Preliminary results
for the year ended 31 December 2019

19 March 2020

OneSavings Bank plc
Preliminary results for the year ended 31 December 2019

Due to the Combination with Charter Court Financial Services Group plc (CCFS) this press release includes results on both a statutory and a pro forma underlying basis. The statutory basis reflects 12 months of OSB's results and CCFS' results from 4 October 2019 while the pro forma underlying basis assumes that the Combination occurred on 1 January 2018 and includes 12 months of results from CCFS and excludes exceptional items, integration costs and other acquisition-related items.

Financial highlights

- Statutory profit before tax increased 14% to £209.1m (2018: restated £182.8m[1]). Pro forma underlying profit before tax increased 9% to £381.1m (2018: £350.8m)

- The net loan book grew 105% to £18.4bn (2018: £9.0bn) on a statutory basis and increased 16% to £18.2bn (2018: £15.6bn) on a pro forma underlying basis, or 23% excluding the impact of structured asset sales. Statutory gross originations grew by 36% to £4.1bn (2018: £3.0bn) and increased 10% on a pro forma underlying basis to £6.5bn (2018: £5.9bn)

- On a statutory basis, the cost to income ratio increased to 32%[2] (2018: 28%). On a pro forma underlying basis, the cost to income ratio remained excellent at 29% (2018: 28%), due to strong income growth alongside continued focus on cost discipline and efficiency

- Net interest margin (NIM) was 2.43% on a statutory basis (2018: restated 3.05%[3]) and 2.66% on a pro forma underlying basis (2018: 2.86%)

- Impairments remain low with a loan loss ratio[4] of 13bps (2018: 10bps) on a statutory basis and 10bps (2018: 7bps) on a pro forma underlying basis

- Statutory return on equity (RoE)[5] fell to 18% (2018: restated 25%[5]), however, on a pro forma underlying basis, RoE remained strong at 25% (2018: 28%). Statutory Common Equity Tier 1 (CET1) capital ratio increased to 16.0% (2018: 13.3%)

- Statutory basic earnings per share[6] (EPS) fell 5% to 52.6 pence (2018: 55.5 pence), however pro forma underlying basic EPS increased 9% to 64.9 pence (2018: 59.4 pence)

- Recommended final dividend[7] of 11.2 pence per share gives a full year dividend of 16.1 pence per share. Together with the pre-Combination CCFS interim dividend of 4.3 pence per share, this is in line with our target dividend payout ratio

Andy Golding, CEO of OneSavings Bank, said:

"I am delighted with OneSavings Bank's achievements in 2019. I am particularly pleased that we successfully completed our Combination with Charter Court, and that both businesses maintained momentum and delivered strong results whilst the transaction progressed. The rationale behind the Combination remains compelling and I am pleased with progress to date on integration.

The combined Group delivered excellent shareholder returns in 2019. Both Buy-to-Let and Residential segments continued to grow, with strong demand from professional landlords and owner-occupiers. The Group's organic originations grew by 36% to £4.1bn, including three months of Charter Court's business, supporting 14% growth in statutory profit before tax to £209m.

Our funding model has been enhanced through the Combination. Securitisations since 2013 across the combined Group now total £5.7bn and during 2019 CCFS generated a gain on sale of £59m on three structured asset sales and OSB completed an inaugural securitisation of £500m of organically originated mortgages. We continued to take advantage of high demand and attractive market pricing with additional deals completed early this year. In January, the Group disposed of its remaining notes under the Canterbury securitisation, generating a gain on sale of c. £18m and the notes in PMF 2020-1B resulting in a gain of c. £2m on a statutory basis and a £15m gain on an underlying basis. Retail funds remain the primary source of funding for the combined Group, reaching £16bn at the end of 2019. Both Banks achieved exceptional customer Net Promoter Scores which we are very proud of.

The UK and global economies are currently experiencing unprecedented uncertainty stemming from COVID-19. Whilst we entered the year with a robust pipeline, strong application levels in our core businesses and stable margins, it is too soon to say what the impact will be and we therefore consider it imprudent to provide forward guidance for 2020.

We enter this period of uncertainty as an enlarged business with the strength of our combined lending and funding franchises, robust capital position, secured loan book and strong risk management capabilities."

Key metrics

	2019	2018
OSB 3 months + arrears (%)[8]	**1.3**	1.5
CCFS 3 months + arrears (%)	**0.3**	0.2
OSB customer Net Promoter Score	**+66**	+63
CCFS customer Net Promoter Score	**+72**	+39

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1. Profit before tax was restated to recognise interest expense on the £22m Perpetual Subordinated Bonds previously classified as equity.
2. Administrative expenses as a percentage of total income
3. To align calculation methods post Combination, OSB amended NIM calculation to include average interest earning assets on a 13 point average from a simple average. The comparative NIM was restated.
4. Loan loss ratio is defined as impairment losses as a percentage of 13 point average gross loans and advances.
5. Profit attributable to ordinary shareholders, which is profit after tax and after deducting coupons on AT1 securities, gross of tax, as a percentage of a 13 point average shareholders' equity (excluding £60m of AT1 securities). The comparative return of equity ratio was restated to include average shareholders' equity on a 13 point average.
6. Profit attributable to ordinary shareholders, which is profit after tax and after deducting coupons on AT1 securities, gross of tax, divided by the weighted average number of ordinary shares in issue.
7. Representing 25% of pro forma underlying profit attributable to ordinary shareholders which will be paid on 13 May 2020, subject to approval at the Annual General Meeting on 7 May 2020, with a record date of 27 March 2020.
8. Portfolio arrears rate of accounts for which there are missed or overdue payments by more than three months.

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Enquiries:

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Analyst presentation

A webcast presentation for analysts will be held at 9:30am on Thursday 19 March. The presentation will be webcast or call only and available on the OneSavings Bank website at www.osb.co.uk. The UK dial in number is 020 3936 2999 and the password is 215969. 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.

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Important disclaimer

This document should be read in conjunction with the documents distributed by OneSavings Bank plc (OSB) through the Regulatory News Service ('RNS'). This document is not audited and contains certain forward-looking statements, beliefs or opinions, including statements with respect to the business, strategy and plans of OSB and its current goals and expectations relating to its future financial condition, performance and results. Such forward-looking statements include, without limitation, those preceded by, followed by or that include the words 'targets', 'believes', 'estimates', 'expects', 'aims', 'intends', 'will', 'may', 'anticipates', 'projects', 'plans', 'forecasts', 'outlook', 'likely', 'guidance', 'trends', 'future', 'would', 'could', 'should' or similar expressions or negatives thereof. Statements that are not historical facts, including statements about OSB's, its directors' and/or management's beliefs and expectations, are forward-looking statements. By their nature, forward-looking statements involve risk and uncertainty because they relate to events and depend upon circumstances that may or may not occur in the future. Factors that could cause actual business, strategy, plans and/or results (including but not limited to the payment of dividends) to differ materially from the plans, objectives, expectations, estimates and intentions expressed in such forward-looking statements made by OSB or on its behalf include, but are not limited to: general economic and business conditions in the UK and internationally; market related trends and developments; fluctuations in exchange rates, stock markets, inflation, deflation, interest rates and currencies; policies of the Bank of England, the European Central Bank and other G8 central banks; the ability to access sufficient sources of capital, liquidity and funding when required; changes to OSB's credit ratings; the ability to derive cost savings; changing demographic developments, and changing customer behaviour, including consumer spending, saving and borrowing habits; changes in customer preferences; changes to borrower or counterparty credit quality; instability in the global financial markets, including Eurozone instability, the potential for countries to exit the European Union (the EU) or the Eurozone, and the impact of any sovereign credit rating downgrade or other sovereign financial issues; technological changes and risks to cyber security; natural and other disasters, adverse weather and similar contingencies outside OSB's control; inadequate or failed internal or external processes, people and systems; terrorist acts and other acts of war or hostility and responses to those acts; geopolitical, pandemic or other such events; changes in laws, regulations, taxation, accounting standards or practices, including as a result of an exit by the UK from the EU; regulatory capital or liquidity requirements and similar contingencies outside OSB's control; the policies and actions of governmental or regulatory authorities in the UK, the EU or elsewhere including the implementation and interpretation of key legislation and regulation; the ability to attract and retain senior management and other employees; the extent of any future impairment charges or write-downs caused by, but not limited to, depressed asset valuations, market disruptions and illiquid markets; market relating trends and developments; exposure to regulatory scrutiny, legal proceedings, regulatory investigations or complaints; changes in competition and pricing environments; the inability to hedge certain risks economically; the adequacy of loss reserves; the actions of competitors, including non-bank financial services and lending companies; and the success of OSB in managing the risks of the foregoing.

Accordingly, no reliance may be placed on any forward-looking statement and no representation, warranty or assurance is made that any of these statements or forecasts will come to pass or that any forecast results will be achieved. Any forward-looking statements made in this document speak only as of the date they are made and it should not be assumed that they have been revised or updated in the light of new information of future events. Except as required by the Prudential Regulation Authority, the Financial Conduct Authority, the London Stock Exchange PLC or applicable law, OSB expressly disclaims any obligation or undertaking to release publicly any updates or revisions to any forward-looking statements contained in this document to reflect any change in OSB's expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based. For additional information on possible risks to OSB's business, please see the "Risk Review" section of the OSB 2019 Annual Report and Accounts. Copies of this are available at www.osb.co.uk and on request from OSB.

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Certain figures contained in this document, including financial information, may have been subject to rounding adjustments and foreign exchange conversions. Accordingly, in certain instances, the sum or percentage change of the numbers contained in this document may not conform exactly to the total figure given.

Non-IFRS performance measures

OneSavings Bank believes that the non-IFRS performance measures included in this document provide valuable information to the readers as they enable the reader to identify a more consistent basis for comparing the business' performance between financial periods, and provide more detail concerning the elements of performance which the Group is most directly able to influence or are relevant for an assessment of the Group. They also reflect an important aspect of the way in which operating targets are defined and performance is monitored by OneSavings Bank's Board. However, any non-IFRS performance measures in this document are not a substitute for IFRS measures and readers should consider the IFRS measures as well. Refer to Alternative performance measures in the Financial review for further details, reconciliations and calculations of non-IFRS performance measures included throughout this document, and the most directly comparable IFRS measures.

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Chief Executive's Statement

I am delighted with OneSavings Bank's achievements in 2019 and particularly pleased that we successfully completed our Combination with Charter Court Financial Services Group plc ('CCFS'), whilst delivering strong results for the year, in both Banks. We are in the early stages of integration, however, I am pleased with progress so far and I am particularly happy to have so many talented staff from both organisations working really well together to benefit the combined Group. I am also pleased with progress to date on integration.

The logic for the Combination remains compelling: to create a leading specialist lender, focused on providing fair financial solutions to our customers, with greater scale and resources to deploy on growth opportunities.

Statutory pre-tax profit was up 14% to £209m for 2019, as a result of strong growth at attractive margins and the inclusion of CCFS' profits from the date of Combination, more than offsetting the impact of exceptional items, integration costs and other acquisition-related adjustments. Despite the increase in profit, statutory basic earnings per share decreased by 5% to 52.6 pence per share, due to the increased share count post Combination. On a pro forma underlying basis, profit before tax and basic earnings per share increased both by 9%, due to strong growth at attractive margins and continued cost-efficiency and discipline.

Statutory net interest margin ('NIM') for 2019 reduced to 243bps (2018: restated 305bps[1]), primarily due to the dilutive impact of including CCFS' results post Combination and the impact of the changing mix of the OSB loan book, despite broadly stable asset pricing.

The CCFS business has a lower NIM than the OSB business and statutory NIM in 2019 was also negatively impacted by the amortisation of the fair value uplift on acquisition of the CCFS loan book. The mix of the OSB loan book continued to change as the higher yielding back book refinanced onto front book pricing. The impact of this mix effect had largely run its course by the end of the first half, assuming stable mortgage pricing, cost of funds and swap spreads going forward.

On a pro forma underlying basis NIM was 266bps (2018: 286bps) and reflected the changing asset mix of the OSB loan book and marginally higher cost of funds of CCFS' business.

Our customer-focused propositions are designed to position the Group as a credible partner of choice with intermediaries in the specialist mortgage markets in which we operate. The complementary nature of OSB's bespoke, manual underwriting approach and CCFS' automated risk assessment, together with strong risk management and enhanced stress testing, give us a deep understanding of our lending market segments.

We strengthened our funding model during the year as OSB returned to the securitisation market with our inaugural transaction under the self-originated Canterbury Finance programme, and CCFS successfully executed a transaction in its Buy-to-Let PMF programme. The expertise in securitisation funding and balance sheet management is a capability that has been enhanced through the Combination and demonstrates efficiency in accessing the capital markets. I am pleased that in early 2020, we had the opportunity to execute further transactions, demonstrating our agility in this market by selling notes we held from the Canterbury securitisation generating a gain on sale of c. £18m. In addition, the Group sold its entire economic interest in PMF 2020-1B resulting in a gain of £2m on a statutory basis and £15m on an underlying basis.

An award-winning secured lender
Through the Combination and underlying growth, the Group's statutory loan book more than doubled in 2019 to £18.4bn. On a pro forma underlying basis, it grew by 16% from £15.6bn in 2018, or 23% excluding the impact of structured asset sales in CCFS.

Mortgage originations in the year were £6.5bn for the combined Group on a pro forma underlying basis. Such strong new business volumes reflect the attractiveness of our lending propositions to borrowers, particularly to professional landlords, and the excellent levels of customer service the Banks provide.

Our Buy-to-Let businesses grew in the year as landlords continued to professionalise and look for a reliable lender with specialism and expertise in lending to limited companies and portfolio landlords. Both OSB and CCFS have distinct, but complementary, propositions in their target lending market segments, meaning different customer and intermediary preferences can be satisfied, ensuring the Group can maximise its share of new originations. We intend to preserve and build on the value of OSB's and CCFS' individual lending brands through a multi-brand lending strategy.

OSB and CCFS have further strengthened broker networks and relationships with mortgage intermediaries in the year, especially amongst those that support borrowers with more complex needs. The Combination allows us to underwrite a wider range of customer cases than would have been possible as standalone businesses. On a pro forma underlying basis, the Group sustained its market share as industry-wide gross Buy-to-Let advances reached £41bn[2] in the year.

For 2019, the Group reported under two segments; OSB and CCFS.

The OSB's Buy-to-Let/SME sub-segment performed well during 2019, with new Buy-to-Let/SME mortgage originations of £2.8bn, as we continued to target both professional, large portfolio landlords and those investing in commercial and semi-commercial property.

Our target market of professional/multi-property landlords accounted for 81% of completions by value for OSB during 2019, with a continued high proportion of professional landlords choosing to remortgage with us as their existing mortgage reaches maturity. This performance demonstrates the success of our Choices programme and the sustainable strength of OSB's proposition, in particular our specialist, manual underwriting, as well as our deep and historical relationships with mortgage intermediaries.

The OSB Buy-to-Let sub-segment gross loan book grew by 19% to £7,727m from £6,518m in 2018.

The commercial sub-segment of Buy-to-Let/SME, which lends through the InterBay brand had a very successful year, with the loan book reaching £888m at 31 December 2019 (2018: £548m), an increase of 62%. We used our strong understanding of this sub-segment and our investment in products, service and innovation to build a proposition that proved increasingly popular with commercial borrowers. In 2019, we further increased distribution among our intermediaries who focus more on this market sub-segment. This business lends at sensible loan to values ('LTVs'), and generates strong returns on a risk-adjusted basis.

We continue to be cautious in our approach to asset finance, however, InterBay Asset Finance performed well in the year as we saw high-quality opportunities.

OSB's Heritable Development Finance business provides development finance to small and medium-sized residential developers operating in areas of the UK where demand for housing is consistently strong. The business had commitments to finance the development of just over 2,000 residential units as at the end of 2019.

The Bank's secured funding lines business in both Buy-to-Let/SME and Residential segments continued to grow, with cautious risk fundamentals applied. Total commitments have increased by 31% to £571m, with total loans outstanding of £234m. This increase was due to increased commitments with certain existing customers and three new funding lines were added during the year.

The OSB residential net loan book grew by 14% to £1,837m (2018: £1,616m) largely through increased originations, as we saw attractive opportunities in more complex prime and second charge segments and the products we introduced in 2018 continued to prove popular with our borrowers.

CCFS originated £1.9bn of new Buy-to-Let mortgages on a pro forma underlying basis, an increase of 15% from £1.6bn in 2018. This growth reflects the continuing demand, whilst maintaining a disciplined approach to underwriting. As with OSB, CCFS observed a continued trend that is supportive of professional landlords, with increased use of limited company structures and a move towards higher yielding property types. CCFS proactively improved service standards early in the year, which was well received by intermediaries. As a result, CCFS was ranked highly according to research by BVA BDRC, as the lender mortgage intermediaries are most likely to recommend to portfolio landlords.

The CCFS residential net loan book grew by 27% to £2,167m on a pro forma underlying basis, despite a small reduction in originations, as no portfolio asset sales took place in the year and there were fewer maturities in the portfolio. We focused on segments of residential lending where competitive pressure has not seen significant margin erosion, such as self-employed applicants. CCFS' second charge originations performed strongly with an increase of 44% in the year on a pro forma underlying basis, as both products and distribution were enhanced.

CCFS bridging finance activities maintained their focus on high-quality lending in the year, and as a consequence saw strong repayments as well as originations, leading to a reduction in net loans of 12% to £214m during the full year on a pro forma underlying basis. We chose to be cautious and did not react to increased price competition during the year.

Both segments concentrate on new and existing customers, investing in and improving our sales capability across our brands. We continued to gain recognition from mortgage customers and intermediaries, and in 2019 we won multiple awards. For OSB these included Best Buy-to-Let Lender and Best Specialist Lender from Mortgage Strategy Awards. I am particularly pleased that Kent Reliance was awarded Best Specialist Lender from the UK's largest mortgage distributor: L&G Mortgage Club. Our more specialist businesses were also recognised with Bridging Funding Partner of the Year award from Bridging and Commercial Awards. CCFS was recognised by Mortgage Introducer, being named as both Mortgage Lender of the Year and Specialist Lender of the Year.

Through OSB's mortgage product transfer scheme, Choices, the proportion of borrowers who choose a new product within three months of their initial product ending, remained strong at around 69% by December 2019. This is driven by success in highlighting opportunities available to borrowers who might otherwise leave the Group and enables them to actively choose appropriate mortgage pricing and features.

We are excited about opportunities arising from the Combination with CCFS and continue to believe in the advantages that will come from more resilient, diversified funding platform, together with greater scale and resources. We now have a larger footprint in the UK Buy-to-Let and residential markets, with an enhanced proposition to the broker community to ensure we remain at the forefront of UK specialist mortgage lending.

Sophisticated funding model

Through the Combination with CCFS we brought together OSB's established Kent Reliance retail deposit franchise with Charter Savings Bank's savings deposit platform, and CCFS' sophisticated securitisation funding and balance sheet management. These capabilities create a more resilient and diversified funding platform to support our future growth, with cost efficient funding for the combined Group.

The combined Group remained predominantly retail funded in 2019 and we had £16bn of retail deposits at the end of 2019. On a pro forma underlying basis, retail deposits were up 23% from £13bn at the end of 2018. We offer a competitive retail savings proposition, which allows the Group to raise significant funds as we require them. Over 40,000 new savings customers joined Kent Reliance in 2019 and Charter Savings Bank grew customer numbers by nearly 27,000 for the full year of 2019. Our vision remains to become our customers' favourite bank and we continue to put our customers at the heart of everything we do. This was reflected in a retention rate of 91% amongst Kent Reliance customers with maturing fixed rate bonds and ISAs and a Net Promoter Score ('NPS') of +66 for the year. 97% of Charter Savings Bank's customers had a good or excellent experience with the Bank[3] and the NPS was exceptional, at +72 for 2019. Charter Savings Bank had a retention rate of 88% at the end of 2019.

I am delighted that Kent Reliance was highly commended with Savers' Choice Award by Savings Champion and we won Best Business Easy Access Account Provider also from Savings Champion.

CCFS won ISA Provider of the Year and Best Bank Savings Provider from Moneyfacts and Best Savings Provider from Savings Champion amongst others.

Our enhanced wholesale funding platforms enable us to maintain optionality and benefit from the potential to execute structured balance sheet management transactions across the combined Group's enlarged balance sheet. Our track record in 2019 was impressive; CCFS successfully executed a £734m securitisation transaction of Buy-to-Let mortgages and took advantage of a strong residuals market, generating gains of £59m on three structured asset sales prior to the Combination. In July, OSB completed an inaugural transaction of £500m of organically originated Buy-to-Let mortgages.

We have further demonstrated our expertise in the securitisation market post Combination, with additional deals completed in early 2020, benefiting from high demand and attractive market pricing. In January 2020, the Group disposed of its remaining notes under the Canterbury securitisation and the notes in PMF 2020-1B. The capability and experience of CCFS in sophisticated securitisation funding and balance sheet management have been adopted across the Group and pave the way for future transactions.

Retail savings and securitisation funding were complemented in the year by the Bank of England's funding schemes; drawdowns under the Term Funding Scheme remained unchanged for OSB and CCFS at £1.5bn and £1.1bn, respectively, and Indexed Long-Term Repo borrowings were £160m and £130m for OSB and CCFS, respectively as at 31 December 2019.

In addition, through the Combination, the Group now has access to contingent wholesale funding, with a total of up to £600m available to it through warehouse facilities, £94m of which was utilised at the year end.

Our strong and sustainable business
The Combination provides opportunities to create centres of excellence for core processes and capabilities on a best-in-class basis across OSB's and CCFS' existing locations in Chatham, Wolverhampton and India. This work is fully under way and we will report on progress later in the year.

The combined Group achieved a statutory cost to income ratio of 32% for the year, 29% on a pro forma underlying basis, reflecting our efficient and scalable operating platform, despite additional investment in the business, including our ongoing Internal Ratings-Based ('IRB') projects. We also continued with improvements to our technology infrastructure. As ever, we focus on delivering further efficiencies in the cost of running the Bank on a 'business as usual' basis, through continued disciplined cost management, benefits of scale and leveraging our unique operating platform in India ('OSBI'), as well as delivering on the synergies identified due to the Combination.

OSBI undertakes a range of primary processing services at a significantly lower cost than an equivalent UK-based operation, whilst delivering consistently high-quality service levels. I am especially pleased that we continue to achieve this whilst maintaining our focus on our customer-led vision, borne out by an increase in customer NPS to an outstanding +66 in 2019 (2018: +63).

Both OSB and CCFS are working towards IRB applications and we remain pleased with the progress made and are seeing benefits from using the enhanced risk models developed as part of the process. We remain of the view that achieving IRB will be beneficial to the Group's capital requirements especially under the new calibrations and final IRB output floors as outlined in Basel III.

The Group continued to exercise strong diligence over loan and customer assessment. The Group's statutory loan loss ratio of 13bps as at 31 December 2019 (2018: 10bps) includes an additional provision due to the initial recognition of expected credit losses on CCFS' loan book and reflects an alignment of IFRS 9 modelling methodologies. It also includes the impact of a number of high-value Buy-to-Let cases in OSB having Law of Property Act ('LPA') receivers appointed during the first half of 2019, which attracted higher provision requirement under the IFRS 9 modelling approach. During the second half of 2019, the number of LPA appointments stabilised.

The weighted average LTV of OSB's mortgage book remained low at 68% at the end of 2019, with an average LTV of 70% on new origination during the year. CCFS had similarly low LTVs with the overall book weighted average LTV of 70% and 71% for new origination in the year on a pro forma underlying basis.

2019 was a year of significant change for the Group and I would like to thank my colleagues for their hard work and continued commitment throughout the year. I look forward to us all working together for a successful future.

Looking forward to 2020
I am delighted that the Combination with CCFS was successfully completed and that all the hard work to achieve it did not distract the OSB and CCFS teams from continuing to develop, manage and grow the underlying businesses, achieving strong levels of originations during the year. We have made good progress to date on the integration.

The UK and global economies are currently experiencing unprecedented uncertainty stemming from COVID-19. Whilst we entered the year with a robust pipeline, strong application levels in our core businesses and stable margins, it is too soon to say what the impact will be and we therefore consider it imprudent to provide forward guidance for 2020.

We enter this period of uncertainty as an enlarged business with the strength of our combined lending and funding franchises, robust capital position, secured loan book and strong risk management capabilities.

Andy Golding

Chief Executive Officer

19 March 2020

1. To align calculation methods post Combination, OSB amended NIM calculation to include average interest earning assets on a 13 point average from a simple average. The comparative NIM was restated.

2. UK Finance, New and outstanding buy-to-let mortgages, 6 Feb 2020.

3. Based on the Charter Court Savings Bank Customer Satisfaction Survey conducted throughout 2019.

Operating review

Group highlights

2019 was not only a year of continued strong business performance, but also a year when we advanced on our strategic objective to create a leading specialist lender of scale in the UK, through the Combination with CCFS. The Combination provides us with the scale and resources to deploy on growth opportunities across the economic cycle, to deliver long-term value for our shareholders. We are committed to delivering on that strategy, by leveraging our complementary strengths across products, brands, distribution, underwriting, funding and team culture.

Against the backdrop of a competitive mortgage market, organic originations in 2019 proved resilient at £4.1bn on a statutory basis (2018: £3.0bn) with £0.8bn contributed by CCFS in the final three months of the year. On a pro forma underlying basis, organic originations were £6.5bn in 2019, compared with £5.9bn in 2018.

During 2019, 69% of Kent Reliance borrowers chose a new product within three months of their initial product ending, totalling £885m (2018: 69%, £722m). This performance demonstrates the success of our Choices programme.

Buy-to-Let performed strongly in both businesses, due to continued activity from professional landlords. OSB also saw exceptional growth in lending through its InterBay Commercial brand and a strong performance from its first charge residential sub-segment, where new product ranges launched in 2018 proved popular and continued to gain momentum during 2019. CCFS' residential segment also benefited from an improved product range, with the gross loan book up 27% in the year on a pro forma underlying basis.

During 2019, OSB's net loan book increased by 20% to £10,785.0m (2018: £8,983.3m) and CCFS' net loan book grew by 15% to £7,661.8m (2018: £6,661.5m), or 27% excluding the impact of structured assets sales, both on a statutory basis. The combined Group's net loan book reached £18,446.8m by the end of 2019 on a statutory basis. Buy-to-Let comprised approximately 67% of the Group's total gross loan book at the end of 2019.

The combined Group remained predominantly retail funded in 2019 with £16,255.0m of retail deposits on a statutory basis (2018: £8,071.9m). On a pro forma underlying basis, retail balances were up 23% from £13,166.4m as at 31 December 2018. The savings proposition offered by the Kent Reliance brand continued to be in demand, as we welcomed over 40,000 new retail customers in the year. Excellent customer service was reflected in a +66 customer Net Promoter Score and retention rate for maturing fixed term bond and ISA balances of 91% in 2019. Charter Savings Bank saw customer numbers grow by almost 27,000 during the year as savings customers continued to value the competitive interest rates and excellent customer service it provides. CCFS also achieved an exceptional Net Promoter Score of +72 and a retention rate of 88% for 2019.

Diversification of funding was provided by access to the securitisation market and Bank of England funding. Both Banks were active in the securitisation market during the year. OSB completed an inaugural transaction of c.£500m of organically originated mortgages under the Canterbury Finance RMBS programme in July 2019. CCFS successfully executed a £734m securitisation transaction of Buy-to-Let mortgages and recognised gains of £58.7m on three structured asset sales in the year, prior to the Combination. For further information on the Group's securitisation platforms.

As at 31 December 2019, drawings under the Term Funding Scheme remained unchanged at £1.5bn for OSB and £1.1bn for CCFS. In addition, the Group had £290m of borrowings under the Bank of England's Indexed Long-Term Repo across the two Banks at base rate +15bps, a total of 90bps, as at 31 December 2019 (2018: OSB £80m, CCFS £nil).

Through the Combination, the Group now has access to contingent wholesale funding, with up to £600m available to it through the CCFS warehouse facilities, £94m of which were utilised at year end.

Statutory pre-tax profit was up 14% to £209.1m for 2019 (2018: restated £182.8m[1]), as a result of strong growth at attractive margins and the inclusion of CCFS' profits from the date of Combination, more than offsetting the impact of exceptional items, integration costs and other acquisition-related items. On a pro forma underlying basis, profit before tax increased by 9% due to strong growth at attractive margins and continued cost efficiency and discipline.

Profitable lending and cost discipline and efficiency contributed to a return on equity of 18% on a statutory basis (2018: restated 25%[2]) and 25% on a pro forma underlying basis (2018: 28%).

The Group ended the year with a CET1 ratio of 16.0% (2018: 13.3%), demonstrating the strength of the capital generation capability of the business to support significant growth through profitability and the beneficial impact of the fair value uplift on CCFS' net assets on Combination. The Group's total capital ratio of 17.3% and leverage ratio of 6.5% remained strong (2018: 15.8% and 5.9% respectively).

1. Net interest income and profit before tax were restated as a result of the recognition of interest expense on the £22m of Perpetual Subordinated Bonds previously classified as equity.

2. To align calculation methods post Combination, OSB amended its calculation of return on equity to include average equity on a 13 point average from a simple average. The comparative return on equity ratio was restated.

Segment review

Following the Combination, the Group segmented its lending business into two segments: OSB and CCFS.

Segment review – OneSavings Bank ('OSB')

The following tables show the OSB segment's statutory loans and advances and contribution to profit:

Year ended 31-Dec-2019	BTL/SME £m	Residential £m	Total £m
Gross loans and advances to customers	**8,983.2**	**1,837.4**	**10,820.6**
Provision for impairment losses	**(21.6)**	**(14.0)**	**(35.6)**
Loans and advances to customers	**8,961.6**	**1,823.4**	**10,785.0**
Risk-weighted assets	**4,244.0**	**846.0**	**5,090.0**
Profit or loss for the year			
Net interest income	**253.5**	**62.7**	**316.2**
Other expense	**(8.0)**	**(4.9)**	**(12.9)**
Total income	**245.5**	**57.8**	**303.3**
Impairment losses	**(13.8)**	**1.9**	**(11.9)**
Contribution to profit	**231.7**	**59.7**	**291.4**

Year ended 31-Dec-2018	BTL/SME £m	Residential £m	Total £m
Gross loans to customers	7,389.2	1,616.0	9,005.2
Provision for impairment losses	(11.0)	(10.9)	(21.9)
Net loans to customers	7,378.2	1,605.1	8,983.3
Risk weighted assets	3,453.8	758.0	4,211.8
Profit or loss for the year			
Net interest income[1]	219.5	66.8	286.3
Other expense	(1.0)	(4.2)	(5.2)
Total income[1]	218.5	62.6	281.1
Impairment losses	(5.7)	(2.4)	(8.1)
Contribution to profit[1]	212.8	60.2	273.0

1. In 2019, the Group restated the prior year comparatives to recognise interest expense on the £22m Perpetual Subordinated Bonds previously classified as equity.

Buy-to-Let/SME

Buy-to-Let/SME sub-segment: gross loans

	Group 31-Dec-2019 £m	Group 31-Dec-2018 £m
Buy-to-Let	**7,727.0**	6,517.5
Commercial	**888.0**	547.8
Residential development	**146.1**	155.8
Funding lines	**222.1**	168.1
Total	**8,983.2**	7,389.2

This segment comprises Buy-to-Let mortgages secured on residential property held for investment purposes by experienced and professional landlords, commercial mortgages secured on commercial and semi-commercial properties held for investment purposes or for owner-occupation, bridge finance, residential development finance to small and medium-sized developers, secured funding lines to other lenders and asset finance.

The volume of new organic lending in our Buy-to-Let/SME sub-segment reached £2,847.2m in 2019, an increase of 3% on the prior year (2018: £2,769.7m). Gross loans were £8,983.2m, up 22% from £7,389.2m in 2018. The Buy-to-Let/SME net loan book represented 83% of total OSB loans as at 31 December 2019.

Gross loans in the Buy-to-Let sub-segment increased by 19% to £7,727.0m (2018: £6,517.5m) with lending mostly dominated by professional, multi-property landlords who remained at 81% of completions by value for OSB in 2019. For our Kent Reliance brand, 75% (2018: 70%) of mortgage applications were from landlords borrowing via a limited company, as recent changes to personal taxation favour structuring portfolios in this way.

Refinancing continued to represent 60% of Kent Reliance Buy-to-Let completions and five-year fixed rate mortgages were 52% (2018: 58% and 56%, respectively). This mix reflected the wider market which saw reduced purchases in 2019 and continued demand for five-year fixed rate products. Our retention programme, Choices, continued to be popular, with around 69% (2018: 69%) of existing borrowers choosing a new product with the Bank within three months of their original product ending.

The weighted average loan to value (‘LTV’) of the Buy-to-Let book as at 31 December 2019 was 73% with an average loan size of £260,000 (2018: 70% and £260,000). The weighted average interest coverage ratio for Buy-to-Let origination during 2019 was 187% (2018: restated 185%[1]).

2019 was an exceptional year for our InterBay business with the commercial and semi-commercial gross loan book up 62% to £888.0m (2017: £547.8m) as we continued to expand our distribution network to reach those brokers who work with borrowers with needs closely aligned to InterBay’s products. Through this brand OSB lends to borrowers investing in commercial, semi-commercial and bridging, reported in the Commercial total, and more complex Buy-to-Let properties, reported in the Buy-to-Let total. Lending was supported by the business’ core strengths in rapid and effective underwriting and our ability to deal with large and complex cases. The weighted average LTV in the commercial sub-segment remained low at 67% and the average loan size was £375,000 in 2019 (2018: 66% and £360,000, respectively).

InterBay Asset Finance, which predominantly targets UK SMEs and small corporates financing business-critical assets was launched in 2018. The gross carrying amount under finance leases was £47.7m as at 31 December 2019 (2018: £7.2m).

Our Heritable residential development business continues to provide prudent development finance to small and medium-sized residential developers. The preference is to fund house builders who operate outside central London and provide relatively affordable family housing, as opposed to complex city centre schemes where affordability and construction cost control can be more challenging. New applications come primarily from a mixture of repeat business from the team's extensive existing relationships and referrals.

The residential development funding gross loan book at the end of 2019 was £146.1m, with a further £115.1m committed (31 December 2018: £155.8m and £90.3m, respectively). Since inception through to the end of 2019, the business has written £1,013m of loans of which £534m have been repaid to date. The business had commitments to finance the development of just under 2,000 residential units as at the end of 2019, the majority of which are houses located outside central London.

In addition, OSB continued to provide secured funding lines to non-bank lenders which operate in certain high-yielding, specialist sub-segments, such as bridging finance and asset finance. Total credit- approved limits as at 31 December 2019 were £540.0m with total loans outstanding of £222.1m (31 December 2018: £385.0m and £168.1m, respectively). During 2019, three new funding lines were added and credit approved limits increased by a further £50.0m across three existing funding lines. The pipeline remains robust, however, given the macroeconomic uncertainty, the business continues to adopt a cautious approach.

Buy-to-Let/SME made a contribution to profit of £231.7m in 2019, up 9% compared with the restated value of £212.8m[2] in 2018, primarily due to the growth in new lending, partially offset by higher impairment losses of £13.8m (2018: £5.7m). The increase in impairment losses was driven by an increase in the number of Law of Property Act receivers ('LPA') appointed in the first half of the year, which attract higher provision requirements under an IFRS 9 approach. During the second half of 2019, the LPA flow stabilised. Alignment of IFRS 9 modelling methodologies and loan book growth also contributed to the increase in loan losses.

The Group remains highly focused on the risk assessment of new lending as demonstrated by the average LTV in the Buy-to-Let/SME segment as at 31 December 2018 of 72% (31 December 2018: 70%) with only 1.8% of loans exceeding 90% LTV (31 December 2018: 0.6%). The average LTV for new Buy-to-Let/SME origination remained at 70%.

1. Interest coverage ratio was restated for 2018 from 171% to 185% due to an improvement in the calculation methodology.
2. Net interest income and contribution to profit were restated as a result of the recognition of interest expense on the £22m of Perpetual Subordinated Bonds previously classified as equity.

Residential mortgages

Residential sub-segment: gross loans

	Group 31-Dec-2019 £m	Group 31-Dec-2018 £m
First charge	**1,466.6**	1,223.9
Second charge	**358.6**	368.0
Funding lines	**12.2**	24.1
Total	**1,837.4**	1,616.0

This segment comprises lending to owner-occupiers, secured via either first or second charges against the residential home. The Bank also provides funding lines to non-bank lenders who operate in high-yielding, specialist sub-segments such as residential bridge finance.

The Residential gross loan book was £1,837.4m as at 31 December 2019, up 14% compared with the previous year (2018: £1,616.0m) with organic originations nearly doubling in the year to £540.5m (2018: £280.1m).

OSB's first charge gross loan book grew in the year to £1,466.6m, which was 20% up from £1,223.9m in 2018. This strong performance was largely due to new organic lending as the Bank's ability to make quick underwriting decisions and the product range launched in 2018 proved popular with borrowers.

Our Kent Reliance brand provides bespoke first charge mortgages, typically to prime credit quality borrowers with more complex circumstances, for example, high net worth borrowers with multiple income sources and self-employed borrowers. These circumstances often preclude them from the mainstream lenders, as most favour automated decision-making over manual underwriting. The extended product range launched in 2018 also includes near-prime residential products. Kent Reliance also operates in the shared ownership sector, where borrowers buy a property in conjunction with a housing association and in 2019 the Bank's share of this sector increased.

Our second charge mortgage brand, Prestige Finance, provides secured finance to good credit quality borrowers who are seeking a loan to raise funds without refinancing their first charge mortgage. Competitive pressure in the second charge segment kept pricing low and OSB continued to focus on pricing for risk. The second charge residential loan book had a gross value of £358.6m as at 31 December 2019 (2018: £368.0m).

OSB continued to provide secured funding lines to non-bank lenders which operate in certain high-yielding, specialist sub-segments, such as residential first and second charge finance. The Bank continued to adopt a cautious approach to these more cyclical businesses given macroeconomic uncertainty. Total credit approved limits as at 31 December 2019 were £31.0m with total loans outstanding of £12.2m (2018: £51.8m and £24.1m, respectively).

Residential mortgages made a contribution to profit of £59.7m in 2019, broadly flat compared with the restated value of £60.2m[1] in 2018, despite growth in the loan book, primarily due to the changing mix of the book and EIR gains on acquired portfolios in the prior year, partially offset by provision releases resulting from falling arrears levels across both first and second charge lending.

The average LTV remained low at 58% (2018: 56%) with only 3.3% of loans by value with LTVs exceeding 90% (2018: 3%). The average LTV of new residential origination during 2019 was 69% (2018: 68%).

1. Net interest income and contribution to profit were restated as a result of the recognition of interest expense on the £22m of Perpetual Subordinated Bonds previously classified as equity.

Segment review – Charter Court Financial Services ('CCFS')

The CCFS segment is presented on a pro forma underlying basis which assumes that the Combination occurred on 1 January 2018 and includes 12 months of results from CCFS. It excludes acquisition-related items.

Year ended 31-Dec-2019	Buy-to-Let £m	Residential £m	Bridging £m	Second charge £m	Other[1] £m	Total pro forma underlying £m	Pre-acquisition profits £m	Acquisition-related items £m	Total statutory £m
Gross loans and advances to customers	**4,748.5**	**2,170.8**	**214.4**	**218.6**	**22.1**	**7,374.4**	**-**	**294.7**	**7,669.1**
Provision for impairment losses	**(3.5)**	**(3.6)**	**(0.5)**	**(0.4)**	**-**	**(8.0)**	**-**	**0.7**	**(7.3)**
Loans and advances to customers	**4,745.0**	**2,167.2**	**213.9**	**218.2**	**22.1**	**7,366.4**	**-**	**295.4**	**7,661.8**
Risk-weighted assets	**2,002.4**	**934.0**	**127.9**	**95.4**	**8.4**	**3,168.1**	**-**	**124.9**	**3,293.0**
Profit or loss account									
Net interest income	**114.3**	**63.6**	**15.5**	**7.1**	**1.7**	**202.2**	**(152.1)**	**(21.6)**	**28.5**
Fees and commissions income	**0.1**	**0.2**	**0.1**	-	**3.4**	**3.8**	**(3.7)**	-	**0.1**
Fair value (losses) /gains	**-**	**-**	**-**	**-**	**(5.5)**	**(5.5)**	**13.7**	**3.3**	**11.5**
Gain on sale of loans	**-**	**-**	**-**	**-**	**58.7**	**58.7**	**(58.7)**	**-**	**-**
Total income	**114.4**	**63.8**	**15.6**	**7.1**	**58.3**	**259.2**	**(200.8)**	**(18.3)**	**40.1**
Impairment losses	**(2.1)**	**(1.7)**	**(0.5)**	**(0.1)**	**-**	**(4.4)**	**4.3**	**(3.6)**	**(3.7)**
Contribution to profit	**112.3**	**62.1**	**15.1**	**7.0**	**58.3**	**254.8**	**(196.5)**	**(21.9)**	**36.4**

1. Other relates to the net interest income from acquired loan portfolios and fee income from third party mortgage servicing.

Year ended 31-Dec-2018	Buy-to-Let £m	Residential £m	Bridging £m	Second charge £m	Other[1] £m	Total pro forma underlying £m
Gross loans and advances to customers	4,508.3	1,707.0	244.1	184.2	21.5	6,665.1
Provision for impairment losses	(1.5)	(1.8)	-	(0.3)	-	(3.6)
Loans and advances to customers	4,506.8	1,705.2	244.1	183.9	21.5	6,661.5
Risk-weighted assets	1,789.2	685.4	141.6	74.0	7.5	2,697.7
Profit or loss account						
Net interest income	104.6	54.5	15.0	6.4	-	180.5
Fees and commissions income	1.9	2.2	0.2	0.3	3.4	8.0
Gain on sale of loans	-	-	-	-	36.4	36.4
Total income	106.5	56.7	15.2	6.7	39.8	224.9
Impairment losses	(0.8)	(1.1)	–	(0.2)	-	(2.1)
Contribution to profit	105.7	55.6	15.2	6.5	39.8	222.8

1. Other relates to the net interest income from acquired loan portfolios and fee income from third party mortgage servicing.

CCFS gross loans

	Group 31-Dec-2019 £m	Group 31-Dec-2018 £m
Buy-to-Let	**4,748.5**	4,508.3
Residential	**2,170.8**	1,707.0
Bridging	**214.4**	244.1
Second charge	**218.6**	184.2
Other[1]	**22.1**	21.5
Total	**7,374.4**	6,665.1

1. Other relates to the net interest income from acquired loan portfolios and fee income from third party mortgage servicing.

Charter Court Financial Services targets underserved specialist mortgage market segments with a focus on specialist Buy-to-Let, residential, bridging and second charge lending.

The CCFS gross loan book grew 11% to £7,374.4m at the end of 2019 (2018: £6,665.1m). Excluding the impact of structured asset sales, the gross loan book would have been £8,491.9m, 27% higher than in 2018. This growth was supported by organic originations of £3,108.2m at attractive margins (2018: £2,846.1m).

Buy-to-Let sub-segment
During 2019, CCFS' organic originations in the Buy-to-Let sub-segment were £1,895.2m, an increase of £253.2m versus the prior year (2018: £1,642.0m). The growth reflects continuing demand for the Group's specialist lending proposition. The net loan book increased 5% in the year to £4,745.0m after structured asset sales and on a pro forma underlying basis, Buy-to-Let mortgages represented 64% of CCFS' total net loan book.

All CCFS' Buy-to-Let products proved popular with borrowers, especially with those investing via limited companies, which increased 21% in the year, and those investing in specialist property types including houses of multiple occupation, multi-unit properties and holiday lets which increased 63% in 2019.

In 2019, CCFS enhanced its product range which enabled it to grow in the specialist Buy-to-Let market segments. The Precise branded Buy-to-Let product mix became more diverse during the year, with particular growth in shorter-term fixed rate products, following the introduction of a top slicing proposition for landlords with excess income to contribute towards a stressed affordability assessment. This resulted in a fall in five-year fixed rate products as a percentage of total Buy-to-Let originations to 72% from 77% in 2018.

The business maintained its position in the BVA BDRC's Project Mercury rankings (effectiveness of lenders intermediary marketing) as the fourth most frequently mentioned lender by intermediaries for Buy-to-Let, reflecting CCFS' broad product offering across the Buy-to-Let segment.

On a pro forma underlying basis, Buy-to-Let made a contribution to profit of £112.3m in 2019, up 6% compared with £105.7m in 2018. Net interest income increased 9% to £114.3m and fees and commissions income reduced due to early repayment charges being included in net interest income and not in fees and commisions as in 2018 following an accounting policy change. The increase in impairment losses in 2019 was primarily driven by alignment in IFRS 9 modelling methodologies post Combination.

On a statutory basis, the Buy-to-Let sub-segment made a contribution to profit of £12.3m.

New lending average loan to value in this segment was 73% with an average loan size of £183,000 (2018: 74% and £169,000). The book loan to value was 71% as at 31 December 2019 (2018: 73%). The weighted average interest coverage ratio for Buy-to-Let origination during 2019 was 202% (2018: 201%).

Residential sub-segment
CCFS' specialist residential lending decreased in 2019 compared with 2018 albeit still at a high level, with new originations down 3% to £797.2m (2018: £825.4m). CCFS concentrated on lending in areas that had stronger risk-adjusted returns versus mainstream markets, where intense competition reduced residential mortgage rates. The Help to Buy proposition continued to perform particularly well and focus on self-employed borrowers led to an increase in the residential gross loan book of 27% to £2,170.8m in the year.

In 2019, CCFS enhanced its residential proposition with new products targeting zero-hour contracts, Help to Buy in Scotland and Help to Buy remortgages. The Group continues to maintain a strong new product pipeline to support its growth in the specialist residential segment going forward.

The average loan size for the residential sub-segment was £159,000 (2018: £152,000) with average LTV for new lending of 71% (2018: 72%) and book LTV of 67% (2018: 70%) as at 31 December 2019.

On a pro forma underlying basis, residential mortgages represented 28% of CCFS' total net loan book as at 31 December 2019.

The residential sub-segment made a contribution to profit of £62.1m on a pro forma underlying basis, up 12% compared with £55.6m in 2018 reflecting growth in the loan book partially offset by higher impairment losses due to loan book growth and alignment in IFRS 9 modelling methodologies post Combination.

On a statutory basis, the Residential sub-segment made a contribution to profit of £9.2m.

Bridging sub-segment
Short-term bridging originations increased by 4% in 2019, reaching £333.7m (2018: £321.8m). The business maintained its focus on high-quality lending in regulated and

unregulated markets, rather than reacting to increased competition in the short-term lending market. Strong repayments during the year saw the gross loan book reduce to £214.4m compared with £244.1m at the end of 2018.

The Standard and Refurbishment segments both increased along with the Regulated and Non-Regulated segments. The Non-Regulated and Refurbishment segments saw the strongest growth, boosted by the launch of CCFS' Refurbishment Buy-to-Let product at the end of 2018. These products require strong combined Buy-to-Let and bridging capability, areas of strength for CCFS. In addition, CCFS enhanced its distribution by expanding its reach to direct brokers.

On a pro forma underlying basis, the bridging sub-segment made a contribution to profit of £15.1m in 2019, broadly flat compared with £15.2m in 2018 despite higher impairment losses of £0.5m (2018: £nil) due to IFRS 9 modelling enhancements made during 2019.

On a statutory basis, the bridging sub-segment made a contribution to Group's profit of £3.4m.

Second charge sub-segment
The second charge gross loan book increased by 19% to £218.6m (2018: £184.2m), supported by strong originations of £82.2m, which were up 44% on 2018.

During the year, CCFS enhanced its product offering and distribution network, whilst maintaining its focus on the quality of lending in this segment.

In response to market feedback, from early 2019, CCFS removed early repayment charges in its residential second charge product range. This brought a significant increase in applications. Distribution was also enhanced in the year, with a focus on direct-to-broker business through major networks and panels, which provides the business with a competitive advantage over smaller players, which generally deal through master brokers.

The second charge sub-segment made a contribution to profit of £7.0m on a pro forma underlying basis, up 8% compared with £6.5m in 2018.

On a statutory basis, the contribution to profit from the second charge sub-segment was a loss of £0.1m as net interest income was more than offset by higher impairment losses.

Wholesale funding overview

Securitisation is a key strategic funding source for the combined Group, with historical issuances across CCFS and OSB since 2013 of £5.7bn.

As well as providing cost-efficient funding through securitisation, the Group has benefited from the capability to accelerate organic capital generation through the sale of residual positions. The Group's strategy is to be nimble and dynamic rather than deterministic with its securitisation issuance plans, enabling it to take advantage of a strong market with repeat issuances, and utilise other options when market conditions are less favourable. To that end, the Group's activities in the wholesale markets during 2019 were more limited than was the case during the equivalent period in 2018. The ongoing uncertainty around negotiations of the UK's exit from the European Union continued to hamper UK residential mortgage-backed securities market ('RMBS'), with spreads tracking relatively wide throughout the year, as they had through the last few months of 2018.

The introduction of a raft of regulatory changes at the beginning of 2019, together with the market transitioning away from LIBOR as an index, also acted as a brake on new issue supply, particularly during the first quarter of 2019.

Nonetheless, the Group was able to complete a number of strategically important wholesale transactions during the year. In January 2019, despite facing a difficult political backdrop, CCFS was able to sell its residual interest in the PMF 2018-1B and PMF 2018-2B transactions, generating a gain on sale of £29.8m, equivalent to a 5.3% premium on the underlying £564.3m of mortgage assets. This excellent outcome was made possible through the earlier strategic sales of significant components of CCFS' residual interest in these transactions through 2018, at a time when the market was notably stronger. This strategy minimised the market exposure faced by CCFS when selling its final residual positions in these transactions in January 2019. The trade enabled CCFS to increase its capital headroom and provide the capital capacity to fully take advantage of the commercial opportunities available to the business through its lending activities during the year.

CCFS re-entered the debt securitisation market in May 2019 with the PMF 2019-1B transaction, securitising £733.7m of prime Buy-to-Let mortgages. PMF 2019-1B was the first SONIA-linked UK RMBS transaction to issue mezzanine notes referencing the index, and was well received by the market. The senior fast-pay notes in the transaction were sold at SONIA plus 93bps, equivalent to a spread over LIBOR of c. 80bps; on that basis the tightest such UK Buy-to-Let securitisation achieved by any issuer in 2019.

In July 2019, CCFS sold its remaining junior residual interest in the transaction to generate a further gain on sale of £28.8m, bringing the total gains from such transactions for the year to £58.7m.

In July 2019, OSB issued its inaugural RMBS transaction of own-originated Buy-to-Let mortgage assets, Canterbury Finance No.1. The transaction was well received, with senior funding in the order of SONIA plus 117bps achieved across the £200m of senior notes placed.

In addition to providing the Group with attractively priced term funding, both the PMF and Canterbury transactions were structured in such a way as to provide the Group with a significant portfolio of retained senior bonds. These enhance the contingent funding options available to the Group, and can be used to access commercial as well as central bank repo facilities.

