OneSavings Bank plc

Annual Report and Financial Statements
For the Year Ended 31 December 2021
Company Number: 07312896

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Company Information

DIRECTORS	Graham Allatt Andrew Golding Noël Harwerth Sarah Hedger Rajan Kapoor Mary McNamara April Talintyre Simon Walker David Weymouth
COMPANY SECRETARY	Jason Elphick
REGISTERED OFFICE	Reliance House Sun Pier Chatham Kent ME4 4ET United Kingdom
REGISTERED NUMBER	07312896 (England and Wales)
AUDITOR	Deloitte LLP Statutory Auditor London United Kingdom

OneSavings Bank plc
Strategic Report

For the Year Ended 31 December 2021

The Directors present their Annual Report, including the Strategic Report, Directors' Report and Statement of Directors' Responsibilities, together with the audited Consolidated Financial Statements and Auditor's Report for the year ended 31 December 2021.

OneSavings Bank plc (the Company or OSB) is a wholly-owned subsidiary of OSB GROUP PLC (OSBG). The Group comprises OSB and its subsidiaries; the OSB Group comprises OSBG and its subsidiaries.

Our business model

The Group is a leading specialist mortgage lender, primarily focused on carefully selected sub-segments of the mortgage market. Our specialist lending is supported by our Kent Reliance and Charter Savings Bank retail savings franchises. Our purpose is to help our customers, colleagues and communities prosper.

Resources and relationships

Brands and heritage

We have a family of specialist lending brands targeting selected segments of the mortgage market which are underserved by large UK banking institutions. We have well-established savings franchises through Kent Reliance, with its 150-year heritage, and the Charter Savings Bank brand.

Employees

Our team of highly skilled employees possess expertise and in-depth knowledge of the lending, property, capital and savings markets, underwriting and risk assessment and customer management.

Infrastructure

We benefit from cost and efficiency advantages provided by our wholly-owned subsidiary, OSB India, as well as credit expertise and mortgage administration services provided by Charter Court Financial Services (CCFS).

Relationships with intermediaries and customers

Our strong and deep relationships with the mortgage intermediaries that distribute our products continue to win us industry recognition.

Capital strength

We have a strong common equity tier one (CET1) ratio and capability to generate capital through profitability.

Our business model explained

The Group operates its lending business through two segments: OSB and CCFS.

OneSavings Bank

Through our brands we tailor our lending proposition to the specific needs of our borrowers. Under our Kent Reliance and Interbay brands all of our loans are underwritten by experienced and skilled underwriters, supported by technology to reduce the administrative burden on underwriters and mortgage intermediaries. We refer to scorecards and bureau data to support our skilled underwriter loan assessments. We consider each loan on its own merits, responding quickly and flexibly to offer the best solution for each of our customers. No case is too complex for us, and for those borrowers with more tailored or larger borrowing requirements, our Transactional Credit Committee meets three times each week, demonstrating our responsiveness to broker needs.

Buy-to-let/SME sub-segments

Buy-to-Let

We provide loans to limited companies and individuals, secured on residential property held for investment purposes. We target experienced and professional landlords or high net worth individuals with established and extensive property portfolios.

Commercial mortgages

We provide loans to limited companies and individuals, secured on commercial and semi-commercial properties held for investment purposes or for owner-occupation.

Residential development

We provide development loans to small and medium sized developers of residential property.

Funding lines

We provide loans to non-bank finance companies secured against portfolios of financial assets, principally mortgages.

Asset finance

We provide loans under hire purchase, leasing and refinancing arrangements to UK SMEs and small corporates to finance business-critical assets.

Residential sub-segments

First charge

We provide loans to individuals, secured by a first charge against their residential home. Our target customers include those with a high net worth and complex income streams, and near-prime borrowers. We are also experts in shared ownership, lending to first-time buyers and key workers buying a property in conjunction with a housing association.

Funding lines

We provide funding lines to non-bank lenders who operate in high-yielding, specialist sub-segments such as residential bridge finance.

Our business model explained (continued)

Charter Court Financial Services

Specialist lending business

Our Precise Mortgages brand uses an automated underwriting platform to manage mortgage applications, and to deliver a rapid decision in principle, based on rigorous lending policy rules and credit scores. The platform is underpinned by extensive underwriting expertise, enabling identification of new niches and determining appropriate lending parameters. The platform enables Precise Mortgages to react quickly to non-standard mortgage requests which are common in the Group's target market sub-segments, while ensuring consistent underwriting within the Group's risk appetite. Quick response times help the Group to compete for the 'first look' at credit opportunities, while a robust manual verification process further strengthens the disciplined approach to credit risk.

Buy-to-Let

We provide products to professional and non-professional landlords with good quality credit histories, through a wide product offering, including personal and limited company ownership.

Residential

We provide a range of competitive products to prime borrowers, complex prime borrowers (including self-employed, Help to Buy and new-build) and near-prime borrowers.

Bridging

We focus on lending to customers who need to fund short-term cash flow needs, for example, to cover light refurbishments, home improvements, auction purchases and to 'bridge' delays in obtaining mortgages and 'chain breaks'.

Second charge

We offer loans to prime residential customers with low loan-to-value ratios, who require additional capital and who wish to secure a loan with a charge against a property which is already charged to another lender.

Our business model explained (continued)

Retail savings

The Group is predominantly funded by retail savings deposits sourced through two brands: Kent Reliance and Charter Savings Bank (CSB).

Kent Reliance is an award-winning retail savings franchise with over 150 years of heritage and nine branches in the South East of England. It also takes deposits via post, telephone and online, while CSB, a multi award-winning retail savings bank, offers its products online and via post.

Both Banks have a wide range of savings products, including easy access, fixed term bonds, cash ISAs and business savings accounts. CSB and Kent Reliance have diversified their retail funding sources through pooled funding platforms. The range of products sourced via these platforms includes easy access, longer term bonds and non-retail deposits.

In 2021, CSB won many industry awards, including the prestigious Moneyfacts Consumer Awards for Online Savings Provider of the Year and ISA Provider of the Year.

Kent Reliance's proposition for savers is simple: to offer consistently good-value savings products that meet customer needs for cash savings and loyalty rates for existing customers.

CSB's philosophy is to maintain and develop its award-winning business, offering competitively priced savings products. Operating with an agile, nimble approach, CSB can respond quickly to the funding requirements of the business at an advantageous cost of funds.

Our securitisation platforms

The Group has built attractive diversification opportunities to supplement its retail funding.

CCFS uses its securitisation platform as a means of providing low-cost term funding. Wholesale funding enables the business to rebalance the weighted average life of liabilities away from shorter duration retail funding and thereby optimise the funding mix. The Group recognises the cyclical nature of capital markets funding and therefore utilises it opportunistically, taking advantage of favourable market conditions.

CCFS is a programmatic issuer of high-quality residential mortgage-backed securities (RMBS) through the Precise Mortgage Funding (PMF) and Charter Mortgage Funding (CMF) franchises, completing 14 securitisations worth more than £4.5bn to 31 December 2021.

In 2019, OSB established its Canterbury Finance securitisation programme, to enable it to issue high-quality RMBS. It has since issued four securitisations of organically originated mortgages totalling £4.3bn to 31 December 2021.

The Group also has the capability to engage in transactions which could result in the full derecognition of the underlying mortgage assets, through the sale of residual positions in its securitisation vehicles.

In 2021, CCFS also had access to a warehouse funding facility from a Tier 1 investment bank. This facility was available as a bridge to RMBS funding, helping the Group to maximise the efficiency of its liquidity position through the transition from retail deposit to securitisation funding. This warehouse facility was closed in December 2021.

The Group also takes advantage of the Bank of England's funding schemes. In 2021, the drawings under the Term Funding Scheme (TFS) were fully repaid and drawings under the Term Funding Scheme for SMEs (TFSME) increased to £4.2bn (2020: £2.6bn and £1.0bn respectively).

Our business model explained (continued)

Unique operating model

Customer service

The Group operates customer service functions in multiple locations across the UK including Chatham, Wolverhampton, Fareham, London and Fleet. These, together with our wholly-owned subsidiary OSB India, help us deliver on our aim of putting customers first.

The Group has proven collections capabilities and expertise in case management and supporting customers in financial difficulty, from initial arrears through to repossession.

This offers valuable insights into, as well as the opportunity to learn from, the performance of mortgage loan products. We have deep credit expertise through proprietary data analytics.

We deliver cost efficiencies through excellent process design and management. We have an efficient, scalable and resilient infrastructure supported by strong IT security.

OSB India

OSB India (OSBI) is a wholly-owned subsidiary based in Bangalore and Hyderabad, India.

OSBI puts customer service at the heart of everything it does, and we reward our employees based on the quality of service they provide to customers, demonstrated by our excellent customer Net Promoter Score (NPS).

At OSBI, we employ highly talented and motivated employees at a competitive cost. We benchmark our processes against industry best practice, challenging what we do and eliminating customer pain points as they arise. We continue to invest in developing skills that enable highly efficient service management, matching those to business needs both in India and the UK.

Various functions are also supported by OSBI, including Support Services, Operations, IT, Finance and Human Resources. We have a one team approach between the UK and India and we are proud of our low employee turnover in India, with a regretted attrition rate of just under 17%, comparing favourably to local industry averages.

OSBI operates a fully paperless office –all data and processing are in the UK.

Environmental, social and governance (ESG)

Our purpose is to help our customers, colleagues and communities prosper. To achieve our purpose, we operate in a sustainable way with relevant environmental, social and governance matters at the heart of the Group.

As a specialist lender, we have been long aware of our responsibilities and the positive impact we can make in society through our activities.

We have always strived to have our customers, colleagues and communities in mind through our culture and robust governance. As such, responding to the challenges and opportunities that the ESG matters present has naturally become an integral part of the Group’s strategy.

Relationships with our key stakeholders

Building strong relationships with all of our stakeholders through regular engagement and open dialogue is fundamental to achieving the Group's purpose to help our customers, colleagues and communities prosper. Our relationships with our stakeholders are central to the Group's strategy and culture; and are embedded in the Board's responsibilities.

We outline below how the Group and its Directors engaged with key stakeholders, and in doing so, discharged their duties under section 172.

Customers

We pride ourselves on building strong, long-term relationships with our customers. In 2021, we continued to demonstrate our commitment to providing excellent service by supporting our borrowers and savers throughout the uncertainties caused by the ebb and flow of the pandemic. We continued to help those looking for mortgages and by supported our savers, safely in branches or by telephone, post and the internet.

We offer our savers an opportunity to let us know how we are doing whenever they call or interact with our Banks by listening to their views and acting upon what they tell us. Customer feedback is collected throughout the year and despite the continuing difficulties of the pandemic, increased volume of calls and savers' activity, we are incredibly proud of achieving strong satisfaction metrics for both Kent Reliance and Charter Savings Bank.

The needs of our customers are at the heart of our business; and the Board believes that the long-term success of the Group is dependent on the strength of our relationships with our customers.

The Board's engagement with customers is indirect and Directors are kept informed of customer-related matters through regular reports, feedback and research. Satisfaction scores and retention rates, together with the number of complaints and resolution times, form part of the management and Board monthly reporting packs, ensuring the visibility of our customer' experience to management and the Board. Customer satisfaction scores are also used as part of the Executive remuneration assessment and form the basis of new initiatives and actions which continually improve customer experience.

When the business is considering the launch of a new product, customers and intermediaries may be consulted to ensure it meets their needs and any concerns raised are addressed.

The following matters, which were identified as affecting our stakeholders, were of particular interest to the Board in 2021:

- the ongoing impact of COVID-19 on customers in terms of their behaviours, financial health and any forbearance needs;
- the impact of environmental, social and governance (ESG) factors;
- industry-related conduct risk issues and the potential impact on customers; and
- management information in relation to customer complaints and complaints data from the Financial Ombudsman Service, engagement scores, satisfaction scores and retention rates.

In addition, management and the Board engaged with customers through the Kent Reliance Provident Society (KRPS) which conducts customer engagement activity studies for OSB. During 2021, KRPS conducted two such studies.

The savings NPS for Kent Reliance in 2021 was +70 (2020: +67) and for Charter Savings Bank was +71 (2020: +72).

Relationships with our key stakeholders (continued)

Intermediaries

Our lending products, with the exception of funding lines and residential development loans, are distributed via mortgage brokers. Mortgage brokers are vital to our success; we have adapted the way in which we assist them during 2021, as the pandemic impacted their businesses and how they serve their customers to provide an even better service.

We pride ourselves in providing unique and consistent lending propositions across all lending brands, which fulfil our goal of making it easier for intermediaries to serve their customers, our borrowers. Regular engagement with the broker community extends beyond our propositions and enables us to continuously enhance the service we provide, with our business development managers listening and working closely with intermediaries to discuss cases and helping to obtain swift and reliable decisions.

Broker and borrower satisfaction scores are tracked on a regular basis, along with details of all complaints and are reviewed by the Board and management within monthly reporting packs.

We held fewer intermediary events during 2021, but the Group's Sales teams participated in 418 physical and virtual intermediary events, interacting with brokers and keeping abreast of industry developments and intermediary requirements.

The broker NPS for OSB in 2021 was +55 (2020: +49) and for CCFS was +42 (2020: +54).

Colleagues

Our colleagues are our key asset and our success depends on the 1,782 talented individuals we employ.

We have always favoured interactive communication between management and our employees through regular town hall meetings, informal sessions with management and opportunities to ask questions anonymously directly to the Chief Executive Officer (CEO) with the questions and responses available on the intranet. These methods of engagement proved popular with employees and have contributed to many initiatives that were undertaken by the business during the year.

Mary McNamara is the Non-Executive Director appointed by the Board with responsibility for employee engagement and is a permanent member of the Workforce Advisory Forum (known internally as OneVoice). Mary has direct engagement with the workforce by attending OneVoice meetings and other events organised by the Diversity and Inclusion Working Group. This provides her with an insight into the culture and concerns of the workforce, which she is able to bring to the attention of the Board.

OneVoice was set up to gather the views of the workforce so that the Board and management can consider a broadly representative range of stakeholder perspectives to guide strategic decisions for the future of the Group and oversee the alignment of the Values. OneVoice has its own Terms of Reference which outlines the objectives and composition of the Forum. Members of the workforce are invited to apply to become an employee representative (provided there are open vacancies to be filled) by completing a short application form.

Relationships with our key stakeholders (continued)

Members of the Board and management attended OneVoice meetings throughout the year in order to understand and discuss employee-related issues directly with representatives across the business. Employee representatives are encouraged to be open and honest in their feedback at each meeting. The themes from OneVoice discussions are shared and discussed with the Board and this informs the approach towards new policies, benefits and any other employee-related projects.

Engagement also took place via Group-wide surveys, including a ‘Culture Pulse Survey’ which was conducted across all employees and a dashboard compiled of a series of measures and indicators was provided to the Board to ensure visibility of how the Group’s Values are embedded into the culture. The Board reviewed the results and discussed how to address any themes emerging from them. OSB India was officially certified as a ‘Great Place to Work’ in 2021 for the fifth year in a row. The Group also participated in the Financial Services Culture Board Survey in 2021.

The interests of the Group’s employees were also considered by the Board and its Committees during the year via regular updates provided by senior management, the Group’s HR function and the feedback from meetings of working groups. One of the key topics at the forefront of the Board’s mind in 2021 was the continued impact of the pandemic on our employees’ lives, both professionally and personally, their well-being and mental health.

Members of the Board also have standing invitations to attend meetings of the Diversity and Inclusion Working Group, with its members consisting of employee representatives from across the business. Updates are submitted to the Board or its Committees on an annual basis. Members of the Board oversee the Group’s talent management initiatives and senior management succession planning. Finally, the Board has oversight of the Group’s whistleblowing activity and reviews and approves the Group’s gender pay gap reporting and its commitment to the Women in Finance Charter.

The Board monitors the effectiveness of its methods of engaging with employees and adapts them where necessary. Areas of continued focus include formalising a workforce engagement plan and developing engagement improvement plans in areas which have been identified as lower scoring in the results of employee surveys.

Shareholders

In 2021, the OSB Group Board focused on capital management, including optimisation of the Group’s capital structure. To that end, new Additional Tier 1 (AT1) securities were issued at the OSB Group level and new AT1 securities were issued by the Company to OSBG. The legacy AT1 securities as well as Perpetual Subordinated Bonds issued by the Company were redeemed.

Suppliers

Our business is supported by a large number of suppliers, which in turn allows us, as a Group, to provide high standards of service to our customers. The members of the Board do not interact directly with the Group’s suppliers; however, they are involved in overseeing the Group’s supplier relationships and are kept up to date by management on supplier considerations and developments.

Supplier payment practice reports are published on a six-monthly basis following approval by the Chief Financial Officer (CFO) and signed by the main operating entities.

Relationships with our key stakeholders (continued)

The Group enters into standard terms with suppliers, which include terms requiring payment within 30 days of the invoice date following receipt of a valid invoice. Over 90% of all invoices are paid within 30 days in line with the standard payment period for qualifying contracts, with the average time taken to pay invoices ranging from five to 14 days across the Group. The maximum contractual payment period agreed varies between 30 days to 45 days. There have been no changes to the standard payment terms in the reporting period. Any complaints received in respect of invoice payments are considered as part of the dispute resolution process. During the year, the Group did not deduct any sums from payments under qualifying contracts as a charge for remaining on a supplier list.

In 2021, the Board was also involved with the following aspects of supplier relationships:

- consideration of potential supplier challenges as a result of the integration and the ongoing impact of COVID-19;
- consideration of the risks associated with suppliers and the framework for assurance;
- oversight of key supplier relationships including the engagement between the Group Audit Committee and the external auditor; and,
- oversight of all levels of insurance in place for the Group.

The OSB Group's Modern Slavery and Human Trafficking Statement is reviewed and approved on an annual basis and can be found on the OSBG website at www.osb.co.uk.

Regulators

The Board recognises the importance of having an open and continuous dialogue with all of our regulators, as well as other government bodies and trade associations.

The Group maintains a proactive dialogue with the Prudential Regulation Authority (PRA) and Financial Conduct Authority (FCA). Engagement typically takes the form of regular and ad hoc meetings attended by both members of the Board and Executives, as well as subject matter experts. The number of meetings held with regulators increased in 2021 and included, among other topics, operational resilience, the ability to respond to a financial stress, business continuity review and incident management. There was also significant interaction with our regulators with regard to capital management and the optimisation of our capital structure.

Even though the Directors do not participate in all meetings, Executives, including the Group Chief Risk Officer and Group Chief Credit and Compliance Officer provide the Board and its Committees with feedback and regular updates in respect of the broader regulatory developments and compliance considerations.

The Group also regularly interacts and has constructive relationships with the Bank of England and HM Revenue & Customs (HMRC), among others, which helps to ensure that the Group is aligned with the relevant regulatory frameworks and that the business is engaged with issues impacting the financial services industry.

Relationships with our key stakeholders (continued)

Communities

The Group partners with national and local charities, which offers employees the chance to make a difference both nationwide and closer to home. Giving something back to our community is important to all of us, whether it is through volunteering, fundraising efforts that help protect our environment and aligns with the Group's Stewardship value. Our nominated charity partners are chosen by employees who give up their time and take part in a variety of events, with the hope of making a meaningful impact to these charities and to the lives of those that the charities help.

The total amount donated to the charity partners and good causes by the Group and the employees in the year was nearly £395k.

Engagement with our local communities is actively encouraged and fully supported by the Board and management who believe that fostering such relationships contributes to the communities in which we operate to make a positive impact.

Environment

Sustainability is becoming increasingly important to the Board and management. The Group operates under the highest governance and ethical standards and is focused on reducing its impact on the environment. The Board and management are cognisant of the impact of social and environmental change on our business and stakeholders and regularly promote awareness of environmental issues among our employees, as well as adhering to our plan to become a greener organisation and comply with enhanced regulation and disclosures.

The Board is responsible for encouraging and overseeing an environmentally friendly culture and ensuring that the business is ready to respond to the growing impact of climate change on the Group's activities in line with its Stewardship value.

Section 172 statement

The Directors are bound by their duties under section 172(1)(a) to (f) of the Companies Act 2006 and the manner in which these have been discharged; in particular their duty to act in the way they consider, in good faith, promotes the success of the Company for the benefit of its members as a whole.

The stakeholders which the Directors considered in this regard are customers, intermediaries, colleagues, shareholders, suppliers, regulators and the local communities in which we are located. These stakeholders are considered to be those most likely to be impacted by decisions taken by the Board. The pages 8 to 12 and those that follow, set out how Directors complied with the requirements of section 172 during the year.

Decision making

The Board recognises that considering our stakeholders in key business decisions is fundamental to our ability to deliver the Group's strategy in line with our long-term values and operating the business in a sustainable way. Balancing the needs and expectations of our key stakeholders has been at the forefront of the Board's mind and has been more important than ever during 2021, as a result of the global pandemic; whilst acknowledging that some decisions will result in different outcomes for each stakeholder.

Key strategic decision in the year

Capital management

During 2021, the Board made the decision to redeem legacy AT1 securities and Perpetual Subordinated Bonds issued by the Company as they no longer qualified as capital at the OSB Group level. A new issue of AT1 securities from OSBG was executed in October 2021 and new AT1 securities were issued by the Company to OSBG. These steps were taken as the OSB Group seeks to optimise its capital structure following the insertion of OSBG as the holding company and listed entity of the Group.

The Group has a very strong capital position and proven capital generation capability through profitability. These support continued strong growth as well as additional distributions to shareholders, despite ongoing uncertainty over the timing and impact of Basel 3.1 and Internal Ratings-Based (IRB) accreditation. The Board considered the expectations of its parent company OSBG in relation to capital management and considers that its decisions fulfiled those expectations and were also considered to be in the long-term interests of the Company.

Section 172 statement (continued)

Commitment to net zero carbon emissions by 2050

In response to feedback received from shareholders, employees and intermediaries, the Board felt that it was important for the Group to commit to achieving net zero carbon emissions by 2050 in line with the 2015 Paris Agreement. The Board has made the decision to commit to reduce its financed greenhouse gas emissions by 47% per m2 by 2030 and by 91% per m2 by 2050, from a base year of 2021 and to commit to achieving net zero greenhouse gas emissions in our own operations (Scope 1, 2 and material Scope 3) by 2030 or sooner. The Board acknowledges that setting targets drives concerted action and a roadmap to achieve these targets is being drafted with the aim of developing a robust plan over the next 12 to 18 months with the assistance of the Net Zero Banking Alliance (NZBA) and the Science Based Targets initiative (SBTi), which will assess the Group's targets and approach to ensure that the outcomes can be credibly achieved. The Board recognised the importance of having distinct science-based targets and reducing the emissions of the Group would have a positive impact on the environment. The Board also considered the impact on and expectations of employees, intermediaries and shareholders; which was a key factor in the decision to proceed.

Risk appetite and lending criteria

Following indications of market recovery from the pandemic in the summer of 2021, the Board considered its risk appetite in relation to lending criteria and the appropriateness of increasing the loan to value on some mortgages from 75 to 80%. In making its decision, the Board took into consideration feedback from some shareholders that the Group may have been conservative in the recovering market. A range of customer indicators were also considered including the level of payment deferrals, arrears data and economic outlook; and also the impact on the Group's Underwriting team. The Board deliberated whether changing the lending criteria was within risk appetite and would be in the long-term sustainable interest of the Company and Group. The Board concluded that changing the lending criteria remained within the Group's risk appetite and was appropriate for customers.

Market review

The UK housing and mortgage market

Despite the ongoing disruption as a result of the pandemic, residential property transaction volumes rebounded in 2021, reaching 1.5m according to HMRC, representing a 43% increase compared to 1.0m in 2020. Similarly, UK gross mortgage lending reached £313bn in 2021, representing an annual increase of 27% from £246bn in the prior year. In both cases, the level of activity reported in 2021 was higher than the level of activity reported in 2019, prior to the pandemic. This increase was driven by several factors, including the release of pent-up demand, changing buyer preferences with a desire for space suitable for home working, a Stamp Duty Land Tax (SDLT) holiday as well as mortgage interest rates dropping to historic lows.

The year began with the third national lockdown, however housing market disruption was significantly less severe than during the first lockdown in March 2020 as the industry swiftly adapted their working practices and processes to accommodate the need for social distancing and other measures.

The removal of restrictions from July enabled property transactions to progress with fewer delays and this led to rising demand. Lenders responded by continuing to expand lending and product criteria, with research published by Twenty7Tec showing that the number of available mortgage products rose continually throughout the year, from fewer than 10,000 in January 2021 to more than 16,000 by the end of the year.

The SDLT holiday that was implemented in July 2020, continued to generate increased purchase activity into 2021 as buyers sought to benefit from the temporary increase in the 'nil-rate' band. This measure was initially due to end in March 2021, but was extended to June 2021 with a further temporary relief period in effect until September 2021. It resulted in purchase completions increasing by 44% year on year to represent 70% of new mortgage lending by value (2020: 62%) with notable spikes in activity in March, June and September aligned with the relief withdrawal periods.

The increase in borrowers' demand, combined with continued low mortgage interest rates and a lack of supply, led to upwards pressure on house prices during the year. The ONS reported that house prices rose by an average of 10.8% in 2021 (2020: 8.5%) and growth was expected to continue into 2022. Equally, respondents to the RICS Residential Market Survey in November 2021 expected prices to continue to rise both in the near term and over a 12-month horizon.

The UK savings market

The historically low interest rates, that were a dominant feature of the savings market in 2021, did not prevent the trend of increasing overall savings balances in the UK, which rose from £1,953bn in December 2020 to £2,120bn at the end of 2021, according to the Bank of England. There were also more providers and more savings accounts on offer in the market in 2021, following the decline seen in the previous year, as the total number of savings products being promoted in December 2021 was 1,646, compared to 1,514 in December 2020. According to the ONS, the household savings ratio that peaked at 22.5% in 2020, as a result of so-called accidental savings, reduced to 18.0% by the third quarter of the year and 11.3% by the fourth quarter.

Overall, in 2021, according to the Household Sector Deposits report, easy access accounts held by financial institutions continued to exceed fixed term accounts. By the end of the year, as consumer confidence around future prospects improved, savers began to lock their cash away for longer periods of time in order to secure a higher return. Fixed rate bonds accounted for over 50% of all savings accounts in the fourth quarter of 2021, an increase from about a quarter during much of 2020.

During the year, rates bounced back from the reductions seen during 2020. Fixed rate bonds increased by 70bps over 2021 with rates on variable rate products being slower to rise and only increasing by 25bps. 2021 ended with a much anticipated base rate increase of 15bps in December 2021.

Market review (continued)

The UK mortgage market and climate change

It has been estimated that privately owned residential properties represent 15% of total carbon emissions in the UK and it is acknowledged that there are significant barriers to implementing energy efficiency improvements. The UK Government's focus on achieving its net zero goals has highlighted the need to improve the energy efficiency of UK housing stock.

Two key consultations relating to improving home energy performance have been held by the Department for Business, Energy and Industrial Strategy, however the outcomes are yet to be published:

- Improving housing the Energy Performance of Privately Rented Homes in England and Wales closed in January 2021. The outcome is widely expected to introduce a minimum requirement to ensure that all rental properties achieve an EPC (Energy Performance Certificate) rating of C or higher from 2028. It is also expected to increase the current required works cap (the maximum amount that is expected to be paid to improve the property's EPC rating) from £3,500 to £10,000, before exemptions can be applied.
- Improving home energy performance through lenders closed in February 2021. The outcome is expected to impose a requirement on all lenders to report on the EPC of their loan portfolio, along with a commitment to show annual improvements towards an average rating of C or higher.

These changes could have a significant impact on the private rented sector in the UK. The industry eagerly anticipates the publication of the final outcomes from each of these consultations, however discussion as well as action from lenders have already taken place, with the emergence of a green finance sector. The Green Finance Institute reported that nine Buy-to-Let lenders had launched dedicated green finance products by the end of December 2021, however these products have largely seen limited success in driving a change in borrowers' attitudes.

The Group's lending sub-segments

Buy-to-Let

According to UK Finance, Buy-to-Let gross advances reached £45.9bn in 2021, a 15% increase from £38.3bn in 2020, despite the lingering effects of the pandemic. Research conducted by BVA BDRC, in its Landlords Panel survey in the third quarter, found that half of landlords reported that their lettings business had been negatively affected by the pandemic. However, this was fewer than the 81% that had expected to suffer a negative impact at the start of the pandemic, signalling that performance may have been better than initially feared for many landlords. The increasing optimism was also reflected in the landlord confidence indicators, all of which reached a five-year high in the third quarter of 2021.

Purchase activity was significantly impacted in the early months of 2020, however the SDLT holiday supported a strong recovery in house purchase activity which continued throughout 2021. According to UK Finance, Buy-to-Let purchases reached £17.5bn in 2021, a 73% increase from £10.1bn in 2020.

Within this market, the professionalisation of borrowers continued due to the increased tax liability for private landlords and sustained regulatory change that has occurred over a number of years, which might have deterred new amateur entrants who would otherwise be tempted by robust rental yields and strong capital gains.

Market review (continued)

Research conducted by BVA BDRC on behalf of the Group reported that in the fourth quarter of 2021, 24% of landlords with large portfolios of 20 or more properties intended to acquire new properties in the next 12 months compared to just 8% of single-property landlords. The research also found that of those landlords that planned to purchase new properties, more respondents intended to buy within a limited company structure than as an individual in their personal name.

According to UK Finance, remortgage activity in the Buy-to-Let sector reached £27.0bn in 2021, a 1% decrease from £27.4bn in 2020. This decrease reflected the market's focus on purchases fuelled by the temporary SDLT holiday.

In the Private Rented Sector (PRS), much like the housing market as a whole, supply constraints have continued amidst increasing tenant demand leading to upwards pressure on rents. As a result, contributors to the RICS Residential Market Survey in November 2021 reported a rental growth projection of almost 4% over the next 12 months, with rental growth expected to average approximately 5% over the next five years.

The fundamentals underpinning the PRS remained strong throughout 2021, with growth in house prices outpacing wage growth to stretch affordability even further and the reduced availability of high loan to value mortgages generated strong demand for rental properties, particularly as individuals returned to office-based working in central city locations.

Residential

The UK residential mortgage market was equally affected by the SDLT holiday as buyers sought to complete purchases while they could benefit from lower transactional costs. This resulted in large spikes in purchase completions in March, June and September aligned with the relief withdrawal periods.

According to UK Finance, purchase completions reached £190.1bn in 2021, a 45% increase from £130.8bn in 2020 as home movers sought more space and first time buyers took their first step onto the property ladder, as the availability of high loan to value mortgages increased.

Buyers also had an additional deadline to consider this year as changes to the Government's popular Help to Buy scheme were introduced at the end of March 2021; these changes restricted the scheme to first time buyers only while also introducing new regional property price caps. The Group offers products under the scheme via the Precise Mortgages brand and benefitted from increased activity in the first quarter, with buyers seeking to complete their purchases before the new rules came into effect.

Commercial

Similar to the residential property market, the start to 2021 was marked by a national lockdown and meant that only essential retailers were allowed to trade from premises. May saw the reopening of non-essential retail and outdoor social and leisure venues. Most indoor social and leisure venues opened in May, with nightclubs being the final sector to reopen in July. The pandemic support grants and the furlough scheme offered assistance to many businesses through these challenging times.

As in 2020, and despite very strong summer trading that resulted from limited international travel opportunities, the hospitality and leisure sectors were severely impacted by coronavirus restrictions. Retail shopping centres and the High Street were already experiencing a contraction in demand and values before the pandemic as consumers moved online. CBRE Group reported an annual decline of 1.7% in rent for 'all retail, a further decline from the 8.3% reduction recorded in 2020'.

Market review (continued)

However, convenience retail and retail warehousing showed growth in 2021 as shopping for essentials remained local. Whilst the prime retail settings struggled, the lower value, tertiary and suburban retail segments remained comparatively buoyant. In addition, mixed use asset classes such as semi commercial property, which offers a diverse income stream underpinned by the residential lettings, continued to be attractive to investors. Overall, CBRE reported that capital values for ‘all retail’ increased 6.3% in 2021, with the growth substantially achieved in the last two quarters of the year.

In contrast, the industrial sector, especially warehouse and distribution, saw greater occupier and investor demand, resulting in an increase in rents and capital values, with CBRE reporting annual rental value and capital value growth of 9.0% and 35.6%, respectively, for ‘all industrial’. Finally, office space was impacted by lower occupancy rates as office workers were working from home for the majority of 2021. The attitude of businesses to retaining office premises and presence has been mixed, however it has been acknowledged by most that the office remains an important tool to grow a business, to ingrain a desired culture and to develop junior employees. Where new lettings and sales were made, a flight to quality was apparent, with A-grade stock seeing greater demand than B-grade stock, despite it being of lower value. CBRE reported annual rental value and capital value growth of 0.7% and 3.4%, respectively for ‘all offices’.

Overall, commercial property investment volumes recovered in 2021, reaching more than £55bn, up by nearly a quarter on the 2020 figure, and the highest level since 2018. The year ended on a high, with £17.8bn transacted in the final quarter of the year.

Residential development

The long period of house price growth in the UK, as well as strong demand for housing outstripping both the housing supply and real wage growth, has led to affordability issues and access to the housing ladder being outside the reach of many. In 2021, the pandemic support schemes put in place by the government appeared to have boosted demand, which remained strong throughout the year. It was the strongest for houses that were affordable to local populations in the regions, which the Heritable business has concentrated on funding. It was notable that sales rates for the few apartment schemes funded in London were also high, seemingly bucking the trend of that particular market. These have resulted in high levels of repayments for the Heritable business through 2021.

It appears that some regions remain structurally reliant on the government’s Help to Buy scheme and therefore these areas tend to be avoided by Heritable. When government intervention into the housing markets, both directly and indirectly, is withdrawn there is a risk that transaction volumes will fall. At that point the support required by small and medium sized developers, which forms Heritable’s core audience for development finance, will increase.

Second charge lending

According to the Finance and Leasing Association, second charge mortgage lending reached £1.1bn in 2021, an increase of 47% compared to 2020. The Group maintains a reduced presence in this smaller market and continues to offer lending to low-risk, prime borrowers.

Market review (continued)

Funding lines

There are a number of successful non-bank or alternative providers of finance to retail and SME customers in the UK. These businesses are funded through a variety of means, including wholesale finance provided by banks, investment funds and securitisation or bond markets, high net worth investors and market-based peer-to-peer platforms.

The Group was an active provider of secured funding lines to these specialty finance providers, primarily focusing on short-term real estate finance and development finance. Through these activities, the Group achieved senior secured exposure at attractive returns to asset classes that it knows well, primarily secured against property-related mortgages. OSB Group sees a regular flow of opportunities; however, given the pandemic and economic uncertainty, in 2021 the Group did not consider any new client facilities, choosing to focus on servicing the existing borrowers and applying amended, restricted lending criteria.

Key performance indicators (KPIs)

Throughout the Strategic report the KPIs are presented on a statutory and an underlying basis for 2021, and a statutory and pro forma underlying basis for 2020.

Management believe these provide a more consistent basis for comparing the Group's performance between financial periods. Underlying results for 2021 and 2020 exclude exceptional items, integration costs and other acquisition-related items.

For a reconciliation of statutory results to underlying results, see page 31.

1. Gross new lending

Statutory £4.5bn (2020: £3.8bn)

Definition - Gross new lending is defined as gross new organic lending before redemptions.

2021 performance
Gross new lending increased 20% in the year and reflected strong growth in new originations.

2. Net interest margin (NIM)

Statutory 253bps (2020: 216bps)
Underlying 282bps (2020: 247bps)

Definition - NIM is defined as net interest income as a percentage of a 13 point average 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.

2021 performance
Both statutory and underlying NIM improved in 2021 primarily due to lower cost of retail funds and a benefit of the effective interest rate (EIR) gains.

3. Cost to income ratio

Statutory 26% (2020: 31%)
Underlying 24% (2020: 27%)

Definition - Cost to income ratio is defined as administrative expenses as a percentage of total income. It is a measure of operational efficiency.

2021 performance
Statutory and underlying cost to income ratios improved in 2021 as the Group benefitted from higher income in the year.

Key performance indicators (continued)

4. Management expense ratio

Statutory 71bps (2020: 71bps)
Underlying 70bps (2020: 70bps)

Definition
Management expense ratio is defined as administrative expenses as a percentage of a 13 point average of total assets. It is a measure of operational efficiency.

2021 performance
Statutory and underlying management expense ratios remained stable in 2021 as the Group benefitted from cost synergies and other efficiencies.

5. Loan loss ratio

Statutory -2bps (2020: 38bps)
Underlying -2bps (2020: 38bps)

Definition - Loan loss ratio is defined as impairment losses expressed as a percentage of a 13 point average of gross loans and advances. It is a measure of the credit performance of the loan book.

2021 performance
Statutory and underlying loan loss ratios improved in the year as the Group used less severe forward-looking macroeconomic scenarios in its IFRS 9 models, albeit with additional 10% weighting to the downside scenario to account for the cost of living and affordability pressures, and benefitted from strong house price performance.

6. Return on equity

Statutory 20% (2020: 13%)
Underlying 24% (2020: 19%)

Definition
Return on equity (RoE) is defined as 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 of shareholders' equity (excluding £150m of AT1 securities).

2021 performance
Statutory and underlying return on equity improved in 2021 due to strong profitability in the year.

Key performance indicators (continued)

7. OSB solo CRD IV Common Equity Tier 1 capital ratio

The PRA has granted the Company a waiver to comply with the Capital Requirements Regulation (CRR) as an individual consolidation which includes the Company and subsidiaries except for the offshore servicing entity OSBI, Special Purpose Vehicles (SPVs) relating to securitisations and the CCFS entities acquired in October 2019.

OSB solo 19.4% (2020: 17.2%)

Definition
This is defined as CET1 capital as a percentage of risk-weighted assets (calculated on a standardised basis) and is a measure of the capital strength of the Company.

2021 performance
The CET1 ratio strengthened in the year supported by the strong capital generation from profitability.

8. Savings customer satisfaction – Net Promoter Score (NPS)

OSB +70 (2020: +67)
CCFS +71 (2020: +72)

Definition
The NPS measures our customers' satisfaction with our service and products. It is based on customer responses to the question of whether they would recommend us to a friend. The question scale is 0 for absolutely not to 10 for definitely yes. Based on the score, a customer is defined as a detractor between 0 and 6, a passive between 7 and 8 and a promoter between 9 and 10. Subtracting the percentage of detractors from the percentage of promoters gives an NPS of between -100 and +100.

2021 performance
OSB's savings customer NPS improved to +70 and CCFS' was an outstanding +71.

Financial review

Summary statutory results for 2021 and 2020

Summary Profit or Loss	For the year ended 31 December 2021 £m	For the year ended 31 December 2020 £m
Net interest income	**587.6**	472.2
Net fair value gain on financial instruments	**29.5**	7.4
Gain on sale of financial instruments	**4.0**	20.0
Other operating income	**7.9**	9.0
Administrative expenses	**(166.5)**	(157.0)
Provisions	**(0.2)**	(0.1)
Impairment of financial assets	**4.4**	(71.0)
Impairment of intangible assets	**3.1**	(7.0)
Integration costs	**(5.0)**	(9.8)
Exceptional items	**(0.2)**	(3.3)
Profit before taxation	**464.6**	260.4
Profit after taxation	**345.0**	196.3
Key ratios		
Net interest margin	**253bps**	216bps
Cost to income ratio	**26%**	31%
Management expense ratio	**0.71%**	0.71%
Loan loss ratio	**-0.02%**	0.38%
Return on equity	**20%**	13%

Extracts from the Statement of Financial Position	As at 31 December 2021 £m	As at 31 December 2020 £m
Loans and advances to customers	**21,080.3**	19,230.7
Retail deposits	**17,526.4**	16,603.1
Total assets	**24,532.5**	22,654.5

Financial review (continued)

Statutory profit

The Group's statutory profit before tax increased by 78% to £464.6m (2020: £260.4m) after exceptional items, integration costs and other acquisition related items of £57.6m[1] (2020: £85.8m). The increase was primarily due to growth in the loan book, a lower cost of retail funds and an impairment credit. The Group adopted adverse Covid-19 related forward-looking assumptions in its IFRS 9 models in 2020 which resulted in a substantial impairment charge in the prior year. The Group also benefitted from fair value gains on the Group's hedging activities, which more than offset lower gains on sale of financial instruments.

Statutory profit after tax was £345.0m in 2021, an increase of 76% from £196.3m in the prior year, due to the increase in profit before tax partially offset by a higher effective tax rate. It included after-tax exceptional items, integration costs and other acquisition-related items of £47.8m[1] (2020: £68.6m).

The Group's effective tax rate increased to 25.7% in 2021 (2020: 23.1%) primarily due to a larger proportion of the profits being subject to the Bank Corporation Tax Surcharge.

Statutory return on equity for 2021 improved to 20% (2020: 13%) reflecting the increase in profitability in the year.

Net interest income

Statutory net interest income increased by 24% in 2021 to £587.6m (2020: £472.2m), largely reflecting growth in the loan book and a lower cost of retail funds as well. It also included net effective interest rate (EIR) reset gains of £11.5m to reflect updated prepayment assumptions based on customer behaviour.

Statutory net interest margin (NIM) was 253bps compared to 216bps in the prior year due primarily to a lower cost of retail funds and the EIR reset gains, which contributed 5bps. In 2020, statutory NIM was impacted by a delay in passing on the base rate cuts in full to retail savers.

Net fair value gain on financial instruments

The statutory net fair value gain on financial instruments of £29.5m in 2021 (2020: £7.4m) included a £10.3m net gain on unmatched swaps (2020: £18.0m net loss) and a net gain of £2.4m (2020: £6.8m loss) in respect of the ineffective portion of hedges.

The Group also recorded a £3.0m gain (2020: £13.0m gain) from the amortisation of hedge accounting inception adjustments, a £13.4m gain from the unwind of acquisition-related inception adjustments (2020: £17.0m gain) and a £0.2m gain (2020: £2.4m gain) from amortisation of the fair value relating to de-designated hedge relationships. Other items amounted to a gain of £0.2m (2020: £0.2m loss).

The net gain on unmatched swaps primarily related to fair value movements on mortgage pipeline swaps, prior to them being matched against completed mortgages and was caused by an increase in the interest rate outlook on the London Interbank Offered Rate (LIBOR) and Sterling Overnight Index Average (SONIA) yield curves. The Group economically hedges its committed pipeline of mortgages and this unrealised gain unwinds over the life of the swaps through hedge accounting inception adjustments.

The amortisation of fair value relating to de-designated hedge relationships occurs when hedge relationships are cancelled due to ineffectiveness.

Financial review (continued)

Gain on sale of financial instruments

The gain on sale of financial instruments of £4.0m in 2021, related to the disposal of A2 notes in the PMF 2019-1B securitisation in February 2021.

In 2020, the Group made a gain of £20.0m on a statutory basis which related to the disposal of the remaining notes under the Canterbury No.1 and PMF 2020-1B securitisations in January 2020 and a sale of AAA notes from the Canterbury No. 3 securitisation.

Other operating income

Statutory other operating income of £7.9m (2020: £9.0m) mainly comprised CCFS' commissions and servicing fees, including those relating to securitised loans which have been derecognised from the Group's balance sheet.

Administrative expenses

Statutory administrative expenses increased 6% to £166.5m in 2021 (2020: £157.0m) largely due to higher employee costs.

The Group's statutory cost to income ratio improved to 26% (2020: 31%) as a result of the increase in total income, primarily due to higher net interest income, and gains from the Group's hedging activities which more than offset lower gains on sale of financial instruments. The statutory management expense ratio remained at 71bps in 2021 (2020: 71bps) as the Group maintained its strong focus on cost discipline and efficiency.

The management expense and cost to income ratios in 2021 and 2020 also benefitted from lower spending as a result of lockdowns, the working from home guidance and some hiring delays in an increasingly competitive labour market.

The Group continued to make strong progress towards achieving target synergies from the Combination. As at 31 December 2021, the Group had delivered run rate savings of c. £24m and we expect to marginally exceed our run-rate pledge by the end of the third anniversary of the Combination. Integration costs to achieve these synergies were c. £20m with final integration costs expected to be below the target of £39m.

Impairment of financial assets

The Group recorded an impairment credit of £4.4m in 2021 (2020: £71.0m loss) and the statutory loan loss ratio improved to -2bps compared to 38bps in 2020.

