OSB GROUP PLC
Preliminary results
for the year ended 31 December 2021

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17 March 2022

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Following the Combination with Charter Court Financial Services Group plc (CCFS) on 4 October 2019, this press release includes results on an underlying basis, in addition to the statutory basis, which Management believe provide a more consistent basis for comparing the Group's results between financial periods. Underlying results exclude exceptional items, integration costs and other acquisition-related items (see the reconciliation in the Financial review).

OSB GROUP PLC (OSBG or the Group), the specialist lending and retail savings group, announces today its results for the year ended 31 December 2021.

Financial and operational highlights

- Underlying profit before tax increased by 51% to a record £522.2m (2020: £346.2m) and statutory profit before tax increased by 78% to £464.6m (2020: £260.4m) primarily due to a lower cost of retail funds and an impairment credit for the year

- Underlying and statutory net loan book increased by 10% to £20.9bn and £21.1bn, respectively (2020: £19.0bn and £19.2bn) supported by organic originations of £4.5bn, up 20% from £3.8bn in 2020

- Underlying net interest margin (NIM) of 282bps (2020: 247bps) and statutory NIM of 253bps (2020: 216bps) improved, primarily due to the lower cost of retail funds

- Underlying cost to income ratio improved to 24% (2020: 27%) and 26% on a statutory basis (2020: 31%) due to growth in income

- Underlying and statutory loan loss ratios of -2bps (2020: 38bps) reflecting an improved outlook. Arrears remained broadly stable with balances greater than three months at 1.4% and 0.7% for OSB and CCFS respectively (31 December 2020: 1.3% and 0.5%)

- Underlying return on equity increased to 24% (2020: 19%) and statutory return on equity increased to 20% (2020: 13%)

- Underlying basic earnings per share (EPS) of 86.7 pence (2020: 58.1 pence) and statutory basic EPS of 76.0 pence (2020: 42.8 pence)

- Fully-loaded Common Equity Tier 1 capital ratio strengthened to 19.6% (2020: 18.3%) and total capital ratio strengthened to 21.2% (2020: 18.3%) as £150m of AT1 securities were issued out of the holding company

- Share repurchase programme of £100m to commence on 18 March 2022

- Recommended final dividend of 21.1 pence per share, which together with the 2021 interim dividend of 4.9 pence per share, represents an increase in the payout ratio to 30% of underlying earnings attributable to ordinary shareholders

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Andy Golding, CEO of OSB Group, said:

“I am extremely proud of the operational and financial performance of OSB Group in 2021, delivering record profits, whilst proving once again the resilience of our strategy and business model against the backdrop of the pandemic.

The financial results for 2021 were outstanding as the Group delivered record underlying profit before tax of £522m up 51% on 2020 (£346m) primarily due to a lower cost of retail funds and an impairment credit for the year. Our costs continued to be managed efficiently, with our underlying management expense ratio remaining flat to the previous year. I am particularly pleased that we delivered strong net loan book growth of 10%, supported by organic originations of £4.5bn at attractive margins, up 20% from 2020. Once again for 2021, we achieved a class-leading return on equity of 24% on an underlying basis and 20% on a statutory basis (2020: 19% and 13% respectively).

The Group has a very strong capital position and proven capital generation capability through profitability, with the fully-loaded CET1 ratio improving further to 19.6% as at 31 December 2021 (31 December 2020: 18.3%). This has enabled the Board to support strong growth and shareholder returns, and announce a £100m share buyback programme to commence on 18 March 2022. Additionally, the Board is recommending an increase in the full year 2021 ordinary dividend payout ratio to 30%. The Board remains committed to returning any additional excess capital to shareholders and intends to update the market on its capital management framework once greater clarity is obtained on the impact of Basel 3.1 and its timing versus the Group attaining IRB accreditation.

As a specialist lender, we have long been aware of our responsibilities and the positive impact we can have on society. I am delighted that following our decision to become carbon neutral for our direct emissions in 2021 we have joined the Net Zero Banking Alliance, and committed to assist with industry’s efforts to achieve its decarbonisation goals and to achieve net zero greenhouse gas emissions by 2050.

Our people are our key asset and we continued to work hard to keep them safe and supported, in the UK and India, throughout 2021. I would like to take this opportunity to thank all of our colleagues for their continued dedication, flexibility, strong team spirit and camaraderie throughout 2021.