The PMF transaction also enabled CCFS to refinance assets held on its committed warehouse facility. The facility, which provides committed senior finance of up to £350m (31 December 2018: £350m for CCFS only) against both prime residential and Buy-to-Let mortgage assets, was extended during the year for a further 15 months. In combination with a second facility available for such purposes, on a statutory basis, the Group had a total of up to

£600m (31 December 2018: £nil) of contingent wholesale funding capacity available to it through its warehouse facilities, £94m of which was utilised at the year end.

The Group maintains commercial repo lines with eight counterparties, as well as the ability to access ordinary course central bank funding facilities, such as the Bank of England's Indexed Long-Term Repo auctions.

Preliminary results
for the year ended 31 December 2019

Financial review

Summary statutory results for 2019 and 2018

Summary Profit or Loss	Group 31/12/2019 £m	Restated[1] Group 31/12/2018 £m
Net interest income	**344.7**	286.3
Net losses on financial instruments	**(3.4)**	(5.2)
Net fees and commissions	**2.2**	0.6
External servicing fees	**(0.1)**	(0.6)
Administrative expenses	**(108.7)**	(79.6)
Provisions	**-**	(0.8)
Impairment losses	**(15.6)**	(8.1)
Gain on Combination with CCFS	**10.8**	-
Integration costs	**(5.2)**	-
Exceptional items	**(15.6)**	(9.8)
Profit before taxation	**209.1**	182.8
Profit after taxation	**158.8**	139.6
Key ratios		
Net interest margin[2]	**243bps**	305bps
Cost to income ratio	**32%**	28%
Management expense ratio[3]	**0.76%**	0.84%
Loan loss ratio[2]	**0.13%**	0.10%
Basic EPS, pence per share	**52.6**	55.5
Return on equity[2]	**18%**	25%
Dividend per share, pence per share	**16.1**	14.6

Extracts from the Statement of Financial Position

	£m	£m
Loans and advances	**18,446.8**	8,983.3
Retail deposits	**16,255.0**	8,071.9
Total assets	**21,417.1**	10,460.2

Key ratios

Common equity tier 1 ratio[4]	**16.0%**	13.3%
Total capital ratio	**17.3%**	15.8%
Leverage ratio	**6.5%**	5.9%

1. The Group restated the prior year comparatives to recognise interest expense and taxation on the £22m Perpetual Subordinated Bonds previously classified as equity.
2. To align calculation methods post Combination, OSB amended the NIM, loan loss ratio and return on equity calculations to include average interest earning assets for NIM, average gross loans for loan loss ratio and average shareholders equity for return on equity on a 13 point average rather than a simple average. The comparative ratios were restated.
3. Administrative expenses as a percentage of 13 point average of total assets.
4. Fully-loaded under Basel III/CRD IV.

Strong profit growth
The Group reported 14% growth in statutory profit before taxation to £209.1m (2018: restated £182.8m[1]) after exceptional items, integration costs and other acquisition-related items of £33.2m[2] (2018: exceptional cost of Heritable option of £9.8m) and including £28.0m of profit before taxation from the CCFS business, after exceptional transaction costs of £15.7m.

Statutory profit after taxation in 2019 increased by 14% to £158.8m (2018: restated £139.6m[1]) including the after tax exceptional items, integration costs and other acquisition-related items of £27.4m[2] (2018: exceptional cost of Heritable option of £7.2m) and including £24.8m of profit after taxation from the CCFS business, after post tax pre-combination transaction costs of £15.5m.

The Group's effective tax rate was 22.8%[3] in 2019 (2018: 23.7%), primarily due to a lower proportion of the Group's profits being subject to the Bank Corporation Tax Surcharge.

Statutory return on equity for 2019 fell to 18% (2018: restated 25%[4]), primarily due to exceptional items, integration costs and other acquisition-related items. Statutory basic earnings per share fell by 5% to 52.6 pence per share (2018: 55.5 pence per share), due to the 14% increase in profit after taxation being more than offset by the impact of the additional shares issued for the all-share Combination with CCFS.

Net interest margin ('NIM')
The Group reported an increase in net interest income of 20% to £344.7m in 2019 (2018: restated £286.3m[1]), reflecting strong growth in the loan book and the inclusion of CCFS' net interest income post Combination.

Net interest income included effective interest rate ('EIR') reset gains of £5.0m in 2019 (2018: £5.6m) due to assuming a period spent on standard variable rate ('SVR') on additional products, as behavioural trends emerged, and cash out-performance on purchased mortgage portfolios.

Statutory NIM for 2019 reduced to 243bps (2018: restated 305bps[1, 4]), primarily due to the dilutive impact of including CCFS' results post Combination and the impact of the changing mix of the OSB loan book, despite broadly stable asset pricing.

The CCFS business has a lower NIM than the OSB business and statutory NIM in 2019 was also negatively impacted by the amortisation of the fair value uplift on acquisition of the CCFS loan book.

The mix of the OSB loan book continued to change as the higher-yielding back book refinanced onto front book pricing. The impact of this mix effect had largely run its course by the end of the first half, assuming stable mortgage pricing, cost of funds and swap spreads going forward.

Losses on financial instruments
The statutory fair value loss on financial instruments in 2019 of £3.4m (2018: £5.2m) includes a net loss of £1.3m from the Group's hedging activities (2018: £0.3m net loss), £5.5m amortisation of fair value adjustments on hedged assets relating to cancelled swaps (2018: £4.6m) and a gain of £3.3m due to acquisition-related inception adjustments under hedge accounting.

The net gain on hedging activities includes a loss of £4.8m in respect of the ineffective portion of hedges and net gains on unmatched swaps of £3.5m (2018: £2.7m loss and £2.4m gain respectively). The net gains on unmatched swaps, which primarily relate to mortgage pipeline hedges, include the impact of gains in CCFS post Combination due to movements in the LIBOR curve.

The amortisation of fair value adjustments on hedged assets in both years, includes the impact of accelerating the amortisation in line with the run-off of the underlying legacy long-term fixed rate mortgages, due to faster than expected prepayments.

Net fees and commission
Statutory net fees and commission income of £2.2m (2018: £0.6m) comprised fees and commission receivable of £3.4m (2018: £1.7m) partially offset by commission expense of £1.2m (2018: £1.1m).

Fees and commissions receivable doubled in the year mostly as a result of the inclusion of £1.5m of fees and commissions from CCFS.

Fees and commissions payable in 2019 remained broadly flat and related to branch agency fees and commissions paid to the Kent Reliance Provident Society for conducting member engagement activities for OSB.

Efficient and scalable operating platform
Statutory administrative expenses were up 37% to £108.7m in 2019 (2018: £79.6m), due to growth in the balance sheet and the inclusion of £19.2m of CCFS administrative expenses post Combination.

The Group's statutory cost to income ratio of 32% (2018: 28%) was impacted by the acquisition-related adjustments which reduced total income on a statutory basis and the inclusion of CCFS income and administrative expenses post Combination.

The management expense ratio was 0.76% (2018: 0.84%) reflecting cost efficiencies in the day to day running of the Group on a business as usual basis and further economies of scale, despite continued investment in the business.

Provisions
Statutory regulatory provisions were £nil in 2019 as the provision expense was fully offset by an FSCS refund.

In 2018, regulatory provisions were £0.8m and included levies due to Financial Services Compensation Scheme and other regulatory provisions on acquired books.

Impairment losses
Statutory impairment losses increased to £15.6m in 2019 (2018: £8.1m) representing 13bps on average gross loans and advances (2018: 10bps).

Impairment losses included a provision relating to the initial recognition of expected credit losses on the CCFS portfolios of £3.6m and the impact of aligning IFRS 9 provision methodologies post Combination. Impairment losses were also impacted by a number of high-value Buy-to-Let cases in OSB having Law of Property Act ('LPA') receivers appointed during the first half of 2019, which attracted a higher provision requirement under an IFRS 9 modelling approach. During the second half of 2019, the number of LPA appointments stabilised.

Gain on Combination with CCFS
The Group recorded a gain of £10.8m which represents negative goodwill on the Combination with CCFS. Negative goodwill arose as a result of a decrease in the OSB share price between announcement and completion dates and an increase in the fair value of the loan book acquired due to movements in the LIBOR curve between announcement and completion. For more information, see note 4 to the Financial statements.

Integration costs
There were £5.2m of integration costs incurred in 2019 post completion of the Combination.

Exceptional items
Statutory exceptional items of £15.6m in 2019 comprise transaction costs incurred by OSB in relation to the Combination with CCFS.

The exceptional item of £9.8m in 2018, related to the fair value of the Heritable option.

Dividend
The Board recommends a final dividend for 2019 of 11.2 pence per share. Together with the 2019 interim dividend of 4.9 pence per share and the pre-Combination CCFS interim dividend of 4.3 pence per share, this represents 25% of pro forma underlying profit attributable to ordinary shareholders. For calculation of 2019 final dividend, see Appendix.

The proposed final dividend will be paid on 13 May 2020, subject to approval at the AGM on 7 May 2020, with an ex-dividend date of 26 March 2020 and a record date of 27 March 2020.

Balance sheet growth
Net loans and advances to customers more than doubled in 2019 to £18,446.8m (31 December 2018: £8,983.3m) on a statutory basis, reflecting strong gross originations and the inclusion of the CCFS loan book.

Retail deposits increased to £16,255.0m from £8,071.9m in 2018 on a statutory basis, commensurate with the growth in the loan book.

Drawings under the Term Funding Scheme (‘TFS’) increased from £1.5bn to £2.6bn for the Group, due to the inclusion of CCFS’ drawings of £1.1bn.

The TFS drawdowns are offered in the form of collateralised cash loans. The scheme closed to new drawings at the end of February 2018 and the Group has four years from the date of drawing to repay the existing loans.

The Group also took the opportunity to complement its retail and TFS funding in 2019 with further borrowing under the Bank of England’s Indexed Long-Term Repo scheme (‘ILTR’) which is an auction with borrowings offered as a collateralised cash loan repayable in six months. At 31 December 2019, the Group had £290.0m (2018: £80.0m) of borrowings under the ILTR scheme at base rate +15bps, a total of 90bps

The Group had up to £600m (2018: £nil) of contingent wholesale funding capacity available to it through the CCFS warehouse facilities, £94m of which was utilised at the year end.

The Group also utilises sophisticated securitisation platforms to complement its funding requirements.

Liquidity
Both OSB and CCFS operate under the Prudential Regulation Authority's liquidity regime and are managed separately for liquidity risk. Both Banks hold their own significant liquidity buffer of liquidity coverage ratio ('LCR') eligible high-quality liquid assets ('HQLA').

As at 31 December 2019, OSB had £1,231.8m (2018: £1,354.6m) and CCFS had £1,077.3m (2018: £868.3m) of HQLA LCR eligible assets. CCFS also held a £186.2m (2018: £131.9m) portfolio of RMBS qualifying as Bank of England level 3 collateral.

Both Banks operate within a target liquidity runway in excess of the minimum LCR regulatory requirement, which is based on internal stress testing. Both Banks have a range of contingent liquidity and funding options available for possible stress periods.

As at 31 December 2019, OSB had a liquidity coverage ratio of 199% (2018: 224%) and CCFS 145% (2018: 173%), both significantly in excess of the 2019 regulatory minimum of 100%.

Capital
The Group's fully-loaded CET1 capital ratio under CRD IV strengthened to 16.0% as at 31 December 2019 (31 December 2018: 13.3%), demonstrating the strong organic capital generation capability of the business to support significant growth through profitability and the beneficial impact of the fair value uplift on CCFS' net assets on acquisition.

The Group had a total capital ratio of 17.3% and a leverage ratio of 6.5% as at 31 December 2019 (31 December 2018: 15.8% and 5.9% respectively).

The combined Group had a Pillar 2a requirement of 1.67% of risk-weighted assets (excluding a static integration add-on) as at 31 December 2019 (31 December 2018: 1.1% for OSB only).

Summary cash flow statement

	Group 31-Dec-2019 £m	Restated[1] Group 31-Dec-2018 £m
Profit before tax	**209.1**	182.8
Net cash generated/(used in):		
Operating activities	**(536.1)**	(85.8)
Investing activities	**826.6**	(45.6)
Financing activities	**488.1**	289.7
Net increase/(decrease) in cash and cash equivalents	**778.6**	158.3
Cash and cash equivalents at the beginning of the period	**1,324.2**	1,165.9
Cash and cash equivalents at the end of the period	**2,102.8**	1,324.2

1. The Group restated the prior year comparatives to recognise interest expense and taxation on the £22m Perpetual Subordinated Bonds previously classified as equity.

Cash flow statement
The Group's cash and cash equivalents increased by £778.6m during the year to £2,102.8m as at 31 December 2019.

Loans and advances to customers increased by £2,230.8m during the year, partially funded by £1,637.8m of deposits from retail customers. The movements in loan book and retail funds exclude the acquired positions from CCFS due to the merger being a share for share exchange. Additional funding was provided by cash generated from financing activities of £488.1m and included £170.0m of net drawings under the Indexed Long-Term Repo scheme, £220.4m of proceeds from securitisation of mortgages, warehouse funding of £93.5m and £41.3m from commercial repos offset by dividend payment of £37.3m. Cash generated from investing activities increased to £826.6m largely as a result of £870.4m of cash and cash equivalents acquired on the Combination with CCFS.

In 2018, the increase in the Group's loans and advances to customers of £1,689.5m was largely funded by £1,421.6m of deposits from retail customers and contributed to £85.1m of cash used in operating activities. The remaining funding came largely from the final drawdown under the TFS of £250.0m and £80.0m of funding under the Bank of England's Indexed Long-Term Repo scheme, which generated £289.0m of cash from financing activities. Cash used in investing activities was £45.6m, primarily driven by net purchases and maturities of investment securities of £40.0m.

1. The Group restated the prior year comparatives to recognise interest expense and taxation on the £22m Perpetual Subordinated Bonds previously classified as equity.
2. This comprises £48.9m (£42.9m after tax) of acquisition-related items as shown in the reconciliation of statutory to pro forma underlying results below, less CCFS' pre-acquisition transaction costs of £15.7m (£15.5m after tax).
3. Effective tax rate excludes £2.7m of adjustments relating to prior years.
4. To align calculation methods post Combination, OSB amended the NIM, loan loss ratio and return on equity calculations to include average interest earning assets for NIM, average gross loans for loan loss ratio and average shareholders equity for return on equity on a 13 point average ratgher than a simple average. The comparative ratios were restated.

Preliminary results
for the year ended 31 December 2019

Alternative performance measures
The Group presents alternative performance measures ('APMs') in this Strategic Report as management believes they provide a more consistent basis for comparing the Group's performance between financial periods. Pro forma underlying results assume that the Combination occurred on 1 January 2018, and include 12 months of results from CCFS. They also exclude exceptional items, integration costs and other acquisition-related items.

APMs reflect an important aspect of the way in which operating targets are defined and performance is monitored by the Board. However, any APMs in this document are not a substitute for IFRS measures and readers should consider the IFRS measures as well.

For more information on the APMs and the reconciliation between APMs and the statutory equivalents, see appendix.

Summary pro forma results for 2019 and 2018

Summary Profit or Loss	Group 31/12/2019 £m	Group 31/12/2018 £m
Net interest income	**518.4**	466.8
Gain on sale of loans	**58.6**	36.4
Net losses on financial instruments	**(20.3)**	(5.2)
Net fees and commissions	**5.9**	8.6
External servicing fees	**(0.1)**	(0.6)
Administrative expenses	**(165.1)**	(144.2)
Provisions	**-**	(0.8)
Impairment losses	**(16.3)**	(10.2)
Profit before taxation	**381.1**	350.8
Profit after taxation	**294.2**	267.6
Key ratios		
Net interest margin	**266bps**	286bps
Cost to income ratio	**29%**	28%
Management expense ratio	**0.84%**	0.88%
Loan loss ratio	**0.10%**	0.07%
Basic EPS, pence per share	**64.9**	59.4
Return on equity	**25%**	28%

Extracts from the Statement of Financial Position

	£m	£m
Loans and advances	**18,151.4**	15,644.8
Retail deposits	**16,248.6**	13,166.4
Total assets	**21,166.5**	18,246.7

Strong profit growth
Pro forma underlying profit before taxation was £381.1m in 2019, up 9% from £350.8m in 2018, due primarily to strong growth in the loan book, net of structured asset sales, at attractive margins and continued cost discipline.

Pro forma underlying profit after taxation was £294.2m in 2019, up 10% from £267.6m in 2018. On a pro forma underlying basis, the Group's effective tax rate was 22.8% in 2019 (2018: 23.7%), with a lower proportion of the Group's profits subject to the Bank Corporation Tax Surcharge.

On a pro forma underlying basis, return on equity for 2019 remained strong at 25% (2018: 28%) and basic earnings per share increased by 9% to 64.9 pence per share (2018: 59.4 pence per share), broadly commensurate with the increase in profit after taxation.

Net interest margin
On a pro forma underlying basis, net interest income was up 11% from £466.8m in 2018 to £518.4m in 2019 due to growth in the loan book at attractive margins.

Net interest income included EIR reset gains of £5.0m in 2019 (2018: £5.6m) due to assuming a period spent on standard variable rate on additional products, as behavioural trends emerged, and cash out-performance on purchased mortgage portfolios.

On a pro forma underlying basis NIM reduced to 266bps (2018: 286bps), primarily reflecting the impact of the changing asset mix of the OSB loan book, despite broadly stable asset pricing and a marginally higher cost of funds in the CCFS business.

The mix of the OSB loan book continued to change as the higher-yielding back book refinanced onto front book pricing. The impact of this mix effect had largely run its course by the end of the first half, assuming stable mortgage pricing, cost of funds and swap spreads going forward.

Gain on sale of loans
The gain on sale of loans of £58.6m on a pro forma underlying basis relates to sales of residual interests in three CCFS securitisations to third party investors in 2019, prior to the Combination (2018: £36.4m).

Losses on financial instruments
Pro forma underlying net fair value loss on financial instruments increased to £20.3m (2018: £5.2m loss). This increase was largely due to £13.3m of losses on unmatched swaps, primarily relating to mortgage pipeline hedges, due to movements in the LIBOR curve during 2019.

Net fees and commissions
Pro forma underlying net fees and commissions of £5.9m (2018: £8.6m), primarily relate to CCFS' fees for servicing third party mortgage portfolios.

Administrative expenses
Pro forma underlying administrative expenses were £165.1m in 2019, up 14% from £144.2m in 2018, primarily due to balance sheet growth.

The cost to income ratio on a pro forma underlying basis remained strong at 29% (2018: 28%) as the business retained its focus on cost efficiency and discipline.

The management expense ratio reduced to 0.84% on a pro forma underlying basis (2018: 0.88%), reflecting this cost discipline and benefits of scale, despite continued investment in the business.

Provisions
Provisions on a pro forma underlying basis were £nil in 2019 as the provision expense was fully offset by an FSCS refund.

In 2018, provisions were £0.8m and included levies due to Financial Services Compensation Scheme and other regulatory provisions on acquired books.

Impairment losses
Impairment losses on a pro forma underlying basis increased to £16.3m in 2019 (2018: £10.2m) representing 10bps (2018: 7bps) on average gross loans and advances.

The loan loss ratio remained strong as both Banks delivered strong credit performance driven by robust underwriting and prudent lending policies. The year-on-year increase in the loan loss ratio was primarily due to the impact of aligning IFRS 9 modelling approaches post Combination and the impact of a number of high value Buy-to-Let cases having LPA receivers appointed during the first half of 2019, attracting higher provision requirements under the IFRS 9 modelling approach. The number of LPA appointments stabilised in the second half of 2019.

Balance sheet
On a pro forma underlying basis, the loan book increased by 16% to £18,151.4m (2018: £15,644.8m), primarily due to strong levels of originations in the year for both OSB and CCFS, partially offset by structured asset sales by CCFS prior to the Combination. The loan book growth would have been 23% excluding the impact of these sales.

Retail deposits increased by 23% during 2019 to £16,248.6m (2018: £13,166.4m) as both Banks continued to attract new savers by offering attractively priced savings products and outstanding customer service.

Total assets increased in the year by 16% to £21,166.5m (2018: £18,246.7m).

Drawings under the TFS scheme were £2.6bn on a pro forma underlying basis, unchanged from 2018.

In 2019, the Group also took the opportunity to complement its retail and TFS funding with further borrowing under the Bank of England's ILTR and at 31 December 2019 it had £290.0m (2018: £80.0m) of borrowings under the ILTR scheme at base rate +15bps, a total of 90bps.

The Group had up to £600m (2018: £600m) of contingent wholesale funding capacity available to it through the CCFS warehouse facilities, £94m of which was utilised at the year end.

The Group also utilises sophisticated securitisation platforms to complement its funding requirements.

Preliminary results
for the year ended 31 December 2019

Reconciliation of statutory to pro forma underlying results

	2019				2018			
	Statutory results £m	CCFS pre-acquisition results £m	Reverse acquisition- related items £m	**Pro forma underlying results £m**	Restated[14] OSB stautory results £m	CCFS statutory results £m	Reverse exceptional item £m	**Pro forma underlying results £m**
Net interest income	344.7	152.1	21.6[1]	**518.4**	286.3	180.5	–	**466.8**
(Loss)/gain on sale of loans	(0.1)	58.7	–	**58.6**	–	36.4	–	**36.4**
Net losses on financial instruments	(3.3)	(13.7)	(3.3)[2]	**(20.3)**	(5.2)	–	–	**(5.2)**
Net fees and commissions	2.2	3.7	–	**5.9**	0.6	8.0	–	**8.6**
External servicing fees	(0.1)	–	–	**(0.1)**	(0.6)	–	–	**(0.6)**
Total income	343.4	200.8	18.3	**562.5**	281.1	224.9	–	**506.0**
Administrative expenses	(108.7)	(57.7)	1.3[3]	**(165.1)**	(79.6)	(64.6)	–	**(144.2)**
Provisions	-	-	-	**-**	(0.8)	–	–	**(0.8)**
Impairment losses	(15.6)	(4.3)	3.6[4]	**(16.3)**	(8.1)	(2.1)	–	**(10.2)**
Gain on Combination with CCFS	10.8	–	(10.8)[5]	**–**	–	–	–	**–**
Integration costs	(5.2)	–	5.2[6]	**–**	–	–	–	**–**
Exceptional costs	(15.6)	(15.7)	31.3[7]	**–**	(9.8)	–	9.8	**–**
Profit before tax	209.1	123.1	48.9	**381.1**	182.8	158.2	9.8	**350.8**
Profit after tax	158.8	92.5	42.9	**294.2**	139.6	120.8	7.2	**267.6**
Summary Balance Sheet								
Loans and advances to customers	18,446.8	–	(295.4)[8]	**18,151.4**	8,983.3	6,661.5	–	**15,644.8**
Other financial assets	2,878.2	–	63.2[9]	**2,941.4**	1,438.1	1,111.4	–	**2,549.5**
Other non-financial assets	92.1	–	(18.4)[10]	**73.7**	38.8	13.6	–	**52.4**
Total assets	21,417.1	–	(250.6)	**21,166.5**	10,460.2	7,786.5	–	**18,246.7**
Amounts owed to retail depositors	16,255.0	–	(6.4)[11]	**16,248.6**	8,071.9	5,094.5	–	**13,166.4**
Other financial liabilities	3,544.0	–	10.0[12]	**3,554.0**	1,690.2	2,198.7	(7.2)	**3,881.7**
Other non-financial liabilities	141.1	–	(63.1)[13]	**78.0**	39.7	43.0	–	**82.7**
Total liabilities	19,940.1	–	(59.5)	**19,880.6**	9,801.8	7,336.2	(7.2)	**17,130.8**
Net assets	1,477.0	–	(191.1)	**1,285.9**	658.4	450.3	7.2	**1,115.9**

1. Amortisation of the net fair value uplift to CCFS' mortgage loans and retail deposits on Combination.
2. Inception adjustment on CCFS' derivative assets and liabilities on Combination.
3. Amortisation of intangible assets recognised on Combination.
4. Recognition of expected credit losses arising on acquisition of CCFS' loan book.
5. Recognition of negative goodwill on Combination as a result of a decrease in the OSB share price between announcement and completion and an increase in the fair value of the loan book acquired due to movements in the LIBOR curve between announcement and completion.
6. Costs of integration of the two Banks post Combination.
7. Transaction costs include consultant, legal, professional and success fees in relation to the Combination.
8. Recognition of a fair value uplift to CCFS' loan book of £317.0m less amortisation of the fair value uplift of £22.6m and a movement on credit provisions of £1.0m.
9. Fair value adjustment to hedged assets of £63.2m.
10. Adjustment of £0.7m to deferred tax asset and £19.1m relating to recognition of acquired intangibles on Combination.
11. Fair value adjustment to CCFS' retail deposits of £7.4m at Combination less amortisation of £1.0m.
12. Fair value adjustment to hedged liabilities of £10.0m.
13. Adjustment to deferred tax liability of £63.1m relating to the fair value adjustments on the loan book and retail deposits and other acquisition related adjustments.
14. The Group restated the prior year comparatives to recognise interest expense and taxation on the £22m Perpetual Subordinated Bonds previously classified as equity

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Risk review

Executive summary

During the year, the Group maintained a low and stable risk profile, in line with the Board's risk management objectives. The Group continued to enhance its risk identification and management capabilities to ensure ongoing compliance with industry and regulatory standards.

By leveraging its Strategic Risk Management Framework ('SRMF'), the Group actively managed its risk profile in accordance with the Board-approved risk appetite. Through continuous monitoring and assessment of underlying risk drivers, the Group took appropriate and timely actions in response to the changing economic, political, business and regulatory environment.

The Group maintained its focus on risk-based investment to enhance data governance and controls, and made good progress towards building Internal Ratings-Based ('IRB') approach capabilities.

The discipline associated with effective operational resilience continued to be an area of focus. The Group established effective and scalable operating models across all risk types, which included leveraging its OSBI operations.

The Group delivered strong and profitable growth whilst maintaining a low and stable risk profile. Loan assets continued to perform strongly in 2019 and the Group maintained high quality capital and liquidity buffers to meet both current and future requirements.

Ongoing stress testing demonstrates that the Group is resilient to extreme, but plausible scenarios in the context of ongoing uncertainty surrounding the economic, political and regulatory environment. In particular, the Group continues to actively monitor the developments relating to Brexit negotiations.

The Group successfully managed its funding and liquidity profile throughout the year, ensuring that it supported the continued growth of the balance sheet.

Key achievements in 2019

Following the Combination with CCFS, significant progress was made on aligning a number of key risk management items, while two Chief Risk Officers were retained to ensure an appropriate level of oversight across the two regulated Banks. Significant work was undertaken during due diligence, and progress continued post completion to identify and manage risks associated with the integration. The risk management frameworks of the two Banks were well aligned pre-integration, which will support both the integration process and the ongoing risk management oversight of both Banks.

Work is underway to produce a Combined Group Internal Capital Adequacy Assessment Process ('ICAAP') in addition to individual OSB and CCFS ICAAPs. A consistent approach has been agreed to ensure risks to capital are fully assessed across the two Banks and the Group.

The Group also made significant progress throughout the year in further enhancing its SRMF, with a view to ensuring that it is not only fit for purpose today but also in the future, as the Group continues to grow.

The Group undertakes a full review of the appropriateness of its risk appetite at least twice a year. During 2019, enhancements were made across a number of risk types including credit, conduct and compliance and regulatory risk.

Improvements were made to the Group's data management and governance capabilities, driven by the Group's strategic data management objectives. This initiative is designed to deliver integrated data controls, aggregation and reporting capabilities.

During 2019, further enhancements were made to the Group's credit risk management information and reporting capabilities, with more granular information being provided to the Credit and Group Risk Committees. Particular focus was given to providing more segmented information to allow management and the Board to identify any changes in sub-segment performance, with respect to organically-originated business and acquired portfolios.

The Group continued to enhance its operational risk and operational resilience activities with increased training and awareness being rolled out across the organisation. A successful live scenario exercise was carried out with senior management and the Board over a two day period, testing the Group's operational and financial resilience.

The Group continued to positively drive forward the vulnerable customer agenda via the Vulnerable Customer Review Committee to ensure all customers continue to consistently receive fair outcomes.

Priority areas for 2020
The Group will continue to enhance its risk management activities in 2020, ensuring appropriate oversight of both Banks, while also focusing on the risks posed by the Combination. The Group will manage integration risk as a principal risk, ensuring appropriate oversight by identifying and assessing key risks, developing a risk appetite and reporting to Management and Board Committees.

During 2020, the Group will further refine and embed its risk management capabilities in the context of changing economic, business and operating conditions. Priority areas for enhancement include:

- Alignment of risk management frameworks across OSB and CCFS.
- Development of a combined Group risk appetite across all principal risk types, with supporting monitoring and reporting capabilities.
- Integration of second generation IRB credit risk models within credit portfolio monitoring, stress testing and capital planning, risk appetite and risk-based pricing.
- Development of IRB waiver documentation, demonstrating compliance with approval requirements.
- Alignment of operational risk management systems and integration of the operational risk management frameworks across OSB and CCFS.
- Enhancements to operational resilience and business continuity testing to incorporate live data to create a more realistic testing environment.
- Enhanced conduct risk awareness training, including bespoke face to face training for key business areas.

The Board and senior Management continue to provide appropriate oversight and direction to all risk and compliance initiatives. The Group also engages external subject matter experts and consults with supervisory authorities to ensure appropriate levels of transparency and successful outcomes are achieved.

Pandemic risk factors
The outbreak of Coronavirus (COVID-19) has now been labelled a global pandemic by the World Health Organisation. If this continues to spread through contagion, it is likely to further intensify the disruptive impact on the global and UK economy. This would result in deteriorating market sentiments, falling investment and consumer spending and diminishing trade flows. Government actions, both fiscal and monetary, may prove to be slow to take effect and/or uncertain in their impact.

The financial services sector in a global pandemic could be adversely impacted as a consequence of deteriorating credit risk profile, market uncertainty, declining liquidity and curtailed operational capacity.

A spreading global pandemic could adversely impact the Group across a number of key financial and operational areas.

The asset quality profile could be impacted through declining customer affordability, increasing delinquency and diminishing underlying security values. This would feed through into increasing credit write-offs, credit provisions and capital requirements. Use of forbearance may also need to be reassessed to manage the asset quality profile in a prudent and a conduct sensitive manner. The Group may also be required to re-evaluate the key judgements and assumptions underpinning its business, capital, provisioning and wider risk models.

The Group's capital requirements may reduce relative to the business-as-usual plans owing to reduced lending volumes. However this may be offset by increasing contingency and risk based requirements. Additionally, opportunities to effectively deploy capital may also diminish as capital generating capacity is impacted by declining net interest margins and increasing inefficiencies in the underlying operating model.

The Group's funding sources could be impacted as retail savers prioritise their diminishing available funds towards daily essentials. Retail deposits may also decline as customers reduce savings and investments to operate within the deposit insurance scheme limit. Retail savings and investments could also be impacted by reduced confidence in the UK banking sector. Wholesale are also expected to experience reduced liquidity and risk appetite though this may be offset by more aggressive central bank open market operations.

The Group's operational capacity could be adversely impacted as a consequence of sickness based absenteeism, remote and distributed working arrangements and restricted international and local travel.

The Group's service quality levels could also be adversely impacted as a consequence of increased information requests and transactional support requirements. This would put additional pressure on already diminished customer facing teams. This would adversely impact service quality levels and may result in poor customer outcomes and rising remediation costs.

The Group's operational risk and resilience profiles would also be adversely impacted as a consequence of reduced staffing levels , declining effectiveness of third-party support services and increased propensity for human error owing to a reduced and stretched work force.

Risk management

Approach to risk management

The Group views its capabilities to effectively identify, assess and manage its risk profile as critical to its growth strategy. The Group's approach to risk management is outlined within the SRMF.

The SRMF is the overarching framework which enables the Board and senior management to actively manage and optimise the risk profile within the constraints of the risk appetite. The SRMF also enables informed risk-based decisions to be taken in a timely manner by allowing for the interests and expectations of key stakeholders.

The SRMF also provides a structured mechanism to align all critical components of an effective approach to risk management. The SRMF links overarching risk principles to day to day risk monitoring and management activities.

The modular construct of the SRMF provides an agile approach to keeping pace with the evolving nature of the risk profile and underlying drivers. The SRMF and its core modular components are subject to periodic review and approval by the Board and its relevant Committees.

The key modules of the SRMF structure are as follows:

1. Risk principles and culture - the Group has established a set of risk principles which inform and guide all risk management activities and has a strong, proactive and transparent 'risk culture' where all employees across the Group are aware of their responsibilities in relation to risk management.
2. Risk strategy and appetite - the Group has a clear business mission, vision and strategy which is supported by an articulated risk vision and underlying principles. The Group calibrates its risk appetite to reflect the Group's strategic objectives and business operating plans, as well as external economic, business and regulatory constraints.
3. Risk assessment and control - the Group's business model and strategy exposes it to a defined risk profile and the risk governance structure is informed by this risk profile such that the Group can identify and manage its risks in an effective and efficient manner.
4. Risk definitions and categorisation - the Group sets out its principal risks which represent the primary risks to which the Group is exposed.
5. Risk analytics (including stress testing and scenario development) - the Group uses quantitative analysis and statistical modelling to help improve its business decisions.
6. Risk data and IT - the maintenance of high quality risk information, along with the Group's data enrichment and aggregation capabilities, are central to the Risk function's objectives being achieved.
7. Risk frameworks, policies and procedures - risk frameworks, policies and supporting documentation outline the process by which risk is effectively managed and governed within the Group.
8. Risk management information ('MI') and reporting - the Group has established a comprehensive suite of risk MI and reports covering all principal risk types.
9. Risk governance and function organisation - risk governance refers to the processes and structures established by the Board to ensure that risks are assumed and managed within the Board-approved risk appetite, with clear delineation between risk taking, oversight and assurance responsibilities. The Group's risk governance framework is structured to adhere to the 'three lines of defence' model.

Further detail on these modules is set out in the Group's Pillar 3 disclosures. The following diagrams outline the core components of the SRMF and the organisational arrangements to ensure that the Group operates in accordance with the requirements of the SRMF.

Risk appetite
The Group aligns its strategic and business objectives with its risk appetite, enabling the Board and senior management to monitor the risk profile relative to its strategic and business performance objectives. Risk appetite is a critical mechanism through which the Board and senior management are able to identify adverse trends and respond to unexpected developments in a timely and considered manner.

The Group risk appetite is articulated by means of a series of statements which outline the level and nature of risks that the Group is able and willing to assume in pursuit of its strategic and business objectives. These statements are further supported by a suite of risk thresholds which ensure that the Group's risk profile is monitored and controlled within defined parameters and appetite breaches are subject to appropriate management and Board oversight. The Risk Appetite Framework also helps to outline roles and responsibilities pertaining to all aspects of the risk appetite, based on a defined structure, processes, procedures and governance.

Risk appetite is calibrated to reflect the Group's strategic objectives, business operating plans, as well as external economic, business and regulatory constraints. In particular, risk appetite is calibrated to ensure that the Group continues to deliver against its strategic and business objectives and maintains sufficient financial resource buffers to withstand plausible but extreme stresses. The primary objective of the risk appetite is to ensure that the Group's strategy and business operating model is sufficiently resilient.

The risk appetite is calibrated using statistical analysis and stress testing to inform the process for setting management triggers and limits against key risk indicators. The calibration process is designed to ensure that timely and appropriate actions are taken to maintain the risk profile within approved thresholds. The Board and senior management actively monitor actual performance against approved management triggers and limits.

The Group risk appetite is subject to a full refresh annually across all principal risk types and an additional mid-year review where any metrics can be assessed and updated as appropriate.

Risk appetite statements

<u>Strategic and business risk appetite statement</u>

The Group's strategic and business risk appetite states that the Group does not intend to undertake any medium to long-term strategic actions that would put at risk its vision of being a leading specialist lender, backed by a strong and dependable saving franchise.

The Group adopts a long-term sustainable business model which, while focused on niche sub-sectors, is capable of adapting to growth objectives and external developments.

<u>Reputational risk appetite statement</u>

The Group does not knowingly conduct business or organise its operations to put its reputation and franchise value at risk.

<u>Credit risk appetite statement</u>

The Group seeks to maintain a high quality lending portfolio that generates adequate returns, under normal and stressed conditions. The portfolio is actively managed to operate within set criteria and limits based on profit volatility, focusing on key sectors, recoverable values, and affordability and exposure levels. The Group aims to continue to generate sufficient income and control credit losses to a level such that it remains profitable even when subjected to a credit portfolio stress of a 1 in 20 intensity stress scenario.

<u>Market risk appetite statement</u>

The Group actively manages market risk arising from structural interest rate positions. The Group does not seek to take a significant interest rate position or a directional view on rates and it limits its mismatched and basis risk exposures.

<u>Liquidity and funding risk appetite statement</u>

The Group actively maintains stable and efficient access to funding and liquidity to support its ongoing operations. It also maintains an appropriate level and quality of liquid asset buffer so as to withstand market and idiosyncratic liquidity-related stresses.

<u>Solvency risk appetite statement</u>

The Group seeks to ensure that it is able to meet its Board level capital buffer requirements under a severe but plausible stress scenario. The Group's solvency risk appetite is constrained within the leverage ratio-related requirements. We manage our capital resources in a manner which avoids excessive leverage and allows us flexibility in raising capital.

Operational risk appetite statement

The Group's operational processes, systems and controls are designed to minimise disruption to customers, damage to the Bank's reputation and any detrimental impact on financial performance. The Bank actively promotes the continual evolution of its operating environment through the identification, evaluation and mitigation of risks, whilst recognising that the complete elimination of operational risk is not possible.

Conduct risk appetite statement

The Group aims to operate and conduct its business to the highest standards which ensure integrity and trust with respect to how the Group operates and manages its relationships with key stakeholders. In this respect, the Group has no appetite to knowingly assume risks which may result in an unfair outcome for customers and/or cause disruptions in the market segments in which it operates. However, where the Group identifies potential conduct risks it will proactively intervene by managing, escalating and mitigating them promptly to ensure a fair outcome is achieved.

Compliance / regulatory risk appetite statement

The Group views ongoing conformity with regulatory rules and standards across all the jurisdictions in which it operates as a critical facet of its risk culture. The Group does not knowingly accept compliance risk which could result in regulatory sanctions, financial loss or damage to its reputation. The Group will not tolerate any systemic failure to comply with applicable laws, regulations or codes of conduct relevant given its business operating model.

Risk profile performance overview

Credit risk
Throughout 2019 the credit quality of both Banks remained strong, driven by robust credit risk management, deep knowledge of the specialist sectors in which both OSB and CCFS operate, coupled with prudent risk appetite.

Strong organic loan book growth was underpinned by resilient new lending volumes across the Group's core lending segments including Buy-to-Let, residential owner-occupier, semi-commercial and commercial. The Group's asset finance and development finance businesses continued to operate in line with expectations. New business quality remained strong with broadly stable loan to value levels. Interest coverage ratios remained stable across both the OSB and CCFS segments. Loan to income multiples also remained stable across residential owner occupier lending.

Arrears levels remained low during 2019 across both Banks. Across the CCFS segment greater than three months in arrears balances remained low at 0.3% of total loans and advances (2018: 0.2%). This marginal increase was driven by the lending portfolios maturing and was in line with management's expectations. Performance of both new and existing loans remained strong.

At OSB, the greater than three months in arrears ratio fell to a low of 1.3% (2018: 1.5%). Falling arrears levels across the residential owner-occupier lending segment drove the overall Group trend. Buy-to-Let lending arrears levels remained stable year on year, but improved during the second half of 2019 as more focused collections activity took effect. As at 31 December 2019, legacy problem loan balances reduced to £3.0m from £5.6m at the end of 2018.

The Group observed strong demand for semi-commercial and commercial mortgage products originated via the InterBay commercial brand, where gross exposure grew to £888.0m with a weighted average loan to value of 67% and an average loan size of £375,000.

Gross exposure to residential development finance remained low at £146.1m with a weighted average LTV of 34%.

Expected Credit Losses ('ECL')
Low arrears and sensible loan to value levels resulted in strong loan loss performance during 2019.

On a statutory basis, impairment losses were £15.6m (2018: £8.1m) representing 13bps on average gross loans and advances (2018: 10bps). On a pro forma underlying basis, loan loss ratio was 10bps[1] (2018: 7bps).

The increase in the total value of loan losses was primarily due to three non-recurring items:

i) More focused collections activity across the Buy-to-Let portfolio within the OSB segment resulted in an increase in the number of LPA receivers appointed during the first half of 2019, where under the IFRS 9 provisioning approach higher provisions are held.

LPA receivers are appointed when a Buy-to-Let account falls into arrears, as an independent managing agent and collector of rents. This ensures that rent payments are passed back to the lender to bring the account back up to date, or to oversee a sale of the property paying back the lender, whilst supplying the borrower with any excess funds. During the second half of 2019 OSB observed low and stable new LPA receiver appointments.

ii) On 4 October 2019 OSB acquired the lending portfolios of CCFS and consequently raised IFRS 9 provisions totalling £3.6m. This one-off charge was recognised in the Group's profit and loss, increasing the total quantum of losses recognised in 2019.

Importantly, the provisions raised do not reflect a change in the credit risk performance of the lending portfolios.

iii) During the fourth quarter of 2019 OSB and CCFS aligned a number of IFRS 9 methodologies, including stage 2 and 3 transfer criteria and macroeconomic scenarios and probability weightings. The net impact of this alignment activity was a one-off provision charge recognised in the 2019.

Removing the above one-off non-recurring items, the loan loss charge would have been broadly consistent with the underlying loan loss charge observed during 2018.

The Group's Risk and Audit Committees closely monitor the ongoing appropriateness of the provision coverage levels versus expected losses and peer institutions.

As at 31 December 2019, provision coverage levels remained appropriate.

The Group's total coverage ratio fell slightly to 0.23% as at 2019 (2018: 0.32%). The fall was driven by the loan to value profile and low arrears performance of newly-originated mortgages and the CCFS lending portfolios acquired, resulting in balances growing faster than ECL provisions raised resulting in the ratio falling.

Macroeconomic scenarios
The measurement of ECL under the IFRS 9 approach is complex and requires a high level of judgement. The approach includes the estimation of probability of default ('PD'), loss given default ('LGD') and likely exposure at default ('EAD'). An assessment of the maximum contractual period with which the Group is exposed to the credit risk of the asset is also undertaken.

IFRS 9 requires firms to calculate ECL allowances simulating the effect of a range of possible economic outcomes, calculated on a probability weighted basis. This requires firms to formulate forward looking macroeconomic forecasts and incorporate them in ECL calculations.

i. How macroeconomic variables and scenarios are selected
During the IFRS 9 modelling process the relationship between macroeconomic drivers and arrears, default rates and collateral values is established. For example, if unemployment levels increase the Group would observe an increasing number of accounts moving into arrears. If residential or commercial property prices fall the risk of losses being realised on the sale of a property would increase.

The Group has adopted an approach which utilises four macroeconomic scenarios.

Scenarios are provided by an industry leading economics advisory firm, who provide Management and the Board with advice on which scenarios to utilise and the probability weightings to attach to each scenario.

A base case forecast is provided which broadly aligns with wider consensus forecasts, along with a plausible upside scenario. Two downside scenarios are also provided (downside and a severe downside).

ii. How macroeconomic scenarios are utilised within ECL calculations
Probability of default estimates are either scaled up or down based on the macroeconomic scenarios utilised.

Loss given default estimates are impacted by property price forecasts which are utilised within loss estimates should an account be possessed and sold.

Exposure at default estimates are not impacted by the macroeconomic scenarios utilised.

Each of the above components are then directly utilised within the ECL calculation process.

iii. Macroeconomic scenario governance
The Group has a robust governance process to oversee macroeconomic scenarios and probability weightings used within ECL calculations. Updated scenarios are provided on a monthly basis where an assessment is carried out by the Group's Risk function to determine whether an update is required.

On a quarterly basis the Group's Risk function and economic advisor provide the Asset and Liabilities Committee with an overview of recent economic performance, along with updated base, upside and two downside scenarios.

The Risk function will then propose a course of action, which once approved will be implemented. Regular updates are provided to the Group's Risk and Audit Committees, where the ongoing appropriateness of the macroeconomic scenarios and probability weightings are discussed.

iv. Changes made during 2019
In December 2018, OSB implemented a fourth severe downside no-deal disorderly Brexit scenario, which increased the Group's provision requirements. During the first half of 2019, the Group did not make any changes to the macroeconomic scenarios utilised or the probability weightings assigned.

The CCFS business implemented a Brexit overlay in December 2018 to reflect the increasing risk of a no-deal Brexit. As at 30 June 2019, this overlay was adjusted with further provision raised.

Following the Combination completing on 4 October 2019, the Group's Risk function recommended aligning the macroeconomic scenarios and probability weightings utilised across both the individual OSB and CCFS businesses. This entailed moving to one service provider for economic modelling, aligning scenarios utilised and probability weightings.

Forbearance

Where borrowers experience financial difficulties, which impacts their ability to service their financial commitments under the loan agreement, forbearance may be used to achieve an outcome which is mutually beneficial to both the borrower and the Bank.

By identifying borrowers who are experiencing financial difficulties pre-arrears or in arrears, a consultative process is initiated to ascertain the underlying reasons and to establish the best course of action to enable the borrower to develop credible repayment plans and to see them through the period of financial stress.

The specific tools available to assist customers vary by product and the customers' status. The various treatments considered for customers are as follows:

- Temporary switch to interest only: a temporary account change to assist customers through periods of financial difficulty where arrears do not accrue at the original contractual payment. Any arrears existing at the commencement of the arrangement are retained.
- Interest rate reduction: the Group may, in certain circumstances, where the borrower meets the required eligibility criteria, transfer the mortgages to a lower contractual rate. Where this is a formal contractual change the borrower will be requested to obtain independent financial advice as part of the process.
- Loan term extension: a permanent account change for customers in financial distress where the overall term of the mortgage is extended, resulting in a lower contractual monthly payment.
- Payment holiday: a temporary account change to assist customers through periods of financial difficulty where arrears accrue at the original contractual payment. Any arrears existing at the commencement of the arrangement are retained.
- Voluntary-assisted sale: a period of time is given to allow borrowers to sell the property and arrears accrue based on the contractual payment.
- Reduced monthly payments: a temporary arrangement for customers in financial distress. For example, a short-term arrangement to pay less than the contractual payment. Arrears continue to accrue based on the contractual payment.
- Capitalisation of interest: arrears are added to the loan balance and are repaid over the remaining term of the facility or at maturity for interest only products. A new payment is calculated, which will be higher than the previous payment.
- Full or partial debt forgiveness: where considered appropriate, the Group will consider writing off part of the debt. This may occur where the borrower has an agreed sale and there will be a shortfall in the amount required to redeem the Group's charge, in which case repayment of the shortfall may be agreed over a period of time, subject to an affordability assessment or where possession has been taken by the Group; and on the subsequent sale where there has been a shortfall loss.
- Arrangement to Pay (CCFS only): where an arrangement is made with the borrower to repay an amount above the contractual monthly instalment, which will repay arrears over a period of time.
- Promise to Pay (CCFS only): where an arrangement is made with the borrower to defer payment or pay a lump sum at a later date.

- Bridging Loans more than 30 days past due (CCFS only): bridging loans which are more than 30 days past their maturity date. Repayment is rescheduled to receive a balloon or bullet payment at the end of the term extension where the institution can duly demonstrate future cash flow availability.

The Group aims to proactively identify and manage forborne accounts, utilising external credit reference bureau information to analyse probability of default and customer indebtedness trends over time, feeding pre-arrears watch list reports. Watch list cases are in turn carefully monitored and managed as appropriate.

Further information regarding forbearance can be found in note 45 to the Financial statements.

Fair value of collateral methodology
The Group ensures that security valuations are reviewed on an ongoing basis for accuracy and appropriateness. Commercial properties are subject to annual indexing, whereas residential properties are indexed against monthly House Price Index data. Where the Group identifies that an index is not representative, a formal review is carried out by the Group Real Estate function to ensure that property valuations remain appropriate.

The Group Real Estate function ensures that newly underwritten lending cases are written to appropriate valuations, where an inde-pendent assessment is carried out by an appointed, qualified surveyor accredited by RICS.

Solvency risk
The Group has maintained an appropriate level and quality of capital to support its prudential requirements with sufficient contingency to withstand a severe but plausible stress scenario. The solvency risk appetite is based on a stacking approach, whereby the various capital requirements (Pillar 1, ICG, CRD IV buffers, Board and management buffers) are incrementally aggregated as a percentage of available capital (CET1 and total capital).

Solvency risk is a function of balance sheet growth, profitability, access to capital markets and regulatory changes. The Bank actively monitors all key drivers of solvency risk and takes prompt action to maintain its solvency ratios at acceptable levels. The Board and management also assess solvency when reviewing the Group's business plans and inorganic growth opportunities.

The Group's fully-loaded CET1 capital ratio under CRD IV increased to 16.0% as at 31 December 2019 (31 December 2018: 13.3%) demonstrating the strong organic capital generation capability of the business and the beneficial impact of the fair value uplift on CCFS' assets. The Group had a total capital ratio of 17.3% and a leverage ratio of 6.5% as at 31 December 2019 (31 December 2018: 15.8% and 5.9% respectively).

Liquidity and funding risk
The Group has a prudent approach to liquidity management through maintaining sufficient liquidity resources to cover cash flow imbalances and fluctuations in funding under both normal and stressed conditions arising from market-wide and Bank-specific events. OSB and CCFS' liquidity risk appetites have been calibrated to ensure that both Banks always operate above the minimum prudential requirements with sufficient contingency for unexpected stresses, whilst actively minimising the risk of holding excessive liquidity which would adversely impact the financial efficiency of the business model.

The Group continues to attract new retail savers and has high retention levels with existing customers. In addition the Combination allows the Group a wider range of wholesale funding options including securitisation issuances and use of retained notes from both Banks.

In 2019, both Banks actively managed their liquidity and funding profiles within the confines of their risk appetite as set out in each Bank's Internal Liquidity Adequacy Assessment

Process ('ILAAP'). Each Bank's risk appetite is based on internal stress tests that cover a range of scenarios and time periods and therefore are a more severe measure of resilience to a liquidity event than the standalone liquidity coverage ratio ('LCR'). Both OSB and CCFS' LCR at 199% and 145% respectively remain above risk appetite and well above regulatory minimums.

Market risk
The Group proactively manages its risk profile in respect of adverse movements in interest rates, foreign exchange rates and counterparty exposures. The Group accepts interest rate risk and basis risk as a consequence of structural mismatches between fixed rate mortgage lending, sight and fixed term savings and the maintenance of a portfolio of high quality liquid assets. Interest rate exposure is mitigated on a continuous basis through portfolio diversification, reserve allocation and the use of financial derivatives within limits set by the Group ALCO and approved by the Board.