As the outlook improved, the Group used less severe forward-looking macroeconomic scenarios in its IFRS 9 models, albeit with an additional 10% weighting to the downside scenarios applied to reflect future risks from an increase in the cost of living and affordability pressures from further rises in interest rates. This, together with the strong house price performance, led to a release of provisions of £24.9m. This release was partially offset by IFRS 9 model enhancements of £4.3m, post model adjustments of £6.8m and other charges of £9.4m. Further detail is provided in the Risk review section.

In 2020, impairment losses were largely due to adverse pandemic related forward-looking macroeconomic scenarios adopted by the Group, changes to staging criteria in line with the PRA guidance, pandemic-related enhancements to the Group's models and fraudulent activity by a third party on a funding line provided by the Group.

Financial review (continued)

Impairment of intangible assets

The impairment credit of intangible assets of £3.1m related to a partial reversal of the impairment of the broker relationships intangible of £7.0m recorded in 2020, as lending volumes in 2021 were higher than previously anticipated.

Integration costs

The Group recorded £5.0m of integration costs in 2021 (2020: £9.8m) which largely related to redundancy costs and professional fees for external advice on the Group's future operating structure.

Exceptional items

Exceptional costs of £0.2m in 2021 and £3.3m in 2020 related to the insertion of OSB GROUP PLC as the new holding company and listed entity of the Group.

Balance sheet growth

On a statutory basis, net loans and advances to customers grew by 10% to £21,080.3m in 2021 (31 December 2020: £19,230.7m), reflecting originations of £4.5bn in the year.

Total assets grew by 8% to £24,532.5m (31 December 2020: £22,654.5m), primarily reflecting the growth in loans and advances partially offset by acquisition-related adjustments.

On a statutory basis, retail deposits increased by 6% to £17,526.4m from £16,603.1m as at 31 December 2020 as the Group continued to attract new savers. The Group complemented its retail deposits funding with drawings under the Bank of England's funding schemes. In the year, the drawings under the TFS were fully repaid (31 December 2020: £2.6bn) and drawings under the TFSME increased to £4.2bn as at 31 December 2021 from £1.0bn at the end of the prior year.

The CCFS warehouse facility was closed in December 2021.

Liquidity

Both OSB and CCFS operate under the PRA'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).

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 2021, OSB had £1,322.8m and CCFS had £1,318.0m of HQLA LCR eligible assets (31 December 2020: £1,366.7m and £1,069.1m, respectively). OSB also held a significant portfolio of unencumbered prepositioned Bank of England level C eligible collateral in the Bank of England Single Collateral Pool. CCFS's portfolio of level C eligible collateral met the majority of Bank of England drawings (with the remainder collateralised by UK Government debt) but at year end CCFS did not have significant levels of available prepositioned unencumbered collateral, due to the 100% haircuts applied to LIBOR based assets from 31 December 2021. LIBOR transition plans for the Group have been submitted to the Bank of England for review, and when approved the 100% haircuts will be removed releasing significant level C eligible collateral for future use in Bank of England facilities and contingent liquidity.

Financial review (continued)

As at 31 December 2021, OSB had a liquidity coverage ratio of 240% and CCFS 158% (31 December 2020: 254% and 146%, respectively) and the Group LCR was 196% (31 December 2020: 198%), all significantly in excess of the 2021 regulatory minimum of 100% plus Individual Liquidity Guidance.

Capital

The OSB solo capital position remained strong with a CET1 capital ratio of 19.4% as at 31 December 2020 (31 December 2020: 17.2%).

Summary cash flow statement

	For the year ended 31 December 2021	For the year ended 31 December 2020
Profit before tax	**464.6**	**260.3**
Net cash generated/(used in):		
Operating activities	**(462.5)**	**(1,328.7)**
Investing activities	**80.6**	**755.8**
Financing activities	**748.0**	**840.7**
Net increase in cash and cash equivalents	**366.1**	**267.8**
Cash and cash equivalents at the beginning of the period	**2,370.6**	**2,102.8**
Cash and cash equivalents at the end of the period	**2,736.7**	**2,370.6**

Cash flow statement

The Group's cash and cash equivalents increased by £366.1m during the year to £2,736.7m as at 31 December 2021.

Loans and advances to customers increased by £1,844.0m during the year, partially funded by £923.3m of deposits from retail customers and a decrease in loans and advances to credit institutions (primarily the Bank of England call account) of £167.4m. Additional funding was provided by cash generated from financing activities of £748.0m and included £634.4m of net drawings under the Bank of England's TFS and TFSME schemes and £36.1m of net proceeds from securitisation of mortgages during the year. Cash generated from investing activities was £80.6m.

In 2020, loans and advances to customers increased by £1,705.0m during the year, partially funded by £348.1m of deposits from retail customers offset by an increase in loans and advances to credit institutions (primarily the Bank of England call account) of £154.0m. Additional funding was provided by cash generated from financing activities of £840.7m and included £935.9m of net drawings under the Bank of England's TFS and TFSME schemes and £381.6m of net proceeds from securitisation of mortgages, partially offset by the repayment of warehouse funding, indexed long-term repos (ILTR) and commercial repos during the year. Cash generated from investing activities was £755.8m, mainly from the sale of RMBS securities and derecognition of securitisations.

1. See the reconciliation of statutory to underlying results on page 31.

Financial review (continued)

Summary of underlying results for 2021 and 2020

Summary Profit or Loss	For the year ended 31 December 2021 £m	For the year ended 31 December 2020 £m
Net interest income	**650.5**	**534.0**
Net fair value loss on financial instruments	**18.5**	**(5.9)**
Gain on sale of financial instruments	**2.3**	**33.1**
Other operating income	**7.9**	**9.0**
Administrative expenses	**(161.7)**	**(152.7)**
Provisions	**(0.2)**	**(0.1)**
Impairment of financial assets	**4.9**	**(71.2)**
Profit before taxation	**522.2**	**346.2**
Profit after taxation	**392.8**	**264.9**
Key ratios		
Net interest margin	**282bps**	**247bps**
Cost to income ratio	**24%**	**27%**
Management expense ratio	**0.70%**	**0.70%**
Loan loss ratio	**-0.02%**	**0.38%**
Return on equity	**24%**	**19%**

Extracts from the Statement of Financial Position	As at 31 December 2021 £m	As at 31 December 2020 £m
Loans and advances	**20,936.9**	**19,020.8**
Retail deposits	**17,524.8**	**16,600.0**
Total assets	**24,404.2**	**22,472.2**

Alternative performance measures

The Group presents alternative performance measures (APMs) in this Strategic report as Management believe they provide a more consistent basis for comparing the Group's performance between financial periods.

Underlying results for 2021 and 2020 exclude exceptional items, integration costs and other acquisition-related items. A reconciliation of statutory to underlying results is disclosed on page 31.

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.

Financial review (continued)

Underlying profit

The Group's underlying profit before tax was £522.2m for the year, an increase of 51% compared with £346.2m in 2020, primarily due to growth in the loan book a lower cost of retail funds and an impairment credit. The Group adopted adverse Covid-19 related forward-looking assumptions in its IFRS 9 models in 2020 which resulted in a substantial impairment charge in the prior year. The Group also benefitted from fair value gains on the Group's hedging activities in 2021, which partially offset lower gains on the sale of financial instruments.

Underlying profit after tax was £392.8m, up 48% (2020: £264.9m) due to the increase in profit before tax partially offset by an increase in the effective tax rate.

The Group's effective tax rate on an underlying basis increased to 24.8% for 2021 (2020: 23.5%), due to a larger proportion of the profits being subject to the Bank Corporation Tax Surcharge.

On an underlying basis, return on equity for 2021 improved to 24% (2020: 19%) reflecting higher profitability in the year.

Net interest margin

Underlying net interest income increased by 22% to £650.5m in 2021 (2020: £534.0m) due primarily to growth in the loan book and a lower cost of retail funds. It also included net effective interest rate reset gains of £18.6m (2020: £2.1m loss) to reflect updated prepayment assumptions based on customer behaviour.

The underlying net interest margin increased to 282bps from 247bps in 2020 primarily reflecting a lower cost of retail funds and EIR gains which contributed 8bps. In 2020, underlying NIM was impacted by a delay in passing on the base rate cuts in full to retail savers.

Net fair value gain on financial instruments

The underlying net fair value gain on financial instruments was £18.5m in 2021 compared to a loss of £5.9m in 2020.

The gain for 2021 included a gain on unmatched swaps of £10.3m (2020: £18.0m loss), a gain of £2.4m (2020: £6.8m loss) from hedge ineffectiveness, and a £5.4m gain from amortisation of inception adjustments (2020: £16.7m gain). Other hedging and fair value movements amounted to a net gain of £0.4m (2020: £2.2m gain).

The net gain on unmatched swaps primarily relates to fair value movements on mortgage pipeline swaps, prior to them being matched against completed mortgages and was due to an increase in outlook on the LIBOR and SONIA yield curves. The Group economically hedges its committed pipeline of mortgages and this unrealised gain unwinds over the life of the swaps through hedge accounting inception adjustments.

Gain on sale of financial instruments

The underlying gain of £2.3m in 2021 related to the disposal of A2 notes in the PMF 2019-1B securitisation in February 2021.

In 2020, the underlying gain of £33.1m related to the disposal of the remaining notes under the Canterbury No.1 and PMF 2020-1B securitisations in January 2020 and a sale of notes from the Canterbury No.3 securitisation.

Financial review (continued)

Other operating income

On an underlying basis, other operating income was £7.9m in 2021 (2020: £9.0m) and mainly comprised CCFS' commissions and servicing fees, including those relating to securitised loans which have been deconsolidated from the Group's balance sheet.

Administrative expenses

Underlying administrative expenses were up 6% to £161.7m in 2021 (2020: £152.7m) due primarily to increased employee costs.

The underlying cost to income ratio improved to 24% (2020: 27%) as a result of higher total income, primarily due to an increase in net interest income in the year and gains from the Group's hedging activities partially offset by lower gains on sale of financial instruments.

The underlying management expense ratio remained stable at 70bps for 2021 (2020: 70bps) as the Group maintained its strong focus on cost discipline and efficiency.

The management expense and cost to income ratios in 2021 and 2020 also benefitted from lower spending as a result of lockdowns, the working from home guidance and some hiring delays in an increasingly competitive labour market.

Impairment of financial assets

The Group recorded an underlying impairment credit of £4.9m in 2021 (2020: £71.2m loss) representing an underlying loan loss ratio of -2bps (2020: 38bps).

As the outlook improved, the Group used less severe forward-looking macroeconomic scenarios in its IFRS 9 models, albeit with an additional 10% weighting to the downside scenarios, to reflect future risks from an increase in the cost of living and affordability pressures from further rises in interest rates. This, together with the strong house price performance, led to a release of provisions of £24.9m. This release was partially offset by IFRS 9 model enhancements of £4.3m, post model adjustments of £6.8m and other charges of £8.9m. Further detail is provided in the Risk review section.

In 2020, impairment losses were largely due to adverse pandemic-related forward-looking macroeconomic scenarios adopted by the Group, changes to staging criteria in line with the PRA guidance, pandemic-related enhancements to the Group's models and fraudulent activity by a third party on a funding line provided by the Group.

Balance sheet growth

On an underlying basis, net loans and advances to customers were £20,936.9m (31 December 2020: £19,020.8m) an increase of 10% reflecting gross originations of £4.5bn in the year.

Total underlying assets grew by 9% to £24,404.2m (31 December 2020: £22,472.2m), primarily reflecting the growth in loans and advances.

Retail deposits increased by 6% to £17,524.8m (31 December 2020: £16,600.0m) as both Banks continued to attract new savers by offering attractively priced savings products and outstanding customer service. The balance of the Group's funding requirement was provided by the Bank of England's TFSME drawings which as at 31 December 2021 increased to £4.2bn from £1.0bn at the end of 2020 as the TFS drawings were fully repaid (31 December 2020: £2.6bn).

Financial review (continued)

Reconciliation of statutory to underlying results

	2021			2020		
	Statutory results £m	Reverse acquisition-related and exceptional items £m	Underlying results £m	Statutory results £m	Reverse acquisition-related and exceptional items £m	Underlying results £m
Net interest income	**587.6**	**62.9**[1]	**650.5**	472.2	61.8	534.0
Net fair value gain/(loss) on financial instruments	**29.5**	**(11.0)**[2]	**18.5**	7.4	(13.3)	(5.9)
Gain on sale of financial instruments	**4.0**	**(1.7)**[3]	**2.3**	20.0	13.1	33.1
Other operating income	**7.9**	**-**	**7.9**	9.0	-	9.0
Total income	**629.0**	**50.2**	**679.2**	508.6	61.6	570.2
Administrative expenses	**(166.5)**	**4.8**[4]	**(161.7)**	(157.0)	4.3	(152.7)
Provisions	**(0.2)**	**-**	**(0.2)**	(0.1)	-	(0.1)
Impairment of financial assets	**4.4**	**0.5**[5]	**4.9**	(71.0)	(0.2)	(71.2)
Impairment of intangible assets	**3.1**	**(3.1)**	**-**	(7.0)	7.0	-
Integration costs	**(5.0)**	**5.0**[6]	**-**	(9.8)	9.8	-
Exceptional items	**(0.2)**	**0.2**[7]	**-**	(3.3)	3.3	-
Profit before tax	**464.6**	**57.6**	**522.2**	260.4	85.8	346.2
Profit after tax	**345.0**	**47.8**	**392.8**	196.3	68.6	264.9
Summary Balance Sheet						
Loans and advances to customers	**21,080.3**	**(143.4)**[8]	**20,936.9**	19,230.7	(209.9)	19,020.8
Other financial assets	**3,382.3**	**22.0**[9]	**3,404.3**	3,341.8	36.8	3,378.6
Other non-financial assets	**69.9**	**(6.9)**[10]	**63.0**	82.0	(9.2)	72.8
Total assets	**24,532.5**	**(128.3)**	**24,404.2**	22,654.5	(182.3)	22,472.2
Amounts owed to retail depositors	**17,526.4**	**(1.6)**[11]	**17,524.8**	16,603.1	(3.1)	16,600.0
Other financial liabilities	**4,908.7**	**2.3**[12]	**4,911.0**	4296.6	4.4	4,301.0
Other non-financial liabilities	**72.6**	**(45.0)**[13]	**27.6**	77.9	(61.4)	16.5
Total liabilities	**22,507.7**	**(44.3)**	**22,463.4**	20,977.6	(60.1)	20,917.5
Net assets	**2,024.8**	**(84.0)**	**1,940.8**	1,676.9	(122.2)	1,554.7

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. Recognition of a loss on sale of securitisation notes
4. Amortisation of intangible assets recognised on Combination
5. Adjustment to expected credit losses on CCFS loans on Combination
6. Integration costs related to the Combination, see note 12 to the accounts
7. Reversal of exceptional items, see note 13 to the accounts
8. Recognition of a fair value uplift to CCFS' loan book less accumulated amortisation of the fair value uplift and a movement on credit provisions
9. Fair value adjustment to hedged assets
10. Recognition of acquired intangibles on Combination
11. Fair value adjustment to CCFS' retail deposits less accumulated amortisation
12. Fair value adjustment to hedged liabilities
13. Adjustment to deferred tax liability and other acquisition-related adjustments

Risk review

Executive summary

Continued progress was made in 2021 against the Group's strategic risk management objectives for the year, including the priority areas set out in the Annual Report and Accounts for the year ended 31 December 2020.

The Group delivered strong operating and financial performance against the backdrop of an improving economic outlook. However, the Group remains cognisant of the continued risks which could emerge from pandemic related disruption, future economic shocks and a deteriorating geopolitical situation in Europe. Prolonged inflationary pressure coupled with monetary policy tightening could feed through into consumer affordability and confidence.

It is important to note that the strong performance was delivered within the confines of a prudent risk appetite. The Group operated within the boundaries of its risk appetite limits during 2021. The Group's overall asset quality remained stable with respect to customer behaviour and affordability levels, whilst collateral values improved during the year. Arrears levels remained broadly stable, although certain portfolio segments experienced increases as the impact of the pandemic took effect, which were offset by improvements in other segments.

Group risk appetite statements and limits were designed and implemented, based on aligned approaches calibrated for anticipated financial forecasts and stress test analysis. Risk appetite is monitored and managed at the Group and at the solo Bank levels.

All risk management activities were considered within the confines of the Board approved risk appetite supported by a set of comprehensive frameworks, policies, systems and controls. Established procedures ensured that all risks were subject to the three lines of defence governance and oversight principles. The Group operated with defined roles and responsibilities for risk management, with oversight at the Board and executive level with independent assurance provided by the Group's Internal Audit function. The Group's risk management and governance arrangements were leveraged effectively to guide and support decision making during periods of heightened uncertainty and change.

Active monitoring and assessment of the Group's credit risk portfolio drivers is a critical risk management discipline. This was achieved through the active monitoring of credit portfolio performance indicators, sensitivity and stress test analysis and thematic deep dives. Cross-functional expertise was leveraged to review emerging trends and take pre-emptive actions in accordance with the defined risk appetite and governance standards. The Group's investment in advanced credit analytics greatly enhanced monitoring capabilities, improved forward-looking assessments and supported stress testing and capacity planning analysis. This in turn allowed the Board to make more informed decisions in uncertain macroeconomic and political environments.

Ensuring that the Group continued to maintain expected credit loss (ECL) provisions based on its underlying prudent risk appetite, was an important consideration of the Board and senior management. ECL provisions were assessed leveraging the Group's IFRS 9 approved methodologies, individually assessed provisioning approaches and portfolio segment based stress and sensitivity analysis. Benchmarking analysis was provided to the Board and Senior Management, enabling review and challenge of provision coverage levels and underlying macroeconomic scenarios.

The Group also maintained strong levels of capital and funding throughout 2021, being mindful of the heightened levels of future uncertainty. Capital and funding levels were assessed against the impacts of extreme but plausible economic, business and operational shocks and reflected in the Group's solvency and liquidity risk appetite.

Risk review (continued)

The Group's Risk and Compliance functions made good progress against planned strategic risk and compliance objectives including further embedding the Group Strategic Risk Management Framework (SRMF) and enhancing underlying systems and controls. The Group continued to invest in people and technology with key hires made to focus on operational continuity in resolution, model development and governance, data governance and controls, solvency and operational risk management. The Group's second line functions continued to operate effectively using a shared service operating model and delivered all key objectives during the pandemic.

The Group's capital management framework was further enhanced during the year, whilst considerable time was spent on running a number of capital planning scenarios and sensitivities across a range of potential Basel 3.1 outcomes. The Group's Internal Adequacy Assessment Process (ICAAP) was further enhanced during the year and subjected to a supervisory review and evaluation process (CSREP) by the Prudential Regulation Authority (PRA). A number of reverse stress tests were performed to provide visibility to the Group and entity Boards with respect to the severity of the macroeconomic scenario which could result in the Group and its entities breaching minimum regulatory requirements, which were utilised in the going concern and viability assessments.

Both the regulated Bank entities continued to retain prudent levels of liquidity in the context of the uncertain economic and business outlook. Particular attention was directed to the monitoring of the entity level liquidity positions, focusing on retail savings customer behaviour, competitor actions and product changes within the wider savings market. Given the increasing prominence of securitisation as a wholesale funding source, the Group undertook a review to identify further areas of enhancement with respect to systems and controls. This review was completed and the implementation of identified enhancements is underway.

The Group engaged in a number of Financial Conduct Authority thematic reviews and continued to invest in the level of subject matter compliance experts, to facilitate good customer outcomes and treat customers fairly and be well-positioned to respond to changes in regulatory expectations and industry best practices.

Progress was made in developing and embedding policies, processes and controls to ensure compliance with the Bank of England's Resolvability Assessment Framework (RAF), including meeting the requirements for operational continuity in resolution. The Group also made significant progress in establishing the required infrastructure to meet its future Minimum Requirements for own Funds and Eligible Liabilities (MREL).

The Group is committed to reviewing its risk and controls framework considering the operating environment, business operating model and any learnings from recent risk incidents. Future pandemic related disruptions, ongoing integration activity and regulatory initiatives could result in an increase in the number of operational risk incidents observed. The Group continuously leverages its operational risk management and governance frameworks to identify, assess and appropriately manage all operational incidents. Reflecting on the risk events realised within the year, resulted in additional focus and resources being assigned to migrating the Group onto a single operational risk system, whilst increasing capacity to continuously review, assess and test all key risks and controls.

The Group leveraged its operational resilience capabilities and framework to effectively manage any disruption caused by the pandemic. The Group continued to review and enhance its operational resilience capabilities and framework in the context of emerging best practice standards, regulatory expectations and the changing nature of its operating model.

Risk review (continued)

The Group views fair customer outcomes and provision of timely and effective support to customers in distress as a central pillar supporting its mission, vision and values. The Group has customer centric policies and procedures in place which are subject to ongoing reviews and benchmarking. The Group kept its customers front and centre during all phases of the pandemic ensuring customers continue to be treated fairly and in line with regulatory guidelines. The Group was also appropriately attuned to the emerging industry and regulatory focus on customer vulnerability acknowledging planned changes in consumer duty regulation.

The Group's IRB Programme made tangible progress against plan during the year. The Group's end state IRB models are passing through the final stages of governance, whilst an extensive self-assessment against IRB requirements has been completed and the required application documents have been drafted and are going through our governance process. The IRB capabilities developed by the Group continue to be integrated into key risk and capital management processes, and are already informing strategic decision making and business planning activities. The anticipated delay in Basel 3.1 implementation and the one year extension to the Group's MREL deadlines, provided the Group with the opportunity to enhance our level of end state compliance prior to submitting our module 1 application. We continue to engage with the PRA to agree a submission date.

During the year, progress was made in implementing further enhancements across the Group's strategy, governance, risk management arrangements and disclosures relating to climate change risk, to facilitate compliance with recommendations set out in the PRA supervisory statement SS3/19. Climate risk was captured within the Group's enterprise risk register and a specific climate risk management framework was developed which is a sub- framework of the overarching Group SRMF. A dedicated Climate Risk Committee was established to ensure enhancements continued to be delivered as required. The Group refreshed and enhanced analysis identifying and quantifying the risks relating to climate change in relation to the Group's loan portfolios. Impairment and capital considerations were assessed via the ICAAP. Further detail are set out in the OSBG annual report and accounts Task Force on Climate-related Financial Disclosures (TCFD) report.

The Group was subjected to a fraud which it became aware of in early 2021, in one of its third party funding lines which upon detailed investigation was deemed an isolated incident. A provision was raised in the 2020 annual accounts and adjusted during 2021 as required. The impact of this incident was appropriately reflected in the Group's risk appetite and was subject to appropriate oversight and review by the Board and senior management.

Priority areas for 2022
A significant level of uncertainty remains around the UK economic outlook and operating environment for 2022 and beyond. Therefore, continued close monitoring of the Group's risk profile and operating effectiveness remains a key priority. Other priorities include:

- Continue to leverage the Group's SRMF to actively identify, assess and manage risks in line with approved risk appetite.
- Fully integrate the Group's Risk and Control Self-Assessment (RCSA) processes into a Group wide risk system which will ensure more dynamic and continuous assessment, adherence to common standards, an improved user interface and increased review and challenge.
- Leverage enhancements made across the Group's portfolio analytical capabilities to improve risk-based pricing, balance sheet management, capital planning and stress testing.
- Focus on the delivery of all required capabilities to ensure compliance with the Bank of England's RAF and Operational Continuity in Resolution (OCIR).

Risk review (continued)

- Further enhance management information to facilitate a more informed oversight of the Group's risk profile.
- Make continued progress in obtaining IRB accreditation and further leverage capabilities within wider risk management disciplines such as IFRS 9 ECL calculations, underwriting, existing customer management and collections to drive portfolio performance benefits and improvements in shareholder returns.

Strategic Risk Management Framework

The SRMF sets out the principles and approach with respect to the management of the Group's risk profile in order to successfully fulfil its business strategy and objectives, including compliance with all conduct and prudential regulatory objectives.

Post Combination, the Group implemented a transitional Group risk management framework to drive a consistent approach to risk identification and assessment across both regulated banking entities. During 2021, sufficient progress was made in implementing a Group approach across all key principal risks, which resulted in the framework no longer being transitional in nature. Over time further enhancements will be made as required.

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, ensuring the interests and expectations of key stakeholders can be met.

The SRMF also provides a structured mechanism to align 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 established a set of risk management and oversight principles which inform and guide all underlying risk management and assessment activities. These principles are informed by the Group's Purpose, Vision and Values.

2. Risk strategy and appetite – the Group established a clear business vision and strategy which is supported by an articulated risk vision and underlying principles. The Board is accountable for ensuring that the Group's SRMF is structured against the strategic vision and is delivered within agreed risk appetite thresholds.

3. Risk assessment and control – the Group is committed to building a safe and secure banking operation via an integrated and effective enterprise SRMF.

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 – the Group uses quantitative analysis and statistical modelling to help improve its business decisions.

Risk review (continued)

6. Stress testing and scenario development – stress testing is an important risk management tool which is used to evaluate the potential effects of a specific event and or movement in a set of variables to understand the impact on the Group's financial and operating performance. The Group has a dedicated stress testing framework which sets out the Group's approach to stress testing.

7. Securitisation framework – the Group developed a securitisation framework which articulates the key components of a securitisation issuance that are relevant to the Group. This sub-framework is now reflected within the wider SRMF. As enhancement areas are identified and implemented, the framework will be updated as required.

8. Risk data and information technology – 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.

9. Risk Management Framework's policies and procedures – risk frameworks, policies and supporting documentation outline the process by which risk is effectively managed and governed within the Group.

10. Risk management information and reporting – the Group established a comprehensive suite of risk MI and reports covering all principal risk types.

11. 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.

Group organisational structure
The Board has ultimate responsibility for the oversight of the Group's risk profile and risk management framework and where it deems it appropriate, it delegates its authority to relevant Committees. The Board and its Committees are provided with appropriate and timely information relating to the nature and level of the risks to which the Group is exposed and the adequacy of the risk controls and mitigants.

The Internal Audit function provides independent assurance to the Board and its Committees as to the effectiveness of the systems and controls and the level of adherence with internal policies and regulatory requirements. The Board also commissions third party subject matter expert reviews and reports in relation to issues and areas requiring deeper technical assessment and guidance.

Risk appetite
The Group aligns its strategic and business objectives with its risk appetite which defines the level of risk which the Group is willing to accept, 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 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, the risk appetite is calibrated to ensure that the Group continues to deliver against its strategic objectives and operates with sufficient financial buffers even when subjected to plausible but extreme stress scenarios. The objective of the Board risk appetite is to ensure that the strategy and business operating model is sufficiently resilient.

Risk review (continued)

The Group's 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. Currently, there are two regulated banking entities within the Group, risk appetite metrics and thresholds are set at both individual entity and Group levels.

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

Management of climate change risk

During 2021 further progress was made in developing and embedding the Group's climate risk management approach within the Group's wider risk management arrangements. This included the development of a specific Climate Risk Management Framework, implementation of an ESG Committee and a dedicated Climate Risk Committee and ESG steering group.

The Group is exposed to the following climate related risks:

- Physical risk – relates to climate or weather-related events such as heatwaves, droughts, floods, storms, rising sea levels, coastal erosion and subsidence. These risks could result in financial losses with respect to the Group's own real estate and customer loan portfolios.
- Transition risk – arising from the effect of adjusting to a low-carbon economy and changes to appetite, strategy, policy or technology. These changes could result in a reassessment of asset values and increased credit exposures for banks and other lenders as the costs and opportunities arising from climate change become apparent. Reputational risk arises from a failure to meet changing and more demanding societal, investor and regulatory expectations.

Approach to analysing climate risk
As part of the ICAAP, the Risk function engaged with a third party to provide detailed climate change assessments at a collateral level for the Group's loan portfolios. The data was in turn utilised to conduct profiling and financial risk assessments.

a) Climate scenarios considered
The standard metric for assessing climate change risk is the global greenhouse gas concentration as measured by Representative Concentration Pathway (RCP) levels. The four levels adopted by the Intergovernmental Panel for Climate Change for its fifth assessment report (AR5) in 2014 are:

Risk review (continued)

Emissions scenario

Scenario	Change in temperature (°C) by 2100
RCP 2.6	1.6 (0.9 – 2.3)
RCP 4.5	2.4 (1.7 – 3.2)
RCP 6.0	2.8 (2.0 – 3.7)
RCP 8.5	4.3 (3.2 – 5.4)

Note: figures within the brackets above detail the range in temperatures. Single figures outside the brackets indicate the averages.

b) Climate risk perils considered
The following three physical perils of climate change were assessed:

- Flood - wetter winters and more concentrated rainfall events will increase flooding.
- Subsidence - drier summers will increase subsidence via the shrink or swell of clay.
- Coastal erosion - increased storm surge and rising sea levels will increase the rate of erosion.

For each of the physical perils and climate scenarios detailed above, a decade by decade prediction, from the current year to 2100 on the likelihood of each was provided.

For flood and subsidence, the likelihood took the form of a probability that a flood or subsidence event would occur over the next ten years. For coastal erosion the distance of the property to the coast line is provided by scenario and decade.

All peril impacts are calculated at the property level to a one metre accuracy. This resolution is essential because flood and subsidence risk factors can vary considerably between neighbouring properties.

In addition to the physical perils, the current EPC of each property was considered to allow for an assessment of transitional risk due to policy change.

Both the OSB and CCFS portfolios were profiled against each of the perils detailed under the best (RCP 2.6) and worst (RCP 8.5) climate scenarios during the 2020's. The Risk function focused on performance over the next ten years, considering the average expected life of a mortgage.

- Flood risk
  By the 2030's, at the Group level, the percentage of properties predicted to experience a flood is expected to increase from 0.48% in the least severe scenario to 0.50% in the most severe scenario. Both scenarios represent a low proportion of the Group's loan portfolios.

- Subsidence
  In the 2030's, at the Group level the percentage of properties predicted to experience subsidence is expected to increase from 0.41% in the least severe scenario to 0.43% in the most severe scenario. The outcome of both scenarios represents a low proportion of the Group's loan portfolios.

- Coastal erosion
  There are two elements to coastal erosion risk. The first relates to the proximity of the property to the coast. The second depends on whether the area in which the property is located is likely to experience coastal erosion in the future.

Risk review (continued)

Both Banks have over 93% of their portfolios more than 1000 metres from the coastline, indicating a very low coastal erosion risk across the Group.

The CCFS bank entity has only twelve properties within 100m of the coastline, whilst the OSB bank entity has only nine.

c) Energy Performance Certificate profile
The EPC profile of both bank entities follows a similar trend to the national average. At the Group level 35% of properties have an EPC of C or better, 48% have an EPC of D, with 15% in E and negligible percentages in F or G. 90% of the properties supporting the Group's loan portfolios have the potential to have at least an EPC rating of C.

Value at Risk assessment
The Value at Risk to the Group, measured through change to ECL and Standardised and IRB Risk Weighted Assets (RWAs), is assessed through the application of stress to collateral valuations as per the methodology outlined below. Impacts are assessed against the latest year end position.

Climate change scenarios
To get the full range of impacts, the most and least severe climate change stress scenarios were considered.

The most severe, RCP 8.5, assumes there will be no concerted effort at a global level to reduce greenhouse gas emissions. Under this scenario, the predicted increase in global temperature is 3.2 - 5.4°C by 2100.

The least severe scenario, RCP 2.6, assumes early action is taken to limit future greenhouse gas emissions. Under this scenario, the predicted increase in global temperature is 0.9-2.3°C by 2100.

Methodology – physical risks
For the physical risks, updated valuations are produced to reflect the impact of a flood, subsidence and coastal erosion risk. The ECL and RWAs are then recalculated taking these reduced valuations as inputs. These reduced valuations directly impact the loan to values (LTVs), and hence loss given default (LGD).

Risk review (continued)

Methodology – transitional risks
OSB Group's expectation is that, under the early action scenario (RCP 2.6), the government will require all properties to achieve EPC A, B and C grades where possible. We considered this risk for Buy-to-Let accounts only.

If a property is already efficient (i.e. EPC grade of C, B or A) then the potential transitional risk is assumed to be zero as they already meet the requirements.

If a property's potential EPC grade is less than C (which is the minimum government target) then the property is given a target energy efficiency equal to that of its maximum potential energy efficiency. The difference between the property's target and current energy efficiencies dictate the costs of the renovations required to meet the regulation.

Once the cost of renovation has been estimated the LGD (to reflect valuation impacts) and the probability of default (PD) (to reflect affordability impacts) are stressed to recalculate the ECL.
The valuation impacts are also used to recalculate RWAs.

To apply the LGD stress, a relationship between LGD and LTV was derived. The LTV was stressed by subtracting the costs of renovations from the property value. This stressed LTV was then mapped back to a stressed LGD.

The stressed PD or LGD is then used to derive a stressed ECL.

When it comes to calculating RWAs, the costs of meeting the EPC guidelines are subtracted from the property valuations. This causes a change in the loan to value level which leads to an increase in RWAs.

d) Analysis outcome
The Group is exposed to a non-material EPC or capital risk, based on the collateral and EPC profile of the Group's loan portfolios.

e) Planned enhancements during 2022
In the future, the Group's climate risk data and scenario analysis capabilities will be enhanced in line with industry best practices.

During 2022 key areas of enhancement include:

- Further embedding of the Climate Risk Management Framework.
- Development of climate risk appetite statements and limits.
- Further enhancements to the climate risk scenario analysis.
- Embedding climate risk within the RCSA process across the Group

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Principal risks and uncertainties

1. 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.

Risk appetite statement: 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 strong and dependable savings franchises. 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.

1.1 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 the strategic agenda and risk appetite. The financial plan is subject to regular reforecasts. The balanced business scorecard is the primary mechanism to support how the Board 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: increased
The Group delivered strong performance against targets during 2021 despite the continued impact of the pandemic. Future improvements in unemployment levels and house prices, are somewhat offset by the risks relating to rising inflation and future interest rate rises.

Competition has increased across both the lending and savings markets, however the Group has strong operational capabilities and financial resources to continue to compete effectively.

1.2 Economic environment
The economic environment in the UK 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 portfolios and may influence future business strategy as the Group's new business proposition becomes less attractive due to lower returns.

Mitigation
The Group's business model as a secured lender helps limit potential credit risk losses and supports performance through the economic cycle. The Group continues to utilise and enhance its stress testing capabilities to assess and minimise potential areas of macroeconomic vulnerability.

Direction: unchanged
Economic risks during 2021 related to pressure on economic growth due to the impact of pandemic restrictions resulting in rising unemployment and falling house prices. During the year these risks migrated to risks relating to rising inflation levels and interest rates, which are in part mitigated by low unemployment levels and stable house prices.

1.3 Competition risk
The risk that new bank entrants and existing peer banks shift focus to the Group's market sub-segments, increasing the level of competition.

Principal risks and uncertainties (continued)

Mitigation
The Group continues to develop products and services which meet the requirements of the markets in which it operates. The Group has a diversified suite of products and capabilities to utilise, along with significant financial resources to support a response to changes in competition.

Direction: increased
Competition risk progressively intensified across core lending sectors in 2021, as competitors' lending appetites increased with the improvement in the economic outlook.

2. Reputational risk

The potential risk of adverse effects that can arise from the Group's reputation being affected 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.

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

2. 1 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 in place to proactively identify and manage potential sources of reputational risk.

Direction: decreased
The Group delivered strong performance across all core targets, despite the disruptions caused by the pandemic.

3. 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.

Risk appetite statement: 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.

3.1 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 cases of default the Group's lending is secured, some borrowers may fail to maintain the value of the security, which may result in a loss being incurred.

Principal risks and uncertainties (continued)

Mitigation
Across both OSB and CCFS, a robust underwriting assessment is undertaken to ensure that 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, supplemented by bespoke application scorecards to inform the lending decision.

Should there be problems with a loan, the Collections and Recoveries team works with customers who are 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 finance 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 drivers of borrower default risk have shifted from the risk around rising unemployment and declining house prices, to rising inflation and consequent increases in interest rates impacting affordability for accounts which revert onto higher interest rates and an increasing risk of borrower default.

3.2 Macroeconomic downturn
A broad deterioration in the UK economy would adversely impact both the ability of borrowers to repay loans and the value of the Group's security. Credit losses would impact the Group's lending portfolios, 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 continues to meet its regulatory requirements.

Direction: Unchanged
The economic outlook is uncertain although it improved in 2021, future risks remain related to further COVID-19 variants, rising inflation and resultant increases in interest rates driving higher levels of customer defaults, falling collateral values and rising impairment levels.

3.3 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.

Principal risks and uncertainties (continued)

Direction: unchanged
The Group's wholesale credit risk exposure remains limited to high-quality counterparties, overnight exposures to clearing banks and swap counterparties.

4. Market risk

Potential loss due to changes in market prices or values.

Risk appetite statement: 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 interest rates and it limits its mismatched and basis risk exposures.

4.1 Interest rate risk
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 includes the risks arising from imperfect hedging of exposures and the risk of customer behaviour driven by interest rates, e.g. early redemption.

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

Direction: unchanged
The Group's simple asset and liability structure and ongoing careful management resulted in the level of interest rate risk remaining unchanged in 2021.

4.2 Basis risk
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, administered, other discretionary variable rates, or that received on call accounts with other banks.

Mitigation
Due to the Group balance sheet structure, no active management of basis risk was required by OSB Group in 2021.

Direction: unchanged
Product design and balance sheet structure enabled the Group to maintain the overall level of basis risk across both Banks throughout the year.

5. Liquidity and funding risk

The risk that the Group, although solvent, does not have sufficient financial resources to enable it to meet its obligations as they fall due.

Risk appetite statement: The Group will maintain sufficient liquidity to meet its liabilities as they fall due under normal and stressed business conditions; this will be achieved by maintaining strong retail savings franchises, supported by high-quality liquid asset portfolios comprised of cash and readily-monetisable assets, and through access to pre-arranged secured funding facilities. The Board requirement to maintain balance sheet resources sufficient to survive a range of severe but plausible stress scenarios is interpreted in terms of the liquidity coverage ratio and the Internal Liquidity Adequacy Assessment Process (ILAAP) stress scenarios.

Principal risks and uncertainties (continued)

5.1 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 and profitability.

Mitigation
The Group's funding strategy is focused on a highly stable retail deposit franchise. The Group's large number of depositors provides diversification, where a high proportion of balances are covered by the Financial Services Compensation Scheme (FSCS) protection scheme, largely mitigating the 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 has further diversified its retail channels by expanding the range of pooled deposit providers used.

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

Direction: unchanged
The Group's funding levels and mix remained strong throughout the year.

During the year, OSB and CCFS were both able to attract significant flows of new deposits and depositors when required.

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

Mitigation
The Group continuously monitors wholesale funding markets and is experienced in taking proactive management actions where required.

The Group issued two securitisations in 2021 and the Group saw strong demand for secured funding issuance.

Direction: unchanged
The Group's range of wholesale funding options available, including repo or sale of retained notes, collateral upgrade trades remained broadly unchanged.

5. 3 Refinancing of TFSME
In the year, the Group repaid its TFS drawings in full and drew a total of £4.2bn under the TFSME creating a refinancing concentration around the maturity of the scheme.

Mitigation
The Group has a TFSME allowance significantly above its wholesale funding requirements which allowed the TFS scheme to be fully refinanced by TFSME.

Principal risks and uncertainties (continued)

Direction: decreased
Drawings made across the TFSME scheme, repaying TFS borrowings during the year, extended the repayment profile of wholesale funding. This coupled with the fact that the Group has a well-established retail deposit franchises and established securitisation capability resulted in this risk decreasing in the year.

6. 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.

Risk appetite statement: 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 solvency risk appetite is informed by the Group's prudential requirements and strategic and financial objectives.

We manage our capital resources in a manner which avoids excessive leverage and allows us flexibility in raising capital.

6.1 Deterioration of capital ratios
Key risks to solvency arise from balance sheet growth and unexpected losses which can result in the Group'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 Group 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: decreased
The Group's stable credit profile and ongoing profitability, coupled with capital structure optimisation during 2021 via the issuance of AT1 securities, means the Group's capital resources have improved.

The Group has been provided with an extra year to meet its interim and end state MREL requirements, which helps mitigate the risks around markets not being supportive of issue and the resulting cost.

Risks remain around adverse credit profile performance, resulting from further COVID-19 variants, rising inflation and interest rates.

Uncertainty remains as to the impact of Basel 3.1, with the implementation date likely to be beyond the initially planned 1 January 2023 date moving out to potentially 2025.

Principal risks and uncertainties (continued)

7. Operational risk

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

Risk appetite statement: 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 continuous 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.

7.1 IT security (including cyber risk)
The risks resulting from a failure to protect the Group's systems and the data within them. This includes both internal and external threats.

Mitigation
The Group 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
The Group has well-established processes to allow it to operate effectively when employees work from home and the cyber risks related to working remotely.

Whilst IT security risks continue to evolve, the level of maturity of the Group's controls and defences has significantly increased, supported by dedicated IT security experts.

The Group's ongoing penetration testing continues to drive enhancements by identifying potential areas of risk.

7. 2 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
Progress was made in 2021 to embed Group-wide governance frameworks in part driven by the Group's IRB project. Further work is planned for 2022, to move closer to the Group's target end state.

7.3 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.

Principal risks and uncertainties (continued)

Direction: increased
The Group continued to adopt an ambitious change agenda, although core planned integration activity is largely complete. In 2021 this risk was monitored and managed well, however further change is planned in 2022, against the challenging operating environment resulting from the risk of new COVID-19 variants and ongoing macroeconomic uncertainty.

7.4 IT failure
The risks resulting from a major IT application or infrastructure failure impacting access to the Group'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 risks remain, in particular due to new hybrid working arrangement. Further work is planned during 2022.

7.5 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). The Group has an experienced and capable project management office, with close oversight and direction provided by the Group Executive.

Direction: unchanged
To date, organisational change resulting from the integration project has been managed well and is largely complete. Further work is required to reach the target end state and carefully considered plans, strong risk identification, monitoring and management capabilities remain in place.

8. Conduct risk

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

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 regard, 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 sub-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.

8.1 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.

Principal risks and uncertainties (continued)

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

8.2 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.

Non-compliance with General Data Protection Regulation (GDPR) regulations.

Mitigation
In addition to a series of network/system controls, the Group performs extensive root cause analysis of any data leaks in order to ensure that the appropriate mitigating actions are taken. The Group has a dedicated project to drive compliance with GDPR regulation.

Direction: unchanged
Further controls were introduced during 2021, although network/system threats continue to evolve in both volume and sophistication.

Good progress was made across key GDPR project work streams.

8.3 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 its customers and the market. The Group will conduct detailed analysis of potential customer harm associated with particular integration steps.

Direction: decreased
Integration activity is largely complete with no material issues being identified to date. Controls are in place to ensure that the integration programme does not result in poor customer outcomes.

9. Compliance/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.

Risk appetite statement: The Group views ongoing conformity with regulatory rules and standards across all the jurisdictions in which it operates as a critical component 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.

9.1 Prudential regulatory changes
The Group continues to see a high volume of key compliance regulatory changes that impact its business activities. These include the implementation of Basel 3.1 capital rules and increased RAF requirements, including updated MREL.

Principal risks and uncertainties (continued)

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.

Direction: unchanged
The Group continues to have a high level of interaction with UK regulators and continues to identify and respond effectively to all regulatory changes.

9.2 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.

Product design, underwriting, arrears and forbearance policies are misaligned to regulatory expectations which result in customers not being treated fairly, particularly those experiencing financial hardship or vulnerable customers, with the potential for reputational damage, redress and other regulatory actions.

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.

All Group entities utilise underwriting, 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 who 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 systematic failure to deliver fair customer outcomes. On an isolated basis, incidents can result in detriment due 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 prevent recurrence.

Direction: increased
The level of regulatory change continues to be high, but the Group has sufficient resources and capabilities to respond to any changes in an effective and efficient manner.

The Group continues to interact with regulatory bodies to take part in thematic reviews as required.

Identifying, monitoring and supporting vulnerable customers continues to be a key area of focus. Ongoing reviews of long-term arrears and forbearance customers, continues to ensure that payment terms still remain appropriate.

New consumer duty regulation will require dedicated resources to be deployed to ensure the Group continues to comply with emerging regulatory requirements.

Principal risks and uncertainties (continued)

10. Integration risk

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

Risk appetite statement: The Combination of OSB and CCFS is intended to enhance scale, bringing together resources and capabilities, and to explore further growth opportunities which deliver attractive long-term returns. The delivery against the integration strategy is framed within the Group's Purpose, Vision and Values and the broader risk appetite. The integration is deemed to be inherently low risk owing to the retention of core operating brands, similarities of business models, no large-scale IT integration or substantial migration of customer accounts.