Based on current new business volumes and our focus on retention, we expect to deliver underlying net loan book growth of c.10% in 2022. The pricing and funding costs we are currently seeing are expected to deliver an underlying NIM for 2022 broadly flat to 2021. We expect the underlying cost to income ratio to increase marginally, with potential for additional inflationary headwinds. The cost to income ratio in 2021 benefitted from fair value gains from hedging activities and reduced expenditure during the pandemic.

Recent geopolitical events, driving further inflationary pressure, do create additional uncertainty over the macroeconomic outlook. The Group has a proven track record of delivering strong results as a listed business and we have consistently demonstrated our resilience. The solid foundations of our business allow us face the future with optimism.’’

This announcement contains inside information as stipulated under the Market Abuse Regulation no 596/2014, as it forms part of the domestic law of the United Kingdom by virtue of the European (withdrawal) Act 2018, as amended. on publication of this announcement via a regulatory information service, this information is considered to be in the public domain.

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Analyst presentation

A webcast presentation for analysts will be held at 9:30am on Thursday 17 March.

The presentation will be webcast or call only and available on the OSB Group website at www.osb.co.uk/investors/results-reports-presentations.

The UK dial in number is 020 3936 2999 and the password is 663429. Registration is open immediately.

About OSB GROUP PLC

OSB began trading as a bank on 1 February 2011 and was admitted to the main market of the London Stock Exchange in June 2014 (OSB.L). OSB joined the FTSE 250 index in June 2015. On 4 October 2019, OSB acquired Charter Court Financial Services Group plc (CCFS) and its subsidiary businesses. On 30 November 2020, OSB GROUP PLC became the listed entity and holding company for the OSB Group. The Group provides specialist lending and retail savings and is authorised by the Prudential Regulation Authority, part of the Bank of England, and regulated by the Financial Conduct Authority and Prudential Regulation Authority. The Group reports under two segments, OneSavings Bank and Charter Court Financial Services.

OneSavings Bank

OSB primarily targets market sub-sectors that offer high growth potential and attractive risk-adjusted returns in which it can take a leading position and where it has established expertise, platforms and capabilities. These include private rented sector Buy-to-Let, commercial and semi-commercial mortgages, residential development finance, bespoke and specialist residential lending, secured funding lines and asset finance.

OSB originates mortgages organically via specialist brokers and independent financial advisers through its specialist brands including Kent Reliance for Intermediaries and InterBay Commercial. It is differentiated through its use of highly skilled, bespoke underwriting and efficient operating model.

OSB is predominantly funded by retail savings originated through the long-established Kent Reliance name, which includes online and postal channels as well as a network of branches in the South East of England. Diversification of funding is currently provided by securitisation programmes and the Bank of England's Term Funding Scheme with additional incentives for SMEs.

Charter Court Financial Services Group

CCFS focuses on providing Buy-to-Let and specialist residential mortgages, mortgage servicing, administration and retail savings products. It operates through its brands: Precise Mortgages and Charter Savings Bank.

It is differentiated through risk management expertise and best-of-breed automated technology and systems, ensuring efficient processing, strong credit and collateral risk control and speed of product development and innovation. These factors have enabled strong balance sheet growth whilst maintaining high credit quality mortgage assets.

CCFS is predominantly funded by retail savings originated through its Charter Savings Bank brand. Diversification of funding is currently provided by securitisation programmes and the Bank of England's Term Funding Scheme with additional incentives for SMEs.

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Important disclaimer

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

Accordingly, no reliance may be placed on any forward-looking statement and no representation, warranty or assurance is made that any of these statements or forecasts will come to pass or that any forecast results will be achieved. Any forward-looking statements made in this document speak only as of the date they are made and it should not be assumed that they have been revised or updated in the light of new information of future events. Except as required by the Prudential Regulation Authority, the Financial Conduct Authority, the London Stock Exchange PLC or applicable law, OSBG expressly disclaims any obligation or undertaking to release publicly any updates or revisions to any forward-looking statements contained in this document to reflect any change in OSBG's expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based. For additional information on possible risks to OSBG's business, please see the Risk review in the OSBG 2021 Annual Report and Accounts. Copies of this are available at www.osb.co.uk and on request from OSBG.

Nothing in this document and any subsequent discussion constitutes or forms part of a public offer under any applicable law or an offer to purchase or sell any securities or financial instruments. Nor does it constitute advice or a recommendation with respect to such securities or financial instruments, or any invitation or inducement to engage in investment activity under section 21 of the Financial Services and Markets Act 2000. Past performance cannot be relied on as a guide to future performance. Nothing in this document is intended to be, or should be construed as, a profit forecast or estimate for any period.