The Group's balance sheet is completely GBP denominated. The Group has some minor foreign exchange risk from funding the OSBI business. This is minimised by prefunding a number of months in advance and regularly monitoring GBP/INR rates. Wholesale counterparty risk is measured on a daily basis and constrained by counterparty risk limits.

Transition away from LIBOR
The PRA and FCA have continued to encourage banks to transition away from using LIBOR as a benchmark in all operations before the end of 2021. Throughout the UK banking sector LIBOR remains a key benchmark and for each market impacted, solutions to this issue are progressing through various industry bodies.

In 2018, OSB set up an internal working group comprised of all of the key business lines that are involved with this change with strong oversight from the Compliance and Risk departments. Risk assessments have been completed to ensure this process is managed in a measured and controlled manner. CCFS no longer write any LIBOR-linked business and have started to transition back book swaps from a LIBOR to a SONIA basis. The OSB and CCFS projects have been aligned following the Combination.

Interest rate risk
The Group does not actively assume interest rate risk, does not execute client or speculative securities transactions for its own account, and does not seek to take a significant directional interest rate position. Limits have been set to allow management to run occasional unhedged positions in response to balance sheet dynamics and capital has been allocated for this. Exposure limits are calibrated in proproportion to available CET1 capital in order to accommodate balance sheet growth.

The Group sets limits on the tenor and rate reset mismatches between fixed rate assets and liabilities, including derivatives hedges, with exposure and risk appetite assessed by reference to historic and potential stress scenarios cast at consistent levels of modelled severity.

Throughout 2019, both Banks managed their interest rate risk exposures within risk appetite limits.

Basis risk
Basis risk arises from assets and liabilities repricing with reference to different interest rate indices, including positions which reference variable market, policy and managed rates. As with structural interest rate risk, the Bank does not seek to take a significant basis risk position, but maintains defined limits to allow operational flexibility.

For both OSB and CCFS exposure is assessed and monitored regularly across a range of 'business as usual' and stressed scenarios.

Throughout 2019, both Banks managed its basis risk exposure within its risk appetite limits.

Operational risk
The Group continues to adopt a proactive approach to the management of operational risks. The operational risk management framework has been designed to ensure a robust approach to the identification, measurement and mitigation of operational risks, utilising a combination of both qualitative and quantitative evaluations in order to promote an environment of progressive operational risk management. The Group's operational processes, systems and controls are designed to minimise disruption to customers, damage to the Group's reputation and any detrimental impact on financial performance. The Group actively promotes the continual evolution of its operating environment through the identification, evaluation and mitigation of risks, whilst recognising that the complete elimination of operational risk is not possible.

Where risks continue to exist, there are established processes to provide the appropriate levels of governance and oversight, together with an alignment to the level of risk appetite stated by the Board.

A strong culture of transparency and escalation has been cultivated throughout the organisation, with the Operational Risk function having a Group-wide remit, ensuring a risk management model that is well embedded and consistently applied. In addition, a community of Risk Champions representing each business line and location has been identified. Operational Risk Champions ensure that the operational risk identification and assessment processes are established across the Group in a consistent manner. Risk Champions are provided with appropriate support and training by the Operational Risk function.

Regulatory and compliance risk
The Group is committed to the highest standards of regulatory conduct and aims to minimise breaches, financial costs and reputational damage associated with non-compliance.

The Group has an established Compliance function which actively identifies, assesses and monitors adherence with current regulation and the impact of emerging regulation.

In order to minimise regulatory risk, the Group maintains a proactive relationship with key regulators, engages with industry bodies such as UK Finance, and seeks external expert advice. The Group also assesses the impact of upstream regulation on itself and the wider market in which it operates, and undertakes robust assurance assessments from within the Risk and Compliance functions.

Conduct risk
The Group considers its culture and behaviour in ensuring the fair treatment of customers and in maintaining the integrity of the market segments in which it operates to be a fundamental part of its strategy and a key driver to sustainable profitability and growth. The Group does not tolerate any systemic failure to deliver fair customer outcomes.

On an isolated basis, incidents can result in detriment owing to human and/or operational failures. Where such incidents occur they are thoroughly investigated, and the appropriate remedial actions are taken to address any customer detriment and to prevent recurrence.

The Group considers effective conduct risk management to be a product of the positive behaviour of all employees, influenced by the culture throughout the organisation and therefore continues to promote a strong sense of awareness and accountability.

Strategic and business risk
The Board has clearly articulated the Group's strategic vision and business objectives supported by performance targets. The Group does not intend to undertake any medium to long-term strategic actions, which would put at risk the Group's vision to become our customers' favourite bank; one that delivers its very best, challenges convention and opens doors that others can't.

To deliver against its strategic objectives and business plan, the Group has adopted a sustainable business model based on a focused approach to core niche market segments where its experience and capabilities give it a clear competitive advantage.

The Group remains highly focused on delivering against its core strategic objectives and strengthening its position further through strong and sustainable financial performance.

Reputational risk

Reputational risk can arise from a variety of sources and is a second order risk – the crystallisation of a credit risk or operational risk can lead to a reputational risk impact.

The Group monitors reputational risk through tracking media coverage, customer satisfaction scores, the share price and net promoter scores provided by brokers.

Principal risks and uncertainties

Strategic and business risk
The risk to the Group's earnings and profitability arising from its strategic decisions, change in business conditions, improper implementation of decisions or lack of responsiveness to industry changes.

Performance against targets

Performance against strategic and business targets does not meet stakeholder expectations. This has the potential to damage the Group's franchise value and reputation.

Mitigation

Regular monitoring by the Board and the Group Executive Committee of business and financial performance against strategic agenda and risk appetite. The financial plan is subject to regular reforecasts. The balanced business scorecard is the primary mechanism to support the Board and assesses management performance against key targets. Use of stress testing to flex core business planning assumptions to assess potential performance under stressed operating conditions.

Direction: unchanged

The benefits realised from the integration will support the Group in meeting the challenges posed by increasing levels of competition in our key market segments.

Economic environment

The economic environment is an important factor impacting the strategic and business risk profile. A macroeconomic downturn may impact the credit quality of the Group's existing loan portfolio and may influence future business strategy as the Group's new business proposition becomes less attractive due to lower returns.

Mitigation

The Group continued to utilise and enhance its stress testing capabilities to assess and minimise potential areas of macroeconomic vulnerabilities.

Direction: unchanged

The Group's strategic and business risk profile is impacted by the uncertainty surrounding the impact of trade negotiations following Brexit. Economic risks to which the Group is exposed remain high but stable compared with 2018.

Regulatory requirements

The potential for emerging regulatory requirements to increase the demands on the Group's operational capacity and increase the cost of compliance.

Mitigation

The Group continues to invest in its IT and data management capabilities to increase the ability to respond to regulatory change.

A structured approach to change management and fully leveraging internal and external expertise allows the Group to respond effectively to regulatory change.

Direction: increased

Increased levels of regulatory scrutiny and increased regulatory expectations are driven by the increased size of the Group post-Combination.

Integration risk

The risk that the Combination with CCFS does not create operational and financial benefits as planned.

Mitigation

The Board will maintain oversight of the integration process through the Board Integration Committee. A dedicated Integration Management Office has been established to drive the integration process forward.

Independent second line and third line assessment, monitoring and reporting will be undertaken by the Risk function and Internal Audit function respectively.

Direction: increased

Risk of an ineffective integration or delays to integration may result in synergy and cost targets being missed, disruption to business as usual activities, operating and financial performance falling below expectations or damage to reputation.

Reputational risk

The potential risk of adverse effects that can arise from the Group's reputation being sullied due to factors such as unethical practices, adverse regulatory actions, customer dissatisfaction and complaints or negative/adverse publicity.

Reputational risk can arise from a variety of sources and is a second order risk – the crystallisation of a credit risk or operational risk can lead to a reputational risk impact.

Deterioration of reputation

Potential loss of trust and confidence that our stakeholders place in us as a responsible and fair provider of financial services.

Mitigation

Culture and commitment to treating customers fairly and being open and transparent in communication with key stakeholders. Established processes to proactively identify and manage potential sources of reputational risk.

Direction: increased

Expectations are high to deliver the integration in a timely and effective manner while achieving strategic objectives. Expectations raised across all stakeholders including employees, customer, regulators and shareholders.

Credit risk

Potential for loss due to the failure of a counterparty to meet its contractual obligation to repay a debt in accordance with the agreed terms.

Individual borrower defaults

Borrowers may encounter idiosyncratic problems in repaying their loans, for example loss of a job or execution problems with a development project.

While in most of cases of default the Group's lending is secured, some borrowers may fail to maintain the value of the security.

Mitigation

Across both OSB and CCFS a robust underwriting assessment is undertaken to ensure a customer has the ability and propensity to repay and sufficient security is available to support the new loan requested. At CCFS an automated scorecard approach is taken, whilst OSB utilises a bespoke manual underwriting approach.

Should there be problems with a loan, the Collections and Recoveries team works with customers unable to meet their loan service obligations to reach a satisfactory conclusion while adhering to the principle of treating customers fairly.

Our strategic focus on lending to professional landlords means that properties are likely to be well-managed, with income from a diversified portfolio mitigating the impact of rental voids or maintenance costs. Lending to owner-occupiers is subject to a detailed affordability assessment, including the borrower's ability to continue payments if interest rates increase. Lending on commercial property is based more on security, and is scrutinised by the Group's independent Real Estate team as well as by external valuers.

Development lending is extended only after a deep investigation of the borrower's track record and stress testing the economics of the specific project.

Direction: unchanged

The Group continues to observe strong and stable credit profile performance but remains alert to potential macroeconomic uncertainty arising from Brexit-related negotiations.

Macroeconomic downturn

A broad deterioration in the economy would adversely impact both the ability of borrowers to repay loans and the value of the Group's security. Credit losses would impact across the lending portfolio, so even if individual impacts were to be small, the aggregate impact on the Group could be significant.

Mitigation

The Group works within portfolio limits on LTV, affordability, name, sector and geographic concentration that are approved by the Group Risk Committee and the Board. These are reviewed on a semi-annual basis. In addition, stress testing is performed to ensure that the Group maintains sufficient capital to absorb losses in an economic downturn and continue to meet its regulatory requirements.

Direction: unchanged

The economic outlook is uncertain driven by the unknown impact of trade negotiations following Brexit. Economic risks to which the Group is exposed remain high but stable compared with the previous year.

Wholesale credit risk

The Group has wholesale exposures both through call accounts used for transactional and liquidity purposes and through derivative exposures used for hedging.

Mitigation

The Group transacts only with high quality wholesale counterparties. Derivative exposures include collateral agreements to mitigate credit exposures.

Direction: unchanged

The Group's wholesale credit risk exposure remains limited to high quality counterparties, overnight exposures to clearing bank and swap counterparties.

Market risk
Potential loss due to changes in market prices or values.

Interest rate risk

An adverse movement in the overall level of interest rates could lead to a loss in value due to mismatches in the duration of assets and liabilities.

Mitigation

The Group's Treasury department actively hedges to match the timing of cash flows from assets and liabilities.

Direction: unchanged

The Group continues to assess interest on a regular basis ensuring that interest rate risk exposure is limited. The profile of the asset book has increased but this is offset by frequent hedging.

Basis risk

A divergence in market rates could lead to a loss in value, as assets and liabilities are linked to different rates.

Mitigation

Due to the Group balance sheet structure no active management of basis risk has been required by OSB in 2019.

CCFS actively replace back book LIBOR asset swaps with SONIA swaps to balance basis risk across assets and liabilities and reduce possible exposure of dislocation of market rates from base rate.

Direction: unchanged

Product design, balance sheet structure and replacing LIBOR swaps with SONIA swaps has enabled the Group to maintain the overall level of basis risk across both Banks through the year.

Liquidity and funding risk
The risk that the Group will be unable to meet its financial obligations as they fall due.

Retail funding stress

As the Group is primarily funded by retail deposits, a retail run could put it in a position where it could not meet its financial obligations.

Increased competition for retail savings driving up funding costs adversely impacting retention levels.

Mitigation

The Group's funding strategy is focused on a highly stable retail deposit franchise. The large number of depositors provides diversification and a high proportion of balances are covered by the FSCS and so there is no material risk of a retail run.

In addition, the Group performs in-depth liquidity stress testing and maintains a liquid asset portfolio sufficient to meet obligations under stress. The Group holds prudential liquidity buffers to manage funding requirements under normal and stressed conditions.

The Group proactively manages its savings proposition through both the Liquidity Working Group and the Group Assets and Liabilities Committee. Finally, the Group has prepositioned mortgage collateral with the Bank of England which allows it to consider other alternative funding sources to ensure it is not solely reliant on retail savings. The Group also has a mature RMBS programme and access to warehouse facilities.

Direction: unchanged

The Group's funding mix remained stable throughout the year.

Wholesale funding stress

A market-wide stress could close securitisation markets or make issuance costs unattractive for the Group.

Mitigation

The Group continuously monitor wholesale funding markets for securitisation opportunities and will execute funding transactions or sell additional residual positions in the securitisations when market conditions are advantageous.

The strong retail franchise, access to pooled deposits, Bank of England pre-positioned collateral and warehouse funding facilities through tier 1 investment banks provide the Group with a range of funding options.

Direction: decreased

The combined Group has a wider range of wholesale funding options available including repo or sale of retained notes, collateral upgrade trades and warehouse facilities.

Refinancing of Term Funding Scheme

The Group has drawn a total £2.6bn of funding under the TFS scheme creating a refinancing concentration around the maturity of this scheme.

Mitigation

The Group has fully factored in repayment of TFS into the funding plans of both Banks, with planned repayment prior to the contractual date to minimize timing and concentration risk. The combined Group has a wider range of funding options to manage this process.

Direction: unchanged

The overall TFS position for the Group has increased but the combined Group has a wider range of funding options.

Solvency risk

The potential inability of the Group to ensure that it maintains sufficient capital levels for its business strategy and risk profile under both the base and stress case financial forecasts.

Deterioration of capital ratios

Key risks to solvency arise from balance sheet growth and unexpected losses which can result in the Bank's capital requirements increasing or capital resources being depleted such that it no longer meets the solvency ratios as mandated by the PRA and Board risk appetite.

The regulatory capital regime is subject to change and could lead to increases in the level and quality of capital that the Group needs to hold to meet regulatory requirements.

Mitigation

Currently the Group operates from a strong capital position and has a consistent record of strong profitability.

The Group actively monitors its capital requirements and resources against financial forecasts and plans and undertakes stress testing analysis to subject its solvency ratios to extreme but plausible scenarios.

The Bank also holds prudent levels of capital buffers based on CRD IV requirements and expected balance sheet growth.

The Group engages actively with regulators, industry bodies, and advisers to keep abreast of potential changes and provides feedback through the consultation process.

Direction: increased

The Group maintained a prudent and stable CET1 capital and total capital position providing resilience against unexpected losses. The Group continued to fund its balance sheet growth using organic profit generation.

Following the integration the Group will be subject to Minimum requirements for own funds and eligible liabilities ('MREL') requirements and will need to issue MREL qualifying debt instruments to meet this requirement.

Operational risk
The risk of loss or negative impact to the Group resulting from inadequate or failed internal processes, people, or systems or from external events.

IT Security (including cyber risk)

The risks resulting from a failure to protect the Bank's systems and the data within them. This includes both internal and external threats.

Mitigation

The Group has invested significantly in enhancing its protection against IT security threats, deploying a series of tools designed to identify and prevent network/system intrusions. This is further supported by documented and tested procedures intended to ensure the effective response to a security breach.

Direction: unchanged

Whilst IT Security risks continue to evolve the level of maturity of the Group's controls and defences have significantly matured, supported by dedicated IT security experts. The Group's ongoing penetration testing continues to drive enhancements by identifying potential areas of risk.

Data quality and completeness

The risks resulting from data being either inaccurate or incomplete.

Mitigation

The Group established a dedicated Data Strategy Programme, designed to ensure a consistent approach to the maintenance and use of data. This includes both documented procedures and frameworks and also tools intended to improve the consistency of data use.

Direction: unchanged

Whilst the Data Strategy Programme enjoyed some notable achievements, there remains significant work in 2020 in order to ensure all data-related risks have been appropriately addressed.

Change management

The risks resulting from unsuccessful change management implementations, including the failure to respond effectively to release-related incidents.

Mitigation

The Group recognises that implementing change introduces significant operational risk and has therefore implemented a series of control gateways designed to ensure that each stage of the change management process has the necessary level of oversight.

Direction: increased

The Group continues to adopt an ambitious change agenda and recognises that it is entering a period of significant change following the Combination and that risks of integration will be heightened during this period.

IT Failure

The risks resulting from a major IT application or infrastructure failure impacting access to the Bank's IT systems.

Mitigation

The Group continues to invest in improving the resilience of its core infrastructure. It has identified its prioritised business services and the infrastructure that is required to support them. Tests are performed regularly to validate its ability to recover from an incident.

Direction: unchanged

Whilst progress was made in reducing both the likelihood and impact of an IT failure the Group has identified additional enhancements that it will look to implement in 2020.

Organisational change and integration

The risks resulting from the Group's ongoing integration activities, including systems, people and infrastructure.

Mitigation

There is a low risk integration project plan (e.g. no large scale integration related IT project change planned). Experienced and capable project management office, with close oversight and direction provided by the Group Executive and Board Integration Committees.

Direction: increased

The Group is in the early stages of the integration project, with no material issues identified with respect to delivering agreed objectives within planned timelines to date. Close oversight of the integration risks will be carried out by the Group's Risk and Compliance function.

Conduct risk
The risk that the Group's behaviours or actions result in customer detriment or negative impact on the integrity of the markets in which it operates.

Product suitability

Whilst the Group originates relatively simple products, there remains a risk that products (primarily legacy) may be deemed to be unfit for their original purpose in line with current regulatory definitions.

Mitigation

The Group has a strategic commitment to provide simple, customer-focused products. In addition, a Product Governance framework is established to oversee both the origination of new products and to revisit the ongoing suitability of the existing product suite.

Direction: unchanged

Whilst this risk remained low as a result of increased awareness and dedicated oversight, the Bank remains aware of the changes to the regulatory environment and their possible impact on product suitability.

Data protection

The risk that customer data is accessed inappropriately either as a consequence of network/system intrusion or through operational errors in the management of the data.

Mitigation

In addition to a series of network/system controls the Bank performs extensive root cause analysis of any data leaks in order to ensure that the appropriate mitigating actions are taken.

Direction: unchanged

Despite a number of additional controls being introduced in 2019, the network/system threats continue to evolve in both volume and sophistication.

Integration risk

The risk that the integration programme directly or indirectly causes poor outcomes for customers and the market.

Mitigation

During the integration process, the Group is committed to adopting a low-risk approach with a view to taking reasonable steps to avoid causing poor outcomes for our customers and the market. The Group will conduct detailed analysis of potential customer harm associated with particular integration steps.

Direction: increased

The Group is in the early stages of the integration project, with no material issues identified with respect to poor customer outcomes.

Compliance and regulatory risk
The risk that a change in legislation or regulation or an interpretation that differs from the Group's will adversely impact the Group.

Prudential regulatory changes

The Group continues to see a high volume of key compliance regulatory changes that impact its business activities. These include: change in Standardised Approach capital rules and implementation of an IRB floor, implementation of the European Standardised Information Sheet, extending the Senior Managers and Certification Regime to all FCA regulated firms and introduction of Strong Customer Authentication requirements. The focus on external wall cladding for high rise buildings has recently been extended to cover all buildings regardless of height.

Mitigation

The Group has an effective horizon scanning process to identify regulatory change.

All significant regulatory initiatives are managed by structured programmes overseen by the Project Management team and sponsored at Executive level.

The Group has proactively sought external expert opinions to support interpretation of the requirements and validation of its response, where required.

The Group has initiated a study into external wall cladding and is reviewing its own and lent portfolio.

Direction : increased

The Group has historically responded effectively to all significant regulatory changes. However, the level and sophistication of emerging regulation continues to increase.

Conduct regulation

Regulatory changes focused on the conduct of business could force changes in the way the Group carries out business and impose substantial compliance costs.

Mitigation

The Group has a programme of regulatory horizon scanning linking into a formal regulatory change management programme. In addition, the focus on simple products and customer oriented culture means that current practice may not have to change significantly to meet new conduct regulations.

Direction: increased

The regulatory environment has tightened and this is likely to continue, exposing the Group to increased risk.

Emerging risks

The Group proactively scans for emerging risks which may have an impact on its ongoing operations and strategy. The Group considers its top emerging risks to be:

Integration risk

The risks resulting from the Group's ongoing integration activities, including systems, people and infrastructure.

Mitigation

The Board is maintaining oversight of the integration process through the Board Integration Committee. A dedicated Integration Management Office has been established to drive the integration process forward.

Independent second line and third line assessment, monitoring and reporting is being undertaken by the Risk function and Internal Audit function respectively.

Political and macroeconomic uncertainty

As the outcome of trade negotiations following Brexit remains unclear, there is an increased likelihood of a period of macroeconomic uncertainty. The Group's lending activity is solely focused in the United Kingdom and, as such, will be impacted by any risks emerging from changes in the macroeconomic environment.

Mitigation

The Group implemented robust monitoring processes and via various stress testing activity (i.e. ad hoc, risk appetite and ICAAP) understands how the Group performs over a variety of macroeconomic stress scenarios and has subsequently developed a suite of early warning indicators, which are closely monitored to identify changes in the economic environment. The Group produces and reviews monthly loan portfolio management information.

Climate change

As the worldwide focus on climate change intensifies, both the physical risks and the transitional risks associated with climate change continue to grow. Physical risks can relate to specific weather events, such as storms and flooding, or to longer-term shifts in the climate, such as rising sea levels. Transitional risks may arise from the adjustment towards a 'low-carbon' economy, such as tightening energy efficiency standards for domestic and commercial buildings.

Mitigation

The Group developed an approach to addressing the increasing climate risks within its Strategic Risk Management Framework. This includes scenarios analysis, development of key risk indicators and inclusion of climate risks within operational resilience activities. A cross-functional working group will drive the Group's climate change agenda with Board oversight ensuring climate change is considered in key business and strategic decision-making. To assess portfolio collateral sensitivities to climate change, the Group is engaging with a third party to assist with modelling physical risks (flood, subsidence and coastal erosion) and transitional risks (Government policy) against a series of scenarios relating to global temperature change.

Model risk

The risk of financial loss, adverse regulatory outcomes, reputational damage or customer detriment resulting from deficiencies in the development, application or ongoing operation of models and ratings systems.

Post the completion of the Combination with CCFS, the Group notes the increasing usage of models to conduct financial assessments whilst informing business decisions. The Group also notes changes in industry best practice with respect to managing model risk.

Mitigation

Both OSB and CCFS have well-defined model governance frameworks and processes in place, including Committees, frameworks, policies, model inventories and independent validation processes.

In light of this emerging risk the Group implemented a Group Models and Ratings Committee to ensure an appropriate level of oversight is provided in 2020 by the Board, in conjunction with the Models and Ratings Management Committee.

A key area of focus for 2020 will be further enhancing the Group's model risk governance arrangements including developing and implementing Group level frameworks and policies, whilst implementing the planned target operating model.

LIBOR reform

The LIBOR benchmark may cease to be set after the end of 2021 due to the low level of supporting unsecured loans in the wholesale interbank loan market. The Group has exposure to the LIBOR benchmark within some of its customer lending products and wholesale derivative hedging transactions. If the benchmark were to cease or become unreliable these loans and derivatives may reflect rates that do not accurately represent short-term funding costs, therefore having an adverse effect on returns.

Mitigation

The Group ALCO has set up a dedicated working group to focus on this risk and transition away from the LIBOR benchmark is underway. The priority is to remove the LIBOR component from all new loan products and new swap hedges. With regard to existing loans and derivative hedges it is planned that they are transitioned onto alternative benchmarks before LIBOR ceases.

Coronavirus

The outbreak of Coronavirus (COVID-19) has now been labelled a global pandemic by the World Health Organisation. If it continues to spread through contagion, it is likely to further intensify the disruptive impact on the global and UK economy. This would result in deteriorating market sentiments, falling investment and consumer spending and diminishing trade flows. Government actions, both fiscal and monetary, may prove to be slow to take effect and/or uncertain in their impact.

A spreading global pandemic could adversely impact the Group across a number of key financial and operational areas (as described in Pandemic risk factors).

Mitigation

The Group has taken a considered approach to minimising and managing the impact of a Coronavirus related global pandemic. The Group approach represents a comprehensive response strategy covering both severity and consequences of a global pandemic. The Group’s response strategy covers key aspects of an effective pandemic response approach, including prevention, continuity, impact assessment and stress testing. Supporting the Group’s response strategy are established underlying capabilities to facilitate operational and financial resilience testing and planning, active monitoring and reporting procedures, and active communications with all staff (UK and India) and supervisory authorities.

Treating customers fairly

The industry wide and firm specific practices in relation to arrears, collections and forbearance procedures resulting in poor customer outcomes and financial distress continue to be an important area of regulatory focus.

The practices within the regulated residential mortgage market, both first and second charge mortgages, have in particular been subject to active supervisory monitoring through market data analysis, complaints to firms, notifications from firms and multi-firm thematic reviews.

If the Group’s arrears, repossession, forbearance and vulnerable customer policies and procedures are assessed to be misaligned to the individual needs of the customers and regulatory expectations, the Group runs the risk of causing harm to its customers, particularly those experiencing financial hardship or vulnerable customers, with the potential for reputational damage, redress and other regulatory actions.

Mitigation

All Group entities operate under arrears, repossession, forbearance and vulnerable customer policies which are designed to comply with regulatory rules and expectations. These policies articulate the Group's commitment to ensuring that all customers, including those that are vulnerable or experiencing financial hardship, are treated fairly, consistently and in a way that considers their individual needs and circumstances.

The Group does not tolerate any systemic failure to deliver fair customer outcomes. On an isolated basis, incidents can result in detriment owing to human and/or operational failures. Where such incidents occur they are thoroughly investigated, and the appropriate remedial actions are taken to address any customer detriment and to prevent recurrence.

Viability statement

In accordance with Provision 31 of the 2018 UK Corporate Governance Code, the Group Board is required to assess the viability of the Group over a stated time horizon with a supporting statement in the Annual Report.

The viability statement is required to include an explanation of how the prospects of the Group have been assessed, the time horizon over which the assessment has been performed and why the assessment period is deemed appropriate. The viability statement needs to be supported by an assessment of the principal risks and uncertainties to which the Group is exposed and based on reasonable expectations to conclude that the Group will be able to continue to operate and meet its liabilities as they fall due over that period.

The Group uses a five year time frame in its business and financial planning and for internal stress test scenarios. The long term direction is informed by business and strategic plans which are reviewed on, at least, an annual basis and which include multi-year financial statements. The operating and financial plans consider, among other matters, the Board's risk appetite, macroeconomic outlook, market opportunity, the competitive landscape, and sensitivity of the financial plans to volumes, margin pressures and capital requirements.

While a five year time frame is used internally, levels of uncertainty increase as the planning horizon extends and the Group's operating and financial plans focus more closely on the next three years. The Board therefore considers a period of three years to be an appropriate period for the assessment to be made.

The Company is authorised by the PRA, and regulated by the FCA and the PRA, and undertakes regular analysis of its risk profile and assumptions. It has a robust set of policies, procedures and systems to undertake a comprehensive assessment of all the principal risks and uncertainties to which it is exposed on a current and forward-looking basis (as described in Principal risks and uncertainties).

The Group identifies, assesses, manages and monitors its risk profile based on the disciplines outlined within the Risk Management Framework, in particular through leveraging its risk appetite framework (as described in the Risk review). Potential changes in the aggregated risk profile are assessed across the business planning horizon by subjecting the operating and financial plans to severe but plausible macroeconomic and idiosyncratic stress scenarios.

The viability of the Group is assessed at both the Group and the underlying regulated Bank levels, through leveraging the risk management frameworks and stress testing capabilities of both regulated banks. Post Combination, the risk assessment and stress testing capabilities of OSB and CCFS will be progressively aligned, however, the strength of the capital and funding profiles of both Banks provides an appropriate level of assurance that the Group and its entities can withstand a severe but plausible stress scenario.

Stress testing is an integral risk management discipline, used to assess the financial and operational resilience of the Group. The Group developed bespoke stress testing capabilities to assess the impact of extreme but plausible scenarios in the context of its principal risks impacting the primary strategic, financial and regulatory objectives. Stress test scenarios are identified in the context of the Group's operating model, identified risks, business and economic outlook. The Group actively engages external experts to inform the process by which it develops business and economic stress scenarios. A broad range of stress scenarios are analysed, including the economic impact of differing outcomes for the UK leaving the European Union, regulatory changes relating to lending into the UK housing sector, governmental housing policy shifts and scenarios prescribed by the Bank of England. In addition COVID-19 pandemic scenarios have been introduced.

Stresses are applied to lending volumes, capital requirements, liquidity and funding mix, interest margins and credit and operational losses. Stress testing also supports key regulatory submissions such as the ICAAP, ILAAP and the Recovery Plan. ICAAP stress testing assesses capital resources and requirements over a five-year period.

The Group has identified a broad suite of credible management actions which can be implemented to manage and mitigate the impact of stress scenarios. These management actions are assessed under a range of scenarios varying in severity and duration. Management actions are evaluated based on speed of implementation, second order consequences and dependency on market conditions and counterparties. Management actions are used to inform capital, liquidity and recovery planning under stress conditions.
In addition, the Group identifies a range of catastrophic scenarios, which could result in the failure of its current business model. Business model failure scenarios (Reverse Stress Tests or 'RSTs') are primarily used to

inform the Board and Executives of the outer limits of the Group's risk profile. RSTs play an important role in helping the Board and Executives to assess the available recovery options to revive a failing business model. The RSTs exercise is based on analysing a range of scenarios, including an extreme macroeconomic downturn (1 in 200 severity), a cyber-attack leading to a loss of customer data which is used for fraudulent activities, extreme regulatory and taxation changes impacting Buy-to-Let lending volumes and a liquidity crisis caused by severe market conditions combined with idiosyncratic consequences.

The Group has established a comprehensive operational resilience framework to actively assess the vulnerabilities and recoverability of its critical services. The Group also conducts regular business continuity and disaster recovery exercises.

The ongoing monitoring of all principal risks and uncertainties that could impact the operating and financial plan, together with the use of stress testing to ensure that the Group could survive a severe but plausible stress, enables the Board to reasonably assess the viability of the business model over a three-year period.

The UK's departure from the European Union without defined and agreed terms could have a significant impact on the economic and business outlook for the Group. To address this uncertainty, the Group has developed a range of Brexit-related scenarios of varying severities and probabilities to inform its IFRS 9 and capital planning processes.

The Board has also considered the potential implications of the COVID-19 pandemic in its assessment of the financial and operational viability of the Group and has a reasonable belief that the Group retains adequate levels of financial resources (capital and liquidity) and operational contingency. In assessing the viability of the Group, the Board has considered the potential impact and risks facing the Group with respect to the virus as set out in the Risk Review and the Principal risks and uncertainties.

The Group has recently undertaken a comparative review of the macroeconomic stress scenarios used to assess the Group's ongoing viability relative to the COVID-19 pandemic scenarios, as obtained from the Group's third-party economic advisors. Given the evolving nature of the COVID-19 pandemic crisis, the Group will continue to refine and update the scenarios in consultation with its economic advisors.

This exercise was undertaken to ensure that the shape and severity of the scenarios used to assess the Group's financial viability are sufficiently severe to accommodate for the latest assessment of the potential economic impact of the COVID-19 pandemic.

In particular, the Group has assessed the pandemic scenarios relative to the Bank of England 'Rates-down scenario', which is used to support the Group's viability assessment. The Rates-down Scenario is deemed to be more severe relative to the current COVID-19 pandemic scenarios across all the key macro-economic variables. This gives the Board reasonable comfort that the Group's viability positions have been assessed to a severity level which accommodates for the current assessment of the economic impact of the COVID-19 pandemic.

The COVID-19 scenarios take into consideration the following drivers and implications relevant to a pandemic crisis:

- Government guidance and policy response to the crisis
- Lost output and productivity as a consequence of travel restrictions, social distancing, self-isolation and sickness
- Impact on employment levels, particularly for self-employed and flexible working segments of the labour force
- Implication for consumer spending and business investment
- Impact on other relevant economic variables, including residential and commercial property prices, BoE base rate, national output and lending volumes.

The COVID-19 scenarios are designed to be extreme, but plausible, based on the assumption that the impact on the UK economy is immediate and quickly feeds through into rising unemployment rates, declining residential and commercial property prices and a rapid slowdown in lending volumes. The Treasury and Bank of England take proactive fiscal and monetary stimulatory actions, but given the invasive nature of the pandemic, the UK economy does not show signs of recovery until 2022.

The potential impact of a COVID-19 pandemic on the economy and the Group's operations is subject to continuous monitoring through the Group's management committees, operational resilience and business continuity planning working group, with appropriate escalation to the Board and supervisory authorities.

The Group has progressively continued to enhance its approach to assessing the viability of its strategy and business operating model, in particular the Group has enhanced its capabilities by:

- Enhancing stress testing capabilities through more focused assessment of more vulnerable cohorts of its lending portfolio supported by increased granularity of monitoring and risk reporting
- Increasing the diversification of its funding profile, supported by enhanced assessment of funding and liquidity risk profiles
- Continued improvements to the risk and controls self-assessment procedures across key areas of operational risk, including operations and technology
- Enhancing the assessment of operational resilience through the ongoing review of priority business functions, including supporting infrastructure and dependencies through a simulated business continuity exercise
- Undertaking a war-gaming exercise involving Board and senior management to review, practice and improve disaster recovery readiness.

Based on the current financial forecasts, risk profile characteristics and stress test analysis, the Group's capital, funding and operational capabilities support the Board's assessment that they have a reasonable expectation that the Group will remain viable over the three year horizon.

Preliminary results
for the year ended 31 December 2019

Statement of Directors' responsibilities

The Directors are responsible for preparing the Annual Report and the Group and parent Company financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare Group and parent Company financial statements for each financial year. Under that law they are required to prepare the Group financial statements in accordance with International Financial Reporting Standards as adopted by the European Union ('IFRSs' as adopted by the EU) and applicable law and have elected to prepare the parent Company financial statements on the same basis.

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and parent Company and of their profit or loss for that period. In preparing each of the Group and parent Company financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable, relevant and reliable;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU;
- assess the Group and parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Group or the parent Company or to cease operations, or have no realistic alternative but to do so.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent Company's transactions and disclose with reasonable accuracy at any time, the financial position of the parent Company and enable them to ensure that its financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the Directors are also responsible for preparing a Strategic Report, Directors' Report, Directors' Remuneration Report and Corporate Governance Statement that complies with that law and those regulations.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Responsibility statement of the directors in respect of the annual financial report

- the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole; and
- the Strategic Report/Directors' Report includes a fair review of the development and performance of the business and the position of the issuer and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

Each of the persons who is a Director at the date of approval of this report confirms that:

- so far as the Director is aware, there is no relevant audit information of which the Company's auditor is unaware; and

- they have taken all the steps they ought to have taken as a Director in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Approved by the Board and signed on its behalf by:

Jason Elphick

Group General Counsel and Company Secretary

19 March 2020

Preliminary results
for the year ended 31 December 2019

Statement of Comprehensive Income

	Note	Group 2019 £m	Restated Group[1] 2018 £m
Interest receivable and similar income	5	**539.9**	407.9
Interest payable and similar charges	6	**(195.2)**	(121.6)
Net interest income		**344.7**	286.3
Fair value losses on financial instruments	7	**(3.3)**	(5.1)
Loss on sale of financial instruments	8	**(0.1)**	(0.1)
Fees and commissions receivable		**3.4**	1.7
Fees and commissions payable		**(1.2)**	(1.1)
External servicing fees		**(0.1)**	(0.6)
Total income		**343.4**	281.1
Administrative expenses	9	**(108.7)**	(79.6)
Provisions	38	**-**	(0.8)
Impairment losses	24	**(15.6)**	(8.1)
Gain on Combination with CCFS	4	**10.8**	-
Integration costs	12	**(5.2)**	-
Exceptional items	13	**(15.6)**	(9.8)
Profit before taxation		**209.1**	182.8
Taxation	14	**(50.3)**	(43.2)
Profit for the year		**158.8**	139.6
Other comprehensive expense			
Items which may be reclassified to profit or loss:			
Fair value changes on financial instruments measured as FVOCI:			
Arising in the year		**0.8**	(0.2)
Revaluation of foreign operations		**(0.6)**	(0.2)
Tax on items in other comprehensive expense		**(0.2)**	-
Other comprehensive expense		**-**	(0.4)
Total comprehensive income for the year		**158.8**	139.2
Dividend, pence per share	16	**16.1**	14.6
Earnings per share, pence per share			
Basic	15	**52.6**	55.5
Diluted	15	**52.2**	55.0

[1] The Group has restated the prior year comparatives to recognise interest expense and taxation on the £22.0m Perpetual Subordinated Bonds previously classified as equity (see note 1).

The above results are derived wholly from continuing operations.

The notes form part of these accounts.

The financial statements were approved by the Board of Directors on 19 March 2020.

Preliminary results
for the year ended 31 December 2019

Statement of Financial Position

	Note	Group 2019 £m	Restated Group[1] 2018 £m	Bank 2019 £m	Restated Bank[1] 2018 £m
Assets					
Cash in hand		**0.4**	0.4	**0.4**	0.4
Loans and advances to credit institutions	18	**2,204.6**	1,347.3	**1,196.0**	1,340.0
Investment securities	19	**635.3**	58.9	**149.8**	58.9
Loans and advances to customers	20	**18,446.8**	8,983.3	**8,394.2**	7,208.2
Fair value adjustments on hedged assets	26	**16.8**	19.8	**52.8**	19.8
Derivative assets	25	**21.1**	11.7	**8.7**	11.7
Other assets	27	**14.3**	5.7	**7.5**	5.5
Deferred taxation asset	28	**4.8**	3.5	**2.2**	1.6
Property, plant and equipment	29	**41.6**	21.8	**21.2**	15.6
Intangible assets	30	**31.4**	7.8	**7.7**	7.1
Investments in subsidiaries and intercompany loans	31	**-**	-	**3,629.4**	1,900.7
Total assets		**21,417.1**	10,460.2	**13,469.9**	10,569.5
Liabilities					
Amounts owed to credit institutions	32	**3,068.8**	1,584.0	**1,671.1**	1,584.0
Amounts owed to retail depositors	33	**16,255.0**	8,071.9	**9,435.7**	8,071.9
Fair value adjustments on hedged liabilities	26	**(5.1)**	-	**(0.1)**	-
Amounts owed to other customers	34	**29.7**	32.9	**8.9**	32.9
Debt securities in issue	35	**296.3**	-	**-**	-
Derivative liabilities	25	**92.8**	24.9	**54.3**	24.9
Lease liabilities	36	**13.3**	-	**4.3**	-
Other liabilities	37	**34.9**	18.7	**17.1**	14.7
Provisions	38	**1.6**	1.8	**1.6**	1.8
Current taxation liability		**41.5**	19.2	**16.4**	15.0
Deferred taxation liability	28	**63.1**	-	**-**	-
Deemed loan liabilities	21	**-**	-	**240.2**	-
Intercompany loans	31	**-**	-	**643.9**	262.4
Subordinated liabilities	39	**10.6**	10.8	**10.6**	10.8
Perpetual subordinated bonds	40	**37.6**	37.6	**37.6**	37.6
		19,940.1	9,801.8	**12,141.6**	10,056.0
Equity					
Share capital	42	**4.5**	2.4	**4.5**	2.4
Share premium	42	**864.2**	158.8	**864.2**	158.8
Retained earnings		**553.2**	439.3	**407.0**	296.7
Other reserves	43	**55.1**	57.9	**52.6**	55.6
		1,477.0	658.4	**1,328.3**	513.5
Total equity and liabilities		**21,417.1**	10,460.2	**13,469.9**	10,569.5

[1] The Group has restated the prior year comparatives to classify the £22.0m Perpetual Subordinated Bonds previously classified as equity as a liability (see note 1).

The profit after tax for the year ended 31 December 2019 of OneSavings Bank plc as a Company was £155.2m (2018: £96.2m). As permitted by section 408 of the Companies Act 2006, no separate Statement of Comprehensive Income is presented in respect of the Company.

The notes form part of these accounts. The financial statements were approved by the Board of Directors on 19 March 2020.

Andy Golding	**April Talintyre**
Chief Executive Officer	Chief Financial Officer
Company number: 07312896	

Preliminary results
for the year ended 31 December 2019

Statement of Changes in Equity

Group	Share capital £m	Share premium £m	Capital contribution £m	Transfer reserve £m	Own shares[1] £m	Foreign exchange reserve £m	FVOCI reserve £m	Share-based payment reserve £m	Retained earnings £m	Equity bonds[2] £m	Total £m
At 31 December 2017	2.4	158.4	6.4	(12.8)	-	(0.2)	0.1	5.0	334.6	82.0	575.9
PSB restatement	-	-	-	-	-	-	-	-	(0.3)	(22.0)	(22.3)
Restated at 31 December 2017	2.4	158.4	6.4	(12.8)	-	(0.2)	0.1	5.0	334.3	60.0	553.6
Profit for the year	-	-	-	-	-	-	-	-	139.6	-	139.6
Coupon paid on equity bonds	-	-	-	-	-	-	-	-	(5.5)	-	(5.5)
Dividends paid	-	-	-	-	-	-	-	-	(33.2)	-	(33.2)
Other comprehensive income	-	-	-	-	-	(0.2)	(0.2)	-	-	-	(0.4)
Share-based payments	-	0.4	0.1	-	-	-	-	(0.3)	2.6	-	2.8
Tax recognised in equity	-	-	-	-	-	-	-	-	1.5	-	1.5
At 31 December 2018	2.4	158.8	6.5	(12.8)	-	(0.4)	(0.1)	4.7	439.3	60.0	658.4
Profit for the year	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**158.8**	**-**	**158.8**
Shares issued as consideration for CCFS Combination[3]	**2.0**	**705.1**	**-**	**-**	**-**	**-**	**-**	**-**	**(6.4)**	**-**	**700.7**
Own shares	**-**	**-**	**-**	**-**	**(3.7)**	**-**	**-**	**-**	**-**	**-**	**(3.7)**
Coupon paid on equity bonds	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(5.5)**	**-**	**(5.5)**
Dividends paid	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(37.3)**	**-**	**(37.3)**
Other comprehensive income	**-**	**-**	**-**	**-**	**-**	**(0.6)**	**0.8**	**-**	**-**	**-**	**0.2**
Share-based payments	**0.1**	**0.3**	**-**	**-**	**-**	**-**	**-**	**(0.2)**	**4.3**	**-**	**4.5**
Tax recognised in equity	**-**	**-**	**-**	**-**	**-**	**-**	**(0.2)**	**1.1**	**-**	**-**	**0.9**
At 31 December 2019	**4.5**	**864.2**	**6.5**	**(12.8)**	**(3.7)**	**(1.0)**	**0.5**	**5.6**	**553.2**	**60.0**	**1,477.0**

Statement of Changes in Equity

Bank	Share capital £m	Share premium £m	Capital contribution £m	Transfer reserve £m	Own shares[1] £m	FVOCI reserve £m	Share-based payment reserve £m	Retained earnings £m	Equity bonds[2] £m	Total £m
At 31 December 2017	2.4	158.4	6.1	(15.2)		0.1	4.9	236.1	82.0	474.8
PSB restatement	-	-	-	-	-	-	-	(0.3)	(22.0)	(22.3)
Restated at 31 December 2017	2.4	158.4	6.1	(15.2)	-	0.1	4.9	235.8	60.0	452.5
Profit for the year	-	-	-	-	-	-	-	95.5	-	95.5
Coupon paid on equity bonds	-	-	-	-	-	-	-	(5.5)	-	(5.5)
Dividends paid	-	-	-	-	-	-	-	(33.2)	-	(33.2)
Other comprehensive income	-	-	-	-	-	(0.2)	-	-	-	(0.2)
Share-based payments	-	0.4	0.1	-	-	-	(0.2)	2.6	-	2.9
Tax recognised in equity	-	-	-	-	-	-	-	1.5	-	1.5
At 31 December 2018	2.4	158.8	6.2	(15.2)	-	(0.1)	4.7	296.7	60.0	513.5
Profit for the year	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**155.2**	**-**	**155.2**
Shares issued as consideration for CCFS Combination[3]	**2.0**	**705.1**	**-**	**-**	**-**	**-**	**-**	**(6.4)**	**-**	**700.7**
Own shares[1]	**-**	**-**	**-**	**-**	**(3.7)**	**-**	**-**	**-**	**-**	**(3.7)**
Coupon paid on equity bonds	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(5.5)**	**-**	**(5.5)**
Dividends paid	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(37.3)**	**-**	**(37.3)**
Other comprehensive income	**-**	**-**	**-**	**-**	**-**	**0.1**	**-**	**-**	**-**	**0.1**
Share-based payments	**0.1**	**0.3**	**-**	**-**	**-**	**-**	**(0.2)**	**4.3**	**-**	**4.5**
Tax recognised in equity	**-**	**-**	**-**	**-**	**-**	**-**	**0.8**	**-**	**-**	**0.8**
At 31 December 2019	**4.5**	**864.2**	**6.2**	**(15.2)**	**(3.7)**	**-**	**5.3**	**407.0**	**60.0**	**1,328.3**

[1] OSB has adopted look-through accounting and recognised the CCFS Employee Benefit Trust within the Bank.
[2] Equity bonds comprise £60.0m of Additional Tier 1 securities. The Group has restated the prior year comparatives to classify the £22.0m Perpetual Subordinated Bonds previously classified as equity as a liability (see note 1).
[3] Shares issued as consideration for CCFS Combination includes £6.4m of expenses recognised directly in equity relating to the issuance of new shares.

The reserves are further disclosed in note 43

Statement of Cash Flows

	Note	**Group 2019 £m**	Restated Group[1] 2018 £m	**Bank 2019 £m**	Restated Bank[1] 2018 £m
Cash flows from operating activities					
Profit before taxation		**209.1**	182.8	**189.4**	128.6
Expenses recognised in equity		**(6.4)**	-	**(6.4)**	-
Adjustments for non-cash items[2]	50	**26.2**	36.7	**33.2**	35.1
Changes in operating assets and liabilities[2]	50	**(711.8)**	(265.8)	**(577.4)**	(219.0)
Cash used in operating activities		**(482.9)**	(46.3)	**(361.2)**	(55.3)
Provisions		**(0.2)**	(0.4)	**(0.2)**	(0.4)
Net tax paid		**(53.0)**	(39.1)	**(32.4)**	(30.3)
Net cash used in operating activities		**(536.1)**	(85.8)	**(393.8)**	(86.0)
Cash flows from investing activities					
Unencumbered cash acquired on CCFS Combination		**870.4**	-	**-**	-
Maturity and sales of investment securities	19	**357.7**	39.9	**349.0**	39.9
Purchases of investment securities	19	**(389.9)**	(79.9)	**(389.9)**	(79.9)
Sales of financial instruments	8	**-**	0.4	**-**	0.4
Purchases of equipment and intangible assets	30,29	**(11.6)**	(6.0)	**(6.7)**	(5.2)
Cash generated from/(used in) investing activities		**826.6**	(45.6)	**(47.6)**	(44.8)
Cash flows from financing activities					
Financing received[2]	41	**872.7**	330.7	**601.8**	330.7
Financing repaid[2]	41	**(338.5)**	(0.1)	**(275.0)**	(0.1)
Interest paid on bonds and subordinated debt		**(2.6)**	(2.6)	**(2.5)**	(2.6)
Coupon paid on equity bonds		**(5.5)**	(5.5)	**(5.5)**	(5.5)
Dividends paid	16	**(37.3)**	(33.2)	**(37.3)**	(33.2)
Proceeds from issuance of shares under employee SAYE schemes	42	**0.4**	0.4	**0.4**	0.4
Cash payments on lease liabilities	36	**(1.1)**	-	**(0.8)**	-
Cash generated from financing activities		**488.1**	289.7	**281.1**	289.7
Net increase/(decrease) in cash and cash equivalents		**778.6**	158.3	**(160.3)**	158.9
Cash and cash equivalents at the beginning of the year	17	**1,324.2**	1,165.9	**1,316.9**	1,158.0
Cash and cash equivalents at the end of the year	17	**2,102.8**	1,324.2	**1,156.6**	1,316.9
Movement in cash and cash equivalents		**778.6**	158.3	**(160.3)**	158.9

[1] The Group has restated the prior year comparatives for the interest expense on the £22.0m Perpetual Subordinated Bonds previously classified as equity (see note 1).
[2] The Group has reclassified the prior year comparatives to include all components of amounts owed to credit institutions as financing activities. Previously the Group only classified the Bank or England Term Funding Scheme and Indexed Long-Term Repo scheme as financing activities.

Notes to the financial statements

1. Restatement of prior year

During the year the Group and Bank identified that a clause in the terms of the Group's £22.0m Perpetual Subordinated Bonds ('PSB') relating to the Board's discretion over the payment of coupons was conditional and hence the PSBs were incorrectly classified as equity. The Group and Bank have restated the 2018 comparatives accordingly to classify the £22.0m PSBs as a financial liability. The impact of adjusting the prior year reported balances is shown in the table below:

1 January 2018	Group £m	Adjustment £m	Restated Group £m	Bank £m	Adjustment £m	Restated Bank £m
Statement of Financial Position						
Liabilities:						
Perpetual subordinated bonds	15.3	22.3	37.6	15.3	22.3	37.6
Equity:						
Retained earnings	334.6	(0.3)	334.3	236.1	(0.3)	235.8
Other reserves	82.0	(22.0)	60.0	82.0	(22.0)	60.0
31 December 2018						
Statement of Financial Position						
Liabilities:						
Perpetual subordinated bonds	15.3	22.3	37.6	15.3	22.3	37.6
Equity:						
Retained earnings	439.6	(0.3)	439.3	297.0	(0.3)	296.7
Other reserves	79.9	(22.0)	57.9	77.6	(22.0)	55.6
Statement of Changes in Equity						
Retained earnings	439.6	(0.3)	439.3	297.0	(0.3)	296.7
Equity bonds	82.0	(22.0)	60.0	82.0	(22.0)	60.0
Statement of cash flows						
Profit before taxation	183.8	(1.0)	182.8	129.6	(1.0)	128.6
Adjustments for non-cash items	32.7	1.0	33.7	31.1	1.0	32.1
Interest paid on bonds and subordinated debt	(1.6)	(1.0)	(2.6)	(1.6)	(1.0)	(2.6)
Coupon paid on equity bonds	(6.5)	1.0	(5.5)	(6.5)	1.0	(5.5)
Statement of Comprehensive Income						
Interest expense	(120.6)	(1.0)	(121.6)			
Profit before taxation	183.8	(1.0)	182.8			
Taxation	(43.5)	0.3	(43.2)			
Profit for the year	140.3	(0.7)	139.6			

2. Accounting policies

The principal accounting policies applied in the preparation of the financial statements for the Group and the Bank are set out below.

a) Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the European Union ('EU') and interpretations issued by the International Financial Reporting Interpretations Committee ('IFRIC').
The financial statements have been prepared on a historical cost basis, as modified by the revaluation of investment securities held at fair value through other comprehensive income ('FVOCI') and derivative contracts and other financial assets held at fair value through profit or loss ('FVTPL') (see note o(vi)).