Accordingly, the Board has a low risk appetite for adverse integration activity outcomes, which put the strategic rationale of the merger, the Group's Purpose, Vision and Values or broader risk appetite at risk. In the event that integration work streams are subject to delay or reprioritisation, the Board expects the rationale to be clearly understood and justified, with defined mitigating actions implemented, overseen by robust levels of governance.

A reduction in the oversight of business as usual operational performance, increased risk to operational resilience via the change process, unintended staff attrition or infrastructure failure, which in turn adversely impacts operating and financial performance.

Mitigation
Well established change and project management capabilities, coupled with continued close oversight from the Executive and Board Committees ensures risks continue to be mitigated effectively.

Independent assessment, monitoring and reporting is being undertaken by the Risk and Internal Audit functions.

Direction: decreased
This risk has decreased with key planned integration activity largely complete. To date the integration project has progressed as planned, and the governance, project management and control structures have operated effectively, with no material risks crystallising.

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

Political and macroeconomic uncertainty
The impact of new COVID-19 variants remains unknown. The Group's lending activity is predominantly focused in the United Kingdom (with a legacy back book of mortgages in the Channel Islands) and, as such, will be impacted by any risks emerging from changes in the macroeconomic environment. Rising inflation and interest rates pose risks to the Group's loan portfolio performance.

Mitigation
The Group has mature and 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 developed a suite of early warning indicators, which are closely monitored to identify changes in the economic environment. The Board and management review detailed portfolio reports to identify any changes in the Group's risk profile.

Principal risks and uncertainties (continued)

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. Climate change risks include:

- Physical risks which relate to specific weather events, such as storms and flooding, or to longer-term shifts in the climate, such as rising sea levels. These risks could include adverse movements in the value of certain properties that are in coastal and low lying areas, or located in areas prone to increased subsidence and heave.
- Transitional risks may arise from the adjustment towards a low-carbon economy, such as tightening energy efficiency standards for domestic and commercial buildings. These risks could include a potential adverse movement in the value of properties requiring substantial updates to meet future energy performance requirements.
- Reputational risk arising from a failure to meet changing societal, investor or regulatory demands.

Mitigation
During 2021 further progress was made in developing and embedding the Group's climate risk management approach within the Group's wider risk management arrangements. This included the development of a specific Climate Risk Management Framework, implementation of an ESG Committee and a dedicated Climate Risk Committee and ESG steering group.

Updated financial impact analysis was conducted as part of the ICAAP.

The Group invested a significant amount of time in developing the ESG and climate risk strategy and on development of TCFD.

The Group's Chief Risk Officers have designated senior management responsibility for the management of climate change risk.

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.

The Group also notes changes in industry best practice with respect to model risk management.

Mitigation
The Group has well-established model risk governance arrangements in place, with Board and Executive Committees in place to ensure robust oversight of the Group's model risk profile. Dedicated resources are in place to ensure model governance arrangements continue to meet any changes in industry and regulatory expectations.

Regulatory change
The Group remains subject to high levels of regulatory oversight and an extensive and broad ranging regulatory change agenda, including meeting the requirements of the RAF and OCIR. The Group is therefore required to respond to prudential and conduct related regulatory changes, taking part in thematic reviews as required. There is also uncertainty in relation to the regulatory landscape post the United Kingdom's exit from the European Union.

Mitigation
The Group has established horizon scanning capabilities, coupled with dedicated prudential and conduct regulatory experts in place to ensure the Group manages future regulatory changes effectively.

Principal risks and uncertainties (continued)

The Group also has strong relationships with regulatory bodies, and via membership of UK Finance inputs into upcoming regulatory consultations.

<u>Evolving working practices</u>
The COVID-19 pandemic has resulted in new ways of working which are impacting employee collaboration, the embedding of the Group's purpose, vision and values and labour market dynamics, which are making it more challenging to recruit and retain talent across certain positions.

Mitigation
The Group operated effectively during the COVID-19 lockdown periods, with the majority of staff working from home. A hybrid working model has been established which continues to work well.

Risk profile performance review

Credit risk
The Group's loan portfolios performed robustly during 2021. Prudent criteria for new originations delivered strong new business quality, whilst the back book also outperformed forecasted expectations. In particular, the Group saw lower than forecasted arrears levels and better than expected house price inflation.

The Group's prudent credit risk appetite ensures that loan portfolios are positioned to perform well in both benign and stress macroeconomic environments. This approach continued to serve the Group well during the ongoing uncertainty surrounding the potential impact that new variants of the COVID-19 virus can have on the UK's macroeconomic outlook.

Net loan book growth of 10% was delivered through controlled new lending in the Group's core Buy-to-Let and residential owner-occupier sub-segments, which more than offset reductions in bridging and second charge loan books. The Group also maintained tightened criteria in its more cyclical product lines. Mortgage lending balances against semi-commercial and commercial lending also reduced, as did the Group's development finance and funding lines sub-segments due to the tighter criteria deployed and strong repayment inflows.

Sensible new lending LTV criteria and favourable property price indexing resulted in the average weighted stock LTV for OSB and CCFS reducing during 2021 to 60% and 65%, respectively as at 31 December 2021 (31 December 2020: OSB 64% and CCFS 67%), which resulted in a prudent average weighted LTV profile of 62% for the Group.

A low level of arrears continued to be observed during 2021, with just 1.1% of net loan balances being greater than three months in arrears, which was broadly in line with 0.9% as at 31 December 2020. Increasing arrears levels were observed across a small number of portfolios as payment deferrals expired, however these increases were partially offset by improving performance across other loan portfolios.

Group and solo bank interest coverage ratios remained strong during 2021 at 199% for OSB and 188% for CCFS (2020: 201% OSB and 193% CCFS).

During 2021, forward-looking external credit bureau probability of default and customer indebtedness scores remained strong, with some reversion back to pre-pandemic levels as customers returned to spending, once lockdown restrictions were relaxed.

Risk profile performance review (continued)

Expected Credit Losses (ECL)
Balance sheet ECL reduced from £111.0m to £101.5m during the year, a reduction of £9.5m. Balances written off and other non-material items partially offset this movement to result in a full year statutory impairment credit of £4.4m representing a loan loss ratio of -2bps (2020: £71.0m charge, 38bps, respectively), with the provision release in 2021 primarily driven by forecasted improvements in the forward-looking macroeconomic outlook, and positive house price movements observed during the year.

A summary of the key impairment drivers during 2021 included:

a. Macroeconomic outlook – improvements in the economic outlook resulted in a £24.9m net release in provision levels. This net release resulted from a £12.3m provisions release resulting from positive residential house price growth, whilst a further £22.2m of provision was released through less severe forward looking macroeconomic scenarios being implemented. These positive movements were partially offset by a further 10% weighting being applied to the downside macroeconomic scenarios in Q4 2021, to reflect potential go forward risks surrounding rises in the cost of living due to rising inflation and interest rate levels, which increased provision levels by £9.6m.

b. Model enhancements – enhancements were made to the Group’s underlying models to ensure estimates continued to reflect actual credit profile performance. The cumulative impact of these enhancements contributed £4.3m to the total loan loss charge for 2021.

c. COVID-19 post model adjustments – during the pandemic the Group implemented a number of post model adjustments to ensure that idiosyncratic risks which were not captured by the IFRS 9 suite of models, were reflected in provision levels. An example of this was adjustments made to time to sale estimates to reflect the elongated legal process due to backlogs resulting from the COVID-19 possession moratorium. The cumulative impact of post model adjustments made during the year totalled £6.8m.

d. Credit profile provision charges - impairment charges driven by changes in the credit profile such as portfolio size, portfolio mix and changes in staging mix totalled £4.3m.

e. Other impairment charges incurred during the year related to balance sheet write offs and other immaterial combination related charges which cumulatively resulted in a £5.1m charge.

The Group continued to closely monitor impairment coverage levels in the year.

Impairment coverage levels remained above pre-pandemic levels, reflecting the continued uncertainty surrounding the macroeconomic outlook. The Group’s Risk function conducted top down analysis, assessing portfolio specific risks relating to rising cost of living and further interest rate rises, which confirmed the appropriateness of modelled provision levels including any post model adjustments.

Risk profile performance review (continued)

Coverage ratios table

As at 31 December 2021	Gross carrying amount £m	Expected credit losses £m	Coverage ratio
Stage 1	**18,188.4**	**12.1**	**0.07%**
Stage 2	**2,413.6**	**25.0**	**1.04%**
Stage 3 (+ POCI)	**562.1**	**64.4**	**11.46%**
Total	**21,164.1**	**101.5**	**0.48%**

As at 31 December 2020			
Stage 1	16,116.3	21.2	0.13%
Stage 2	2,691.0	31.0	1.15%
Stage 3 (+ POCI)	515.3	58.8	11.41%
Total	19,322.6	111.0	0.57%

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 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 adopted an approach which utilises four macroeconomic scenarios. These scenarios are provided by an industry leading economics advisory firm, that 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, 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 quarterly basis where an assessment is carried out by the Group’s Risk function to determine whether an update is required.

Risk profile performance review (continued)

On a periodic basis, the Group's Risk function and economic adviser provide the Group Risk and Audit Committees with an overview of recent economic performance, along with updated base, upside and two downside scenarios. The Risk function conducts a review of the scenarios comparing them to other economic forecasts, which results in a proposed course of action, which once approved is implemented.

iv. Changes made during 2021
Throughout 2021, the scenario suite was monitored and updated as government measures were updated and the impact of the pandemic evolved.

As the macroeconomic outlook improved during 2021, the Group's Risk and Audit Committees focused on assessing whether specific risks had been captured within externally provided forward-looking forecasts. Of particular focus were the risks relating to rising costs of living and subsequent rising interest rates to control inflation levels. The Board consequently decided to shift a 10% weighting from the upside scenario, to the downside and severe downside scenarios (5% applied to each) to acknowledge the increasing risks relating to the rising cost of living and potential impacts of rising interest rates not captured within the scenarios at the year end.

Details relating to the scenarios utilised to set the 31 December 2021 IFRS 9 provision levels are provided in the table below.

Forecast macroeconomic variables over a five-year period (includes average over five years and the peak to trough projections).

At 31 December 2021		Base case %	Upside scenario %	Downside scenario %	Severe downside scenario %
Weighting applied		40	20	28	12
Economic driver	**Measure**				
Gross Domestic Product (GDP)	5 year average (yearly GDP growth %)	3.3	4.0	2.3	1.7
	Cumulative growth/(fall) to peak/(trough) (%)	14.5	18.5	1.2	-0.4
House Price Index (HPI)	5 year average (yearly HPI growth %)	1.9	4.5	-2.9	-5.8
	Cumulative growth/(fall) to peak/(trough) (%)	-3.5	-1.0	-22.2	-33.9
Bank Base Rate (BBR)	5 year average (%)	0.3	1.1	-0.1	-0.3
	Cumulative growth/(fall) to peak/(trough) (%)	0.7	1.7	-0.4	-0.6
Unemployment Rate (UR)	5 year average (%)	4.2	3.7	6.1	6.5
	Cumulative growth/(fall) to peak/(trough) (%)	0.1	-1.2	1.8	2.1
Commercial Real Estate Index (CRE)	5 year average (yearly HPI growth %)	1.9	4.5	-2.9	-5.8
	Cumulative growth/(fall) to peak/(trough) (%)	-3.5	-1.0	-22.2	-33.9

Risk profile performance review (continued)

At 31 December 2020		Base case %	Upside scenario %	Downside scenario %	Severe downside scenario %
Weighting applied		40	30	23	7
Economic driver	**Measure**				
Gross Domestic Product (GDP)	5 year average (yearly GDP growth %)	3.2	3.6	2.6	2.2
	Cumulative growth/(fall) to peak/(trough) (%)	-5.8	-5.6	-6.7	-8.0
House Price Index (HPI)	5 year average (yearly HPI growth %)	2.1	3.6	-0.4	-2.2
	Cumulative growth/(fall) to peak/(trough) (%)	-8.5	-6.3	-18.9	-26.4
Bank Base Rate (BBR)	5 year average (%)	0.5	0.8	0.1	0.1
	Cumulative growth/(fall) to peak/(trough) (%)	1.4	1.7	0.0	0.0
Unemployment Rate (UR)	5 year average (%)	6.9	6.1	8.8	9.6
	Cumulative growth/(fall) to peak/(trough) (%)	3.7	3.1	5.8	6.5
Commercial Real Estate Index (CRE)	5 year average (yearly HPI growth %)	2.1	3.6	-0.4	-5.5
	Cumulative growth/(fall) to peak/(trough) (%)	-8.5	-6.3	-18.9	-40.0

Forbearance
Where a borrower experiences financial difficulty, 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 Group.

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 to see them through the period of financial stress.

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

- Interest rate reduction: the Group may, in certain circumstances, where the borrower meets the required eligibility criteria, transfer the mortgage 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.

Risk profile performance review (continued)

- 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: 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: where an arrangement is made with the borrower to defer payment or pay a lump sum at a later date.

- 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.

During 2021, the Group conducted a review of long term arrears cases with a particular focus on acquired second charge portfolios. This review resulted in the Group entering into forbearance arrangements with customers to ensure future repayment terms remained sustainable. As a result, the Group saw an increase in new forbearance measures granted within the year. Removing the impact of this review, forbearance levels remained broadly stable year on year.

Risk profile performance review (continued)

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 quarterly indexing, whereas residential properties are indexed against monthly House Price Index (HPI) data.

Solvency risk
The Group maintains 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, 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 Group 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.

During 2021, the Group proactively managed the balance sheet, whilst the PRA retained capital support measures detailed within the CRR 'Quick Fix' package implemented in 2020 which continued to support capital ratios. The counter-cyclical buffer remained at 0%, with the PRA signalling that it would increase to 1% from 13 December 2022 in line with the usual 12-month implementation period. If the UK economic recovery proceeds broadly in line with the PRA's projections and a material change in the macroeconomic outlook does not occur, the PRA expects to increase the rate to 2% in the second quarter of 2022, which would also be expected to take effect after the usual 12 month implementation period.

The OSB solo CET1 and total capital ratios under CRD IV increased to 19.4% and 21.3%, respectively as at 31 December 2021 (31 December 2020: 17.2% and 19.0%, respectively) demonstrating the strong organic capital generation capability of the business, the impact of the regulatory support measures and prudent management of the credit risk profile. Capital structure optimisation including the issuance of AT1 securities contributed to the OSB solo's strong capital ratios..

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's 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.

Risk profile performance review (continued)

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

In 2021, both Banks actively managed their respective liquidity and funding profiles within the confines of their risk appetites as set out in each Bank's ILAAP.

Funding and liquidity risk remained broadly stable throughout the year. Retail funding was generally raised at a low cost of funds due to increased available funds in the market. There was a short period in the late third quarter where retail funding was volatile as the Group funded the additional lending brought about by the stamp duty land tax changes. The Group refinanced TFS funding into TFSME and drew down further funds elongating the funding profile by a further four years ahead of the scheme's closure in October 2021.

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). As at 31 December 2021, OSB had a liquidity coverage ratio of 240% (2020: 254%) and CCFS 158% (2020: 146%), and the Group LCR was 198%, all significantly above regulatory requirements.

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 predominantly GBP denominated. The Group has some minor foreign exchange risk from funding the OSBI business. This is minimised by pre-funding 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.

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. 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.

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.

Risk profile performance review (continued)

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.

Due to the COVID-19 pandemic and the resulting high number of employees working and accessing systems from home, the risk of a cyber-attack has heightened. Whilst IT security risks continue to evolve, the level of maturity of the Group's controls and defences has significantly increased, supported by dedicated IT security experts. The Group's ongoing penetration testing continues to drive enhancements by identifying potential areas of risk.

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 incoming 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 sub-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 the Group's strategic or financial objectives at risk.

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 sub-segments where its experience and capabilities give it a clear competitive advantage.

The Group remains highly focused on delivering against its core strategic and financial objectives, against a highly competitive and uncertain backdrop.

Risk profile performance review (continued)

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 NPS provided by brokers.

Integration risk
Integration risk was identified as a principal risk for the duration of the integration programme, though the integration of the two entities was deemed inherently low risk owing to the similarity of the two business models, with the programme involving no material system or data migrations. The Board took the view that it has limited appetite for integration related risks and deemed it appropriate to identify, assess and manage integration risks in full compliance with the wider risk management framework and governance disciplines of the Group.

Integration risk relates to any risk which may result in the non-delivery of planned integration objectives with respect to desired strategic outcomes and costs and synergy performance targets. Additionally, integration risk is also assessed with respect to the other principal risks which may be adversely impacted as a consequence of the integration activities.

The integration programme and the underlying risk profile continued to perform in line with expectations with no material risk incidents or trends identified during the year. The integration programme did experience some level of disruption owing to the pandemic, but overall the programme has continued to progress as planned.

Non-Financial Information Statement
The requirements of sections 414CA and 414CB of the Companies Act 2006 relating to non-financial reporting are addressed in this section.

We have a range of policies and guidance that support key outcomes for all our stakeholders. Performance against our strategic non-financial performance measures is one indicator of the effectiveness and outcomes of policies and statements. The Group's policies and statements include, but are not limited to, those summarised in the table below. During the year, the policies of OSB and CCFS were reviewed and combined to apply at a Group level, as appropriate. The table provides cross references to where further information is included within the Annual Report.

Non-Financial Information Statement

Description of policies/statement	Due diligence undertaken	Outcomes/Impacts/Risks
Environmental matters		
Our **Environmental Policy** embodies our Stewardship value, outlining our commitment to acting with conscience and considering environmental factors at all times. The policy commits to reducing our environmental impact and to continually improving our environmental performance as an integral part of our business strategy. It seeks to ensure that we meet or exceed all relevant legal and regulatory environmental obligations.	The Environmental Policy was reviewed by the Environmental Working Group which focuses on: 1. assessing the impact of business activities and driving initiatives to minimise the consumption of energy, water, paper, office supplies, transportation, maintenance and cleaning; 2. aligning the environmental data and actions for all entities within the Group; 3. developing an environmental culture across the Group; and 4. Encouraging environmental responsibility with employees and within supply chains.	The focus of actions in 2021 has been on reducing the impact of our directly controlled operations, developing our environmental management systems maturity and sharing best practice across the Group. Key highlights for the year include: 1. transitioning our UK offices and branches where the Group had operational control to renewable electricity tariffs, reducing emissions significantly; 2. undertaken re-certification audits to ISO 14001:2015 Environmental management standard within our office buildings; 3. completed the rollout of video conferencing facilities within office buildings to reduce unnecessary business travel; 4. continued to introduce energy efficient solutions such as LED lighting as part of office refurbishments or reactive maintenance; 5. established the Environmental, Social and Governance Committee; and 6. initiated the development of a Net Zero plan. This plan will determine the objectives and targets over the near and long-term to achieve Net Zero emissions across Scope 1, Scope 2 and Scope 3 emissions.
Employee matters		
Group Flexible Working Policy sets out a range of flexible working arrangements and the approach that the Group will take in reviewing formal Flexible Working Requests from employees. Our **Group Homeworking Policy** is applicable to all UK employees and provides clarity in respect of the Group's approach regarding formal homeworking arrangements (i.e. following a Flexible Working Request being agreed), informal arrangements and enforced arrangements (e.g. COVID-19).	The Group Flexible Working Policy was drafted by HR Management and reviewed by the Group's Legal and Company Secretariat function. The policy was then endorsed by the Governance Forum and approved by the Group Executive Committee. A similar process, as outlined above, was followed for the Group Homeworking Policy. In addition, the policy was reviewed by the Health and Safety, Data Protection and Information Security. An external review was undertaken prior to the policy being approved.	We seek to accommodate, where possible, all requests for flexible working, with the majority of requests being agreed. The Group Homeworking Policy introduced an attestation for those working from home (formally, informally and on an enforced basis) with this requiring employees who work from home to confirm that they are aware of and can appropriately mitigate risks presented by working from home in respect of data protection, information security and health and safety.

Non-Financial Information Statement (continued)

Description of policies/statement	Due diligence undertaken	Outcomes/Impacts/Risks
Employee matters		
Our **Diversity and Inclusion Policy** sets out the Group's commitment to promoting equality of opportunity, providing an inclusive workplace and eliminating any unfair treatment or unlawful discrimination.	In order to ensure appropriate Board oversight of matters relating to diversity and inclusion, updates are regularly provided to the Group Nomination and Governance Committee. In addition, the Group General Counsel and Company Secretary, who is the Executive responsible for diversity and inclusion, issues regular updates to all employees in order to drive awareness of ongoing internal initiatives and progress relating to diversity and inclusion. An external adviser, Legal and HR were involved in drafting the new policy, which has been through the governance process and approved by the Group Nomination and Governance Committee.	Our Group-wide Diversity and Inclusion Working Group has progressed a number of initiatives and activities, some of which supported gender-related focus areas, such as progressing towards our published Women in Finance Charter target and reducing our gender pay gap. The Diversity and Inclusion Working Group has ensured a far broader focus on other areas of diversity, which contributed to the Group achieving a silver award as a result of a Talent, Inclusion and Diversity Evaluation (TIDE) undertaken by the Employers Network for Equality and Inclusion (ENEI).
Our **Whistleblowing Policy – Raising a Concern** aims to encourage all employees, and others who have serious concerns about wrongdoing in the workplace, to raise their concerns at the earliest opportunity. The Group's whistleblowing arrangements endeavour to manage whistleblowing cases fairly, consistently and in a way which protects individual whistleblowers.	A Whistleblowing Report is regularly presented to the Group Audit Committee and an annual report is presented to the Board. The Chair of the Group Audit Committee is the designated Whistleblowers' Champion.	The Group Audit Committee receives a whistleblowing report quarterly and is responsible for overseeing the effective operation of the policy; this aims to mitigate the risk of undetected wrongdoing and unwanted exposure for the Group.
Our **Group Health and Safety Policy** outlines our approach and responsibilities under statutory legislation. We recognise our duty and responsibility and the Health and Safety Policy ensures that the Group complies with legislation to protect its employees and customers, and provides a suitable and safe environment for employees, customers and anyone affected by the Group's operations.	The management of COVID-19 and associated risk assessment is now subject to regular review with participation from Property Services, Operational Resilience and the appointed third party Health and Safety specialists. The Health and Safety Working Group meet twice per annum to review the objectives of the Health and Safety Policy. Any relevant matters arising from these meetings are reported to Operational Risk. An accountable Executive is responsible for the Health and Safety Policy and a third party adviser reviews it annually prior to it being approved by the Board.	A number of COVID-19 measures remain in place in our offices and branches, proportionate to the level of risk determined through risk assessment. Health and safety statistics are provided on a dashboard shared monthly with the Board along with an annual Health and Safety Report. Risk assessments are completed across the Group annually. Annual health and safety training is completed by all employees. Health and Safety awareness in the workplace has increased with updates provided on the Group intranet to reduce the possibility of injury to employees and customers.

Non-Financial Information Statement (continued)

Description of policies/statement	Due diligence undertaken	Outcomes/Impacts/Risks
Social matters		
Our **Modern Slavery Statement and Vendor Code of Conduct and Ethics** outlines the measures we have taken to combat the risks of modern slavery and human trafficking in our businesses and supply chains.	The Modern Slavery Statement is updated in line with the requirements. In addition, as part of an annual review, the Modern Slavery Working Group updated its Vendor Code of Conduct and Ethics. The Group's Executive Committee has approved the Code which is currently being issued to all third party service suppliers. The Code includes provisions on the Group's Values, Diversity and Inclusion and Human Rights. It also provides details of breach reporting procedures. We perform relevant checks via the Organisation for Economic Co-operation and Development (OECD) Watch at the onboarding stage and, where required, as part of our ongoing due diligence checks. In addition, our standard contract terms include reference to the required modern slavery or relevant contract terms. All employees are required to complete mandatory training to raise awareness.	The largest risks to the Group are its supply chain, its Indian operations and employment processes. To sufficiently mitigate the risks, our Vendor Management team includes specific testing of key controls within the Vendor Management Risk Assessment Matrix in line with the Vendor Management Framework. The Group ensures that appropriate contractual wording is included in its recruitment-related contractual documentation where appropriate. There are breach reporting procedures in place and there were no reportable incidents in this financial year.
Our **Group Vendor Management and Outsourcing Policy** sets out the core requirements which we must meet and provides a structure to efficiently manage potential and contracted third-party relationships ensuring the right level of engagement and due diligence, in compliance with our regulatory obligations.	All third parties are classified according to the nature of the services provided and the associated risk. Due diligence relating to issues such as data security, financial stability, legal and reputational risks is undertaken when onboarding, monitoring and exiting all third parties. The monthly Vendor Management Committee reviews compliance with our Group Vendor Management and Outsourcing Policy and the performance of our key third parties. There is regular reporting to the Group Risk Committee and an annual assurance update is provided to the Board.	We recognise the importance of building strong relationships and governance with our third parties and of the possible reputational risk this can impose. We actively monitor our third parties to ensure they are adhering to our requirements, so that we can in turn meet our obligations to stakeholders.

Non-Financial Information Statement (continued)

Description of policies/statement	Due diligence undertaken	Outcomes/Impacts/Risks
Social matters		
Our **Lending Policy** sets out the parameters within which we are willing to lend money responsibly within our set criteria and credit risk appetite.	All changes to the Lending Policy require approval from the Group Credit Committee, with material changes escalated to the Group Risk Committee. As a second line of defence, the Credit Quality Assurance process monitors adherence to the policy through a risk-based sampling approach. System parameters and underwriting processes act as an additional control to ensure lending parameters are not breached.	The Group Risk Committee challenges how the Lending Policy is applied to ensure that the right outcomes are achieved. The credit risk appetite of the Group monitors the performance and make-up of the portfolio relative to pre-agreed trigger limits and therefore is a measure of the overall performance of the Lending Policy. Non-adherence to the credit risk appetite could lead to business being written outside the agreed risk appetite.
Our **Group Complaint Handling Policy** outlines, at a high level, our regulatory expectations for complaint handling from a customer centric perspective.	We investigate complaints competently, diligently and impartially, supported by appropriately trained employees. Our Complaints processes are designed to be easily accessible by all customers and ensure that those in vulnerable circumstances experience the same opportunities to complain and a service that is tailored to individual needs. Root cause analysis is used to identify and solve underlying issues rather than apply quick fixes. Complaint performance forms part of management information provided to Management Committees and to the Board. Analysis of complaints outcomes and potential business and customer impact is an integral part of the Group's processes.	Complaints remained aligned to the level of business activity. Complaints are also a component of Executive bonus scheme metrics affecting remuneration outcomes. Complaints may be an early warning of not treating customers fairly, which has regulatory consequences for the Group.
Our **Group Customer Vulnerability Policy** sets the standards and approach for the identification and treatment of vulnerable customers and provides guidance to all areas of the Group to ensure vulnerable customers consistently receive fair outcomes.	Regular case study reviews through the Vulnerable Customer Review Committee ensure best practice processes across the different customer journeys are monitored and shared with representatives from differing customer-facing and second line functions. In line with policy the Compliance function conducts risk-based second line assurance reviews across both vulnerable customer and other operational processes, in accordance with its Annual Compliance Assurance Plan, should the need arise.	An enhanced training programme has been developed to focus on more complex customer scenarios including identifying vulnerable customers and how best to serve them and their changing needs. There is a potential impact to our reputation and regulatory risks for not treating customers fairly. Customer complaint data shows there were no systemic issues in vulnerability processes and outcomes for the year.
Our **Group Data Protection Policy** ensures that there are adequate policies and procedures in place to enable compliance with the GDPR and the Data Protection Act 2018; and confirms the necessary steps that should be taken when processing personal data.	The Group Data Protection Officer reports twice each year, to the Group Executive Committee and the Board, regarding compliance with the Data Protection Policy and reports on any data incidents and data subject access requests.	The privacy and security of personal information is respected and protected. We regard sound privacy practices as a key element of corporate governance and accountability. Non-compliance would expose the Group to the potential breach of GDPR provisions.

Non-Financial Information Statement (continued)

Description of policies/statement	Due diligence undertaken	Outcomes/Impacts/Risks
Social matters		
Our **Group Arrears Management and Forbearance Policy** ensures that we address the need for internal systems and processes to treat customers in financial difficulties fairly, including being proactive with customers who display characteristics of being on the cusp of financial difficulty.	As the second line of defence, the Compliance function reviewed customer journeys; these reviews are risk-based and look at customer outcomes across the collections and litigation processes to ensure customers are dealt with in an effective and fair manner. The Compliance function conducts second line thematic reviews across collection and litigation processes, should the need arise.	Our arrears rates are monitored through the Group Credit Committee on a monthly basis to ensure senior management oversight of arrears trends. There is credit risk associated with credit losses following the ineffective management of customer accounts. This has been an area of focus for the Board and Executives and adjustments were made to accommodate payment deferral requests, as a result of COVID-19. To ensure that those customers who had been adversely impacted by COVID-19 were supported with regards to the management of their mortgage payments, a clear set of internal policies and procedures were in place to effectively manage all forbearance/payment deferral requests. The changes were put in place in line with the regulatory timelines noted in the FCA guidance and in line with that guidance, any customers requiring further support outside the COVID-19 guidance period are supported utilising the standard policy toolkit which is applied in accordance with all regulator/Mortgage Conduct of Business (MCOB) rules requirements.
Our Anti-Bribery and Corruption policies outline our stance to conduct all of our business in an honest and ethical manner. We take a zero-tolerance approach to bribery and corruption and are committed to acting professionally, fairly and with integrity in all of our business dealings and relationships. The purpose of the policies are to provide employees and contractors with clear guidelines to ensure that we conduct our activity in an ethical and appropriate manner including complying with the laws and regulations of each jurisdiction in which we operate. The policy forms an integral part of the Group Financial Crime Risk Management Framework.	The policies are subject to an annual review process with approval provided by the Group Audit Committee. Anti-Bribery and Corruption training forms part of the wider Financial Crime training package that is mandatory for each employee to complete on an annual basis. In addition, the requirements set out in the Anti-Bribery and Corruption policies are incorporated into the Group's Vendor Management and Outsourcing Policy. Gifts, hospitality and donations are closely monitored through a log maintained by Risk and Compliance in accordance with our associated policies and procedures.	No material issues or breaches have arisen from the Group's adherence to the existing Anti-Bribery and Corruption policies and processes. We recognise that there may be instances where an employee may be exposed to the risk of bribery or corruption and as result, provide numerous channels in which an employee can report such an event, including via the whistleblowing process. During the tender process for a new supplier, all employees involved in the process must ensure compliance with the Anti-Bribery and Corruption policies and requirements. This approach also applies to the Conflict of Interest Policy.

Non-Financial Information Statement (continued)

Description of policies/statement	Due diligence undertaken	Outcomes/Impacts/Risks
Social matters		
Our **Conflict of Interest Policy** aims to identify, maintain and operate effective organisational and administrative arrangements to identify and take all reasonable steps in order to avoid conflicts where possible.	The policy is subject to an annual review process with approval provided by the Group Executive Committee. Conflicts of interest training forms part of the wider Financial Crime training package that is mandatory for each employee to complete on an annual basis. Conflicts of interest disclosures are typically made as part of the recruitment process, as part of the annual attestation process and/or when there is a change to circumstances, such as a new potential conflict arising. In addition, conflicts of interest requirements are incorporated into the Group's Vendor Management and Outsourcing Policy. Group compliance maintains the conflicts of interest register, which is reviewed quarterly by the Group Conduct Risk Management Committee and escalated to the Group Risk Management Committee, as required. In addition, the Group Nomination and Governance Committee reviews Executive and Director conflicts.	No material issues or breaches have arisen from the Group's adherence to the existing Conflicts of Interest Policy and processes. As a financial services provider, we face the risk of actual and potential conflicts of interest periodically. We recognise that there may be instances where conflicts of interest are unavoidable and that a conflict may exist even if no unethical or improper act or outcome results from it. Where it is not possible to avoid a potential conflict of interest, we are committed to ensuring that any conflicts of interest that arise are managed fairly and in the best interests of our customers.

Non-Financial Information Statement (continued)

Description of policies/statement	Due diligence undertaken	Outcomes/Impacts/Risks
Social matters		
Our **Fraud Policy** outlines our duty to comply with prevailing legal and regulatory requirements and to have appropriate systems and controls in place to mitigate the risk of fraud. This includes ensuring appropriate monitoring and escalation procedures are in place and are operating effectively. Our strategy for managing fraud risk is to adopt a zero-tolerance approach towards any form of fraud; however, we accept that incidents of fraud will occur as a result of doing business. The purpose of the policy and supporting procedures is to provide a consistent approach throughout the Group to the prevention, detection and investigation of fraud. The policy forms an integral part of the Group Financial Crime Framework.	The Policy is subject to an annual review with approval provided by the Group Audit Committee. Fraud awareness training forms part of the wider Financial Crime training package that is mandatory for each employee to complete on an annual basis. External stakeholders, customers, clients and relevant third parties are made aware of our robust stance towards fraud management through literature or similar communication channels. All potential fraud incidents are investigated by a dedicated Group Financial Crime team that is specifically trained in identifying and reporting fraudulent behaviour. The Group will seek to recover all losses arising from fraud-related activities and to take necessary action, as appropriate. The Group Conduct Risk Management Committee, Group Risk Management Committee and the Group Risk Committee regularly review and monitor fraud reporting.	During the first half of 2021, following the discovery of fraudulent activity by a third party on a funding line provided by the Group and secured against lease receivables and the underlying hard assets, the Group commissioned an external review of processes and controls in its funding lines business. The review confirmed that it was an isolated incident and the majority of recommended enhancements to processes and controls have now been implemented and the remainder will be made before the end of the year. The £20.0m impairment provision taken in 2020 against the potential fraud has increased to £22.0m. The funding lines business remains primarily property related and the Group does not intend to add any new non-property-related funding lines in the future. As a financial services provider, we recognise that we are inherently exposed to the risk of fraud and that losses may occur as a result of doing business. In order to deter, detect and disrupt those who would seek to use the Group to facilitate any form of financial crime we have appropriate systems and controls in place. Key risk and performance indicators are agreed by senior management and reviewed on a regular basis. Management information on fraud-related activity is presented on a regular basis to senior management in order to provide visibility of our fraud exposure and any associated loss.

Non-Financial Information Statement (continued)

Description of policies/statement	Due diligence undertaken	Outcomes/Impacts/Risks
Social matters		
Our **Anti-Money Laundering and Counter Terrorist Financing Policy** seeks to explain the responsibility of senior managers, the Money Laundering and Reporting Officer (MLRO) and all employees. The policy requires that the highest ethical standards are met and requires all employees to act with integrity at all times. We have no appetite for breaching legislation or regulation regarding anti-money laundering or counter terrorist financing. The policy provides a consistent approach to the deterrence and detection of those suspected of laundering the proceeds of crime or those involved in the funding of terrorism and the relevant disclosure to the necessary authorities. The policy forms an integral part of the Group Financial Crime Risk Management Framework.	The policy is subject to an annual review process with approval provided by the Group Audit Committee. Anti-money laundering and counter terrorist financing forms part of the wider Financial Crime training package that is mandatory for each employee to complete on an annual basis. We have documented processes and procedures in place to identify the Group's customers prior to entering into a relationship. Systems and controls have been adopted to highlight activity deemed to be suspicious. All suspicious activity is investigated by a dedicated Financial Crime team who are specifically trained in identifying and reporting suspicious behaviour.	No material issues or breaches have arisen from the Group's adherence to the existing Anti-Money Laundering and Counter Terrorist Financing Policy and processes. As a financial services provider, the Group recognises that it is inherently exposed to the risk of financial crime. Key risk and performance indicators are agreed by senior management and reviewed on a regular basis. Management information on financial crime related activity is presented to senior management in order to provide visibility of our exposure to financial crime.
Our **Group Operational Resilience Policy** documents the approach and expectations of the Group in establishing and enhancing its levels of resilience. It also references how the Group complies with the Financial Conduct Authority and Prudential Regulation Authority policies on Operational Resilience which were first published in March 2021. These policies require all firms to adopt a proactive approach to preventing a disruption to its services, whilst also ensuring that sufficient planning and testing is established in order to respond effectively to a disruptive incident. Along with the wider industry, the Group has made excellent progress in implementing the requirements of the two regulatory policies.	The Group's ongoing response to COVID-19 demonstrates how it can respond rapidly and effectively to a severe threat to the services that it provides to its customers, although we recognise that a pandemic is just one of a number of possible threats to the disruption of service. The Group is well placed to respond to threats that occur suddenly and which may last for an extended period. An Operational Resilience Simulation exercise was conducted in January 2022.	The Group continues to invest in improving its infrastructure and expects to deliver a number of enhancements in 2022 and beyond. Whilst these changes are designed to improve its services and efficiency, we recognise the implementation risks associated with delivering significant change programmes and are ensuring that operational resilience remains a key consideration when setting the change management agenda.

Description of the business model

A description of the business model is set out on page 3.

Principal risks and uncertainties

A description of the principal risks and uncertainties is set out on pages 41 to 53.

This Strategic report was approved by the Board and signed on its behalf by:

Jason Elphick
General Counsel and Company Secretary
31 March 2022

The Directors present their Report, together with the audited Financial Statements and Auditor's Report, for the year ended 31 December 2021.

Information presented in other sections

Information relating to future developments, principal risks and uncertainties and engagement with suppliers, customers and others has been included in the Strategic Report.

Information on financial instruments including financial risk management objectives and policies including, the policy for hedging the exposure of the Group to price risk, credit risk, liquidity risk and cash flow risk can be found in the Risk review on pages 32 to 40.

Details on how the Company has complied with section 172 can be found throughout the Strategic and Directors' Reports and on pages 13 and 14.

Results

The results for the year are set out in the Statement of Comprehensive Income on page 94.

Directors

The Directors who served during the year and to the date of this report were as follows:

Graham Allatt
Andrew Golding
Noël Harwerth
Sarah Hedger
Rajan Kapoor
Mary McNamara
April Talintyre
Simon Walker (appointed on 4 January 2022)
David Weymouth

None of the Directors had any interest either during or at the end of the year in any material contract or arrangement with the Company.

Directors' indemnities

The Articles provide, subject to the provisions of UK legislation, an indemnity for Directors and Officers of the Company in respect of liabilities they may incur in the discharge of their duties or in the exercise of their powers, including any liabilities relating to the defence of any proceedings brought against them, which relate to anything done or omitted, or alleged to have been done or omitted, by them as Officers or employees of the Company. Directors' and Officers' liability insurance cover is in place in respect of all Directors.

Equal opportunities

The Group is committed to applying its Diversity and Inclusion Policy at all stages of recruitment and selection. Short-listing, interviewing and selection will always be carried out without regard to gender, gender reassignment, sexual orientation, marital or civil partnership status, colour, race, nationality, ethnic or national origins, religion or belief, age, pregnancy or maternity leave or trade union membership. Any candidate with a disability will not be excluded unless it is clear that the candidate is unable to perform a duty that is intrinsic to the role, having taken into account reasonable adjustments. Reasonable adjustments to the recruitment process will be made to ensure that no applicant is disadvantaged because of his/her disability. Line Managers conducting recruitment interviews will ensure that the questions they ask job applicants are not in any way discriminatory or unnecessarily intrusive. This commitment also applies to existing employees, with the necessary adjustments made, where there is a change in circumstances.

Employee engagement

Employees are kept informed of developments within the business and in respect of their employment through a variety of means, such as employee meetings, briefings and the intranet. Employee involvement is encouraged and views and suggestions are taken into account when planning new products and projects.

The OSBG Sharesave 'save as you earn' Scheme is a Group wide 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 (options granted prior to 2021 have a lower limit of £5 and only a three-year scheme will be offered from 2021 onwards). The Sharesave Scheme has been in operation since June 2014 and options are granted annually, with the exercise price set at a 20% discount of the share price on the date of grant.

A Workforce Advisory Forum (known as OneVoice) is in place to gather the views of the workforce to enable the Board and Group Executive Committee to consider a broadly representative range of stakeholder perspectives to guide strategic decisions for the future of the Company and its subsidiaries. OneVoice consists of volunteer representatives (of which there are 30 in total) from each of the various business areas and locations, as well as permanent members consisting of a designated NED, Mary McNamara; a member of the Group Executive Committee, Jason Elphick; and a representative from HR Management. Other NEDs and members of the Group Executive Committee are invited to attend meetings throughout the year.

Members of the Board are keen to engage with our employees across all locations and find the experience of visiting our branches and offices within the UK and India invaluable; however, due to travel restrictions in place throughout 2021 as a result of the ongoing impact of COVID-19, these visits have not been physically possible for most of the year. It is hoped that once restrictions are lifted and, provided it is safe to do so, visits to branches and offices will resume.

During 2021, four OneVoice meetings were held. In advance of each meeting, employee representatives are encouraged to engage with employees within their nominated business areas and across all Group locations to identify topics impacting the workforce, which it is felt should be brought to the attention of the Board and Group Executive Committee. A number of items were considered and discussed by OneVoice, including the 2021 Financial Services Culture Board survey results and COVID-19, as well as topics relating to ESG matters such as culture, diversity and inclusion, diversity and recruitment at senior levels, general well-being and mental health first aiders within the workplace, governance of pay within the Group and return to office arrangements. The permanent members of OneVoice were particularly interested in feedback from the workforce on employee morale, employee engagement and the new Stewardship value.

The Group is committed to diversity and to making sure everyone in our business feels included. The Diversity and Inclusion Working Group continued to develop the Group's Diversity and Inclusion Strategy in line with the Respect Others value throughout 2021. The Diversity and Inclusion Working Group brings together a broad mix of employees (26 members) from across the UK business, as well as representation from OSB India, to drive our diversity and inclusion agenda to appreciate differences in age, gender, ethnicity, religion, disability, sexual orientation, education, socio-economic background and national origin and ensure that all employees are treated fairly, with respect and given equal opportunities. Jason Elphick, our Diversity Champion, along with the Diversity and Inclusion Working Group, hosted a number of activities throughout the year including International Women's Day, attended by our SID (Noël Harwerth) and Group Chief Internal Auditor (Lisa Odendaal), menopause training, mental health first aid and a Q&A session during National Inclusion Week with attendance from the Chair of the Group Audit Committee, Rajan Kapoor and Chair of the Group Remuneration Committee and designated NED for employee matters, Mary McNamara. Members and colleagues from the working group also shared their experiences and reflected on what it meant to them to be #unitedforinclusion, the theme for National Inclusion Week in 2021.

Political donations

Neither the Company nor any of its subsidiaries made any political donations this year.

Going concern statement

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

In assessing whether the going concern basis is appropriate, 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. These forecasts have been subject to sensitivity tests, including stress scenarios, which have been compared to the latest economic scenarios provided by the Group's external economic advisors, as well as reverse stress tests. In making the assessment the Board has considered all principal and emerging risks including climate risk where the risk is likely to emerge outside of the going concern assessment horizon.

The assessments include the following:

• Financial and capital forecasts were prepared under stress scenarios which were assessed against the latest economic forecasts provided by the Group's external economic advisors. Reverse stress tests were also run, to assess what combinations of HPI and unemployment variables would result in the Group utilising its regulatory capital buffers in full and breaching the Group's minimum prudential requirements, along with analysis and insight from the Group's ICAAP. The Directors assessed the likelihood of those reverse stress scenarios occurring within the next 12 months and concluded that the likelihood is remote.

• The latest liquidity and contingent liquidity positions and forecasts were assessed against the ILAAP stress scenarios.

• The Group continues to assess the resilience of its business operating model and supporting infrastructure in the context of the emerging economic, business and regulatory environment. The key areas of focus continue to be on the provision of critical services to customers, employee health and safety and evolving governmental policies and guidelines. The Group continues to invest in its information technology platforms to support its employees with flexible working from office or homeworking across all locations within a hybrid working model. The Group's response to the COVID-19 pandemic demonstrated the inherent resilience of the Group's critical processes and infrastructure. It also demonstrated the necessary agility in responding to changing operational demands. The operational dependencies on third party vendors and outsourcing arrangements continue to be an important area of focus.

The Group's financial projections demonstrate that the Group has sufficient capital and liquidity to continue to meet its regulatory requirements as set out by the 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.

The role and structure of the Board

The Board of Directors (the Board) is responsible for the long-term success of the Company and provides leadership to the Group. The Board focuses on setting strategy and monitoring performance and ensures that the necessary financial and human resources are in place to enable the Company to meet its objectives.