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

Non-IFRS performance measures

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

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Chief Executive's Statement

Looking back on 2021, I am incredibly proud of the operational and financial performance of OSB Group, and our delivery of record profits, whilst proving once again the resilience of our strategy and business model against the backdrop of the pandemic.

In 2021, we made significant progress on important projects including our approach to climate change and sustainability. More importantly, the Board has committed to be carbon neutral for our direct emissions in 2021 through reduction initiatives and emissions removal credits. In addition, we have set a significant target of achieving Net Zero greenhouse gas emissions by 2050 and we are developing detailed plans to achieve this ambitious goal for the Group and our stakeholders. We fully recognise that no business can achieve net zero on their own and collaborative support from industry and policy makers will be required.

We continued to build our business and delivered underlying and statutory net loan book growth of 10%, supported by £4.5bn of new lending at attractive margins. This was delivered as the Group successfully met the challenges from ongoing uncertainty caused by the pandemic. Once again for 2021, we achieved a class-leading return on equity of 24% on an underlying basis and 20% on a statutory basis (2020: 19% and 13% respectively).

The Group has a very strong capital position and proven capital generation capability through profitability, with the fully-loaded CET1 ratio improving further to 19.6% as at 31 December 2021 (31 December 2020: 18.3%). This has enabled the Board to support strong growth and shareholder returns, and announce a £100m share buyback programme to commence on 18 March 2022. Additionally, the Board is recommending an increase in the full year 2021 ordinary dividend payout ratio to 30%. The Board remains committed to returning any additional excess capital to shareholders and intends to update the market on its capital management framework once greater clarity is obtained on the impact of Basel 3.1 and its timing versus the Group attaining IRB accreditation.

Financial performance
I am delighted that the Group continued to generate a high level of profitability during 2021, with record underlying pre-tax profit of £522.2m, up 51% on the prior year, and underlying basic earnings per share of 86.7 pence, up 49% (2020: £346.2m and 58.1 pence, respectively). On a statutory basis, profit before tax increased to £464.6m (2020: £260.4m) and basic earnings per share was 76.0 pence (2020: 42.8 pence).

The underlying net interest margin for the year improved to 282bps (2020: 247bps) due to a lower cost of retail funds and one-off underlying net effective interest rate gains of £18.6m which contributed 8bps to NIM in the year. The statutory NIM was 253bps for 2021 (2020: 216bps).

The Group maintained its strong focus on cost discipline and efficiency and the underlying management expense ratio remained broadly stable at 70bps in 2021. The underlying cost to income ratio which benefitted from stronger net interest income, and fair value gains on hedging activity, further improved to 24% from 27% in 2020. The statutory management expense ratio and cost to income ratio were 71bps and 26%, respectively (2020: 70bps and 31%).

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

Our strong lending franchise
Demand for mortgages remained strong in 2021 and the Group remained a lender of choice in our core Buy-to-Let and Residential market sub-segments, with total organic originations of £4.5bn, up 20% from £3.8bn in 2020. This was achieved with restricted lending across the Group's sub-segments during the first half of the year. In July 2021, more positive economic indicators enabled us to introduce new products at pre-pandemic criteria in our core Buy-to-Let

and Residential sub-segments at attractive margins, however we continued to control lending in our more cyclical sub-segments; commercial, bridging, development finance, funding lines and second charge residential. I am pleased that at the beginning of 2022, we have also returned to the market with products at pre- pandemic criteria in our commercial, semi-commercial and bridging sub- segments and we entered 2022 with a robust pipeline of new business.

The property purchase market was particularly active for the Group during 2021, with strong demand stimulated by the temporary reduction in stamp duty, which also brought forward completions to the first half as borrowers rushed to complete mortgages prior to the cut-off deadlines. The Group saw especially strong demand for its products from landlords buying via a limited company structure and those buying specialist property types such as houses in multiple occupation and multi-unit properties, areas where we have long-standing expertise.

Landlords are demonstrating high levels of confidence and we continue to support them as they decide to add to their portfolios, remortgage properties within their existing portfolios or incorporate their business, selecting to do so with the Group given our expertise and multi-brand mortgage propositions.

The Group continued to receive recognition from mortgage customers and intermediaries in the year and Precise Mortgages was recognised by Mortgage Introducer Awards 2021 as Specialist Lender of the Year and by L&G Mortgage Club Awards 2021 as Best Lender for partnership with the club. Kent Reliance received the Best Specialist Lender award from the Mortgage Strategy Awards.