As permitted by section 408 of the Companies Act 2006, no Statement of Comprehensive Income is presented for the Bank.

b) Going concern

The Board undertakes regular rigorous assessments of whether the Group is a going concern in the light of current economic conditions and all available information about future risks and uncertainties.

Projections for the Group have been prepared, covering its future performance, capital and liquidity for a period in excess of 12 months from the date of approval of these financial statements including stress scenarios. The stress scenarios include Brexit scenarios, the impact of Bank of England ('BoE') Term Funding Scheme ('TFS') repayments and the introduction of a COVID-19 pandemic scenario. These pandemic scenarios may continue to evolve, but at the present time they are less severe across the key macroeconomic variables than the most severe stress tests run by the Group, including the BoE's rates down scenarios. The Group's projections and stress scenarios show that the Group has sufficient capital and liquidity to continue to meet its regulatory requirements as set by the Prudential Regulatory Authority ('PRA').

The Board has therefore concluded that the Group has sufficient resources to continue in operational existence for a period in excess of 12 months and as a result it is appropriate to prepare these financial statements on a going concern basis.

c) Basis of consolidation

The Group accounts include the results of the Bank and its subsidiary undertakings. Subsidiaries are fully consolidated from the date on which control is transferred to the Group and are deconsolidated from the date that control ceases. Upon consolidation, intercompany transactions, balances and unrealised gains on transactions are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Subsidiaries are those entities, including structured entities, over which the Group has control. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the investee. The Group has power over an entity when it has existing rights that give it the current ability to direct the activities that most significantly affect the entity's returns. Power may be determined on the basis of voting rights or, in the case of structured entities, other contractual arrangements.

The Group manages the administration of its securitised assets and is exposed to the risks and rewards of the underlying mortgage assets through its continued subordinated investment in the securitisation structures. Where the Group does not retain a direct ownership interest in a securitisation entity, but the Directors have determined that the Group controls those entities, they are treated as subsidiaries and are consolidated. Control is determined to exist if the Group has the power to direct the activities of each entity (for example, managing the performance of the underlying mortgage assets and raising debt on those mortgage assets which is used to fund the Group) and in addition to this control is exposed to a variable return (for example, retaining the residual risk on the mortgage assets). Securitisation structures that do not meet these criteria are not treated as subsidiaries and the mortgage assets are derecognised when they are sold. The Bank applies the net approach in accounting for securitisation structures where it retains an interest in the securitisation, netting the loan notes held against the deemed loan balance.

The Group's Employee Benefit Trusts ('EBT') are controlled and recognised by the Bank using the look-through approach.

The Group is not deemed to control an entity when it exercises power over an entity in an agency capacity. In determining whether the Group is acting as an agent, the Directors consider the overall relationship between the Group, the investee and other parties to the arrangement with respect to the following factors: (i) the scope of the Group's decision-making power; (ii) the rights held by other parties; (iii) the remuneration to which the Group is entitled; and (iv) the Group's exposure to variability of returns.The determination of control is based on the current facts and circumstances and is continuously assessed. In some circumstances, different factors and conditions may indicate that different parties control an entity depending on whether those factors and conditions are assessed in isolation or in totality. Significant judgement is applied in assessing the relevant factors and conditions in totality when determining whether the Group controls an entity. Specifically, judgement is applied in assessing whether the Group has substantive decision-making rights over the relevant activities and whether it is exercising power as a principal or an agent.

d) Business combinations

The Group uses the acquisition method to account for business combinations. The Group recognises the identifiable assets acquired and liabilities assumed at their acquisition date fair values. The Group recognises deferred tax on the difference between fair value and the acquisition date carrying value in accordance with International Accounting Standard ('IAS') 12. The consideration transferred for each business combination is measured at fair value, and comprises the sum of equity interest issued by the Group. Acquisition-related costs are recognised as exceptional items within profit or loss.

The Group recognises goodwill on business combinations when the fair value of consideration transferred exceeds the fair value of identifiable assets acquired and liabilities assumed. The Group recognises a gain within profit or loss when the fair value of consideration transferred is less than the fair value of identifiable assets acquired and liabilities assumed.

The Group reports provisional amounts for business combinations when the accounting is incomplete at the reporting date following the combination. During the measurement period, the Group adjusts provisional amounts recognised at the acquisition date to reflect new information obtained that existed as of the acquisition date and would have affected the measurement of the amounts recognised as at that date. The Group also recognises additional assets or liabilities during the reporting period if new information is obtained that existed as of the acquisition date and would have resulted in the recognition of those assets or liabilities as at that date. The Group adjusts the gain taken to profit or loss where there is negative goodwill, or adjusts goodwill recognised on the balance sheet, when provisional amounts are finalised or additional assets and liabilities are recognised during the measurement period. The measurement period ends as soon as the Group receives the information it was seeking or learns that more information is unobtainable. The measurement period shall not exceed one year from the acquisition date.

e) Foreign currency translation

The consolidated financial statements are presented in Pounds Sterling which is the presentation currency of the Group. The financial statements of each of the Bank's subsidiaries are measured using the currency of the primary economic environment in which the subsidiary operates (the 'functional currency'). Foreign currency transactions are translated into the functional currencies using the exchange rates prevailing at the date of the transactions. Monetary items denominated in foreign currencies are retranslated at the rate prevailing at the period end.

Foreign exchange ('FX') gains and losses resulting from the retranslation and settlement of these items are recognised in profit or loss. Non-monetary items measured at cost in the foreign currency are translated using the spot FX rate at the date of the transaction.

The assets and liabilities of foreign operations with functional currencies other than Pounds Sterling are translated into the presentation currency at the exchange rate on the reporting date. The income and expenses of foreign operations are translated at the rates on the dates of transactions. Exchange differences on foreign operations are recognised in other comprehensive income and accumulated in the foreign exchange reserve within equity.

f) Segmental reporting

IFRS 8 requires operating segments to be identified on the basis of internal reports and components of the Group which are regularly reviewed by the chief operating decision maker to allocate resources to segments and to assess their performance. For this purpose, the chief operating decision maker of the Group is the Board of Directors.

The Group lends within the UK and the Channel Islands.

Following the combination with Charter Court Financial Services Group plc ('CCFS') ('the Combination'), the Group segments its lending business and operates under two segments:

- OneSavings Bank plc ('OSB')
- CCFS

In 2018, the Group operated under two segments: Buy-to-Let/SME ('BTL/SME') and Residential mortgages.

The Group has disclosed the risk management tables in note 45 at a sub-segment level to provide granular level analysis of the Group's core lending business.

g) Interest income and expense

Interest income and interest expense for all interest-bearing financial instruments measured at amortised cost are recognised in profit or loss using the effective interest rate ('EIR') method. The EIR is the rate which discounts the expected future cash flows, over the expected life of the financial instrument, to the net carrying value of the financial asset or liability.

When calculating the EIR, the Group estimates cash flows considering all contractual terms of the instrument and behavioural aspects (for example, prepayment options) but not considering future credit losses. The calculation of the EIR includes transaction costs and fees paid or received that are an integral part of the interest rate, together with the discounts or premiums arising on the acquisition of loan portfolios. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial instrument.

The Group monitors the actual cash flows for each acquired book and where they diverge significantly from expectation, the future cash flows are reset. In assessing whether to adjust future cash flows on an acquired portfolio, the Group considers the cash variance on an absolute and percentage basis. The Group also considers the total variance across all acquired portfolios. Where cash flows for an acquired portfolio are reset, they are discounted at the EIR to derive a new carrying value, with changes taken to profit or loss as interest income.

The EIR is adjusted where there is a change to the reference interest rate (LIBOR or base rate) affecting portfolios with a variable interest rate which will impact future cash flows. The revised EIR is the rate which exactly discounts the revised cash flows to the net carrying value of the loan portfolio.

Interest income on investment securities is included in interest receivable and similar income. Interest on derivatives is included in interest receivable and similar income or interest expense and similar charges following the underlying instrument it is hedging.

Coupons paid on Additional Tier 1 securities ('AT1 securities') are recognised directly in equity in the period in which it is paid.

h) Fees and commissions

Fees and commissions which are an integral part of the EIR of a financial instrument are recognised as an adjustment to the EIR and recorded in interest income. The Group includes early redemption charges within the EIR.

Fees received on mortgage administration services and mortgage origination activities are accounted for in accordance with IFRS 15 Revenue from Contracts with Customers. Income from the rendering of these services and mortgage origination activities is recognised when the services are delivered and the benefits are transferred to clients and customers.

Other fees and commissions are recognised on the accruals basis as services are provided or on the performance of a significant act, net of VAT and similar taxes.

i) Taxation

Income tax comprises current and deferred tax. It is recognised in profit or loss, other comprehensive income or directly in equity, consistently with the recognition of items it relates to. In accordance with IAS 12, from 1 January 2019 the Group recognises tax on the AT1 securities directly in profit or loss (2018: directly in equity).

Current tax is the expected tax charge or credit on the taxable income or loss in the period and any adjustments in respect of previous years.

Deferred tax is the tax expected to be payable or recoverable in respect of temporary differences between the carrying amounts of assets or liabilities for accounting purposes and carrying amounts for tax purposes.

Deferred tax assets are recognised only to the extent that it is probable that future taxable profits will be available to utilise the asset. The recognition of deferred tax is mainly dependent on the projections of future taxable profits and future reversals of temporary differences. The current Board projections of future taxable income assume that the Group will utilise its deferred tax asset within the foreseeable future.

The Bank and the OSB UK subsidiaries are in a group payment arrangement for corporation tax and show a net corporation tax liability and deferred tax asset accordingly. The Group's CCFS subsidiaries are not part of the group payment arrangement at the reporting date and have not been netted.

j) Dividends

Dividends are recognised in equity in the period in which they are paid or, if earlier, approved by shareholders.

k) Cash and cash equivalents

For the purposes of the Statement of Cash Flows, cash and cash equivalents comprise cash, non-restricted balances with central banks and highly liquid financial assets with original maturities of less than three months subject to an insignificant risk of changes in their fair value.

l) Intangible assets

Purchased software and costs directly associated with the development of computer software are capitalised as intangible assets where the software is a unique and identifiable asset controlled by the Group and will generate future economic benefits. Costs to establish technological feasibility or to maintain existing levels of performance are recognised as an expense. The Group only recognises internally-generated intangible assets if all of the following conditions are met:

- an asset is being created that can be identified after establishing the technical and commercial feasibility of the resulting product;
- it is probable that the asset created will generate future economic benefits; and
- the development cost of the asset can be measured reliably.

Subsequent expenditure on an internally generated intangible asset, after its purchase or completion, is recognised as an expense in the period in which it is incurred. Where no internally generated intangible asset can be recognised, development expenditure is recognised as an expense in the period in which it is incurred.

Upon the Combination, the Group performed a purchase price allocation process to recognise separate identifiable intangible assets acquired. The Group has recognised intangible assets for brand name, broker relationships, technology and banking licence.

Intangible assets are reviewed for impairment annually, and if they are considered to be impaired, are written down immediately to their recoverable amounts.

Intangible assets are amortised in profit or loss over their estimated useful lives as follows:

Software and internally generated assets	3 – 5 years straight line
Development costs, brand and technology	4 years straight line
Broker relationships	3 year profile
Bank licence	3 years straight line

The Group reviews the amortisation period on an annual basis. If the expected useful life of assets is different from previous assessments, the amortisation period is changed accordingly.

m) Property, plant and equipment

Property, plant and equipment comprise freehold land and buildings, major alterations to office premises, computer equipment and fixtures measured at cost less accumulated depreciation. These assets are reviewed for impairment annually, and if they are considered to be impaired, are written down immediately to their recoverable amounts.

Items of property, plant and equipment are depreciated on a straight-line basis over their estimated useful economic lives as follows:

Buildings	50 years
Leasehold improvements	5 - 10 years
Equipment and fixtures	3 - 5 years

Land, deemed to be 25% of purchase price of buildings, is not depreciated.

The cost of repairs and renewals is charged to profit or loss in the period in which the expenditure is incurred.

n) Investment in subsidiaries

In the Bank's financial statements, investments in subsidiary undertakings are stated at cost less provision for any impairment. A full list of the Bank's subsidiaries consolidated into the Group's financial statements can be found in note 31.

The Bank performs an annual impairment assessment of its investment in subsidiary undertakings, assessing the cost of investment against the subsidiaries' net asset values at the reporting date for indication of impairment. Where there is indication of impairment, the Bank estimates the subsidiaries value in use by estimating future profitability and the impact on the net assets of the subsidiary. The Bank recognises an impairment directly in profit or loss when the value in use is less than the cost of investment. Impairments are subsequently reversed if future annual impairment assessments show the value in use of the subsidiary has increased.

o) Financial instruments

i. Classification

The Group classifies financial instruments based on the business model and the contractual cash flow characteristics of the financial instruments. Under IFRS 9, the Group classifies financial assets into one of three measurement categories:

- **Amortised cost** – assets held in a business model to hold financial assets in order to collect contractual cash flows, where the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest ('SPPI') on the principal amount outstanding.
- **Fair value through other comprehensive income ('FVOCI')** – assets held in a business model which collects contractual cash flows and sells financial assets where the contractual terms of the financial assets give rise on specified dates to cash flows that are SPPI on the principal amount outstanding.
- **Fair value through profit or loss ('FVTPL')** – assets not measured at amortised cost or FVOCI. The Group measures derivatives and an acquired mortgage portfolio under this category.

The Group classifies non-derivative financial liabilities as measured at amortised cost.

The Group has no financial assets nor liabilities classified as held for trading or held to maturity.

The Group reassesses its business models each reporting period.

The Group classifies certain financial instruments as equity where they meet the following conditions:

- The financial instrument includes no contractual obligation to deliver cash or another financial asset on potentially unfavourable conditions.
- The financial instrument is a non-derivative that includes no contractual obligation for the issuer to deliver a variable number of its own equity instruments; or
- The financial instrument is a derivative that will be settled only by the issuer exchanging a fixed amount of cash or another financial asset for a fixed number of its own equity instruments.

Equity financial instruments comprise own shares and AT1 securities. Accordingly, the coupon paid on the AT1 securities is recognised directly in retained earnings when paid.

ii. Recognition

The Group initially recognises loans and advances, deposits, debt securities issued and subordinated liabilities on the date on which they are originated or acquired. All other financial instruments are accounted for on the trade date which is when the Group becomes a party to the contractual provisions of the instrument.

For financial instruments classified as amortised cost, the Group initially recognises financial assets and financial liabilities at fair value plus transaction income or costs that are directly attributable to its origination, acquisition or issue. These financial instruments are subsequently measured at amortised cost using the effective interest.

Transaction costs relating to the acquisition or issue of a financial instrument at FVOCI and FVTPL are recognised in the profit or loss as incurred.

iii. Derecognition

The Group derecognises financial assets when the contractual rights to the cash flows expire or the Group transfers substantially all risks and rewards of ownership of the financial asset. In assessing the broker-led Choices programme the principles of IFRS 9 and relevant guidance in IAS 8 in respect of debt issuance, results in the original mortgage asset being derecognised with a new financial asset recognised.

The forbearance measures offered by the Group are considered a modification event as the contractual cash flows are renegotiated or otherwise modified. The Group considers the renegotiated or modified cash flows are not wholly different from the contractual cash flows, and does not consider that forbearance measures give rise to a derecognition event.

Financial liabilities are derecognised only when the obligation is discharged, cancelled or has expired.

iv. Offsetting

Financial assets and financial liabilities are offset and the net amount presented in the Statement of Financial Position when, and only when, the Group currently has a legally enforceable right to offset the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously in accordance with the requirements of IAS 32.

The Group's derivatives are covered by industry standard master netting agreements. Master netting agreements create a right of set-off that becomes enforceable only following a specified event of default or in other circumstances not expected to arise in the normal course of business. These arrangements do not qualify for offsetting under IAS 32 and as such the Group reports derivatives on a gross basis.

Collateral in respect of derivatives is subject to the standard industry terms of International Swaps and Derivatives Association ('ISDA') Credit Support Annex. This means that the cash received or given as collateral can be pledged or used during the term of the transaction but must be returned on maturity of the transaction. The terms also give each counterparty the right to terminate the related transactions upon the counterparty's failure to post collateral. Collateral paid or received does not qualify for offsetting under IAS 32, and is recognised in loans and advances to credit institutions and amounts owed to credit institutions respectively.

v. Amortised cost measurement

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition, plus or minus the cumulative amortisation using the EIR method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

vi. Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Group has access at that date.

When available, the Group measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. The Group measures the fair value of its investment securities and PSBs using quoted market prices.

If there is no quoted price in an active market, then the Group uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs.

The Group uses a combination of LIBOR and SONIA curves to value its derivatives however, using overnight index swap ('OIS') curves would not materially change their value. The fair value of the Group's derivative financial instruments incorporates credit valuation adjustments ('CVA') and debit valuation adjustments ('DVA'). The DVA and CVA take into account the respective credit ratings of the Bank and counterparty and whether the derivative is collateralised or not. Interest rate derivatives are valued using discounted cash flow models and observable market data and will be sensitive to benchmark interest rate curves.

vii. Identification and measurement of impairment of financial assets

The Group assesses all financial assets for impairment.

Loans and advances to customers

The Group uses the IFRS 9 three-stage expected credit loss ('ECL') approach for measuring impairment. The three impairment stages under IFRS 9 are as follows:

- **Stage 1** – entities are required to recognise a 12-month ECL allowance where there is no significant increase in credit risk ('SICR') since initial recognition.
- **Stage 2** – a lifetime loss allowance is held for assets where a SICR is identified since initial recognition. The assessment of whether credit risk has increased significantly since initial recognition is performed for each reporting period for the life of the loan.
- **Stage 3** – requires objective evidence that an asset is credit impaired, at which point a lifetime ECL allowance is required.

The Group measures impairment through the use of individual and modelled assessments.

Individual assessment

The Group's provisioning process requires individual assessment for high exposure or higher risk loans, where Law of Property Act ('LPA') receivers have been appointed, the property is taken into possession or there are any other events that suggest a high probability of credit loss. Loans are considered at a connection level, i.e. including all loans belonging to and connected to the customer.

The Group estimates cash flows from these loans, including expected interest and principal payments, rental or sale proceeds, selling and other costs. The Group obtains up-to-date independent valuations for properties put up for sale.

If the present value of estimated future cash flows discounted at the original EIR is less than the carrying value of the loan, a provision is recognised for the difference. Such loans are classified as impaired. If the present value of the estimated future cash flows exceeds the carrying value no provision is recognised.

The Group applies its IFRS 9 models to all loans with no individually assessed provision.

IFRS 9 modelled impairment

Measurement of ECL

The assessment of credit risk and the estimation of ECL are unbiased and probability weighted. ECL is measured on either a 12-month (stage 1) or lifetime basis depending on whether a SICR has occurred since initial recognition (stage 2) or where an account meets the Group's definition of default (stage 3).

The ECL calculation is a product of an individual loan's probability of default ('PD'), exposure at default ('EAD') and loss given default ('LGD') discounted at the EIR. The ECL drivers of PD, EAD and LGD are modelled at an account level. The assessment of whether a significant increase in credit risk has occurred is based on quantitative relative PD thresholds and a suite of qualitative triggers.

Significant increase in credit risk (movement to stage 2)

The Group's transfer criteria determine what constitutes a SICR, which results in an exposure being moved from stage 1 to stage 2.

At the point of recognition a loan is assigned a PD estimate. For each monthly reporting date thereafter, an updated PD estimate is computed for the life of the loan. The Group's transfer criteria analyses relative changes in PD versus the PD assigned at the point of origination, coupled with qualitative triggers using both internal and external credit bureau information.

IFRS 9 includes a rebuttable presumption that if an account is more than 30 days past due it has experienced a SICR. The Group considers more than 30 days past due to be an appropriate back stop measure and therefore has not rebutted this presumption.

The Group's Risk function constantly monitors the ongoing appropriateness of the transfer criteria, where any proposed amendments are reviewed and approved by the Group's Management Committees and the Risk and Audit Committees at least annually or more frequently if required. Post Combination the SICR approaches across both OSB and CCFS were aligned under a common framework including a quantitative PD threshold approach supplemented by a set of qualitative rules, with bespoke thresholds implemented to reflect the individual portfolio characteristics of each firm.

A borrower will move back into stage 1 where the SICR definition is no longer satisfied.

Definition of default (movement to stage 3)

The Group uses a number of quantitative and qualitative criteria to determine whether an account meets the definition of default and therefore moves to stage 3. The criteria currently include:

- The rebuttable presumption that more than 90 days past due is an indicator of default. The Group has not rebutted this presumption and therefore deems more than 90 days past due as an indicator of default.
- The Group has also deemed it appropriate to classify accounts that have moved into an unlikeliness to pay position, which includes forbearance, bankruptcy, repossession and interest-only term expiry.

A borrower will move out of stage 3 when its credit risk improves such that it no longer meets the 90 days past due and unlikeliness to pay criteria and following this has completed an internally approved probation period. The borrower will move to stage 1 or stage 2 dependent on whether the SICR applies.

Forward-looking macroeconomic scenarios

IFRS 9 requires firms to consider the risk of default and expected credit loss taking into consideration expectations of economic changes that are deemed to be reasonably possible.

The Group conducts analysis to determine the most significant factors which may influence the likelihood of an exposure defaulting in the future. The macroeconomic factors relate to the House Price Index (‘HPI’), unemployment rate (‘UR’), Gross domestic product (‘GDP’), Commercial Real Estate Index (‘CRE’) and the BoE Base Rate (‘BR’).

The Group has derived an approach for factoring probability-weighted macroeconomic forecasts into ECL calculations, adjusting PD and LGD estimates. The macroeconomic scenarios feed directly into the ECL calculation, as the adjusted PD, lifetime PD and LGD estimates are used within the individual account ECL allowance calculations.

The Group currently does not have an in-house economics function and therefore sources economic forecasts from an appropriately qualified third party. The Group will consider a minimum of four probability-weighted scenarios, including base, upside, downside and severe downside scenarios.

The base case is also utilised within the Group’s impairment forecasting process which in turn feeds the wider business planning processes. This ECL models are also used to set the Group’s credit risk appetite thresholds and limits.

Period over which ECL is measured

Expected credit loss is measured from the initial recognition of the asset which is the date at which the loan is originated or the date a loan is purchased and at each balance sheet date thereafter. The maximum period considered when measuring ECL (either 12-month or lifetime ECL) is the maximum contractual period over which the Group is exposed to the credit risk of the asset. For modelling purposes the Group considers the contractual maturity of the loan product and then considers the behavioural trends of the asset.

Purchased or originated credit impaired (’POCI’)

Acquired loans that meet OSB’s definition of default (90 days past due or an unlikeliness to pay position) at acquisition are treated as a POCI asset. These assets will attract a lifetime ECL allowance over the full term of the loan, even when the loan no longer meets the definition of default post acquisition. The Group does not originate credit-impaired loans.

Intercompany loans

Intercompany receivables in the parent Company financial statements are assessed for ECL based on an assessment of the PD and LGD, discounted to a net present value.

Other financial assets

Other financial assets comprise cash balances with the BoE and other credit institutions and high grade investment securities. The Group deems the likelihood of default across these counterparties as low, and hence does not recognise a provision against the carrying balances.

p) Loans and receivables

Loans and receivables are predominantly mortgage loans and advances to customers with fixed or determinable payments that are not quoted in an active market and that the Group does not intend to sell in the near term. They are initially recorded at fair value plus any directly attributable transaction costs and are subsequently measured at amortised cost using the EIR method, less impairment losses. Where exposures are hedged by derivatives, designated and qualifying as fair value hedges, the fair value adjustment for the hedged risk to the carrying value of the hedged loans and advances is reported in fair value adjustments for hedged assets.

Loans and the related provision are written off when the underlying security is sold. Subsequent recoveries of amounts previously written off are taken through profit or loss.

Loans and advances over which the Group transfers its rights to the collateral thereon to the BoE under the TFS and Indexed Long-Term Repo (‘ILTR’) schemes are not derecognised from the Statement of Financial Position, as the Group retains substantially all the risks and rewards of ownership, including all cash flows arising from the loans and advances and exposure to credit risk. The Group classifies TFS and ILTR as amortised cost under IFRS 9 Financial Instruments.

Loans and advances include a small acquired mortgage portfolio whose contractual cash flows include payments that are not solely payments of principal and interest and as such are measured at fair value through profit or loss. The Group initially recognises these loans at fair value, with direct and incremental costs of acquisition recognised directly in profit or loss, and subsequently measures them at fair value.

Loans and receivables contain the Group’s asset finance lease lending. Finance leases are initially measured at an amount equal to the net investment in the lease, using the interest rate implicit in the finance lease. Direct costs are included in the initial measurement of the net investment in the lease and reduce the amount of income recognised over the lease term. Finance income is recognised over the lease term, based on a pattern reflecting a constant periodic rate of return on the net investment in the lease.

q) Investment securities

Investment securities comprise securities held for liquidity purposes (UK treasury bills, Residential Mortgage-Backed Securities (‘RMBS’) and supranational bonds). These assets are non-derivatives that are designated as FVOCI or classified as amortised cost.

Assets classified as amortised cost are originally recognised at fair value and subsequently measured amortised cost using the EIR method, less impairment losses.

Assets held at FVOCI are measured at fair value with movements taken to other comprehensive income and accumulated in the FVOCI reserve within equity, except for impairment losses which are taken to profit or loss. When the instrument is sold, the gain or loss accumulated in equity is reclassified to profit or loss.

r) Deposits, debt securities in issue and subordinated liabilities

Deposits, debt securities in issue and subordinated liabilities are the Group's sources of debt funding. They comprise deposits from retail customers and credit institutions, including collateralised loan advances from the BoE under the TFS and ILTR, asset backed loan notes issued through the Group's securitisation programmes and subordinated liabilities. Subordinated liabilities include the Sterling PSBs where the terms allow no absolute discretion over the payment of interest. These financial liabilities are initially measured at fair value less direct transaction costs, and subsequently held at amortised cost using the EIR method.

Cash received under the TFS and ILTR is recorded in amounts owed to credit institutions. Interest is accrued over the life of the agreements on an EIR basis.

s) Sale and repurchase agreements

Financial assets sold subject to repurchase agreements ('repo') are retained in the financial statements if they fail derecognition criteria of IFRS 9 described in paragraph o(iii) above. The financial assets that are retained in the financial statements are reflected as loans and advances to customers or investment securities and the counterparty liability is included in amounts owed to credit institutions or other customers. Financial assets purchased under agreements to resell at a predetermined price where the transaction is financing in nature ('reverse repo') are accounted for as loans and advances to credit institutions. The difference between the sale and repurchase price is treated as interest and accrued over the life of the agreement using the EIR method.

t) Derivative financial instruments

The Group uses derivative financial instruments (interest rate swaps and basis swaps) to manage its exposure to interest rate risk. In accordance with its treasury policy, the Group does not hold or issue derivative financial instruments for proprietary trading.

Derivative financial instruments are recognised at their fair value with changes in their fair value taken to profit or loss. Fair values are calculated by discounting cash flows at the prevailing interest rates. All derivatives are classified as assets when their fair value is positive and as liabilities when their fair value is negative. If a derivative is cancelled, it is derecognised from the Statement of Financial Position.

The Group also uses derivatives to hedge the interest rate risk inherent in unrevocable offers to lend. This exposes the Group to movements in the fair value of derivatives until the loan is drawn. The changes to fair value are recognised in profit or loss in the period.

The Group is party to a limited number of options and warrants. These are recognised as a derivative financial instruments as applicable where a trigger event takes place and the fair value of the option or warrant can be reliably measured.

u) Hedge accounting

The Group has chosen to continue to apply the hedge accounting requirements of IAS 39 instead of the requirements in Chapter 6 of IFRS 9. The Group uses fair value hedge accounting for a portfolio hedge of interest rate risk.

Portfolio hedge accounting allows for hedge effectiveness testing and accounting over an entire portfolio of financial assets or liabilities. To qualify for hedge accounting at inception, the hedge relationship is clearly documented and the derivative must be expected to be highly effective in offsetting the hedged risk. In addition, effectiveness must be tested throughout the life of the hedge relationship.

The Group applies fair value portfolio hedge accounting to its fixed rate portfolio of mortgages and saving accounts. The hedged portfolio is analysed into repricing time periods based on expected repricing dates, utilising the Group Assets and Liabilities Committee ('ALCO') approved prepayment curve. Interest rate swaps are designated against the repricing time periods to establish the hedge relationship. Hedge effectiveness is calculated as a percentage of the fair value movement of the interest rate swap against the fair value movement of the hedged item over the period tested.

The Group considers the following as key sources of hedge ineffectiveness:

- The mismatch in maturity date of the swap and hedged item, as swaps with a given maturity date cover a portfolio of hedged items which may mature throughout the month
- The actual behaviour of the hedged item differing from expectations, such as early repayments or withdrawals and arrears
- Minimal movements in the yield curve leading to ineffectiveness where hedge relationships are sensitive to small value changes, and
- The transition relating to LIBOR reforms whereby some hedged instruments and hedged items are based on different benchmark rates

Where there is an effective hedge relationship for fair value hedges, the Group recognises the change in fair value of each hedged item in profit or loss with the cumulative movement in their value being shown separately in the Statement of Financial Position as fair value adjustments on hedged assets and liabilities. The fair value changes of both the derivative and the hedge substantially offset each other to reduce profit volatility.

The Group discontinues hedge accounting when the derivative ceases through expiry, when the derivative is cancelled or the underlying hedged item matures, is sold or is repaid.

If a derivative no longer meets the criteria for hedge accounting or is cancelled whilst still effective, the fair value adjustment relating to the hedged assets or liabilities within the hedge relationship prior to the derivative becoming ineffective or being cancelled remains on the Statement of Financial Position and is amortised over the remaining life of the hedged assets or liabilities. The rate of amortisation over the remaining life is in line with expected income or cost generated from the hedged assets or liabilities. Each reporting period the expectation is compared to actual with an accelerated run-off applied where the two diverge by more than set parameters.

v) Debit and credit valuation adjustments

The DVA and CVA are included in the fair value of derivative financial instruments. The DVA is based on the expected loss a counterparty faces due to the risk of the Group's default. The CVA reflects the Group's risk of the counterparty's default.

The methodology is based on a standard calculation, taking into account:

- the one-year PD, updated on a regular basis
- the expected exposure at default
- the expected LGD, and
- the average maturity of the swaps

w) Provisions and contingent liabilities

A provision is recognised when there is a present obligation as a result of a past event, it is probable that the obligation will be settled and the amount can be estimated reliably.

Provisions include ECLs on the Group's undrawn loan commitments.

Contingent liabilities are possible obligations arising from past events, whose existence will be confirmed only by uncertain future events, or present obligations arising from past events which are either not probable or the amount of the obligation cannot be reliably measured. Contingent liabilities are not recognised but disclosed unless they are not material or their probability is remote.

x) Employee benefits – defined contribution scheme

The Bank and the OSB subsidiaries contribute to personal pension plans for eligible employees. The Group's CCFS subsidiaries operate defined contribution retirement benefit schemes for all qualifying employees who subscribe to the terms and conditions of the schemes' policies.

Obligations for contributions to defined contribution pension arrangements are recognised as an expense in profit or loss as incurred.

y) Share-based payments

In accordance with IFRS 2 Share-based Payments, equity-settled options and awards granted to employees over the Bank's shares under the Group's share-based incentive schemes are measured at fair value at grant and are charged on a straight-line basis to profit or loss (with a corresponding increase in the share-based payment reserve within equity) over the vesting period in which the employees become unconditionally entitled to the awards. The cumulative expense within the share-based payment reserve is reclassified to retained earnings upon vesting.

The amount recognised as an expense is adjusted to reflect the actual number of awards for which the related service and non-market vesting conditions are expected to be met, such that the amount ultimately recognised as an expense is based on the number of awards that do meet the related conditions at the vesting date. The amount recognised as an expense for awards subject to market conditions is based on the proportion that is expected to meet the condition as assessed at the grant date. No adjustment is made for the actual proportion that meets the market condition at vesting. Share-based payments that vest on grant are expensed in the year services are received with a corresponding increase in equity.

The grant date fair value of a nil price award over the Bank's shares which vests at grant or which carries the right to dividends or dividend equivalents during the vesting period (IPO share awards) is the share price at the grant date. The grant date fair value of awards of the Bank's shares that do not carry automatic rights to dividends or dividend equivalents (the Deferred Share Bonus Plan ('DSBP')) is based on the Bank's share price at the grant date adjusted for the impact of the expected dividend yield. The fair value at grant date of awards made under the Sharesave Schemes is determined using a Black-Scholes model.

The grant date fair value of awards that are subject to non-market conditions and which do not carry automatic rights to dividends or dividend equivalents (the earnings per share ('EPS') and return on equity ('ROE') elements of the Performance Share Plan ('PSP')) is based on the share price at the grant date adjusted for the impact of the expected dividend yield. An assessment is made at each reporting date on the proportion of the awards expected to meet the related non-market vesting conditions.

The fair value of an award that is subject to market conditions (the relative share price element of the PSP) is determined at grant date using a Monte Carlo model. No adjustment is made for the actual proportion that meets the market condition at vesting.

Where the allowable cost of share-based options or awards for tax purposes is greater than the cost determined in accordance with IFRS 2, the tax effect of the excess is taken to the share-based payment reserve within equity. The tax effect is reclassified to retained earnings upon vesting.

Employer's national insurance is charged to profit or loss at the share price at the reporting date on the same vesting schedule as the underlying options and awards.

z) Leases

The Group recognises right-of-use assets and lease liabilities for most leases over 12 months long. Right-of-use assets and lease liabilities are initially recognised at the net present value of future lease payments, discounted at the rate implicit in the lease or, where not available, the Group's incremental borrowing cost. Subsequent to initial recognition, the right-of-use asset is depreciated on a straight-line basis over the term of the lease. Future rental payments are deducted from the lease liability, with interest charged on the lease liability using the incremental borrowing cost at the time of initial recognition. The Group recognises lease liability payments within financing activities on the Statement of Cash Flows.

The Group assesses the likely impact of early terminations in recognising the right-of-use asset and lease liability where an option to terminate early exists.

Leases with low future payments or terms less than 12 months are recognised on an accruals basis directly to profit or loss.

aa) Adoption of new standards

In 2019 the Group adopted IFRS 16 Leases and amendments to IAS 12 Income Taxes. The Group also early adopted the amendments to IFRS 9, IAS 39 and IFRS 7 Interest Rate Benchmark Reform.

IFRS 16: Leases

The Group adopted IFRS 16: Leases effective from 1 January 2019. The Group elected to apply the requirements of IFRS 16 retrospectively with the cumulative effect of initial application recognised directly in equity. The Group applied the practical expedients of IFRS 16 in applying a single discount rate of 1.99% to a portfolio of leases over property in calculating the initial lease liability and for not applying the requirements of IFRS 16 to leases for which the lease term ended within 12 months of the date of initial application.

The adoption of IFRS 16 resulted in the Group recognising £3.7m (Bank: £2.3m) of right-of-use assets and £3.7m (Bank: £2.3m) of lease liabilities. There was no cumulative effect of initial application recognised directly in equity.

The table below shows a reconciliation of the Group's and Bank's minimum lease commitments under operating leases to the initial lease liability recognised on adoption of IFRS 16:

	Group £m	Bank £m
Operating lease commitments at 31 December 2018	4.5	2.5
Short leases not subject to IFRS 16	(0.1)	-
OSBI leases outside the scope	(0.2)	-
Reassessment of lease term	(0.1)	(0.1)
Lease commitments subject to IFRS 16	4.1	2.4
Net present value adjustment @ 1.99%	(0.3)	(0.1)
Lease liability at 1 January 2019	**3.8**	**2.3**

IAS 12: Income Taxes

Effective from 1 January 2019 IAS 12 required the tax effect of interest recognised directly in equity to be recognised in profit or loss. This has resulted in £1.2m of additional tax credits being recognised in the Statement of Comprehensive Income.

IFRS 9, IAS 39 and IFRS 7 Interest Rate Benchmark Reform

The Group has elected to early adopt the amendments to IFRS 9, IAS 39 and IFRS 7 Interest Rate Benchmark Reform issued in September 2019. In accordance with the transition provisions, the amendments have been adopted retrospectively to hedging relationships that existed at the start of the reporting period or were designated thereafter.

The amendments provide temporary relief from applying specific hedge accounting requirements to hedging relationships directly affected by IBOR (Interbank Offered Rates) reform. The reliefs have the effect that IBOR reform should not generally cause hedge accounting to terminate. However, any hedge ineffectiveness continues to be recorded in the income statement. Furthermore, the amendments set out triggers for when the reliefs will end, which include the uncertainty arising from interest rate benchmark reform no longer being present.

In summary, the reliefs provided by the amendments that apply to the Group are:

- When considering the ‘highly probable’ requirement, the Group has assumed that the IBOR interest rates upon which our hedged items are based do not change as a result of IBOR reform
- In assessing whether the hedge is expected to be highly effective on a forward-looking basis the Group has assumed that the IBOR interest rates upon which the cash flows of the hedged items and the interest rate swaps that hedge them are based are not altered by IBOR reform
- The Group will not discontinue hedge accounting during the period of IBOR-related uncertainty solely because the retrospective effectiveness falls outside the required 80–125% range
- The Group has assessed whether the hedged IBOR risk component is a separately identifiable risk only when it first designates a hedged item in a fair value hedge and not on an ongoing basis

Further amendments are expected for future accounting periods following completion of the second part of the IASB’s two-phased project which focuses on the impacts of IBOR reform on financial reporting.

Standards in issue but not yet effected

Included below are standards and amendments which are being considered for future reporting periods which have not been applied in preparing these financial statements.

- Amendments to the Conceptual Framework for Financial reporting, including amendments to references to the Conceptual Framework in IFRS Standards
- Amendments to IFRS 3 – Definition of a business
- Amendments to IAS 1 and IAS 8 – Definition of material

The Directors do not expect that the adoption of the Standards listed above will have a material impact on the financial statements of the Company in future periods.

2. Judgements in applying accounting policies and critical accounting estimates

In preparing these financial statements, the Group has made judgements, estimates and assumptions which affect the reported amounts within the current and next financial year. Actual results may differ from these estimates.

Estimates and judgements are regularly reviewed based on past experience, expectations of future events and other factors.

Judgements
The Group has made the following judgements in applying the accounting policies:

(i) Loan book impairments

Significant increase in credit risk for classification in stage 2
The Group's transfer criteria determines what constitutes a significant increase in credit risk, which results in an exposure being moved from stage 1 to stage 2. The transfer criteria analyses relative changes in PD versus the origination PD, where if prescribed thresholds are met, an account will be transferred from stage 1 to stage 2. The Group's transfer logic also includes a qualitative set of rules using both internal and external credit bureau information, which if triggered results in an account being moved to stage 2 from stage 1. Setting the appropriate thresholds to determine what is a 'significant' increase is a key area of judgement.

(ii) IFRS 9 classification
The Group has applied judgement in determining whether the contractual terms of a financial asset give rise on specified dates to cash flows that are SPPI on the principal amount outstanding when applying the classification criteria of IFRS 9. The main area of judgement is over the Group's loans and advances to customers which have been accounted for under amortised cost with the exception of one acquired book of £22.1m that is recognised at FVTPL.

Estimates
The Group has made the following estimates in the application of the accounting policies that have a significant risk of material adjustment to the carrying amount of assets and liabilities within the next financial year:

(i) Loan book impairments
This section provides details of the critical accounting estimates which underpin loan impairment calculations. Less significant estimates are not disclosed. The Group has recognised total impairments of £42.9m (2018: £21.9m) at the reporting date as disclosed in note 23.

3. Judgements in applying accounting policies and critical accounting estimates (continued)

Modelled impairment
Modelled provision assessments are also subject to estimation uncertainty, underpinned by a number of estimates being made by management which are utilised within impairment calculations. Key areas of estimation within modelled provisioning calculations include those regarding the PD, the LGD and forward-looking macroeconomic scenarios.

Loss given default model
The Group has a number of LGD models, which includes a number of estimated inputs including propensity to go to possession given default ('PPD'), forced sale discount ('FSD'), time to sale ('TTS') and sale cost estimates. The LGD is sensitive to the application of the HPI. For the OSB segment at 31 December 2019 a 10% fall in house prices would result in an incremental £13.6m (2018: £11.0m) of provision being required. The combined impact across both OSB and CCFS businesses of a 10% fall in house prices would result in an increase in total provisions of £17.4m as at 31 December 2019.

Forward-looking macroeconomic scenarios
The forward-looking macroeconomic scenarios affect both the PD and LGD estimates. Therefore the expected credit losses calculations are sensitive to both the scenarios utilised and their associated probability weightings.

As the Group does not have an in-house economics function it sources economic forecasts from an appropriately qualified third party. The Group will consider a minimum of four probability-weighted scenarios, including base, upside, downside and severe downside scenarios. Due to the current uncertainty regarding the Brexit trade agreement negotiations the choice of scenarios and weightings are subject to a significant degree of estimation.

Post the Combination the Group aligned the macroeconomic scenarios and probability weightings utilised across both the individual OSB and CCFS businesses.

3. Judgements in applying accounting policies and critical accounting estimates (continued)

The following tables disclose the ECL scenario sensitivity analysis with each scenario weighted at 100% probability. The purpose of using multiple economic scenarios is to model the non-linear impact of assumptions surrounding macroeconomic factors and ECL calculated:

As at 31-Dec-19	**Weighted**	**100% Base case scenario**	**100% Upside scenario**	**100% Downside scenario**	**100% Severe downside scenario**
Total mortgages before provisions, £m	**18,419.9**	**18,419.9**	**18,419.9**	**18,419.9**	**18,419.9**
ECL, £m	**42.9**	**29.9**	**20.0**	**53.6**	**67.9**
ECL Coverage, %	**0.23**	**0.16**	**0.11**	**0.29**	**0.37**

As at 31-Dec-18	Weighted	100% Base case scenario	100% Upside scenario	100% Downside scenario	100% Severe downside scenario
Total mortgages before provisions, £m	8,998.0	8,998.0	8,998.0	8,998.0	8,998.0
ECL, £m	21.9	15.7	15.1	19.3	62.7
ECL Coverage, %	0.24	0.17	0.17	0.21	0.70

The above tables cover modelled provisions only. Individually assessed provision or provisions calculated under a bespoke approach are not included. Post model adjustments or incurred loss remaining provisions have also not been included in the above analysis.

(ii) Loan book acquisition accounting and income recognition
Acquired loan books are initially recognised at fair value. Significant estimation is exercised in calculating their EIR using cash flow models which include assumptions on the likely macroeconomic environment, including HPI, unemployment levels and interest rates, as well as loan level and portfolio attributes and history used to derive prepayment rates, the probability and timing of defaults and the amount of incurred losses which are discounted for the market rate for these loans. Through the Combination in 2019 the Precise book is treated as an acquisition book with a fair value uplift of £301.0m being the premium applied to the book. Sensitivities have been completed on the Precise book including the market rate applied to the discounted cash flows being one month LIBOR plus a margin (margin blended average used 2.91%). Where the margin applied is increased/decreased by 25bps the premium recognised on the book increases/decreases by £66.0m/£67.0m.

The EIR on loan books purchased at significant discounts or premiums is particularly sensitive to the weighted average life of the book through cumulative prepayment rate (‘CPR’) and cumulative default rate (‘CDR’) derived, as the purchase discount or premium is recognised over the expected life of the loan book through the EIR. New defaults are modelled at zero loss (as losses will be recognised in profit or loss as impairment losses) and therefore have the same impact on the EIR as prepayments.

Incurred losses at acquisition are calculated using the Group’s modelled provision assessment (see (i) Loan book impairments above for further details).

3. Judgements in applying accounting policies and critical accounting estimates (continued)

The EIR calculated at acquisition is not changed for subsequent variances in actual to expected cash flows. The Group monitors the actual cash flows for each acquired book and where they diverge significantly from expectation, the future cash flows are updated with a reset gain or loss taken. In assessing whether to adjust future cash flows on an acquired portfolio, the Group considers the cash variance on an absolute and percentage basis. The Group also considers the total variance across all acquired portfolios and the economic outlook. Where cash flows for an acquired portfolio are reset, they are discounted at the EIR calculated at acquisition to derive a new carrying value, with changes taken to the Statement of Comprehensive Income as interest income. The Group recognised £0.5m gain in 2019 as a result of resetting cash flows on acquired books (2018: gain of £2.0m). The largest acquired book is Precise with sensitivities completed on increasing/reducing the life of the book by six months which results in a reset gain/loss of c.£48m/£50m.

(iii) Effective interest rate on organic lending
A number of estimates are made when calculating the EIR for newly originated loan assets. These include their expected lives, likely redemption profiles and the anticipated level of any early redemption charges.

Mortgage products offered by the Group include directly attributable net fee income and a period on reversion rates after the fixed/discount period. Products revert to the standard variable rate ('SVR') for the Kent Reliance book or a LIBOR/Base plus a margin for the Precise brand. The Group uses historical experience in its assessment of prepayment rates.

Estimation is used in assessing whether and for how long mortgages that reach the end of the product term stay on reversion rates. The most significant area of judgement is the period spent on SVR or LIBOR/Base plus a margin. In 2018 Kent Reliance recognised a period on SVR for two year products only as behavioural data emerged and this has been extended to three and five year products in 2019. On the Kent Reliance brand estimates were used to assess planned enhancements to and automation of the Choices programme (in 2018 only) and the potential for changes in regulation on SVR might impact future behaviour.

Sensitivity is completed through increasing and decreasing the weighted average life of the Kent Reliance and Precise Mortgages book (for originations from 4 October 2019) by six months which results in a reset gain/loss of c.£24.0m/£5.0m.

4. Acquisition of Chartered Court Financial Services Group plc

On 14 March 2019, the OSB Board and the CCFS Board jointly announced that they had reached agreement on the terms of a recommended all-share combination pursuant to which OSB would acquire the entire issued and to be issued ordinary share capital of CCFS to form the combined Group.

Under the terms of the Combination, which was subject to terms and conditions which were set out in the Scheme Document, each CCFS shareholder was entitled to receive 0.8253 new OSB shares for each CCFS share.

Immediately following completion of the Combination, CCFS shareholders owned approximately 45% of the share capital of the combined Group (based on the existing ordinary issued share capital of OSB and the fully diluted share capital of CCFS).

The Combination completed on 4 October 2019, following approvals from the Shareholders, Competition and Markets Authority, PRA, Financial Conduct Authority (‘FCA’) and the final court sanction.

CCFS targets underserved specialist mortgage market segments with a focus on specialist Buy-to-Let, residential, bridging and second charge lending. The Combination with CCFS brings increased scale, diversification and product capabilities to the Group.

Consideration and goodwill

On 4 October 2019, OSB issued 199,643,055 new £0.01 nominal value shares as consideration for the acquisition of the entire CCFS share capital. The fair value of the OSB share price on 4 October 2019 was £3.542 per share, equating to a total consideration of £707.1m. Included within this amount is £3.7m in relation to shares OSB now holds through the CCFS Employee Benefit Trust, bringing total external consideration to £703.4m.

The carrying value of the CCFS tangible assets acquired and liabilities assumed on 4 October 2019 was £504.0m. In accordance with IFRS 3, the Group has recognised separate intangible assets in the Combination of £23.6m and fair value adjustments on assets and liabilities of £256.7m and associated deferred tax liabilities of £70.1m. In total, the Group has recognised net assets of £714.2m in the Combination.

The Group has recognised £10.8m of negative goodwill generated in the Combination directly in profit or loss within Gain on Combination with CCFS. The negative goodwill was generated through a combination of a decrease in the OSB share price between announcement and completion and an increase in fair value gains on the loan book acquired due to movements in the LIBOR curve between announcement and completion.

The Group continues to assess the acquisition date fair values of the assets acquired and liabilities assumed to determine if any additional information existed, at the date of acquisition, that would alter the fair values of the assets and liabilities recognised as at 31 December 2019. This assessment will be completed no later than 3 October 2020.

Transaction costs

The Group has recognised £15.6m of transaction costs as an exceptional item in profit or loss. In addition, the Group has recognised £6.4m of costs directly in equity, net of corporation tax. Additional information is provided in note 13.

4. Acquisition of Chartered Court Financial Services Group plc (continued)

Identifiable assets acquired and liabilities assumed

The table below sets out the fair value of the identifiable assets acquired and liabilities assumed as at the acquisition date:

	Provisional fair value £m
Assets	
Loans and advances to credit institutions	**962.2**
Investment securities	**493.5**
Loans and advances to customers	**7,248.3**
Derivative assets	**11.4**
Deferred taxation asset	**1.9**
Intangible assets	**23.6**
Property, plant and equipment	**10.0**
Other assets	**3.6**
Total assets	**8,754.5**
Liabilities	
Amounts owed to retail depositors	**6,545.3**
Amounts owed to credit institutions	**1,168.4**
Amounts owed to other customers	**16.0**
Derivative liabilities	**84.6**
Debt securities in issue	**75.1**
Deferred taxation liability	**70.1**
Current taxation liability	**19.4**
Lease liabilities	**7.7**
Other liabilities	**53.7**
Total liabilities	**8,040.3**
Net assets	**714.2**

4. Acquisition of Chartered Court Financial Services Group plc (continued)

The following table shows the acquisition accounting adjustments made on Combination together with the associated amortisation periods:

	£m	Amortisation period
Carry value of net tangible assets acquired	**503.8**	
Fair value adjustments:		
Fair value asset of mortgage book	**300.6**	c.4 years in line with mortgage book run-off
Fair value asset of undrawn loan commitments	**16.4**	c.4 years in line with mortgage book run-off
Fair value liability of savings book	**(7.5)**	c.1.5 years in line with savings book run-off
Offset by:		
EIR balance	**(0.4)**	n/a
Loss provision reset - reduce provision to nil	**7.7**	n/a
Loss provision reset - POCI loan provision	**(3.6)**	n/a
Hedge item adjustments	**(56.3)**	Unwind over life of swaps
Fair value of net tangible assets acquired	**760.7**	
Intangible assets	**23.6**	4 - 5 years
Deferred taxation liability	**(70.1)**	In line with fair value unwinds
Total net assets acquired	**714.2**	

Contribution to profit or loss

Since the acquisition date, CCFS has contributed £40.1m to Group total income and £24.8m to Group profit. If the acquisition of CCFS had been completed on 1 January 2019, Group total income for the year would have been £504.1m and Group profit before taxation would have been £308.6m.

Acquired receivables

The table below sets out additional information on the receivables acquired through the Combination as at 4 October 2019.