The Board is responsible for setting the tone from the top in relation to conduct, culture and values, for ensuring continuing commitment to treating customers fairly, carrying out business honestly and openly and preventing bribery, corruption, fraud or the facilitation of tax evasion.

The Board operates in accordance with the Company's Articles of Association (the Articles) and its own written terms of reference. The Board has established an Audit and a Risk Committee, which each have their own terms of reference and are reviewed at least annually. Details of each Committee's activities during 2021 are shown below.

The Board retains specific powers in relation to the approval of the Group's strategic aims, policies and other matters, which must be approved by it under legislation or the Articles. These powers are set out in the Board's written terms of reference and Matters Reserved to the Board which are reviewed at least annually.

The Board met 15 times during 2021. All Directors are expected to attend all meetings of the Board, any Committees of which they are members and to devote sufficient time to the Company's affairs to fulfil their duties as Directors. Where Directors are unable to attend a meeting, they are encouraged to submit any comments on the meeting materials in advance to the Chair, to ensure that their views are recorded and taken into account during the meeting. Graham Allatt and Noël Harwerth provided comments for the meetings they were not able to attend.

Roles of the Chairman, Chief Executive Officer and Senior Independent Director

The roles of Chairman and Chief Executive Officer (CEO) are distinct and held by different people. There is a clear division of responsibilities, which has been agreed by the Board and is formalised in a schedule of responsibilities for each.

The Chairman, David Weymouth, is responsible for setting the 'tone at the top' and ensuring that the Board has the right mix of skills, experience and development so that it can focus on the key issues affecting the business and for leading the Board and ensuring it acts effectively. Andy Golding, as CEO, has overall responsibility for managing the Group and implementing the strategies and policies agreed by the Board.

Noël Harwerth is the Senior Independent Director (SID). The SID's role is to act as a sounding board for the Chairman and to support him in the delivery of his objectives. This includes ensuring that the views of all other Directors are communicated to, and given due consideration by, the Chairman.

Balance and independence

The effectiveness of the Board and its Committees in discharging their duties is essential for the success of the Company. In order to operate effectively, the Board and its Committees comprise a balance of skills, experience, independence and knowledge to encourage constructive debate and challenge to the decision-making process.

Audit Committee

The primary role of the Committee is to assist the Board in overseeing the systems of internal control and external financial reporting. The Committee's specific responsibilities are set out in its terms of reference, which are reviewed at least annually. The Audit Committee is chaired by Rajan Kapoor, the other members are Graham Allatt, Noël Harwerth, Sarah Hedger and Simon Walker who joined the Board on 4 January 2022. The Committee met eight times during 2021; all members attended these meetings, except Noel Harwerth who attended seven times. The Committee considered, on behalf of the Board, whether the 2022 Annual Report and Accounts taken as a whole are fair, balanced and understandable and, whether the disclosures are appropriate. Further details on the activities of the Committee are set out in the Group's annual report and accounts.

Risk Committee

The primary objective of the Committee is to support the Board in discharging its risk oversight and governance responsibilities. The Committee's specific responsibilities are set out in its terms of reference, which are reviewed at least annually. The Committee is chaired by Graham Allatt, the other members are Noël Harwerth, Rajan Kapoor and Simon Walker who joined the Board on 4 January 2022. The Committee met seven times during 2021. All members attended these meetings. Further details on the activities of the Committee are set out in the Group's annual report and accounts.

Environment

Environmental matters are considered in the Strategic report above.

Internal Control

The Board retains ultimate responsibility for setting the Company's risk appetite and ensuring that there is an effective Risk Management Framework to maintain levels of risk within the risk appetite. The Board regularly reviews its procedures for identifying, evaluating and managing risk, acknowledging that a sound system of internal control should be designed to manage rather than eliminate the risk of failure to achieve business objectives.

Key information in respect of the Group's SRMF and objectives and processes for mitigating risks, including liquidity risk, are set out in detail on pages 35 to 36.

Auditor

Deloitte LLP was appointed as auditor for the year and has indicated its willingness to continue in office as auditor. A resolution to re-appoint Deloitte as external auditor will be presented at the Company's Annual General Meeting.

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

- 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 and Directors' Report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.
- so far as the Director is aware, there is no relevant audit information of which the Company's auditor is unaware; and
- the Director has taken all the steps that 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 auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

This report was approved by the Board on 31 March 2022 and signed on its behalf by:

Jason Elphick
Group General Counsel and Company Secretary
OneSavings Bank plc
Registered number: 07312896

OneSavings Bank plc
Statement of Directors' Responsibilities in respect of the Strategic Report, the Directors' Report and the Financial Statements

For the Year Ended 31 December 2021

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 United Kingdom (IFRSs as adopted by the UK) 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 UK;
- 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 the Group enabling them to ensure that the 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, 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.

Approved by the Board and signed on its behalf by:

Jason Elphick
General Counsel and Company Secretary
31 March 2022

Independent Auditor’s Report to the Members of OneSavings Bank plc

For the Year Ended 31 December 2021

Report on the audit of the Financial Statements

1. Opinion

In our opinion:

- the Financial Statements of OneSavings Bank plc (the ‘parent company’) and its subsidiaries (the ‘Group’) give a true and fair view of the state of the Group’s and of the parent company’s affairs as at 31 December 2021 and of the Group’s profit for the year then ended;
- the Group Financial Statements have been properly prepared in accordance with United Kingdom adopted international accounting standards;
- the parent company Financial Statements have been properly prepared in accordance with United Kingdom adopted international accounting standards and as applied in accordance with the provisions of the Companies Act 2006; and
- the Financial Statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the Financial Statements which comprise:

- the consolidated statement of comprehensive income;
- the consolidated and parent company statements of financial position;
- the consolidated and parent company statements of changes in equity;
- the consolidated and parent company statements of cash flows; and
- the related notes 1 to 53.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom adopted international accounting standards and, as regards the parent company Financial Statements, as applied in accordance with the provisions of the Companies Act 2006.

2. Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor’s responsibilities for the audit of the Financial Statements section of our report.

We are independent of the Group and the parent company in accordance with the ethical requirements that are relevant to our audit of the Financial Statements in the UK, including the Financial Reporting Council’s (the ‘FRC’s’) Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We confirm that we have not provided any non-audit services prohibited by the FRC’s Ethical Standard to the Group or the parent company.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

3. Summary of our audit approach

Key audit matters

The key audit matters that we identified in the current year were:

- loan impairment provisions; and
- effective interest rate income recognition.

Within this report, key audit matters are identified as follows:

Newly identified

Increased level of risk

Similar level of risk

Decreased level of risk

Materiality

The materiality that we used for the Group Financial Statements was £20m which was determined by reference to profit before tax and net assets.

Scoping

Our Group audit scope focused primarily on OneSavings Bank plc and the two main subsidiary entities, being the banking entity Charter Court Financial Services Limited, as well as Interbay ML Ltd, another significant lending subsidiary. The Company and two subsidiaries were significant components and subject to a full scope audit. They represent 98% (2020: 96%) of the Group's interest receivable and similar income, 96% (2020: 98%) of profit before tax, 97% (2020: 98%) of total assets and 99% (2020: 98%) of total liabilities.

Significant changes in our approach

In the prior year, our key audit matter in respect of loan impairment provisions included the PD related to borrowers who had taken advantage of payment holidays and the Group's newly implemented approach to indexing OneSavings Bank's commercial properties. As the payment holiday scheme has now ended and the Group's approach to indexing OneSavings Bank's commercial properties is established, these areas no longer feature in our loan impairment provisions key audit matter.

4. Conclusions relating to going concern

In auditing the Financial Statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the Financial Statements is appropriate.

Our evaluation of the directors' assessment of the Group's and parent company's ability to continue to adopt the going concern basis of accounting included:

- We obtained and read management's going concern assessment, which included consideration of the Group's operational resilience, in order to understand, challenge and evidence the key judgements made by management;
- We obtained an understanding of relevant controls around management's going concern assessment;
- We obtained management's income statement, balance sheet and capital and liquidity forecasts and challenged key assumptions and their projected impact on capital and liquidity ratios, particularly with respect to loan book growth and potential credit losses;
- Supported by our in-house prudential risk specialists, we read the most recent ICAAP and ILAAP submissions, assessed management's capital and liquidity projections, assessed the results of management's capital reverse stress testing, challenged key assumptions and methods used in the capital reverse stress testing model and tested the mechanical accuracy of the capital reverse stress testing model;
- We read correspondence with regulators to understand the capital and liquidity requirements imposed by the Group's regulators, and evidence any changes to those requirements;
- We met with the Group's lead regulators, the Prudential Regulation Authority and the Financial Conduct Authority, and discussed their views on existing and emerging risks to the Group and we considered whether these were reflected appropriately in management's forecasts and stress tests;
- We assessed the historical accuracy of forecasts prepared by management; and
- We assessed the appropriateness of the disclosures made in the Financial Statements in view of the FRC guidance.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Group's and parent company's ability to continue as a going concern for a period of at least twelve months from when the Financial Statements are authorised for issue.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

5. Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the Financial Statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team.

These matters were addressed in the context of our audit of the Financial Statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

5.1. Loan impairment provisions

Refer to the judgements in applying accounting policies and critical accounting estimates on page 117 and Note 22 on page 141.

Key audit matter description	IFRS 9 requires loan impairment provisions to be recognised on an expected credit loss (ECL) basis. The estimation of ECL provisions in the Group's loan portfolios is inherently uncertain and requires management to make significant judgements and estimates. ECL provisions as at 31 December 2021 were £101.5m (2020: £111.0m), which represented 0.48% (2020: 0.58%) of loans and advances to customers. ECLs are calculated both for individually significant loans and collectively on a portfolio basis which require the use of statistical models incorporating loss data and assumptions on the recoverability of customers' outstanding balances. The uncertain economic environment continues to increase the complexity in estimating ECLs, particularly with regards to determining appropriate forward looking macroeconomic scenarios and appropriately identifying significant increases in credit risk. The ECL provision requires management to make significant judgements and estimates. We therefore consider this to be a key audit matter due to the risk of fraud or error in respect of the Group's ECL provision. We identified three specific areas in relation to the ECL that require significant management judgement or relate to assumptions to which the overall ECL provision is particularly sensitive. • Significant increase in credit risk (SICR): The assessment of whether there has been a significant increase in credit risk between the date of origination of the exposure and 31 December 2021. There is a risk that management's staging criteria does not capture SICR and/or are applied incorrectly. • Macroeconomic scenarios: As set out on page 55, the Group sources economic forecasts from a third-party economics expert and then applies judgement to determine which scenarios to select and the probability weightings to assign. The Group considered four probability weighted scenarios, including base, upside, downside and severe downside scenarios. The key economic variables were determined to be the house price index (HPI) and unemployment. Due to the continuing uncertain economic environment, including uncertainty in relation to future increases in borrowers' and tenants' costs of living and rises in inflation, there have been changes to the economic assumptions in each of the scenarios, as well as a change to the weightings applied to each scenario. There is significant judgement in determining the probability weighting of each scenario and the assumptions and characteristics of each scenario applied. • Propensity to go into possession following default (PPD) and forced sale discount (FSD) assumptions: PPD measures the likelihood that a defaulted loan will progress into repossession. FSD measures the difference in sale proceeds between a sale under normal conditions and sale at auction. The loss given default (LGD) by loan assumed in the ECL provision calculation is highly sensitive to the PPD and FSD assumptions.

How the scope of our audit responded to the key audit matter	We obtained an understanding of the relevant financial controls over the ECL provision with particular focus on controls over significant management assumptions and judgements used in the ECL determination. To challenge the Group's SICR criteria, we: • Evaluated the Group's SICR policy and assessed whether it complies with IFRS 9; • Assessed the quantitative and qualitative thresholds used in the SICR assessment by reference to standard validation metrics including the proportion of transfers to stage two driven solely by being 30 days past due, the volatility of loans in stage two and the proportion of loans that spend little or no time in stage two before moving to stage three; • Tested the completeness and accuracy of data used in applying the quantitative and qualitative criteria in the SICR assessment to assess whether loans were assigned to the correct stage; • Supported by our credit risk specialists, identified and challenged all changes made to the computer code used to perform the SICR assessment, having performed a full review of the computer code in previous audits; • As part of our testing of the application of the SICR criteria within the ECL model and with support from our credit risk specialists, we independently reperformed management's staging assessment across all three stages using our in-house analytics tool; and • Performed an independent assessment for a sample of loan accounts which exited forbearance, to determine whether they had been appropriately allocated to the correct stage. To challenge the Group's macroeconomic scenarios and the probability weightings applied we: • Agreed the macroeconomics scenarios used in the ECL model to reports prepared by management's third-party economics expert; • Assessed the competence, capability and objectivity of the third-party economics expert, which included making specific inquiries to understand their approach and modelling assumptions to derive the scenarios; • Supported by our economic specialists, assessed and challenged management's assessment of scenarios considered and the probability weightings assigned to them in light of the economic position as at 31 December 2021; • Involved our economic specialists to challenge the Group's economic outlook by reference to other available economic outlook data; • Compared the appropriateness of selected macroeconomic variables and weightings to those used by peer lenders. The key economic variables were the house price index (HPI) and unemployment; • Assessed management's approach to the incorporation and quantification of emerging risks within the ECL model, including forecast cost of living increases and climate change. We confirmed that the emerging risks were not already captured within the existing ECL model, challenged key assumptions, and tested the completeness and accuracy of data used within the assessment; • Supported by our credit risk specialists, assessed and challenged the changes made to the model methodology and computer code used in the macroeconomics model which applies the scenarios to the relevant ECL components, having performed a full review of the computer code of the macroeconomics model in previous audits;

	• Supported by our credit risk specialists, assessed the performance of the macroeconomic model to confirm whether the economic variables previously selected were still appropriate in light of the uncertain economic environment through considering the modelled macroeconomic results relative to those observed in historical recessions; and • For a sample of loans, we independently recalculated the ECL using the macroeconomic variables to check they were being applied appropriately. To challenge the Group's PPD and FSD assumptions we: • Supported by our credit risk specialists, identified and challenged all changes made to computer code in the LGD models, having performed a full review of the computer code in previous audits; • Recalculated the PPD rates observed on defaulted cases and compared them with the rates used by the Group in the ECL models; • Recalculated the FSD observed on recent property sales on the defaulted accounts and compared them with the rates used by the Group in the ECL models; • Considered the findings raised in management's independent model validation conducted in 2021 and assessed the impact on the year-end provision; and • As a stand back test to consider potential contradictory evidence, assessed the appropriateness of PPD and FSD assumptions adopted by management through benchmarking to industry peers. To address the risk of material misstatement in loan impairment due to fraud, our work included testing the existence of a sample of collateral related to funding lines.

Key observations	We determined that the methodology used, the SICR criteria and PPD and FSD assumptions management has made in determining the ECL provision as at 31 December 2021 were reasonable. Notwithstanding that estimating the probability and impact of future economic outcomes is inherently judgemental and that there is continuing economic uncertainty, on balance, we consider that the macroeconomic scenarios selected by the Directors and the probability weightings applied generate an appropriate portfolio loss distribution. We therefore determined that loan impairment provisions are appropriately stated.

1.1. Effective interest rate income recognition

Refer to the judgements in applying accounting policies and critical accounting estimates on page 117, the accounting policy on pages 102 and 103 and Notes 3 and 4 on pages 121 and 122.

Key audit matter description	In accordance with the requirements of IFRS 9, management is required to spread directly attributable fees, discounts, incentives and commissions on a constant yield basis (effective interest rate, EIR) over the expected life of the loan assets. EIR is complex and the Group's approach to determining the EIR involves the use of models and significant estimation in determining the behavioural life of loan assets. Given the complexity and judgement involved in accounting for EIR and given that revenue recognition is an area susceptible to fraud, there is an opportunity for management to manipulate the amount of interest income reported in the Financial Statements. The Group's net interest income for the year ended 31 December 2021 was £587.6m (2020: £472.2m). EIR adjustments arise from revisions to estimated cash receipts or payments for loan assets that occur for reasons other than a movement in market interest rates or credit losses. They result in an adjustment to the carrying amount of the loan asset, with the adjustment recognised in the income statement in interest receivable and similar income. As the EIR adjustments reflect changes to the timing and volume of forecast customer redemptions, they are inherently judgemental. The level of judgement exercised by management is increased given the limited availability of historical repayment information. For two of the loan portfolios, KRBS and Precise, the EIR adjustments are sensitive to changes in the behavioural life curves. As set out on page 23, changes in the modelled behavioural life of these portfolios during the year resulted in an interest income gain of £11.5m (2020: £nil), we therefore considered there to be an increased level of risk in respect of this key audit matter in the current year. The continuing uncertain economic environment brings additional uncertainty with regards to forecasting expected behavioural lives and prepayment rates. We therefore identified the estimation of the behavioural life for these portfolios as a focus area of our audit. We also identified a key audit matter in relation to EIR adjustments on the Group's legacy acquired portfolios. EIR on acquired loan portfolios is inherently more judgemental than originated loan portfolios as it involves modelling the expected cash flows on acquisition and comparing to actual and forecast cash flows at each balance sheet date. These loan portfolios are also underwritten outside of the Group's standard processes and therefore may have different profiles than self-originated loans.

How the scope of our audit responded to the key audit matter	We obtained an understanding of the relevant controls over EIR, focusing on the calculation and review of EIR adjustments and the determination of prepayment curves. For the two portfolios where the EIR adjustments were most significant and sensitive to changes in behavioural life, we involved our in-house analytics and modelling specialists to run the Group's loan data for all products through our own independent EIR model, using the behavioural life curves derived by the Group. We compared our calculation of the EIR adjustment required to the amount recorded by management. For the same portfolios, we involved our in-house modelling specialists to independently derive a behavioural life curve using the Group's loan data over recent years. We used these curves in our own independent EIR model to derive an independent output showing the EIR adjustments that should have been recorded in 2021. We compared this output to the amounts recorded by management. We also tested the completeness and accuracy of a sample of inputs into the EIR model for originated loans. For the legacy acquired portfolios, supported by our analytics and modelling specialists, we challenged the assumptions and modelling approach taken to determine the EIR adjustments, tested the completeness and accuracy of a sample of inputs to the modelling, re-performed the discounted cash flow calculations and challenged whether forecasts were consistent with historical performance and our understanding of the nature of the cash flows.
Key observations	Notwithstanding that estimating the future behaviour of loan assets is inherently judgemental and that there is continuing economic uncertainty, we determined that the EIR models and assumptions used were appropriate and that net interest income for the period is appropriately stated.

6. Our application of materiality

6.1. Materiality

We define materiality as the magnitude of misstatement in the Financial Statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the Financial Statements as a whole as follows:

	Group Financial Statements	Parent company Financial Statements
Materiality	£20.1m (2020: £14.0m)	£16.7m (2020: £11.1m)
Basis for determining materiality	We determined materiality for the Group by reference to 1% of net assets of £2,024.4m (£20.1m), and 5% of statutory profit before tax of £464.6m (£23.2m).	We determined materiality for the parent company by reference to 1% of net assets.
Rationale for the benchmark applied	Consistent with the prior year, we considered both net assets and a profit-based measure as benchmarks for determining materiality. We determined 1% of net assets to be the most relevant and stable benchmark to determine materiality. In the prior year, we capped materiality at the 2019 materiality level of £14m, based on the significant economic uncertainty resulting from the emergence of Covid-19. Whilst some economic uncertainty remains, the impact of Covid-19 was not as pervasive as 2020 and we have therefore removed the prior year cap.	Consistent with the Group, we determined 1% of net assets to be the most relevant and stable benchmark to determine materiality. In the prior year, we considered a profit based measure to be the most relevant benchmark for users of the accounts.

6.2. Performance materiality

We set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the Financial Statements as a whole.

	Group Financial Statements	Parent company Financial Statements
Performance materiality	60% (2020: 60%) of Group materiality	60% (2020: 60%) of parent company materiality
Basis and rationale for determining performance materiality	Group performance materiality was set at 60% of Group materiality (2020: 60%). In determining performance materiality, we considered a number of factors, including: our understanding of the control environment; our understanding of the business; and the low number of uncorrected misstatements identified in the prior year. In the prior year we reduced performance materiality in response to the potentially pervasive impact of Covid-19 and remote working on the Group's control environment and financial reporting. In the current year, to reflect that remote and hybrid working has continued to some extent, we retained performance materiality at the prior year level.	

6.3. Error reporting threshold

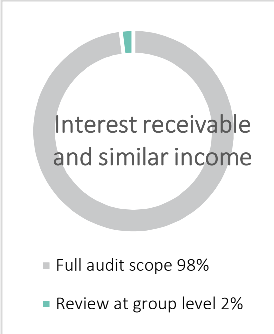
We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £1,005k (2020: £700k), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the Financial Statements.

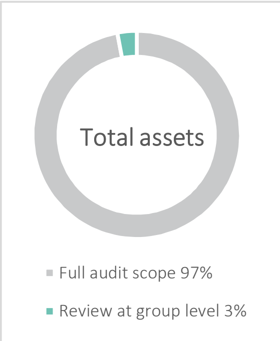
7. An overview of the scope of our audit

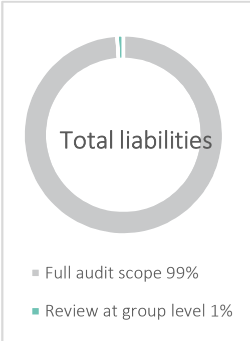
7.1. Identification and scoping of components

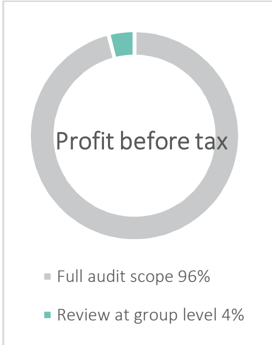
Our Group audit was scoped by obtaining an understanding of the Group and its environment, including Group-wide controls and assessing the risks of material misstatement at the Group level.

Our Group audit scope focused primarily on OneSavings Bank plc and the two main subsidiary entities, being the banking entity Charter Court Financial Services Limited, as well as Interbay ML Ltd, another significant lending subsidiary. The Company and two subsidiaries were significant components and subject to a full scope audit (2020: the Company and two subsidiaries subject to a full scope audit). They represent 98% (2020: 96%) of the Group's interest receivable and similar income, 96% (2020: 98%) of profit before tax, 97% (2020: 98%) of total assets and 99% (2020: 98%) of total liabilities. The subsidiaries were selected to provide an appropriate basis of undertaking audit work to address the risks of material misstatement including those identified as key audit matters above. Our audits of each of the subsidiaries were performed using lower levels of materiality based on their size relative to the Group. The materiality for each subsidiary audit ranged from £5.5m to £16.7m (2020: £5.3m to £11.1m).









We tested the Group’s consolidation process and carried out analytical procedures to confirm that there were no significant risks of material misstatement in the aggregated financial information of the remaining subsidiaries not subject to a full scope audit or specified audit procedures.

7.2. Our consideration of the control environment

We identified the key IT systems relevant to the audit to be those used in the financial reporting, lending and savings businesses. For these controls we involved our IT specialists to perform testing over the general IT controls, including testing of user access and change management systems.
In the current year we relied on controls for some of the lending business and related interest income and the Group’s in-house serviced savings business. For the areas where we relied on controls, we performed walkthroughs with management to understand the process and controls and identified and tested relevant controls that address risks of material misstatement in financial reporting.

7.3. Our consideration of climate-related risks

In planning our audit, we have considered the impact of climate change on the Group’s operations and impact on its Financial Statements. The Group has set out its commitments, aligned with the goals of the Paris Climate Accord, to be a net zero bank by 2050. Further information is provided in the Section 172 statement on page 14. The Group sets out its assessment of the potential impact of climate change on page 37 of the Risk Management section of the Annual Report.

In conjunction with our climate risk specialists, we have held discussions with the Group to understand:

- the process for identifying affected operations, including the governance and controls over this process, and the subsequent effect on the financial reporting for the Group; and
- the long-term strategy to respond to climate change risks as they evolve.

Our audit work has involved:

- challenging the completeness of the physical and transition risks identified and considered in the Group’s climate risk assessment and the conclusion that there is no material impact of climate change risk on current year financial reporting;
- assessing management’s approach to the incorporation and quantification of climate change risks within the ECL model, (see the loan impairment provision key audit matter above); and
- assessing disclosures in the Annual Report, and challenging the consistency between the Financial Statements and the remainder of the Annual Report.

We have not been engaged to provide assurance over the accuracy of climate change disclosures. As part of our audit procedures we are required to read these disclosures to consider whether they are materially inconsistent with the Financial Statements or knowledge obtained in the audit and we did not identify any material inconsistencies as a result of these procedures.

7.4. Working with other auditors

All audit work for the purposes of the Group audit was performed by Deloitte LLP in the UK. The audit team for the Group and the parent company were based in London. There was a component audit team for the component audit of Charter Court Financial Services Limited which is based in Wolverhampton. The Senior Statutory Auditor has responsibility for directing and supervising all aspects of the audit work of the component auditor. In discharging this responsibility, the Group audit team held regular meetings with local management and had regular virtual meetings with the component audit team to oversee the component audit. The Group audit team maintained dialogue with the component auditor throughout all phases of the audit and performed a remote file review of the component audit team's work.

8. Other information

The other information comprises the information included in the annual report other than the Financial Statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report.

Our opinion on the Financial Statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the Financial Statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated.

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the Financial Statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

9. Responsibilities of directors

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the Financial Statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of Financial Statements that are free from material misstatement, whether due to fraud or error.

In preparing the Financial Statements, the directors are responsible for assessing the Group's and the parent company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or the parent company or to cease operations, or have no realistic alternative but to do so.

10. Auditor's responsibilities for the audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the Financial Statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these Financial Statements.
A further description of our responsibilities for the audit of the Financial Statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

11. Extent to which the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

11.1. Identifying and assessing potential risks related to irregularities

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, we considered the following:

- the nature of the industry and sector, control environment and business performance including the design of the Group's remuneration policies, key drivers for directors' remuneration, bonus levels and performance targets;
- the Group's own assessment of the risks that irregularities may occur either as a result of fraud or error that was approved by the Board;
- results of our enquiries of management, internal audit and the Audit Committee about their own identification and assessment of the risks of irregularities;
- any matters we identified having obtained and reviewed the Group's documentation of their policies and procedures relating to:
    - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
    - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud. During the first half of 2021, the Directors identified fraudulent activity by a third party in respect of a secured funding line provided by the Group, and recorded a loan impairment provision of £20m in 2020, which has increased to £22m in 2021;
    - the internal controls established to mitigate risks of fraud or non-compliance with laws and regulations;
- the matters discussed among the audit engagement team including the component audit team and involving relevant internal specialists, including tax, valuations, real estate, IT, credit risk and analytics and modelling specialists regarding how and where fraud might occur in the Financial Statements and any potential indicators of fraud.

As a result of these procedures, we considered the opportunities and incentives that may exist within the organisation for fraud and identified the greatest potential for fraud in the following areas: loan impairment provisions and effective interest rate income recognition. In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override.

We also obtained an understanding of the legal and regulatory frameworks that the Group operates in, focusing on provisions of those laws and regulations that had a direct effect on the determination of material amounts and disclosures in the Financial Statements. The key laws and regulations we considered in this context included the relevant provisions of the UK Companies Act, Listing Rules and tax legislation.

In addition, we considered provisions of other laws and regulations that do not have a direct effect on the Financial Statements but compliance with which may be fundamental to the Group's ability to operate or to avoid a material penalty. These included the Group's prudential regulatory requirements and capital, liquidity and conduct requirements.

11.2. Audit response to risks identified

As a result of performing the above, we identified loan impairment provisions and effective interest rate income recognition as key audit matters related to the potential risk of fraud. The key audit matters section of our report explains the matters in more detail and also describes the specific procedures we performed in response to those key audit matters.

In addition to the above, our procedures to respond to risks identified included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the Financial Statements;
- enquiring of management, the Audit Committee and in-house and external legal counsel concerning actual and potential litigation and claims;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- reading minutes of meetings of those charged with governance, reviewing internal audit reports and reviewing correspondence with the Prudential Regulation Authority, the Financial Conduct Authority and HMRC; and
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members including internal specialists and the component audit team, and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

Report on other legal and regulatory requirements

12. Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the Financial Statements are prepared is consistent with the Financial Statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the Group and the parent company and their environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

13. Matters on which we are required to report by exception

13.1. Adequacy of explanations received and accounting records

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company Financial Statements are not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

13.2. Directors' remuneration

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of directors' remuneration have not been made.

We have nothing to report in respect of these matters.

14. Other matters which we are required to address

14.1. Auditor tenure

Following the recommendation of the Audit Committee, we were appointed by the shareholders of the Group on 9 May 2019 to audit the Group Financial Statements for the year ending 31 December 2019 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is three years, covering the years ending 31 December 2019 to 31 December 2021.

14.2. Consistency of the audit report with the additional report to the audit committee

Our audit opinion is consistent with the additional report to the audit committee we are required to provide in accordance with ISAs (UK).

15. Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

As required by the Financial Conduct Authority (FCA) Disclosure Guidance and Transparency Rule (DTR) 4.1.14R, these Financial Statements form part of the European Single Electronic Format (ESEF) prepared Annual Financial Report filed on the National Storage Mechanism of the UK FCA in accordance with the ESEF Regulatory Technical Standard ((‘ESEF RTS’). This auditor's report provides no assurance over whether the annual financial report has been prepared using the single electronic format specified in the ESEF RTS. We have been engaged to provide assurance on whether the annual financial report has been prepared using the single electronic format specified in the ESEF RTS and will report separately to the members on this.

Rob Topley, FCA (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
London, United Kingdom
31 March 2022

OneSavings Bank plc
Statement of Comprehensive Income
For the Year Ended 31 December 2021

	Note	**Group 2021 £m**	Group 2020 £m
Interest receivable and similar income	3	**746.8**	711.9
Interest payable and similar charges	4	**(159.2)**	(239.7)
Net interest income		**587.6**	472.2
Fair value gains on financial instruments	5	**29.5**	7.4
Gain on sale of financial instruments	6	**4.0**	20.0
Other operating income	7	**7.9**	9.0
Total income		**629.0**	508.6
Administrative expenses	8	**(166.5)**	(157.1)
Provisions	37	**(0.2)**	(0.1)
Impairment of financial assets	23	**4.4**	(71.0)
Impairment of intangible assets	9	**3.1**	(7.0)
Integration costs	12	**(5.0)**	(9.8)
Exceptional items	13	**(0.2)**	(3.3)
Profit before taxation		**464.6**	260.3
Taxation	14	**(119.6)**	(64.1)
Profit for the year		**345.0**	196.2
Other comprehensive (expense)/income			
Items which may be reclassified to profit or loss:			
Fair value changes on financial instruments measured as fair value through other comprehensive income (FVOCI):			
Arising in the year	18	**1.1**	1.0
Amounts reclassified to profit or loss for investment securities at FVOCI		**(2.0)**	-
Tax on items in other comprehensive (expense)/income		**0.5**	(0.5)
Revaluation of foreign operations		**(0.1)**	-
Other comprehensive (expense)/income		**(0.5)**	0.5
Total comprehensive income for the year		**344.5**	196.7

The above results are derived wholly from continuing operations.

The notes on pages 99 to 220 form part of these accounts.

The financial statements on pages 94 to 220 were approved by the Board of Directors on 31 March 2022.

OneSavings Bank plc
Statement of Financial Position
As at 31 December 2021

	Note	**Group 2021 £m**	Group 2020 £m	**Company 2021 £m**	Company 2020 £m
Assets					
Cash in hand		**0.5**	0.5	**0.5**	0.5
Loans and advances to credit institutions	17	**2,843.6**	2,676.2	**1,405.0**	1,518.1
Investment securities	18	**491.4**	471.2	**16.2**	15.0
Loans and advances to customers	19	**21,080.3**	19,230.7	**9,476.4**	8,531.7
Fair value adjustments on hedged assets	25	**(138.9)**	181.6	**1.3**	127.4
Derivative assets	24	**185.7**	12.3	**50.5**	4.7
Other assets	26	**10.2**	9.1	**8.3**	5.7
Current taxation asset		**-**	8.4	**-**	3.8
Deferred taxation asset	27	**5.6**	4.7	**4.9**	3.1
Property, plant and equipment	28	**35.1**	39.2	**17.3**	20.5
Intangible assets	29	**18.4**	20.6	**7.7**	7.0
Investments in subsidiaries and intercompany loans	30	**0.6**	-	**3,096.4**	3,137.3
Total assets		**24,532.5**	22,654.5	**14,084.5**	13,374.8
Liabilities					
Amounts owed to credit institutions	31	**4,319.6**	3,570.2	**2,420.7**	1,900.5
Amounts owed to retail depositors	32	**17,526.4**	16,603.1	**9,739.4**	9,705.3
Fair value adjustments on hedged liabilities	25	**(19.7)**	8.2	**(8.8)**	3.1
Amounts owed to other customers	33	**92.6**	72.9	**5.7**	5.8
Debt securities in issue	34	**460.3**	421.9	**-**	-
Derivative liabilities	24	**19.7**	163.6	**8.7**	93.8
Lease liabilities	35	**10.7**	11.7	**3.9**	3.9
Other liabilities	36	**29.5**	27.8	**17.3**	13.8
Provisions	37	**2.0**	1.8	**1.9**	1.6
Current taxation liability		**1.3**	-	**2.7**	-
Deferred taxation liability	38	**39.8**	48.3	**-**	-
Deemed loan liabilities	20	**-**	-	**142.8**	66.2
Intercompany loans	30	**-**	-	**33.2**	37.9
Subordinated liabilities	39	**10.3**	10.5	**10.3**	10.5
Perpetual subordinated bonds	40	**15.2**	37.6	**15.2**	37.6
		22,507.7	20,977.6	**12,393.0**	11,880.0
Equity					
Share capital	42	**4.5**	4.5	**4.5**	4.5
Share premium	42	**-**	-	**-**	-
Retained earnings		**1,857.4**	1,604.6	**1,587.6**	1,423.7
Other reserves	43	**162.9**	67.8	**99.4**	66.6
		2,024.8	1,676.9	**1,691.5**	1,494.8
Total equity and liabilities		**24,532.5**	22,654.5	**14,084.5**	13,374.8

The profit after tax for the year ended 31 December 2021 of OneSavings Bank plc as a company was £255.1m (2020: £164.5m). 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 on pages 99 to 220 form part of these accounts. The financial statements on pages 94 to 220 were approved by the Board of Directors on 31 March 2022 and signed on its behalf by:

Andy Golding
Chief Executive Officer
Company number: 07312896

April Talintyre
Chief Financial Officer

OneSavings Bank plc

Statement of Changes in Equity

For the Year Ended 31 December 2021

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	Additional Tier 1 securities £m	Total £m
At 1 January 2020	4.5	864.2	6.5	(12.8)	(3.7)	(1.0)	0.5	5.6	553.2	60.0	1,477.0
Profit for the year	-	-	-	-	-	-	-	-	196.2	-	196.2
Other comprehensive income	-	-	-	-	-	-	1.0	-	-	-	1.0
Tax on items in other comprehensive income	-	-	-	-	-	-	(0.5)	-	-	-	(0.5)
Total comprehensive income	-	-	-	-	-	-	0.5	-	196.2	-	196.7
Coupon paid on Additional Tier 1 securities	-	-	-	-	-	-	-	-	(5.5)	-	(5.5)
Share-based payments	-	2.6	-	-	-	-	-	2.4	3.2	-	8.2
Tax recognised in equity	-	-	-	-	-	-	-	(0.2)	0.5	-	0.3
Transfer between reserves	-	-	(6.5)	12.8	-	-	-	-	(6.3)	-	-
Own shares[1]	-	-	-	-	3.7	-	-	-	(3.5)	-	0.2
Cancellation of OneSavings Bank plc share capital and share premium	(4.5)	(866.8)	-	-	-	-	-	-	871.3	-	-
Issuance of OneSavings Bank plc share capital to OSBG	4.5	-	-	-	-	-	-	-	(4.5)	-	-
At 31 December 2020	4.5	-	-	-	-	(1.0)	1.0	7.8	1,604.6	60.0	1,676.9
Profit for the year	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**345.0**	**-**	**345.0**
Other comprehensive expense	**-**	**-**	**-**	**-**	**-**	**(0.1)**	**(0.9)**	**-**	**-**	**-**	**(1.0)**
Tax on items in other comprehensive expense	**-**	**-**	**-**	**-**	**-**	**-**	**0.5**	**-**	**-**	**-**	**0.5**
Total comprehensive income	**-**	**-**	**-**	**-**	**-**	**(0.1)**	**(0.4)**	**-**	**345.0**	**-**	**344.5**
Coupon paid on Additional Tier 1 securities	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(4.7)**	**-**	**(4.7)**
Dividends paid	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(86.7)**	**-**	**(86.7)**
Share-based payments	**-**	**-**	**1.7**	**-**	**-**	**-**	**-**	**2.3**	**2.7**	**-**	**6.7**
Redemption of Additional Tier 1 securities	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(60.0)**	**(60.0)**
Transactions costs on redemption of Additional Tier 1 securities	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(3.5)**	**-**	**(3.5)**
Issuance of Additional Tier 1 securities	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**150.0**	**150.0**
Tax recognised in equity	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**1.6**	**-**	**-**	**1.6**
At 31 December 2021	**4.5**	**-**	**1.7**	**-**	**-**	**(1.1)**	**0.6**	**11.7**	**1,857.4**	**150.0**	**2,024.8**

[1] The Group ceased look-through accounting for the Employee Benefit Trusts following the insertion of OSB GROUP PLC as the listed and ultimate holding company of the Group on 27 November 2020.

Share capital and premium is disclosed in note 42 and the reserves are further disclosed in note 43.

OneSavings Bank plc

Statement of Changes in Equity (continued)

For the Year Ended 31 December 2021

Company	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	Additional Tier 1 securities £m	Total £m
At 1 January 2020	4.5	864.2	6.2	(15.2)	(3.7)	-	5.3	407.0	60.0	1,328.3
Profit for the year	-	-	-	-	-	-	-	164.5	-	164.5
Other comprehensive income	-	-	-	-	-	(0.1)	-	-	-	(0.1)
Total comprehensive income	-	-	-	-	-	(0.1)	-	164.5	-	164.4
Coupon paid on Additional Tier 1 securities	-	-	-	-	-	-	-	(5.5)	-	(5.5)
Share-based payments	-	2.6	-	-	-	-	1.6	3.8	-	8.0
Tax recognised in equity	-	-	-	-	-	-	(0.2)	-	-	(0.2)
Transfer between reserves	-	-	(6.2)	15.2	-	-	-	(9.0)	-	-
Own shares[1]	-	-	-	-	3.7	-	-	(3.9)	-	(0.2)
Cancellation of OneSavings Bank plc share capital and share premium	(4.5)	(866.8)	-	-	-	-	-	871.3	-	-
Issuance of OneSavings Bank plc share capital to OSBG	4.5	-	-	-	-	-	-	(4.5)	-	-
At 31 December 2020	4.5	-	-	-	-	(0.1)	6.7	1,423.7	60.0	1,494.8
Profit for the year	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**255.1**	**-**	**255.1**
Other comprehensive income	**-**	**-**	**-**	**-**	**-**	**0.1**	**-**	**-**	**-**	**0.1**
Total comprehensive income	**-**	**-**	**-**	**-**	**-**	**0.1**	**-**	**255.1**	**-**	**255.2**
Coupon paid on Additional Tier 1 securities	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(4.7)**	**-**	**(4.7)**
Dividends paid	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(86.7)**	**-**	**(86.7)**
Share-based payments	**-**	**-**	**-**	**-**	**-**	**-**	**1.1**	**3.7**	**-**	**4.8**
Redemption of Additional Tier 1 securities	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(60.0)**	**(60.0)**
Transactions costs on redemption of Additional Tier 1 securities	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(3.5)**	**-**	**(3.5)**
Issuance of Additional Tier 1 securities	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**90.0**	**90.0**
Tax recognised in equity	**-**	**-**	**-**	**-**	**-**	**-**	**1.6**	**-**	**-**	**1.6**
At 31 December 2021	**4.5**	**-**	**-**	**-**	**-**	**-**	**9.4**	**1,587.6**	**90.0**	**1,691.5**

[1] The Company ceased look-through accounting for the Employee Benefit Trusts following the insertion of OSB GROUP PLC as the listed and ultimate holding company of the Group on 27 November 2020.

Share capital and premium is disclosed in note 42 and the reserves are further disclosed in note 43.

OneSavings Bank plc
Statement of Cash Flows
For the Year Ended 31 December 2021

	Note	Group 2021 £m	Group 2020 £m	Company 2021 £m	Company 2020 £m
Cash flows from operating activities					
Profit before taxation		**464.6**	260.3	**314.5**	197.3
Adjustments for non-cash items	49	**(10.0)**	76.7	**12.2**	39.2
Changes in operating assets and liabilities	49	**(799.8)**	(1,537.0)	**(817.4)**	(573.7)
Cash used in operating activities		**(345.2)**	(1,200.0)	**(490.7)**	(337.2)
Provisions refunded		**-**	0.1	**-**	-
Net tax paid		**(117.3)**	(128.8)	**(53.2)**	(53.6)
Net cash used in operating activities		**(462.5)**	(1,328.7)	**(543.9)**	(390.8)
Cash flows from investing activities					
Maturity and sales of investment securities		**547.7**	407.3	**215.4**	291.1
Purchases of investment securities		**(468.2)**	(190.9)	**(216.6)**	(205.9)
Interest received on investment securities		**1.9**	7.0	**0.2**	0.4
Sales of financial instruments	6	**4.0**	539.9	**0.3**	248.9
Proceeds from sale of property, plant and equipment	28	**2.0**	-	**2.0**	-
Purchases of property, plant and equipment and intangible assets	28,29	**(6.8)**	(7.5)	**(5.0)**	(4.3)
Cash generated/used from investing activities		**80.6**	755.8	**(3.7)**	330.2
Cash flows from financing activities					
Financing received	41	**5,058.6**	1,991.2	**3,163.6**	1,059.6
Financing repaid	41	**(4,295.4)**	(1,103.6)	**(2,589.1)**	(764.7)
Cash held in deconsolidated special purpose vehicles		**-**	(23.0)	**-**	-
Interest paid on financing		**(8.4)**	(18.9)	**(6.6)**	(9.8)
Coupon paid on Additional Tier 1 securities		**(4.7)**	(5.5)	**(4.7)**	(5.5)
Dividends paid	15	**(86.7)**	-	**(86.7)**	-
Redemption of Additional Tier 1 securities		**(63.5)**	-	**(63.5)**	-
Issuance of Additional Tier 1 securities		**150.0**	-	**90.0**	-
Proceeds from issuance of shares under employee SAYE schemes		**-**	2.5	**-**	2.6
Cash payments on lease liabilities	35	**(1.9)**	(2.0)	**(0.7)**	(0.6)
Cash generated from financing activities		**748.0**	840.7	**502.3**	281.6
Net increase/(decrease) in cash and cash equivalents		**366.1**	267.8	**(45.3)**	221.0
Cash and cash equivalents at the beginning of the year	16	**2,370.6**	2,102.8	**1,377.6**	1,156.6
Cash and cash equivalents at the end of the year	16	**2,736.7**	2,370.6	**1,332.3**	1,377.6
Movement in cash and cash equivalents		**366.1**	267.8	**(45.3)**	221.0

1. Accounting policies

The principal accounting policies applied in the preparation of the financial statements for the Group and the Company 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 United Kingdom (UK) 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 FVOCI and derivative contracts and other financial assets held at fair value through profit or loss (FVTPL) (see note 1 o) vi.).

The financial statements are presented in Pounds Sterling. All amounts in the financial statements have been rounded to the nearest £0.1m (£m). The functional currency of the Group is Pounds Sterling, which is the currency of the primary economic environment in which the Group operates.

b) Going concern

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

In assessing whether the going concern basis is appropriate, 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. These forecasts have been subject to sensitivity tests, including stress scenarios, which have been compared to the latest economic scenarios provided by the Group's external economic advisors, as well as reverse stress tests. In making the assessment the Board has considered all principal and emerging risks including climate risk where the risk is likely to emerge outside of the going concern assessment horizon.

The assessments include the following:

• Financial and capital forecasts were prepared under stress scenarios which were assessed against the latest economic forecasts provided by the Group's external economic advisors. Reverse stress tests were also run, to assess what combinations of House Price Index (HPI) and unemployment variables would result in the Group utilising its regulatory capital buffers in full and breaching the Group's minimum prudential requirements, along with analysis and insight from the Group's Internal Capital Adequacy Assessment Process (ICAAP). The Directors assessed the likelihood of those reverse stress scenarios occurring within the next 12 months and concluded that the likelihood is remote.