Proven strong credit and risk management

The high quality of the Group's loan book was reflected in the strong credit performance during the year, with balances over three months in arrears remaining broadly stable at just 1.4% and 0.7% of the loan book at the end of December for OSB and CCFS respectively (31 December 2020: 1.3% and 0.5%). The weighted average LTV of the Group's loan book reduced to 62% as at 31 December 2021 from 65% in 2020 supported by house price appreciation. The weighted average LTV of new business written by the Group fell to 69% from 70% during the year as the Group controlled its lending criteria.

The concerns for the economy identified at the beginning of the pandemic have not generally materialised, and the macroeconomic outlook improved over the course of 2021, albeit with the more recent concerns over rising cost of living moderating the outlook somewhat. The Group reflected this in its IFRS 9 models and recorded an impairment credit of £4.9m on an underlying basis for the year (statutory impairment credit of £4.4m), representing an underlying and statutory loan loss ratios of -2bps, compared with 38bps for underlying and statutory loan loss ratios in 2020.

The Group's Internal Ratings-Based (IRB) programme made tangible progress against plan during the year. 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 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.

The integration of OSB and CCFS has continued to progress well during the year and it remains ahead of schedule. By 31 December 2021, we had delivered annualised 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 date are also lower than originally expected at £20m.

Multi-channel funding model
Retail deposits remained the primary source of funding for the Group in the year, reaching £17.5bn as at 31 December 2021. Our competitive retail savings propositions, through the Kent Reliance and Charter Savings Bank brands, allowed the Group to raise the funds needed to support loan growth at attractive rates as we opened over 44,000 new savings accounts in the year.

The retention rate for savers remained high, achieving 90% for maturing fixed rate bonds and ISAs at Kent Reliance and 85% for Charter Savings Bank. Our efforts to provide excellent customer service and transparent and fair savings products were reflected in the strong Net Promoter Scores of +70 for Kent Reliance and +71 for Charter Savings Bank. I am delighted that Charter Savings Bank won ISA Provider of the Year and Online Savings Provider of the Year from Moneyfacts Consumer awards. These awards demonstrate the dedication to delivering excellent customer service across the Group both in India and in the UK.

We continued to complement our retail savings franchises by utilising our capabilities in the wholesale funding market. In 2021, we completed securitisations with a value of £1.9bn which were largely retained and significantly increased the contingent wholesale funding options available to the Group.

Securitisation also provided an opportunity to increase efficiency in our drawings from the Bank of England funding schemes through the use of retained AAA bonds. In 2021, the drawings under the Term Funding Scheme were fully repaid and drawings under the Term Funding Scheme for SMEs increased to £4.2bn (31 December 2020: £2.6bn and £1bn, respectively).

ESG
Our Purpose is to help our customers, colleagues and communities prosper. To achieve it, we operate in a sustainable way with relevant ESG matters at the heart of our business.

Strong governance is fundamental to delivering the Group's strategy and we have a long tradition of looking after our stakeholders and involvement in the communities in which we operate. The environment is no less important to us. As a specialist lender, we have long been aware of our responsibilities and the positive impact we can have on society by responding to the challenges and opportunities that ESG matters present and which have become an integral part of the Group's strategy.

We have created a new ESG governance structure and a dedicated team responsible for managing the Group's ESG strategy and coordinating its implementation and delivery. I am delighted that following our decision to become carbon neutral for our direct emissions in 2021 and to demonstrate our continued and long-term dedication to climate change, we have joined the Net Zero Banking Alliance. We have also committed to assist with industry's efforts to achieve its decarbonisation goals and to achieve net zero greenhouse gas emissions by 2050.

Our people are our key asset and we continued to work hard to keep them safe and supported, in the UK and India throughout 2021. I would like to take this opportunity to thank all of our colleagues for their continued dedication, flexibility, strong team spirit and camaraderie throughout 2021.

Our customers continued to receive the support that they are accustomed to, delivered by our resilient and effective operations. We were also active in supporting our communities through a range of community and fundraising initiatives, donating nearly £395k to charitable causes in 2021.

Looking forward
The UK economy showed determined strength during 2021, which included strong employment growth and house price inflation. However, recent geopolitical events driving further inflationary pressure, do create additional uncertainty over the macroeconomic outlook. OSB Group has a

proven track record of delivering strong results as a listed business and we have consistently demonstrated our resilience. The solid foundations of our business allow us face the future with optimism.