	Contractual receivable £m	Fair value £m	Expected credit losses £m
Receivables:			
Loans and advances to credit institutions	**962.2**	**962.2**	**-**
Loans and advances to customers	**6,937.7**	**7,248.3**	**9.0**
Other receivables	**2.4**	**2.4**	**-**
	7,902.3	**8,212.9**	**9.0**

5. Interest receivable and similar income

	Group 2019 £m	Group 2018 £m
At amortised cost:		
On OSB mortgages	**480.5**	408.1
On CCFS mortgages	**80.2**	-
On investment securities	**0.6**	-
On other liquid assets	**12.2**	7.6
Amortisation of fair value adjustments on CCFS Combination[1]	**(22.6)**	-
At fair value through profit or loss:		
Net expense on derivative financial instruments - lending activities	**(14.0)**	(8.1)
On CCFS mortgages	**0.3**	-
At FVOCI:		
On investment securities	**2.7**	0.3
	539.9	407.9

[1]Amortisation of fair value adjustments on CCFS loan book at Combination.

6. Interest payable and similar charges

	Group 2019 £m	Restated Group[2] 2018 £m
On retail deposits	**177.3**	109.6
On BoE borrowings	**13.3**	8.7
On perpetual subordinated bonds[2]	**1.8**	1.9
On subordinated liabilities	**0.7**	0.7
On wholesale borrowings	**1.9**	0.4
On debt securities in issue	**3.7**	-
On lease liabilities	**0.1**	-
Amortisation of fair value adjustments on CCFS Combination[1]	**(1.0)**	-
Net (income)/expense on derivative financial instruments - savings activities	**(2.6)**	0.3
	195.2	121.6

[1] Amortisation of fair value adjustments on CCFS customer deposits at Combination.
[2] The Group has restated the prior year comparatives to include the interest expense on the £22.0m PSBs previously classified as equity (see note 1).

7. Fair value losses on financial instruments

	Group 2019 £m	Reclassified Group[1] 2018 £m
Fair value changes in hedged assets	**70.1**	(13.8)
Hedging of assets	**(75.1)**	11.0
Fair value changes in hedged liabilities	**(4.6)**	0.4
Hedging of liabilities	**4.8**	(0.3)
Ineffective portion of hedges	**(4.8)**	(2.7)
Net gains on unmatched swaps	**3.5**	2.4
Amortisation of inception adjustment	**3.3**	-
Amortisation of fair value adjustments on hedged assets	**(5.5)**	(4.6)
Debit and credit valuation adjustment	**0.2**	(0.2)
	(3.3)	(5.1)

[1] The Group has reclassified the 2018 comparatives as the fair value changes in hedged assets/liabilities had been incorrectly disclosed as hedging of assets/liabilities and vice versa.

Amortisation of inception adjustment relates to hedged assets and liabilities recognised on the Combination where pre-existing hedge relationships ceased on the date of Combination. The inception adjustment is being amortised over the life of the derivative instruments acquired on Combination and recognises an offsetting asset or liability to the fair value of the derivative instruments on the date of Combination.

7. Fair value losses on financial instruments (continued)

Amortisation of fair value adjustments on hedged assets relates to hedged assets and liabilities where the hedges were terminated before maturity and were effective at the point of termination. The amortisation includes £2.8m (2018: £3.0m) of accelerated unwind due to faster run-off on the previously hedged long-dated fixed rate mortgages compared to the run-off profile at cancellation date.

8. Loss on sales of financial instruments

During 2018, OSB disposed of its final portion of the personal loan portfolio. OSB sold personal loans with a gross value of £0.9m for proceeds of £0.4m. Adjusting for loan loss provisions of £0.3m and recovering servicing costs of £0.1m, the Group made a £0.1m loss on disposal.

During 2019 the Group identified that an additional £0.1m of customer receipts was due to the purchaser of the personal loan portfolio, recognising an additional loss on sale of £0.1m.

9. Administrative expenses

	Group 2019 £m	Group 2018 £m
Staff costs	**60.5**	43.6
Facilities costs	**3.6**	3.3
Marketing costs	**4.0**	3.2
Support costs	**12.7**	9.2
Professional fees	**10.4**	7.7
Other costs[1]	**9.3**	7.9
Depreciation (see note 29)	**3.9**	2.2
Amortisation (see note 30)	**4.3**	2.5
	108.7	79.6

[1]Other costs mainly consist of irrecoverable VAT expense.

Included in professional fees are amounts paid to the auditor of the Group as follows:

	Group 2019 £'000	Group 2018 £'000
Fees payable to the Company's auditor for the audit of the Company's annual accounts	**1,269**	626
Fees payable to the Company's auditor for the audit of the accounts of subsidiaries	**846**	188
Total audit fees	**2,115**	814
Audit-related assurance services	**187**	95
Other assurance services	**142**	31
Tax compliance services	**-**	9
Total non-audit fees	**329**	135
Total fees payable to the Group's Auditor	**2,444**	**949**

9. Administrative expenses (continued)

Included within the audit of the accounts of subsidiaries is £592k in relation to CCFS entities and £65k in relation to Canterbury Finance No.1 plc.

Staff costs comprise the following:

	Group 2019 £m	Group 2018 £m	**Bank 2019 £m**	Bank 2018 £m
Salaries, incentive pay and other benefits	**49.1**	36.0	**31.4**	27.7
Share-based payments	**4.0**	2.5	**4.0**	2.6
Social security costs	**4.4**	3.4	**3.4**	3.0
Other pension costs	**3.0**	1.7	**2.3**	1.5
	60.5	43.6	**41.1**	34.8

The average number of people employed by the Group (including Executive Directors) during the year is analysed below. The average for CCFS is based on the post acquisition period.

	Group 2019	Reclassified Group[1] 2018	**Bank 2019**	Bank 2018
OSB				
Operations	**812**	744	**325**	307
Support functions	**286**	245	**204**	172
CCFS				
Operations	**530**	-	**-**	-
Support functions	**161**	-	**-**	-
	1,789	989	**529**	479

[1] During the year there was reclassification of the sales department from Operations to Support functions.

10. Directors' emoluments and transactions

	Bank 2019 £'000	Restated Bank[1] 2018 £'000
Short-term employee benefits[2]	**2,334**	2,116
Post-employment benefits	**112**	109
Share-based payments[3]	**632**	500
	3,078	2,725

[1] The prior year comparatives have been restated to include the amounts received by Directors upon vesting of share-based payment schemes.
[2] Short-term employee benefits comprise salary costs, Non-Executive Directors' fees and other short-term incentive benefits are disclosed in the Annual Report on Remuneration.
[3] Share-based payments represent the amounts received by Directors for schemes that vested during the year.

In addition to the total Directors' emoluments above, the Executive Directors were granted a deferred bonus of £511k (2018: £579k) in the form of shares deferred for three years under the DSBP. The DSBP does not have any further performance conditions attached. However, it is subject to clawback and is forfeited if the Executive Director leaves prior to vesting unless a good leaver reason applies such as redundancy, retirement or ill-health.

The Executive Directors received a further share award under the PSP with a grant date face value of £1,305k (2018: £1,265k) using a share price of £3.90 (2018: £4.20) (the average mid-market quotation for the preceding five days before grant). These shares vest in three years subject to performance conditions discussed in note 11 and the Annual Report on Remuneration.

There was no compensation for loss of office during either 2019 or 2018.

There were no outstanding loans granted in the ordinary course of business to Directors and their connected persons as at 31 December 2019 and 2018.

The Annual Report on Remuneration and note 11 Share-based payments provide further details on Directors' emoluments.

11. Share-based payments

The Group operates the following share-based schemes:

IPO Share Awards
Certain Directors, senior managers and other employees of the Bank received one-off share awards in the form of nil price awards of shares in the Bank on its admission to the London Stock Exchange in June 2014. A proportion of these awards vested on admission with the remainder vesting over a 12, 24 or 48-month period. The cost of IPO Share Awards is reported within administrative expenses in profit or loss and is offset fully by an additional capital contribution as the awards were granted by OSB Holdco Limited, the Bank's major shareholder at the time of the IPO. The Group's IPO awards were fully vested by the end of 2018.

Sharesave Scheme
The Save As You Earn ('SAYE') or Sharesave Scheme is an all-employee share option scheme which is open to all UK-based employees. The Sharesave Scheme allows employees to purchase options by saving a fixed amount of between £5 and £500 per month over a period of either three or five years at the end of which the options, subject to leaver provisions, are usually exercisable. The Sharesave Scheme has been in operation since 2014 and is granted annually, with the exercise price set at a 20% discount of the share price on the date of grant.

As part of the Combination, CCFS employees were given three choices in relation to their Sharesave Schemes: (i) roll their CCFS 2017 and 2018 Sharesave options into the OSB schemes; (ii) exercise the options available from contributions made to date through an early exercise; or (iii) continue to contribute to the CCFS 2017 and 2018 schemes and exercise the options available from contributions made to date within six months of the date of the Combination. Those participants that chose to roll over their options are included in the table below. The options that were not rolled over will convert into OSB shares on exercise.

Deferred Share Bonus Plan
The DSBP applies to Executive Directors and certain senior managers and requires 50% of their performance bonuses to be deferred in shares for three or five years. There are no further performance conditions attached, but the share awards are subject to clawback provisions. The DSBP is a share-based award and as such is expensed over its vesting period. The first DSBP relating to 2014 bonuses was granted in March 2015.

During the year the Group accelerated the vesting date of the DSBP for certain senior managers, with the 2017 and 2018 schemes vesting in December 2019. The 2019 scheme is anticipated to vest in March 2020. There were no changes to the DSBP relating to Executive Directors. The 2020 scheme awards for certain senior managers will no longer be deferred with only a one year holding period applied from grant date.

Performance Share Plan
Executive Directors and certain senior managers are also eligible for a PSP based on performance conditions linked to EPS, total shareholder return ('TSR') and return on equity ('ROE') over a three-year vesting period. The first award was issued in March 2015.

The performance conditions applying to PSP awards since 2017 are based on a combination of EPS (40%), TSR (40%) and ROE (20%). Prior to 2017 PSP awards were equally weighted between EPS and TSR. The PSP conditions are assessed independently. For the EPS element, growth targets are linked to the Company's three-year growth plan, measuring growth from the base figure for the prior year. For the TSR element, OSB share's relative performance is measured against the FTSE All-Share Index excluding investment trusts. For the ROE element, growth rates are assessed against OSB's underlying profit after taxation as percentage of average shareholders' equity.

11. Share-based payments (continued)

As part of the Combination, OSB granted mirror PSP awards for the 2018 and 2019 CCFS schemes that terminated upon the Combination. The mirror PSP schemes follow the same performance conditions as the OSB 2018 and 2019 PSP awards.

The share-based expense for the year includes a charge in respect of the Sharesave Scheme, DSBP and PSP. All charges are included in employee expenses within note 9 Administrative expenses. The IPO Award Scheme fully vested in 2018.

The share-based payment expense during the year comprised the following:

	Group 2019 £m	Group 2018 £m
IPO Share Award	**-**	0.1
Sharesave Scheme	**0.2**	0.3
Deferred Share Bonus Plan	**1.3**	1.1
Performance Share Plan	**2.5**	1.0
	4.0	2.5

Movements in the number of share awards and their weighted average exercise prices are presented below:

	Sharesave Scheme		**Deferred Share Bonus Plan**	**Performance Share Plan**
	Number	**Weighted average exercise price, £**	**Number**	**Number**
At 1 January 2019	**841,629**	**2.93**	**1,258,712**	**1,737,997**
Granted	**1,261,307**	**2.65**	**476,933**	**1,079,392**
CCFS mirror/roll over schemes	**1,183,475**	**2.42**	**-**	**931,853**
Exercised	**(154,963)**	**1.96**	**(920,891)**	**(235,241)**
Forfeited	**(262,302)**	**3.23**	**(76,281)**	**(417,630)**
At 31 December 2019	**2,869,146**	**2.63**	**738,473**	**3,096,371**
Exercisable at:				
31 December 2019	**-**	**-**	**-**	**-**

11. Share-based payments (continued)

	IPO Share Awards	Sharesave Scheme		Deferred Share Bonus Plan	Performance Share Plan
	Number	Number	Weighted average exercise price, £	Number	Number
At 1 January 2018	652,198	732,341	2.60	1,186,762	1,589,030
Granted	-	313,443	3.35	376,231	708,146
Exercised	(652,198)	(162,093)	2.25	(301,575)	(559,179)
Forfeited	-	(42,062)	2.86	(2,706)	-
At 31 December 2018	-	841,629	2.93	1,258,712	1,737,997
Exercisable at:					
31 December 2018	-	2,861	3.15	-	-

For the share-based awards granted during the year, the weighted average grant date fair value was 208 pence (2018: restated 276 pence).

The range of exercise prices and weighted average remaining contractual life of outstanding awards are as follows:

	2019		2018	
Exercise price	**Number**	**Weighted average remaining contractual life (years)**	Number	Weighted average remaining contractual life (years)
Sharesave Scheme				
134-335 pence	**2,869,146**	**2.0**	841,629	2.1
Deferred Share Bonus Plan				
Nil	**738,473**	**0.6**	1,258,712	1.3
Performance Share Plan				
Nil	**3,096,371**	**1.7**	1,737,997	1.4
	6,703,990	**1.7**	3,838,338	1.5

The grant date fair values of options/awards under the Group's share-based payment schemes are determined using a Black-Scholes model. The share price at the grant date for all schemes is adjusted for the impact of dividends as the options/awards do not carry automatic rights to dividends. The valuation of share options/awards is based on the following input assumptions:

- Expected volatility – based on the Bank's share price volatility
- Attrition rate – based on the attrition rate of eligible employees and updated annually for the DSBP and PSP awards
- Dividend yield – based on the average dividend yield across external analysts' reports for the quarter prior to scheme grant date

11. Share-based payments (continued)

Sharesave Scheme

	2019		2018		2017		2016		2015	
Contractual life, years	**3**	**5**	3	5	3	5	3	5	3	5
Share price at issue, £	**3.32**	**3.32**	4.19	4.19	3.93	3.93	3.00	3.00	2.84	2.84
Exercise price, £	**2.65**	**2.65**	3.35	3.35	3.15	3.15	2.40	2.40	2.27	2.27
Expected volatility, %	**31.9**	**31.9**	16.1	16.5	18.0	17.3	18.4	20.1	16.6	19.4
Dividend yield, %	**4.8**	**4.8**	4.4	4.4	4.1	4.1	4.6	4.6	3.6	3.6
Grant date fair value, £	**0.90**	**0.91**	0.40	0.43	0.75	0.70	0.10	0.15	0.75	0.79

Deferred Share Bonus Plan

	2019	2018	2017		2016
Contractual life, years	**3**	3	3	5	3
Mid-market share price, £	**3.96**	3.80	4.04	4.04	3.09
Expected volatility, %	**26.8**	33.8	63.7	63.7	43.9
Attrition rate, %	**8.4**	9.7	11.8	11.8	12.0
Dividend yield, %	**4.7**	4.6	4.0	4.0	4.6
Grant date fair value, £	**3.47**	3.34	3.61	3.37	2.71

Performance Share Plan

	2019	2018	2017	2016
Contractual life, years	**3**	3	3	3
Mid-market share price, £	**3.96**	4.11	4.04	3.09
Expected volatility, %	**26.8**	29.1	63.7	43.9
Attrition rate, %	**8.4**	9.7	11.8	12.0
Dividend yield, %	**4.7**	4.6	4.0	4.6
Vesting rate - EPS, p	**35.0**	55.0	75.0	79.0
Vesting rate - TSR, %	**44.9**	54.0	60.0	60.0
Vesting rate - ROE, %	**39.0**	-	-	-
Grant date fair value, £	**3.47**	3.61	3.61	2.71

CCFS PSP Mirror Schemes

	2019	2018
Contractual life, years	**3**	2
Mid-market share price, £	**3.54**	3.54
Expected volatility, %	**28.6**	28.6
Attrition rate, %	**-**	-
Dividend yield, %	**4.8**	4.8
Vesting rate - EPS, p	**35.0**	56.0
Vesting rate - TSR, %	**37.4**	37.4
Vesting rate - ROE, %	**39.0**	73.0
Grant date fair value, £	**3.29**	3.17

11. Share-based payments (continued)

IPO Share Awards

The grant date fair value of the IPO Share Awards was the issue price of £1.70 as they are in the form of nil price awards which carry rights to dividends during the vesting period. The charge in respect of awards with future vesting provisions assumed a weighted average attrition of nil (2018: nil) per annum. This is lower than the overall expected employee attrition rate as nil attrition was assumed for certain senior managers who received larger awards. All IPO Share Awards were fully vested at 31 December 2018.

12. Integration costs

	Group 2019 £m	Group 2018 £m
Consultant fees	**3.0**	-
Staff costs	**2.2**	-
	5.2	-

Consultant fees relate to advice on the Group's future operating structure.

Staff costs relate to key personnel who will leave the Group under the new operating model, but have been retained to assist in the integration for a fixed period.

13. Exceptional items

	Group 2019 £m	Group 2018 £m
Consultant fees	**4.0**	-
Legal and professional fees	**4.6**	-
Success fees	**7.0**	-
Heritable option	**-**	9.8
	15.6	9.8

Consultant, legal and professional and success fees relate to the all-share Combination with CCFS.

The Heritable option recognised in 2018 was surrendered for a one-off payment of £9.8m in 2019, with the Bank acquiring the joint ventures ('JV') partners' interest in the business. At the same time a new revenue sharing arrangement was signed allowing the JV partners to continue to lend alongside the Bank, sharing revenues in accordance with a profit waterfall.

14. Taxation

The Group publishes its tax policy on its corporate website. The table below shows the components of the Group's tax charge for the year:

	Group 2019 £m	Restated Group[1] 2018 £m
Corporation taxation	**(57.1)**	(42.5)
Deferred taxation	**(0.2)**	(0.7)
Release of deferred taxation on CCFS Combination[2]	**7.0**	**-**
Total taxation	**(50.3)**	(43.2)

[1] The Group has restated the prior year comparatives for the taxation on the interest expense on the £22.0m PSBs previously classified as equity (see note 1).
[2] Release of deferred taxation on CCFS Combination relates to the unwind of the deferred tax asset recognised on the fair value adjustment of the CCFS assets and liabilities at the acquisition date.

The charge for taxation on the Group's profit before taxation differs from the charge based on the standard rate of UK Corporation Tax of 19% (2018: 19%) as follows:

	Group 2019 £m	Restated Group[1] 2018 £m
Profit before taxation	**209.1**	182.8
Profit multiplied by the standard rate of UK Corporation Tax	**(39.7)**	(34.6)
Bank surcharge	**(10.4)**	(8.6)
Taxation effects of:		
Expenses not deductible for taxation purposes	**(3.0)**	0.1
Negative goodwill on acquisition not taxable	**2.0**	-
Rate difference on unwind of deferred tax arising on acquisition	**1.9**	-
Adjustments in respect of earlier years	**(2.7)**	0.1
Tax adjustments in respect of share-based payments	**(0.7)**	0.2
Impact of tax losses carried forward	**0.5**	-
Tax on AT1 securities	**1.0**	-
Timing differences on capital items	**0.2**	(0.4)
Other	**0.6**	-
Total taxation charge	**(50.3)**	(43.2)

[1] The Group has restated the prior year comparatives for the taxation on the interest expense on the £22.0m PSBs previously classified as equity (see note 1).

The effective tax rate for the year ended 31 December 2019, excluding the impact of adjustments in respect of earlier years, was 22.8% (2018: 23.4%).

During the year £1.1m (2018: nil) of tax has been recognised directly within equity relating to the Group's share-based payment schemes. Following the amendments to IAS 12, the tax on AT1 securities has been recognised directly in profit or loss (2018: £1.5m directly in equity).

14. Taxation (continued)

During the year a tax credit of £0.2m (2018: nil) has been recognised within other comprehensive income relating to investment securities classified as FVOCI.

A reduction in the UK corporation tax rate from 19% to 18% (effective from 1 April 2020) was enacted on 26 October 2015. A further reduction to 17% (effective from 1 April 2020) was substantively enacted on 6 September 2016. In the March 2020 Budget it was announced that the cut in the rate to 17% will now not occur and the corporation tax rate will be held at 19%. As this has not been enacted by the balance sheet date, deferred tax balances as at 31 December 2019 continue to be measured at 17%.

15. Earnings per share

Earnings per share ('EPS') are based on the profit for the period and the weighted average number of ordinary shares in issue. Basic EPS are calculated by dividing profit attributable to ordinary shareholders by the weighted average number of ordinary shares in issue during the year. Diluted EPS take into account share options and awards which can be converted to ordinary shares.

For the purpose of calculating EPS, profit attributable to ordinary shareholders is arrived at by adjusting profit for the year for the coupons on AT1 securities classified as equity. The tax on coupons for the current period is included within the profit for the period, in line with the changes to IAS 12 Income Taxes. The tax on coupons for the prior period is based on the rate of taxation applicable to the Bank, including the bank surcharge:

	Group 2019 £m	Restated Group[1] 2018 £m
Profit for the year	**158.8**	139.6
Adjustments:		
Coupon on AT1 securities classified as equity	**(5.5)**	(5.5)
Tax on coupons	**-**	1.5
Profit attributable to ordinary shareholders	**153.3**	135.6

	2019	2018
Weighted average number of shares, millions		
Basic	**291.6**	244.2
Dilutive impact of share-based payment schemes	**1.8**	2.0
Diluted	**293.4**	246.2
Earnings per share, pence per share		
Basic	**52.6**	55.5
Diluted	**52.2**	55.0

[1] The Group has restated the prior year comparatives for the interest expense and tax on the £22.0m PSBs previously classified as equity (see note 1).

16. Dividends

During the year, the Bank paid the following dividends:

	Bank 2019		Bank 2018	
	£m	**Pence per share**	£m	Pence per share
Final dividend for the prior year	**25.3**	**10.3**	22.7	9.3
Interim dividend for the current year	**12.0**	**4.9**	10.5	4.3
	37.3		33.2	

The Directors propose a final dividend of £49.9m, 11.2 pence per share (2018: £25.2m, 10.3 pence) payable on 13 May 2020 with an ex-dividend date of 26 March 2020 and a record date of 27 March 2020. This dividend is not reflected in these financial statements as it is subject to approval by shareholders at the AGM on 7 May 2020. Together with the interim dividend of £12.0m, 4.9 pence (2018: £10.5m, 4.3 pence) per share, the total dividend for 2019 is £61.9m, 16.1 pence (2018: £35.8m, 14.6 pence) per share.

A summary of the Bank's distributable reserves from which dividends can be paid is shown below:

	Bank 2019 £m	Restated Bank[1] 2018 £m
Retained earnings	**407.0**	296.7
Unrealised gains[2]	**(52.8)**	(19.8)
Other distributable reserves (see note 43)	**5.3**	4.7
Distributable reserves	**359.5**	281.6

[1] The Bank has restated the prior year comparatives to classify the transfer reserve as non-distributable.
[2] Unrealised gains relate to the Bank's fair value adjustments on hedged assets.

17. Cash and cash equivalents

The following table analyses the cash and cash equivalents disclosed in the Statement of Cash Flows:

	Group 2019 £m	Group 2018 £m	**Bank 2019 £m**	Bank 2018 £m
Cash in hand	**0.4**	0.4	**0.4**	0.4
Unencumbered loans and advances to credit institutions	**2,052.5**	1,323.8	**1,106.3**	1,316.5
Investment securities with original maturity less than 3 months	**49.9**	-	**49.9**	-
	2,102.8	1,324.2	**1,156.6**	1,316.9

18. Loans and advances to credit institutions

	Group 2019 £m	Group 2018 £m	**Bank 2019 £m**	Bank 2018 £m
Unencumbered:				
BoE call account	**1,916.2**	1,295.2	**1,081.8**	1,295.2
Call accounts	**81.7**	28.6	**24.0**	21.3
Cash held in special purpose vehicles1	**44.0**	-	**0.5**	-
Term deposits	**10.6**	-	**-**	-
Encumbered:				
BoE cash ratio deposit	**41.7**	20.0	**27.5**	20.0
Swap margin given	**110.4**	3.5	**62.2**	3.5
	2,204.6	1,347.3	**1,196.0**	1,340.0

[1] Cash held in special purpose vehicle is ring-fenced for the use in managing the Group's securitised debt facilities under the terms of securitisation agreements.

19. Investment securities

	Group 2019 £m	Group 2018 £m	**Bank 2019 £m**	Bank 2018 £m
Held at FVOCI:				
UK and EU Sovereign debt	**149.8**	58.9	**149.8**	58.9
RMBS loan notes	**358.9**	-	**-**	-
	508.7	58.9	**149.8**	58.9
Held at amortised cost:				
RMBS loan notes	**126.6**	-	**-**	-
	635.3	58.9	**149.8**	58.9

At 31 December 2019 the Group had £173.0m of FVOCI RMBS loan notes sold under repos. The Group had no investment securities sold under repos or pledged as at 31 December 2018. The Bank had no investment securities sold under repos or pledged as collateral as at the 2019 and 2018 reporting dates.

The Directors consider that the primary purpose of holding investment securities is prudential. These securities are held as liquid assets with the intention of use on a continuing basis in the Group's activities and are classified as FVOCI and amortised cost in accordance with the Group's business model for each security (2018: FVOCI).

19. Investment securities (continued)

Movements during the year of investment securities held by the Group and Bank are analysed as follows:

	Group 2019 £m	Group 2018 £m	**Bank 2019 £m**	Bank 2018 £m
At 1 January	**58.9**	19.1	**58.9**	19.1
Additions	**439.8**	79.9	**439.8**	79.9
CCFS Combination	**493.5**	-	**-**	-
Disposals and maturities	**(357.7)**	(39.9)	**(349.0)**	(39.9)
Changes in fair value	**0.8**	(0.2)	**0.1**	(0.2)
At 31 December	**635.3**	58.9	**149.8**	58.9

[1] Additions include £49.9m of investment securities with an original maturity of less than three months, as disclosed in note 17 (2018: nil).

20. Loans and advances to customers

	Group 2019 £m	Group 2018 £m	**Bank 2019 £m**	Bank 2018 £m
Held at amortised cost:				
Loans and advances (see note 21)	**18,419.9**	8,998.0	**8,420.8**	7,224.3
Finance leases (see note 22)	**47.7**	7.2	**-**	-
	18,467.6	9,005.2	**8,420.8**	7,224.3
Less: Expected credit losses (see note 23)	**(42.9)**	(21.9)	**(26.6)**	(16.1)
	18,424.7	8,983.3	**8,394.2**	7,208.2
Residential mortgages held at fair value	**22.1**	-	**-**	-
	18,446.8	8,983.3	**8,394.2**	7,208.2

21. Loans and advances

	2019			2018
Group	**OSB £m**	**CCFS £m**	**Total £m**	OSB £m
Gross carrying amount				
Stage 1	**9,999.2**	**7,240.0**	**17,239.2**	8,279.6
Stage 2	**442.4**	**307.1**	**749.5**	436.8
Stage 3	**277.7**	**16.7**	**294.4**	225.4
Stage 3 (POCI)	**53.6**	**83.2**	**136.8**	56.2
	10,772.9	**7,647.0**	**18,419.9**	8,998.0

21. Loans and advances (continued)

Bank	2019 £m	2018 £m
Gross carrying amount		
Stage 1	**7,785.0**	6,657.0
Stage 2	**371.3**	346.6
Stage 3	**211.1**	164.8
Stage 3 (POCI)	**53.4**	55.9
	8,420.8	7,224.3

The mortgage loan balances pledged as collateral for liabilities are:

	Group 2019 £m	Restated Group[1] 2018 £m	Bank 2019 £m	Restated Bank[1] 2018 £m
BoE under TFS and ILTR	**4,458.3**	2,552.5	**2,775.7**	2,552.5
Securitisation	**366.7**	-	**234.3**	-
Warehouse funding	**97.4**	-	**-**	-
Master servicer for securitisation vehicle	**40.4**	16.0	**40.4**	16.0
	4,962.8	2,568.5	**3,050.4**	2,568.5

[1] The Group and Bank have restated the 2018 comparatives to show excess collateral with the BoE under TFS and ILTR as unencumbered in line with guidance from the PRA.

The Group's securitisation programmes, use of TFS and ILTR and Warehouse funding arrnagements result in certain assets being encumbered as collateral against such funding. Assets that are encumbered cannot be used for any other purposes. As at 31 December 2019 the percentage of the Group's gross customer loans and receivables that are encumbered is 27% (2018: 28%) and the Bank's 36% (2018: 36%).

The Bank's deemed loan liability of £240.2m is comprised of £464.3m of mortgage loans sold by the Bank to Canterbury Finance No.1 plc and £6.5m of deemed loan premium, offset by retained notes issued by Canterbury Finance No.1 plc of £230.6m as the Bank adopts the net accounting approach for retained interests.

21. Loans and advances (continued)

The tables below show the movement in loans and advances to customers by IFRS 9 stage during the year, based on the following assumptions:

Group	Stage 1 £m	Stage 2 £m	Stage 3 £m	Stage 3 (POCI) £m	Total £m
At 31 December 2017	6,782.5	292.4	183.0	69.7	7,327.6
Originations[1]	3,043.4	-	-	-	3,043.4
Repayments and write-offs[2]	(1,265.3)	(50.8)	(43.4)	(13.5)	(1,373.0)
Transfers:					
- To Stage 1	170.5	(150.0)	(20.5)	-	-
- To Stage 2	(353.8)	375.1	(21.3)	-	-
- To Stage 3	(97.7)	(29.9)	127.6	-	-
At 31 December 2018	8,279.6	436.8	225.4	56.2	8,998.0
Originations[1]	**4,098.6**	**-**	**-**	**-**	**4,098.6**
CCFS Combination[3]	**7,091.1**	**43.5**	**-**	**94.4**	**7,229.0**
Repayments and write-offs[2]	**(1,825.2)**	**(21.6)**	**(47.5)**	**(17.3)**	**(1,911.6)**
Transfers:					
- To Stage 1	**176.9**	**(162.7)**	**(14.2)**	**-**	**-**
- To Stage 2	**(495.9)**	**517.7**	**(21.8)**	**-**	**-**
- To Stage 3	**(86.1)**	**(64.5)**	**150.6**	**-**	**-**
Incurred loss protection[4]	**0.2**	**0.3**	**1.9**	**3.5**	**5.9**
At 31 December 2019	**17,239.2**	**749.5**	**294.4**	**136.8**	**18,419.9**

[1] Originations include further advances and drawdowns on existing commitments.
[2] Repayments and write-offs include customer redemptions.
[3] The mortgages acquired in the all-share Combination with CCFS are shown at the acquisition date fair value.
[4] During the period the Group reclassified £5.9m of incurred loss protection on acquired portfolios from loans and advances to ECL to reflect the Group's total ECL position. The Group has not reclassified the comparative information where the incurred loss balance included within loans and advances was £7.2m.

The Group did not purchase any external mortgage books during 2019 (2018: nil) other than those acquired in the Combination.

21. Loans and advances (continued)

Bank	Stage 1 £m	Stage 2 £m	Stage 3 £m	Stage 3 (POCI) £m	Total £m
At 31 December 2017	5,679.0	185.8	131.6	69.1	6,065.5
Originations[1]	2,276.2	-	-	-	2,276.2
Repayments and write-offs[2]	(1,049.4)	(28.7)	(26.1)	(13.2)	(1,117.4)
Transfers:					
- To Stage 1	101.0	(83.6)	(17.4)	-	-
- To Stage 2	(279.0)	297.5	(18.5)	-	-
- To Stage 3	(70.8)	(24.4)	95.2	-	-
At 31 December 2018	6,657.0	346.6	164.8	55.9	7,224.3
Originations[1]	**2,395.3**	**-**	**-**	**-**	**2,395.3**
Repayments and write-offs[2]	**(1,153.2)**	**(19.1)**	**(26.4)**	**(6.0)**	**(1,204.7)**
Transfers:					
- To Stage 1	**117.8**	**(106.8)**	**(11.0)**	**-**	**-**
- To Stage 2	**(178.7)**	**196.4**	**(17.7)**	**-**	**-**
- To Stage 3	**(53.4)**	**(46.1)**	**99.5**	**-**	**-**
Incurred loss protection[3]	**0.2**	**0.3**	**1.9**	**3.5**	**5.9**
At 31 December 2019	**7,785.0**	**371.3**	**211.1**	**53.4**	**8,420.8**

[1] Originations include further advances and drawdowns on existing commitments.
[2] Repayments and write-offs include customer redemptions.
[3] During the period the Bank reclassified £5.9m of incurred loss protection on acquired portfolios from loans and advances to ECL to reflect the Bank's total ECL position. The Bank has not reclassified the comparative information where the incurred loss balance included within loans and advances was £7.2m.

22. Finance leases

The Group commenced asset finance lending in October 2018 through an existing subsidiary in the Group, InterBay Asset Finance Limited.

	Group 2019 £m	Group 2018 £m
Net investment in finance leases, receivable		
Less than one year	**11.5**	2.2
Between one and five years	**35.0**	4.9
More than five years	**1.2**	0.1
	47.7	7.2

The Group has recognised £0.3m of ECLs on finance leases as at 31 December 2019 (2018: £0.1m).

23. Expected credit loss

The ECL has been calculated based on various scenarios as set out below:

Group At 31 December	ECL provision 2019 £m	Weighting 2019 %	Weighted ECL provision 2019 £m	ECL provision 2018 £m	Weighting 2018 %	Weighted ECL provision 2018 £m
Scenarios						
Upside	**14.6**	**10**	**1.5**	8.6	-	-
Base case	**24.4**	**40**	**9.7**	9.2	50	4.6
Downside scenario	**48.1**	**35**	**16.8**	12.8	40	5.1
Severe downside scenario	**62.5**	**15**	**9.4**	56.2	10	5.6
Total weighted provisions			**37.4**			15.3
Non-modelled Provisions:						
Individually assessed provisions	-	-	**4.2**	-	-	5.4
Post model adjustments[1]	-	-	**1.3**	-	-	1.0
Undrawn loan facilities	-	-	**-**	-	-	0.2
Total provision			**42.9**			21.9

Bank At 31 December	ECL provision 2019 £m	Weighting 2019 %	Weighted ECL provision 2019 £m	ECL provision 2018 £m	Weighting 2018 %	Weighted ECL provision 2018 £m
Scenarios						
Upside	**9.9**	**10**	**1.0**	7.0	-	-
Base case	**17.2**	**40**	**6.9**	7.6	50	3.8
Downside scenario	**31.1**	**35**	**10.9**	11.2	40	4.5
Severe downside scenario	**39.1**	**15**	**5.9**	54.6	10	5.4
Total weighted provisions			**24.7**			13.7
Non-modelled Provisions:						
Individually assessed provisions	-	-	**0.8**	-	-	1.3
Post model adjustments[1]	-	-	**1.1**	-	-	0.9
Undrawn loan facilities	-	-	**-**	-	-	0.2
Total provision			**26.6**			16.1

[1]Post model adjustments have been made to a number of probability of default models and the OSB segment mortgage loss given default model to ensure predicted estimates are aligned to recently observed actual performance. Where model predictions more closely align with actual performance these post model adjustments will be reduced or removed over time. The Group is currently developing second generation models which will replace existing models, with a target implementation date within 2020.

23. Expected credit loss (continued)

The Group's ECL by segment and IFRS 9 stage is shown below:

Group	2019 OSB £m	2019 CCFS £m	2019 Total £m	2018 OSB £m
Stage 1	**3.5**	**2.1**	**5.6**	4.3
Stage 2	**3.6**	**2.0**	**5.6**	5.6
Stage 3	**23.4**	**0.4**	**23.8**	10.2
Stage 3 (POCI)	**5.1**	**2.8**	**7.9**	1.6
Undrawn loan facilities[1]	**-**	**-**	**-**	0.2
	35.6	**7.3**	**42.9**	21.9

Bank	2019 £m	2018 £m
Stage 1	**2.8**	3.4
Stage 2	**3.3**	4.7
Stage 3	**15.4**	6.2
Stage 3 (POCI)	**5.1**	1.6
Undrawn loan facilities[1]	**-**	0.2
	26.6	16.1

[1] Following the Combination, the Group has adopted a consistent approach in recognising ECL on undrawn loan facilities within provisions (see note 38). The ECL on undrawn loan facilities was previously classified as Stage 1.

23. Expected credit loss (continued)

The tables below show the movement in the ECL by IFRS 9 stage during the year. ECLs on originations reflect the IFRS 9 stage of loans originated during the year as at 31 December and not the date of origination. Remeasurement of loss allowance relates to existing loans which did not redeem during the year and includes the impact of loans moving between IFRS 9 stages.

Group	Stage 1 £m	Stage 2 £m	Stage 3 £m	Stage 3 (POCI) £m	Total £m
At 31 December 2017	7.8	2.3	13.3	1.8	25.2
Originations	2.1	-	-	-	2.1
Repayments and write-offs	(0.3)	(0.2)	(7.0)	(0.2)	(7.7)
Remeasurement of loss allowance	(6.1)	6.9	4.0	-	4.8
Transfers:					
- To Stage 1	1.4	(0.8)	(0.6)	-	-
- To Stage 2	(0.8)	1.3	(0.5)	-	-
- To Stage 3	(5.8)	(0.4)	6.2	-	-
Changes in assumptions and model parameters	6.2	(3.5)	(5.2)	-	(2.5)
At 31 December 2018	4.5	5.6	10.2	1.6	21.9
Originations	**1.9**	**-**	**-**	**-**	**1.9**
CCFS Combination	**-**	**-**	**-**	**3.6**	**3.6**
Repayments and write-offs	**(0.6)**	**(0.4)**	**(4.3)**	**(0.2)**	**(5.5)**
Remeasurement of loss allowance	**(3.4)**	**(0.5)**	**18.8**	**(0.6)**	**14.3**
Transfers:					
- To Stage 1	**1.9**	**(1.6)**	**(0.3)**	**-**	**-**
- To Stage 2	**(0.2)**	**0.6**	**(0.4)**	**-**	**-**
- To Stage 3	**(0.1)**	**(1.0)**	**1.1**	**-**	**-**
Changes in assumptions and model parameters	**1.4**	**2.6**	**(3.2)**	**-**	**0.8**
Incurred loss protection[1]	**0.2**	**0.3**	**1.9**	**3.5**	**5.9**
At 31 December 2019	**5.6**	**5.6**	**23.8**	**7.9**	**42.9**

[1] During the period the Group reclassified £5.9m of incurred loss protection on acquired portfolios from loans and advances to ECL to reflect the Group's total ECL position. The Group has not reclassified the comparative information where the incurred loss balance included within loans and advances was £7.2m.

23. Expected credit loss (continued)

Bank	Stage 1 £m	Stage 2 £m	Stage 3 £m	Stage 3 (POCI) £m	Total £m
At 31 December 2017	5.1	1.4	8.6	1.8	16.9
Originations	1.8	-	-	-	1.8
Repayments and write-offs	(0.1)	(0.1)	(4.1)	(0.2)	(4.5)
Remeasurement of loss allowance	(1.7)	6.8	1.6	-	6.7
Transfers:					
- To Stage 1	0.9	(0.4)	(0.5)	-	-
- To Stage 2	(0.6)	1.0	(0.4)	-	-
- To Stage 3	(4.4)	(0.3)	4.7	-	-
Changes in assumptions and model parameters	2.6	(3.7)	(3.7)	-	(4.8)
At 31 December 2018	3.6	4.7	6.2	1.6	16.1
Originations	**1.3**	**-**	**-**	**-**	**1.3**
Repayments and write-offs	**(0.3)**	**(0.4)**	**(2.8)**	**(0.1)**	**(3.6)**
Remeasurement of loss allowance	**(4.5)**	**(2.3)**	**12.8**	**0.1**	**6.1**
Transfers:					
- To Stage 1	**1.4**	**(1.2)**	**(0.2)**	**-**	**-**
- To Stage 2	**(0.2)**	**0.5**	**(0.3)**	**-**	**-**
- To Stage 3	**(0.1)**	**(0.9)**	**1.0**	**-**	**-**
Changes in assumptions and model parameters	**1.4**	**2.6**	**(3.2)**	**-**	**0.8**
Incurred loss protection[1]	**0.2**	**0.3**	**1.9**	**3.5**	**5.9**
At 31 December 2019	**2.8**	**3.3**	**15.4**	**5.1**	**26.6**

[1] During the period the Bank reclassified £5.9m of incurred loss protection on acquired portfolios from loans and advances to ECL to reflect the Bank's total ECL position. The Bank has not reclassified the comparative information where the incurred loss balance included within loans and advances was £7.2m.

The tables below show the stage 2 ECL balances by transfer criteria:

Group	Carrying value 2019 £m	ECL 2019 £m	Coverage 2019 %	Carrying value 2018 £m	ECL 2018 £m	Coverage 2018 %
Criteria:						
Relative PD movement	**588.2**	**4.8**	**0.82**	414.4	5.4	1.28
Qualitative measures	**79.8**	**0.4**	**0.44**	-	-	-
30 days past due backstop	**81.5**	**0.4**	**0.54**	22.4	0.2	1.09
Total	**749.5**	**5.6**	**0.75**	436.8	5.6	1.27

23. Expected credit loss (continued)

Bank	**Carrying value 2019 £m**	**ECL 2019 £m**	**Coverage 2019 %**	Carrying value 2018 £m	ECL 2018 £m	Coverage 2018 %
Criteria:						
Relative PD movement	**306.8**	**3.0**	**0.98**	325.7	4.5	1.37
Qualitative measures	**35.2**	**0.1**	**0.32**	-	-	-
30 days past due backstop	**29.3**	**0.2**	**0.80**	20.9	0.2	1.13
Total	**371.3**	**3.3**	**0.90**	346.6	4.7	1.35

The Group has a number of qualitative measures to determine whether a SICR has taken place. These triggers utilise both internal performance information, to analyse whether an account is in distress but not yet in arrears, and external credit bureau information, to determine whether the customer is experiencing financial difficulty with an external credit obligation.

24. Impairment losses

	Group 2019 £m	Group 2018 £m
Write-offs in year	**4.1**	11.1
Disposals	**-**	0.3
CCFS Combination	**3.6**	-
Increase/(decrease) in provision	**7.9**	(3.3)
	15.6	8.1

The CCFS Combination losses relate to the initial ECL recognised on the CCFS loan book following the Combination in October 2019.

25. Derivatives

The table below reconciles the gross amount of derivative contracts to the carrying balance shown in the Statement of Financial Position:

Group	Gross amount of recognised financial assets / (liabilities) £m	Net amount of financial assets / (liabilities) presented in the Statement of Financial Position £m	Contracts subject to master netting agreements not offset in the Statement of Financial Position £m	Cash collateral paid / (received) not offset in the Statement of Financial Position £m	Net amount £m
At 31 December 2019					
Derivative assets:					
Interest rate risk hedging	**21.1**	**21.1**	**(9.8)**	**(8.0)**	**3.3**
Derivative liabilities:					
Interest rate risk hedging	**(92.8)**	**(92.8)**	**9.8**	**110.4**	**27.4**
	(92.8)	**(92.8)**	**9.8**	**110.4**	**27.4**
At 31 December 2018					
Derivative assets:					
Interest rate risk hedging	11.7	11.7	(10.3)	(1.0)	0.4
Derivative liabilities:					
Interest rate risk hedging	(15.1)	(15.1)	10.3	3.5	(1.3)
Heritable option[1]	(9.8)	(9.8)	-	-	(9.8)
	(24.9)	(24.9)	10.3	3.5	(11.1)

Included within the Group's derivative liabilities £3.4m (2018: £3.0m) of derivative contracts not covered by master netting agreements and therefore no cash collateral has been paid.

25. Derivatives (continued)

Bank	Gross amount of recognised financial assets / (liabilities) £m	Net amount of financial assets / (liabilities) presented in the Statement of Financial Position £m	Contracts subject to master netting agreements not offset in the Statement of Financial Position £m	Cash collateral paid / (received) not offset in the Statement of Financial Position £m	Net amount £m
At 31 December 2019					
Derivative assets:					
Interest rate risk hedging	**8.7**	**8.7**	**(2.5)**	**(7.8)**	**(1.6)**
Derivative liabilities:					
Interest rate risk hedging	**(54.3)**	**(54.3)**	**2.5**	**62.2**	**10.4**
	(54.3)	**(54.3)**	**2.5**	**62.2**	**10.4**
At 31 December 2018					
Derivative assets:					
Interest rate risk hedging	11.7	11.7	(10.3)	(1.0)	0.4
Derivative liabilities:					
Interest rate risk hedging	(15.1)	(15.1)	10.3	3.5	(1.3)
Heritable option[1]	(9.8)	(9.8)	-	-	(9.8)
	(24.9)	(24.9)	10.3	3.5	(11.1)

[1] The Group had a put/call option over Heritable Capital Limited ('HCL') as part of the development finance joint venture, as further discussed in note 13.

Included within the Bank's derivative liabilities is £3.4m (2018: £3.0m) of derivative contracts not covered by master netting agreements and therefore no cash collateral has been paid.

The tables below profile the timing of nominal amounts for interest rate risk hedging derivatives based on contractual maturity:

Group	Total nominal £m	Less than 3 months £m	3 - 12 months £m	1 - 5 years £m	More than 5 years £m
At 31 December 2019					
Derivative assets	**7,795.4**	**1,110.8**	**2,608.2**	**3,760.9**	**315.5**
Derivative liabilities	**9,982.4**	**144.3**	**2,528.6**	**7,155.5**	**154.0**
	17,777.8	**1,255.1**	**5,136.8**	**10,916.4**	**469.5**
At 31 December 2018					
Derivative assets	1,999.0	106.0	330.0	1,563.0	-
Derivative liabilities	4,532.2	195.0	2,090.0	1,966.2	281.0
	6,531.2	301.0	2,420.0	3,529.2	281.0

The Group has 1,175 (2018: 206) derivative contracts with an average fixed rate of 0.91% (2018: 1.23%).

25. Derivatives (continued)

Bank	Total nominal £m	Less than 3 months £m	3 - 12 months £m	1 - 5 years £m	More than 5 years £m
At 31 December 2019					
Derivative assets	**3,080.0**	**475.0**	**1,395.0**	**1,110.0**	**100.0**
Derivative liabilities	**4,462.9**	**8.3**	**789.6**	**3,549.0**	**116.0**
	7,542.9	**483.3**	**2,184.6**	**4,659.0**	**216.0**
At 31 December 2018					
Derivative assets	1,999.0	106.0	330.0	1,563.0	-
Derivative liabilities	4,532.2	195.0	2,090.0	1,966.2	281.0
	6,531.2	301.0	2,420.0	3,529.2	281.0

The Bank has 205 (2018: 206) derivative contracts with an average fixed rate of 1.17% (2018: 1.23%).

26. Hedge accounting

The tables below analyse the Group's and Bank's portfolio hedge accounting for fixed rate loans and advances to customers:

	Group 2019		Group 2018	
Loans and advances to customers	**Hedged item £m**	**Hedging instrument £m**	Hedged item £m	Hedging instrument £m
Carrying amount of hedged item/nominal value of hedging instrument	**10,312.5**	**10,248.3**	3,168.7	3,166.2
Cumulative fair value adjustments	**64.2**	**(75.6)**	2.5	(2.2)
Fair value adjustments for the period	**70.1**	**(75.1)**	(13.8)	11.0
Cumulative fair value on cancelled hedge relationships	**20.4**	**-**	17.3	-

The cumulative fair value adjustments of the hedging instrument comprise £13.2m (2018: £11.7m) recognised within derivative assets and £88.8m (2018: £13.9m) recognised within derivative liabilities.

	Bank 2019		Bank 2018	
Loans and advances to customers	**Hedged item £m**	**Hedging instrument £m**	Hedged item £m	Hedging instrument £m
Carrying amount of hedged item/nominal value of hedging instrument	**4,574.0**	**4,537.9**	3,168.7	3,166.2
Cumulative fair value adjustments	**36.1**	**(45.5)**	2.5	(2.2)
Fair value adjustments for the period	**39.8**	**(43.7)**	(13.8)	11.0
Cumulative fair value on cancelled hedge relationships	**16.7**	**-**	17.3	-

The cumulative fair value adjustments of the hedging instrument comprise £6.8m (2018: £11.7m) recognised within derivative assets and £52.3m (2018: £13.9m) recognised within derivative liabilities.

26. Hedge accounting (continued)

The cumulative fair value adjustments on cancelled hedge relationships represent the fair value adjustment for interest rate risk predominantly on the legacy long-term fixed rate mortgages (c. 25 years at origination) where the interest rate swap hedges were terminated before maturity and were effective at the point of termination.

The movement in cancelled hedge relationships is as follows:

	Group 2019 £m	Group 2018 £m	**Bank 2019 £m**	Bank 2018 £m
At 1 January	**17.3**	16.0	**17.3**	16.0
New cancellations[1]	**8.6**	5.9	**4.9**	5.9
Amortisation	**(5.5)**	(4.6)	**(5.5)**	(4.6)
At 31 December	**20.4**	17.3	**16.7**	17.3

[1] Following the securitisation of mortgages during the year, the Group cancelled swaps which were effective prior to the securitisation, with the designated hedge moved to cancelled hedge relationships to be amortised over the original life of the swap.

The tables below analyse the Group's and Bank's portfolio hedge accounting for fixed rate amounts owed to retail depositors:

	Group 2019		Group 2018	
Customer deposits	**Hedged item £m**	**Hedging instrument £m**	Hedged item £m	Hedging instrument £m
Carrying amount of hedged item/nominal value of hedging instrument	**6,684.6**	**6,687.5**	3,250.0	3,250.0
Cumulative fair value adjustments	**(2.9)**	**3.5**	-	(1.5)
Fair value adjustments for the period	**(4.6)**	**4.8**	0.4	(0.3)

The cumulative fair value adjustments of the hedging instrument comprise £5.9m (2018: £0.1m) recognised within derivative assets and £2.4m (2018: £1.6m) recognised within derivative liabilities.

	Bank 2019		Bank 2018	
Customer deposits	**Hedged item £m**	**Hedging instrument £m**	Hedged item £m	Hedging instrument £m
Carrying amount of hedged item/nominal value of hedging instrument	**2,804.9**	**2,805.0**	3,250.0	3,250.0
Cumulative fair value adjustments	**(0.1)**	**0.5**	-	(1.5)
Fair value adjustments for the period	**(1.8)**	**2.2**	0.4	(0.3)

The cumulative fair value adjustments of the hedging instrument comprise £1.0m (2018: £0.1m) recognised within derivative assets and £0.5m (2018: £1.4m) recognised within derivative liabilities.