• The latest liquidity and contingent liquidity positions and forecasts were assessed against the Internal Liquidity Adequacy Assessment Process (ILAAP) stress scenarios.

1. Accounting policies (continued)

• The Group continues to assess the resilience of its business operating model and supporting infrastructure in the context of the emerging economic, business and regulatory environment. The key areas of focus continue to be on the provision of critical services to customers, employee health and safety and evolving governmental policies and guidelines. The Group continues to invest in its information technology platforms to support its employees with flexible working from office or homeworking across all locations within a hybrid working model. The Group's response to the COVID-19 pandemic demonstrated the inherent resilience of the Group's critical processes and infrastructure. It also demonstrated the necessary agility in responding to changing operational demands. The operational dependencies on third party vendors and outsourcing arrangements continue to be an important area of focus.

The Group's financial projections demonstrate that the Group has sufficient capital and liquidity to continue to meet its regulatory requirements as set out by the Prudential Regulation 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 Company 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, so far as is possible, 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.

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 are excluded from the consolidated accounts. The Company 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 Trust (EBT) was controlled and recognised by the Company using the look-through approach until 27 November 2020, when OSB GROUP PLC was inserted as the listed holding company of the Group.

1. Accounting policies (continued)

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. 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) 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 Company'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 (OCI) and accumulated in the foreign exchange reserve within equity.

1. Accounting policies (continued)

e) 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 provides loans and asset finance within the UK and the Channel Islands only.

The Group segments its lending business and operates under two segments:

- OneSavings Bank (OSB)
- Charter Court Financial Services (CCFS)

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

f) Interest income and expense

Interest income and interest expense for all interest-bearing financial instruments measured at amortised cost and FVOCI 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.

Interest income on financial assets categorised as stage 1 or 2 are recognised on a gross basis, with interest income on stage 3 assets recognised net of expected credit losses (ECL). See note 1 o) for further information on IFRS 9 stage classifications.

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.

1. Accounting policies (continued)

The Group monitors the actual cash flows for each book and resets cash flows on a monthly basis, 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 movement in the reference interest rate (LIBOR, SONIA 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.

When the contractual terms of non-derivative financial instruments have been amended as a direct consequence of Interbank Offered Rate (IBOR) reform and the new basis for determining the contractual cash flows is economically equivalent to the previous basis, the Group changes the basis for determining the contractual cash flows prospectively by revising the EIR.

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 (AT1) securities are recognised directly in equity in the period in which they are paid.

g) 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, which are not an integral part of the EIR, are recorded in other operating income and accounted for in accordance with IFRS 15 Revenue from Contracts with Customers, with income 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.

h) Integration costs and exceptional items

Integration costs and exceptional items are those items of income or expense that do not relate to the Group's core operating activities, are not expected to recur and are material in the context of the Group's performance. These items are disclosed separately within the Consolidated Statement of Comprehensive Income and the Notes to the Consolidated Financial Statements.

i) Taxation

Income tax comprises current and deferred tax. It is recognised in profit or loss, other comprehensive income or directly in equity, consistent with the recognition of items it relates to. The Group recognises tax on coupons paid on AT1 securities directly in profit or loss.

Current tax is the expected tax charge on the taxable income for the year and any adjustments in respect of previous years.

1. Accounting policies (continued)

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 projections of future taxable income indicate that the Group will be able to utilise its deferred tax asset within the foreseeable future.

Deferred tax liabilities are recognised for all taxable temporary differences to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

The Company and its UK subsidiaries are in a group payment arrangement for corporation tax and show a net corporation tax liability and deferred tax liability accordingly.

The Company and its UK subsidiaries are in the same VAT group.

j) Dividends

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

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established.

k) Cash and cash equivalents

For the purposes of the Consolidated Statement of Cash Flows, cash and cash equivalents comprise cash, non-restricted balances with credit institutions and highly liquid financial assets with maturities of less than three months from date of acquisition and 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.

1. Accounting policies (continued)

Software-as-a-service (SaaS), is an arrangement that provides the customer with the right to receive access to the supplier's application software in the future which is treated as a service contract, rather than a software lease or the acquisition of a software intangible asset.

An intangible asset is only recognised if:

- The customer has the contractual right to take possession of the software during the hosting period without significant penalty.
- It is feasible for the customer to run the software on its own hardware or contract with a party unrelated to the supplier to host the software.

The costs of configuring or customising supplier application software in a SaaS arrangement that is determined to be a service contract is recognised as an expense or prepayment. Where the configuration and customisation services are not distinct from the right to receive access to the software, then the costs are recognised as an expense over the term of the arrangement.

Intangible assets are reviewed for impairment semi-annually, and if they are considered to be impaired, are written down immediately to their recoverable amounts. Impairment losses previously recognised for intangible assets, other than goodwill, are reversed when there has been a change in the estimates used to determine the asset's recoverable amount. An impairment loss reversal is recognised in the Consolidated Statement of Comprehensive Income and the carrying amount of the asset is increased to its recoverable amount.

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

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

For development costs that are under construction, no amortisation will be applied until the asset is available for use and is calculated using a full month when available for use.

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.

1. Accounting policies (continued)

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	10 years
Equipment and fixtures	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 Company's financial statements, investments in subsidiary undertakings are stated at cost less provision for any impairment. A full list of the Company's subsidiaries which are included in the Group's consolidated financial statements can be found in note 30.

The Company performs an annual impairment assessment of its investment in subsidiary undertakings, assessing the carrying value of the investment in each subsidiary against the subsidiary's net asset values at the reporting date for indication of impairment. Where there is indication of impairment, the Company estimates the subsidiary's value in use by estimating future profitability and the impact on the net assets of the subsidiary. The Company recognises an impairment directly in profit or loss when the recoverable amount, which is the greater of the value in use or the fair value less costs to sell, is less than the carrying value of the investment. Impairments are subsequently reversed if the recoverable amount exceeds the carrying value.

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 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.
- **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.
- **FVTPL** – assets not measured at amortised cost or FVOCI. The Group measures derivatives, an acquired mortgage portfolio and an investment security under this category.

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

The Group has no financial assets and liabilities classified as held for trading.

The Group reassesses its business models each reporting period.

1. Accounting policies (continued)

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.

During the year equity financial instruments comprised own shares and AT1 securities. Accordingly, the coupons paid on the AT1 securities are 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 rate.

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.

AT1 securities are designated as equity instruments and recognised at fair value on the date of issuance in equity along with incremental costs directly attributable to the issuance of equity instruments.

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.

The Group offers refinancing options to customers which have been assessed within the principles of IFRS 9 and relevant guidance including a read across in respect of debt issuance. The assessment concludes the original mortgage asset is derecognised at the refinancing point 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 a substantial modification 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.

1. Accounting policies (continued)

iv. Offsetting

Financial assets and financial liabilities are offset and the net amount presented in the Consolidated 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.

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 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 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, less principal payments or receipts, 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 of assets.

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 its investment securities and Perpetual Subordinated Bonds (PSBs) at fair value using quoted market prices where available.

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 SONIA curves to value its derivatives, previously a combination of LIBOR and SONIA curves (for further information on IBOR transition, see note 45). 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 Group's two banking entities and counterparty and whether the derivative is collateralised or not. Derivatives are valued using discounted cash flow models and observable market data and are sensitive to benchmark interest and basis rate curves.

1. Accounting policies (continued)

The fair value of investment securities held at FVTPL is measured using a discounted cash flow model.

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 ECL approach for measuring impairment. The three impairment stages are as follows:

- **Stage 1** – a 12 month ECL allowance is recognised where there is no significant increase in credit risk (SICR) since initial recognition.
- **Stage 2** – a lifetime ECL 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 recognised.

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 other events that suggest a high probability of credit loss. Loans are considered at a connection level, i.e. including all loans 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.

For all individually assessed loans with a confirmed sale, should the present value of estimated future cash flows discounted at the original EIR be less than the carrying value of the loan, a provision is recognised for the difference with such loans being classified as impaired. However, should the present value of the estimated future cash flows exceed the carrying value, no provision is recognised. For all remaining individually assessed loans, should a full loss be expected the provision is set to the carrying value, with all other individually assessed loans applying the greater of either the modelled or individual assessment.

The Group applies a modelled assessment 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).

1. Accounting policies (continued)

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.

In accordance with PRA COVID-19 guidance, the Group does not automatically consider the take-up of customer payment deferrals during the pandemic to be an indication of a SICR and, in the absence of other indicators such as previous arrears, low credit score or high other indebtedness, the staging of these loans remains unchanged in its ECL calculations.

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 initial recognition, a loan is assigned a PD estimate. For each monthly reporting date thereafter, an updated PD estimate is computed. The Group's transfer criteria analyses relative changes in PD versus the PD assigned at the point of origination, together with qualitative triggers using both internal indicators, such as forbearance, and external information, such as changes in income and adverse credit information to assess for SICR. In the event that given early warning triggers have not already identified SICR, an account more than 30 days past due has experienced a SICR.

A borrower will move back into stage 1 only if the SICR definition is no longer triggered.

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:

- If an account is more than 90 days past due.
- Accounts that have moved into an unlikely 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

The risk of default and expected credit loss assessments take 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 HPI, unemployment rate (UR), Gross domestic product (GDP), Commercial Real Estate Index (CRE) and the Bank of England Base Rate (BBR).

1. Accounting policies (continued)

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 sources economic forecast information from an appropriately qualified third party when determining scenarios. The Group considers four probability-weighted scenarios, 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. The 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 months 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 the Group's definition of default (90 days past due or an unlikeliness to pay position) at acquisition are treated as POCI assets. These assets attract a lifetime ECL allowance over the full term of the loan, even when these loans no longer meet the definition of default post acquisition. The Group does not originate credit-impaired loans.

Intercompany loans

Intercompany receivables in the 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 Bank of England (BoE) and other credit institutions and high grade investment securities. The Group deems the likelihood of default across these counterparties as low and 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.

1. Accounting policies (continued)

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 Term Funding Scheme (TFS) and Term Funding Scheme with additional incentives for SMEs (TFSME) are not derecognised from the Consolidated 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 TFSME as amortised cost under IFRS 9 Financial Instruments.

Loans and advances include a small acquired mortgage portfolio where the contractual cash flows include payments that are not solely payments of principal and interest and as such are measured at FVTPL. 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 include securities held for liquidity purposes (UK treasury bills, UK Gilts and Residential Mortgage-Backed Securities (RMBS)). These assets are non-derivatives that are designated as FVOCI or amortised cost.

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

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

Assets held at FVTPL are measured at fair value with movements taken to the Consolidated Statement of Comprehensive Income.

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 TFSME, 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 TFSME is recorded in amounts owed to credit institutions. Interest is accrued over the life of the agreements on an EIR basis.

1. Accounting policies (continued)

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 p(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) to manage its exposure to interest rate risk. In accordance with the Group Market and Liquidity Risk 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 Consolidated Statement of Financial Position.

The Group also uses derivatives to hedge the interest rate risk inherent in irrevocable 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 warrants. These are recognised as 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, hedge relationships are clearly documented and derivatives must be expected to be highly effective in offsetting the hedged risks. In addition, effectiveness must be tested throughout the life of the hedge relationship. This applies to all derivatives including SONIA-linked derivatives entered into to replace LIBOR-linked derivatives, as a result of IBOR reforms (see note 1 aa)).

1. Accounting policies (continued)

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. During 2021 all remaining LIBOR-linked derivatives with a maturity date post Q1 2022 were cancelled and new SONIA-linked derivatives entered into. 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 Consolidated 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, including LIBOR-linked derivatives cancelled as a result of IBOR reforms, 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 Consolidated 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 two banking entities defaulting. 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;
- the expected EAD;
- the expected LGD; and
- the average maturity of the swaps.

1. Accounting policies (continued)

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 Group contributes to defined contribution personal pension plans or 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

Equity-settled share-based payments to employees providing services are measured at the fair value of the equity instruments at the grant date in accordance with IFRS 2. The fair value excludes the effect of non-market-based vesting conditions.

The cost of the awards 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 increase within the share-based payment reserve is reclassified to retained earnings upon exercise.

The amount recognised as an expense for non-market conditions and related service conditions is adjusted each reporting period to reflect the actual number of awards expected to be met. 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 to the fair value of each award calculated at grant date.

Share-based payments that are not subject to further vesting conditions (i.e. the Deferred Share Bonus Plan (DSBP) for senior managers) are expensed in the year services are received with a corresponding increase in equity. Awards granted to Executive Directors in March 2020 are subject to service conditions through to vesting and are expensed over the vesting period. Awards granted to Executive Directors from April 2021 are not subject to future service conditions and are expensed in the year where the service is deemed to have been provided.

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.

1. Accounting policies (continued)

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

Following the insertion of OSBG, the Group ceased consolidating the EBT and no longer recognises own shares.

z) Leases

The Group's leases are predominantly for offices and Kent Reliance branches. The Group recognises right-of-use assets and lease liabilities for 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. Lease liability payments are recognised within financing activities in the Consolidated 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.

For modifications that increase the length of a lease; the modified lease term is determined and the lease liability remeasured by discounting the revised lease payments using a revised discount rate, at the effective date of the lease modification; a corresponding adjustment is made to the right-of-use asset. Where modifications decrease the length of a lease, the lease liability and right-of-use asset are reduced in proportion to the reduction in the lease term, with any gain or loss recognised in the profit or loss.

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

aa) Adoption of new standards

International financial reporting standards issued and adopted for the first time in the year ended 31 December 2021

The following financial reporting standard amendments and interpretations were in issue and have been applied in the financial statements from 1 January 2021.

- Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 Interest Rate Benchmark Reform – Phase 2

The Group has adopted 'Interest Rate Benchmark Reform – Phase 2 (Amendments to IFRS 9 Financial Instruments, IAS 39 Financial Instruments: Recognition and Measurement, IFRS 7 Financial Instruments: Disclosures, IFRS 4 Insurance Contracts and IFRS 16 Leases'), which was issued in August 2020 and became mandatory for annual reporting periods beginning on or after 1 January 2021. Adopting these amendments has enabled the Group to reflect the effects of transitioning from IBOR to alternative benchmark interest rates (also referred to as 'risk free rates' or RFRs) without giving rise to accounting impacts that would not provide useful information to users of financial statements. See the IBOR transition section in note 45 Risk Management for further details. The Group continues to apply the Phase 1 amendments 'Interest Rate Benchmark reform: Amendments to IFRS 9/IAS 39 and IFRS 7' where relevant.

1. Accounting policies (continued)

The IFRS Interpretations Committee published an agenda decision in April 2021 addressing how a customer should account for the costs of configuring or customising a supplier's application software in a SaaS arrangement that is determined to be a service contract. This has accounting implications for any cloud-based applications that may be held as an intangible asset as the new guidance requires the majority of these costs should not be recognised as an Intangible asset except in a few limited circumstances. See note 1 l) for further details.

There has been no material impact on the financial statements of the Group from the adoption of these financial reporting standard amendments and interpretations.

International financial reporting standards issued but not yet effective which are applicable to the Group

There are a number of minor amendments to financial reporting standards that were in issue but have not been applied in the financial statements, as they were not yet effective on 31 December 2021. The adoption of these amendments will not have a material impact on the financial statements of the Group 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 future financial years. Actual results may differ from these estimates.

Climate change is a global challenge and an emerging risk to businesses, people and the environment. Therefore, in preparing the financial statements, the Group has considered the impact of climate-related risks on its financial position and performance, including the impact on ECL and redemption profiles included in EIR. While the effects of climate change represent a source of uncertainty, the Group does not consider there to be a material impact on its judgements and estimates from the physical or transition risks in the short to medium term.

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

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

(i) Loan book impairments

Significant increase in credit risk for classification in stage 2
The Group's SICR rules, prior to the COVID-19 pandemic, considered changes in default risk, internal impairment measures, changes in customer credit bureau files, or whether forbearance measures had been applied. The Group took steps to adjust the SICR criteria through the pandemic to account for the changes in risk profile and specifically for payment deferrals granted, noting that not all of the instances of a payment deferral would be a significant increase in credit risk.

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

As the COVID-19 payment deferrals initiative has ceased, newly granted payment holidays are considered a SICR event, aligned to the pre-COVID-19 SICR approach. Other adjustments made during the pandemic to account for high risk accounts and those with income stress are still considered in the SICR criteria.

(ii) IFRS 9 classification
Application of the 'business model' requirements under IFRS 9 requires the Group to conclude on the business models that it operates and is a fundamental aspect in determining the classification of the Group's financial assets.

Management concluded that the Group's business model is a 'held to collect' business model with the majority of the Group's assets being loans and advances held at amortised cost. This conclusion was reached on the basis that the Group originates and purchases loans and advances in order to collect contractual cash flows over the life of the originated or purchased financial instrument.

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 mortgage book of £17.7m (2020: £19.1m) 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
Set out below are details of the critical accounting estimates which underpin loan impairment calculations. Less significant estimates are not discussed as they do not have a material effect. The Group has recognised total impairments of £101.5m (2020: £111.0m) at the reporting date as disclosed in note 22.

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 LGD and forward-looking macroeconomic scenarios.

Loss given default model
The Group has a number of LGD models, which include a number of estimated inputs including propensity to go to possession given default (PPD), forced sale discount, time to sale and sale cost estimates. The LGD is sensitive to the application of the HPI. For the OSB segment at 31 December 2021 a 10% fall in house prices would result in an incremental £22.7m (2020: £25.6m) of provision being required. For the CCFS segment at 31 December 2021 a 10% fall in house prices would result in an incremental £8.3m (2020: £13.9m) 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 £31.0m (2020: £39.5m) as at 31 December 2021.

The Group's forecasts of HPI movements used in the impairment models are disclosed in the Risk profile performance review on page 56.

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

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

The Group sources economic forecasts from an appropriately qualified, independent third party. The Group considers four probability-weighted scenarios: base, upside, downside and severe downside scenarios. There still remains some uncertainty around the pandemic, with the unknown economic impact of removing COVID-19 support measures in 2021 and the ongoing risk of further COVID-19 variants. There is also emerging uncertainty over the cost of living, with high inflation and base rate increases forecast in the near to medium term, therefore the management and Board deemed it prudent to adjust the probability weightings as at 31 December 2021 to increase the contribution from the downside scenarios and account for the increased economic uncertainty. The Group's macroeconomic scenarios can be found in the Strategic Report on page 55.

The following tables detail 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-21	**Weighted (see note 22)**	**100% Base case scenario**	**100% Upside scenario**	**100% Downside scenario**	**100% Severe downside scenario**
Total loans before provisions, £m	**21,164.1**	**21,164.1**	**21,164.1**	**21,164.1**	**21,164.1**
Modelled ECL, £m	**48.3**	**26.5**	**13.1**	**74.0**	**120.3**
Non-modelled ECL, £m	**53.2**	**53.2**	**53.2**	**53.2**	**53.2**
Total ECL, £m	**101.5**	**79.7**	**66.3**	**127.2**	**173.5**
ECL Coverage, %	**0.48**	**0.38**	**0.31**	**0.60**	**0.82**
As at 31-Dec-20					
Total loans before provisions, £m	19,322.6	19,322.6	19,322.6	19,322.6	19,322.6
Modelled ECL, £m	71.6	54.6	40.1	113.5	166.7
Non-modelled ECL, £m	39.4	39.4	39.4	39.4	39.4
Total ECL, £m	111.0	94.0	79.5	152.9	206.1
ECL Coverage, %	0.57	0.49	0.41	0.79	1.07

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

(ii) Loan book acquisition accounting and income recognition
Acquired loan books are initially recognised at fair value. Significant estimation is required 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 and the amount of incurred losses.

The EIR on loan books purchased at significant discounts or premiums is particularly sensitive to the weighted average life of the loan book through the constant prepayment rate (CPR) and the constant default rate (CDR) estimates assumed, 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).

The EIR calculated at acquisition is not changed for subsequent variances in actual to expected cash flows, unless the variance is due to changes in expectations of market rates of interest. The Group monitors the actual cash flows for each acquired book, and where they diverge significantly from expectation, the revised future cash flows are discounted at the original EIR, with any resulting change in carry value creating a corresponding gain or loss in the Consolidated Statement of Comprehensive Income as interest income. The Group also considers the total variance across all acquired portfolios and the economic outlook.

The Group recognised a £7.5m loss in 2021 as a result of resetting cash flows on acquired books (2020: loss of £3.5m). 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. £27m/£31m (2020: c. £33m/£37m).

It is reasonably possible, on the basis of existing knowledge, that a change in estimated cash recoveries of principal and interest which are past due at loan maturity could result in a material increase in the value of the acquired second charge loan portfolios with a corresponding increase in net interest income. It is currently impracticable to estimate reliably the possible effects of a change in cash flow recoveries as they are subject to application of the Group's forbearance and collections policies, following further engagement with borrowers and regulatory guidance.

(iii) Effective interest rate on organic lending
Estimates are made when calculating the EIR for newly originated loan assets. These include the likely customer redemption profiles.

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) or Base plus a margin for the Kent Reliance brand or a SONIA/Base plus a margin for the Precise brand. The Group uses historical customer behaviours, expected take-up rate of retention products and macroeconomic forecasts in its assessment of prepayment rates. Customer prepayments in a fixed rate or incentive period can give rise to Early Repayment Charge (ERC) income.

Estimation is used in assessing whether and for how long mortgages that reach the end of the initial product term stay on reversion rates, and to the quantum and timing of prepayments that incur ERCs. The estimate of customer weighted average life will determine the period over which net fee income and expected reversionary income is recognised. Estimates are reviewed regularly and, as a consequence of the reviews, adjustments of £19.0m were made in 2021, increasing net interest income and customer loans and receivables.

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

Sensitivities have been applied to the Precise and Kent Reliance loan books, to illustrate the impact on interest income of a change in the expected weighted average lives of the loan books. An extension of the expected life will typically result in increased expectations of post reversionary income, less ERCs and a recognition of net fee income over a longer period. A shortening of the expected life will lead to reduced post reversionary income, more ERCs and a recognition of net fees over a shorter period.

The potential duration of a change in customer behaviour as a result of COVID-19, changes in lifestyle including working patterns, higher cost of living and the macroeconomic outlook remains uncertain. A period of six months' variance in the weighted average lives of the loan books was selected to show this sensitivity.

Applying a six month extension in the expected weighted average life of the organic loan books would result in a gain of c. £22.7m (2020: c. £22.6m) recognised in net interest income. Applying a six month reduction in the expected weighted average life of the loan book would result in a reset loss of c. £14.9m (2020: c. £6.9m).

3. Interest receivable and similar income

	Group 2021 £m	Group 2020 £m
At amortised cost:		
On OSB mortgages	**541.3**	496.8
On CCFS mortgages	**342.9**	331.9
On finance leases	**6.3**	3.8
On investment securities	**2.1**	2.5
On other liquid assets	**2.7**	5.3
Amortisation of fair value adjustments on CCFS Combination[1]	**(66.1)**	(67.8)
Amortisation of fair value adjustments on hedged assets[2]	**(39.9)**	(17.9)
	789.3	754.6
At FVTPL:		
Net expense on derivative financial instruments - lending activities	**(42.9)**	(47.7)
At FVOCI:		
On investment securities	**0.4**	5.0
	746.8	711.9

[1] Amortisation of fair value adjustments on CCFS loan book at Combination.
[2] The amortisation relates to hedged assets where the hedges were terminated before maturity and were effective at the point of termination.

4. Interest payable and similar charges

	Group 2021 £m	Group 2020 £m
At amortised cost:		
On retail deposits	**156.7**	245.5
On BoE borrowings	**4.5**	8.4
On PSBs	**1.2**	1.7
On subordinated liabilities	**0.8**	0.8
On wholesale borrowings	**0.8**	1.3
On debt securities in issue	**3.9**	3.4
On lease liabilities	**0.3**	0.3
Amortisation of fair value adjustments on CCFS Combination[1]	**(1.5)**	(3.3)
Amortisation of fair value adjustments on hedged liabilities[2]	**(1.1)**	-
	165.6	258.1
At FVTPL:		
Net income on derivative financial instruments - savings activities	**(6.4)**	(18.4)
	159.2	239.7

[1] Amortisation of fair value adjustments on CCFS customer deposits at Combination.
[2] The amortisation relates to hedged liabilities where the hedges were terminated before maturity and were effective at the point of termination.

5. Fair value gains on financial instruments

	Group 2021 £m	Group 2020 £m
Fair value changes in hedged assets	**(297.8)**	107.3
Hedging of assets	**298.9**	(116.8)
Fair value changes in hedged liabilities	**27.4**	(4.1)
Hedging of liabilities	**(26.1)**	6.8
Ineffective portion of hedges	**2.4**	(6.8)
Net gains/(losses) on unmatched swaps	**10.3**	(18.0)
Amortisation of inception adjustments[1]	**3.0**	13.0
Amortisation of acquisition-related inception adjustments[2]	**13.4**	17.0
Amortisation of de-designated hedge relationships[3]	**0.2**	2.4
Fair value movements on mortgages at FVTPL	**1.2**	(0.2)
Debit and credit valuation adjustment	**(1.0)**	-
	29.5	7.4

[1]The amortisation of inception adjustment relates to the amortisation of the hedging adjustments arising when hedge accounting commences, primarily on derivative instruments previously taken out against the mortgage pipeline and also on derivative instruments previously taken out against new retail deposits.

5. Fair value gains on financial instruments (continued)

[2] Relates to hedge accounting assets and liabilities recognised on the Combination. The inception adjustments are being amortised over the life of the derivative instruments acquired on Combination subsequently designated in hedging relationships.

[3] Relates to the amortisation of hedged items where hedge accounting has been discontinued due to ineffectiveness.

6. Gain on sales of financial instruments

On 10 February 2021, the Group sold the Precise Mortgage Funding 2019-1B plc A2 notes for £287.0m, generating a gain on sale of £4.0m. Excluding the impact of the fair value adjustment on Combination of £1.7m, the underlying gain on sale was £2.3m.

On 17 January 2020, the Group sold the Canterbury Finance No.1 plc (Canterbury 1) A2 note for proceeds of £225.4m. After incurring costs of £0.2m, a gain on sale of £1.9m was recognised.

On 23 January 2020, the Group sold the F note and residual certificates of Canterbury 1 for proceeds of £23.6m. Following the sale the Group had no remaining interest in the Canterbury securitisation. As a result, consolidation of Canterbury 1 into the Group ceased on disposal. The Group recognised a gain on sale of £16.0m upon deconsolidation.

On 23 January 2020, the Group securitised mortgage loans with a par value of £375.5m through Precise Mortgage Funding 2020-1B plc (PMF 2020-1B), issuing £388.9m of Sterling floating rate notes. The Group retained the £100.7m 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. Excluding the impact of the fair value adjustment on the mortgages on Combination with OSB of £13.1m, the underlying gain on sale was £15.1m.

On 14 September 2020, the Group sold £150.0m of Canterbury Finance No.3 plc A2 notes for £150.1m, resulting in a gain on sale of £0.1m.

7. Other operating income

	Group 2021 £m	Group 2020 £m
Interest received on mortgages held at FVTPL	**0.5**	0.6
Fees and commissions receivable	**7.4**	8.4
	7.9	9.0

8. Administrative expenses

	Group 2021 £m	Group 2020 £m
Staff costs	**92.5**	86.0
Facilities costs	**6.0**	5.7
Marketing costs	**4.0**	5.1
Support costs[1]	**25.3**	18.6
Professional fees	**16.9**	22.3
Other costs	**7.3**	5.6
Depreciation (see note 28)	**5.0**	5.6
Amortisation (see note 29)	**9.5**	8.2
	166.5	157.1

[1] External servicing costs of £6.1m are now categorised as support costs in 2021 (2020: £6.0m categorised in professional fees).

Included in professional fees are amounts paid to the Company's auditor as follows:

	Group 2021 £'000	Group 2020 £'000
Fees payable to the Company's auditor for the audit of the Company's annual accounts	**608**	899
Fees payable to the Company's auditor for the audit of the accounts of subsidiaries	**1,722**	1,299
Total audit fees	**2,330**	2,198
Audit-related assurance services[1]	**248**	217
Other assurance services[2]	**121**	45
Other non-audit services[3]	**240**	101
Total non-audit fees	**609**	363
Total fees payable to the Company's Auditor	**2,939**	2,561

[1] Includes review of interim financial information and profit verifications.
[2] 2021 costs comprise assurance reviews of Alternative performance measures (APMs), integration costs and European Single Electronic Format tagging. 2020 costs related to assurance review of APMs and integration costs.
[3] 2021 costs comprise work related to the AT1 securities issuance, a gap analysis in relation to TCFD and the European Medium Term Note programme. 2020 primarily comprises work related to the insertion of a new holding company.

8. Administrative expenses (continued)

Staff costs comprise the following:

	Group 2021 £m	Group 2020 £m	**Company 2021 £m**	Company 2020 £m
Salaries, incentive pay and other benefits	**72.9**	68.5	**37.5**	30.7
Share-based payments	**6.7**	5.1	**5.0**	4.9
Social security costs	**7.7**	8.1	**4.7**	4.5
Other pension costs	**5.2**	4.3	**3.5**	2.6
	92.5	86.0	**50.7**	42.7

The average number of people employed by the Group (including Executive Directors) during the year is analysed below.

	Group 2021	Group 2020	**Company 2021**	Company 2020
UK	**1,220**	1,330	**580**	536
India	**535**	486	**-**	-
	1,755	1,816	**580**	536

9. Impairment of intangible assets

Assets arising on the Combination with CCFS in 2019 included a broker relationships intangible asset with a fair value of £17.1m on Combination. During 2020 an impairment of £7.0m was recognised arising from changes to CCFS anticipated lending volumes over three years post combination, which are a key input to the calculation of the fair value, and which were revised due to COVID-19 impacts. During 2021 an impairment assessment was performed and as actual lending volumes were higher than anticipated the Group has recognised an impairment reversal of £3.1m. The remaining carrying value of the broker relationships intangible asset at 31 December 2021 is £5.0m (2020: £5.8m).

10. Directors' emoluments and transactions

	Company 2021 £'000	Company 2020 £'000
Short-term employee benefits[1]	**2,825**	2,675
Post-employment benefits	**106**	99
Share-based payments[2]	**1,267**	425
	4,198	3,199

[1] Short-term employee benefits comprise Directors' salary costs, Non-Executive Directors' fees and other short-term incentive benefits, which are disclosed in the Annual Report on Remuneration.
[2] 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 deferred bonuses of £633k (2020: £495k) in the form of shares. DSBP awards granted from April 2021 have a holding period of three years with no further conditions attached other than standard clawback situations. In March 2020 and prior years, the DSBP awards were subject to either a three or five year vesting period with conditions attached, notably if the Director leaves prior to vesting, the award is forfeited unless a good leaver reason applies such as redundancy, retirement or ill-health.

The Executive Directors received a further share award under the Performance Share Plan (PSP) with a grant date fair value of £1,458k (2020: £1,359k) using a share price of £4.94 (2020: £2.58) (the mid-market quotation on the day preceding the date of grant). These shares vest annually from year three in tranches of 20 per cent, subject to performance conditions discussed in note 11 and the OSB GROUP PLC Annual Report on Remuneration.

No compensation was paid for loss of office during 2021. The compensation for loss of office during 2020 was £59k.

There were no outstanding loans granted in the ordinary course of business to Directors and their connected persons as at 31 December 2021 and 2020.

The highest paid Director employed by the Company received emoluments of £2,506k (2020: £1,329k) and payments in respect of personal pension plans of £65k (2020: £59k) in the year.

The OSB GROUP PLC 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:

Sharesave Scheme
The Save As You Earn (SAYE) or Sharesave Scheme is a share option scheme which is available 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. If not exercised, the amount saved is returned to the employee. The Sharesave Scheme has been in operation since 2014 and an invitation to join the scheme is usually extended annually, with the option price calculated using the mid-market price of an OSB GROUP PLC ordinary share over the three dealing days prior to the Invitation Date and applying a discount of 20%.

Deferred Share Bonus Plan
The DSBP applies to Executive Directors and certain senior managers with 50% of their performance bonuses to be deferred in shares for three years for Executive Directors and one or five years for senior managers. There are no further performance or vesting conditions attached to deferred awards for senior managers, which also applies to Executive Directors for awards granted from April 2021; the share awards are subject to clawback provisions. The DSBP awards are expensed in the year services are received with a corresponding increase in equity. Awards granted to Executive Directors in March 2020 and prior, are subject to vesting conditions and are expensed over the vesting period.

DSBP awards for senior managers carry entitlements to dividend equivalents, which are paid when the awards vest. DSBP awards granted from April 2021 to Executive Directors are entitled to dividend equivalents; awards granted in prior years were not entitled to dividend equivalents.

Performance Share Plan
Executive Directors and certain senior managers are also eligible for a PSP award based on performance conditions which vest in tranches over three to seven years.

The performance conditions that apply to PSP awards from 2020 are based on a combination of earnings per share (EPS) weighting of 35%, total shareholder return (TSR) 35%, risk-based 15% and return on equity (ROE) 15%. Prior to 2020, PSP awards were based on a combination of EPS weighting of 40%, TSR 40% and ROE 20%. The PSP conditions are assessed independently. The EPS element assesses the compound annual growth rate over the performance period, that is, the annualised growth from a base year 0 to final year 3. For example, the 2022 Award will measure the EPS growth from 1 January 2021 to 31 December 2024. For the TSR element, the OSBG's ordinary shares relative performance is measured against the FTSE 250 (excluding investment trusts). The risk-based measure is assessed against the risk management performance with regard to all relevant risks including, but not limited to, an assessment of regulatory risk, operational risk, conduct risk, liquidity risk, funding risk, marketing risk and credit risk. For the ROE element, growth rates are assessed against the Group's underlying profit after taxation as a percentage of average shareholders' equity.

As part of the Combination, mirror PSP awards were granted to replace the 2018 and 2019 CCFS schemes that terminated upon the Combination. The mirror PSP schemes follow the same performance conditions as the Group's 2018 and 2019 PSP awards.

11. Share-based payments (continued)

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 8 Administrative expenses.

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

	Group 2021 £m	Group 2020 £m
Sharesave Scheme	**0.7**	0.5
Deferred Share Bonus Plan	**3.8**	3.9
Performance Share Plan	**2.2**	0.7
	6.7	5.1

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

	Sharesave Scheme		**Deferred Share Bonus Plan**	**Performance Share Plan**
	Number	**Weighted average exercise price, £**	**Number**	**Number**
At 1 January 2021	**2,745,332**	**2.53**	**1,119,757**	**4,986,527**
Granted	**339,097**	**3.96**	**363,624**	**1,477,111**
Exercised/Vested	**(270,709)**	**3.10**	**(683,456)**	**(513,927)**
Forfeited	**(392,460)**	**2.63**	**(2,809)**	**(724,631)**
At 31 December 2021	**2,421,260**	**2.65**	**797,116**	**5,225,080**
Exercisable at:				
31 December 2021	**8,480**	**3.37**	**-**	**-**

11. Share-based payments (continued)

	Sharesave Scheme		Deferred Share Bonus Plan	Performance Share Plan
	Number	Weighted average exercise price, £	Number	Number
At 1 January 2020	2,869,146	2.63	738,473	3,096,371
Granted	1,483,202	2.29	839,735	2,756,176
Exercised/Vested	(1,080,430)	2.32	(449,608)	(383,205)
Forfeited	(526,586)	2.79	(8,843)	(482,815)
At 31 December 2020	2,745,332	2.53	1,119,757	4,986,527
Exercisable at:				
31 December 2020	118,402	2.89	-	-

For the share-based awards granted during the year, the weighted average grant date fair value was 286 pence (2020: 188 pence).

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

	2021		2020	
Exercise price	**Number**	**Weighted average remaining contractual life (years)**	Number	Weighted average remaining contractual life (years)
Sharesave Scheme				
227 - 335 pence (2020: 227 - 335 pence)	**2,421,260**	**2.0**	2,745,332	2.5
Deferred Share Bonus Plan				
Nil	**797,116**	**0.7**	1,119,757	0.7
Performance Share Plan				
Nil	**5,225,080**	**2.4**	4,986,527	2.5
	8,443,456	**2.1**	8,851,616	2.3

11. Share-based payments (continued)

Sharesave Scheme

	2021	2020		2019		2018		2017	
Contractual life, years	**3**	3	5	3	5	3	5	3	5
Share price at issue, £	**5.13**	2.86	2.86	3.32	3.32	4.19	4.19	3.93	3.93
Exercise price, £	**3.96**	2.29	2.29	2.65	2.65	3.35	3.35	3.15	3.15
Expected volatility, %	**37.9**	57.6	57.6	31.9	31.9	16.1	16.5	18.0	17.3
Dividend yield, %	**4.5**	3.3	3.3	4.8	4.8	4.4	4.4	4.1	4.1
Grant date fair value, £	**1.46**	1.22	1.34	0.90	0.91	0.40	0.43	0.75	0.70

The Sharesave schemes are not entitled to dividends between the option and exercise date. A Black Scholes model is used to determine the grant date fair value with two inputs:

- Expected volatility - from 2019, the expected volatility is based on OSBG's share price post insertion, and the OSB share price prior to insertion. Prior to this the Group used the FTSE 350 diversified financials volatility as insufficient history was available for the Company's share price.
- Dividend – based on the average dividend yield across external analyst reports for the quarter prior to scheme grant date.

Deferred Share Bonus Plan

	2020	2019	2018	2017
Contractual life, years	3	3	3	5
Mid-market share price, £	2.58	3.96	3.80	4.04
Attrition rate, %	-	8.4	9.7	11.8
Dividend yield, %	5.6	4.7	4.6	4.0
Grant date fair value, £	2.21	3.47	3.34	3.37

For awards granted from April 2021 there are no further performance or vesting conditions attached to deferred awards, for further details see DSBP above.

For DSBP awards where conditions exist, these schemes carry no rights to dividend equivalents and a Black Scholes model is used to determine the grant date fair value with a dividend yield input applied – based on the average dividend yield across external analyst reports for the quarter prior to scheme grant date.

Performance Share Plan

Performance awards are typically made annually at the discretion of the Group Remuneration Committee. Awards are based on a mixture of internal financial performance targets, risk-based measures and relative TSR.

Non-market performance conditions exist for the scheme notably that you are employed by the Company at the vesting date with good leaver exceptions, and an attrition rate is applied as an estimate of the actual number of awards that will meet the related conditions at the vesting date.

11. Share-based payments (continued)

The awards are not entitled to a dividend equivalent between grant date and vesting and a Black Scholes model is used to determine the grant date fair value with a dividend yield input applied – based on the average dividend yield across external analyst reports for the quarter prior to scheme grant date.

The fair value of an option that is subject to market conditions (the relative share price element of the PSP is determined at grant date using a Monte Carlo model at the time of grant.

The inputs into the models are as follows:

	2021	2020	2019	2018
Contractual life, years	**3-7**	3-7	3	3
Mid-market share price, £	**4.94**	2.58	3.96	4.11
Attrition rate, %	**12.8**	7.3	8.4	9.7
Expected volatility, %	**59.5**	43.9	26.8	29.1
Dividend yield, %	**3.8**	5.6	4.7	4.6
Vesting rate - TSR %	**40.8**	27.8	44.9	54.0
Grant date fair value, £	**4.26**	2.06	3.47	3.61

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 - TSR, %	37.4	37.4
Grant date fair value, £	3.29	3.17

12. Integration costs

	Group 2021 £m	Group 2020 £m
Consultant fees	**2.2**	1.7
Staff costs	**2.2**	8.1
Impairment	**0.6**	-
	5.0	9.8

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

Staff costs relate to personnel who will leave or have left the Group through the transition of operations to the new operating model.

Impairment relates to a property sold during the year.

13. Exceptional items

	Group 2021 £m	Group 2020 £m
Consultant fees	**-**	2.0
Legal and professional fees	**0.2**	1.3
	0.2	3.3

Exceptional items relate to the insertion of OSB GROUP PLC as the new holding company and listed entity which is outside of this Group; with OSB being the only 100% owned direct subsidiary of OSB GROUP PLC. These costs are borne by OSB.

14. Taxation

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

	Group 2021 £m	Group 2020 £m
Corporation taxation	**128.3**	79.7
Deferred taxation	**(0.2)**	(0.8)
Release of deferred taxation on CCFS Combination[1]	**(8.5)**	(14.8)
Total taxation	**119.6**	64.1

[1] Release of deferred taxation on CCFS Combination relates to the unwind of the deferred tax liabilities recognised on the fair value adjustments of the CCFS assets and liabilities at the acquisition date (£14.1m) (2020: £19.6m) and the impact of the corporation tax rate increase on these deferred tax liabilities (£5.6m) (2020: £4.8m).

14. Taxation (continued)

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% (2020: 19%) as follows:

	Group 2021 £m	Group 2020 £m
Profit before taxation	**464.6**	260.3
Profit multiplied by the standard rate of UK Corporation Tax (19%)	**88.3**	49.5
Bank surcharge[1]	**27.7**	11.0
Taxation effects of:		
Expenses not deductible for taxation purposes	**0.7**	1.6
Impact of deferred tax rate change[2]	**5.2**	4.4
Adjustments in respect of earlier years	**-**	(0.4)
Tax adjustments in respect of share-based payments	**1.2**	0.8
Tax on coupon paid on AT1 securities	**(2.2)**	(1.5)
Timing differences	**(1.3)**	(1.3)
Total taxation charge	**119.6**	64.1

[1] Tax charge for the two banking entities of £31.9m (2020: £16.8m) offset by the tax impact of unwinding CCFS Combination items of £4.2m (2020: £5.8m).
[2] Due to change in corporation tax rate from 19% to 25% on 1 April 2023 (2020: Due to cancelled rate reductions from 19% to 17% on 1 April 2020).

Factors affecting tax charge for the year

On 24 May 2021, the Government substantively enacted legislation to increase the corporation tax rate from 19% to 25% from 1 April 2023. This has increased the deferred tax charge in the year by £5.2m.

The effective tax rate for the year ended 31 December 2021, excluding the impact of adjustments in respect of earlier years and the deferred tax rate change, was 24.6% (2020: 23.1%).

The £5.2m (2020: £4.4m) impact of the deferred tax rate change relates predominantly to the deferred tax liability from the CCFS combination (see note 27 and 38).

During the year a tax credit of £1.6m (2020: credit of £0.3m) of tax has been recognised directly within equity relating to the Group's share-based payment schemes.

During the year a tax credit of £0.5m (2020: charge of £0.5m) has been recognised within OCI relating to investment securities classified as FVOCI.

14. Taxation (continued)

Factors that may affect future tax charges

In November 2021, the government announced that the bank surcharge would reduce from 8% to 3% from 1 April 2023, together with an increase in the surcharge annual allowance from £25m to £100m. These changes were not substantively enacted into legislation at the balance sheet date and so have not been reflected in these financial statements. We have assessed the impact of these changes and concluded that they will not have a material impact on the Group's deferred tax balances.

15. Dividends

During the year, the Company paid the following dividends:

	Company 2021 £m	Company 2020 £m
Interim dividend for the current year	**86.7**	-

The Directors do not recommend a final dividend (2020: nil).

16. Cash and cash equivalents

The following table analyses the cash and cash equivalents disclosed in the Consolidated Statement of Cash Flows:

	Group 2021 £m	Group 2020 £m	**Company 2021 £m**	Company 2020 £m
Cash in hand	**0.5**	0.5	**0.5**	0.5
Unencumbered loans and advances to credit institutions	**2,636.2**	2,370.1	**1,331.8**	1,377.1
Investment securities	**100.0**	-	**-**	-
	2,736.7	2,370.6	**1,332.3**	1,377.6

17. Loans and advances to credit institutions

	Group 2021 £m	Group 2020 £m	Company 2021 £m	Company 2020 £m
Unencumbered:				
BoE call account	**2,496.4**	2,256.5	**1,313.5**	1,356.4
Call accounts	**43.3**	55.6	**18.1**	20.6
Cash held in special purpose vehicles[1]	**89.6**	51.0	**0.2**	0.1
Term deposits	**6.9**	7.0	**-**	-
Encumbered:				
BoE cash ratio deposit	**59.5**	52.3	**36.5**	34.0
Cash held in special purpose vehicles[1]	**48.0**	42.7	**-**	-
Cash margin given	**99.9**	211.1	**36.7**	107.0
	2,843.6	2,676.2	**1,405.0**	1,518.1

[1] Cash held in special purpose vehicles (SPVs) is ring-fenced for use in managing the Group's securitised debt facilities under the terms of securitisation agreements. Cash held in internal SPVs is treated as unencumbered in proportion to the retained interest in the SPV based on the nominal value of the bonds held in the Group to total bonds in the securitisation, and included in cash and cash equivalents. Cash retained in SPVs designated as cash reserve credit enhancement is treated as encumbered in proportion to the external holdings in the SPV and excluded from cash and cash equivalents.