The Group has a healthy pipeline of new business and we are successfully leveraging our unique multi-brand structure to drive strong current application volumes. We are seeing strong demand for our products in our core markets and landlord confidence in BTL remains positive. Our own research confirmed that tenant demand is good and trending upward.

Based on current new business volumes and our focus on retention, we expect to deliver underlying net loan book growth of c. 10% in 2022. The pricing and funding costs we are currently seeing are expected to deliver an underlying NIM for 2022 broadly flat to 2021. We expect the underlying cost to income ratio to increase marginally, with potential for additional inflationary headwinds. The cost to income ratio in 2021 benefitted from fair value gains from hedging activities and reduced expenditure during the pandemic.

Andy Golding

Chief Executive Officer

17 March 2022

Segment review

Lending in 2021

The Group's lending performance in 2021 reflected not only the dynamics present in the wider mortgage market, but also the Group's discipline in its lending decisions.

Even though the third national lockdown marked the first quarter of the year, it did not bring severe disruption as the Group's lending brands demonstrated their flexibility and resilience, and adapted their processes and practices.

The Group saw strong levels of applications and completions in its Residential sub-segments, with prospective borrowers seeking to complete property purchases while the stamp duty holiday was still in effect, bringing some activity forward to the first half of the year. The Group was also active in the popular Help to Buy scheme in the year. The new rules that came into force in April 2021, restricted new completions from the scheme to first-time buyers only and introduced regional price caps, which led to a spike in completions at the end of March 2021. Through its Kent Reliance brand, the Group also offers mortgages under the shared ownership scheme, which saw strong applications and completions during the year.

In its Buy-to-Let sub-segments, the Group also saw increased completion activity as the stamp duty holiday was phased out, despite the additional surcharge for second homes continuing to apply. The Group saw particularly strong demand for its products from landlords buying via a limited company structure and those buying specialist property types, such as houses in multiple occupation and multi-unit properties. Throughout the first half of 2021, the Group continued to apply restricted lending criteria in terms of maximum loan to value and loan sizes in its core sub-segments, as well as higher pricing initially introduced as a response to the pandemic.

In July 2021, as the economy and the outlook improved, new products were introduced in both the Buy-to-Let and Residential sub-segments at pre-pandemic criteria including maximum loan to values of 85% and products for customers with a less-than-perfect credit history. This resulted in stronger new applications in the second half of the year.

Throughout 2021, lending in the Group's more cyclical business lines, including commercial, residential development finance, funding lines and second charge residential, remained constrained as measures introduced in response to the pandemic prevailed. This led to a lower volume of business in these sub-segments during the year. The restrictive measures remained under constant review and were gradually relaxed, as we saw evidence of improving macroeconomic conditions, for example, loan to value criteria in the bridging sub-segment were returned to pre-pandemic levels in October.

The Group's arrears remained broadly stable throughout the year and, as at 31 December 2021, the percentage of loans and advances in three months plus arrears was 1.4% for OSB (2020: 1.3%) and 0.7% for CCFS (2020: 0.5%).

Segment review

The Group reports its lending business under two segments: OneSavings Banks and Charter Court Financial Services.

OneSavings Bank (OSB) segment

The following tables show the OSB's loans and advances to customers and contribution to profit on a statutory basis:

Year ended 31-Dec-2021	BTL/SME £m	Residential £m	Total £m
Gross loans and advances to customers	**9,936.1**	**2,121.2**	**12,057.3**
Expected credit losses	**(72.0)**	**(10.2)**	**(82.2)**
Net loans and advances to customers	**9,864.1**	**2,111.0**	**11,975.1**
Risk-weighted assets	**4,614.1**	**957.6**	**5,571.7**
Profit or loss for the year			
Net interest income	**340.5**	**74.3**	**414.8**
Other income	**7.2**	**1.5**	**8.7**
Total income	**347.7**	**75.8**	**423.5**
Impairment of financial assets	**(6.2)**	**2.7**	**(3.5)**
Contribution to profit	**341.5**	**78.5**	**420.0**

Year ended 31-Dec-2020	BTL/SME £m	Residential £m	Total £m
Gross loans and advances to customers	9,164.6	1,966.8	11,131.4
Expected credit losses	(67.0)	(16.6)	(83.6)
Net loans and advances to customers	9,097.6	1,950.2	11,047.8
Risk-weighted assets	4,282.9	874.4	5,157.3
Profit or loss for the year			
Net interest income	264.7	68.1	332.8
Gain on sale of loans	18.0	-	18.0
Other expense	0.2	0.6	0.8
Total income	282.9	68.7	351.6
Impairment of financial assets	(47.0)	(3.7)	(50.7)
Contribution to profit	235.9	65.0	300.9