27. Other assets

	Group 2019 £m	Group 2018 £m	Bank 2019 £m	Bank 2018 £m
Prepayments	**9.3**	2.3	**3.2**	2.1
Other assets	**5.0**	3.4	**4.3**	3.4
	14.3	5.7	**7.5**	5.5

28. Deferred taxation

(i) Deferred taxation asset:

Group	Losses carried forward £m	Accelerated depreciation £m	Share-based payments £m	IFRS 9 transitional adjustments £m	Others[1] £m	Total £m
At 31 December 2017	2.5	0.1	2.5	0.7	-	5.8
Profit or loss (charge)/credit	(1.1)	(0.2)	0.6	-	-	(0.7)
Transferred to corporation tax liability	-	-	(1.6)	-	-	(1.6)
Tax taken directly to equity	-	-	-	-	-	-
At 31 December 2018	1.4	(0.1)	1.5	0.7	-	3.5
Profit or loss (charge)/credit	**(0.5)**	**0.3**	**0.8**	**(0.1)**	**(0.7)**	**(0.2)**
CCFS Combination	**-**	**(0.1)**	**0.5**	**0.1**	**1.4**	**1.9**
Transferred to corporation tax liability	**-**	**-**	**(1.3)**	**-**	**-**	**(1.3)**
Tax taken directly to OCI	**-**	**-**	**-**	**-**	**(0.2)**	**(0.2)**
Tax taken directly to equity	**-**	**-**	**1.1**	**-**	**-**	**1.1**
At 31 December 2019	**0.9**	**0.1**	**2.6**	**0.7**	**0.5**	**4.8**

[1] Others include deferred taxation assets recognised on financial assets classified as FVOCI, derivatives and short-term timing differences.

As at 31 December 2019, the Group had £3.5m (2018: £3.5m) of losses for which a deferred tax asset has not been recognised as the Group does not expect sufficient future profits to be available to utilise the losses.

28. Deferred taxation (continued)

Bank	Accelerated depreciation £m	Share-based payments £m	IFRS 9 transitional adjustments £m	Total £m
At 31 December 2017	-	2.5	0.3	2.8
Profit or loss (charge)/credit	(0.2)	0.6	-	0.4
Transferred to corporation tax liability	-	(1.6)	-	(1.6)
At 31 December 2018	(0.2)	1.5	0.3	1.6
Profit or loss credit	**0.3**	**0.8**	**-**	**1.1**
Transferred to corporation tax liability	**-**	**(1.3)**	**-**	**(1.3)**
Tax taken directly to equity	**-**	**0.8**	**-**	**0.8**
At 31 December 2019	**0.1**	**1.8**	**0.3**	**2.2**

(ii) Deferred taxation liability:

The deferred tax liability recognised on the Combination relates to the timing differences of the recognition of assets and liabilities at fair value, where the fair values will unwind in future periods in-line with the underlying asset or liability. The deferred tax liability has been measured using the relevant rates for the expected periods of utilisation.

Group	CCFS Combination £m
At 31 December 2018	**-**
CCFS Combination	**70.1**
Profit or loss credit	**(7.0)**
At 31 December 2019	**63.1**

29. Property, plant and equipment

Group	Freehold land and buildings £m	Leasehold improvements £m	Equipment and fixtures £m	Right of use assets Property leases £m	Right of use assets Other leases £m	Total £m
Cost						
At 1 January 2018	16.2	0.6	9.9	-	-	26.7
Additions	-	0.3	2.5	-	-	2.8
Disposals and write-offs	-	-	(1.3)	-	-	(1.3)
Foreign exchange difference	(0.2)	-	(0.1)	-	-	(0.3)
At 31 December 2018	16.0	0.9	11.0	-	-	27.9
Adoption of IFRS 16 (see note 2)	**-**	**-**	**-**	**3.8**	**-**	**3.8**
At 1 January 2019	**16.0**	**0.9**	**11.0**	**3.8**	**-**	**31.7**
Additions	**3.1**	**1.5**	**2.4**	**2.5**	**0.1**	**9.6**
CCFS Combination	**-**	**0.3**	**2.1**	**6.4**	**1.2**	**10.0**
Disposals and write-offs[1]	**-**	**-**	**(1.2)**	**-**	**-**	**(1.2)**
Foreign exchange difference	**0.2**	**-**	**0.1**	**-**	**-**	**0.3**
At 31 December 2019	**19.3**	**2.7**	**14.4**	**12.7**	**1.3**	**50.4**
Depreciation						
At 1 January 2018	0.6	0.2	4.4	-	-	5.2
Charged in year	0.2	0.1	1.9	-	-	2.2
Disposals and write-offs	-	-	(1.3)	-	-	(1.3)
At 31 December 2018	0.8	0.3	5.0	-	-	6.1
Charged in year	**0.3**	**0.2**	**2.3**	**1.0**	**0.1**	**3.9**
CCFS Combination	**-**	**-**	**-**	**-**	**-**	**-**
Disposals and write-offs[1]	**-**	**-**	**(1.2)**	**-**	**-**	**(1.2)**
At 31 December 2019	**1.1**	**0.5**	**6.1**	**1.0**	**0.1**	**8.8**
Net book value						
At 31 December 2019	**18.2**	**2.2**	**8.3**	**11.7**	**1.2**	**41.6**
At 31 December 2018	15.2	0.6	6.0	-	-	21.8

[1] During the year the Group wrote off fully depreciated assets.

29. Property, plant and equipment (continued)

Bank	Freehold land and buildings £m	Leasehold improvements £m	Equipment and fixtures £m	Right of use assets: Property leases £m	Right of use assets: Other leases £m	Total £m
Cost						
At 1 January 2018	11.5	0.6	7.4	-	-	19.5
Additions	-	0.1	1.8	-	-	1.9
Disposals and write-offs	-	-	(1.0)	-	-	(1.0)
At 31 December 2018	11.5	0.7	8.2	-	-	20.4
Adoption of IFRS 16 (see note 2)	**-**	**-**	**-**	**2.3**	**-**	**2.3**
At 1 January 2019	**11.5**	**0.7**	**8.2**	**2.3**	**-**	**22.7**
Additions	**-**	**1.5**	**1.9**	**2.6**	**0.1**	**6.1**
Disposals and write-offs[1]	**-**	**-**	**(0.9)**	**-**	**-**	**(0.9)**
At 31 December 2019	**11.5**	**2.2**	**9.2**	**4.9**	**0.1**	**27.9**
Depreciation						
At 1 January 2018	0.6	0.2	3.3	-	-	4.1
Charged in year	0.1	0.1	1.5	-	-	1.7
Disposals and write-offs	-	-	(1.0)	-	-	(1.0)
At 31 December 2018	0.7	0.3	3.8	-	-	4.8
Charged in year	**0.2**	**0.1**	**1.8**	**0.7**	**-**	**2.8**
Disposals and write-offs[1]	**-**	**-**	**(0.9)**	**-**	**-**	**(0.9)**
At 31 December 2019	**0.9**	**0.4**	**4.7**	**0.7**	**-**	**6.7**
Net book value						
At 31 December 2019	**10.6**	**1.8**	**4.5**	**4.2**	**0.1**	**21.2**
At 31 December 2018	10.8	0.4	4.4	-	-	15.6

[1] During the year the Bank wrote off fully depreciated assets.

30. Intangible assets

Group	Development costs £m	Computer software and licences £m	Assets arising on consolidation[2] £m	Total £m
Cost				
At 1 January 2018	-	12.4	-	12.4
Additions	-	3.5	-	3.5
Disposals and write-offs	-	(2.3)	-	(2.3)
At 31 December 2018	-	13.6	-	13.6
Additions	**0.5**	**3.8**	**-**	**4.3**
CCFS Combination	**-**	**-**	**23.6**	**23.6**
Disposals and write-offs[1]	**-**	**(2.0)**	**-**	**(2.0)**
At 31 December 2019	**0.5**	**15.4**	**23.6**	**39.5**
Amortisation				
At 1 January 2018	-	5.6	-	5.6
Charged in year	-	2.5	-	2.5
Disposals and write-offs	-	(2.3)	-	(2.3)
At 31 December 2018	-	5.8	-	5.8
CCFS Combination	**-**	**-**	**-**	**-**
Charged in year	**-**	**3.0**	**1.3**	**4.3**
Disposals and write-offs[1]	**-**	**(2.0)**	**-**	**(2.0)**
At 31 December 2019	**-**	**6.8**	**1.3**	**8.1**
Net book value				
At 31 December 2019	**0.5**	**8.6**	**22.3**	**31.4**
At 31 December 2018	-	7.8	-	7.8

[1] During the year the Group wrote off fully amortised assets.
[2] Assets arising on consolidation comprise broker relationships of £17.1m, technology of £3.2m, brand name of £1.8m and banking licence of £1.5m.

30. Intangible assets (continued)

Bank	Computer software and licences £m
Cost	
At 1 January 2018	10.4
Additions	3.2
Disposals and write-offs	(1.5)
At 31 December 2018	12.1
Additions	**3.3**
Disposals and write-offs[1]	**(1.9)**
At 31 December 2019	**13.5**
Amortisation	
At 1 January 2018	4.3
Charged in year	2.2
Disposals and write-offs	(1.5)
At 31 December 2018	5.0
Charged in year	**2.7**
Disposals and write-offs[1]	**(1.9)**
At 31 December 2019	**5.8**
Net book value	
At 31 December 2019	**7.7**
At 31 December 2018	7.1

[1] During the year the Bank wrote off fully amortised assets.

31. Investments in subsidiaries, intercompany loans and transactions with related parties

The balances between the Bank and its subsidiaries at the reporting date are summarised in the table below:

	Shares in subsidiary undertakings £m	Intercompany loans receivable £m	Intercompany loans payable £m
At 1 January 2018	1.8	1,192.5	(31.2)
Additions	-	782.4	(231.4)
Repayments	-	(76.0)	0.2
At 31 December 2018	1.8	1,898.9	(262.4)
Additions	**-**	**1,062.2**	**(378.9)**
CCFS Combination	**707.1**	**-**	**(3.6)**
Repayments	**-**	**(40.6)**	**1.0**
At 31 December 2019	**708.9**	**2,920.5**	**(643.9)**

The Bank assesses intercompany loans receivable for impairment.

A list of the Bank's direct subsidiaries is shown below:

At 31 December 2019 **Direct investments**	**Activity**	**Registered office**	**Ownership**
Charter Court Financial Services Group plc	Holding company	Charter Court	**100%**
Easioption Limited	Holding company	Reliance House	**100%**
Guernsey Home Loans Limited	Mortgage provider	Reliance House	**100%**
Guernsey Home Loans Limited (Guernsey)	Mortgage provider	Guernsey	**100%**
Heritable Development Finance Limited	Mortgage originator and servicer	Reliance House	**100%**
Interbay Group Holdings Limited	Holding company	Reliance House	**100%**
Jersey Home Loans Limited	Mortgage provider	Reliance House	**100%**
Jersey Home Loans Limited (Jersey)	Mortgage provider	Jersey	**100%**
OSB India Private Limited	Back office processing	India	**100%**
Prestige Finance Limited	Mortgage originator and servicer	Reliance House	**100%**
Reliance Property Loans Limited	Mortgage provider	Reliance House	**100%**
Rochester Mortgages Limited	Mortgage provider	Reliance House	**100%**

The Company holds ordinary shares in all its direct subsidiaries.

OSB India Private Limited is owned 70.28% by the Bank, 29.72% by Easioption Limited and 0.001% by Reliance Property Loans Limited.

31. Investments in subsidiaries, intercompany loans and transactions with related parties (continued)

A list of the Bank's indirect subsidiaries is shown below:

At 31 December 2019 Indirect investments	Activity	Registered office	Ownership
5D Finance Limited	Mortgage servicer	Reliance House	**100%**
Broadlands Finance Limited	Mortgage administration services	Charter Court	**100%**
Canterbury Finance No.1 plc	Special purpose vehicle	Reliance House	**-**
Charter Court Financial Services Limited	Mortgage lending and deposit taking	Charter Court	**100%**
Charter Mortgages Limited	Mortgage administration and analytical services	Charter Court	**100%**
CMF 2020-1 plc[1]	Special purpose vehicle	Canada Square, London	**-**
CML Warehouse Number 1 Limited	Special purpose vehicle	Great St. Helen's,London	**-**
CML Warehouse Number 2 Limited	Special purpose vehicle	Great St. Helen's,London	**-**
Exact Mortgage Experts Limited	Group service company	Charter Court	**100%**
Inter Bay Financial I Limited	Holding company	Reliance House	**100%**
Inter Bay Financial II Limited	Holding company	Reliance House	**100%**
InterBay Asset Finance Limited	Asset finance and mortgage provider	Reliance House	**100%**
Interbay Funding, Ltd	Mortgage servicer	Reliance House	**100%**
InterBay Holdings Ltd	Holding company	Reliance House	**100%**
Interbay ML, Ltd	Mortgage provider	Reliance House	**100%**
Precise Mortgage Funding 2014-1 plc	Special purpose vehicle	Great St. Helen's,London	**-**
Precise Mortgage Funding 2014-2 plc	Special purpose vehicle	Great St. Helen's,London	**-**
Precise Mortgage Funding 2015-1 plc	Special purpose vehicle	Great St. Helen's,London	**-**
Precise Mortgage Funding 2015-3R plc	Special purpose vehicle	Great St. Helen's,London	**-**
Precise Mortgage Funding 2020-1B plc[2]	Special purpose vehicle	Canada Square, London	**-**

.[1] Incorporated on 4 November 2019.
[2] Incorporated on 22 November 2019.

Special purpose vehicles which the Group controls are treated as subsidiaries for accounting purposes.

All of the entities listed above have been consolidated into the Group's consolidated financial statements.

All of the above investments are reviewed annually for impairment. Based on assessment of the future cash flows of each entity no impairment has been recognised.

31. Investments in subsidiaries, intercompany loans and transactions with related parties (continued)

At 31 December 2018

Direct investments	Activity	Registered Office	Ownership
Easioption Limited	Holding company	Reliance House	100%
Guernsey Home Loans Limited	Mortgage provider	Reliance House	100%
Guernsey Home Loans Limited (Guernsey)	Mortgage provider	Guernsey	100%
Heritable Development Finance Limited	Mortgage originator and servicer	Reliance House	85%
Interbay Group Holdings Limited	Holding company	Reliance House	100%
Jersey Home Loans Limited	Mortgage provider	Reliance House	100%
Jersey Home Loans Limited (Jersey)	Mortgage provider	Jersey	100%
OSB India Private Limited	Back office processing	India	100%
Prestige Finance Limited	Mortgage originator and servicer	Reliance House	100%
Reliance Property Loans Limited	Mortgage provider	Reliance House	100%
Rochester Mortgages Limited	Mortgage provider	Reliance House	100%

Indirect investments			
Inter Bay Financial I Limited	Holding company	Reliance House	100%
Inter Bay Financial II Limited	Holding company	Reliance House	100%
Interbay Funding, Ltd	Mortgage servicer	Reliance House	100%
Interbay ML, Ltd	Mortgage provider	Reliance House	100%
InterBay Holdings Ltd	Holding company	Reliance House	100%
5D Finance Limited	Mortgage servicer	Reliance House	100%
InterBay Asset Finance Limited (formerly: 5D Lending Ltd)	Asset finance and mortgage provider	Reliance House	100%

The following are the registered offices of the subsidiaries:

Charter Court - 2 Charter Court, Broadlands, Wolverhampton WV10 6TD, United Kingdom
Guernsey – 1st Floor, Tudor House, Le Bordage, St Peter Port, Guernsey, GY1 1DB
Great St. Helen's,London - 35 Great St. Helen's, London, EC3A 6AP
India - Salarpuria Magnificia, 9th & 10th floor, 78 Old Madras Road, Bangalore, India, 560016.
Jersey - 26 New Street, St Helier, Jersey, JE2 3RA
Reliance House – Reliance House, Sun Pier, Chatham, Kent, ME4 4ET, United Kingdom
Canada Square, London - Level 37, 25 Canada Square, London, E14 5LQ

31. Investments in subsidiaries, intercompany loans and transactions with related parties (continued)

The transactions between the Bank and its subsidiaries are disclosed below:

	2019		2018	
Direct investments	**Charged by/(to) the Bank during the year £m**	**Balance due to/(by) the Bank £m**	Charged by/(to) the Bank during the year £m	Balance due to/(by) the Bank £m
Charter Court Financial Services Group plc	**-**	**(3.6)**	-	-
Easioption Limited	**-**	**0.5**	-	0.5
Guernsey Home Loans Limited	**0.2**	**9.6**	0.3	13.0
Guernsey Home Loans Limited (Guernsey)	**0.7**	**29.9**	0.8	36.8
Heritable Development Finance Limited	**(1.8)**	**(0.9)**	(1.5)	(0.8)
Interbay Group Holdings Limited	**-**	**-**	-	-
Jersey Home Loans Limited	**-**	**2.5**	0.1	2.0
Jersey Home Loans Limited (Jersey)	**2.9**	**123.2**	3.3	152.3
OSB India Private Limited	**(8.9)**	**9.0**	(6.8)	5.7
Prestige Finance Limited	**(2.8)**	**(0.2)**	(2.7)	(1.2)
Reliance Property Loans Limited	**0.1**	**3.4**	0.1	3.8
Rochester Mortgages Limited	**-**	**-**	-	-
Indirect investments				
5D Finance Limited	**-**	**0.5**	-	0.4
Canterbury Finance No.1 plc	**-**	**3.7**	**-**	**-**
Inter Bay Financial I Limited	**0.4**	**19.3**	0.3	20.1
Inter Bay Financial II Limited	**0.4**	**125.7**	0.2	6.8
InterBay Asset Finance Limited	**0.5**	**46.0**	0.1	6.2
Interbay Funding, Ltd	**(7.6)**	**(639.2)**	(2.1)	(260.3)
InterBay Holdings Ltd	**-**	**-**	-	-
Interbay ML, Ltd	**37.5**	**2,547.2**	19.3	1,651.2
	21.6	**2,276.6**	11.4	1,636.5

In addition to the above subsidiaries, the Bank has transactions with Kent Reliance Provident Society (‘KRPS’), one of its founding shareholders. KRPS runs member engagement forums for the Bank. In exchange, the Bank provides KRPS with various services including IT, finance and other support functions. During the year the Bank was charged for services provided by KRPS amounting to £0.2m (2018: £0.2m). As at 31 December 2019, KRPS had £0.3m (2018: £0.3m) deposited with OSB.

All related party transactions were made on terms equivalent to those that prevail in arm’s length transactions. During the year there were no related party transactions between the key management personnel and the Bank other than as described below.

31. Investments in subsidiaries, intercompany loans and transactions with related parties (continued)

Transactions with key management personnel

During the year the Board extended the definition of key management personnel to comprise the Directors and Executive team, previously Directors only. Directors' remuneration is disclosed in note 10 and in the Annual Report on Remuneration. The table below shows the Executive team's aggregate remuneration:

	Group 2019 £'000	Group 2018 £'000
Short-term employee benefits	**4,282**	3,844
Post-employment benefits	**45**	76
Share-based payments	**1,888**	3,080
	6,215	7,000

No loans were issued to related parties during 2019 (2018: nil).

Key management personnel and connected persons held deposits with the Group of £1.8m (2018 restated: £1.9m).

32. Amounts owed to credit institutions

	Group 2019 £m	Group 2018 £m	**Bank 2019 £m**	**Bank** 2018 £m
BoE TFS	**2,632.8**	1,502.9	**1,502.8**	1,502.9
BoE ILTR	**290.6**	80.1	**160.5**	80.1
Warehouse funding	**93.6**	-	**-**	-
Commercial repo	**41.4**	-	**-**	-
Swap margin received	**8.0**	1.0	**7.8**	1.0
Loans from credit institutions	**2.4**	-	**-**	-
	3,068.8	1,584.0	**1,671.1**	1,584.0

33. Amounts owed to retail depositors

	Group 2019 £m	Group 2018 £m	**Bank 2019 £m**	Bank 2018 £m
Fixed rate deposits	**10,525.5**	5,155.5	**5,617.9**	5,155.5
Variable rate deposits	**5,729.5**	2,916.4	**3,817.8**	2,916.4
	16,255.0	8,071.9	**9,435.7**	8,071.9

34. Amounts owed to other customers

	Group 2019 £m	Group 2018 £m	Bank 2019 £m	Bank 2018 £m
Fixed rate deposits	**26.0**	32.9	**8.9**	32.9
Variable rate deposits	**3.7**	-	**-**	-
	29.7	32.9	**8.9**	32.9

35. Debt securities in issue

	Group 2019 £m	Group 2018 £m
Asset backed loan notes at amortised cost	**296.3**	-
Amount due for settlement within 12 months	**40.1**	-
Amount due for settlement after 12 months	**256.2**	-
	296.3	-

The asset backed loan notes are secured on fixed and variable rate mortgages and are redeemable in part from time to time, but such redemptions are limited to the net principal received from borrowers in respect of underlying mortgage assets. The maturity date of the funds matches the maturity date of the underlying mortgage assets. It is likely that a large proportion of the underlying mortgage assets, and therefore these notes, will be repaid within five years.

Asset backed loan notes may all be repurchased by the Group at any interest payment date on or after the call dates (see below), or at any interest payment date when the current balance of the mortgages outstanding is less than or equal to 10% of the principal amount outstanding on the loan notes on the date they were issued.

Interest is payable at fixed margins above LIBOR or SONIA.

As at 31 December 2019, notes were issued through the following funding vehicles:

	Group 2019 £m	Group 2018 £m
Canterbury Finance No.1 plc	**256.2**	-
Precise Mortgage Funding 2015-1 plc	**40.1**	-
	296.3	-

36. Lease liabilities

	Group £m	Bank £m
At 31 December 2018	-	-
IFRS 16 Adjustment	**3.8**	**2.3**
At 1 January 2019	**3.8**	**2.3**
CCFS Combination	**7.7**	**-**
New leases	**3.6**	**3.5**
Lease terminated	**(0.8)**	**(0.8)**
Lease repayments	**(1.1)**	**(0.8)**
Interest accruals	**0.1**	**0.1**
At 31 December 2019	**13.3**	**4.3**

During the year the Group incurred expenses of £0.7m in relation to short-term leases and £0.1m in relation to low-value assets.

37. Other liabilities

	Group 2019 £m	Group 2018 £m	**Bank 2019 £m**	Bank 2018 £m
Falling due within one year:				
Accruals	**23.1**	11.0	**11.7**	9.5
Deferred income	**1.1**	2.0	**1.0**	0.9
Other creditors	**10.7**	5.7	**4.4**	4.3
	34.9	18.7	**17.1**	14.7

38. Provisions and contingent liabilities

The Financial Services Compensation Scheme (‘FSCS’) provides protection of deposits for the customers of authorised financial services firms, should a firm collapse. FSCS protects retail deposits of up to £85k for single account holders and £170k for joint holders. As OSB and CCFS both hold banking licences, the full FSCS protection is available to customers of each bank.

The compensation paid out to consumers is initially funded through loans from the BoE and HM Treasury. In order to repay the loans and cover its costs, the FSCS charges levies on firms regulated by the PRA and the FCA. The Group is among those firms and pays the FSCS a levy based on its share of total UK deposits.

The Group has reviewed its current exposure to Payment Protection Insurance (‘PPI’) claims, following the FCA deadline for PPI claims on 29 August 2019, and has recognised a provision of £0.3m as at 31 December 2019 (2018: £0.4m). The Group has maintained its provision for FCA conduct rules exposures and has recognised a provision of £1.3m (2018: £1.3m) to cover potential future claims.

38. Provisions and contingent liabilities (continued)

Following the Combination, the Group recognise ECLs on undrawn loan facilities within provisions (2018: within loans and advances to customers) (see note 23).

An analysis of the Group's and Bank's FSCS and other provisions is presented below:

	2019				2018		
Group	**FSCS £m**	**Other regulatory provisions £m**	**ECL on undrawn loan facilities £m**	**Total £m**	FSCS £m	Other regulatory provisions £m	Total £m
At 1 January	**0.1**	**1.7**	**-**	**1.8**	0.5	0.9	1.4
Paid during the year	**(0.1)**	**(0.1)**	**-**	**(0.2)**	(0.3)	(0.1)	(0.4)
(Credit)/charge	**(0.2)**	**-**	**0.2**	**-**	(0.1)	0.9	0.8
At 31 December	**(0.2)**	**1.6**	**0.2**	**1.6**	0.1	1.7	1.8

	2019				2018		
Bank	**FSCS £m**	**Other regulatory provisions £m**	**ECL on undrawn loan facilities £m**	**Total £m**	FSCS £m	Other regulatory provisions £m	Total £m
At 1 January	**0.1**	**1.7**	**-**	**1.8**	0.5	0.9	1.4
Paid during the year	**(0.1)**	**(0.1)**	**-**	**(0.2)**	(0.3)	(0.1)	(0.4)
(Credit)/charge	**(0.1)**	**-**	**0.1**	**-**	(0.1)	0.9	0.8
At 31 December	**(0.1)**	**1.6**	**0.1**	**1.6**	0.1	1.7	1.8

In January 2020 the Group was contacted by the FCA in connection with a multi-firm thematic review into forbearance measures adopted by lenders in respect of a portion of the mortgage market. The Group is responding to information requests from the FCA. It is not possible to reliably predict or estimate the outcome of the review, if any, on the Group.

39. Subordinated liabilities

	Group and Bank 2019 £m	Group and Bank 2018 £m
At 1 January	**10.8**	10.9
Repayment of debt at maturity	**(0.2)**	(0.1)
At 31 December	**10.6**	10.8

39. Subordinated liabilities (continued)

The Group's outstanding subordinated liabilities are summarised below:

	Group and Bank 2019 £m	Group and Bank 2018 £m
Linked to LIBOR:		
Floating rate subordinated loans 2022 (LIBOR +5%)	**0.2**	0.3
Floating rate subordinated loans 2022 (LIBOR +2%)	**0.2**	0.3
Fixed rate:		
Subordinated liabilities 2024 (7.45%)[1]	**5.1**	5.1
Subordinated liabilities 2024 (7.45%)	**5.1**	5.1
	10.6	10.8

[1] On 27 September 2019, the Group decided not to call the £5.0m second tranche of the subordinated debt with original maturity of 27 September 2024. As the debt was not called, the coupon rate reset to 7.45% until maturity.

The fixed rate subordinated liabilities are repayable at the dates stated or earlier, in full, at the option of the Group with the prior consent of the PRA. All subordinated liabilities are denominated in Pounds Sterling and are unlisted.

The rights of repayment of the holders of these subordinated liabilities are subordinated to the claims of all depositors and all creditors.

40. Perpetual Subordinated Bonds

	Group and Bank 2019 £m	Restated Group and Bank[1] 2018 £m
Sterling Perpetual Subordinated Bonds (4.5991%)	**22.3**	22.3
Sterling Perpetual Subordinated Bonds (4.6007%)	**15.3**	15.3
	37.6	37.6

[1] The Group has restated the prior year comparatives to include the £22.0m PSBs previously classified as equity (see note 1).

The bonds are listed on the London Stock Exchange. The 4.6007% bonds were issued with no discretion over the payment of interest and may not be settled in the Group's own equity. They are therefore classified as financial liabilities. The coupon rate was 5.9884% until the reset date on 27 August 2019. Subsequent to this, the coupon rate is 4.6007% until the next reset date on 27 August 2024.

The 4.5991% bonds were issued with discretion over the payment of interest which is not conditional, They are therefore classified as financial liabilities. The coupon rate is 4.5991% until the next reset date on 7 March 2021.

41. Reconciliation of cash flows for financing activities

The tables below show a reconciliation of the Group's and Bank's liabilities classified as financing activities within the Statement of Cash Flows:

Group	Amounts owed to credit institutions (see note 32) £m	Debt securities in issue (see note 35) £m	Subordinated liabilities (see note 39) £m	PSBs (see note 40) £m	Total £m
At 31 December 2017	1,250.3	-	10.9	37.6	1,298.8
Cash movements:					
Principal drawdowns	330.7	-	-	-	330.7
Principal repayments	-	-	(0.1)	-	(0.1)
Non-cash movement:					
Accrued interest movement	3.0	-	-	-	3.0
At 31 December 2018	1,584.0	-	10.8	37.6	1,632.4
Cash movements:					
Principal drawdowns	**587.7**	**285.0**	**-**	**-**	**872.7**
Principal repayments	**(273.7)**	**(64.6)**	**(0.2)**	**-**	**(338.5)**
Non-cash movements:					
CCFS Combination	**1,168.4**	**75.1**	**-**	**-**	**1,243.5**
Accrued interest movement	**2.4**	**0.8**	**-**	**-**	**3.2**
At 31 December 2019	**3,068.8**	**296.3**	**10.6**	**37.6**	**3,413.3**

Bank	Amounts owed to credit institutions (see note 32) £m	Deemed loan (see note 21) £m	Subordinated liabilities (see note 39) £m	PSBs (see note 40) £m	Total £m
At 31 December 2017	1,250.3	-	10.9	37.6	1,298.8
Cash movements:					
Principal drawdowns	330.7	-	-	-	330.7
Principal repayments	-	-	(0.1)	-	(0.1)
Non-cash movement:					
Accrued interest movement	3.0	-	-	-	3.0
At 31 December 2018	1,584.0	-	10.8	37.6	1,632.4
Cash movements:					
Principal drawdowns	**316.8**	**285.0**	**-**	**-**	**601.8**
Principal repayments	**(230.0)**	**(44.8)**	**(0.2)**	**-**	**(275.0)**
Non-cash movements:					
CCFS Combination	-	-	-	-	**-**
Accrued interest movement	**0.3**	**-**	**-**	**-**	**0.3**
At 31 December 2019	**1,671.1**	**240.2**	**10.6**	**37.6**	**1,959.5**

42. Share capital

Ordinary shares - par value £0.01:	Number of shares authorised and fully paid	Nominal value £m	Premium £m
At 1 January 2018	243,464,688	2.4	158.4
Shares issued under OSB employee share plans	1,022,849	-	0.4
At 31 December 2018	244,487,537	2.4	158.8
Shares issued under OSB employee share plans	**1,312,862**	**0.1**	**0.3**
CCFS Combination	**199,643,055**	**2.0**	**705.1**
At 31 December 2019	**445,443,454**	**4.5**	**864.2**

The holders of ordinary shares are entitled to receive dividends as declared from time to time, and are entitled to one vote per share at meetings of the Bank. All ordinary shares rank equally with regard to the Bank's residual assets.

43. Other reserves

The Group's and Bank's other reserves are as follows:

	Group 2019 £m	Group 2018 £m	**Bank 2019 £m**	Bank 2018 £m
Distributable:				
Share-based payment	**5.6**	4.7	**5.3**	4.7
Non-distributable:				
Capital contribution	**6.5**	6.5	**6.2**	6.2
Transfer	**(12.8)**	(12.8)	**(15.2)**	(15.2)
Own shares	**(3.7)**	-	**(3.7)**	-
FVOCI	**0.5**	(0.1)	**-**	(0.1)
Foreign exchange	**(1.0)**	(0.4)	**-**	-
Equity bonds	**60.0**	60.0	**60.0**	60.0
	55.1	57.9	**52.6**	55.6

Capital contribution
The capital contribution reserve relates to one-off nil price share awards of shares in the Bank granted to certain senior managers on its admission to the London Stock Exchange in June 2014. The awards were granted by the Bank's major shareholder at the time of the IPO.

Transfer reserve
The transfer reserve represents the difference between the value of net assets transferred to the Group from Kent Reliance Building Society in 2011 and the value of shares issued to the A ordinary shareholders.

Own shares
Following the Combination, the Bank has adopted the look-through approach for the CCFS EBT, including the EBT within the Bank. As at 31 December 2019 the CCFS EBT held 862,555 OSB shares which were acquired at a cost of £3.7m. The Group and Bank have shown these shares as a deduction from equity.

43. Other reserves (continued)

FVOCI reserve
The FVOCI reserve represents the cumulative net change in the fair value of investment securities measured at FVOCI.

Foreign exchange
The foreign exchange reserve relates to the revaluation of the Bank's Indian subsidiary, OSB India Private Limited.

Equity bonds
Equity bonds comprise £60.0m of Fixed Rate Resetting Perpetual Subordinated Contingent Convertible Securities ('AT1 securities') that qualify as Additional Tier 1 capital under the Capital Requirements Directive and Regulation ('CRD IV'). The securities will be subject to full conversion into ordinary shares of OSB in the event that its CET1 capital ratio falls below 7%. The AT1 securities will pay interest at a rate of 9.125% per annum until the first reset date of 25 May 2022, with the reset interest rate equal to 835.9 basis points over the five-year semi-annual mid-swap rate for such a period. Interest is paid semi-annually on 25 May and 25 November. OSB may, at any time, cancel any interest payment at its full discretion and must cancel interest payments in certain circumstances specified in the terms and conditions of the AT1 securities. The AT1 securities are perpetual with no fixed redemption date. OSB may, in its discretion and subject to satisfying certain conditions, redeem all (but not some) of the AT1 securities at the principal amount outstanding plus any accrued but unpaid interest from the first reset date and on any interest payment date thereafter.

44. Financial commitments and guarantees

a) As at 31 December 2019, the Group's contracted or anticipated capital expenditure commitments not provided for amounted to nil (2018: £0.2m). 2018 consisted of refurbishment and fixture costs for the relocation of the Interbay office.

b) The Group's minimum lease commitments under operating leases not subject to IFRS 16 (2018: all operating leases) are summarised in the table below:

	Group 2019 £m	Group 2018 £m	**Bank 2019 £m**	Bank 2018 £m
Land and buildings: due within:				
One year	**0.6**	0.7	**0.1**	0.5
Two to five years	**-**	2.3	**-**	1.5
More than five years	**-**	1.5	**-**	0.5
	0.6	4.5	**0.1**	2.5

44. Financial commitments and guarantees (continued)

c) Undrawn loan facilities:

	Group 2019 £m	Group 2018 £m	**Bank 2019 £m**	Bank 2018 £m
OSB mortgages	**639.2**	704.6	**459.7**	487.8
CCFS mortgages	**568.1**	-	**-**	-
Asset Finance	**3.6**	6.1	**-**	-
	1,210.9	710.7	**459.7**	487.8

Undrawn loan facilities are approved loan applications which have not yet been exercised. They are payable on demand and are usually drawn down or expire within three months.

d) The Group did not have any issued financial guarantees as at 31 December 2019 (2018: nil).

45. Risk management

Overview

Financial instruments form the vast majority of the Group's and Bank's assets and liabilities. The Group manages risk on a consolidated basis, and risk disclosures that follow are provided on this basis.

Types of financial instrument

Financial instruments are a broad definition which includes financial assets, financial liabilities and equity instruments. The main financial assets of the Group are loans to customers and liquid assets, which in turn consist of cash in the BoE call accounts, call accounts with other credit institutions and UK and EU sovereign debt. These are funded by a combination of financial liabilities and equity instruments. Financial liability funding comes predominantly from retail deposits and drawdowns under the BoE TFS and ILTR, supported by debt securities, subordinated debt, wholesale and other funding. Equity instruments include own shares and AT1 securities meeting the equity classification criteria. The Group’s main activity is mortgage lending; it raises funds or invests in particular types of financial assets to meet customer demand and manage the risks arising from its operations. The Group does not trade in financial instruments for speculative purposes.

The Group uses derivative instruments to manage its financial risks. Derivative financial instruments (‘derivatives’) are financial instruments whose value changes in response to changes in underlying variables such as interest rates. The most common derivatives are futures, forwards and swaps. Of these, the Group only uses swaps.

Derivatives are used by the Group solely to reduce (‘hedge’) the risk of loss arising from changes in market rates. Derivatives are not used for speculative purposes.

Types of derivatives and uses

The derivative instruments used by the Group in managing its risk exposures are interest rate swaps. Interest rate swaps convert fixed interest rates to floating or vice versa. As with other derivatives, the underlying product is not sold and payments are based on notional principal amounts.

Unhedged fixed rate liabilities create the risk of paying above-the-market rate if interest rates subsequently decrease. Unhedged fixed rate mortgages and liquid assets bear the opposite risk of income below-the-market rate when rates go up. While fixed rate assets and liabilities naturally hedge each other to a certain extent, this hedge is usually never perfect because of maturity mismatches and principal amounts.

The Group uses swaps to convert its instruments, such as mortgages, deposits and liquid assets, from fixed or base rate-linked rates to LIBOR-linked variable rates. This ensures a guaranteed margin between the interest income and interest expense, regardless of changes in the market rates.

The PRA and FCA have continued to encourage banks to transition away from using LIBOR as a benchmark in all operations before the end of 2021. Throughout the UK banking sector LIBOR remains a key benchmark and for each market impacted solutions to this issue are progressing through various industry bodies.

45. Risk management (continued)

In 2019 the Group set up an internal working group comprised of all of the key business lines that are involved with this change with strong oversight from the Compliance and Risk departments. Risk assessments are currently under way to ensure this process is managed in a measured and controlled fashion.

Types of risk

The principal financial risks to which the Group is exposed are credit, liquidity and market risks, the latter comprising interest and exchange rate risk. In addition to financial risks, the Group is exposed to various other risks, most notably operational, conduct and regulatory, which are covered in the Risk review.

Credit risk

Credit risk is the risk that losses may arise as a result of the Group’s borrowers or market counterparties failing to meet their obligations to repay.

The Group has adopted the Standardised Approach for assessment of credit risk regulatory capital requirements. This approach considers risk weightings as defined under Basel II and Basel III principles.

The classes of financial instruments to which the Group is most exposed are loans and advances to customers, loans and advances to credit institutions, cash in the BoE call account, call and current accounts with other credit institutions and investment securities. The maximum credit risk exposure equals the total carrying amount of the above categories plus off-balance sheet undrawn committed mortgage facilities.

Credit risk - loans and advances to customers

Credit risk associated with mortgage lending is largely driven by the housing market and level of unemployment. A recession and/or high interest rates could cause pressure within the market, resulting in rising levels of arrears and repossessions.

All loan applications are assessed with reference to the Group's lending policy. Changes to the policy are approved by the Board, with mandates set for the approval of loan applications.

The Credit Committee and the ALCO regularly monitor lending activity, taking appropriate actions to reprice products and adjust lending criteria in order to control risk and manage exposure. Where necessary and appropriate, changes to the lending policy are recommended to the Group Risk Committee and the Board.

45. Risk management (continued)

The following tables show the Group's and Bank's maximum exposure to credit risk and the impact of collateral held as security, capped at the gross exposure amount, by impairment stage. Capped collateral excludes the impact of forced sale discounts and costs to sell.

	2019					
	OSB		**CCFS**		**Total**	
Group	**Gross carrying amount £m**	**Capped collateral held £m**	**Gross carrying amount £m**	**Capped collateral held £m**	**Gross carrying amount £m**	**Capped collateral held £m**
Stage 1	**10,046.9**	**9,987.1**	**7,240.0**	**7,239.5**	**17,286.9**	**17,226.6**
Stage 2	**442.4**	**441.8**	**307.1**	**307.0**	**749.5**	**748.8**
Stage 3	**277.7**	**275.2**	**16.7**	**16.7**	**294.4**	**291.9**
Stage 3 (POCI)	**53.6**	**50.1**	**83.2**	**83.1**	**136.8**	**133.2**
	10,820.6	**10,754.2**	**7,647.0**	**7,646.3**	**18,467.6**	**18,400.5**

	2018					
	OSB		CCFS		Total	
Group	Gross carrying amount £m	Capped collateral held £m	Gross carrying amount £m	Capped collateral held £m	Gross carrying amount £m	Capped collateral held £m
Stage 1	8,286.8	8,274.5	-	-	8,286.8	8,274.5
Stage 2	436.8	436.8	-	-	436.8	436.8
Stage 3	225.4	224.2	-	-	225.4	224.2
Stage 3 (POCI)	56.2	56.1	-	-	56.2	56.1
	9,005.2	8,991.6	**-**	**-**	9,005.2	8,991.6

	2019		2018	
Bank	**Gross carrying amount £m**	**Capped collateral held £m**	Gross carrying amount £m	Capped collateral held £m
Stage 1	**7,785.0**	**7,774.3**	6,657.0	6,653.2
Stage 2	**371.3**	**370.8**	346.6	346.5
Stage 3	**211.1**	**209.2**	164.8	164.7
Stage 3 (POCI)	**53.4**	**49.9**	55.9	55.8
	8,420.8	**8,404.2**	7,224.3	7,220.2

The Group's and Bank's main form of collateral held is property, based in the UK and the Channel Islands.

45. Risk management (continued)

The Group uses indexed loan-to-value ('LTV') ratios to assess the quality of the uncapped collateral held. Property values are updated to reflect changes in the HPI. A breakdown of loans and advances to customers by indexed LTV is as follows:

	2019			
	OSB	**CCFS**	**Total**	
Group	**£m**	**£m**	**£m**	**%**
Band				
0% - 50%	**1,732.6**	**567.8**	**2,300.4**	**12**
50% - 60%	**1,301.8**	**612.3**	**1,914.1**	**10**
60% - 70%	**2,435.7**	**1,588.5**	**4,024.2**	**22**
70% - 80%	**4,182.1**	**4,236.3**	**8,418.4**	**46**
80% - 90%	**946.0**	**641.5**	**1,587.5**	**9**
90% - 100%	**91.1**	**0.6**	**91.7**	**-**
>100%	**131.3**	**-**	**131.3**	**1**
Total loans before provisions	**10,820.6**	**7,647.0**	**18,467.6**	**100**

	2018			
	OSB	CCFS	Total	
Group	£m	£m	£m	%
Band				
0% - 50%	1,720.2	-	1,720.2	19
50% - 60%	1,355.6	-	1,355.6	15
60% - 70%	2,215.5	-	2,215.5	25
70% - 80%	3,041.8	-	3,041.8	34
80% - 90%	576.3	-	576.3	6
90% - 100%	65.2	-	65.2	1
>100%	30.6	-	30.6	-
Total loans before provisions	9,005.2	-	9,005.2	100

45. Risk management (continued)

The table below shows the LTV banding for the OSB segments' two major lending streams:

	2019				2018			
OSB	BTL/SME £m	Residential £m	Total £m	%	BTL/SME £m	Residential £m	Total £m	%
Band								
0% - 50%	**905.9**	**826.7**	**1,732.6**	**16**	935.8	784.4	1,720.2	19
50% - 60%	**1,062.8**	**239.0**	**1,301.8**	**12**	1,105.9	249.7	1,355.6	15
60% - 70%	**2,240.2**	**195.5**	**2,435.7**	**23**	2,021.4	194.1	2,215.5	25
70% - 80%	**3,993.5**	**188.6**	**4,182.1**	**38**	2,864.5	177.3	3,041.8	34
80% - 90%	**621.4**	**324.6**	**946.0**	**9**	414.1	162.2	576.3	6
90% - 100%	**45.1**	**46.0**	**91.1**	**1**	32.9	32.3	65.2	1
>100%	**114.3**	**17.0**	**131.3**	**1**	14.6	16.0	30.6	-
Total loans before provisions	**8,983.2**	**1,837.4**	**10,820.6**	**100**	7,389.2	1,616.0	9,005.2	100

The tables below show the sub-segment LTV analysis of the OSB BTL/SME lending stream:

	2019				
OSB	**Buy-to-Let £m**	**Commercial £m**	**Residential development £m**	**Funding lines £m**	**Total £m**
Band					
0% - 50%	**579.9**	**96.5**	**125.7**	**103.8**	**905.9**
50% - 60%	**894.3**	**119.8**	**5.0**	**43.7**	**1,062.8**
60% - 70%	**1,994.1**	**210.2**	**5.0**	**30.9**	**2,240.2**
70% - 80%	**3,514.5**	**445.7**	**-**	**33.3**	**3,993.5**
80% - 90%	**603.3**	**7.7**	**10.4**	**-**	**621.4**
90% - 100%	**38.9**	**1.4**	**-**	**4.8**	**45.1**
>100%	**102.0**	**6.7**	**-**	**5.6**	**114.3**
Total loans before provisions	**7,727.0**	**888.0**	**146.1**	**222.1**	**8,983.2**

	2018				
OSB	Buy-to-Let £m	Commercial £m	Residential development £m	Funding lines £m	Total £m
Band					
0% - 50%	663.9	71.2	108.7	92.0	935.8
50% - 60%	964.8	72.2	38.8	30.1	1,105.9
60% - 70%	1,843.9	163.1	7.3	7.1	2,021.4
70% - 80%	2,617.1	233.5	-	13.9	2,864.5
80% - 90%	408.3	4.8	1.0	-	414.1
90% - 100%	7.5	0.4	-	25.0	32.9
>100%	12.0	2.6	-	-	14.6
Total loans before provisions	6,517.5	547.8	155.8	168.1	7,389.2

45. Risk management (continued)

The tables below show the sub-segment LTV analysis of the OSB Residential lending stream:

OSB	2019 First charge £m	Second charge £m	Funding lines £m	Total £m
Band				
0% - 50%	**708.0**	**115.4**	**3.3**	**826.7**
50% - 60%	**158.1**	**77.5**	**3.4**	**239.0**
60% - 70%	**122.3**	**70.9**	**2.3**	**195.5**
70% - 80%	**137.0**	**49.5**	**2.1**	**188.6**
80% - 90%	**291.7**	**32.3**	**0.6**	**324.6**
90% - 100%	**40.0**	**5.7**	**0.3**	**46.0**
>100%	**9.5**	**7.3**	**0.2**	**17.0**
Total loans before provisions	**1,466.6**	**358.6**	**12.2**	**1,837.4**

OSB	2018 First charge £m	Second charge £m	Funding lines £m	Total £m
Band				
0% - 50%	651.9	123.2	9.3	784.4
50% - 60%	160.9	81.8	7.0	249.7
60% - 70%	117.2	74.3	2.6	194.1
70% - 80%	125.2	48.3	3.8	177.3
80% - 90%	137.1	24.4	0.7	162.2
90% - 100%	25.1	6.8	0.4	32.3
>100%	6.5	9.2	0.3	16.0
Total loans before provisions	1,223.9	368.0	24.1	1,616.0

The table below shows the LTV banding for the CCFS segments' four major lending streams:

CCFS	2019 Buy-to-let £m	Residential £m	Bridging £m	Second charge lending £m	Total £m	%
Band						
0% - 50%	**144.7**	**261.8**	**121.1**	**40.2**	**567.8**	**7**
50% - 60%	**283.9**	**253.1**	**29.4**	**45.9**	**612.3**	**8**
60% - 70%	**957.0**	**538.6**	**26.6**	**66.3**	**1,588.5**	**21**
70% - 80%	**3,246.6**	**897.7**	**37.5**	**54.5**	**4,236.3**	**56**
80% - 90%	**321.5**	**301.4**	**1.2**	**17.4**	**641.5**	**8**
90% - 100%	**0.2**	**0.4**	**-**	**-**	**0.6**	**-**
Total loans before provisions	**4,953.9**	**2,253.0**	**215.8**	**224.3**	**7,647.0**	**100**

45. Risk management (continued)

The table below shows the LTV banding for the Bank's segments' two major lending streams:

	2019				2018			
Bank	**BTL/SME £m**	**Residential £m**	**Total £m**	**%**	BTL/SME £m	Residential £m	Total £m	%
Band								
0% - 50%	**670.7**	**763.6**	**1,434.3**	**17**	738.6	717.6	1,456.2	20
50% - 60%	**816.4**	**215.0**	**1,031.4**	**12**	882.4	219.5	1,101.9	15
60% - 70%	**1,639.5**	**175.9**	**1,815.4**	**22**	1,547.3	168.3	1,715.6	24
70% - 80%	**2,925.4**	**179.1**	**3,104.5**	**37**	2,201.9	158.3	2,360.2	33
80% - 90%	**560.7**	**321.0**	**881.7**	**10**	368.1	156.5	524.6	7
90% - 100%	**40.0**	**45.1**	**85.1**	**1**	27.7	26.9	54.6	1
>100%	**54.9**	**13.5**	**68.4**	**1**	-	11.2	11.2	-
Total loans before provisions	**6,707.6**	**1,713.2**	**8,420.8**	**100**	5,766.0	1,458.3	7,224.3	100

The tables below show the sub-segment LTV analysis of the Bank's BTL/SME lending stream:

	2019				
Bank	**Buy-to-Let £m**	**Commercial £m**	**Residential development £m**	**Funding lines £m**	**Total £m**
Band					
0% - 50%	**438.9**	**2.3**	**125.7**	**103.8**	**670.7**
50% - 60%	**765.2**	**2.5**	**5.0**	**43.7**	**816.4**
60% - 70%	**1,601.1**	**2.5**	**5.0**	**30.9**	**1,639.5**
70% - 80%	**2,886.3**	**5.8**	**-**	**33.3**	**2,925.4**
80% - 90%	**549.8**	**0.5**	**10.4**	**-**	**560.7**
90% - 100%	**35.2**	**-**	**-**	**4.8**	**40.0**
>100%	**45.8**	**3.5**	**-**	**5.6**	**54.9**
Total loans before provisions	**6,322.3**	**17.1**	**146.1**	**222.1**	**6,707.6**

	2018				
Bank	Buy-to-Let £m	Commercial £m	Residential development £m	Funding lines £m	Total £m
Band					
0% - 50%	532.5	5.4	108.7	92.0	738.6
50% - 60%	810.9	2.6	38.8	30.1	882.4
60% - 70%	1,527.0	5.9	7.3	7.1	1,547.3
70% - 80%	2,180.6	7.4	-	13.9	2,201.9
80% - 90%	367.0	0.1	1.0	-	368.1
90% - 100%	2.7	-	-	25.0	27.7
Total loans before provisions	5,420.7	21.4	155.8	168.1	5,766.0

45. Risk management (continued)

The tables below show the sub-segment LTV analysis of the Bank's Residential lending stream:

	2019			
Bank	**First charge £m**	**Second charge £m**	**Funding lines £m**	**Total £m**
Band				
0% - 50%	**644.9**	**115.4**	**3.3**	**763.6**
50% - 60%	**134.1**	**77.5**	**3.4**	**215.0**
60% - 70%	**102.7**	**70.9**	**2.3**	**175.9**
70% - 80%	**127.5**	**49.5**	**2.1**	**179.1**
80% - 90%	**288.1**	**32.3**	**0.6**	**321.0**
90% - 100%	**39.1**	**5.7**	**0.3**	**45.1**
>100%	**6.0**	**7.3**	**0.2**	**13.5**
Total loans before provisions	**1,342.4**	**358.6**	**12.2**	**1,713.2**

	2018			
Bank	First charge £m	Second charge £m	Funding lines £m	Total £m
Band				
0% - 50%	585.1	123.2	9.3	717.6
50% - 60%	130.7	81.8	7.0	219.5
60% - 70%	91.4	74.3	2.6	168.3
70% - 80%	106.2	48.3	3.8	158.3
80% - 90%	131.4	24.4	0.7	156.5
90% - 100%	19.7	6.8	0.4	26.9
>100%	1.7	9.2	0.3	11.2
Total loans before provisions	1,066.2	368.0	24.1	1,458.3

45. Risk management (continued)

Analysis of mortgage portfolio by arrears and collateral held

The tables below provide further information on collateral, capped at the value of each individual mortgage, over the mortgage portfolio by payment due status and IFRS 9 stage.