18. Investment securities

	Group 2021 £m	Group 2020 £m	Company 2021 £m	Company 2020 £m
Held at FVTPL:				
RMBS loan notes	**0.7**	-	**0.7**	-
	0.7	-	**0.7**	-
Held at FVOCI:				
UK Sovereign debt	**152.1**	-	**-**	-
RMBS loan notes	**15.5**	285.0	**15.5**	15.0
	167.6	285.0	**15.5**	15.0
Held at amortised cost:				
UK Sovereign debt	**100.0**	-	**-**	-
RMBS loan notes	**223.1**	186.2	**-**	-
	323.1	186.2	**-**	-
Less: Expected credit losses	**-**	-	**-**	-
	323.1	186.2	**-**	-
	491.4	471.2	**16.2**	15.0

18. Investment securities (continued)

At 31 December 2021, the Group had no RMBS held at FVOCI (2020: £147.1m) and £119.5m of RMBS held at amortised cost (2020: £13.7m) sold under repos. The Company had no investment securities sold under repos as at the 2021 and 2020 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 FVTPL, FVOCI and amortised cost in accordance with the Group's business model for each security.

Movements during the year in investment securities held by the Group and Company are analysed as follows:

	Group 2021 £m	Group 2020 £m	**Company 2021 £m**	Company 2020 £m
At 1 January	**471.2**	635.3	**15.0**	149.8
Additions[1,2]	**568.2**	291.6	**216.6**	205.9
Disposals and maturities[3]	**(549.7)**	(457.2)	**(215.4)**	(341.0)
Movement in accrued interest	**0.6**	0.5	**(0.1)**	0.4
Changes in fair value	**1.1**	1.0	**0.1**	(0.1)
At 31 December	**491.4**	471.2	**16.2**	15.0

[1]Additions includes £100.0m of UK Treasury bills which had a maturity of less than three months from date of acquisition (2020: nil).
[2]The prior year additions included £100.7m of retained RMBS loan notes following the deconsolidation of PMF 2020-1B.
[3] The prior year disposals and maturities included £49.9m of UK Sovereign debt which had a maturity of less than three months from date of acquisition.

At 31 December 2021, the Group's investment securities included investments in unconsolidated structured entities (note 45) of £100.7m notes in PMF 2020-1B and £21.0m notes in PMF 2017-1B (2020: £100.7m notes in PMF 2020-1B, and £285.0m notes in PMF 2019-1B). The investments represent the maximum exposure to loss from unconsolidated structured entities. The Company has no investment securities in unconsolidated structured entities (2020: £15.0m notes in PMF 2019-1B). The investments represent the maximum exposure to loss from unconsolidated structured entities.

19. Loans and advances to customers

	Group 2021 £m	Group 2020 £m	Company 2021 £m	Company 2020 £m
Held at amortised cost:				
Loans and advances (see note 20)	**21,047.9**	19,257.1	**9,540.2**	8,596.2
Finance leases (see note 21)	**116.2**	65.5	**-**	-
	21,164.1	19,322.6	**9,540.2**	8,596.2
Less: Expected credit losses (see note 22)	**(101.5)**	(111.0)	**(63.8)**	(64.5)
	21,062.6	19,211.6	**9,476.4**	8,531.7
Residential mortgages held at FVTPL	**17.7**	19.1	**-**	-
	21,080.3	19,230.7	**9,476.4**	8,531.7

20. Loans and advances

	2021			2020		
	OSB	**CCFS**	**Total**	OSB	CCFS	Total
Group	**£m**	**£m**	**£m**	£m	£m	£m
Gross carrying amount						
Stage 1	**10,393.2**	**7,685.7**	**18,078.9**	9,310.8	6,749.5	16,060.3
Stage 2	**1,142.3**	**1,269.8**	**2,412.1**	1,362.0	1,327.6	2,689.6
Stage 3	**360.4**	**99.1**	**459.5**	344.5	48.1	392.6
Stage 3 (POCI)	**45.2**	**52.2**	**97.4**	48.6	66.0	114.6
	11,941.1	**9,106.8**	**21,047.9**	11,065.9	8,191.2	19,257.1

	2021	2020
Company	**£m**	£m
Gross carrying amount		
Stage 1	**8,220.7**	7,080.4
Stage 2	**984.5**	1,215.2
Stage 3	**294.0**	255.2
Stage 3 (POCI)	**41.0**	45.4
	9,540.2	8,596.2

20. Loans and advances (continued)

The mortgage loan balances pledged as collateral for liabilities are:

	Group 2021 £m	Group 2020 £m	**Company 2021 £m**	Company 2020 £m
BoE under TFS and TFSME	**5,887.2**	5,203.2	**3,390.5**	2,917.8
Securitisation	**486.5**	435.4	**288.4**	146.2
	6,373.7	5,638.6	**3,678.9**	3,064.0

The Group's securitisation programmes, use of TFS and TFSME result in certain assets being encumbered as collateral against such funding. As at 31 December 2021, the percentage of the Group's gross customer loans and receivables that are encumbered was 30% (2020: 29%).

The Company adopts a net accounting approach for retained interests in securitisation transactions that are consolidated into the Group, disclosing the net amount as a deemed loan liability. The table below shows the Company's securitised mortgages and retained loan notes:

	Company 2021 £m	Company 2020 £m
Loans and advances to customers	**3,081.6**	1,920.0
Deemed loan premium	**(7.4)**	14.7
Retained loan notes	**(2,931.4)**	(1,868.5)
	142.8	66.2

As at 31 December 2021, the Company had £1,581.7m (2020: £686.9m) of the retained loan notes sold under repos or pledged as collateral.

20. Loans and advances (continued)

The tables below show the movement in loans and advances to customers by IFRS 9 stage during the year:

Group	Stage 1 £m	Stage 2 £m	Stage 3 £m	Stage 3 (POCI) £m	Total £m
At 1 January 2020	17,239.2	749.5	294.4	136.8	18,419.9
Originations[1]	3,767.0	-	-	-	3,767.0
Acquisitions	60.8	-	-	1.5	62.3
Disposals	(787.3)	(16.1)	(1.0)	-	(804.4)
Repayments and write-offs[2]	(2,119.1)	(3.9)	(41.0)	(23.7)	(2,187.7)
Transfers:					
- To Stage 1	324.8	(293.5)	(31.3)	-	-
- To Stage 2	(2,300.3)	2,344.5	(44.2)	-	-
- To Stage 3	(124.8)	(90.9)	215.7	-	-
At 31 December 2020	16,060.3	2,689.6	392.6	114.6	19,257.1
Originations[1]	**4,523.4**	**-**	**-**	**-**	**4,523.4**
Acquisitions[3]	**277.7**	**-**	**-**	**2.7**	**280.4**
Disposals[3]	**(214.4)**	**-**	**-**	**-**	**(214.4)**
Repayments and write-offs[2]	**(2,539.8)**	**(160.3)**	**(78.6)**	**(19.9)**	**(2,798.6)**
Transfers:					
- To Stage 1	**1,401.0**	**(1,370.2)**	**(30.8)**	**-**	**-**
- To Stage 2	**(1,339.7)**	**1,384.1**	**(44.4)**	**-**	**-**
- To Stage 3	**(89.6)**	**(131.1)**	**220.7**	**-**	**-**
At 31 December 2021	**18,078.9**	**2,412.1**	**459.5**	**97.4**	**21,047.9**

[1] Originations include further advances and drawdowns on existing commitments.
[2] Repayments and write-offs include customer redemptions.
[3] The Group acted as co-arranger in the re-securitisation of £229.6m of third party mortgages from the Rochester Financing No.2 PLC securitisation to the new Rochester Financing No.3 PLC securitisation on 15 June 2021. Neither securitisation is a subsidiary of the Group. Under the terms of the mortgage sale agreements, the Group recognised the mortgages as a purchase from Rochester Financing No.2 PLC and immediately derecognised them as a sale to Rochester Financing No.3 PLC. OneSavings Bank plc is the master servicer of the mortgages, and has retained 5% of these mortgages, as required under the retention rules. In addition to the Group acting as co-arranger for the re-securitisation of Rochester Financing No.2 PLC, the Group purchased an external mortgage book, a c. £55m portfolio of UK residential mortgages, at a discount to current balances (prior year one external mortgage book purchased at par).

20. Loans and advances (continued)

Company	Stage 1 £m	Stage 2 £m	Stage 3 £m	Stage 3 (POCI) £m	Total £m
At 1 January 2020	7,785.0	371.3	211.1	53.4	8,420.8
Originations[1]	1,523.1	-	-	-	1,523.1
Disposals	(401.3)	(8.3)	(1.0)	-	(410.6)
Repayments and write-offs[2]	(955.0)	54.4	(28.5)	(8.0)	(937.1)
Transfers:					
- To Stage 1	126.0	(107.0)	(19.0)	-	-
- To Stage 2	(920.5)	956.8	(36.3)	-	-
- To Stage 3	(76.9)	(52.0)	128.9	-	-
At 31 December 2020	7,080.4	1,215.2	255.2	45.4	8,596.2
Originations[1]	**2,104.9**	**-**	**-**	**-**	**2,104.9**
Acquisitions[3]	**225.7**	**-**	**-**	**0.9**	**226.6**
Disposals[3]	**(214.4)**	**-**	**-**	**-**	**(214.4)**
Repayments and write-offs[2]	**(1,006.2)**	**(125.4)**	**(36.2)**	**(5.3)**	**(1,173.1)**
Transfers:					
- To Stage 1	**591.8**	**(577.2)**	**(14.6)**	**-**	**-**
- To Stage 2	**(505.3)**	**536.5**	**(31.2)**	**-**	**-**
- To Stage 3	**(56.2)**	**(64.6)**	**120.8**	**-**	**-**
At 31 December 2021	**8,220.7**	**984.5**	**294.0**	**41.0**	**9,540.2**

[1] Originations include further advances and drawdowns on existing commitments.
[2] Repayments and write-offs include customer redemptions.
[3] The Company acted as co-arranger in the re-securitisation of £229.6m of third party mortgages from the Rochester Financing No.2 PLC securitisation to the new Rochester Financing No.3 PLC securitisation on 15 June 2021. Neither securitisation is a subsidiary of the Company. Under the terms of the mortgage sale agreements, the Company recognised the mortgages as a purchase from Rochester Financing No.2 PLC and immediately derecognised them as a sale to Rochester Financing No.3 PLC. The Company is the master servicer of the mortgages, and has retained 5% of these mortgages, as required under the retention rules.

21. Finance leases

The Group provides asset finance lending through InterBay Asset Finance Limited.

	Group 2021 £m	Group 2020 £m
Gross investment in finance leases, receivable		
Less than one year	**39.7**	21.9
Between one and five years	**87.0**	50.4
More than five years	**0.9**	1.3
	127.6	73.6
Unearned finance income	**(11.4)**	(8.1)
Net investment in finance leases	**116.2**	65.5
Net investment in finance leases, receivable		
Less than one year	**34.7**	18.6
Between one and five years	**80.6**	45.7
More than five years	**0.9**	1.2
	116.2	65.5

The Group has recognised £4.3m of ECLs on finance leases as at 31 December 2021 (2020: £2.6m).

22. Expected credit losses

The ECL has been calculated based on various scenarios as set out below:

	2021			2020		
Group	**ECL provision £m**	**Weighting %**	**Weighted ECL provision £m**	ECL provision £m	Weighting %	Weighted ECL provision £m
Scenarios						
Upside	**13.1**	**20**	**2.6**	40.1	30	12.0
Base case	**26.5**	**40**	**10.6**	54.6	40	21.8
Downside scenario	**74.0**	**28**	**20.7**	113.5	23	26.1
Severe downside scenario	**120.3**	**12**	**14.4**	166.7	7	11.7
Total weighted provisions			**48.3**			71.6
Non-modelled Provisions:						
Individually-assessed provisions			**40.4**			29.0
Post model adjustments[1]			**12.8**			10.4
Total provision			**101.5**			111.0

[1]To ensure that provision coverage levels remain appropriate, management and the Board hold a number of post model adjustments, to capture any specific risks not captured within the models and economic forecasts as highlighted by the Group's risk functions top-down lending segment analysis or adjustments that still remain relevant from those introduced due to COVID-19 observations, restrictions and economic support measures. Additional information can be found in the Strategic Report on pages 53 to 62.

22. Expected credit losses (continued)

Company	2021 ECL provision £m	2021 Weighting %	2021 Weighted ECL provision £m	2020 ECL provision £m	2020 Weighting %	2020 Weighted ECL provision £m
Scenarios						
Upside	**6.2**	**20**	**1.2**	22.5	30	6.8
Base case	**15.7**	**40**	**6.3**	30.1	40	12.0
Downside scenario	**47.8**	**28**	**13.4**	65.2	23	15.0
Severe downside scenario	**79.9**	**12**	**9.6**	96.9	7	6.8
Total weighted provisions			**30.5**			40.6
Non-modelled Provisions:						
Individually-assessed provisions			**29.8**			22.0
Post model adjustments[1]			**3.5**			1.9
Total provision			**63.8**			64.5

[1]To ensure that provision coverage levels remain appropriate, management and the Board hold a number of post model adjustments, to capture any specific risks not captured within the models and economic forecasts as highlighted by the Group's risk functions top-down lending segment analysis or adjustments that still remain relevant from those introduced due to COVID-19 observations, restrictions and economic support measures. Additional information can be found in the Strategic Report on pages 53 to 62.

The Group and Company ECL by segment and IFRS 9 stage are shown below:

Group	2021 OSB £m	2021 CCFS £m	2021 Total £m	2020 OSB £m	2020 CCFS £m	2020 Total £m
Stage 1	**9.3**	**2.8**	**12.1**	12.3	8.9	21.2
Stage 2	**14.2**	**10.8**	**25.0**	17.9	13.1	31.0
Stage 3	**56.6**	**3.8**	**60.4**	49.4	2.3	51.7
Stage 3 (POCI)	**2.1**	**1.9**	**4.0**	4.0	3.1	7.1
	82.2	**19.3**	**101.5**	83.6	27.4	111.0

Company	2021 £m	2020 £m
Stage 1	**6.1**	8.4
Stage 2	**12.1**	16.3
Stage 3	**43.6**	35.9
Stage 3 (POCI)	**2.0**	3.9
	63.8	64.5

22. Expected credit losses (continued)

The tables below show the movement in the ECL by IFRS 9 stage during the year. ECLs on originations and acquisitions reflect the IFRS 9 stage of loans originated or acquired during the year as at 31 December and not the date of origination. Re-measurement 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 1 January 2020	5.6	5.6	23.8	7.9	42.9
Originations	6.3	-	-	-	6.3
Acquisitions	-	-	0.1	-	0.1
Disposals	(0.1)	(0.2)	(0.1)	-	(0.4)
Repayments and write-offs	(0.7)	(0.3)	(4.1)	(1.1)	(6.2)
Re-measurement of loss allowance	6.3	7.7	29.0	(0.2)	42.8
Transfers:					
- To Stage 1	2.0	(1.4)	(0.6)	-	-
- To Stage 2	(1.0)	2.8	(1.8)	-	-
- To Stage 3	(0.1)	(1.2)	1.3	-	-
Changes in assumptions and model parameters	2.9	18.0	4.1	0.5	25.5
At 31 December 2020	21.2	31.0	51.7	7.1	111.0
Originations	**5.7**	**-**	**-**	**-**	**5.7**
Acquisitions	**0.1**	**-**	**-**	**0.1**	**0.2**
Repayments and write-offs	**(2.8)**	**(3.3)**	**(7.4)**	**(1.1)**	**(14.6)**
Re-measurement of loss allowance	**(21.8)**	**(0.8)**	**12.8**	**(2.1)**	**(11.9)**
Transfers:					
- To Stage 1	**11.3**	**(10.5)**	**(0.8)**	**-**	**-**
- To Stage 2	**(2.3)**	**5.1**	**(2.8)**	**-**	**-**
- To Stage 3	**(0.3)**	**(3.1)**	**3.4**	**-**	**-**
Changes in assumptions and model parameters	**1.0**	**6.6**	**3.5**	**-**	**11.1**
At 31 December 2021	**12.1**	**25.0**	**60.4**	**4.0**	**101.5**

22. Expected credit losses (continued)

Company	Stage 1 £m	Stage 2 £m	Stage 3 £m	Stage 3 (POCI) £m	Total £m
At 1 January 2020	2.8	3.3	15.4	5.1	26.6
Originations	2.4	-	-	-	2.4
Disposals	(0.1)	(0.1)	(0.1)	-	(0.3)
Repayments and write-offs	(0.2)	(0.2)	(2.9)	(0.1)	(3.4)
Re-measurement of loss allowance	2.1	3.1	22.3	(1.4)	26.1
Transfers:					
- To Stage 1	0.8	(0.5)	(0.3)	-	-
- To Stage 2	(0.4)	2.1	(1.7)	-	-
- To Stage 3	-	(0.8)	0.8	-	-
Changes in assumptions and model parameters	1.0	9.4	2.4	0.3	13.1
At 31 December 2020	8.4	16.3	35.9	3.9	64.5
Originations	**2.6**	**-**	**-**	**-**	**2.6**
Repayments and write-offs	**(0.7)**	**(1.6)**	**(3.0)**	**(0.2)**	**(5.5)**
Re-measurement of loss allowance	**(8.9)**	**2.3**	**9.0**	**(1.6)**	**0.8**
Transfers:					
- To Stage 1	**5.5**	**(5.0)**	**(0.5)**	**-**	**-**
- To Stage 2	**(0.7)**	**2.0**	**(1.3)**	**-**	**-**
- To Stage 3	**(0.1)**	**(2.2)**	**2.3**	**-**	**-**
Changes in assumptions and model parameters	**-**	**0.3**	**1.2**	**(0.1)**	**1.4**
At 31 December 2021	**6.1**	**12.1**	**43.6**	**2.0**	**63.8**

The tables below show the stage 2 ECL balances by transfer criteria:

	2021			2020		
Group	**Carrying value £m**	**ECL £m**	**Coverage %**	Carrying value £m	ECL £m	Coverage %
Criteria:						
Relative PD movement	**1,251.6**	**17.1**	**1.37**	946.9	17.0	1.80
Qualitative measures	**1,125.0**	**7.4**	**0.66**	1,680.7	12.7	0.76
30 days past due backstop	**37.0**	**0.5**	**1.35**	63.4	1.3	2.05
Total	**2,413.6**	**25.0**	**1.04**	2,691.0	31.0	1.15

22. Expected credit losses (continued)

	2021			2020		
Company	**Carrying value £m**	**ECL £m**	**Coverage %**	Carrying value £m	ECL £m	Coverage %
Criteria:						
Relative PD movement	**425.8**	**7.7**	**1.81**	354.5	8.6	2.43
Qualitative measures	**543.8**	**4.1**	**0.75**	835.4	6.9	0.83
30 days past due backstop	**14.9**	**0.3**	**2.01**	25.3	0.8	3.16
Total	**984.5**	**12.1**	**1.23**	1,215.2	16.3	1.34

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.

23. Impairment of financial assets

The (credit)/charge for impairment of financial assets in the Consolidated Statement of Comprehensive Income comprises:

	Group 2021 £m	Group 2020 £m
Write-offs in year	**6.7**	1.9
Disposals	**-**	0.4
(Decrease)/increase in ECL provision	**(11.1)**	68.7
	(4.4)	71.0

24. Derivatives

The table below reconciles the gross amount of derivative contracts to the carrying balance shown in the Consolidated Statement of Financial Position:

Group	Gross amount of recognised financial assets / (liabilities) £m	Net amount of financial assets / (liabilities) presented in the Consolidated Statement of Financial Position £m	Contracts subject to master netting agreements not offset in the Consolidated Statement of Financial Position £m	Cash collateral paid / (received) not offset in the Consolidated Statement of Financial Position £m	Net amount £m
At 31 December 2021					
Derivative assets:					
Interest rate risk hedging	**185.7**	**185.7**	**(16.9)**	**(115.3)**	**53.5**
	185.7	**185.7**	**(16.9)**	**(115.3)**	**53.5**
Derivative liabilities:					
Interest rate risk hedging	**(19.7)**	**(19.7)**	**16.9**	**98.3**	**95.5**
	(19.7)	**(19.7)**	**16.9**	**98.3**	**95.5**
At 31 December 2020					
Derivative assets:					
Interest rate risk hedging	12.3	12.3	(11.8)	-	0.5
	12.3	12.3	(11.8)	-	0.5
Derivative liabilities:					
Interest rate risk hedging	(163.6)	(163.6)	11.8	210.5	58.7
	(163.6)	(163.6)	11.8	210.5	58.7

Included within the Group's derivative assets is £48.7m (2020: in derivative liabilities £(11.7)m) relating to derivative contracts not covered by master netting agreements on which no cash collateral has been paid.

24. Derivatives (continued)

Company	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 2021					
Derivative assets:					
Interest rate risk hedging	**50.5**	**50.5**	**(6.2)**	**(42.1)**	**2.2**
	50.5	**50.5**	**(6.2)**	**(42.1)**	**2.2**
Derivative liabilities:					
Interest rate risk hedging	**(8.7)**	**(8.7)**	**6.2**	**35.1**	**32.6**
	(8.7)	**(8.7)**	**6.2**	**35.1**	**32.6**
At 31 December 2020					
Derivative assets: Interest rate risk hedging	4.7	4.7	(4.2)	-	0.5
	4.7	4.7	(4.2)	-	0.5
Derivative liabilities: Interest rate risk hedging	(93.8)	(93.8)	4.2	106.4	16.8
	(93.8)	(93.8)	4.2	106.4	16.8

Included within the Company's derivative liabilities is nil (2020: nil) of derivative contracts not covered by master netting agreements on which no cash collateral has been paid.

24. **Derivatives** (continued)

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 2021					
Derivative assets	**12,968.3**	**245.2**	**2,345.4**	**10,235.7**	**142.0**
Derivative liabilities	**7,378.0**	**1,361.0**	**4,747.0**	**1,150.0**	**120.0**
	20,346.3	**1,606.2**	**7,092.4**	**11,385.7**	**262.0**
At 31 December 2020					
Derivative assets	8,687.8	1,450.7	3,407.8	3,808.3	21.0
Derivative liabilities	10,392.4	148.0	1,868.0	8,065.9	310.5
	19,080.2	1,598.7	5,275.8	11,874.2	331.5

The Group has 841 (2020: 925) derivative contracts with an average fixed rate of 0.34% (2020: 0.47%).

Company	Total nominal £m	Less than 3 months £m	3 - 12 months £m	1 - 5 years £m	More than 5 years £m
At 31 December 2021					
Derivative assets	**3,953.0**	**50.0**	**952.0**	**2,873.0**	**78.0**
Derivative liabilities	**3,416.0**	**626.0**	**2,340.0**	**350.0**	**100.0**
	7,369.0	**676.0**	**3,292.0**	**3,223.0**	**178.0**
At 31 December 2020					
Derivative assets	3,585.0	630.0	2,040.0	915.0	-
Derivative liabilities	3,729.0	-	134.0	3,422.0	173.0
	7,314.0	630.0	2,174.0	4,337.0	173.0

The Company has 108 (2020: 154) derivative contracts with an average fixed rate of 0.34% (2020: 0.18%).

25. Hedge accounting

	Group 2021 £m	Group 2020 £m	Company 2021 £m	Company 2020 £m
Hedged assets				
Current hedge relationships	**(190.9)**	197.5	**(52.7)**	134.8
Swap inception adjustment	**(26.2)**	(100.5)	**0.9**	(50.1)
Cancelled hedge relationships	**78.2**	84.6	**53.1**	42.7
Fair value adjustments on hedged assets	**(138.9)**	181.6	**1.3**	127.4
Hedged liabilities				
Current hedge relationships	**19.6**	(11.8)	**8.5**	(3.3)
Swap inception adjustment	**3.3**	6.2	**0.1**	2.8
Cancelled hedge relationships	**(1.4)**	-	**0.2**	-
De-designated hedge relationships	**(1.8)**	(2.6)	**-**	(2.6)
Fair value adjustments on hedged liabilities	**19.7**	(8.2)	**8.8**	(3.1)

The swap inception adjustment relates to hedge accounting adjustments arising when hedge accounting commences, primarily on derivative instruments previously taken out against the mortgage pipeline and on derivative instruments previously taken out against new retail deposits.

De-designated hedge relationships relates to hedge accounting adjustments on failed hedge accounting relationships. These adjustments are amortised over the remaining lives of the original hedged items.

Cancelled hedge relationships predominantly represent the unamortised fair value adjustment for interest rate risk hedges that have been cancelled and replaced due to IBOR transition, securitisation activities and legacy long-term fixed rate mortgages (c. 25 years at origination).

The tables below analyse the Group’s and Company’s portfolio hedge accounting for fixed rate loans and advances to customers:

	Group 2021		Group 2020	
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	**12,364.3**	**12,550.2**	11,282.4	11,159.7
Cumulative fair value adjustments	**(190.9)**	**187.4**	197.5	(156.9)
Fair value adjustments for the period	**(297.8)**	**298.9**	107.3	(116.8)
Cumulative fair value on cancelled hedge relationships	**78.2**	**-**	84.6	-

The cumulative fair value adjustments of the hedging instrument comprise £187.7m (2020: £0.7m) recognised within derivative assets and £0.3m (2020: £157.6m) recognised within derivative liabilities.

25. Hedge accounting (continued)

Loans and advances to customers	**Company 2021** Hedged item £m	**Company 2021** Hedging instrument £m	Company 2020 Hedged item £m	Company 2020 Hedging instrument £m
Carrying amount of hedged item/nominal value of hedging instrument	**3,211.7**	**3,233.0**	3,772.2	3,699.0
Cumulative fair value adjustments	**(52.7)**	**52.7**	134.7	(89.9)
Fair value adjustments for the period	**(104.1)**	**103.7**	72.2	(80.6)
Cumulative fair value on cancelled hedge relationships	**53.1**	**-**	42.7	-

The cumulative fair value adjustments of the hedging instrument comprise £52.8m (2020: £0.2m) recognised within derivative assets and £0.1m (2020: £90.1m) recognised within derivative liabilities.

The movement in cancelled hedge relationships is as follows:

Hedged assets	**Group 2021 £m**	Group 2020 £m	**Company 2021 £m**	Company 2020 £m
At 1 January	**84.6**	20.4	**42.7**	16.7
New cancellations[1]	**33.5**	86.1	**32.9**	38.2
Amortisation	**(39.9)**	(17.9)	**(22.5)**	(8.2)
Derecognition of hedged item	**-**	(4.0)	**-**	(4.0)
At 31 December	**78.2**	84.6	**53.1**	42.7

[1]Following the securitisation of mortgages during the year and LIBOR swaps transferred to SONIA swaps through the IBOR transition, the Group cancelled swaps which were effective prior to the event, 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 Company's portfolio hedge accounting for fixed rate amounts owed to retail depositors:

Customer deposits	**Group 2021** Hedged item £m	**Group 2021** Hedging instrument £m	Group 2020 Hedged item £m	Group 2020 Hedging instrument £m
Carrying amount of hedged item/nominal value of hedging instrument	**6,386.0**	**6,390.0**	6,849.9	6,858.0
Cumulative fair value adjustments	**19.6**	**(18.5)**	(11.8)	9.2
Fair value adjustments for the period	**27.4**	**(26.1)**	(4.1)	6.8

The cumulative fair value adjustments of the hedging instrument comprise £0.3m (2020: £9.4m) recognised within derivative assets and £18.8m (2020: £0.2m) recognised within derivative liabilities.

25. Hedge accounting (continued)

	Company 2021		Company 2020	
Customer deposits	**Hedged item £m**	**Hedging instrument £m**	Hedged item £m	Hedging instrument £m
Carrying amount of hedged item/nominal value of hedging instrument	**3,087.9**	**3,090.0**	3,050.4	3,050.0
Cumulative fair value adjustments	**8.5**	**(8.5)**	(3.3)	3.3
Fair value adjustments for the period	**11.8**	**(11.6)**	(1.0)	3.8

The cumulative fair value adjustments of the hedging instrument comprise £0.2m (2020: £3.3m) recognised within derivative assets and £8.7m (2020: nil) recognised within derivative liabilities.

26. Other assets

	Group 2021 £m	Group 2020 £m	**Company 2021 £m**	Company 2020 £m
Prepayments	**9.3**	7.3	**7.4**	4.2
Other assets	**0.9**	1.8	**0.9**	1.5
	10.2	9.1	**8.3**	5.7

27. 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 1 January 2020	0.9	0.1	2.6	0.7	0.5	4.8
Profit or loss credit/(charge)	-	0.3	0.9	-	(0.4)	0.8
Transferred to corporation tax liability	-	-	(0.6)	-	-	(0.6)
Tax taken directly to OCI	-	-	-	-	(0.5)	(0.5)
Tax taken directly to equity	-	-	0.2	-	-	0.2
At 31 December 2020	0.9	0.4	3.1	0.7	(0.4)	4.7
Profit or loss (charge)/credit	**(0.4)**	**0.1**	**1.7**	**-**	**(1.2)**	**0.2**
Transferred to corporation tax liability	**-**	**-**	**(1.4)**	**-**	**-**	**(1.4)**
Tax taken directly to OCI	**-**	**-**	**-**	**-**	**0.5**	**0.5**
Tax taken directly to equity	**-**	**-**	**1.6**	**-**	**-**	**1.6**
At 31 December 2021	**0.5**	**0.5**	**5.0**	**0.7**	**(1.1)**	**5.6**

[1] Others includes deferred taxation assets recognised on financial assets classified as FVOCI, derivatives and short-term timing differences.

27. Deferred taxation asset (continued)

In 2021, the profit or loss (charge)/credit includes a credit of £0.4m from the deferred tax rate change (2020: charge of £0.3m).

As at 31 December 2021, the Group had £3.5m (2020: £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.

Company	**Accelerated depreciation £m**	**Share-based payments £m**	**IFRS 9 transitional adjustments £m**	**Unpaid bonus £m**	**Total £m**
At 1 January 2020	0.1	1.8	0.3	-	2.2
Profit or loss credit	0.3	1.2	-	-	1.5
Transferred to corporation tax liability	-	(0.8)	-	-	(0.8)
Tax taken directly to equity	-	0.2	-	-	0.2
At 31 December 2020	0.4	2.4	0.3	-	3.1
Profit or loss (charge)/credit	**(0.1)**	**1.4**	**-**	**0.2**	**1.5**
Transferred to corporation tax liability	**-**	**(1.3)**	**-**	**-**	**(1.3)**
Tax taken directly to equity	**-**	**1.6**	**-**	**-**	**1.6**
At 31 December 2021	**0.3**	**4.1**	**0.3**	**0.2**	**4.9**

28. 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 2020	19.3	2.7	14.4	12.7	1.3	50.4
Additions[1]	-	0.3	2.5	0.6	-	3.4
Disposals and write-offs[2]	-	-	(3.0)	(0.2)	-	(3.2)
Foreign exchange difference	(0.1)	-	(0.1)	-	-	(0.2)
At 31 December 2020	19.2	3.0	13.8	13.1	1.3	50.4
Additions[1]	**-**	**-**	**2.6**	**0.6**	**0.1**	**3.3**
Disposals and write-offs[2]	**(2.8)**	**(0.1)**	**(1.3)**	**(0.5)**	**(0.2)**	**(4.9)**
Foreign exchange difference	**0.1**	**-**	**0.1**	**-**	**-**	**0.2**
At 31 December 2021	**16.5**	**2.9**	**15.2**	**13.2**	**1.2**	**49.0**
Depreciation						
At 1 January 2020	1.1	0.5	6.1	1.0	0.1	8.8
Charged in year	0.3	0.4	2.9	1.8	0.2	5.6
Disposals and write-offs[2]	-	-	(3.0)	(0.2)	-	(3.2)
At 31 December 2020	1.4	0.9	6.0	2.6	0.3	11.2
Charged in year[3]	**0.9**	**0.2**	**2.9**	**1.5**	**0.1**	**5.6**
Disposals and write-offs[2]	**(0.8)**	**(0.1)**	**(1.3)**	**(0.5)**	**(0.2)**	**(2.9)**
At 31 December 2021	**1.5**	**1.0**	**7.6**	**3.6**	**0.2**	**13.9**
Net book value						
At 31 December 2021	**15.0**	**1.9**	**7.6**	**9.6**	**1.0**	**35.1**
At 31 December 2020	17.8	2.1	7.8	10.5	1.0	39.2

[1] Additions include modifications of £0.4m (2020: nil) of right of use assets.
[2] During 2021 the Group disposed of a property for proceeds of £2.0m and wrote off fully depreciated assets of £2.9m. In 2020, the Group wrote off fully depreciated assets of £3.2m.
[3] Includes £0.6m of impairment on property sold during the year which is included in note 12 integration cost (2020: nil).

28. Property, plant and equipment (continued)

Company	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 2020	11.5	2.2	9.2	4.9	0.1	27.9
Additions[1]	-	0.3	1.3	0.6	-	2.2
Disposals and write-offs[2]	-	-	(2.7)	-	-	(2.7)
At 31 December 2020	11.5	2.5	7.8	5.5	0.1	27.4
Additions[1]	**-**	**-**	**1.4**	**0.6**	**-**	**2.0**
Disposals and write-offs[2]	**(2.8)**	**(0.1)**	**(1.2)**	**(0.5)**	**-**	**(4.6)**
At 31 December 2021	**8.7**	**2.4**	**8.0**	**5.6**	**0.1**	**24.8**
Depreciation						
At 1 January 2020	0.9	0.4	4.7	0.7	-	6.7
Charged in year	0.2	0.2	1.7	0.8	-	2.9
Disposals and write-offs[2]	-	-	(2.7)	-	-	(2.7)
At 31 December 2020	1.1	0.6	3.7	1.5	-	6.9
Charged in year[3]	**0.8**	**0.2**	**1.6**	**0.6**	**-**	**3.2**
Disposals and write-offs[2]	**(0.8)**	**(0.1)**	**(1.2)**	**(0.5)**	**-**	**(2.6)**
At 31 December 2021	**1.1**	**0.7**	**4.1**	**1.6**	**-**	**7.5**
Net book value						
At 31 December 2021	**7.6**	**1.7**	**3.9**	**4.0**	**0.1**	**17.3**
At 31 December 2020	10.4	1.9	4.1	4.0	0.1	20.5

[1] Additions include modifications of £0.4m (2020: nil) of right of use assets.
[2] During 2021 the Company disposed of a property for proceeds of £2.0m and wrote off fully depreciated assets of £2.6m. In 2020, the Company wrote off fully depreciated assets of £2.7m.
[3] Includes £0.6m of depreciation on property sold during the year which is included in note 12 integration cost (2020: nil).

29. Intangible assets

Group	Development costs £m	Computer software and licences £m	Assets arising on Combination[2] £m	Total £m
Cost				
At 1 January 2020	0.5	15.4	23.6	39.5
Additions	1.8	2.6	-	4.4
Disposals and write-offs[1]	-	(1.3)	-	(1.3)
At 31 December 2020	2.3	16.7	23.6	42.6
Additions	**1.4**	**2.8**	**-**	**4.2**
Disposals and write-offs[1]	**-**	**(3.5)**	**(0.2)**	**(3.7)**
At 31 December 2021	**3.7**	**16.0**	**23.4**	**43.1**
Amortisation				
At 1 January 2020	-	6.8	1.3	8.1
Charged in year	0.1	3.6	4.5	8.2
Impairment in the year	-	-	7.0	7.0
Disposals and write-offs[1]	-	(1.3)	-	(1.3)
At 31 December 2020	0.1	9.1	12.8	22.0
Charged in year	**0.5**	**3.2**	**5.8**	**9.5**
Impairment reversal in the year	**-**	**-**	**(3.1)**	**(3.1)**
Disposals and write-offs[1]	**-**	**(3.5)**	**(0.2)**	**(3.7)**
At 31 December 2021	**0.6**	**8.8**	**15.3**	**24.7**
Net book value				
At 31 December 2021	**3.1**	**7.2**	**8.1**	**18.4**
At 31 December 2020	2.2	7.6	10.8	20.6

[1] During the year the Group wrote off fully amortised assets.
[2] Assets arising on Combination comprise broker relationships of £5.0m (2020: £5.8m), technology of £1.9m (2020: £2.9m), brand name of £0.8m (2020: £1.2m) and banking licence of £0.4m (2020: £0.9m). The carrying value of the intangible assets are reviewed each reporting period, a £3.1m impairment reversal (2020: £7.0m impairment charge) was recognised in relation to broker relationships due to less severe impacts of the COVID-19 pandemic than originally estimated.

The Directors have considered the carrying value of intangible assets and determined that there are no indications of impairment at the year end.

29. Intangible assets (continued)

Company	Development costs £m	Computer software and licences £m	Total £m
Cost			
At 1 January 2020	-	13.5	13.5
Additions	-	2.2	2.2
Disposals and write-offs[1]	-	(1.0)	(1.0)
At 31 December 2020	-	14.7	14.7
Additions	**1.4**	**2.2**	**3.6**
Disposals and write-offs[1]	**-**	**(2.7)**	**(2.7)**
At 31 December 2021	**1.4**	**14.2**	**15.6**
Amortisation			
At 1 January 2020	-	5.8	5.8
Charged in year	-	2.9	2.9
Disposals and write-offs[1]	-	(1.0)	(1.0)
At 31 December 2020	-	7.7	7.7
Charged in year	**-**	**2.9**	**2.9**
Disposals and write-offs[1]	**-**	**(2.7)**	**(2.7)**
At 31 December 2021	**-**	**7.9**	**7.9**
Net book value			
At 31 December 2021	**1.4**	**6.3**	**7.7**
At 31 December 2020	-	7.0	7.0

[1] During the year the Company wrote off fully amortised assets.

30. Investments in subsidiaries, intercompany loans and transactions with related parties

The Group

The balance between the Group and its ultimate parent at the reporting date is summarised in the table below:

Group	**Intercompany loans receivable 2021 £m**	Intercompany loans receivable 2020 £m
At 1 January	**-**	-
Additions	**0.6**	-
At 31 December	**0.6**	**-**

The transactions with OSBG during the year comprise £1.4m transaction costs for the issuance of OSBG AT1 securities funded by the Company partially offset by £0.8m cash received in the Company on OSBG share issues.

The Company

The balances between the Company, its parent and its subsidiaries at the reporting date are summarised in the table below:

Company	**Investment in subsidiaries £m**	**Intercompany loans receivable £m**	**Intercompany loans payable £m**
At 1 January 2020	708.9	2,920.5	(643.9)
Additions	-	53.4	(6.2)
Repayments	-	(545.5)	612.2
At 31 December 2020	708.9	2,428.4	(37.9)
Additions	**-**	**85.7**	**(0.2)**
Repayments	**-**	**(126.6)**	**4.9**
At 31 December 2021	**708.9**	**2,387.5**	**(33.2)**

The Group and the Company assesses intercompany loans receivable for impairment. No impairment was recognised during the year (2020: nil).

Investments in subsidiaries are financial assets and intercompany loans are financial assets and liabilities, all carried at amortised cost.

30. Investments in subsidiaries, intercompany loans and transactions with related parties (continued)

A list of the Company's direct subsidiaries for 2021 is shown below:

At 31 December 2021 **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 Company, 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 Company's indirect subsidiaries for 2021 is shown below:

At 31 December 2021 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.2 plc	Special purpose vehicle	Churchill Place	-
Canterbury Finance No.3 plc	Special purpose vehicle	Churchill Place	-
Canterbury Finance No.4 plc	Special purpose vehicle	Churchill Place	-
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	Special purpose vehicle	Churchill Place	-
CML Warehouse Number 2 Limited	Special purpose vehicle	Churchill Place	-
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%**

All investments in subsidiaries are of ordinary shares.

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.

30. Investments in subsidiaries, intercompany loans and transactions with related parties (continued)

A list of the Company's direct subsidiaries for 2020 is shown below:

At 31 December 2020

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%

30. Investments in subsidiaries, intercompany loans and transactions with related parties (continued)

A list of the Company's indirect subsidiaries for 2020 is shown below:

At 31 December 2020

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.2 plc	Special purpose vehicle	Churchill Place	-
Canterbury Finance No.3 plc	Special purpose vehicle	Churchill Place	-
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	Special purpose vehicle	Churchill Place	-
CML Warehouse Number 1 Limited	Special purpose vehicle	Bartholomew	-
CML Warehouse Number 2 Limited	Special purpose vehicle	Churchill Place	-
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	-
Precise Mortgage Funding 2014-2 plc	Special purpose vehicle	Great St. Helen's	-
Precise Mortgage Funding 2015-1 plc	Special purpose vehicle	Great St. Helen's	-
Precise Mortgage Funding 2015-3R plc	Special purpose vehicle	Great St. Helen's	-

The following are the registered offices of the subsidiaries:

Bartholomew – 1 Bartholomew Lane, London, England, EC2N 2AX
Charter Court – 2 Charter Court, Broadlands, Wolverhampton, WV10 6TD
Churchill Place – 5 Churchill Place, 10th Floor, London, E14 5HU
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 No. 78, 9th & 10th floor, 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

30. Investments in subsidiaries, intercompany loans and transactions with related parties (continued)

During the year, the Group issued £150.0m of Fixed Rate Resetting Perpetual Subordinated Securities to OSBG. Included within this was £90.0m of Fixed Rate Resetting Perpetual Subordinated Securities issued by the Company to OSBG. For further details see note 43.

The transactions between the Company, its parent and its subsidiaries are disclosed below:

	2021		2020	
	Charged by/(to) the Company during the year £m	**Balance due to/(by) the Company £m**	Charged by/(to) the Company during the year £m	Balance due to/(by) the Company £m
Parent Company				
OSB GROUP PLC	**-**	**0.6**	-	-
Direct investments				
Easioption Limited	**-**	**0.5**	-	0.5
Guernsey Home Loans Limited	**0.1**	**7.7**	0.2	8.8
Guernsey Home Loans Limited (Guernsey)	**0.2**	**15.5**	0.5	23.9
Heritable Development Finance Limited	**(1.5)**	**(0.7)**	(1.3)	(0.6)
Jersey Home Loans Limited	**-**	**2.0**	-	2.5
Jersey Home Loans Limited (Jersey)	**1.2**	**88.6**	2.1	111.6
OSB India Private Limited	**(9.5)**	**4.6**	(9.3)	8.0
Prestige Finance Limited	**(0.2)**	**0.2**	(3.7)	(0.8)
Reliance Property Loans Limited	**-**	**2.8**	0.1	3.3
Indirect investments				
Charter Court Financial Services Limited	**9.0**	**1.1**	4.3	4.1
Exact Mortgage Experts Limited	**(0.5)**	**-**	-	-
Charter Mortgages Limited	**-**	**(0.1)**	-	-
Broadlands Finance Limited	**-**	**0.1**	-	-
5D Finance Limited	**0.4**	**46.4**	-	0.6
Inter Bay Financial I Limited	**0.2**	**19.7**	0.3	19.6
Inter Bay Financial II Limited	**(0.1)**	**(5.6)**	0.6	(5.6)
InterBay Asset Finance Limited	**1.2**	**133.8**	1.1	94.9
Interbay Funding, Ltd	**(0.8)**	**(26.8)**	(12.0)	(30.9)
Interbay ML, Ltd	**24.0**	**2,063.9**	47.1	2,150.6
	23.7	**2,354.3**	30.0	2,390.5

In addition to the above subsidiaries, the Company has transactions with Kent Reliance Provident Society (KRPS), one of its founding shareholders. KRPS runs member engagement forums for the Company. In exchange, the Company provides KRPS with various services including IT, finance and other support functions. During the year the Company was charged for services provided by KRPS amounting to £0.1m (2020: £0.2m). As at 31 December 2021, KRPS had £0.2m (2020: £0.3m) deposited with the Company.