OSB - Buy-to-Let/SME

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

	Group 31-Dec-2021 £m	Group 31-Dec-2020 £m
Buy-to-Let	**8,867.7**	8,044.6
Commercial	**794.4**	821.9
Residential development	**120.7**	133.1
Funding lines	**153.3**	165.0
Gross loans to customers	**9,936.1**	9,164.6
Expected credit losses	**(72.0)**	(67.0)
Net loans to customers	**9,864.1**	9,097.6

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

The Buy-to-Let/SME net loan book increased by 8% to £9,864.1m in 2021, supported by organic originations of £1,804.7m, which were 17% higher than £1,542.5m in 2020.

Buy-to-Let/SME net interest income increased by 29% to £340.5m from £264.7m in 2020, reflecting growth in the loan book, a lower cost of retail funds and an effective interest rate reset gain of £24.9m, due to updated prepayment assumptions based on observed customer behaviour. This segment also benefitted from £7.2m of other income relating to gains on the Group's hedging activities, principally fair value gains on mortgage pipeline swaps (2020: £0.2m), offset by an impairment loss of £6.2m (2020: £47.0m loss). The impairment loss was largely due to individually assessed provisions raised against two commercial counterparties, individual assessment methodology enhancements and changes in the credit profile of the BTL/SME loan book, including portfolio size and staging mix, which more than offset provision releases as the macroeconomic outlook improved. In addition the positive impact of house price appreciation in the year was partially offset by falls in commercial property values. Overall, the Buy-to-Let/SME segment made a contribution to profit of £341.5m, up 45% compared with £235.9m in 2020.

The average book loan to value (LTV)[1] in the Buy-to-Let/SME segment reduced to 65% as at 31 December 2021 benefitting from house price appreciation in the year (31 December 2020: 67%), with only 2.5% of loans exceeding 90% LTV (31 December 2020: 2.9%). The average LTV for new Buy-to-Let/SME origination[1] was 73% (2020: 71%).

Buy-to-Let
Buy-to-Let gross loans increased by 10% to £8,867.7m from £8,044.6m at the end of 2020. The Group gradually relaxed its underwriting criteria in this segment and reintroduced products with pre-pandemic criteria in July, stimulating demand, and the organic originations increased by 33% in the year to £1,477.7m (2020: £1,114.4m).

Professional and multi-property landlords continued to represent the majority of borrowers in this sub-segment reaching 82% of completions by value for the Kent Reliance brand.

Many landlords continued the trend of incorporating their businesses to optimise their tax position and 73% of Buy-to-Let mortgage applications in Kent Reliance came from landlords borrowing via a limited company (2020: 75%). Research conducted on behalf of the Group by

BVA BDRC shows that this segment of the market continues to expand, with limited company ownership remaining the most popular option amongst landlords intending to purchase new properties in the next 12 months.

As at 31 December 2021, the proportion of Kent Reliance Buy-to-Let completions represented by refinancing reduced slightly to 54% (2020: 58%) as more landlords took the opportunity to add to their portfolios while the SDLT holiday on purchases was in place. Landlords continued to favour mortgages with longer initial terms as mortgage rates became more attractive during 2021, and five-year fixed rate mortgages represented 62% of Kent Reliance completions (2020: 52%). In addition, OSB's retention programme, Choices, was successful in retaining customers, with 71% of existing borrowers choosing a new product with us within three months of their original product ending (2020: 75%).

The weighted average LTV of the Buy-to-Let book reduced to 64% as at 31 December 2021, benefitting from house price appreciation and the average loan size was £250k (31 December 2020: 67% and £260k). The weighted average interest coverage ratio for Buy-to-Let originations during 2021 was 199% (2020: 201%).

Commercial
Through its InterBay brand, the Group lends to borrowers investing in commercial and semi-commercial property, reported in the Commercial total, and more complex Buy-to-Let properties, reported in the Buy-to-Let total. The gross loan book in the commercial business reduced 3% to £794.4m (31 December 2020: £821.9m) as the Group retained its prudent lending criteria introduced as a response to the pandemic throughout the year.

The Group launched a holiday let proposition in 2021 under its InterBay brand to assist landlords wishing to diversify their portfolios.