	2019					
	OSB		CCFS		Total	
Group	Loan balance £m	Capped collateral £m	Loan balance £m	Capped collateral £m	Loan balance £m	Capped collateral £m
Stage 1						
Not past due	9,964.3	9,904.5	7,236.2	7,235.7	17,200.5	17,140.2
Past due < 1 month	82.6	82.6	3.8	3.8	86.4	86.4
	10,046.9	9,987.1	7,240.0	7,239.5	17,286.9	17,226.6
Stage 2						
Not past due	261.0	260.7	239.1	239.0	500.1	499.7
Past due < 1 month	118.9	118.9	38.1	38.1	157.0	157.0
Past due 1 to 3 months	62.5	62.2	29.9	29.9	92.4	92.1
	442.4	441.8	307.1	307.0	749.5	748.8
Stage 3						
Not past due	71.3	71.0	4.8	4.8	76.1	75.8
Past due < 1 month	36.3	36.1	1.4	1.4	37.7	37.5
Past due 1 to 3 months	28.8	28.5	6.0	6.0	34.8	34.5
Past due 3 to 6 months	45.9	45.3	4.5	4.5	50.4	49.8
Past due 6 to 12 months	27.4	27.2	-	-	27.4	27.2
Past due over 12 months	25.3	24.7	-	-	25.3	24.7
Possessions	42.7	42.4	-	-	42.7	42.4
	277.7	275.2	16.7	16.7	294.4	291.9
Stage 3 (POCI)						
Not past due	20.8	20.2	30.6	30.5	51.4	50.7
Past due < 1 month	6.1	5.9	8.5	8.5	14.6	14.4
Past due 1 to 3 months	4.9	4.6	21.9	21.9	26.8	26.5
Past due 3 to 6 months	6.5	6.1	10.5	10.5	17.0	16.6
Past due 6 to 12 months	5.7	5.3	5.5	5.5	11.2	10.8
Past due over 12 months	8.3	7.2	1.2	1.2	9.5	8.4
Possessions	1.3	0.8	5.0	5.0	6.3	5.8
	53.6	50.1	83.2	83.1	136.8	133.2
Total loans before provisions	10,820.6	10,754.2	7,647.0	7,646.3	18,467.6	18,400.5

45. Risk management (continued)

	2018					
	OSB		CCFS		Total	
Group	Loan balance £m	Capped collateral £m	Loan balance £m	Capped collateral £m	Loan balance £m	Capped collateral £m
Stage 1						
Not past due	8,225.3	8,213.3	-	-	8,225.3	8,213.3
Past due < 1 month	61.5	61.2	-	-	61.5	61.2
	8,286.8	8,274.5	-	-	8,286.8	8,274.5
Stage 2						
Not past due	241.9	241.9	-	-	241.9	241.9
Past due < 1 month	124.9	124.9	-	-	124.9	124.9
Past due 1 to 3 months	70.0	70.0	-	-	70.0	70.0
	436.8	436.8	-	-	436.8	436.8
Stage 3						
Not past due	67.8	67.2	-	-	67.8	67.2
Past due < 1 month	16.2	16.2	-	-	16.2	16.2
Past due 1 to 3 months	30.4	30.4	-	-	30.4	30.4
Past due 3 to 6 months	57.2	57.2	-	-	57.2	57.2
Past due 6 to 12 months	32.0	31.9	-	-	32.0	31.9
Past due over 12 months	13.9	13.6	-	-	13.9	13.6
Possessions	7.9	7.7	-	-	7.9	7.7
	225.4	224.2	-	-	225.4	224.2
Stage 3 (POCI)						
Not past due	18.6	18.6	-	-	18.6	18.6
Past due < 1 month	6.7	6.6	-	-	6.7	6.6
Past due 1 to 3 months	6.6	6.6	-	-	6.6	6.6
Past due 3 to 6 months	7.4	7.4	-	-	7.4	7.4
Past due 6 to 12 months	7.7	7.7	-	-	7.7	7.7
Past due over 12 months	9.2	9.2	-	-	9.2	9.2
Possessions	-	-	-	-	-	-
	56.2	56.1	-	-	56.2	56.1
Total loans before provisions	9,005.2	8,991.6	-	-	9,005.2	8,991.6

45. Risk management (continued)

	Bank 2019		Bank 2018	
	Loan balance £m	**Capped collateral £m**	Loan balance £m	Capped collateral £m
Stage 1				
Not past due	**7,732.1**	**7,721.4**	6,603.2	6,599.4
Past due < 1 month	**52.9**	**52.9**	53.8	53.8
	7,785.0	**7,774.3**	6,657.0	6,653.2
Stage 2				
Not past due	**207.2**	**207.0**	162.6	162.5
Past due < 1 month	**109.2**	**109.2**	117.9	117.9
Past due 1 to 3 months	**54.9**	**54.6**	66.1	66.1
	371.3	**370.8**	346.6	346.5
Stage 3				
Not past due	**50.1**	**49.9**	32.2	32.1
Past due < 1 month	**26.2**	**26.0**	11.4	11.4
Past due 1 to 3 months	**27.7**	**27.4**	27.2	27.2
Past due 3 to 6 months	**40.4**	**39.9**	54.7	54.7
Past due 6 to 12 months	**23.3**	**23.1**	24.7	24.7
Past due over 12 months	**12.2**	**12.0**	9.4	9.4
Possessions	**31.2**	**30.9**	5.2	5.2
	211.1	**209.2**	164.8	164.7
Stage 3 (POCI)				
Not past due	**20.6**	**20.0**	18.5	18.5
Past due < 1 month	**6.1**	**5.9**	6.5	6.4
Past due 1 to 3 months	**4.9**	**4.6**	6.6	6.6
Past due 3 to 6 months	**6.5**	**6.1**	7.4	7.4
Past due 6 to 12 months	**5.7**	**5.3**	7.7	7.7
Past due over 12 months	**8.3**	**7.2**	9.2	9.2
Possessions	**1.3**	**0.8**	-	-
	53.4	**49.9**	55.9	55.8
Total loans before provisions	**8,420.8**	**8,404.2**	7,224.3	7,220.2

45. Risk management (continued)

The table below shows the analysis of mortgage portfolio by arrears for the OSB segments' two major lending streams:

OSB	2019 BTL/SME £m	2019 Residential £m	2019 Total £m	2018 BTL/SME £m	2018 Residential £m	2018 Total £m
Stage 1						
Not past due	**8,514.9**	**1,449.4**	**9,964.3**	7,019.0	1,206.3	8,225.3
Past due < 1 month	**48.7**	**33.9**	**82.6**	20.3	41.2	61.5
	8,563.6	**1,483.3**	**10,046.9**	7,039.3	1,247.5	8,286.8
Stage 2						
Not past due	**156.9**	**104.1**	**261.0**	141.9	100.0	241.9
Past due < 1 month	**80.0**	**38.9**	**118.9**	75.7	49.2	124.9
Past due 1 to 3 months	**32.3**	**30.2**	**62.5**	30.0	40.0	70.0
	269.2	**173.2**	**442.4**	247.6	189.2	436.8
Stage 3						
Not past due	**39.6**	**31.7**	**71.3**	43.1	24.7	67.8
Past due < 1 month	**22.5**	**13.8**	**36.3**	3.7	12.5	16.2
Past due 1 to 3 months	**9.8**	**19.0**	**28.8**	12.1	18.3	30.4
Past due 3 to 6 months	**17.0**	**28.9**	**45.9**	24.6	32.6	57.2
Past due 6 to 12 months	**9.1**	**18.3**	**27.4**	11.0	21.0	32.0
Past due over 12 months	**13.5**	**11.8**	**25.3**	3.1	10.8	13.9
Possessions	**38.7**	**4.0**	**42.7**	4.4	3.5	7.9
	150.2	**127.5**	**277.7**	102.0	123.4	225.4
Stage 3 (POCI)						
Not past due	**0.2**	**20.6**	**20.8**	0.1	18.5	18.6
Past due < 1 month	**-**	**6.1**	**6.1**	0.2	6.5	6.7
Past due 1 to 3 months	**-**	**4.9**	**4.9**	-	6.6	6.6
Past due 3 to 6 months	**-**	**6.5**	**6.5**	-	7.4	7.4
Past due 6 to 12 months	**-**	**5.7**	**5.7**	-	7.7	7.7
Past due over 12 months	**-**	**8.3**	**8.3**	-	9.2	9.2
Possessions	**-**	**1.3**	**1.3**	-	-	-
	0.2	**53.4**	**53.6**	0.3	55.9	56.2
Total loans before provisions	**8,983.2**	**1,837.4**	**10,820.6**	7,389.2	1,616.0	9,005.2

45. Risk management (continued)

The tables below show the sub-segment analysis of mortgage portfolio by arrears of the OSB BTL/SME lending stream:

	2019				
OSB	**Buy-to-Let £m**	**Commercial £m**	**Residential development £m**	**Funding lines £m**	**Total £m**
Stage 1					
Not past due	7,317.3	829.4	146.1	222.1	8,514.9
Past due < 1 month	32.8	15.9	-	-	48.7
	7,350.1	845.3	146.1	222.1	8,563.6
Stage 2					
Not past due	128.6	28.3	-	-	156.9
Past due < 1 month	78.5	1.5	-	-	80.0
Past due 1 to 3 months	29.2	3.1	-	-	32.3
	236.3	32.9	-	-	269.2
Stage 3					
Not past due	37.1	2.5	-	-	39.6
Past due < 1 month	21.0	1.5	-	-	22.5
Past due 1 to 3 months	9.8	-	-	-	9.8
Past due 3 to 6 months	16.1	0.9	-	-	17.0
Past due 6 to 12 months	8.0	1.1	-	-	9.1
Past due over 12 months	13.1	0.4	-	-	13.5
Possessions	35.5	3.2	-	-	38.7
	140.6	9.6	-	-	150.2
Stage 3 (POCI)					
Not past due	-	0.2	-	-	0.2
	-	0.2	-	-	0.2
Total loans before provisions	7,727.0	888.0	146.1	222.1	8,983.2

45. Risk management (continued)

	2018				
OSB	Buy-to-Let £m	Commercial £m	Residential development £m	Funding lines £m	Total £m
Stage 1					
Not past due	6,193.4	501.7	155.8	168.1	7,019.0
Past due < 1 month	18.5	1.8	-	-	20.3
	6,211.9	503.5	155.8	168.1	7,039.3
Stage 2					
Not past due	102.8	39.1	-	-	141.9
Past due < 1 month	74.7	1.0	-	-	75.7
Past due 1 to 3 months	29.3	0.7	-	-	30.0
	206.8	40.8	-	-	247.6
Stage 3					
Not past due	40.6	2.5	-	-	43.1
Past due < 1 month	3.3	0.4	-	-	3.7
Past due 1 to 3 months	12.0	0.1	-	-	12.1
Past due 3 to 6 months	24.5	0.1	-	-	24.6
Past due 6 to 12 months	10.9	0.1	-	-	11.0
Past due over 12 months	3.1	-	-	-	3.1
Possessions	4.4	-	-	-	4.4
	98.8	3.2	-	-	102.0
Stage 3 (POCI)					
Not past due	-	0.1	-	-	0.1
Past due < 1 month	-	0.2	-	-	0.2
	-	0.3	-	-	0.3
Total loans before provisions	6,517.5	547.8	155.8	168.1	7,389.2

45. Risk management (continued)

The tables below show the sub-segment analysis of mortgage portfolio by arrears of the OSB Residential mortgages lending stream:

OSB	2019 First charge £m	Second charge £m	Funding lines £m	Total £m
Stage 1				
Not past due	**1,164.8**	**272.4**	**12.2**	**1,449.4**
Past due < 1 month	**27.7**	**6.2**	**-**	**33.9**
	1,192.5	**278.6**	**12.2**	**1,483.3**
Stage 2				
Not past due	**86.1**	**18.0**	**-**	**104.1**
Past due < 1 month	**34.4**	**4.5**	**-**	**38.9**
Past due 1 to 3 months	**24.4**	**5.8**	**-**	**30.2**
	144.9	**28.3**	**-**	**173.2**
Stage 3				
Not past due	**28.1**	**3.6**	**-**	**31.7**
Past due < 1 month	**11.2**	**2.6**	**-**	**13.8**
Past due 1 to 3 months	**13.8**	**5.2**	**-**	**19.0**
Past due 3 to 6 months	**20.7**	**8.2**	**-**	**28.9**
Past due 6 to 12 months	**14.5**	**3.8**	**-**	**18.3**
Past due over 12 months	**9.8**	**2.0**	**-**	**11.8**
Possessions	**3.3**	**0.7**	**-**	**4.0**
	101.4	**26.1**	**-**	**127.5**
Stage 3 (POCI)				
Not past due	**13.4**	**7.2**	**-**	**20.6**
Past due < 1 month	**4.2**	**1.9**	**-**	**6.1**
Past due 1 to 3 months	**2.0**	**2.9**	**-**	**4.9**
Past due 3 to 6 months	**3.2**	**3.3**	**-**	**6.5**
Past due 6 to 12 months	**2.6**	**3.1**	**-**	**5.7**
Past due over 12 months	**2.3**	**6.0**	**-**	**8.3**
Possessions	**0.1**	**1.2**	**-**	**1.3**
	27.8	**25.6**	**-**	**53.4**
Total loans before provisions	**1,466.6**	**358.6**	**12.2**	**1,837.4**

45. Risk management (continued)

	2018			
OSB	First charge £m	Second charge £m	Funding lines £m	Total £m
Stage 1				
Not past due	906.6	275.6	24.1	1,206.3
Past due < 1 month	32.5	8.7	-	41.2
	939.1	284.3	24.1	1,247.5
Stage 2				
Not past due	80.8	19.2	-	100.0
Past due < 1 month	43.2	6.0	-	49.2
Past due 1 to 3 months	32.7	7.3	-	40.0
	156.7	32.5	-	189.2
Stage 3				
Not past due	22.2	2.5	-	24.7
Past due < 1 month	10.2	2.3	-	12.5
Past due 1 to 3 months	13.0	5.3	-	18.3
Past due 3 to 6 months	23.8	8.8	-	32.6
Past due 6 to 12 months	16.9	4.1	-	21.0
Past due over 12 months	8.8	2.0	-	10.8
Possessions	3.5	-	-	3.5
	98.4	25.0	-	123.4
Stage 3 (POCI)				
Not past due	12.1	6.4	-	18.5
Past due < 1 month	4.4	2.1	-	6.5
Past due 1 to 3 months	4.1	2.5	-	6.6
Past due 3 to 6 months	3.5	3.9	-	7.4
Past due 6 to 12 months	3.4	4.3	-	7.7
Past due over 12 months	2.2	7.0	-	9.2
	29.7	26.2	-	55.9
Total loans before provisions	1,223.9	368.0	24.1	1,616.0

45. Risk management (continued)

The table below shows the analysis of mortgage portfolio by arrears for the CCFS segments' four major lending streams:

	2019				
CCFS	**Buy-to-let £m**	**Residential £m**	**Bridging £m**	**Second charge lending £m**	**Total £m**
Stage 1					
Not past due	**4,767.9**	**2,056.4**	**195.5**	**216.4**	**7,236.2**
Past due < 1 month	**0.5**	**1.1**	**-**	**2.2**	**3.8**
	4,768.4	**2,057.5**	**195.5**	**218.6**	**7,240.0**
Stage 2					
Not past due	**139.6**	**83.6**	**14.6**	**1.3**	**239.1**
Past due < 1 month	**10.1**	**27.1**	**0.8**	**0.1**	**38.1**
Past due 1 to 3 months	**6.3**	**22.4**	**0.3**	**0.9**	**29.9**
	156.0	**133.1**	**15.7**	**2.3**	**307.1**
Stage 3					
Not past due	**1.1**	**3.2**	**0.2**	**0.3**	**4.8**
Past due < 1 month	**0.5**	**0.9**	**-**	**-**	**1.4**
Past due 1 to 3 months	**1.6**	**4.4**	**-**	**-**	**6.0**
Past due 3 to 6 months	**3.2**	**1.2**	**0.1**	**-**	**4.5**
	6.4	**9.7**	**0.3**	**0.3**	**16.7**
Stage 3 (POCI)					
Not past due	**10.9**	**16.6**	**1.7**	**1.4**	**30.6**
Past due < 1 month	**2.5**	**5.4**	**0.4**	**0.2**	**8.5**
Past due 1 to 3 months	**2.6**	**16.8**	**1.8**	**0.7**	**21.9**
Past due 3 to 6 months	**1.3**	**8.8**	**-**	**0.4**	**10.5**
Past due 6 to 12 months	**1.0**	**3.9**	**0.2**	**0.4**	**5.5**
Past due over 12 months	**0.9**	**0.3**	**-**	**-**	**1.2**
Possessions	**3.9**	**0.9**	**0.2**	**-**	**5.0**
	23.1	**52.7**	**4.3**	**3.1**	**83.2**
Total loans before provisions	**4,953.9**	**2,253.0**	**215.8**	**224.3**	**7,647.0**

45. Risk management (continued)

The table below shows the analysis of mortgage portfolio by arrears for the Bank's two major lending streams:

Bank	2019 BTL/SME £m	2019 Residential £m	2019 Total £m	2018 BTL/SME £m	2018 Residential £m	2018 Total £m
Stage 1						
Not past due	**6,374.7**	**1,357.4**	**7,732.1**	5,512.3	1,090.9	6,603.2
Past due < 1 month	**20.3**	**32.6**	**52.9**	16.5	37.3	53.8
	6,395.0	**1,390.0**	**7,785.0**	5,528.8	1,128.2	6,657.0
Stage 2						
Not past due	**111.0**	**96.2**	**207.2**	65.0	97.6	162.6
Past due < 1 month	**72.7**	**36.5**	**109.2**	72.3	45.6	117.9
Past due 1 to 3 months	**27.1**	**27.8**	**54.9**	29.3	36.8	66.1
	210.8	**160.5**	**371.3**	166.6	180.0	346.6
Stage 3						
Not past due	**27.5**	**22.6**	**50.1**	18.3	13.9	32.2
Past due < 1 month	**13.2**	**13.0**	**26.2**	2.6	8.8	11.4
Past due 1 to 3 months	**9.3**	**18.4**	**27.7**	11.1	16.1	27.2
Past due 3 to 6 months	**12.8**	**27.6**	**40.4**	24.5	30.2	54.7
Past due 6 to 12 months	**7.6**	**15.7**	**23.3**	7.4	17.3	24.7
Past due over 12 months	**2.9**	**9.3**	**12.2**	2.3	7.1	9.4
Possessions	**28.5**	**2.7**	**31.2**	4.4	0.8	5.2
	101.8	**109.3**	**211.1**	70.6	94.2	164.8
Stage 3 (POCI)						
Not past due	**-**	**20.6**	**20.6**	-	18.5	18.5
Past due < 1 month	**-**	**6.1**	**6.1**	-	6.5	6.5
Past due 1 to 3 months	**-**	**4.9**	**4.9**	-	6.6	6.6
Past due 3 to 6 months	**-**	**6.5**	**6.5**	-	7.4	7.4
Past due 6 to 12 months	**-**	**5.7**	**5.7**	-	7.7	7.7
Past due over 12 months	**-**	**8.3**	**8.3**	-	9.2	9.2
Possessions	**-**	**1.3**	**1.3**	-	-	-
	-	**53.4**	**53.4**	-	55.9	55.9
Total loans before provisions	**6,707.6**	**1,713.2**	**8,420.8**	5,766.0	1,458.3	7,224.3

45. Risk management (continued)

The table below shows the analysis of mortgage portfolio by arrears for the Bank's BTL/SME lending stream:

	2019				
Bank	**Buy-to-Let £m**	**Commercial £m**	**Residential development £m**	**Funding lines £m**	**Total £m**
Stage 1					
Not past due	**5,993.2**	**13.3**	**146.1**	**222.1**	**6,374.7**
Past due < 1 month	**19.9**	**0.4**	**-**	**-**	**20.3**
	6,013.1	**13.7**	**146.1**	**222.1**	**6,395.0**
Stage 2					
Not past due	**110.0**	**1.0**	**-**	**-**	**111.0**
Past due < 1 month	**72.3**	**0.4**	**-**	**-**	**72.7**
Past due 1 to 3 months	**27.0**	**0.1**	**-**	**-**	**27.1**
	209.3	**1.5**	**-**	**-**	**210.8**
Stage 3					
Not past due	**27.5**	**-**	**-**	**-**	**27.5**
Past due < 1 month	**12.2**	**1.0**	**-**	**-**	**13.2**
Past due 1 to 3 months	**9.3**	**-**	**-**	**-**	**9.3**
Past due 3 to 6 months	**12.4**	**0.4**	**-**	**-**	**12.8**
Past due 6 to 12 months	**7.5**	**0.1**	**-**	**-**	**7.6**
Past due over 12 months	**2.8**	**0.1**	**-**	**-**	**2.9**
Possessions	**28.2**	**0.3**	**-**	**-**	**28.5**
	99.9	**1.9**	**-**	**-**	**101.8**
Total loans before provisions	**6,322.3**	**17.1**	**146.1**	**222.1**	**6,707.6**

45. Risk management (continued)

	2018				
	Buy-to-Let	Commercial	Residential development	Funding lines	Total
Bank	£m	£m	£m	£m	£m
Stage 1					
Not past due	5,170.6	17.8	155.8	168.1	5,512.3
Past due < 1 month	16.2	0.3	-	-	16.5
	5,186.8	18.1	155.8	168.1	5,528.8
Stage 2					
Not past due	63.3	1.7	-	-	65.0
Past due < 1 month	71.3	1.0	-	-	72.3
Past due 1 to 3 months	29.3	-	-	-	29.3
	163.9	2.7	-	-	166.6
Stage 3					
Not past due	17.9	0.4	-	-	18.3
Past due < 1 month	2.6	-	-	-	2.6
Past due 1 to 3 months	11.0	0.1	-	-	11.1
Past due 3 to 6 months	24.4	0.1	-	-	24.5
Past due 6 to 12 months	7.4	-	-	-	7.4
Past due over 12 months	2.3	-	-	-	2.3
Possessions	4.4	-	-	-	4.4
	70.0	0.6	-	-	70.6
Total loans before provisions	5,420.7	21.4	155.8	168.1	5,766.0

45. Risk management (continued)

The table below shows the analysis of mortgage portfolio by arrears for the Bank's Residential mortgages lending stream:

	2019			
Bank	**First charge £m**	**Second charge £m**	**Funding lines £m**	**Total £m**
Stage 1				
Not past due	1,072.7	272.5	12.2	1,357.4
Past due < 1 month	26.4	6.2	-	32.6
	1,099.1	278.7	12.2	1,390.0
Stage 2				
Not past due	78.2	18.0	-	96.2
Past due < 1 month	32.1	4.4	-	36.5
Past due 1 to 3 months	22.0	5.8	-	27.8
	132.3	28.2	-	160.5
Stage 3				
Not past due	19.0	3.6	-	22.6
Past due < 1 month	10.4	2.6	-	13.0
Past due 1 to 3 months	13.2	5.2	-	18.4
Past due 3 to 6 months	19.4	8.2	-	27.6
Past due 6 to 12 months	11.9	3.8	-	15.7
Past due over 12 months	7.3	2.0	-	9.3
Possessions	2.0	0.7	-	2.7
	83.2	26.1	-	109.3
Stage 3 (POCI)				
Not past due	13.4	7.2	-	20.6
Past due < 1 month	4.2	1.9	-	6.1
Past due 1 to 3 months	2.0	2.9	-	4.9
Past due 3 to 6 months	3.2	3.3	-	6.5
Past due 6 to 12 months	2.6	3.1	-	5.7
Past due over 12 months	2.3	6.0	-	8.3
Possessions	0.1	1.2	-	1.3
	27.8	25.6	-	53.4
Total loans before provisions	1,342.4	358.6	12.2	1,713.2

45. Risk management (continued)

Bank	2018 First charge £m	Second charge £m	Funding lines £m	Total £m
Stage 1				
Not past due	791.2	275.6	24.1	1,090.9
Past due < 1 month	28.6	8.7	-	37.3
	819.8	284.3	24.1	1,128.2
Stage 2				
Not past due	78.4	19.2	-	97.6
Past due < 1 month	39.6	6.0	-	45.6
Past due 1 to 3 months	29.5	7.3	-	36.8
	147.5	32.5	-	180.0
Stage 3				
Not past due	11.4	2.5	-	13.9
Past due < 1 month	6.5	2.3	-	8.8
Past due 1 to 3 months	10.8	5.3	-	16.1
Past due 3 to 6 months	21.4	8.8	-	30.2
Past due 6 to 12 months	13.2	4.1	-	17.3
Past due over 12 months	5.1	2.0	-	7.1
Possessions	0.8	-	-	0.8
	69.2	25.0	-	94.2
Stage 3 (POCI)				
Not past due	12.1	6.4	-	18.5
Past due < 1 month	4.4	2.1	-	6.5
Past due 1 to 3 months	4.1	2.5	-	6.6
Past due 3 to 6 months	3.5	3.9	-	7.4
Past due 6 to 12 months	3.4	4.3	-	7.7
Past due over 12 months	2.2	7.0	-	9.2
	29.7	26.2	-	55.9
Total loans before provisions	1,066.2	368.0	24.1	1,458.3

45. Risk management (continued)

Forbearance measures undertaken

The Group has a range of options available where borrowers experience financial difficulties which impact their ability to service their financial commitments under the loan agreement. These are explained in the Principal risks and uncertainties.

A summary of the forbearance measures undertaken during the year, where CCFS forbearance is included post Combination, is shown below. The balances disclosed reflect the year end balance of the accounts where a forbearance measure was undertaken during the year.

Group Forbearance type	Number of accounts 2019	At 31 December 2019 £m	Number of accounts 2018	At 31 December 2018 £m
Interest-only switch	59	8.4	26	3.7
Interest rate reduction	35	1.6	5	0.8
Term extension	30	6.6	33	3.5
Payment holiday	87	4.1	31	0.6
Voluntary assisted sale	26	1.0	4	0.1
Payment concession (reduced monthly payments)	73	3.6	75	3.5
Full or partial debt forgiveness	6	-	-	-
Total	316	25.3	174	12.2
Loan type				
First charge owner-occupier	85	10.5	40	3.4
Second charge owner-occupier	198	7.4	106	2.9
Buy-to-Let	32	7.4	28	5.9
Commercial	1	-	-	-
Total	316	25.3	174	12.2

45. Risk management (continued)

Bank Forbearance type	Number of accounts 2019	At 31 December 2019 £m	Number of accounts 2018	At 31 December 2018 £m
Interest-only switch	48	7.2	21	2.9
Interest rate reduction	34	1.3	2	0.2
Term extension	19	6.1	28	2.7
Payment holiday	72	1.7	31	0.6
Voluntary assisted sale	24	0.5	4	0.1
Payment concession (reduced monthly payments)	69	2.5	75	3.6
Full or partial debt forgiveness	6	-	-	-
Total	272	19.3	161	10.1
Loan type				
First charge owner-occupier	59	7.0	22	1.6
Second charge owner-occupier	185	5.8	112	2.9
Buy-to-Let	28	6.5	27	5.6
Total	272	19.3	161	10.1

45. Risk management (continued)

Geographical analysis by region

An analysis of loans by region is provided below:

	Group 2019 OSB	Group 2019 CCFS	Group 2019 Total		Group 2018 OSB	
Region	**£m**	**£m**	**£m**	**%**	£m	%
East Anglia	**391.9**	**810.9**	**1,202.8**	**7**	316.4	4
East Midlands	**415.2**	**410.3**	**825.5**	**4**	325.4	4
Greater London	**4,738.7**	**2,713.7**	**7,452.4**	**41**	3,965.5	43
Guernsey	**45.3**	**-**	**45.3**	**-**	61.7	1
Jersey	**141.4**	**-**	**141.4**	**1**	176.0	2
North East	**136.7**	**179.5**	**316.2**	**2**	115.6	1
North West	**587.3**	**605.4**	**1,192.7**	**6**	447.6	5
Northern Ireland	**14.2**	**-**	**14.2**	**-**	14.6	-
Scotland	**48.5**	**190.9**	**239.4**	**1**	45.2	1
South East	**2,375.2**	**1,209.6**	**3,584.8**	**20**	1,955.1	22
South West	**747.5**	**466.0**	**1,213.5**	**7**	634.2	7
Wales	**239.3**	**202.6**	**441.9**	**2**	187.1	2
West Midlands	**702.2**	**496.0**	**1,198.2**	**6**	557.5	6
Yorks and Humberside	**237.2**	**362.1**	**599.3**	**3**	203.3	2
Total loans before provisions	**10,820.6**	**7,647.0**	**18,467.6**	**100**	9,005.2	100

	Bank 2019		Bank 2018	
Region	**£m**	**%**	£m	%
East Anglia	**319.3**	**4**	267.3	4
East Midlands	**297.1**	**4**	245.5	3
Greater London	**3,737.7**	**44**	3,270.7	45
North East	**109.3**	**1**	94.7	1
North West	**448.1**	**5**	346.9	5
Northern Ireland	**14.1**	**-**	14.4	-
Scotland	**44.0**	**1**	44.0	1
South East	**1,921.3**	**23**	1,667.9	24
South West	**601.4**	**7**	515.5	7
Wales	**191.1**	**2**	151.3	2
West Midlands	**556.8**	**7**	454.9	6
Yorks and Humberside	**180.6**	**2**	151.2	2
Total loans before provisions	**8,420.8**	**100**	7,224.3	100

45. Risk management (continued)

Approach to measurement of credit quality

The Group categorises the credit quality of loans and advances to customers into internal risk grades based on the 12-month PD calculated at the reporting date. The PDs include a combination of internal behavioural and credit bureau characteristics. The risk grades are further grouped into the following credit quality segments:

- Excellent quality - where there is a very high likelihood the asset will be recovered in full with a negligible or very low risk of default.
- Good quality - where there is a high likelihood the asset will be recovered in full with a low risk of default
- Satisfactory quality – where the assets demonstrate a moderate default risk.
- Lower quality - where the assets require closer monitoring and the risk of default is of greater concern.

The credit grade for the Group's investment securities and loans and advances to credit institutions is based on the external credit rating of the counterparty.

45. Risk management (continued)

The following tables disclose the credit risk quality ratings of Loans and advances to customers by IFRS 9 stage:

Group 2019	Stage 1 £m	Stage 2 £m	Stage 3 £m	Stage 3 (POCI) £m	Total £m
Loans and advances to customers - OSB					
Excellent	**4,985.9**	**11.0**	**-**	**-**	**4,996.9**
Good	**4,859.3**	**200.5**	**-**	**-**	**5,059.8**
Satisfactory	**147.3**	**154.8**	**-**	**-**	**302.1**
Lower	**6.7**	**76.1**	**-**	**-**	**82.8**
Impaired	**-**	**-**	**277.7**	**-**	**277.7**
POCI	**-**	**-**	**-**	**53.6**	**53.6**
Loans and advances to customers - CCFS					
Excellent	**3,632.7**	**20.5**	**-**	**-**	**3,653.2**
Good	**3,359.7**	**93.7**	**-**	**-**	**3,453.4**
Satisfactory	**222.8**	**39.1**	**-**	**-**	**261.9**
Lower	**24.8**	**153.8**	**-**	**-**	**178.6**
Impaired	**-**	**-**	**16.7**	**-**	**16.7**
POCI	**-**	**-**	**-**	**83.2**	**83.2**
	17,239.2	**749.5**	**294.4**	**136.8**	**18,419.9**

Group 2018					
Loans and advances to customers - OSB					
Excellent	4,351.9	8.7	-	-	4,360.6
Good	3,755.1	188.6	-	-	3,943.7
Satisfactory	163.1	164.8	-	-	327.9
Lower	9.5	74.7	-	-	84.2
Impaired	-	-	225.4	-	225.4
POCI	-	-	-	56.2	56.2
	8,279.6	436.8	225.4	56.2	8,998.0

45. Risk management (continued)

Bank 2019	**Stage 1 £m**	**Stage 2 £m**	**Stage 3 £m**	**Stage 3 (POCI) £m**	**Total £m**
Loans and advances to customers					
Excellent	**3,565.3**	**10.3**	**-**	**-**	**3,575.6**
Good	**4,086.1**	**148.0**	**-**	**-**	**4,234.1**
Satisfactory	**127.3**	**147.0**	**-**	**-**	**274.3**
Lower	**6.3**	**66.0**	**-**	**-**	**72.3**
Impaired	**-**	**-**	**211.1**	**-**	**211.1**
POCI	**-**	**-**	**-**	**53.4**	**53.4**
	7,785.0	**371.3**	**211.1**	**53.4**	**8,420.8**

Bank 2018					
Loans and advances to customers					
Excellent	3,321.1	3.4	-	-	3,324.5
Good	3,189.2	126.8	-	-	3,316.0
Satisfactory	138.6	149.9	-	-	288.5
Lower	8.1	66.5	-	-	74.6
Impaired	-	-	164.8	-	164.8
POCI	-	-	-	55.9	55.9
	6,657.0	346.6	164.8	55.9	7,224.3

The tables below show the Group's and Bank's other financial assets by credit risk rating grade:

Group 2019	**Excellent £m**	**Good £m**	**Satisfactory £m**	**Total £m**
Investment securities	**635.3**	**-**	**-**	**635.3**
Loans and advances to credit institutions	**2,047.8**	**146.1**	**10.7**	**2,204.6**
Derivative assets	**11.6**	**9.5**	**-**	**21.1**
	2,694.7	**155.6**	**10.7**	**2,861.0**

Group 2018	**Excellent** £m	**Good** £m	**Satisfactory** £m	Total £m
Investment securities	58.9	-	-	58.9
Loans and advances to credit institutions	1,315.2	25.4	6.7	1,347.3
Derivative assets	1.3	10.4	-	11.7
	1,375.4	35.8	6.7	1,417.9

Bank 2019	**Excellent £m**	**Good £m**	**Satisfactory £m**	**Total £m**
Investment securities	**149.8**	**-**	**-**	**149.8**
Loans and advances to credit institutions	**1,140.7**	**55.3**	**-**	**1,196.0**
Derivative assets	**7.2**	**1.5**	**-**	**8.7**
	1,297.7	**56.8**	**-**	**1,354.5**

45. Risk management (continued)

Bank 2018	**Excellent** £m	**Good** £m	**Satisfactory** £m	Total £m
Investment securities	58.9	-	-	58.9
Loans and advances to credit institutions	1,315.2	24.8	-	1,340.0
Derivative assets	1.3	10.4	-	11.7
	1,375.4	35.2	-	1,410.6

Credit risk - loans and advances to credit institutions and investment securities

The Group holds treasury instruments in order to meet liquidity requirements and for general business purposes. The credit risk arising from these investments is closely monitored and managed by the Group's treasury department. In managing these assets, Group treasury operates within guidelines laid down in the treasury policy approved by the Board and performance is monitored and reported to ALCO monthly, including through the use of an internally developed rating model based on counterparty credit default swap spreads.

The Group has limited exposure to emerging markets (Indian operations) and non-investment grade debt. ALCO is responsible for approving treasury counterparties.

During the year, the average balance of cash in hand, loans and advances to credit institutions and investment securities on a monthly basis was £2,016.2m (2018: £1,296.1m).

The tables below show the industry sector of the Group's loans and advances to credit institutions and investment securities:

	Group 2019		Group 2018	
	£m	**%**	£m	%
BoE[1]	**1,957.9**	**69**	1,315.2	94
Other banks	**246.7**	**9**	32.1	2
Central government	**149.8**	**5**	39.8	3
Supranationals	**-**	**-**	19.1	1
Securitisation	**485.5**	**17**	-	-
Total	**2,839.9**	**100**	1,406.2	100

[1] Balances with the BoE include £41.7m (2018: £20.0m) held in the cash ratio deposit.

45. Risk management (continued)

	Bank 2019		Bank 2018	
	£m	**%**	£m	%
BoE[1]	**1,109.3**	**83**	1,315.2	94
Other banks	**86.7**	**6**	24.8	2
Central government	**149.8**	**11**	39.8	3
Supranationals	**-**	**-**	19.1	1
Total	**1,345.8**	**100**	1,398.9	100

[1] Balances with the BoE include £27.5m (2018: £20.0m) held in the cash ratio deposit.

The tables below show the geographical exposure of the Group's loans and advances to credit institutions and investment securities:

	Group 2019		Group 2018	
	£m	**%**	£m	%
United Kingdom	**2,829.2**	**100**	1,380.5	98
Rest of Europe	**-**	**-**	19.1	2
India	**10.7**	**-**	6.6	-
Total	**2,839.9**	**100**	1,406.2	100

	Bank 2019		Bank 2018	
	£m	**%**	£m	%
United Kingdom	**1,345.8**	**100**	1,379.8	99
Rest of Europe	**-**	**-**	19.1	1
Total	**1,345.8**	**100**	1,398.9	100

The Group monitors exposure concentrations against a variety of criteria, including asset class, sector and geography. To avoid refinancing risks associated with any one counterparty, sector or geographical region, the Board has set appropriate limits.

Liquidity risk
Liquidity risk is the risk of having insufficient liquid assets to fulfil obligations as they become due or the cost of raising liquid funds becoming too expensive.

The Group's approach to managing liquidity risk is to maintain sufficient liquid resources to cover cash flow imbalances and fluctuations in funding in order to retain full public confidence in the solvency of the Group and to enable the Group to meet its financial obligations as they fall due. This is achieved through maintaining a prudent level of liquid assets and control of the growth of the business. The Group has established a call account with the BoE and has access to its contingent liquidity facilities.

Liquidity management is the responsibility of ALCO, with day-to-day management delegated to treasury as detailed in the treasury policy. ALCO is responsible for setting limits over the level and maturity profile of wholesale funding and for monitoring the composition of the Group financial position. For each material class of financial liability a contractual maturity analysis is provided below.

45. Risk management (continued)

The Group also monitors a range of triggers, defined in the contingency funding plan and recovery and resolution plan, which are designed to capture liquidity stresses in advance in order to allow sufficient time for management action to take effect. These are monitored daily by the Risk team, with breaches immediately reported to the CRO, CEO, CFO and the Head of Treasury.

The tables below provide a contractual maturity analysis of the Group's financial assets and liabilities:

Group 2019	Carrying amount £m	On demand £m	Less than 3 months £m	3 - 12 months £m	1 - 5 years £m	More than 5 years £m
Financial liability by type						
Amounts owed to retail depositors	16,255.0	4,050.7	2,411.9	6,579.3	3,213.1	-
Amounts owed to credit institutions	3,068.8	10.2	232.0	193.5	2,633.1	-
Amounts owed to other customers	29.7	3.7	2.8	23.1	0.1	-
Derivative liabilities	92.8	-	-	2.3	83.4	7.1
Debt securities in issue	296.3	-	-	40.1	256.2	-
Lease liabilities	13.3	-	0.3	1.0	3.8	8.2
Subordinated liabilities	10.6	-	0.2	0.1	10.3	-
Perpetual Subordinated Bonds	37.6	-	0.6	-	-	37.0
Total liabilities	19,804.1	4,064.6	2,647.8	6,839.4	6,200.0	52.3
Financial asset by type						
Cash in hand	0.4	0.4	-	-	-	-
Loans and advances to credit institutions	2,204.6	2,077.1	85.8	-	-	41.7
Investment securities	635.3	-	49.9	116.4	469.0	-
Loans and advances to customers	18,446.8	4.5	290.7	524.1	1,174.8	16,452.7
Derivative assets	21.1	-	0.3	3.0	16.0	1.8
Total assets	21,308.2	2,082.0	426.7	643.5	1,659.8	16,496.2
Cumulative liquidity gap		(1,982.6)	(4,203.7)	(10,399.4)	(14,925.6)	1,504.1

45. Risk management (continued)

Restated Group[1] 2018	Carrying amount £m	On demand £m	Less than 3 months £m	3 - 12 months £m	1 - 5 years £m	More than 5 years £m
Financial liability by type						
Amounts owed to retail depositors	8,071.9	2,538.2	880.6	3,008.3	1,644.8	-
Amounts owed to credit institutions	1,584.0	1.0	40.1	40.0	1,502.9	-
Amounts owed to other customers	32.9	-	10.5	22.4	-	-
Derivative liabilities	24.9	-	0.1	11.3	7.0	6.5
Subordinated liabilities	10.8	-	0.2	0.1	0.5	10.0
Perpetual Subordinated Bonds	37.6	-	0.6	-	-	37.0
Total liabilities	9,762.1	2,539.2	932.1	3,082.1	3,155.2	53.5
Financial asset by type						
Cash in hand	0.4	0.4	-	-	-	-
Loans and advances to credit institutions	1,347.3	1,327.3	-	-	-	20.0
Investment securities	58.9	-	-	58.9	-	-
Loans and advances to customers	8,983.3	-	176.0	270.4	522.9	8,014.0
Derivative assets	11.7	-	-	-	11.7	-
Total assets	10,401.6	1,327.7	176.0	329.3	534.6	8,034.0
Cumulative liquidity gap		(1,211.5)	(1,967.6)	(4,720.4)	(7,341.0)	639.5

[1] The Group has restated the prior year comparatives for the £22.0m PSBs previously classified as equity (see note 1).

45. Risk management (continued)

Bank 2019	Carrying amount £m	On demand £m	Less than 3 months £m	3 - 12 months £m	1 - 5 years £m	More than 5 years £m
Financial liability by type						
Amounts owed to retail depositors	9,435.7	3,254.6	1,338.4	3,229.0	1,613.7	-
Amounts owed to credit institutions	1,671.1	7.8	160.5	-	1,502.8	-
Amounts owed to other customers	8.9	-	0.5	8.4	-	-
Derivative liabilities	54.3	-	-	0.6	46.8	6.9
Lease liabilities	4.3	-	-	0.2	0.4	3.7
Subordinated liabilities	10.6	-	0.2	0.1	10.3	-
Perpetual Subordinated Bonds	37.6	-	0.6	-	-	37.0
Total liabilities	11,222.5	3,262.4	1,500.2	3,238.3	3,174.0	47.6
Financial asset by type						
Cash in hand	0.4	0.4	-	-	-	-
Loans and advances to credit institutions	1,196.0	1,168.5	-	-	-	27.5
Investment securities	149.8	-	49.9	99.9	-	-
Loans and advances to customers	8,394.2	-	136.7	168.4	273.3	7,815.8
Derivative assets	8.7	-	0.1	1.0	7.1	0.5
Total assets	9,749.1	1,168.9	186.7	269.3	280.4	7,843.8
Cumulative liquidity gap		(2,093.5)	(3,407.0)	(6,376.0)	(9,269.6)	(1,473.4)

45. Risk management (continued)

Restated Bank[1] 2018	Carrying amount £m	On demand £m	Less than 3 months £m	3 - 12 months £m	1 - 5 years £m	More than 5 years £m
Financial liability by type						
Amounts owed to retail depositors	8,071.9	2,538.2	880.6	3,008.3	1,644.8	-
Amounts owed to credit institutions	1,584.0	1.0	40.1	40.0	1,502.9	-
Amounts owed to other customers	32.9	-	10.5	22.4	-	-
Derivative liabilities	24.9	-	0.1	11.3	7.0	6.5
Subordinated liabilities	10.8	-	0.2	0.1	0.5	10.0
Perpetual Subordinated Bonds	37.6	-	0.6	-	-	37.0
Total liabilities	9,762.1	2,539.2	932.1	3,082.1	3,155.2	53.5
Financial asset by type						
Cash in hand	0.4	0.4	-	-	-	-
Loans and advances to credit institutions	1,340.0	1,320.0	-	-	-	20.0
Investment securities	58.9	-	-	58.9	-	-
Loans and advances to customers	7,208.2	-	131.8	165.1	232.4	6,678.9
Derivative assets	11.7	-	-	-	11.7	-
Total assets	8,619.2	1,320.4	131.8	224.0	244.1	6,698.9
Cumulative liquidity gap		(1,218.8)	(2,019.1)	(4,877.2)	(7,788.3)	(1,142.9)

[1] The Bank has restated the prior year comparatives for the £22.0m PSBs previously classified as equity (see note 1).

45. Risk management (continued)

Liquidity risk – contractual cash flows

The following tables provide an analysis of the Group's gross contractual cash flows, derived using interest rates and contractual maturities at the reporting date and excluding impacts of early payments or non-payments:

Group 2019	Carrying amount £m	Gross inflow / outflow £m	Up to 3 months £m	3 - 12 months £m	1 - 5 years £m	More than 5 years £m
Financial liability by type						
Amounts owed to retail depositors	**16,255.0**	**16,407.3**	**5,532.0**	**4,309.7**	**4,911.8**	**1,653.8**
Amounts owed to credit institutions and other customers	**3,098.5**	**3,133.3**	**255.1**	**229.5**	**2,648.7**	**-**
Derivative liabilities	**92.8**	**91.4**	**5.6**	**20.7**	**61.4**	**3.7**
Debt securities in issue	**296.3**	**315.3**	**14.4**	**82.9**	**218.0**	**-**
Lease liabilities	**13.3**	**22.4**	**0.7**	**1.4**	**17.1**	**3.2**
Subordinated liabilities	**10.6**	**14.2**	**0.4**	**0.5**	**13.3**	**-**
Perpetual Subordinated Bonds	**37.6**	**45.5**	**0.4**	**1.3**	**6.8**	**37.0**
Total liabilities	**19,804.1**	**20,029.4**	**5,808.6**	**4,646.0**	**7,877.1**	**1,697.7**
Off-balance sheet loan commitments	**1,210.9**	**1,210.9**	**1,210.9**	**-**	**-**	**-**
Financial asset by type						
Cash in hand	**0.4**	**0.4**	**0.4**	**-**	**-**	**-**
Loans and advances to credit institutions	**2,204.6**	**2,204.6**	**2,162.9**	**-**	**-**	**41.7**
Investment securities	**635.3**	**672.4**	**52.1**	**123.2**	**497.1**	**-**
Loans and advances to customers	**18,446.8**	**37,024.4**	**371.6**	**1,423.6**	**5,032.4**	**30,196.8**
Derivative assets	**21.1**	**23.4**	**2.4**	**5.7**	**15.1**	**0.2**
Total assets	**21,308.2**	**39,925.2**	**2,589.4**	**1,552.5**	**5,544.6**	**30,238.7**

45. Risk management (continued)

Restated Group[1] 2018	Carrying amount £m	Gross inflow / outflow £m	Up to 3 months £m	3 - 12 months £m	1 - 5 years £m	More than 5 years £m
Financial liability by type						
Amounts owed to retail depositors	8,071.9	8,479.5	3,433.0	3,236.7	1,809.8	-
Amounts owed to credit institutions and other customers	1,616.9	1,646.2	54.5	71.2	1,520.5	-
Derivative liabilities	24.9	27.1	3.3	15.6	5.0	3.2
Subordinated liabilities	10.8	15.0	0.3	0.4	3.6	10.7
Perpetual Subordinated Bonds	37.6	46.5	0.5	1.4	7.6	37.0
Total liabilities	9,762.1	10,214.3	3,491.6	3,325.3	3,346.5	50.9
Off-balance sheet loan commitments	710.7	710.7	710.7	-	-	-
Financial asset by type						
Cash in hand	0.4	0.4	0.4	-	-	-
Loans and advances to credit institutions	1,347.3	1,347.3	1,327.3	-	-	20.0
Investment securities	58.9	59.0	-	59.0	-	-
Loans and advances to customers	8,983.3	18,311.2	183.6	841.5	2,649.6	14,636.5
Derivative assets	11.7	12.2	0.4	1.0	10.8	-
Total assets	10,401.6	19,730.1	1,511.7	901.5	2,660.4	14,656.5

[1] The Group has restated the prior year comparatives for the PSBs previously classified as equity.

45. Risk management (continued)

Bank 2019	Carrying amount £m	Gross inflow / outflow £m	Up to 3 months £m	3 - 12 months £m	1 - 5 years £m	More than 5 years £m
Financial liability by type						
Amounts owed to retail depositors	**9,435.7**	**9,495.9**	**3,657.4**	**917.0**	**3,267.7**	**1,653.8**
Amounts owed to credit institutions and other customers	**1,680.0**	**1,697.6**	**174.6**	**13.8**	**1,509.2**	**-**
Derivative liabilities	**54.3**	**55.0**	**2.3**	**11.8**	**37.3**	**3.6**
Lease liabilities	**4.3**	**4.8**	**0.2**	**0.4**	**1.9**	**2.3**
Subordinated liabilities	**10.6**	**14.2**	**0.4**	**0.5**	**13.3**	**-**
Perpetual Subordinated Bonds	**37.6**	**45.5**	**0.4**	**1.3**	**6.8**	**37.0**
Total liabilities	**11,222.5**	**11,313.0**	**3,835.3**	**944.8**	**4,836.2**	**1,696.7**
Off-balance sheet loan commitments	**459.7**	**459.7**	**459.7**	**-**	**-**	**-**
Financial asset by type						
Cash in hand	**0.4**	**0.4**	**0.4**	**-**	**-**	**-**
Loans and advances to credit institutions	**1,196.0**	**1,196.0**	**1,168.5**	**-**	**-**	**27.5**
Investment securities	**149.8**	**150.0**	**50.0**	**100.0**	**-**	**-**
Loans and advances to customers	**8,394.2**	**18,218.7**	**114.8**	**717.7**	**2,256.2**	**15,130.0**
Derivative assets	**8.7**	**8.7**	**0.7**	**1.7**	**6.2**	**0.1**
Total assets	**9,749.1**	**19,573.8**	**1,334.4**	**819.4**	**2,262.4**	**15,157.6**

45. Risk management (continued)

Restated Bank[1] 2018	Carrying amount £m	Gross inflow / outflow £m	Up to 3 months £m	3 - 12 months £m	1 - 5 years £m	More than 5 years £m
Financial liability by type						
Amounts owed to retail depositors	8,071.9	8,479.5	3,433.0	3,236.7	1,809.8	-
Amounts owed to credit institutions and other customers	1,616.9	1,646.2	54.5	71.2	1,520.5	-
Derivative liabilities	24.9	27.1	3.3	15.6	5.0	3.2
Subordinated liabilities	10.8	15.0	0.3	0.4	3.6	10.7
Perpetual Subordinated Bonds	37.6	46.5	0.5	1.4	7.6	37.0
Total liabilities	9,762.1	10,214.3	3,491.6	3,325.3	3,346.5	50.9
Off-balance sheet loan commitments	487.8	487.8	487.8	-	-	-
Financial asset by type						
Cash in hand	0.4	0.4	0.4	-	-	-
Loans and advances to credit institutions	1,340.0	1,340.1	1,320.1	-	-	20.0
Investment securities	58.9	59.0	-	59.0	-	-
Loans and advances to customers	7,208.2	15,496.7	107.3	647.8	1,931.3	12,810.3
Derivative assets	11.7	12.2	0.4	1.0	10.8	-
Total assets	8,619.2	16,908.4	1,428.2	707.8	1,942.1	12,830.3

[1] The Bank has restated the prior year comparatives for the £22.0m PSBs previously classified as equity (see note 1).

The actual repayment profile of retail deposits may differ from the analysis above due to the option of early withdrawal with a penalty.

The actual repayment profile of loans and advances to customers may differ from the analysis above since many mortgage loans are repaid prior to the contractual end date.