31. Amounts owed to credit institutions

	Group 2021 £m	Group 2020 £m	Company 2021 £m	Company 2020 £m
BoE TFS	**-**	2,568.6	**-**	1,500.4
BoE TFSME	**4,203.1**	1,000.1	**2,378.6**	400.1
Commercial repo	**0.5**	0.1	**-**	-
Loans from credit institutions	**0.6**	1.4	**-**	-
Cash collateral and margin received	**115.4**	-	**42.1**	-
	4,319.6	3,570.2	**2,420.7**	1,900.5

32. Amounts owed to retail depositors

The table below shows the Group's retail depositors by operating segment, where the OSB segment also represents the Company's retail depositors:

	2021			2020		
	OSB £m	**CCFS £m**	**Total £m**	OSB £m	CCFS £m	Total £m
Fixed rate deposits	**6,221.7**	**4,703.4**	**10,925.1**	6,275.6	4,781.4	11,057.0
Variable rate deposits	**3,517.7**	**3,083.6**	**6,601.3**	3,429.7	2,116.4	5,546.1
	9,739.4	**7,787.0**	**17,526.4**	9,705.3	6,897.8	16,603.1

33. Amounts owed to other customers

	Group 2021 £m	Group 2020 £m	Company 2021 £m	Company 2020 £m
Fixed rate deposits	**50.3**	46.0	**5.7**	5.8
Variable rate deposits	**42.3**	26.9	**-**	-
	92.6	72.9	**5.7**	5.8

34. Debt securities in issue

	Group 2021 £m	Group 2020 £m
Asset-backed loan notes at amortised cost	**460.3**	421.9
Amount due for settlement after 12 months	**460.3**	421.9
	460.3	421.9

34. Debt securities in issue (continued)

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 contractual maturity date of the underlying mortgage assets. The Group expects 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, 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 SONIA.

As at 31 December 2021, notes were issued through the following funding vehicles:

	Group 2021 £m	Group 2020 £m
CMF 2020-1 plc	**199.8**	288.6
Canterbury Finance No.3 plc	**76.9**	133.3
Canterbury Finance No.4 plc	**183.6**	-
	460.3	421.9

35. Lease liabilities

	Group 2021 £m	Group 2020 £m	**Company 2021 £m**	Company 2020 £m
At 1 January	**11.7**	13.3	**3.9**	4.3
New leases	**0.7**	0.1	**0.6**	0.1
Lease terminated	**(0.1)**	-	**-**	-
Lease repayments	**(1.9)**	(2.0)	**(0.7)**	(0.6)
Interest accruals	**0.3**	0.3	**0.1**	0.1
At 31 December	**10.7**	11.7	**3.9**	3.9

During the year, the Group incurred expenses of £0.2m (2020: £0.7m) in relation to short-term leases and nil (2020: nil) in relation to low-value assets.

36. Other liabilities

	Group 2021 £m	Group 2020 £m	Company 2021 £m	Company 2020 £m
Falling due within one year:				
Accruals	**23.1**	19.7	**13.1**	9.9
Deferred income	**0.9**	0.6	**0.9**	0.6
Other creditors	**5.5**	7.5	**3.3**	3.3
	29.5	27.8	**17.3**	13.8

37. 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 Financial Conduct Authority (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 2021 (2020: £0.3m). The Group has maintained its provision for FCA conduct rules exposures of £1.2m (2020: £1.2m) to cover potential future claims.

An analysis of the Group's and Company's FSCS and other provisions is presented below:

	2021				2020			
Group	**FSCS £m**	**Other regulatory provisions £m**	**ECL on undrawn loan facilities £m**	**Total £m**	FSCS £m	Other regulatory provisions £m	ECL on undrawn loan facilities £m	Total £m
At 1 January	**0.1**	**1.5**	**0.2**	**1.8**	(0.2)	1.6	0.2	1.6
Refund/(paid) during the year	**-**	**-**	**-**	**-**	0.3	(0.2)	-	0.1
Charge	**-**	**-**	**0.2**	**0.2**	-	0.1	-	0.1
At 31 December	**0.1**	**1.5**	**0.4**	**2.0**	0.1	1.5	0.2	1.8

37. Provisions and contingent liabilities (continued)

	2021				2020			
Company	**FSCS £m**	**Other regulatory provisions £m**	**ECL on undrawn loan facilities £m**	**Total £m**	FSCS £m	Other regulatory provisions £m	ECL on undrawn loan facilities £m	Total £m
At 1 January	**0.1**	**1.4**	**0.1**	**1.6**	(0.1)	1.6	0.1	1.6
Refund/(paid) during the year	**-**	**-**	**-**	**-**	0.2	(0.2)	-	-
Charge	**-**	**-**	**0.3**	**0.3**	-	-	-	-
At 31 December	**0.1**	**1.4**	**0.4**	**1.9**	0.1	1.4	0.1	1.6

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 has responded to information requests from the FCA. It is not possible to reliably predict or estimate the outcome of the review and therefore its financial effect, if any, on the Group.

38. 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 1 January 2020	63.1
Profit or loss credit	(14.8)
At 31 December 2020	48.3
Profit or loss credit	**(8.5)**
At 31 December 2021	**39.8**

In 2021, the profit or loss credit includes a debit of £5.6m impact of the deferred tax rate change (2020: a debit of £4.7m).

39. Subordinated liabilities

	Group and Company 2021 £m	Group and Company 2020 £m
At 1 January	**10.5**	10.6
Repayment of debt at maturity	**(0.2)**	(0.1)
At 31 December	**10.3**	10.5

39. Subordinated liabilities (continued)

The Group's and Company's outstanding subordinated liabilities are summarised below:

	Group and Company 2021 £m	Group and Company 2020 £m
Linked to LIBOR:		
Floating rate subordinated loans 2022 (LIBOR +5%)	**-**	0.1
Floating rate subordinated loans 2022 (LIBOR +2%)	**0.1**	0.2
Fixed rate:		
Subordinated liabilities 2024 (7.45%)	**10.2**	10.2
	10.3	10.5

The LIBOR-linked subordinated liabilities had a rate reset in September 2021 before the cessation of LIBOR, these subordinated liabilities are due to mature in September 2022.

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 other creditors.

40. Perpetual Subordinated Bonds

	Group and Company 2021 £m	Group and Company 2020 £m
Sterling PSBs (4.5991%)	**-**	22.3
Sterling PSBs (4.6007%)	**15.2**	15.3
	15.2	37.6

The bonds are listed on the London Stock Exchange.

The £22.0m PSBs were redeemed on 7 September 2021 following permission from the PRA and approval by the Board.

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 is 4.6007% until the next reset date on 27 August 2024.

41. Reconciliation of cash flows for financing activities

The tables below show a reconciliation of the Group's and Company's liabilities classified as financing activities within the Statement of Cash Flows:

Group	Amounts owed to credit institutions (see note 31) £m	Debt securities in issue (see note 34) £m	Subordinated liabilities (see note 39) £m	PSBs (see note 40) £m	Total £m
At 1 January 2020	3,068.8	296.3	10.6	37.6	3,413.3
Cash movements:					
Principal drawdowns	1,505.0	486.2	-	-	1,991.2
Principal repayments	(998.9)	(104.6)	(0.1)	-	(1,103.6)
Deconsolidation of special purpose vehicles	-	(256.2)	-	-	(256.2)
Non-cash movements:					
Accrued interest movement	(4.7)	0.2	-	-	(4.5)
At 31 December 2020	3,570.2	421.9	10.5	37.6	4,040.2
Cash movements:					
Principal drawdowns	**4,863.0**	**195.6**	**-**	**-**	**5,058.6**
Principal repayments	**(4,113.7)**	**(159.5)**	**(0.2)**	**(22.0)**	**(4,295.4)**
Non-cash movements:					
Accrued interest movement	**0.1**	**2.3**	**-**	**(0.4)**	**2.0**
At 31 December 2021	**4,319.6**	**460.3**	**10.3**	**15.2**	**4,805.4**

41. Reconciliation of cash flows for financing activities (continued)

Company	Amounts owed to credit institutions (see note 31) £m	Deemed Loans (see note 20) £m	Subordinated liabilities (see note 39) £m	PSBs (see note 40) £m	Total £m
At 1 January 2020	1,671.1	240.2	10.6	37.6	1,959.5
Cash movements:					
Principal drawdowns	905.0	154.6	-	-	1,059.6
Principal repayments	(672.8)	(91.8)	(0.1)	-	(764.7)
Non-cash movements:					
Deconsolidation of special purpose vehicles	-	(236.8)	-	-	(236.8)
Accrued interest movement	(2.8)	-	-	-	(2.8)
At 31 December 2020	1,900.5	66.2	10.5	37.6	2,014.8
Cash movements:					
Principal drawdowns	**2,965.2**	**198.4**	**-**	**-**	**3,163.6**
Principal repayments	**(2,445.1)**	**(121.8)**	**(0.2)**	**(22.0)**	**(2,589.1)**
Non-cash movements:					
Accrued interest movement	**0.1**	**-**	**-**	**(0.4)**	**(0.3)**
At 31 December 2021	**2,420.7**	**142.8**	**10.3**	**15.2**	**2,589.0**

42. Share capital

Ordinary shares	Number of shares authorised and fully paid	Nominal value £m	Premium £m
At 1 January 2020	445,443,454	4.5	864.2
Shares issued under OSB employee share plans	1,860,744	-	2.6
Cancellation of OneSavings Bank plc £0.01 share capital and share premium	(447,304,198)	(4.5)	(866.8)
Issuance of OneSavings Bank plc £0.01 share capital	447,304,198	4.5	-
At 31 December 2020	447,304,198	4.5	-
At 31 December 2021	**447,304,198**	**4.5**	**-**

As part of the insertion of OSBG, the existing listed share capital and share premium of the Company was cancelled on 27 November 2020 and the share capital and share premium amounts of the Company transferred to retained earnings. The Company subsequently issued the same number of new unlisted £0.01 ordinary shares from retained earnings to OSBG.

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 Company. All ordinary shares rank equally with regard to the Company's residual assets.

All ordinary shares issued in the current and prior year were fully paid.

43. Other reserves

The Group's and Company's other reserves are as follows:

	Group 2021 £m	Group 2020 £m	**Company 2021 £m**	Company 2020 £m
Distributable:				
Share-based payment	**11.7**	7.8	**9.4**	6.7
Capital contribution	**1.7**	-	**-**	-
FVOCI	**0.6**	1.0	**-**	(0.1)
Foreign exchange	**(1.1)**	(1.0)	**-**	-
AT1 securities	**150.0**	60.0	**90.0**	60.0
	162.9	67.8	**99.4**	66.6

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 reserve
The foreign exchange reserve relates to the revaluation of the Group’s Indian subsidiary, OSB India Private Limited.

AT1 Securities
AT1 securities comprised £60.0m of Fixed Rate Resetting Perpetual Subordinated Contingent Convertible Securities that qualify as AT1 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 Common Equity Tier 1 (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. These were redeemed on 7 October 2021 at a premium, with the premium of £3.5m recognised directly in equity.

On 7 October 2021, the Group issued in total £150.0m of new AT1 securities, £90.0m issued by the Company and £60.0m issued by Charter Court Financial Services Limited. These AT1 securities are Fixed Rate Resetting Perpetual Subordinated Securities that qualify as AT1 capital under CRD IV. The securities will pay interest at a rate of 6% per annum until the first reset date of 7 April 2027, with the reset interest rate equal to 539.3 basis points over the 5-year Gilt Rate (benchmark gilt) for such a period. Interest is paid semi-annually in April and October. The Group 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 securities. The securities are perpetual with no fixed redemption date. The Group 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.

43. Other reserves (continued)

On 7 October 2021, the Company issued new Additional Tier 1 securities. Additional Tier 1 securities comprise £90.0m of Fixed Rate Resetting Perpetual Subordinated Securities that qualify as Additional Tier 1 capital under the CRD IV. The securities will pay interest at a rate of 6% per annum until the first reset date of 07 April 2027, with the reset interest rate equal to 539.3 basis points over the 5-year Gilt Rate (benchmark gilt) for such a period. Interest is paid semi-annually in April and October. The Company 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 securities. The securities are perpetual with no fixed redemption date. The Company 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) The Group did not have any contracted or anticipated capital expenditure commitments not provided for as at 31 December 2021 (2020: nil).

b) The Group's minimum lease commitments under operating leases not subject to IFRS 16 are summarised in the table below:

	Group 2021 £m	Group 2020 £m	**Company 2021 £m**	Company 2020 £m
Land and buildings: due within:				
One year	**-**	0.1	**-**	0.1
	-	0.1	**-**	0.1

c) Undrawn loan facilities:

	Group 2021 £m	Group 2020 £m	**Company 2021 £m**	Company 2020 £m
OSB mortgages	**706.4**	547.2	**577.5**	522.0
CCFS mortgages	**434.5**	420.8	**-**	-
Asset Finance	**14.4**	11.5	**-**	-
	1,155.3	979.5	**577.5**	522.0

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 2021 (2020: nil).

45. Risk management

Overview

Financial instruments form the vast majority of the Group's and Company'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, RMBS and UK 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 TFSME, 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.

45. Risk management (continued)

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 reference linked variable rates. This ensures a guaranteed margin between the interest income and interest expense, regardless of changes in the market rates.

IBOR transition

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. During 2021 the FCA confirmed that LIBOR would be discontinued on 31 December 2021.

In 2018, the Group set up an internal working group, comprising all of the key business areas that are involved with this change, including workstreams covering risk management, contracts, systems and conduct risk considerations, with strong oversight from the Compliance and Risk functions. The programme is overseen by the LIBOR Transition Working Group which reports into the Group ALCO. Risk assessments have been completed to ensure this process is managed in a measured and controlled manner.

The Group has no exposure to existing IBORs, other than to GBP LIBOR. The Group no longer offers any LIBOR-linked loans and during 2021 all remaining LIBOR-linked derivatives with a maturity date post Q1 2022 were cancelled and new SONIA-linked derivatives entered into.

The Group adopted the Phase 1 amendments ‘Interest Rate Benchmark reform: Amendments to IFRS 9/IAS 39 and IFRS 7’ in 2020. These amendments modified specific hedge accounting requirements to allow hedge accounting to continue for affected hedges during the period of uncertainty before the hedged items or hedging instruments are amended as a result of the interest rate benchmark reform. The application of the Phase 1 amendments impacts the Group’s accounting in the following ways. Hedge accounting relationships will continue even when, for IBOR fair value hedges, the benchmark interest rate component may not be separately identifiable.

The Group will not discontinue portfolio hedge accounting should the retrospective assessment of hedge effectiveness for a hedging relationship that is subject to the interest rate benchmark reform fall outside the 80-125 per cent range. For portfolio hedging relationships that are not subject to the interest rate benchmark reform the entity continues to cease hedge accounting if retrospective effectiveness is outside the 80-125 per cent range.

The Group has adopted ‘Interest Rate Benchmark Reform – Phase 2: Amendments to IFRS 9 Financial Instruments, IAS 39 Financial Instruments: Recognition and Measurement, IFRS 7 Financial Instruments: Disclosures, IFRS 4 Insurance Contracts and IFRS 16 Leases’ which was issued in August 2020 and became mandatory for annual reporting periods beginning on or after 1 January 2021 (see note 1 aa), enabling the Group to reflect the effects of transitioning from IBOR to alternative benchmark interest rates (also referred to as ‘risk free rates’ or RFRs) without giving rise to accounting impacts that would not provide useful information to users of financial statements. The Group, in regards to hedge accounting has cancelled the LIBOR hedges to initiate new SONIA hedges.

45. Risk management (continued)

Mortgages
At 31 December 2021, the Group had £6,293.0m (31 December 2020: £8,001.7m) of LIBOR-linked lending, including floating-rate mortgages on LIBOR-linked rates and fixed-rate mortgages that would have reverted to LIBOR-linked rates in the future, out of total mortgages balances of £21,047.9m (31 December 2020: £19,257.1m).

The Group has worked through the back book transition for existing loans. Direct communication with impacted customers regarding the cessation of LIBOR and its implications commenced during the first half of 2021 and is now complete. All necessary systemic changes including IT system modifications are complete and the remaining LIBOR-linked mortgage balances will transition to a LIBOR replacement rate, defined as the 3-month SONIA benchmark rate plus the ISDA fixed adjustment spread of 0.1193%, at their first rate resets in or after Q1 2022.

Investment securities
At 31 December 2021, the Group had £34.8m (2020: £118.7m) of GBP LIBOR-linked investment securities, comprising RMBS loan notes, which will either mature or transfer to SONIA coupons during Q1 2022.

Where LIBOR-linked investment securities do not transfer to adopting SONIA as a reference rate, a synthetic LIBOR rate is temporarily available for issuers to adopt. There are no concerns on the performance of these investments. The Group will only purchase SONIA-linked investment securities in future.

The FCA has confirmed it will allow the temporary use of a synthetic LIBOR rate in all legacy LIBOR contracts, other than cleared derivatives, that have not been changed by 31 December 2021. Synthetic LIBOR will be calculated in a way that does not rely on submissions from panel banks, and is instead based on RFRs. The availability of synthetic LIBOR is not guaranteed beyond the end of 2022.

Retail savings
None of the OSB or CCFS current or back book retail savings products have a GBP LIBOR component within the product.

Additional Tier 1 securities
The £60.0m AT1 securities, which were paying interest at a rate of 9.125% per annum until their first reset date on 25 May 2022 when they would have reverted to a LIBOR swap rate, were redeemed during October 2021.

Derivatives
As at 31 December 2021, the total nominal amount of the Group’s derivatives was £20,346.3m (31 December 2020: £19,080.2m), of which the Group had LIBOR-linked swaps with a nominal value of £436.0m (31 December 2020: £8,020.0m) and a fair value of £(0.2)m (31 December 2020: £89.1m) hedging assets and liabilities.

The remaining LIBOR-linked swaps at 31 December 2021 will mature during Q1 2022.

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 compliance/regulatory, which are covered in the Risk review on pages 32 to 40.

45. Risk management (continued)

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 Group Risk Committee, with mandates set for the approval of loan applications.

The Group Credit Committee and 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.

The following tables show the Group's and Company'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.

	2021					
	OSB		CCFS		Total	
	Gross carrying amount	Capped collateral held	Gross carrying amount	Capped collateral held	Gross carrying amount	Capped collateral held
Group	£m	£m	£m	£m	£m	£m
Stage 1	10,502.7	10,478.1	7,685.7	7,684.6	18,188.4	18,162.7
Stage 2	1,143.8	1,141.9	1,269.8	1,269.7	2,413.6	2,411.6
Stage 3	365.6	337.9	99.1	99.1	464.7	437.0
Stage 3 (POCI)	45.2	43.6	52.2	52.2	97.4	95.8
	12,057.3	12,001.5	9,106.8	9,105.6	21,164.1	21,107.1

45. Risk management (continued)

	2020					
	OSB		CCFS		Total	
	Gross carrying amount	Capped collateral held	Gross carrying amount	Capped collateral held	Gross carrying amount	Capped collateral held
Group	£m	£m	£m	£m	£m	£m
Stage 1	9,366.8	9,303.4	6,749.5	6,747.9	16,116.3	16,051.3
Stage 2	1,363.4	1,359.8	1,327.6	1,327.6	2,691.0	2,687.4
Stage 3	352.6	323.3	48.1	48.1	400.7	371.4
Stage 3 (POCI)	48.6	48.4	66.0	66.0	114.6	114.4
	11,131.4	11,034.9	8,191.2	8,189.6	19,322.6	19,224.5

The Group's main form of collateral held is property, based in the UK and the Channel Islands.

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:

	2021				2020			
	OSB	**CCFS**	**Total**		OSB	CCFS	Total	
Group	**£m**	**£m**	**£m**	**%**	£m	£m	£m	%
Band								
0% - 50%	**2,293.3**	**428.2**	**2,721.5**	**13**	1,740.3	419.3	2,159.6	11
50% - 60%	**1,935.3**	**490.1**	**2,425.4**	**11**	1,462.0	483.3	1,945.3	10
60% - 70%	**4,179.0**	**1,241.9**	**5,420.9**	**26**	2,813.4	1,109.3	3,922.7	20
70% - 80%	**2,887.7**	**6,100.7**	**8,988.4**	**43**	3,942.9	5,144.3	9,087.2	47
80% - 90%	**513.2**	**844.4**	**1,357.6**	**6**	879.1	1,033.7	1,912.8	10
90% - 100%	**77.8**	**1.5**	**79.3**	**-**	105.8	1.3	107.1	1
>100%	**171.0**	**-**	**171.0**	**1**	187.9	-	187.9	1
Total loans before provisions	**12,057.3**	**9,106.8**	**21,164.1**	**100**	11,131.4	8,191.2	19,322.6	100

45. Risk management (continued)

The table below shows the LTV banding for the OSB segments' two major lending streams:

OSB	2021 BTL/SME £m	2021 Residential £m	2021 Total £m	2021 %	2020 BTL/SME £m	2020 Residential £m	2020 Total £m	2020 %
Band								
0% - 50%	**1,007.6**	**1,285.7**	**2,293.3**	**19**	795.7	944.6	1,740.3	16
50% - 60%	**1,693.7**	**241.6**	**1,935.3**	**16**	1,228.1	233.9	1,462.0	13
60% - 70%	**3,903.0**	**276.0**	**4,179.0**	**35**	2,602.1	211.3	2,813.4	25
70% - 80%	**2,647.7**	**240.0**	**2,887.7**	**24**	3,693.4	249.5	3,942.9	35
80% - 90%	**452.8**	**60.4**	**513.2**	**4**	584.5	294.6	879.1	8
90% - 100%	**66.2**	**11.6**	**77.8**	**1**	89.4	16.4	105.8	1
>100%	**165.1**	**5.9**	**171.0**	**1**	171.4	16.5	187.9	2
Total loans before provisions	**9,936.1**	**2,121.2**	**12,057.3**	**100**	9,164.6	1,966.8	11,131.4	100

45. Risk management (continued)

The tables below show the LTV analysis of the OSB BTL/SME sub-segment:

	2021				
OSB	**Buy-to-Let £m**	**Commercial £m**	**Residential development £m**	**Funding lines £m**	**Total £m**
Band					
0% - 50%	**804.0**	**118.9**	**19.0**	**65.7**	**1,007.6**
50% - 60%	**1,532.0**	**105.1**	**40.1**	**16.5**	**1,693.7**
60% - 70%	**3,708.1**	**130.1**	**61.6**	**3.2**	**3,903.0**
70% - 80%	**2,423.7**	**224.0**	**-**	**-**	**2,647.7**
80% - 90%	**249.5**	**165.9**	**-**	**37.4**	**452.8**
90% - 100%	**46.4**	**19.8**	**-**	**-**	**66.2**
>100%	**104.0**	**30.6**	**-**	**30.5**	**165.1**
Total loans before provisions	**8,867.7**	**794.4**	**120.7**	**153.3**	**9,936.1**

	2020				
OSB	Buy-to-Let £m	Commercial £m	Residential development £m	Funding lines £m	Total £m
Band					
0% - 50%	643.3	80.6	12.5	59.3	795.7
50% - 60%	1,040.1	84.3	64.2	39.5	1,228.1
60% - 70%	2,407.4	132.0	56.4	6.3	2,602.1
70% - 80%	3,411.7	251.3	-	30.4	3,693.4
80% - 90%	370.1	214.4	-	-	584.5
90% - 100%	54.1	35.3	-	-	89.4
>100%	117.9	24.0	-	29.5	171.4
Total loans before provisions	8,044.6	821.9	133.1	165.0	9,164.6

45. Risk management (continued)

The tables below show the LTV analysis of the OSB Residential sub-segment:

OSB	2021 First charge £m	2021 Second charge £m	2021 Funding lines £m	2021 Total £m	2020 First charge £m	2020 Second charge £m	2020 Funding lines £m	2020 Total £m
Band								
0% - 50%	**1,173.3**	**111.8**	**0.6**	**1,285.7**	835.8	105.1	3.7	944.6
50% - 60%	**189.8**	**51.8**	**-**	**241.6**	167.2	64.5	2.2	233.9
60% - 70%	**240.2**	**35.8**	**-**	**276.0**	151.7	58.1	1.5	211.3
70% - 80%	**221.3**	**18.7**	**-**	**240.0**	208.1	39.9	1.5	249.5
80% - 90%	**56.5**	**3.9**	**-**	**60.4**	274.8	19.3	0.5	294.6
90% - 100%	**10.3**	**1.3**	**-**	**11.6**	12.4	3.6	0.4	16.4
>100%	**4.5**	**1.4**	**-**	**5.9**	10.7	4.9	0.9	16.5
Total loans before provisions	**1,895.9**	**224.7**	**0.6**	**2,121.2**	1,660.7	295.4	10.7	1,966.8

45. Risk management (continued)

The table below shows the LTV analysis of the four CCFS sub-segment:

	2021					
CCFS	**Buy-to-Let £m**	**Residential £m**	**Bridging £m**	**Second charge lending £m**	**Total £m**	**%**
Band						
0% - 50%	**104.8**	**261.0**	**30.2**	**32.2**	**428.2**	**5**
50% - 60%	**205.4**	**246.8**	**9.3**	**28.6**	**490.1**	**5**
60% - 70%	**702.4**	**480.1**	**14.9**	**44.5**	**1,241.9**	**14**
70% - 80%	**4,827.7**	**1,234.5**	**1.4**	**37.1**	**6,100.7**	**67**
80% - 90%	**560.5**	**268.9**	**0.5**	**14.5**	**844.4**	**9**
90% - 100%	**0.1**	**1.4**	**-**	**-**	**1.5**	**-**
Total loans before provisions	**6,400.9**	**2,492.7**	**56.3**	**156.9**	**9,106.8**	**100**

	2020					
CCFS	Buy-to-Let £m	Residential £m	Bridging £m	Second charge lending £m	Total £m	%
Band						
0% - 50%	92.7	242.1	50.4	34.1	419.3	5
50% - 60%	196.0	233.9	17.9	35.5	483.3	6
60% - 70%	632.9	400.2	16.8	59.4	1,109.3	14
70% - 80%	3,916.2	1,155.7	21.1	51.3	5,144.3	62
80% - 90%	600.7	410.8	-	22.2	1,033.7	13
90% - 100%	0.5	0.8	-	-	1.3	-
Total loans before provisions	5,439.0	2,443.5	106.2	202.5	8,191.2	100

45. Risk management (continued)

The table below shows the LTV banding for the Company's segments' two major lending streams:

Company	2021 BTL/SME £m	2021 Residential £m	2021 Total £m	2021 %	2020 BTL/SME £m	2020 Residential £m	2020 Total £m	2020 %
Band								
0% - 50%	**708.3**	**1,213.9**	**1,922.2**	**20**	560.9	880.7	1,441.6	17
50% - 60%	**1,244.1**	**220.6**	**1,464.7**	**15**	912.8	204.6	1,117.4	13
60% - 70%	**3,167.5**	**273.4**	**3,440.9**	**37**	1,978.7	183.1	2,161.8	25
70% - 80%	**2,083.4**	**239.2**	**2,322.6**	**25**	2,855.8	243.0	3,098.8	36
80% - 90%	**249.0**	**59.8**	**308.8**	**3**	322.7	292.4	615.1	7
90% - 100%	**24.2**	**11.3**	**35.5**	**-**	49.9	16.2	66.1	1
>100%	**42.5**	**3.0**	**45.5**	**-**	83.7	11.7	95.4	1
Total loans before provisions	**7,519.0**	**2,021.2**	**9,540.2**	**100**	6,764.5	1,831.7	8,596.2	100

The tables below show the LTV analysis of the Company's BTL/SME sub-segment:

Company	2021 Buy-to-Let £m	2021 Commercial £m	2021 Residential development £m	2021 Funding lines £m	2021 Total £m
Band					
0% - 50%	**616.8**	**6.8**	**19.0**	**65.7**	**708.3**
50% - 60%	**1,183.6**	**3.9**	**40.1**	**16.5**	**1,244.1**
60% - 70%	**3,102.7**	**-**	**61.6**	**3.2**	**3,167.5**
70% - 80%	**2,083.4**	**-**	**-**	**-**	**2,083.4**
80% - 90%	**211.6**	**-**	**-**	**37.4**	**249.0**
90% - 100%	**24.2**	**-**	**-**	**-**	**24.2**
>100%	**8.5**	**3.5**	**-**	**30.5**	**42.5**
Total loans before provisions	**7,230.8**	**14.2**	**120.7**	**153.3**	**7,519.0**

45. Risk management (continued)

	2020				
Company	Buy-to-Let £m	Commercial £m	Residential development £m	Funding lines £m	Total £m
Band					
0% - 50%	487.2	1.9	12.5	59.3	560.9
50% - 60%	806.5	2.6	64.2	39.5	912.8
60% - 70%	1,913.7	2.3	56.4	6.3	1,978.7
70% - 80%	2,820.5	4.9	-	30.4	2,855.8
80% - 90%	322.2	0.5	-	-	322.7
90% - 100%	49.9	-	-	-	49.9
>100%	50.7	3.5	-	29.5	83.7
Total loans before provisions	6,450.7	15.7	133.1	165.0	6,764.5

The tables below show the LTV analysis of the Company's Residential sub-segment:

	2021				2020			
Company	**First charge £m**	**Second charge £m**	**Funding lines £m**	**Total £m**	First charge £m	Second charge £m	Funding lines £m	Total £m
Band								
0% - 50%	**1,101.5**	**111.8**	**0.6**	**1,213.9**	771.9	105.1	3.7	880.7
50% - 60%	**168.8**	**51.8**	**-**	**220.6**	137.9	64.5	2.2	204.6
60% - 70%	**237.6**	**35.8**	**-**	**273.4**	123.5	58.1	1.5	183.1
70% - 80%	**220.6**	**18.6**	**-**	**239.2**	201.6	39.9	1.5	243.0
80% - 90%	**55.9**	**3.9**	**-**	**59.8**	272.6	19.3	0.5	292.4
90% - 100%	**10.0**	**1.3**	**-**	**11.3**	12.2	3.6	0.4	16.2
>100%	**1.6**	**1.4**	**-**	**3.0**	5.9	4.9	0.9	11.7
Total loans before provisions	**1,796.0**	**224.6**	**0.6**	**2,021.2**	1,525.6	295.4	10.7	1,831.7

45. Risk management (continued)

Forbearance measures undertaken

The Group has a range of options available where borrowers experience financial difficulties that impact their ability to service their financial commitments under the loan agreement. These options are explained in the Risk profile performance review on pages 57 to 58.

A summary of the forbearance measures undertaken (excluding COVID-19 related payment deferrals) during the year 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 2021	At 31 December 2021 £m	Number of accounts 2020	At 31 December 2020 £m
Interest-only switch	**159**	**18.6**	108	14.5
Interest rate reduction	**437**	**8.1**	21	2.2
Term extension	**271**	**16.6**	431	27.1
Payment deferral	**499**	**43.0**	447	39.3
Voluntary-assisted sale	**7**	**0.8**	2	0.1
Payment concession (reduced monthly payments)	**51**	**12.1**	34	2.1
Capitalisation of interest	**65**	**1.1**	2	0.1
Full or partial debt forgiveness	**1,078**	**22.6**	11	0.2
Total	**2,567**	**122.9**	1,056	85.6
Loan type				
First charge owner-occupier	**424**	**34.8**	176	27.1
Second charge owner-occupier[1]	**1,931**	**38.7**	665	22.7
Buy-to-Let	**160**	**34.6**	49	8.9
Commercial	**52**	**14.8**	166	26.9
Total	**2,567**	**122.9**	1,056	85.6

The 2020 comparatives have been amended due to a revision to the calculation methodology.

[1] Through 2021 the Group undertook an exercise and provided a series of forbearance solutions and options to long-term arrears customers on our Second charge portfolio to support and remedy the accrued delinquency.

The COVID-19 payment deferrals scheme ended during 2021. At 31 December 2020 this represented only 1.3% of the Group's loan book by value. For further information on forbearance see the Risk profile performance review on page 57.

45. Risk management (continued)

Company Forbearance type	Number of accounts 2021	At 31 December 2021 £m	Number of accounts 2020	At 31 December 2020 £m
Interest-only switch	**128**	**14.4**	78	9.6
Interest rate reduction	**435**	**7.6**	19	2.1
Term extension	**76**	**8.2**	19	1.7
Payment deferral	**346**	**18.0**	339	20.9
Voluntary-assisted sale	**3**	**0.4**	2	0.1
Payment concession (reduced monthly payments)	**38**	**6.4**	31	1.8
Capitalisation	**65**	**1.1**	2	-
Full or partial debt forgiveness	**1,077**	**22.6**	11	0.2
Total	**2,168**	**78.7**	501	36.4
Loan type				
First charge owner-occupier	**148**	**16.5**	104	16.6
Second charge owner-occupier[1]	**1,892**	**38.0**	364	14.7
Buy-to-Let	**128**	**24.2**	33	5.1
Total	**2,168**	**78.7**	501	36.4

The 2020 comparatives have been amended due to a revision to the calculation methodology.

[1] Through 2021 the Company undertook an exercise and provided a series of forbearance solutions and options to long term arrears customers on our Second charge portfolio to support and remedy the accrued delinquency.

The COVID-19 payment deferrals scheme ended during 2021. At 31 December 2020 this represented only 1.8% of the Company's loan book by value.

45. Risk management (continued)

Geographical analysis by region

An analysis of loans, excluding asset finance leases, by region is provided below:

	Group 2021				Group 2020[1]			
	OSB	**CCFS**	**Total**		OSB	CCFS	Total	
Region	**£m**	**£m**	**£m**	**%**	£m	£m	£m	%
East Anglia	**361.8**	**967.1**	**1,328.9**	**6**	406.1	866.2	1,272.3	7
East Midlands	**543.8**	**555.8**	**1,099.6**	**5**	452.6	463.4	916.0	5
Greater London	**4,983.7**	**3,052.6**	**8,036.3**	**39**	4,842.0	2,837.4	7,679.4	40
Guernsey	**26.3**	**-**	**26.3**	**-**	35.8	-	35.8	-
Jersey	**99.3**	**-**	**99.3**	**-**	122.9	-	122.9	1
North East	**153.9**	**244.4**	**398.3**	**2**	139.0	208.4	347.4	2
North West	**762.3**	**755.0**	**1,517.3**	**7**	623.7	674.8	1,298.5	7
Northern Ireland	**10.9**	**-**	**10.9**	**-**	12.9	-	12.9	-
Scotland	**35.2**	**226.0**	**261.2**	**1**	41.3	214.2	255.5	1
South East	**2,792.6**	**1,452.4**	**4,245.0**	**20**	2,401.2	1,316.7	3,717.9	19
South West	**825.5**	**544.3**	**1,369.8**	**7**	752.7	478.5	1,231.2	6
Wales	**272.1**	**240.6**	**512.7**	**2**	246.8	209.9	456.7	2
West Midlands	**706.9**	**629.8**	**1,336.7**	**7**	738.5	529.2	1,267.7	7
Yorks and Humberside	**366.8**	**438.8**	**805.6**	**4**	250.4	392.5	642.9	3
Total loans before provisions	**11,941.1**	**9,106.8**	**21,047.9**	**100**	11,065.9	8,191.2	19,257.1	100

[1]The prior period comparative has been amended to exclude asset finance leases as geography is not a key risk for leased assets.

45. Risk management (continued)

	Company 2021		Company 2020	
Region	**£m**	**%**	£m	%
East Anglia	**301.3**	**3**	337.6	4
East Midlands	**439.4**	**5**	321.1	4
Greater London	**3,989.0**	**43**	3,779.9	44
North East	**123.9**	**1**	110.8	1
North West	**586.4**	**6**	478.3	6
Northern Ireland	**10.8**	**-**	12.8	-
Scotland	**29.0**	**-**	39.2	-
South East	**2,300.4**	**24**	1,936.8	23
South West	**688.5**	**7**	608.5	7
Wales	**218.8**	**2**	194.3	2
West Midlands	**570.6**	**6**	583.5	7
Yorks and Humberside	**282.1**	**3**	193.4	2
Total loans before provisions	**9,540.2**	**100**	8,596.2	100

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 2021	**Stage 1 £m**	**Stage 2 £m**	**Stage 3 £m**	**Stage 3 (POCI) £m**	**Total £m**
OSB					
Excellent	**5,305.7**	**148.4**	**-**	**-**	**5,454.1**
Good	**5,079.2**	**687.1**	**-**	**-**	**5,766.3**
Satisfactory	**113.5**	**232.4**	**-**	**-**	**345.9**
Lower	**4.3**	**75.9**	**-**	**-**	**80.2**
Impaired	**-**	**-**	**365.6**	**-**	**365.6**
POCI	**-**	**-**	**-**	**45.2**	**45.2**
CCFS					
Excellent	**5,126.6**	**319.1**	**-**	**-**	**5,445.7**
Good	**2,519.6**	**693.9**	**-**	**-**	**3,213.5**
Satisfactory	**35.0**	**147.7**	**-**	**-**	**182.7**
Lower	**4.5**	**109.1**	**-**	**-**	**113.6**
Impaired	**-**	**-**	**99.1**	**-**	**99.1**
POCI	**-**	**-**	**-**	**52.2**	**52.2**
	18,188.4	**2,413.6**	**464.7**	**97.4**	**21,164.1**

Group 2020	Stage 1 £m	Stage 2 £m	Stage 3 £m	Stage 3 (POCI) £m	Total £m
OSB					
Excellent	4,689.6	295.4	-	-	4,985.0
Good	4,564.9	756.4	-	-	5,321.3
Satisfactory	106.7	242.8	-	-	349.5
Lower	5.6	68.8	-	-	74.4
Impaired	-	-	352.6	-	352.6
POCI	-	-	-	48.6	48.6
CCFS					
Excellent	4,352.8	398.8	-	-	4,751.6
Good	2,338.8	667.2	-	-	3,006.0
Satisfactory	55.3	140.2	-	-	195.5
Lower	2.6	121.4	-	-	124.0
Impaired	-	-	48.1	-	48.1
POCI	-	-	-	66.0	66.0
	16,116.3	2,691.0	400.7	114.6	19,322.6

45. Risk management (continued)

Company 2021	Stage 1 £m	Stage 2 £m	Stage 3 £m	Stage 3 (POCI) £m	Total £m
Excellent	**3,620.2**	**128.2**	**-**	**-**	**3,748.4**
Good	**4,494.2**	**568.2**	**-**	**-**	**5,062.4**
Satisfactory	**102.7**	**222.5**	**-**	**-**	**325.2**
Lower	**3.6**	**65.6**	**-**	**-**	**69.2**
Impaired	**-**	**-**	**294.0**	**-**	**294.0**
POCI	**-**	**-**	**-**	**41.0**	**41.0**
	8,220.7	**984.5**	**294.0**	**41.0**	**9,540.2**

Company 2020					
Excellent	3,092.9	256.0	-	-	3,348.9
Good	3,888.9	674.1	-	-	4,563.0
Satisfactory	95.6	228.7	-	-	324.3
Lower	3.0	56.4	-	-	59.4
Impaired	-	-	255.2	-	255.2
POCI	-	-	-	45.4	45.4
	7,080.4	1,215.2	255.2	45.4	8,596.2

The tables below show the Group's and Company's other financial assets by credit risk rating grade:

Group 2021	Excellent £m	Good £m	Satisfactory £m	Total £m
Investment securities	**491.4**	**-**	**-**	**491.4**
Loans and advances to credit institutions	**2,688.9**	**151.8**	**2.9**	**2,843.6**
Derivative assets	**43.0**	**142.7**	**-**	**185.7**
	3,223.3	**294.5**	**2.9**	**3,520.7**

Group 2020	Excellent £m	Good £m	Satisfactory £m	Total £m
Investment securities	471.2	-	-	471.2
Loans and advances to credit institutions	2,432.9	233.4	9.9	2,676.2
Derivative assets	6.5	5.8	-	12.3
	2,910.6	239.2	9.9	3,159.7

45. Risk management (continued)

Company 2021	Excellent £m	Good £m	Satisfactory £m	Total £m
Investment securities	**16.2**	**-**	**-**	**16.2**
Loans and advances to credit institutions	**1,373.6**	**31.4**	**-**	**1,405.0**
Derivative assets	**9.7**	**40.8**	**-**	**50.5**
	1,399.5	**72.2**	**-**	**1,471.7**

Company 2020	Excellent £m	Good £m	Satisfactory £m	Total £m
Investment securities	15.0	-	-	15.0
Loans and advances to credit institutions	1,442.2	75.9	-	1,518.1
Derivative assets	4.7	-	-	4.7
	1,461.9	75.9	-	1,537.8

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 function. In managing these assets, Group Treasury operates within guidelines laid down in the Group Market and Liquidity Risk Policy approved by ALCO 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 £2,926.0m (2020: £3,196.0m).

The tables below show the industry sector of the Group's loans and advances to credit institutions and investment securities:

	Group 2021		Group 2020		**Company 2021**		Company 2020	
	£m	**%**	£m	%	**£m**	**%**	£m	%
BoE[1]	**2,555.9**	**76**	2,308.8	73	**1,350.0**	**95**	1,390.4	91
Other banks	**287.7**	**9**	367.4	12	**55.0**	**4**	127.7	8
Central government	**252.1**	**8**	-	-	**-**	**-**	-	-
Securitisation	**239.3**	**7**	471.2	15	**16.2**	**1**	15.0	1
Total	**3,335.0**	**100**	3,147.4	100	**1,421.2**	**100**	1,533.1	100

[1] Balances with the BoE include £59.5m (2020: £52.3m) of Group and £36.5m (2020: £34.0m) of the Company held in the cash ratio deposit.

45. Risk management (continued)

The tables below show the geographical exposure of the Group's loans and advances to credit institutions and investment securities:

	Group 2021		Group 2020		**Company 2021**		Company 2020	
	£m	**%**	£m	%	**£m**	**%**	£m	%
United Kingdom	**3,328.0**	**100**	3,137.5	100	**1,421.2**	**100**	1,533.1	100
India	**7.0**	**-**	9.9	-	**-**	**-**	-	-
Total	**3,335.0**	**100**	3,147.4	100	**1,421.2**	**100**	1,533.1	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.

The Board has delegated the responsibility for liquidity management to the Chief Executive Officer, assisted by ALCO, with day-to-day management delegated to Treasury as detailed in the Group Market and Liquidity Risk Policy. The Board is responsible for setting risk appetite limits over the level and maturity profile of 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.

The Group also monitors a range of triggers, defined in the recovery 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 Group Chief Risk Officer, Chief Executive Officer, Chief Financial Officer and the Group Treasurer.