The weighted average LTV of the commercial book remained low at 69% and the average loan size was £380k in 2021 (31 December 2020: 71% and £385k).

InterBay Asset Finance, which predominantly targets UK SMEs and small corporates financing business-critical assets, had a successful year achieving record volumes. Demand for lending under the Coronavirus Business Interruption Loan Scheme (CBILS) continued to be strong, although it ended for new applications in March, with all deals required to be funded by the end of November. InterBay Asset Finance was also approved for the CBILS successor scheme, the Recovery Loan Scheme, which expires at the end of June 2022.

The gross carrying amount under finance leases was £116.2m as at 31 December 2021 (31 December 2020: £65.5m).

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

The residential development finance gross loan book at the end of 2021 was £120.7m (31 December 2020: £133.1m), with a further £188.0m committed (31 December 2020: £145.6m). Total commitments were £500.3m including all approved limits that are subject to continued performance (31 December 2020: £502.7m). The increased rates of sale experienced by Heritable's developer customers continued in 2021, leading to high levels of loan repayments in the year.

Heritable has written £1,436m of loans since inception through to the end of 2021, of which £792m have been repaid. In addition, as at the end of 2021, the business had commitments to finance the development of 2,239 residential units, the majority of which are houses located outside central London. The business continued to take an exacting approach to approving funding for new customers in 2021 given the macroeconomic uncertainty.

Funding lines
The Group continued to provide secured funding lines to non-bank lenders which operate in certain high-yielding, specialist sub-segments, primarily secured against property-related mortgages. Total credit approved limits as at 31 December 2021 were £450.0m, with total loans outstanding of £153.3m (31 December 2020: £520.0m and £165.0m, respectively). During the year, the Group adopted a cautious risk approach and did not consider any new secured funding line facilities, choosing to focus on servicing the existing borrowers and continuing to apply restricted lending criteria.

1. Buy-to-Let/SME sub-segment average weighted LTVs include KR and InterBay Buy-to-Let, semi-commercial and commercial lending.

OSB - Residential mortgages

Residential sub-segment: gross loans

	Group 31-Dec-2021 £m	Group 31-Dec-2020 £m
First charge	**1,895.9**	1,660.7
Second charge	**224.7**	295.4
Funding lines	**0.6**	10.7
Gross loans to customers	**2,121.2**	1,966.8
Expected credit losses	**(10.2)**	(16.6)
Net loans to customers	**2,111.0**	1,950.2

This sub-segment comprises lending to owner occupiers, secured via first charge against a residential home and under the shared ownership scheme, as well as funding lines to non-bank lenders that operate in high-yielding, specialist sub-segments such as residential bridge finance.

The Residential sub-segment net loan book grew 8% to £2,111.0m as at 31 December 2021 (31 December 2020: £1,950.2m) with organic originations of £558.6m during the year (2020: £354.2m).

Net interest income in the Residential sub-segment increased by 9% to £74.3m (2020: £68.1m) due to the growth in the loan book, the benefit of a lower cost of retail funds and a £7.5m effective interest rate gain due to cash outperformance versus modelled assumptions on the second charge acquired books. This segment also benefitted from an impairment credit of £2.7m (2020: £3.7m loss), due to less severe forward-looking macroeconomic scenarios adopted by the Group and strong house price performance, partially offset by post model adjustments applied during the year. Overall, contribution to profit from this segment increased by 21% to £78.5m compared with £65.0m in 2020.

The average book LTV[1] reduced to 48% (31 December 2020: 54%) with only 0.8% of loans by value with LTVs exceeding 90% (31 December 2020: 1.6%). The average LTV of new residential origination[1] during 2021 reduced to 50% (2020: 61%) as a result of growth in shared ownership originations, which complete at much lower LTVs.

First charge
First charge mortgages are provided under the Kent Reliance brand, which largely serves prime credit quality borrowers with more complex circumstances. This includes high net worth borrowers with multiple income sources and self-employed borrowers, as well as those buying a property in conjunction with a housing association under a shared ownership scheme.

The first charge gross loan book increased by 14% in the year to £1,895.9m from £1,660.7m at the end of 2020, as the Group retained its strong presence in the shared ownership sub-segment, achieving record levels of first charge residential originations of £558.2m (2020: £338.7m) in the year. The Group expanded its residential product offering from July, increasing the maximum LTV to pre-pandemic levels and re-launching products to assist customers with a less-than-perfect credit history, contributing to strong originations in this sub-segment.

