But I suppose the question I'm asking is if the world stays at SONIA +40 and, you know, we can look around the market and see some very big beasts that are offering amazing savings rates at the moment, and I can't see them going anywhere in the next three or four years. So if we stay at SONIA +40, I suppose the question is, is that mid-teens still deliverable? Or should we be assuming there's going to be some haircut on that?

Victoria Hyde, Chief Financial Officer
Yeah. I mean, mid-teens, as you say, is a range. So yes, we would say it's still deliverable. I guess it’s that position in the range. But if it stays at SONIA +40, I mean, I'm sure Andy would have a view as well of, we are looking at the lending book diversification, asset margins. Ultimately, you would pass some of that on. I don't think for years everyone can sustain just having that squeeze in the market.

Andy Golding, Chief Executive Officer
I would just also say that once we've done the transformation, a better platform and better customer set experiences means that you're not always pricing your back book to the maximum within the market, because actually your customers are valuing the convenience and the proposition that you're offering.

There's something there that is a bit different. Clearly, we would be making use of central bank facilities. And OSB, while funding is a massive input cost to us, we make our money out of the lending that we do. And we have a clear diversification plan that means, long term the business has a sustainable future even if we are in a SONIA +40 world on retail funding because we can move our margins as we re-platform everything on the lending side and compensate for that.

Ed Firth, KBW
Because I suppose that's one of the concerns is I've always felt that you had pricing power in your core Buy to Let market. Are we saying that that's probably not as evident? I mean, because over like a three or four year period, if it stays at SONIA +40, you're very strong in the Buy to Let market, can't you reprice the Buy to Let loans to offset that?

Andy Golding, Chief Executive Officer
Yes, yes. No, absolutely, we can. And that's why in the first half of the year, we actually did a bit more Buy to Let than we'd originally planned to do, because we felt the margins in it were decent. And we have particularly since we launched the Rely brand and it's such a fantastic broker proposition. Actually the convenience play at doing business with the Rely brand for a broker and the broker's customer is superb and that does give you the ability to control your pricing in the upward direction.

So once all the Residential is on the same platform, once the commercial is on the same platform and Residential includes the bridging, which is highly remunerative, then we've got a bigger pricing control stick to be on those aspects of the asset side of the equation as well.

There's lots of good stuff to come. It's just we're right in the midst of the journey and I can't give it to you yet. But it's there, which is why I think I've reiterated this morning, you know, that kind of '28, '29 position where there are some structural things like MREL disappearing and other elements that are super beneficial in terms of NIM. Actually, we'll have completely done the job of transformation. We'll have a more stable retail savings franchise that enables us to focus on the retention of the back book in a slightly different way.

And we'll have much better platforms across the entirety of the lending range and that stands us in a really good stead.

Ed Firth, KBW
Yeah. Okay. That's great. Can I ask still one more question? Is that all right? Yeah. I mean, guess that the final one is if I look at this whole challenger bank space, I don't know, a McKinsey's consultant looking at it would say, you know, why are you guys all separate? You should all be getting together. You know, some of you have got cheap funding. Some of you have got good asset pricing. Arguably the questions about whether some or others have got critical mass. What would be your comments around that or your view about that?

Andy Golding, Chief Executive Officer
So I mean, firstly, I think we have got critical mass. OSB balance sheet is a pretty big balance sheet, right? And we are probably one of the only organisations in the market that has experienced doing some of that get together trade. And while you undoubtedly inherit a bunch of benefits and some scale for doing those kinds of trades, you always inherit a few things that you didn't quite anticipate in the DD process, etcetera.

I don't want to mention the EIR adjustment that you know full well about, but those kinds of things you do find as you start to open cupboards in a business that wasn't your original business. I mean; I guess regulation is a bit a hamper to it. You know, any of the banks that you would put into our peer group, so the Shawbrooks, the Paragons, us, etcetera, you put any of those two together and you immediately drop that bank back into the MREL threshold and that is a bit of a pain and we've experienced the pain of the cost of those issuances.

And therefore, you have to think carefully about whether, you know, as you start to get near to those thresholds, actually, it would be better to create and trade a few assets out and keep the balance sheet scale managed? Or is it better to double down and blow through the threshold? I think at the moment, most people are in the former camp, not the latter one. You know, my successor will do a strategic review, I'm sure with the board at some point in the future and that may well change. But I don't see everyone clamouring to get together in the market as it currently stands.

Ed Firth, KBW
Okay, that's great. Thanks so much. And thanks so much for your help over all the years.

Andy Golding, Chief Executive Officer
Thank you.