45. Risk management (continued)

The tables below provide a contractual maturity analysis of the Group's financial assets and liabilities:

Group 2021	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	**17,526.4**	**5,004.6**	**2,350.3**	**7,458.5**	**2,713.0**	**-**
Amounts owed to credit institutions	**4,319.6**	**42.1**	**1.0**	**-**	**4,203.2**	**73.3**
Amounts owed to other customers	**92.6**	**14.8**	**8.1**	**45.0**	**24.7**	**-**
Derivative liabilities	**19.7**	**-**	**0.7**	**10.4**	**8.6**	**-**
Debt securities in issue	**460.3**	**-**	**-**	**-**	**460.3**	**-**
Lease liabilities	**10.7**	**-**	**0.3**	**0.6**	**3.7**	**6.1**
Subordinated liabilities	**10.3**	**-**	**-**	**0.1**	**10.2**	**-**
PSBs	**15.2**	**-**	**-**	**-**	**15.2**	**-**
Total liabilities	**22,454.8**	**5,061.5**	**2,360.4**	**7,514.6**	**7,438.9**	**79.4**
Financial asset by type						
Cash in hand	**0.5**	**0.5**	**-**	**-**	**-**	**-**
Loans and advances to credit institutions	**2,843.6**	**2,667.8**	**52.0**	**10.1**	**-**	**113.7**
Investment securities	**491.4**	**-**	**172.7**	**6.1**	**312.6**	**-**
Loans and advances to customers	**21,080.3**	**3.3**	**163.8**	**383.5**	**1,327.4**	**19,202.3**
Derivative assets	**185.7**	**-**	**0.1**	**5.4**	**179.9**	**0.3**
Total assets	**24,601.5**	**2,671.6**	**388.6**	**405.1**	**1,819.9**	**19,316.3**
Cumulative liquidity gap		**(2,389.9)**	**(4,361.7)**	**(11,471.2)**	**(17,090.2)**	**2,146.7**

45. Risk management (continued)

Group 2020	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	16,603.1	3,810.7	2,733.5	6,517.5	3,541.4	-
Amounts owed to credit institutions	3,570.2	0.4	85.0	1,035.3	2,449.5	-
Amounts owed to other customers	72.9	26.9	7.5	38.5	-	-
Derivative liabilities	163.6	-	0.2	4.5	153.9	5.0
Debt securities in issue	421.9	-	-	-	421.9	-
Lease liabilities	11.7	-	0.2	0.7	3.6	7.2
Subordinated liabilities	10.5	-	0.2	0.1	10.2	-
PSBs	37.6	-	0.6	-	-	37.0
Total liabilities	20,891.5	3,838.0	2,827.2	7,596.6	6,580.5	49.2
Financial asset by type						
Cash in hand	0.5	0.5	-	-	-	-
Loans and advances to credit institutions	2,676.2	2,512.8	111.1	18.3	-	34.0
Investment securities	471.2	-	0.3	-	470.9	-
Loans and advances to customers	19,230.7	4.1	316.7	266.4	1,239.7	17,403.8
Derivative assets	12.3	-	1.3	3.7	7.1	0.2
Total assets	22,390.9	2,517.4	429.4	288.4	1,717.7	17,438.0
Cumulative liquidity gap		(1,320.6)	(3,718.4)	(11,026.6)	(15,889.4)	1,499.4

45. Risk management (continued)

Company 2021	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	9,739.4	3,157.5	1,361.7	3,889.5	1,330.7	-
Amounts owed to credit institutions	2,420.7	42.1	-	-	2,378.6	-
Amounts owed to other customers	5.7	-	0.5	5.2	-	-
Derivative liabilities	8.7	-	0.3	4.6	3.8	-
Lease liabilities	3.9	-	-	-	0.3	3.6
Subordinated liabilities	10.3	-	-	0.1	10.2	-
PSBs	15.2	-	-	-	15.2	-
Total liabilities	12,203.9	3,199.6	1,362.5	3,899.4	3,738.8	3.6
Financial asset by type						
Cash in hand	0.5	0.5	-	-	-	-
Loans and advances to credit institutions	1,405.0	1,368.5	-	-	-	36.5
Investment securities	16.2	-	-	-	16.2	-
Loans and advances to customers	9,476.4	-	40.8	126.8	337.1	8,971.7
Derivative assets	50.5	-	-	1.9	48.4	0.2
Total assets	10,948.6	1,369.0	40.8	128.7	401.7	9,008.4
Cumulative liquidity gap		(1,830.6)	(3,152.3)	(6,923.0)	(10,260.1)	(1,255.3)

45. Risk management (continued)

Company 2020	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	9,705.3	2,998.8	1,325.1	3,420.7	1,960.7	-
Amounts owed to credit institutions	1,900.5	-	85.0	1,035.3	780.2	-
Amounts owed to other customers	5.8	-	0.5	5.3	-	-
Derivative liabilities	93.8	-	-	1.1	88.8	3.9
Lease liabilities	3.9	-	-	0.1	0.2	3.6
Subordinated liabilities	10.5	-	0.2	0.1	10.2	-
PSBs	37.6	-	0.6	-	-	37.0
Total liabilities	11,757.4	2,998.8	1,411.4	4,462.6	2,840.1	44.5
Financial asset by type						
Cash in hand	0.5	0.5	-	-	-	-
Loans and advances to credit institutions	1,518.1	1,484.1	-	-	-	34.0
Investment securities	15.0	-	-	-	15.0	-
Loans and advances to customers	8,531.7	-	151.9	82.6	269.0	8,028.2
Derivative assets	4.7	-	0.6	1.8	2.1	0.2
Total assets	10,070.0	1,484.6	152.5	84.4	286.1	8,062.4
Cumulative liquidity gap		(1,514.2)	(2,773.1)	(7,151.3)	(9,705.3)	(1,687.4)

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 2021	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	17,526.4	17,554.7	9,305.7	5,883.7	2,365.3	-
Amounts owed to credit institutions	4,319.6	4,359.8	45.2	5.2	4,236.1	73.3
Amounts owed to other customers	92.6	92.6	22.9	45.0	24.7	-
Derivative liabilities	19.7	6.0	(0.4)	5.1	1.2	0.1
Debt securities in issue	460.3	473.2	25.1	75.0	373.1	-
Lease liabilities	10.7	13.1	0.6	1.6	7.7	3.2
Subordinated liabilities	10.3	12.2	0.2	0.7	11.3	-
PSBs	15.2	16.8	0.2	0.5	16.1	-
Total liabilities	22,454.8	22,528.4	9,399.5	6,016.8	7,035.5	76.6
Off-balance sheet loan commitments	1,155.3	1,155.3	1,155.3	-	-	-
Financial asset by type						
Cash in hand	0.5	0.5	0.5	-	-	-
Loans and advances to credit institutions	2,843.6	2,843.6	2,756.3	10.1	-	77.2
Investment securities	491.4	497.0	172.6	108.8	215.6	-
Loans and advances to customers	21,080.3	41,290.2	374.4	1,331.0	5,711.9	33,872.9
Derivative assets	185.7	75.8	(1.4)	11.2	66.0	-
Total assets	24,601.5	44,707.1	3,302.4	1,461.1	5,993.5	33,950.1

45. Risk management (continued)

Group 2020	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[1]	16,603.1	16,644.9	8,712.7	5,325.8	2,606.4	-
Amounts owed to credit institutions[1]	3,570.2	3,585.8	86.0	1,037.7	2,462.1	-
Amounts owed to other customers[1]	72.9	73.0	34.4	38.6	-	-
Derivative liabilities	163.6	157.7	11.0	41.4	103.8	1.5
Debt securities in issue[1]	421.9	426.4	17.8	53.1	355.5	-
Lease liabilities	11.7	13.2	0.5	1.2	6.4	5.1
Subordinated liabilities	10.5	13.1	0.4	0.5	12.2	-
PSBs	37.6	39.8	0.7	0.3	1.8	37.0
Total liabilities	20,891.5	20,953.9	8,863.5	6,498.6	5,548.2	43.6
Off-balance sheet loan commitments	979.5	979.5	979.5	-	-	-
Financial asset by type						
Cash in hand	0.5	0.5	0.5	-	-	-
Loans and advances to credit institutions	2,676.2	2,676.2	2,623.9	18.3	-	34.0
Investment securities	471.2	494.9	1.2	4.0	483.8	5.9
Loans and advances to customers	19,230.7	36,156.7	373.4	1,132.4	4,960.5	29,690.4
Derivative assets	12.3	12.1	3.2	4.6	4.3	-
Total assets	22,390.9	39,340.4	3,002.2	1,159.3	5,448.6	29,730.3

[1] The 2020 comparatives have been restated following a misallocation of cash flows between time buckets in the prior year.

45. Risk management (continued)

Company 2021	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	**9,739.4**	**9,720.5**	**6,467.9**	**2,288.6**	**964.0**	**-**
Amounts owed to credit institutions	**2,420.7**	**2,443.3**	**43.3**	**1.8**	**2,398.2**	**-**
Amounts owed to other customers	**5.7**	**5.7**	**0.5**	**5.2**	**-**	**-**
Derivative liabilities	**8.7**	**8.2**	**0.1**	**5.0**	**3.0**	**0.1**
Lease liabilities	**3.9**	**4.4**	**0.2**	**0.5**	**2.4**	**1.3**
Subordinated liabilities	**10.3**	**10.3**	**0.2**	**0.1**	**10.0**	**-**
PSBs	**15.2**	**15.2**	**0.2**	**-**	**15.0**	**-**
Total liabilities	**12,203.9**	**12,207.6**	**6,512.4**	**2,301.2**	**3,392.6**	**1.4**
Off-balance sheet loan commitments	**577.5**	**577.5**	**577.5**	**-**	**-**	**-**
Financial asset by type						
Cash in hand	**0.5**	**0.5**	**0.5**	**-**	**-**	**-**
Loans and advances to credit institutions	**1,405.0**	**1,405.0**	**1,405.0**	**-**	**-**	**-**
Investment securities	**16.2**	**16.3**	**0.7**	**0.1**	**15.5**	**-**
Loans and advances to customers	**9,476.4**	**19,793.6**	**129.0**	**659.0**	**2,531.0**	**16,474.6**
Derivative assets	**50.5**	**50.5**	**(0.6)**	**3.3**	**47.8**	**-**
Total assets	**10,948.6**	**21,265.9**	**1,534.6**	**662.4**	**2,594.3**	**16,474.6**

45. Risk management (continued)

Company 2020	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	9,705.3	9,686.7	6,490.7	2,200.4	995.6	-
Amounts owed to credit institutions	1,900.5	1,877.7	60.5	1,036.1	781.1	-
Amounts owed to other customers	5.8	5.8	0.5	5.3	-	-
Derivative liabilities	93.8	93.3	5.0	25.3	61.6	1.4
Lease liabilities	3.9	4.9	0.2	0.3	2.0	2.4
Subordinated liabilities	10.5	13.1	0.4	0.5	12.2	-
PSBs	37.6	39.8	0.7	0.3	1.8	37.0
Total liabilities	11,757.4	11,721.3	6,558.0	3,268.2	1,854.3	40.8
Off-balance sheet loan commitments	522.0	522.0	522.0	-	-	-
Financial asset by type						
Cash in hand	0.5	0.5	0.5	-	-	-
Loans and advances to credit institutions	1,518.1	1,518.1	1,484.1	-	-	34.0
Investment securities	15.0	15.0	-	-	15.0	-
Loans and advances to customers	8,531.7	17,211.8	108.4	603.8	2,141.1	14,358.5
Derivative assets	4.7	4.3	1.3	2.1	0.9	-
Total assets	10,070.0	18,749.7	1,594.3	605.9	2,157.0	14,392.5

The actual repayment profile of retail deposits may differ from the analysis above due to the option of early withdrawal with a penalty.

Cash flows on PSBs are disclosed up to the next interest rate reset date.

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 2021				
	Encumbered		**Unencumbered**		
	Pledged as collateral £m	**Other[1] £m**	**Available as collateral £m**	**Other[2] £m**	**Total £m**
Cash in hand	**-**	**-**	**0.5**	**-**	**0.5**
Loans and advances to credit institutions	**99.9**	**107.5**	**2,496.4**	**139.8**	**2,843.6**
Investment securities	**121.8**	**-**	**369.6**	**-**	**491.4**
Loans and advances to customers	**6,373.7**	**-**	**2,746.3**	**11,960.3**	**21,080.3**
Derivative assets	**-**	**-**	**-**	**185.7**	**185.7**
Non-financial assets	**-**	**-**	**-**	**(69.0)**	**(69.0)**
	6,595.4	**107.5**	**5,612.8**	**12,216.8**	**24,532.5**

	Group 2020				
	Encumbered		Unencumbered		
	Pledged as collateral £m	Other[1] £m	Available as collateral £m	Other[2] £m	Total £m
Cash in hand	-	-	0.5	-	0.5
Loans and advances to credit institutions	211.1	95.0	2,256.5	113.6	2,676.2
Investment securities	161.0	-	310.2	-	471.2
Loans and advances to customers	5,638.6	-	2,752.0	10,840.1	19,230.7
Derivative assets	-	-	-	12.3	12.3
Non-financial assets	-	-	-	263.6	263.6
	6,010.7	95.0	5,319.2	11,229.6	22,654.5

[1] Represents assets that are not pledged but that the Group believes it is restricted from using to secure funding for legal or other reasons.
[2] 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)

	Company 2021				
	Encumbered		**Unencumbered**		
	Pledged as collateral	**Other[1]**	**Available as collateral**	**Other[2]**	**Total**
	£m	**£m**	**£m**	**£m**	**£m**
Cash in hand	**-**	**-**	**0.5**	**-**	**0.5**
Loans and advances to credit institutions	**36.7**	**36.5**	**1,313.5**	**18.3**	**1,405.0**
Investment securities	**-**	**-**	**16.2**	**-**	**16.2**
Loans and advances to customers	**3,678.9**	**-**	**-**	**5,797.5**	**9,476.4**
Derivative assets	**-**	**-**	**-**	**50.5**	**50.5**
Non-financial assets	**-**	**-**	**-**	**3,135.9**	**3,135.9**
	3,715.6	**36.5**	**1,330.2**	**9,002.2**	**14,084.5**

	Company 2020				
	Encumbered		Unencumbered		
	Pledged as collateral	Other[1]	Available as collateral	Other[2]	Total
	£m	£m	£m	£m	£m
Cash in hand	-	-	0.5	-	0.5
Loans and advances to credit institutions	107.0	34.0	1,356.4	20.7	1,518.1
Investment securities	-	-	15.0	-	15.0
Loans and advances to customers	3,064.0	-	-	5,467.7	8,531.7
Derivative assets	-	-	-	4.7	4.7
Non-financial assets	-	-	-	3,304.8	3,304.8
	3,171.0	34.0	1,371.9	8,797.9	13,374.8

[1] Represents assets that are not pledged but that the Group believes it is restricted from using to secure funding for legal or other reasons.
[2] 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 2021 £m	Group 2020 £m	**Company 2021 £m**	Company 2020 £m
Unencumbered balances with central banks	**2,496.4**	2,256.5	**1,313.5**	1,356.4
Unencumbered cash and balances with other banks	**139.8**	113.6	**18.3**	20.7
Other cash and cash equivalents	**0.5**	0.5	**0.5**	0.5
Unencumbered investment securities	**369.6**	310.2	**16.2**	15.0
	3,006.3	2,680.8	**1,348.5**	1,392.6

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. The Group does not run a trading book or take speculative interest rate positions and therefore all interest rate risk resides in the banking book (interest rate risk in the banking book (IRRBB)). IRRBB 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 separately for OSB and CCFS due to the use of different treasury management and asset and liability management (ALM) systems. However, the methodology applied to the setting of risk appetites was aligned across the Group in 2020. Both Banks apply an economic value at risk approach as well as an earnings at risk approach for 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.

Economic value at risk is measured using the impact of six different internally derived interest rate scenarios. 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 limits on interest rate risk exposure of 2.25% and 1% of CET1 for OSB and CCFS, respectively.

45. Risk management (continued)

The table below shows the maximum decreases to net interest income under these scenarios after taking into account the derivatives:

Group	**2021 £m**	2020 £m
OSB	**9.9**	5.6
CCFS	**1.1**	0.7
	11.0	6.3

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 full year net interest income. The table below shows the maximum decreases after taking into account the derivatives:

Group	**2021 £m**	2020 £m
OSB[1]	**0.5**	(0.1)
CCFS[1]	**(0.4)**	2.2
	0.1	2.1

[1] Increases for OSB 2020 and CCFS 2021 due to product floors earnings increases in both the +50bps and -50bps scenarios.

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. BBR, LIBOR or SONIA) or administered (e.g. the Group's SVR, other discretionary variable rates, or that received on call accounts with other banks).

The Group 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 4% of full year net interest income. The table below shows the maximum decreases to net interest income at 31 December 2021 and 2020:

Group	**2021 £m**	2020 £m
OSB	**3.2**	5.4
CCFS	**3.8**	8.0
	7.0	13.4

Foreign exchange rate risk

The Group has limited exposure to foreign exchange risk in respect of its Indian operations. A 5% increase in exchange rates would result in a £0.4m (2020: £0.4m) effect in profit or loss and £0.5m (2020: £0.5m) in equity.

The Company is not exposed to foreign exchange risk since all its assets and liabilities are denominated in Pounds Sterling.

45. Risk management (continued)

Structured entities

The structured entities consolidated within the Group at 31 December 2021 were Canterbury Finance No.2 plc, Canterbury Finance No.3 plc, Canterbury Finance No.4 plc and CMF 2020-1 plc. These 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 Group retained the subordinated 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.

Cash flows generated from the structured entities are ring-fenced and are 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 structured entities consolidated within the Group at 31 December 2020 were Canterbury Finance No.2 plc, Canterbury Finance No.3 plc and CMF 2020-1 plc.

Unconsolidated structured entities

Structured entities, which were sponsored by the Group include Precise Mortgage Funding 2017-1B plc, Charter Mortgage Funding 2017-1 plc, Precise Mortgage Funding 2018-1B plc, Charter Mortgage Funding 2018-1 plc, Precise Mortgage Funding 2019-1B plc, Canterbury Finance No.1 plc and Precise Mortgage Funding 2020-1B plc.

These structured entities are not consolidated by the Group, as the Group does not control the entities and is not exposed to the risks and rewards of ownership from the securitised mortgages. The Group has no contractual arrangements with the unconsolidated structured entities other than the investments disclosed in note 18 and servicing the structured entities' mortgage portfolios.

The Group has not provided any support to the unconsolidated structured entities listed and has no obligation or intention to do so.

During 2021 the Group received £1.8m interest income (2020: £5.0m) and £4.4m servicing income (2020: £4.6m) from unconsolidated structured entities.

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:

		2021				
Group	Note	**Designated FVTPL £m**	**Mandatorily FVTPL £m**	**FVOCI £m**	**Amortised cost £m**	**Total carrying amount £m**
Assets						
Cash in hand		**-**	**-**	**-**	**0.5**	**0.5**
Loans and advances to credit institutions	17	**-**	**-**	**-**	**2,843.6**	**2,843.6**
Investment securities	18	**0.7**	**-**	**167.6**	**323.1**	**491.4**
Loans and advances to customers	19	**17.7**	**-**	**-**	**21,062.6**	**21,080.3**
Derivative assets	24	**-**	**185.7**	**-**	**-**	**185.7**
		18.4	**185.7**	**167.6**	**24,229.8**	**24,601.5**
Liabilities						
Amounts owed to retail depositors	32	**-**	**-**	**-**	**17,526.4**	**17,526.4**
Amounts owed to credit institutions	31	**-**	**-**	**-**	**4,319.6**	**4,319.6**
Amounts owed to other customers	33	**-**	**-**	**-**	**92.6**	**92.6**
Debt securities in issue	34	**-**	**-**	**-**	**460.3**	**460.3**
Derivative liabilities	24	**-**	**19.7**	**-**	**-**	**19.7**
Subordinated liabilities	39	**-**	**-**	**-**	**10.3**	**10.3**
PSBs	40	**-**	**-**	**-**	**15.2**	**15.2**
		-	**19.7**	**-**	**22,424.4**	**22,444.1**

46. Financial instruments and fair values (continued)

Group	Note	Designated FVTPL £m	Mandatorily FVTPL £m	FVOCI £m	Amortised cost £m	Total carrying amount £m
		2020				
Assets						
Cash in hand		-	-	-	0.5	0.5
Loans and advances to credit institutions	17	-	-	-	2,676.2	2,676.2
Investment securities	18	-	-	285.0	186.2	471.2
Loans and advances to customers	19	19.1	-	-	19,211.6	19,230.7
Derivative assets	24	-	12.3	-	-	12.3
		19.1	12.3	285.0	22,074.5	22,390.9
Liabilities						
Amounts owed to retail depositors	32	-	-	-	16,603.1	16,603.1
Amounts owed to credit institutions	31	-	-	-	3,570.2	3,570.2
Amounts owed to other customers	33	-	-	-	72.9	72.9
Debt securities in issue	34	-	-	-	421.9	421.9
Derivative liabilities	24	-	163.6	-	-	163.6
Subordinated liabilities	39	-	-	-	10.5	10.5
PSBs	40	-	-	-	37.6	37.6
		-	163.6	-	20,716.2	20,879.8

Company	Note	**Designated FVTPL £m**	**Mandatorily FVTPL £m**	**FVOCI £m**	**Amortised cost £m**	**Total carrying amount £m**
		2021				
Assets						
Cash in hand		**-**	**-**	**-**	**0.5**	**0.5**
Loans and advances to credit institutions	17	**-**	**-**	**-**	**1,405.0**	**1,405.0**
Investment securities	18	**0.7**	**-**	**15.5**	**-**	**16.2**
Loans and advances to customers	19	**-**	**-**	**-**	**9,476.4**	**9,476.4**
Derivative assets	24	**-**	**50.5**	**-**	**-**	**50.5**
		0.7	**50.5**	**15.5**	**10,881.9**	**10,948.6**
Liabilities						
Amounts owed to retail depositors	32	**-**	**-**	**-**	**9,739.4**	**9,739.4**
Amounts owed to credit institutions	31	**-**	**-**	**-**	**2,420.7**	**2,420.7**
Amounts owed to other customers	33	**-**	**-**	**-**	**5.7**	**5.7**
Derivative liabilities	24	**-**	**8.7**	**-**	**-**	**8.7**
Subordinated liabilities	39	**-**	**-**	**-**	**10.3**	**10.3**
PSBs	40	**-**	**-**	**-**	**15.2**	**15.2**
		-	**8.7**	**-**	**12,191.3**	**12,200.0**

46. Financial instruments and fair values (continued)

Company	Note	2020 Mandatorily FVTPL £m	FVOCI £m	Amortised cost £m	Total carrying amount £m
Assets					
Cash in hand		-	-	0.5	0.5
Loans and advances to credit institutions	17	-	-	1,518.1	1,518.1
Investment securities	18	-	15.0	-	15.0
Loans and advances to customers	19	-	-	8,531.7	8,531.7
Derivative assets	24	4.7	-	-	4.7
		4.7	15.0	10,050.3	10,070.0
Liabilities					
Amounts owed to retail depositors	32	-	-	9,705.3	9,705.3
Amounts owed to credit institutions	31	-	-	1,900.5	1,900.5
Amounts owed to other customers	33	-	-	5.8	5.8
Derivative liabilities	24	93.8	-	-	93.8
Subordinated liabilities	39	-	-	10.5	10.5
PSBs	40	-	-	37.6	37.6
		93.8	-	11,659.7	11,753.5

The Group has no financial assets or 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 Consolidated Statement of Financial Position:

	2021		2020	
Group	**Carrying value £m**	**Estimated fair value £m**	Carrying value £m	Estimated fair value £m
Assets				
Cash in hand	**0.5**	**0.5**	0.5	0.5
Loans and advances to credit institutions	**2,843.6**	**2,843.6**	2,676.2	2,676.2
Investment securities	**323.1**	**323.8**	186.2	186.6
Loans and advances to customers	**21,062.6**	**21,079.5**	19,211.6	19,352.0
	24,229.8	**24,247.4**	22,074.5	22,215.3
Liabilities				
Amounts owed to retail depositors	**17,526.4**	**17,524.9**	16,603.1	16,666.1
Amounts owed to credit institutions	**4,319.6**	**4,319.6**	3,570.2	3,570.2
Amounts owed to other customers	**92.6**	**92.6**	72.9	72.9
Debt securities in issue	**460.3**	**460.3**	421.9	421.9
Subordinated liabilities	**10.3**	**10.6**	10.5	10.7
PSBs	**15.2**	**14.7**	37.6	32.3
	22,424.4	**22,422.7**	20,716.2	20,774.1

46. Financial instruments and fair values (continued)

	2021		2020	
	Carrying value	**Estimated fair value**	Carrying value	Estimated fair value
Company	**£m**	**£m**	£m	£m
Assets				
Cash in hand	**0.5**	**0.5**	0.5	0.5
Loans and advances to credit institutions	**1,405.0**	**1,405.0**	1,518.1	1,518.1
Loans and advances to customers	**9,476.4**	**9,448.4**	8,531.7	8,670.1
	10,881.9	**10,853.9**	10,050.3	10,188.7
Liabilities				
Amounts owed to retail depositors	**9,739.4**	**9,737.3**	9,705.3	9,736.4
Amounts owed to credit institutions	**2,420.7**	**2,420.7**	1,900.5	1,900.5
Amounts owed to other customers	**5.7**	**5.7**	5.8	5.8
Subordinated liabilities	**10.3**	**10.6**	10.5	10.7
PSBs	**15.2**	**14.7**	37.6	32.3
	12,191.3	**12,189.0**	11,659.7	11,685.7

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.

Investment securities
Investment securities' fair values are provided by a third party and are based on the market values of similar financial instruments. The fair value of investment securities held at FVTPL is measured using a discounted cash flow model.

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.

46. Financial instruments and fair values (continued)

Amounts owed to credit institutions
This mainly represents amounts drawn down under the BoE TFS and TFSME and commercial repos. Fair value is considered to be equal to carrying value.

Amounts owed to other customers
This represents saving products to corporations and local authorities. The fair value of fixed rate deposits is estimated by discounting future cash flows at current market rates of interest. Deposits at variable rates are considered to be at current market rates and the fair value is estimated to be equal to carrying value.

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 PSBs
The fair value of subordinated liabilities is estimated by using quoted market prices of similar instruments at the reporting date. The PSBs are listed on the London Stock Exchange with fair value being the quoted market price at the reporting date.

iii. Fair value classification

The following tables provide an analysis of financial assets and financial liabilities measured at fair value in the Consolidated Statement of Financial Position grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

Group 2021	Carrying amount £m	Principal amount £m	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial assets						
Investment securities	168.3	166.2	152.1	15.5	0.7	168.3
Loans and advances to customers	17.7	19.7	-	-	17.7	17.7
Derivative assets	185.7	12,968.3	-	185.7	-	185.7
	371.7	13,154.2	152.1	201.2	18.4	371.7
Financial liabilities						
Derivative liabilities	19.7	7,378.0	-	19.7	-	19.7

46. Financial instruments and fair values (continued)

Group 2020	Carrying amount £m	Principal amount £m	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial assets						
Investment securities	285.0	284.7	-	285.0	-	285.0
Loans and advances to customers	19.1	21.8	-	-	19.1	19.1
Derivative assets	12.3	8,687.8	-	12.3	-	12.3
	316.4	8,994.3	-	297.3	19.1	316.4
Financial liabilities						
Derivative liabilities	163.6	10,392.4	-	163.6	-	163.6

Company 2021	**Carrying amount £m**	**Principal amount £m**	**Level 1 £m**	**Level 2 £m**	**Level 3 £m**	**Total £m**
Financial assets						
Investment securities	**16.2**	**16.2**	**-**	**15.5**	**0.7**	**16.2**
Derivative assets	**50.5**	**3,953.0**	**-**	**50.5**	**-**	**50.5**
	66.7	**3,969.2**	**-**	**66.0**	**0.7**	**66.7**
Financial liabilities						
Derivative liabilities	**8.7**	**3,416.0**	**-**	**8.7**	**-**	**8.7**

46. Financial instruments and fair values (continued)

Company 2020	Carrying amount £m	Principal amount £m	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial assets						
Investment securities	15.0	15.0	-	15.0	-	15.0
Derivative assets	4.7	3,585.0	-	4.7	-	4.7
	19.7	3,600.0	-	19.7	-	19.7
Financial liabilities						
Derivative liabilities	93.8	3,729.0	-	93.8	-	93.8

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 Consolidated Statement of Financial Position grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

Group 2021	**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	**0.5**	**0.5**	**-**	**0.5**	**-**	**0.5**
Loans and advances to credit institutions	**2,843.6**	**2,843.6**	**-**	**2,843.6**	**-**	**2,843.6**
Investment securities	**323.1**	**322.9**	**-**	**323.8**	**-**	**323.8**
Loans and advances to customers	**21,062.6**	**21,076.7**	**-**	**3,323.0**	**17,756.5**	**21,079.5**
	24,229.8	**24,243.7**	**-**	**6,490.9**	**17,756.5**	**24,247.4**
Financial liabilities						
Amounts owed to retail depositors	**17,526.4**	**17,469.0**	**-**	**6,601.3**	**10,923.6**	**17,524.9**
Amounts owed to credit institutions	**4,319.6**	**4,318.5**	**-**	**4,319.6**	**-**	**4,319.6**
Amounts owed to other customers	**92.6**	**92.5**	**-**	**-**	**92.6**	**92.6**
Debt securities in issue	**460.3**	**460.2**	**-**	**460.3**	**-**	**460.3**
Subordinated liabilities	**10.3**	**10.1**	**-**	**-**	**10.6**	**10.6**
PSBs	**15.2**	**15.0**	**14.7**	**-**	**-**	**14.7**
	22,424.4	**22,365.3**	**14.7**	**11,381.2**	**11,026.8**	**22,422.7**

Group 2020	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	0.5	0.5	-	0.5	-	0.5
Loans and advances to credit institutions	2,676.2	2,676.1	-	2,676.2	-	2,676.2
Investment securities	186.2	186.2	-	186.6	-	186.6
Loans and advances to customers	19,211.6	19,200.1	-	3,314.5	16,037.5	19,352.0
	22,074.5	22,062.9	-	6,177.8	16,037.5	22,215.3
Financial liabilities						
Amounts owed to retail depositors	16,603.1	16,507.3	-	5,546.1	11,120.0	16,666.1
Amounts owed to credit institutions	3,570.2	3,569.3	-	3,570.2	-	3,570.2
Amounts owed to other customers	72.9	72.7	-	-	72.9	72.9
Debt securities in issue	421.9	421.8	-	421.9	-	421.9
Subordinated liabilities	10.5	10.3	-	-	10.7	10.7
PSBs	37.6	37.0	32.3	-	-	32.3
	20,716.2	20,618.4	32.3	9,538.2	11,203.6	20,774.1

46. Financial instruments and fair values (continued)

Company 2021	**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	**0.5**	**0.5**	**-**	**0.5**	**-**	**0.5**
Loans and advances to credit institutions	**1,405.0**	**1,405.0**	**-**	**1,405.0**	**-**	**1,405.0**
Loans and advances to customers	**9,476.4**	**9,611.8**	**-**	**2,402.8**	**7,045.6**	**9,448.4**
	10,881.9	**11,017.3**	**-**	**3,808.3**	**7,045.6**	**10,853.9**
Financial liabilities						
Amounts owed to retail depositors	**9,739.4**	**9,704.9**	**-**	**3,517.7**	**6,219.6**	**9,737.3**
Amounts owed to credit institutions	**2,420.7**	**2,420.1**	**-**	**2,420.7**	**-**	**2,420.7**
Amounts owed to other customers	**5.7**	**5.7**	**-**	**-**	**5.7**	**5.7**
Subordinated liabilities	**10.3**	**10.1**	**-**	**-**	**10.6**	**10.6**
PSBs	**15.2**	**15.0**	**14.7**	**-**	**-**	**14.7**
	12,191.3	**12,155.8**	**14.7**	**5,938.4**	**6,235.9**	**12,189.0**

Company 2020	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	0.5	0.5	-	0.5	-	0.5
Loans and advances to credit institutions	1,518.1	1,518.1	-	1,518.1	-	1,518.1
Loans and advances to customers	8,531.7	8,702.5	-	2,382.8	6,287.3	8,670.1
	10,050.3	10,221.1	-	3,901.4	6,287.3	10,188.7
Financial liabilities						
Amounts owed to retail depositors	9,705.3	9,645.8	-	3,429.7	6,306.7	9,736.4
Amounts owed to credit institutions	1,900.5	1,900.0	-	1,900.5	-	1,900.5
Amounts owed to other customers	5.8	5.8	-	-	5.8	5.8
Subordinated liabilities	10.5	10.3	-	-	10.7	10.7
PSBs	37.6	37.0	32.3	-	-	32.3
	11,659.7	11,598.9	32.3	5,330.2	6,323.2	11,685.7

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 £5.2m (2020: £4.3m).

48. Operating segments

The Group segments its lending business and operates under two segments in line with internal reporting to the Board:

- OSB
- CCFS

The Group separately discloses the impact of Combination accounting but does not consider this a business segment.

The financial position and results of operations of the above segments are summarised below:

2021	OSB £m	CCFS £m	Combination £m	Total £m
Balances at the reporting date				
Gross loans and advances to customers	12,057.3	8,981.4	143.1	21,181.8
Expected credit losses	(82.2)	(19.6)	0.3	(101.5)
Loans and advances to customers	11,975.1	8,961.8	143.4	21,080.3
Capital expenditure	5.0	1.8	-	6.8
Depreciation and amortisation	6.5	3.2	4.8	14.5
Profit or loss for the year				
Net interest income/(expense)	414.8	235.7	(62.9)	587.6
Other income	8.7	20.0	12.7	41.4
Total income/(expense)	423.5	255.7	(50.2)	629.0
Administrative expenses	(97.9)	(63.8)	(4.8)	(166.5)
Provisions	(0.3)	0.1	-	(0.2)
Impairment of financial assets	(3.5)	8.4	(0.5)	4.4
Impairment of intangible assets	-	-	3.1	3.1
Integration costs	(4.0)	(1.0)	-	(5.0)
Exceptional items	(0.2)	-	-	(0.2)
Profit/(loss) before taxation	317.6	199.4	(52.4)	464.6
Taxation[1]	(76.3)	(51.8)	8.5	(119.6)
Profit/(loss) for the year	241.3	147.6	(43.9)	345.0

[1] The taxation on Combination credit includes a credit of £14.1m relating to the unwind of the deferred tax liabilities recognised on the fair value adjustments of the CCFS assets and liabilities at the acquisition date, offset by a £5.6m deferred tax charge due to the 6% increase in the main rate of the corporation tax liability from 1 April 2023.

48. Operating segments (continued)

2020	OSB £m	CCFS £m	Combination £m	Total £m
Balances at the reporting date				
Gross loans and advances to customers	11,131.4	8,001.2	209.1	19,341.7
Expected credit losses	(83.6)	(28.2)	0.8	(111.0)
Loans and advances to customers	11,047.8	7,973.0	209.9	19,230.7
Capital expenditure	5.3	2.4	-	7.7
Depreciation and amortisation	7.1	2.4	4.3	13.8
Profit or loss for the year				
Net interest income/(expense)	332.8	201.2	(61.8)	472.2
Other income	18.8	17.4	0.2	36.4
Total income/(expense)	351.6	218.6	(61.6)	508.6
Administrative expenses	(95.3)	(57.5)	(4.3)	(157.1)
Provisions	-	(0.1)	-	(0.1)
Impairment of financial assets	(50.7)	(20.5)	0.2	(71.0)
Impairment of intangible assets	-	-	(7.0)	(7.0)
Integration costs	(7.5)	(2.3)	-	(9.8)
Exceptional items	(3.3)	-	-	(3.3)
Profit/(loss) before taxation	194.8	138.2	(72.7)	260.3
Taxation[1]	(46.9)	(32.0)	14.8	(64.1)
Profit/(loss) for the year	147.9	106.2	(57.9)	196.2

[1] The taxation on Combination credit of £14.8m includes a £4.8m charge due to a 2% increase in the rate for the deferred tax liability following the Government cancellation of the corporation tax rate reduction on 19 March 2020.

49. Adjustments for non-cash items and changes in operating assets and liabilities

	Group 2021 £m	Group 2020 £m	**Company 2021 £m**	Company 2020 £m
Adjustments for non-cash items:				
Depreciation and amortisation	**14.5**	13.8	**5.5**	5.7
Interest on investment securities	**(2.5)**	(7.5)	**(0.1)**	(0.8)
Integration cost	**0.6**	-	**0.6**	-
Interest on subordinated liabilities	**0.8**	0.8	**0.8**	0.8
Interest on PSBs	**1.2**	1.7	**1.2**	1.7
Interest on securitised debt	**3.9**	3.4	**-**	-
Interest on financing debt	**5.3**	8.4	**3.3**	4.4
Impairment (credit)/charge on loans	**(4.4)**	71.0	**0.2**	40.4
Impairment (credit)/charge on intangible assets acquired on Combination	**(3.1)**	7.0	**-**	-
Gains on sale of financial instruments	**(4.0)**	(20.0)	**(0.3)**	(17.8)
Provisions	**0.2**	0.1	**0.3**	-
Interest on lease liabilities	**0.3**	0.3	**0.1**	0.1
Fair value gains on financial instruments	**(29.5)**	(7.4)	**(4.4)**	(0.2)
Share-based payments	**6.7**	5.1	**5.0**	4.9
Total adjustments for non-cash items	**(10.0)**	76.7	**12.2**	39.2
Changes in operating assets and liabilities:				
Decrease/(increase) in loans and advances to credit institutions	**98.7**	(154.0)	**67.8**	(51.3)
Increase in loans and advances to customers	**(1,844.0)**	(1,705.0)	**(944.9)**	(639.2)
(Increase)/decrease in intercompany balances	**(0.6)**	-	**36.2**	(113.9)
Increase in amounts owed to retail depositors	**923.3**	348.1	**34.1**	269.6
Net (increase)/decrease in other assets	**(1.1)**	1.3	**(2.6)**	(0.6)
Net increase/(decrease) in derivatives and hedged items	**3.6**	(64.3)	**(12.3)**	(31.7)
Net increase/(decrease) in amounts owed to other customers	**18.9**	43.2	**0.9**	(3.1)
Net increase/(decrease) in other liabilities	**1.5**	(6.3)	**3.4**	(3.5)
Exchange differences on working capital	**(0.1)**	-	**-**	-
Total changes in operating assets and liabilities	**(799.8)**	(1,537.0)	**(817.4)**	(573.7)

50. Events after the reporting date

On 17 January 2022, the OSB Group announced that the FCA had approved the base prospectus (dated 14 January 2022) in relation to the establishment of the OSB Group's £3.0bn Euro Medium Term Note Programme. Under the programme, the OSBG, subject to compliance with all relevant laws, regulations and directives, may from time to time issue notes. The aggregate principal amount of notes issued by the Company outstanding under the programme will not at any time exceed £3.0bn. Additional information can be found on the OSB Group's website.

The Board has authorised additional dividends of up to £100m in support of the OSBG (the ultimate parent company) share repurchase programme from 18 March 2022. The dividends will be made at regular intervals as purchases are made through the programme with 40% of dividends over the period in turn received from Charter Court Financial Services Limited via Charter Court Financial Services Group plc. The purchases made by OSBG will be announced to the market each day in line with regulatory requirements. An initial dividend of £10m was paid by the Company to OSBG on 21 March 2022 in relation to the share repurchase programme.

51. Controlling party

OSB GROUP PLC is the ultimate parent and controlling party preparing consolidated financial statements as the largest group of which the Company is a member. Copies of OSBG's financial statements may be obtained from the Company Secretary at the registered office: OSB House, Quayside, Chatham Maritime, Chatham, Kent, ME4 4QZ.

52. Transactions with key management personnel

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 Company other than as described below.

Directors' remuneration is disclosed in note 10 and in the OSB GROUP PLC Annual Report on Remuneration. The table below shows the Executive team's aggregate remuneration:

	Group 2021 £'000	Group 2020 £'000
Short-term employee benefits	**5,144**	3,743
Post-employment benefits	**44**	49
Share-based payments	**2,414**	501
	7,602	4,293

Key management personnel and connected persons held deposits with the Group of £0.9m (2020: £1.4m).

53. Capital management

The Company's capital management approach is to provide a sufficient capital base to cover business risks and support future business development. The Company remained, throughout the year, compliant with its capital requirements as set out by the PRA, the Group's primary prudential supervisor.

The Company reports on an individual consolidation basis (OSB solo) which includes the Company and subsidiaries except for the offshore servicing entity OSBI, SPVs relating to securitisations and the CCFS entities acquired in October 2019.

The capital management position is based on the three ‘pillars’ of Basel II.

Under Pillar 1, the minimum capital requirements are based on 8% of risk-weighted assets.

Under Pillar 2, the regulated entities complete an annual self-assessment of risks known as ICAAP. The PRA applies additional requirements to this assessment amount to cover risks under Pillar 2 to generate a Total Capital Requirement. Further, the PRA sets capital buffers and the regulated entities apply for imposition of the requirements and modification of rules incorporating the capital buffers and Pillar 2 pursuant to the Financial Services and Markets Act 2000.

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, a non-risk adjusted leverage ratio, liquidity ratios and modified the way regulatory capital is calculated.

The ultimate responsibility for capital adequacy rests with the Board of Directors. 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 regulated entities actively manage their capital position and report 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 OSB solo Pillar 1 capital information is presented below:

	(Unaudited) 2021 £m	(Unaudited) 2020 £m
CET1 capital		
Called up share capital	**4.5**	4.5
Share premium, capital contribution and share-based payment reserve	**10.6**	8.0
Retained earnings	**1,739.5**	1,568.0
Other reserves	**(0.9)**	(1.1)
Total equity attributable to ordinary shareholders	**1,753.7**	1,579.4
Foreseeable dividends	**(73.1)**	(39.0)
IFRS 9 transitional adjustment[1]	**1.4**	2.0
COVID-19 ECL transitional adjustment[2]	**12.1**	20.7
Solo consolidation adjustments	**(6.8)**	(7.8)
Deductions from CET1 capital		
Investment in subsidiary	**(538.5)**	(580.1)
Prudent valuation adjustment[3]	**-**	(0.1)
Intangible assets[4]	**(7.9)**	(7.3)
Deferred tax asset	**(0.5)**	(0.9)
CET1 capital	**1,140.4**	966.9
AT1 capital		
AT1 securities	**90.0**	60.0
Total Tier 1 capital	**1,230.4**	1,026.9
Tier 2 capital		
Subordinated debt and PSBs	**25.1**	47.3
Deductions from Tier 2 capital	**(4.6)**	(2.7)
Total Tier 2 capital	**20.5**	44.6
Total regulatory capital	**1,250.9**	1,071.5
Risk-weighted assets (unaudited)	**5,863.4**	5,626.3

[1] The regulatory capital includes a £1.4m add-back under IFRS 9 transitional arrangements, being 50.0% remaining of the IFRS 9 transitional adjustment.
[2] The COVID-19 ECL transitional adjustment relates to the increase in stage 1 and stage 2 ECL following the impacts of COVID-19 and for which transitional rules are being adopted for regulatory capital purposes.
[3] OSB solo has adopted the simplified approach under the Prudent Valuation rules, recognising a deduction equal to 0.1% of fair value assets and liabilities after adjusting for hedge accounting.
[4] All software assets continue to be fully deducted from capital in light of the pending intention of the PRA to consult on the CRR 'Quick Fix' package in this area.

53. Capital management (continued)

The movement in CET1 during the year was as follows:

	(Unaudited) 2021 £m	(Unaudited) 2020 £m
At 1 January	**966.9**	752.8
Movement in retained earnings	**171.5**	1,039.2
Shares issued from Sharesave Scheme vesting	**-**	2.6
Movement in other reserves	**2.8**	(857.8)
Movement in investment in subsidiary	**41.6**	23.5
Movement in foreseeable dividends	**(34.1)**	(13.9)
Movement in solo consolidation adjustment	**1.0**	(0.9)
IFRS 9 transitional adjustment	**(0.6)**	(0.4)
COVID-19 ECL transitional adjustment	**(8.6)**	20.7
Movement in prudent valuation adjustment	**0.1**	0.1
Net (increase)/decrease in intangible assets	**(0.6)**	1.0
Movement in deferred tax asset for carried forward losses	**0.4**	-
At 31 December	**1,140.4**	966.9

OneSavings Bank plc
Appendices
Glossary

AGM	Annual General Meeting
ALCO	Group Assets and Liabilities Committee
BoE	Bank of England
CCFS	Charter Court Financial Services
CEO	Chief Executive Officer
CET1	Common Equity Tier 1
CFO	Chief Financial Officer
CRD IV	Capital Requirements Directive and Regulation
CRO	Chief Risk Officer
DSBP	Deferred Share Bonus Plan
EAD	Exposure at Default
ECL	Expected Credit Loss
EIR	Effective Interest Rate
EPS	Earnings Per Share
EU	European Union
FCA	Financial Conduct Authority
FRC	Financial Reporting Council
FSCS	Financial Services Compensation Scheme
FSD	Forced Sale Discount
FTSE	Financial Times Stock Exchange
HMRC	Her Majesty's Revenue and Customs
HPI	House Price Index
IAS	International Accounting Standards
IBOR	Interbank Offered Rate
ICAAP	Internal Capital Adequacy Assessment Process
ICR	Interest Coverage Ratio
IFRS	International Financial Reporting Standards
ILAAP	Internal Liquidity Adequacy Assessment Process
ILTR	Indexed Long-Term Repo
IPO	Initial Public Offering
IRB	Internal Ratings-Based approach to credit risk
ISA	Individual Savings Account
KRFI	Kent Reliance for Intermediaries
KRPS	Kent Reliance Provident Society Limited
LCR	Liquidity Coverage Ratio
LGD	Loss Given Default
LIBOR	London Interbank Offered Rate
LTIP	Long-Term Incentive Plan
LTV	Loan to value
NIM	Net Interest Margin
NPS	Net Promoter Score
OSB	OneSavings Bank plc
OSBG	OSB GROUP PLC
PD	Probability of Default
PPD	Propensity to go to Possession Given Default
PRA	Prudential Regulation Authority
PSBs	Perpetual Subordinated Bonds
PSP	Performance Share Plan
RMBS	Residential Mortgage-Backed Securities
RoE	Return on equity
RWA	Risk weighted assets
SAYE	Save As You Earn or Sharesave
SDLT	Stamp Duty Land Tax
SICR	Significant Increase in Credit Risk
SID	Senior Independent Director
SME	Small and Medium Enterprises
SONIA	Sterling Overnight Index Average
SRMF	Strategic Risk Management Framework
TFS	Term Funding Scheme