45. Risk management (continued)

Liquidity risk – asset encumbrance

Asset encumbrance levels are monitored by ALCO. The following tables provide an analysis of the Group's encumbered and unencumbered assets:

	Group 2019				
	Encumbered		**Unencumbered**		
	Pledged as collateral £m	**Other[2] £m**	**Available as collateral £m**	**Other[3] £m**	**Total £m**
Cash in hand	**-**	**-**	**0.4**	**-**	**0.4**
Loans and advances to credit institutions	**110.4**	**41.7**	**1,916.2**	**136.3**	**2,204.6**
Investment securities	**173.0**	**-**	**462.3**	**-**	**635.3**
Loans and advances to customers	**4,922.4**	**40.4**	**1,939.6**	**11,544.4**	**18,446.8**
Derivative assets	**-**	**-**	**-**	**21.1**	**21.1**
Non-financial assets	**-**	**-**	**-**	**108.9**	**108.9**
	5,205.8	**82.1**	**4,318.5**	**11,810.7**	**21,417.1**

	Restated Group[1] 2018				
	Encumbered		Unencumbered		
	Pledged as collateral £m	Other[2] £m	Available as collateral £m	Other[3] £m	Total £m
Cash in hand	-	-	0.4	-	0.4
Loans and advances to credit institutions	3.5	20.0	1,295.2	28.6	1,347.3
Investment securities	-	-	58.9	-	58.9
Loans and advances to customers	2,552.5	16.0	293.5	6,121.3	8,983.3
Derivative assets	-	-	-	11.7	11.7
Non-financial assets	-	-	-	58.6	58.6
	2,556.0	36.0	1,648.0	6,220.2	10,460.2

[1] The 2018 comparatives have been restated to show excess collateral with the BoE under TFS and ILTR as unencumbered available as collateral in line with PRA guidance.
[2] Represents assets that are not pledged but that the Group believes it is restricted from using to secure funding for legal or other reasons.
[3] Represents assets that are not restricted for use as collateral, but the Group treats as available as collateral once they are readily available to secure funding in the normal course of business.

45. Risk management (continued)

	Bank 2019				
	Encumbered		Unencumbered		
	Pledged as collateral £m	Other[2] £m	Available as collateral £m	Other[3] £m	Total £m
Cash in hand	-	-	0.4	-	0.4
Loans and advances to credit institutions	62.2	27.5	1,081.8	24.5	1,196.0
Investment securities	-	-	149.8	-	149.8
Loans and advances to customers	3,010.0	40.4	910.1	4,433.7	8,394.2
Derivative assets	-	-	-	8.7	8.7
Non-financial assets	-	-	-	3,720.8	3,720.8
	3,072.2	67.9	2,142.1	8,187.7	13,469.9

	Restated Bank[1] 2018				
	Encumbered		Unencumbered		
	Pledged as collateral £m	Other[2] £m	Available as collateral £m	Other[3] £m	Total £m
Cash in hand	-	-	0.4	-	0.4
Loans and advances to credit institutions	3.5	20.0	1,295.2	21.3	1,340.0
Investment securities	-	-	58.9	-	58.9
Loans and advances to customers	2,552.5	16.0	293.5	4,346.2	7,208.2
Derivative assets	-	-	-	11.7	11.7
Non-financial assets	-	-	-	1,950.3	1,950.3
	2,556.0	36.0	1,648.0	6,329.5	10,569.5

[1] The 2018 comparatives have been restated to show excess collateral with the BoE under TFS and ILTR as unencumbered available as collateral in line with PRA guidance.
[2] Represents assets that are not pledged but that the Group believes it is restricted from using to secure funding for legal or other reasons.
[3] Represents assets that are not restricted for use as collateral, but the Group treats as available as collateral once they are readily available to secure funding in the normal course of business.

45. Risk management (continued)

Liquidity risk – liquidity reserves

The tables below analyse the Group's liquidity reserves, where carrying value is considered to be equal to fair value:

	Group 2019 £m	Group 2018 £m	Bank 2019 £m	Bank 2018 £m
Unencumbered balances with central banks	**1,916.2**	1,295.2	**1,081.8**	1,295.2
Unencumbered cash and balances with other banks	**136.3**	28.6	**24.5**	21.3
Other cash and cash equivalents	**0.4**	0.4	**0.4**	0.4
Unencumbered investment securities	**462.3**	58.9	**149.8**	58.9
	2,515.2	1,383.1	**1,256.5**	1,375.8

Market risk

Market risk is the risk of an adverse change in the Group's income or the Group's net worth arising from movement in interest rates, exchange rates or other market prices. Market risk exists, to some extent, in all the Group's businesses. The Group recognises that the effective management of market risk is essential to the maintenance of stable earnings and preservation of shareholder value.

Interest rate risk

The primary market risk faced by the Group is interest rate risk. Interest rate risk is the risk of loss from adverse movement in the overall level of interest rates. It arises from mismatches in the timing of repricing of assets and liabilities, both on and off-balance sheet. It is most prevalent in mortgage lending where fixed rate mortgages are not funded by fixed rate deposits of the same duration, or where the fixed rate risk is not hedged by a fully matching interest rate derivative. Exposure is mitigated on a continuous basis through the use of derivatives and reserve allocations.

Currently interest rate risk is managed by separate risk appetites for OSB and CCFS. The Group is currently looking to align measures and risk appetites in 2020. Both banks apply an economic value at risk approach. OSB applies an earnings at risk approach for basis risk while CCFS applies an earnings at risk approach for both interest rate risk and basis risk. The interest rate sensitivity is impacted by behavioural assumptions used by the Group, the most significant of which are prepayments and reserve allocations. Expected prepayments are modelled based on historical analysis and current market rates. The reserve allocation strategy is approved by ALCO and set to reflect the current balance sheet and future plans.

45. Risk management (continued)

OSB measures economic value at risk using the impact of six different internally derived interest rate scenarios and a parallel 250bps rate curve shift up and down. The internal scenarios are defined by ALCO and are based on three ‘shapes’ of curve movement (shift, twist and flex). Historical data is used to calibrate the severity of the scenarios to the Group’s risk appetite. The Board has set a limit on interest rate risk exposure of 2.25% of CET1. After taking into account the derivatives entered into by OSB, the maximum decrease under these scenarios as at 31 December 2019 would have been £4.2m (2018: £5.6m) and the maximum increase £4.2m (2018: £1.8m). Against a parallel interest rate increase of 250bps, the impact would have been a decrease of £1.9m (2018: £11.6m).

For CCFS, risk appetite for economic value at risk is set against the impact of a parallel +/-200bps shock. The down shock is floored at zero. The Board has set a limit on interest risk exposure of 1% of CET1 as at 31 December 2019. After taking into account the derivatives entered into by CCFS, the maximum decrease under these scenarios as at 31 December 2019 would have been £1.0m and the maximum increase £0.3m. Exposure for earnings at risk is measured by the impact of a +/-50bps parallel shift in interest rates on the expected profitability of the Group in the next 12 months. The risk appetite limit is 2% of projected 12-month net interest income (‘NII’). As at 31 December 2019 the maximum decrease would have been £0.9m.

The Group is also exposed to basis risk. Basis risk is the risk of loss from an adverse divergence in interest rates. It arises where assets and liabilities reprice from different variable rate indices. These indices may be market rates (e.g. bank base rate, LIBOR or SONIA) or administered (e.g. the Group’s SVR, other discretionary variable rates, or that received on call accounts with other banks).

OSB measures basis risk using the impact of five scenarios on net interest income over a one-year period including movements such as diverging base, LIBOR and SONIA rates. Historical data is used to calibrate the severity of the scenarios to the Group’s risk appetite. The Board has set a limit on basis risk exposure of 2.25% of CET1 as at 31 December 2019.

CCFS measures basis risk using the impact of three scenarios on net interest income over a one-year period including movements such as diverging base, LIBOR and SONIA rates. The Board has set a limit on basis risk exposure of 3% of 12-month NII as at 31 December 2019.

Foreign exchange rate risk

The Group has limited exposure to foreign exchange risk in respect of its Indian operations. A 5% movement in exchange rates would result in a £0.4m (2018: £0.3m) effect in profit or loss and £0.4m (2018: £0.3m) in equity.

The Bank is not exposed to foreign exchange risk since all its assets and liabilities are denominated in Pounds Sterling.

Structured entities

The structured entities within the Group at 31 December 2019 were Canterbury Finance No.1 plc and Precise Mortgage Funding 2015-1 plc. Both entities hold legal title to a pool of mortgages which are used as a security for issued debt. The transfer of mortgages fails derecognition criteria because the Bank retained the remaining notes and residual certificates issued and as such did not transfer substantially the risks and rewards of ownership of the securitised mortgages. Therefore, the Group is exposed to credit, interest rate and other risks on the securitised mortgages to the same extent as other mortgages. The Group mitigates these risks consistently with non-securitised mortgages.

45. Risk management (continued)

Cash flows generated from the structured entities are ring-fenced and can only be used to pay interest and principal of the issued debt securities in a waterfall order according to the seniority of the bonds. The structured entities are self-funded and the Group is not contractually or constructively obliged to provide further liquidity or financial support. The maximum loss exposure at any point in time is the amount of cash and cash equivalents held in the structured entities.

The Group had no structured entities as at 31 December 2018.

46. Financial instruments and fair values

i. Financial assets and financial liabilities

The following tables summarise the classification and carrying value of the Group's financial assets and financial liabilities:

		2019			
Group	**Note**	**Fair value through profit or loss £m**	**FVOCI £m**	**Amortised cost £m**	**Total carrying amount £m**
Assets					
Cash in hand		-	-	0.4	0.4
Loans and advances to credit institutions	18	-	-	2,204.6	2,204.6
Investment securities	19	-	508.7	126.6	635.3
Loans and advances to customers	20	22.1	-	18,424.7	18,446.8
Derivative assets	25	21.1	-	-	21.1
		43.2	508.7	20,756.3	21,308.2
Liabilities					
Amounts owed to retail depositors	33	-	-	16,255.0	16,255.0
Amounts owed to credit institutions	32	-	-	3,068.8	3,068.8
Amounts owed to other customers	34	-	-	29.7	29.7
Debt securities in issue	35	-	-	296.3	296.3
Derivative liabilities	25	92.8	-	-	92.8
Subordinated liabilities	39	-	-	10.6	10.6
Perpetual Subordinated Bonds	40	-	-	37.6	37.6
		92.8	-	19,698.0	19,790.8

46. Financial instruments and fair values (continued)

		2018			
Restated Group[1]	**Note**	**Fair value through profit or loss £m**	**FVOCI £m**	**Amortised cost £m**	**Total carrying amount £m**
Assets					
Cash in hand		-	-	0.4	0.4
Loans and advances to credit institutions	18	-	-	1,347.3	1,347.3
Investment securities	19	-	58.9	-	58.9
Loans and advances to customers	20	-	-	8,983.3	8,983.3
Derivative assets	25	11.7	-	-	11.7
		11.7	58.9	10,331.0	10,401.6
Liabilities					
Amounts owed to retail depositors	33	-	-	8,071.9	8,071.9
Amounts owed to credit institutions	32	-	-	1,584.0	1,584.0
Amounts owed to other customers	34	-	-	32.9	32.9
Derivative liabilities	25	24.9	-	-	24.9
Subordinated liabilities	39	-	-	10.8	10.8
Perpetual Subordinated Bonds	40	-	-	37.6	37.6
		24.9	-	9,737.2	9,762.1

[1] The Group has restated the prior year comparatives for the £22.0m PSBs previously classified as equity (see note 1).

46. Financial instruments and fair values (continued)

Bank	Note	2019 Fair value through profit or loss £m	FVOCI £m	Amortised cost £m	Total carrying amount £m
Assets					
Cash in hand		**-**	**-**	**0.4**	**0.4**
Loans and advances to credit institutions	18	**-**	**-**	**1,196.0**	**1,196.0**
Investment securities	19	**-**	**149.8**	**-**	**149.8**
Loans and advances to customers	20	**-**	**-**	**8,394.2**	**8,394.2**
Derivative assets	25	**8.7**	**-**	**-**	**8.7**
		8.7	**149.8**	**9,590.6**	**9,749.1**
Liabilities					
Amounts owed to retail depositors	33	**-**	**-**	**9,435.7**	**9,435.7**
Amounts owed to credit institutions	32	**-**	**-**	**1,671.1**	**1,671.1**
Amounts owed to other customers	34	**-**	**-**	**8.9**	**8.9**
Derivative liabilities	25	**54.3**	**-**	**-**	**54.3**
Subordinated liabilities	39	**-**	**-**	**10.6**	**10.6**
Perpetual Subordinated Bonds	40	**-**	**-**	**37.6**	**37.6**
		54.3	**-**	**11,163.9**	**11,218.2**

Restated Bank[1]	Note	2018 Fair value through profit or loss £m	FVOCI £m	Amortised cost £m	Total carrying amount £m
Assets					
Cash in hand		-	-	0.4	0.4
Loans and advances to credit institutions	18	-	-	1,340.0	1,340.0
Investment securities	19	-	58.9	-	58.9
Loans and advances to customers	20	-	-	7,208.2	7,208.2
Derivative assets	25	11.7	-	-	11.7
		11.7	58.9	8,548.6	8,619.2
Liabilities					
Amounts owed to retail depositors	33	-	-	8,071.9	8,071.9
Amounts owed to credit institutions	32	-	-	1,584.0	1,584.0
Amounts owed to other customers	34	-	-	32.9	32.9
Derivative liabilities	25	24.9	-	-	24.9
Subordinated liabilities	39	-	-	10.8	10.8
Perpetual Subordinated Bonds	40	-	-	37.6	37.6
		24.9	-	9,737.2	9,762.1

[1] The Bank has restated the prior year comparatives for the £22.0m PSBs previously classified as equity (see note 1).

46. Financial instruments and fair values (continued)

The Group has no financial assets nor financial liabilities classified as held for trading.

ii. Fair values

The following tables summarise the carrying value and estimated fair value of financial instruments not measured at fair value in the Statement of Financial Position:

	2019		Restated 2018[1]	
	Carrying value	**Estimated fair value**	Carrying value	Estimated fair value
Group	**£m**	**£m**	£m	£m
Assets				
Cash in hand	**0.4**	**0.4**	0.4	0.4
Loans and advances to credit institutions	**2,204.6**	**2,204.6**	1,347.3	1,347.3
Investment securities	**126.6**	**126.6**	-	-
Loans and advances to customers	**18,424.7**	**18,654.2**	8,983.3	9,151.1
	20,756.3	**20,985.8**	10,331.0	10,498.8
Liabilities				
Amounts owed to retail depositors	**16,255.0**	**16,259.7**	8,071.9	8,097.5
Amounts owed to credit institutions	**3,068.8**	**3,068.8**	1,584.0	1,584.0
Amounts owed to other customers	**29.7**	**29.7**	32.9	32.9
Debt securities in issue	**296.3**	**296.3**	-	-
Subordinated liabilities	**10.6**	**10.7**	10.8	10.8
Perpetual Subordinated Bonds	**37.6**	**33.2**	37.6	35.1
	19,698.0	**19,698.4**	9,737.2	9,760.3

[1] The Group has restated the prior year comparatives for the £22.0m PSBs previously classified as equity (see note 1).

	2019		Restated 2018[1]	
	Carrying value	**Estimated fair value**	Carrying value	Estimated fair value
Bank	**£m**	**£m**	£m	£m
Assets				
Cash in hand	**0.4**	**0.4**	0.4	0.4
Loans and advances to credit institutions	**1,196.0**	**1,196.0**	1,340.0	1,340.0
Loans and advances to customers	**8,394.2**	**8,566.3**	7,208.2	7,340.1
	9,590.6	**9,762.7**	8,548.6	8,680.5
Liabilities				
Amounts owed to retail depositors	**9,435.7**	**9,435.8**	8,071.9	8,097.5
Amounts owed to credit institutions	**1,671.1**	**1,671.1**	1,584.0	1,584.0
Amounts owed to other customers	**8.9**	**8.9**	32.9	32.9
Subordinated liabilities	**10.6**	**10.7**	10.8	10.8
Perpetual Subordinated Bonds	**37.6**	**33.2**	37.6	35.1
	11,163.9	**11,159.7**	9,737.2	9,760.3

[1] The Bank has restated the prior year comparatives for the £22.0m PSBs previously classified as equity (see note 1).

46. Financial instruments and fair values (continued)

The fair values in these tables are estimated using the valuation techniques below. The estimated fair value is stated as at 31 December and may be significantly different from the amounts which will actually be paid on the maturity or settlement dates of each financial instrument.

Cash in hand
This represents physical cash across the Group’s branch network where fair value is considered to be equal to carrying value.

Loans and advances to credit institutions
This mainly represents the Group’s working capital current accounts and call accounts with central governments and other banks with an original maturity of less than three months. Fair value is not considered to be materially different to carrying value.

Loans and advances to customers
This mainly represents secured mortgage lending to customers. The fair value of fixed rate mortgages has been estimated by discounting future cash flows at current market rates of interest. Future cash flows include the impact of expected credit losses. The interest rate on variable rate mortgages is considered to be equal to current market product rates and as such fair value is estimated to be equal to carrying value.

Amounts owed to retail depositors
The fair value of fixed rate retail deposits has been estimated by discounting future cash flows at current market rates of interest. Retail deposits at variable rates and deposits payable on demand are considered to be at current market rates and as such fair value is estimated to be equal to carrying value.

Amounts owed to credit institutions
This mainly represents amounts drawn down under the BoE TFS and ILTR, warehouse funding and commercial repos. Fair value is considered to be equal to carrying value.

Amounts owed to other customers
This represents fixed rate saving products to corporations and local authorities with original maturities greater than three months. The fair value is estimated by discounting future cash flows at current market rates of interest.

Debt securities in issue
While the Group's debt securities in issue are listed, the quoted prices for an individual note may not be indicative of the fair value of the issue as a whole, due to the specialised nature of the market in such instruments and the limited number of investors participating in it. Fair value is not considered to be materially different to carrying value.

Subordinated liabilities and Perpetual Subordinated Bonds
The fair value of subordinated liabilities is estimated by discounting future cash flows at current market rates of interest. The PSBs are listed on the London Stock Exchange with fair value being the quoted market price at the reporting date.

46. Financial instruments and fair values (continued)

iii. Fair value classification

The following tables provide an analysis of financial assets and financial liabilities measured at fair value in the Statement of Financial Position grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

Group 2019	**Carrying amount £m**	**Principal amount £m**	**Level 1 £m**	**Level 2 £m**	**Level 3 £m**	**Total £m**
Financial assets						
Investment securities	**508.7**	**509.5**	**149.8**	**358.9**	**-**	**508.7**
Loans and advances to customers	**22.1**	**24.8**	**-**	**-**	**22.1**	**22.1**
Derivative assets	**21.1**	**7,795.4**	**-**	**21.0**	**0.1**	**21.1**
	551.9	**8,329.7**	**149.8**	**379.9**	**22.2**	**551.9**
Financial liabilities						
Derivative liabilities	**92.8**	**9,982.4**	**-**	**92.8**	**-**	**92.8**

Group 2018	Carrying amount £m	Principal amount £m	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial assets						
Investment securities	58.9	59.0	58.9	-	-	58.9
Derivative assets	11.7	1,999.0	-	11.7	-	11.7
	70.6	2,058.0	58.9	11.7	-	70.6
Financial liabilities						
Derivative liabilities	24.9	4,532.2	-	24.9	-	24.9

Bank 2019	**Carrying amount £m**	**Principal amount £m**	**Level 1 £m**	**Level 2 £m**	**Level 3 £m**	**Total £m**
Financial assets						
Investment securities	**149.8**	**150.0**	**149.8**	**-**	**-**	**149.8**
Derivative assets	**8.7**	**3,080.0**	**-**	**8.7**	**-**	**8.7**
	158.5	**3,230.0**	**149.8**	**8.7**	**-**	**158.5**
Financial liabilities						
Derivative liabilities	**54.3**	**4,462.9**	**-**	**54.3**	**-**	**54.3**

46. Financial instruments and fair values (continued)

Bank 2018	Carrying amount £m	Principal amount £m	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial assets						
Investment securities	58.9	59.0	58.9	-	-	58.9
Derivative assets	11.7	1,999.0	-	11.7	-	11.7
	70.6	2,058.0	58.9	11.7	-	70.6
Financial liabilities						
Derivative liabilities	24.9	4,532.2	-	24.9	-	24.9

Level 1: Fair values that are based entirely on quoted market prices (unadjusted) in an actively traded market for identical assets and liabilities that the Group has the ability to access. Valuation adjustments and block discounts are not applied to Level 1 instruments. Since valuations are based on readily available observable market prices, this makes them most reliable, reduces the need for management judgement and estimation and also reduces the uncertainty associated with determining fair values.

Level 2: Fair values that are based on one or more quoted prices in markets that are not active or for which all significant inputs are taken from directly or indirectly observable market data. These include valuation models used to calculate the present value of expected future cash flows and may be employed either when no active market exists or when there are no quoted prices available for similar instruments in active markets.

Level 3: Fair values for which any one or more significant input is not based on observable market data and the unobservable inputs have a significant effect on the instrument's fair value. Valuation models that employ significant unobservable inputs require a higher degree of management judgement and estimation in determining the fair value. Management judgement and estimation are usually required for the selection of the appropriate valuation model to be used, determination of expected future cash flows on the financial instruments being valued, determination of the probability of counterparty default and prepayments, determination of expected volatilities and correlations and the selection of appropriate discount rates.

46. Financial instruments and fair values (continued)

The following table provides an analysis of financial assets and financial liabilities not measured at fair value in the Statement of Financial Position grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

Group 2019	Carrying amount £m	Principal amount £m	Estimated fair value Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial assets						
Cash in hand	**0.4**	**0.4**	**-**	**0.4**	**-**	**0.4**
Loans and advances to credit institutions	**2,204.6**	**2,204.3**	**-**	**2,204.6**	**-**	**2,204.6**
Investment securities	**126.6**	**126.4**	**126.6**	**-**	**-**	**126.6**
Loans and advances to customers	**18,424.7**	**18,281.3**	**-**	**3,409.1**	**15,245.1**	**18,654.2**
	20,756.3	**20,612.4**	**126.6**	**5,614.1**	**15,245.1**	**20,985.8**
Financial liabilities						
Amounts owed to retail depositors	**16,255.0**	**16,133.5**	**-**	**3,817.8**	**12,441.9**	**16,259.7**
Amounts owed to credit institutions	**3,068.8**	**3,063.3**	**-**	**3,068.8**	**-**	**3,068.8**
Amounts owed to other customers	**29.7**	**29.5**	**-**	**-**	**29.7**	**29.7**
Debt securities in issue	**296.3**	**295.5**	**-**	**296.3**	**-**	**296.3**
Subordinated liabilities	**10.6**	**10.4**	**-**	**-**	**10.7**	**10.7**
Perpetual Subordinated Bonds	**37.6**	**37.0**	**33.2**	**-**	**-**	**33.2**
	19,698.0	**19,569.2**	**33.2**	**7,182.9**	**12,482.3**	**19,698.4**

Restated Group[1] 2018	Carrying amount £m	Principal amount £m	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial assets						
Cash in hand	0.4	0.4	-	0.4	-	0.4
Loans and advances to credit institutions	1,347.3	1,346.9	-	1,347.3	-	1,347.3
Loans and advances to customers	8,983.3	9,121.4	-	4,195.3	4,955.8	9,151.1
	10,331.0	10,468.7	-	5,543.0	4,955.8	10,498.8
Financial liabilities						
Amounts owed to retail depositors	8,071.9	8,019.7	-	2,916.4	5,181.1	8,097.5
Amounts owed to credit institutions	1,584.0	1,581.0	-	1,584.0	-	1,584.0
Amounts owed to other customers	32.9	32.8	-	-	32.9	32.9
Subordinated liabilities[2]	10.8	10.6	-	-	10.8	10.8
Perpetual Subordinated Bonds	37.6	37.0	35.1	-	-	35.1
	9,737.2	9,681.1	35.1	4,500.4	5,224.8	9,760.3

[1] The Group has restated the prior year comparatives for the £22.0m PSBs previously classified as equity (see note 1).
[2] The Bank has reclassified the comparatives to disclose the fair value level of subordinated liabilities as Level 3 as the bi-lateral nature of the agreements means the calculation is based on unobservable inputs.

46. Financial instruments and fair values (continued)

Bank 2019	Carrying amount £m	Principal amount £m	Estimated fair value Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial assets						
Cash in hand	**0.4**	**0.4**	**-**	**0.4**	**-**	**0.4**
Loans and advances to credit institutions	**1,196.0**	**1,195.7**	**-**	**1,196.0**	**-**	**1,196.0**
Loans and advances to customers	**8,394.2**	**8,533.2**	**-**	**2,431.5**	**6,134.8**	**8,566.3**
	9,590.6	**9,729.3**	**-**	**3,627.9**	**6,134.8**	**9,762.7**
Financial liabilities						
Amounts owed to retail depositors	**9,435.7**	**9,364.5**	**-**	**3,817.8**	**5,618.0**	**9,435.8**
Amounts owed to credit institutions	**1,671.1**	**1,667.8**	**-**	**1,671.1**	**-**	**1,671.1**
Amounts owed to other customers	**8.9**	**8.8**	**-**	**-**	**8.9**	**8.9**
Subordinated liabilities	**10.6**	**10.4**	**-**	**-**	**10.7**	**10.7**
Perpetual Subordinated Bonds	**37.6**	**37.0**	**33.2**	**-**	**-**	**33.2**
	11,163.9	**11,088.5**	**33.2**	**5,488.9**	**5,637.6**	**11,159.7**

Restated Bank[1] 2018	Carrying amount £m	Principal amount £m	Estimated fair value Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial assets						
Cash in hand	0.4	0.4	-	0.4	-	0.4
Loans and advances to credit institutions	1,340.0	1,339.7	-	1,340.0	-	1,340.0
Loans and advances to customers	7,208.2	7,337.6	-	3,123.7	4,216.4	7,340.1
	8,548.6	8,677.7	-	4,464.1	4,216.4	8,680.5
Financial liabilities						
Amounts owed to retail depositors	8,071.9	8,019.7	-	2,916.4	5,181.1	8,097.5
Amounts owed to credit institutions	1,584.0	1,581.0	-	1,584.0	-	1,584.0
Amounts owed to other customers	32.9	32.8	-	-	32.9	32.9
Subordinated liabilities[2]	10.8	10.6	-	-	10.8	10.8
Perpetual Subordinated Bonds	37.6	37.0	35.1	-	-	35.1
	9,737.2	9,681.1	35.1	4,500.4	5,224.8	9,760.3

[1] The Bank has restated the prior year comparatives for the £22.0m PSBs previously classified as equity (see note 1).
[2] The Bank has reclassified the comparatives to disclose the fair value level of subordinated liabilities as Level 3 as the bi-lateral nature of the agreements means the calculation is based on unobservable inputs.

47. Pension scheme

Defined contribution scheme
The amount charged to profit or loss in respect of contributions to the Group's defined contribution and stakeholder pension arrangements is the contribution payable in the period. The total pension cost in the year amounted to £3.0m (2018: £1.7m).

Defined benefit scheme
Kent Reliance Building Society (the 'Society') operated a defined benefit pension scheme ('the Scheme') funded by the payment of contributions to a separately administered fund for nine retired members. The Society's Board decided to close the Scheme with effect from 31 December 2001 and introduced a new defined contribution scheme to cover service for Scheme members from 1 January 2002.

The Scheme Trustees, having taken actuarial advice, decided to wind up the Scheme rather than continue to operate it on a 'paid up' basis. The winding up is largely complete. As at 31 December 2019 the liability to remaining members is £2k (31 December 2018: £2k) matched by Scheme assets.

48. Operating segments

Following the Combination, the Group segments its lending business and operates under two segments in line with internal reporting to the Board:

- OSB
- CCFS

In 2018, the Group operated under two segments: BTL/SME and Residential mortgages. The 2018 comparatives have been restated.

48. Operating segments (continued)

The financial position and results of operations of the above segments are summarised below:

2019	OSB £m	CCFS £m	Total £m
Balances at the reporting date			
Gross loans and advances to customers	**10,820.6**	**7,669.1**	**18,489.7**
Expected credit losses	**(35.6)**	**(7.3)**	**(42.9)**
Loans and advances to customers	**10,785.0**	**7,661.8**	**18,446.8**
Capital expenditure	**10.2**	**1.1**	**11.3**
Depreciation and amortisation	**6.3**	**1.9**	**8.2**
Profit or loss for the year			
Net interest income	**316.2**	**28.5**	**344.7**
Other (expense) / income	**(12.9)**	**11.6**	**(1.3)**
Total income	**303.3**	**40.1**	**343.4**
Administrative expenses	**(92.3)**	**(16.4)**	**(108.7)**
Provisions	**0.1**	**(0.1)**	**-**
Impairment losses	**(11.9)**	**(3.7)**	**(15.6)**
Gain on Combination with CCFS	**-**	**10.8**	**10.8**
Integration costs	**(2.5)**	**(2.7)**	**(5.2)**
Exceptional items	**(15.6)**	**-**	**(15.6)**
Profit before taxation	**181.1**	**28.0**	**209.1**
Taxation	**(47.1)**	**(3.2)**	**(50.3)**
Profit for the year	**134.0**	**24.8**	**158.8**

Restated 2018[1]	OSB £m	CCFS £m	Total £m
Balances at the reporting date			
Gross loans and advances to customers	9,005.2	-	9,005.2
Expected credit losses	(21.9)	-	(21.9)
Loans and advances to customers	8,983.3	-	8,983.3
Capital expenditure	6.3	-	6.3
Depreciation and amortisation	4.7	-	4.7
Profit or loss for the year			
Net interest income	286.3	-	286.3
Other expense	(5.2)	-	(5.2)
Total income	281.1	-	281.1
Administrative expenses	(79.6)	-	(79.6)
Provisions	(0.8)	-	(0.8)
Impairment losses	(8.1)	-	(8.1)
Exceptional cost - Heritable option	(9.8)	-	(9.8)
Profit before taxation	182.8	-	182.8
Taxation	(43.2)	-	(43.2)
Profit for the year	139.6	-	139.6

[1] The Group has restated the prior year comparatives for the interest expense and taxation on the £22.0m PSBs previously classified as equity (see note 1).

49. Country by country reporting

Country by Country Reporting ('CBCR') was introduced through Article 89 of CRD IV, aimed at the banking and capital markets industry.

The name, nature of activities and geographic location of the Group's companies are presented below:

Jurisdiction	Country	Name	Activities
UK[1]	England	OneSavings Bank plc	Commercial banking
		5D Finance Limited	
		Broadlands Finance Limited	
		Charter Court Financial Services Group plc	
		Charter Court Financial Services Limited	
		Charter Mortgages Limited	
		Easioption Limited	
		Exact Mortgage Experts Limited	
		Guernsey Home Loans Limited	
		Heritable Development Finance Limited	
		Inter Bay Financial I Limited	
		Inter Bay Financial II Limited	
		InterBay Asset Finance Limited	
		Interbay Funding, Ltd	
		Interbay Group Holdings Limited	
		InterBay Holdings Ltd	
		Interbay ML, Ltd	
		Jersey Home Loans Limited	
		Prestige Finance Limited	
		Reliance Property Loans Limited	
		Rochester Mortgages Limited	
	Guernsey	Guernsey Home Loans Limited	
	Jersey	Jersey Home Loans Limited	

[1] Guernsey Home Loans Limited (Guernsey) and Jersey Home Loans Limited (Jersey) are incorporated in Guernsey and Jersey respectively but are considered to be located in the UK as they are managed and controlled in the UK with no permanent establishments in Guernsey or Jersey.

49. Country by country reporting (continued)

Jurisdiction	Country	Name	Activities
UK	England	Canterbury Finance No.1 plc	Special purpose vehicle
		CMF 2020-1 plc	
		CML Warehouse Number 1 Limited	
		CML Warehouse Number 2 Limited	
		Precise Mortgage Funding 2014-1 plc	
		Precise Mortgage Funding 2014-2 plc	
		Precise Mortgage Funding 2015-1 plc	
		Precise Mortgage Funding 2015-3R plc	
		Precise Mortgage Funding 2020-1B plc	
India	India	OSB India Private Limited	Back office processing

Other disclosures required by the CBCR directive are provided below:

2019	**UK**	**India**	**Consolidation[2]**	**Total**
Average number of employees	**1,335**	**454**	**-**	**1,789**
Turnover[1], £m	**343.1**	**8.9**	**(8.6)**	**343.4**
Profit/(loss) before tax, £m	**208.8**	**1.6**	**(1.3)**	**209.1**
Corporation tax paid, £m	**52.6**	**0.4**	**-**	**53.0**

Restated 2018[3]	UK	India	Consolidation[2]	Total
Average number of employees	588	401	-	989
Turnover[1], £m	280.7	7.2	(6.8)	281.1
Profit/(loss) before tax, £m	182.4	1.1	(0.7)	182.8
Corporation tax paid, £m	38.9	0.2	-	39.1

[1] Turnover represents total income before impairment losses, regulatory provisions and operating costs, but after net interest, net commissions and fees, gains and losses on financial instruments and external servicing fees.
[2] Relates to a management fee from Indian subsidiaries to OneSavings Bank plc for providing back office processing.
[3] The Group has restated the prior year comparatives for the interest expense and taxation on the £22.0m PSBs previously classified as equity (see note 1).

49. Country by country reporting (continued)

The tables below reconcile tax charged and tax paid during the year.

2019	UK £m	India £m	Total £m
Tax charge	**49.8**	**0.5**	**50.3**
Effects of:			
Other timing differences	**4.3**	**(0.1)**	**4.2**
Tax outside of profit or loss	**(0.9)**	**-**	**(0.9)**
Prior year tax paid during the year	**22.1**	**-**	**22.1**
Current year tax to be paid after the reporting date	**(22.7)**	**-**	**(22.7)**
Tax paid	**52.6**	**0.4**	**53.0**

Restated 2018[1]	UK £m	India £m	Total £m
Tax charge	43.0	0.2	43.2
Effects of:			
Other timing differences	(0.8)	-	(0.8)
Tax outside of profit or loss	(3.1)	-	(3.1)
Prior year tax paid during the year	19.5	-	19.5
Current year tax to be paid after the reporting date	(19.7)	-	(19.7)
Tax paid	38.9	0.2	39.1

[1] The Group has restated the prior year comparatives for the taxation on the interest expense on the £22.0m PSBs previously classified as equity (see note 1).

50. Adjustments for non-cash items and changes in operating assets and liabilities

	Group 2019 £m	Restated Group[1] 2018 £m	Bank 2019 £m	Restated Bank[1] 2018 £m
Adjustments for non-cash items:				
Depreciation and amortisation	**8.2**	4.7	**5.4**	4.0
Interest on subordinated liabilities	**0.7**	0.7	**0.7**	0.7
Interest on Perpetual Subordinated Bonds	**1.8**	1.9	**1.8**	1.9
Interest on securitised debt	**0.8**	-	**-**	-
Interest on financing debt[2]	**2.4**	3.0	**0.3**	3.0
Impairment charge on loans	**15.6**	8.1	**7.5**	7.1
Loss on sale of financial instruments	**0.1**	0.1	**0.1**	0.1
Provisions	**-**	0.8	**-**	0.8
Interest on lease liabilities	**0.1**	-	**0.1**	-
Fair value losses on financial instruments	**3.3**	5.1	**13.3**	5.1
Share-based payments	**4.0**	2.5	**4.0**	2.6
Gain on Combination with CCFS	**(10.8)**	-	**-**	-
Exceptional items	**-**	9.8	**-**	9.8
Total adjustments for non-cash items	**26.2**	36.7	**33.2**	35.1
Changes in operating assets and liabilities:				
Increase in loans and advances to credit institutions	**(36.8)**	(1.7)	**(66.2)**	(1.7)
Increase in loans to customers	**(2,230.8)**	(1,689.5)	**(1,193.5)**	(1,166.1)
Increase in intercompany balances	**-**	-	**(644.0)**	(475.2)
Increase in retail deposits	**1,637.8**	1,421.6	**1,363.8**	1,421.6
Net increase in other assets	**(4.8)**	(0.8)	**(1.9)**	(0.8)
Net decrease in derivatives and hedged items	**(20.1)**	(5.3)	**(14.0)**	(5.3)
Net (decrease)/increase in other customers deposits[2]	**(19.2)**	7.2	**(24.0)**	7.2
Net (decrease)/increase in other liabilities	**(37.3)**	2.9	**2.4**	1.3
Exchange differences on working capital	**(0.6)**	(0.2)	**-**	-
Total changes in operating assets and liabilities	**(711.8)**	(265.8)	**(577.4)**	(219.0)

[1] The Group and Bank have restated the prior year comparatives for the interest expense on the £22.0m PSBs previously classified as equity (see note 1).
[2] The Group has reclassified the prior year comparatives to include all components of amounts owed to credit institutions as financing activities. Previously the Group only classified the Bank of England Term Funding Scheme and Indexed Long-Term Repo scheme as financing activities.

51. Events after the reporting date

On 17 January 2020, the Bank sold the Canterbury A2 note for proceeds of £ 225.4m. After incurring costs of £0.2m, the Bank recognised a gain on sale of £1.9m.

On 23 January 2020, the Bank sold the F note and residual certificates of the Canterbury securitisation for proceeds of £23.6m. The sale resulted in the Bank having no remaining interest in the Canterbury securitisation, with consolidation of Canterbury into the OSB Group ceasing on disposal. The Group recognised a gain on sale of £16.5m upon deconsolidation.

On 23 January 2020, the Group securitised £375.5m of mortgage loans through Precise Mortgage Funding 2020-1B plc (‘PMF 2020-1B’), issuing £388.9m of Sterling floating rate notes. The Group retained the class A2 notes, with all other note classes and the residual certificates being sold to the external market. As such, the Group has not consolidated PMF 2020-1B as the risks and rewards have been transferred. The Group recognised a gain on sale of £2.0m upon deconsolidation.

52. Controlling party

As at 31 December 2019 there was no controlling party of OSB.

53. Capital management

The Group's prime objectives in relation to the management of capital are to provide a sufficient capital base to cover business risks and support future business development. The Group is compliant with the requirements set out by the PRA, the Group's primary prudential supervisor.

Capital management is based on the three ‘pillars’ of Basel II. Under Pillar 1, the Group calculates its minimum capital requirements based on 8% of risk-weighted assets. The PRA then applies a multiplier to this amount to cover risks under Pillar 2 of Basel II and generates an individual capital guidance (‘ICG’). The Group manages and reports its capital both at a Group level and on a solo consolidated basis for the two regulated entities within the Group. The capital position of the two regulated entities are not disclosed separately.

To comply with Pillar 2, the Group, and the two regulated entities, complete an annual self-assessment of risks known as the internal capital adequacy assessment process (‘ICAAP’) reviewed by the PRA. Pillar 3 requires firms to publish a set of disclosures which allow market participants to assess information on that firm’s capital, risk exposures and risk assessment process. The Group’s Pillar 3 disclosures can be found on the Group’s website.

Basel III came into force through CRD IV. Basel III complements and enhances Basel I and II with additional safety measures. Basel III changed definitions of regulatory capital, introduced new capital buffers and liquidity ratios, and modified the way regulatory capital is calculated.

The ultimate responsibility for capital adequacy rests with the Board of Directors. The Group's ALCO is responsible for the management of the capital process within the risk appetite defined by the Board, including approving policy, overseeing internal controls and setting internal limits over capital ratios.

The Group actively manages its capital position and reports this on a regular basis to the Board and senior management via the ALCO and other governance committees. Capital requirements are included within budgets, forecasts and strategic plans with initiatives being executed against this plan.

53. Capital management (continued)

The Group's Pillar 1 capital information is presented below:

	(Unaudited) 2019 £m	(Unaudited) 2018 £m
Common Equity Tier 1 capital		
Called up share capital	**4.5**	2.4
Share premium, capital contribution and share-based payment reserve	**876.3**	170.0
Retained earnings	**553.2**	439.6
Transfer reserve	**(12.8)**	(12.8)
Other reserves	**(4.2)**	(0.5)
Total equity excluding equity bonds	**1,417.0**	598.7
Foreseeable dividends	**(49.9)**	(25.2)
Solo consolidation adjustments[1]	**-**	(5.4)
IFRS 9 transitional adjustment[2]	**5.3**	2.7
Deductions from Common Equity Tier 1 capital		
Prudent valuation adjustment[3]	**(0.5)**	(0.1)
Intangible assets	**(31.4)**	(7.7)
Deferred tax asset	**(0.9)**	(1.4)
Common Equity Tier 1 capital	**1,339.6**	561.6
Additional Tier 1 capital		
AT1 securities	**60.0**	60.0
Total Tier 1 capital	**1,399.6**	621.6
Tier 2 capital		
Subordinated debt and PSBs	**47.4**	47.4
Deductions from Tier 2 capital	**(0.7)**	(3.3)
Total Tier 2 capital	**46.7**	44.1
Total regulatory capital	**1,446.3**	665.7
Risk-weighted assets (unaudited)	**8,383.0**	4,211.8

[1] Prior to the Combination the Bank had solo consolidation waivers for most of its subsidiaries. The equity for unconsolidated entities has been removed from CET1 for the 2018 comparatives.

[2] The regulatory capital includes a £5.3m add-back under IFRS 9 transitional arrangements. This represents 85% of the IFRS 9 transitional adjustment booked directly to retained earnings of £6.5m. The full impact of IFRS 9, if applied, would reduce total regulatory capital to £1,441.0m.

[3] The Group has adopted the simplified approach under the Prudent Valuation rules, recognising a deduction equal to 0.1% of fair value assets and liabilities.

53. Capital management (continued)

The movement in CET1 during the year was as follows:

	Group (Unaudited) 2019 £m	Group (Unaudited) 2018 £m
At 1 January	**561.6**	460.1
Movement in retained earnings	**113.6**	102.1
Share premium from Sharesave Scheme vesting	**0.3**	0.4
Shares issued on Combination with CCFS	**707.1**	-
Movement in other reserves	**(2.7)**	(0.6)
Movement in foreseeable dividends	**(24.7)**	(2.6)
Movement in solo consolidation adjustment	**5.4**	(0.6)
IFRS 9 transitional adjustment	**2.6**	2.7
Movement in prudent valuation adjustment	**(0.4)**	(0.1)
Net increase in intangible assets	**(23.7)**	(0.9)
Movement in deferred tax asset for carried forward losses	**0.5**	1.1
At 31 December	**1,339.6**	561.6

Appendix

1. Alternative performance measures

In this Annual report, the Group used alternative performance measures ('APMs') when presenting pro forma underlying results as management believe they provide a more consistent basis for comparing the Group's performance between financial periods. Pro forma underlying results assume that the Combination with CCFS occurred on 1 January 2018, and include 12 months of results from CCFS. They also exclude exceptional items, integration costs and other acquisition related items.

APMs reflect an important aspect of the way in which operating targets are defined and performance is monitored by the Board. However, any APMs in this Annual report are not a substitute for IFRS measures and readers should consider the IFRS measures as well.

Below we provide definitions and the calculation methodology of ratios used throughout this Annual report both a on statutory and pro forma underlying basis.

Key performance indicators

Net interest margin ('NIM')
NIM is defined as net interest income as a percentage of a 13 point average[1] of interest earning assets (cash, investment securities, loans and advances to customers and credit institutions). It represents the margin earned on loans and advances and liquid assets after swap expense/income and cost of funds.

	2019 £m	2018 £m
Net interest income – statutory A	344.7	286.3[2]
CCFS 2018 results	-	180.5
CCFS 2019 pre-acquisition results	152.1	-
Add back: acquisition-related items[3]	21.6	-
Net interest income – pro forma underlying B	518.4	466.8
13 point average of interest earning assets – statutory C	14,163.5	9,383.8
13 point average of interest earning assets – pro forma underlying D *	19,484.3	16,301.2
NIM statutory equals A/C	2.43%	3.05%[4]
NIM pro forma underlying equals B/D	2.66%	2.86%

* Pro forma underlying average interest earning assets assume that the Combination completed on 1 January 2018 and exclude the impact of average acquisition related items. Acquisition related items comprise the fair value uplift to CCFS' loan book, the amortisation of the fair value uplift and the recognition of expected credit losses.

Cost to income ratio
The cost to income ratio is defined as administrative expenses as a percentage of total income. It is a measure of operational efficiency.

	2019 £m	2018 £m
Administrative expenses – statutory A	108.7	79.6
CCFS 2018 results	-	64.6
CCFS 2019 pre-acquisition results	57.7	-
Add back: acquisition-related items[3]	(1.3)	-
Administrative expenses – pro forma underlying B	165.1	144.2
Total income – statutory C	343.4	281.1
CCFS 2018 results	-	224.9
CCFS 2019 pre-acquisition results	200.8	-
Add back: acquisition-related items[3]	18.3	-
Total income pro forma underlying D	562.5	506.0
Cost to income statutory equals A/C	32%	28%
Cost to incomes pro forma underlying equals B/D	29%	28%

Management expense ratio
The management expense ratio is defined as administrative expenses as a percentage of a 13 point average[1] of total assets.

	2019 £m	2018 £m
Administrative expenses – statutory (as in cost to income ratio above) A	108.7	79.6
Administrative expenses – pro forma underlying (as in cost to income ratio above) B	165.1	144.2
13 point average of total assets – statutory C	14,298.0	9,445.1
13 point average of total assets – pro forma underlying D*	19,752.6	16,373.5
Management expense ratio statutory equals A/C	0.76%	0.84%
Management expense ratio pro forma underlying equals B/D	0.84%	0.88%

* Pro forma underlying average total assets assume that the Combination completed on 1 January 2018 and exclude the impact of average acquisition related items. Acquisition related items comprise the fair value uplift to CCFS' loan book, adjustment to fair value on hedged assets, recognition of acquired intangibles on Combination and deferred tax assets arising on Combination.

Loan loss ratio

The loan loss ratio is defined as impairment losses as a percentage of a 13 point average[1] of gross loans and advances. It is a measure of the credit performance of the loan book.

	2019 £m	2018 £m
Impairment losses – statutory A	15.6	8.1
CCFS 2018 results	-	2.1
CCFS 2019 pre-acquisition results	4.3	-
Add back: acquisition-related items[3]	(3.6)	-
Impairment losses – pro forma underlying B	16.3	10.2
13 point average of gross loans – statutory C	12,171.5	8,117.5
13 point average of gross loans – pro forma underlying D*	16,684.6	13,981.8
Loan loss ratio statutory equals A/C	0.13%	0.10%[4]
Loan loss ratio pro forma underlying equals B/D	0.10%	0.07%

* Pro forma underlying average gross loans assume that the Combination completed on 1 January 2018 and exclude the impact of average acquisition related items. Acquisition related items comprise the fair value uplift to CCFS' loan book recognised on Combination.

Return on equity ('RoE')

RoE is defined as profit attributable to ordinary shareholders, which is profit after tax and after deducting coupons on AT1 securities, as a percentage of a 13 point average[1] of shareholders' equity (excluding £60m of AT1 securities).

	2019 £m	2018 £m
Profit after tax - statutory	158.8	139.6[2]
Coupons on AT1 securities	(5.5)	(5.5)
Tax on coupons on AT1 securities	-	1.5
Profit attributable to ordinary shareholders – statutory A	153.3	135.6
Add back: Heritable option		7.2
CCFS 2018 results	-	120.8
CCFS 2019 pre-acquisition results	92.5	-
Add back: acquisition-related items[3]	42.9	-
Profit attributable to ordinary shareholders – pro forma underlying B	288.7	263.6
13 point average of shareholders' equity (ecluding AT1 securities) – statutory C	866.6	551.2
13 point average of shareholders' equity (ecluding AT1 securities) – pro forma underlying D*	1,147.1	948.7
Return on equity statutory equals A/C	18%	25%[4]
Return on equity pro forma underlying equals B/D	25%	28%

* Pro forma underlying average shareholders' equity assumes that the Combination completed on 1 January 2018 and excludes the impact of average acquisition related items.

Basic earnings per share

Basic earnings per share is defined as profit attributable to ordinary shareholders, which is profit after tax and after deducting coupons on AT1 securities, gross of tax, divided by the weighted average number of ordinary shares in issue.

	2019 £m	2018 £m
Profit attributable to ordinary shareholders – statutory (as in RoE ratio above) A	153.3	135.6
Profit attributable to ordinary shareholders – pro forma underlying (as in RoE ratio above) B*	288.7	263.6
Weighted average number of ordinary shares in issue – statutory C	291.6	244.2
Weighted average number of ordinary shares in issue – pro forma underlying D	444.8	443.9
Basic earnings per share statutory equals A/C	52.6	55.5
Basic earnings per share pro forma underlying equals B/D	64.9	59.4

* Pro forma underlying average shareholders' equity assumes that the Combination completed on 1 January 2018 and excludes the impact of average acquisition related items.

1. 13 point average is calculated as an average of opening balance and closing balances for 12 months of the financial year.
2. In 2019, the Group restated the prior year comparatives to recognise interest expense on the £22m Perpetual Subordinated Bonds previously classified as equity.
3. The acquisition-related items are detailed in the Financial review
4. To align calculation methods post Combination, OSB amended NIM, loan loss ratio and return on equity calculations to include average interest earning assets for NIM, average gross loans for loan loss ratio and average shareholders' equity for return on equity on a 13 point average from a simple average. The comparative ratios were restated accordingly.

2. Calculation of 2019 final dividend

The table below shows the basis of calculation of the Bank's proposed final dividend for 2019:

	2019 £m	2018 £m
Statutory profit after tax	158.8	139.6[1]
Less: Coupons on AT1 Securities classified as equity	(5.5)	(5.5)
Tax on coupons	-	1.5
Statutory profit attributable to ordinary shareholders	153.3	135.6
Add: CCFS pre-acquisition profits	92.5	-
Add back: CCFS pre-acquisition exceptional items	15.7	-
Add back: CCFS pre-acquisition integration costs	5.2	-
Tax on CCFS pre-acquisition integration costs	(1.6)	-
Add back: Group's exceptional items	15.6	9.8
Add back: Tax on Heritable option	2.6	(2.6)
Add back: Amortisation of fair value adjustment	21.6	-
Add back: Inception adjustment	(3.3)	-
Add back: Amortisation of intangible assets acquired	1.3	-
Release of deferred taxation on the above amortisation adjustments	(7.0)	-
Less: gain on Combination	(10.8)	-
Add back: ECL on Combination	3.6	-
Pro forma underlying profit attributable to ordinary shareholders	288.7	142.8
Total dividend: 25% of pro forma underlying profit attributable to ordinary shareholders	72.2	35.7
Less interim dividends paid:		
CCFS (pre-acquisition)	(10.3)	-
OSB	(12.0)	(10.5)
Proposed final dividend	49.9	25.2

1. In 2019, the Group restated the prior year comparatives to recognise interest expense and taxation on the £22m Perpetual Subordinated Bonds previously classified as equity.