Gary Greenwood, Shore Capital
Oh hi, thanks for taking my questions. I've just got two probably quite short ones actually. So first one is just on your NIM guidance, a range, but you've given a sort of point guidance in respect to the RoTE. So is that because you think there's sort of things that will offset sort of variability in the NIM levers that you can pull elsewhere to sort of come in on that 12.5% or am I reading a bit too much into that in terms of the circa? So that's the first question.

And the second question was just a clarification on the Basel 3.1 CET1 ratio range of the 13% to 13.5% and whether that takes into account sort of any potential pillar 2 to offset or whether that could get further reduced in time if that was to come through?

Andy Golding, Chief Executive Officer
Thank you. I'll let you take those ones.

Victoria Hyde, Chief Financial Officer
Yes. On the circa 12.5%, again, I mean, as we've talked about the cost of funding elements, you know, I would say as we entered this year, we didn't anticipate, you know, all the swap market volatility and sort of debates around where the macro will land.

So, you know, we have said circa mainly just because, again, as we look forward, we'll get macroeconomic assumptions for ECL in December, swap rates get extremely volatile and it can drive gains and losses on our mark to market of pipeline swaps.

The circa really, again, we've still got five months to go. You know, a lot has happened in the last three months that we didn't anticipate sort of four, five months ago. We almost don't want to pin it down too tightly when there's so many moving parts.

Gary Greenwood, Shore Capital
It's more the opposite really in that the RoTE guidance seemed to be a little bit more focused than the NIM guidance.

Victoria Hyde, Chief Financial Officer
Well, I guess we've said circa on both, so I guess we, you know, it's a range. And I guess, you know, we said low teens that we saw as 13%, so we bumped it down slightly. Whilst NIM will give us some variability, hopefully, things like costs, we will be looking hard at to year end and come back to you. But, that's the reason for why we've said the circa 12 and a half.

And then, the 13 to 13 and a half. I guess, you know, when we set it, we knew that the Pillar 2A offset was coming. I suppose we've made an estimation of that. Once we get our fully calibrated revised Pillar 2A on the Basel and we go through that for half year, obviously, the board will always look at it and evaluate where our capital target stands and how that compares to our requirements.

At the minute, no view to change, but we will come and update you if there's any board discussion and that moves.

Gary Greenwood, Shore Capital
But when do you expect to hear from the regulator on that? Think some banks have already heard, haven't they?

Victoria Hyde, Chief Financial Officer
Yes. We're going through a fuller process. I guess the banks that are the most impacted by Basel, and we have flagged to the regulator for a few years that it is a heavier impact. Instead of having the sort of estimated view that most banks are getting, we're having a biannual C-SREP process. So we will, in H2, have a fuller evaluation and get that view more probably towards right at the end of the year.

Whereas what they're doing for all the banks that are less impacted is sort of Pillar 2A estimated calc until they get their full capital review.

Gary Greenwood, Shore Capital
Great. Thanks very much.

Andy Golding, Chief Executive Officer
Gary, I think I mean, I think I would just add because I know where you're coming from with the question.

I mean, look, I leave at the end of this month, right, as the CEO of this organisation. But if I wasn't doing or if I were the incoming CEO to this organisation, we all know there are levers you can pull on equity. One of the levers I'd be pulling post Basel 3.1, I think is to really reflect and review on where our capital targets are because ours are somewhat higher than some of our peers. And therefore, if you lower your capital target slightly, once you've gone through that process, then you can buy back more of the stock and that helps from an RoTE perspective.

And two, I think we should continue to evaluate as an organisation whether we want to early buy out and clear the decks on the MREL instruments. And I think there is potentially some optionality for the Board to consider that one. But that's one for the new CEO and the Board to make. But there are always levers you can pull on supporting RoTE and I thought it was just worth making that point.

Gary Greenwood, Shore Capital
That's great. Thanks Andy and best of luck for the future.

Concluding remarks

Andy Golding, Chief Executive Officer
Thank you very much, Gary. I think that was our final question. So I just would like to do two things in closing. One is to apologise for the debacle of the technology that ended up doing all your ears in with that horrible echoing and inability for us to hear you, etcetera. We managed to scan our way around it with a laptop and I'm looking at its battery. It's just about going to last I think till the end.

But finally, I wanted to say thank you all for the support and the interest you've shown in the group over the years. I've been the CEO of this organisation for 14 years. I'm immensely proud of it. I've worked with a very talented bunch of colleagues. Those colleagues are staying on to keep this organisation moving forward. And I leave here confident the group has a strong strategy, clarity of thinking and a leadership team that are capable of taking it on to an even better future. So thank you for your support. And of course, I wish this group every success in the future, because my interest for quite some time will be aligned with our shareholders. Thank you very much.

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