Second charge
The OSB second charge mortgage brand, Prestige Finance, no longer offers new mortgages to borrowers, with its loan book in run-off and managed by Precise Mortgages. Second charge mortgages are currently offered under the Precise Mortgages brand as part of the CCFS segment. The Prestige Finance second charge residential loan book had a gross value of £224.7m at the end of 2021 (31 December 2020: £295.4m).

Funding lines
The Group continued to provide secured funding lines to non-bank lenders which operate in certain high-yielding, specialist sub-segments, such as residential first and second charge finance. The Group continued to adopt a cautious approach to these more cyclical businesses given macroeconomic uncertainty. Total credit approved limits as at 31 December 2021 reduced to £20.0m with total loans outstanding of £0.6m secured against property-related mortgages (31 December 2020: £29.2m and £10.7m, respectively).

1. Residential sub-segment average weighted LTVs include first and second charge lending.

Segment review – Charter Court Financial Services (CCFS) segment

The tables below present the CCFS' loans and advances to customers and contribution to profit on an underlying basis, excluding acquisition-related items and a reconciliation to the statutory results.

Year ended 31-Dec-2021	Buy-to-Let £m	Residential £m	Bridging £m	Second charge £m	Other[1] £m	Total underlying £m	Acquisition-related items[2] £m	Total statutory £m
Gross loans and advances to customers	**6,301.9**	**2,451.8**	**56.3**	**153.7**	**17.7**	**8,981.4**	**143.1**	**9,124.5**
Expected credit losses	**(13.9)**	**(5.1)**	**(0.3)**	**(0.3)**	**-**	**(19.6)**	**0.3**	**(19.3)**
Loans and advances to customers	**6,288.0**	**2,446.7**	**56.0**	**153.4**	**17.7**	**8.961.8**	**143.4**	**9,105.2**
Risk-weighted assets	**2,352.1**	**1,011.1**	**29.3**	**62.2**	**6.5**	**3,461.2**	**68.7**	**3,529.9**
Profit or loss account								
Net interest income	**151.0**	**81.3**	**5.2**	**6.7**	**(8.5)**	**235.7**	**(62.9)**	**172.8**
Other income	**-**	**-**	**-**	**-**	**20.0**	**20.0**	**12.7**	**32.7**
Total income	**151.0**	**81.3**	**5.2**	**6.7**	**11.5**	**255.7**	**(50.2)**	**205.5**
Impairment of financial assets	**4.3**	**2.3**	**1.4**	**0.4**	**-**	**8.4**	**(0.5)**	**7.9**
Contribution to profit	**155.3**	**83.6**	**6.6**	**7.1**	**11.5**	**264.1**	**(50.7)**	**213.4**

1. Other relates to acquired loan portfolios and related net interest income as well as gains on structured asset sales and fee income from third party mortgage servicing.
2. For more details on acquisition-related adjustments, see Reconciliation of statutory to underlying results in the Financial review.

Year ended 31-Dec-2020	Buy-to-Let £m	Residential £m	Bridging £m	Second charge £m	Other[1] £m	Total underlying £m	Acquisition-related items[2] £m	Total statutory £m
Gross loans and advances to customers	5,292.0	2,386.1	106.1	197.9	19.1	8,001.2	209.1	8,210.3
Expected credit losses	(18.1)	(7.5)	(1.9)	(0.7)	-	(28.2)	0.8	(27.4)
Loans and advances to customers	5,273.9	2,378.6	104.2	197.2	19.1	7,973.0	209.9	8,182.9
Risk-weighted assets	2,163.8	1,001.5	59.6	82.9	7.0	3,314.8	93.6	3,408.4
Profit or loss account								
Net interest income	114.8	67.8	11.8	7.4	(0.6)	201.2	(61.8)	139.4
Gain on sale of loans	-	-	-	-	15.1	15.1	(13.1)	2.0
Other income	0.3	0.3	-	-	1.7	2.3	13.3	15.6
Total income	115.1	68.1	11.8	7.4	16.2	218.6	(61.6)	157.0
Impairment of financial assets	(14.9)	(4.0)	(1.3)	(0.3)	-	(20.5)	0.2	(20.3)
Contribution to profit	100.2	64.1	10.5	7.1	16.2	198.1	(61.4)	136.7

1. Other relates to acquired loan portfolios and related net interest income as well as gains on structured asset sales and fee income from third party mortgage servicing.
2. For more details on acquisition-related adjustments, see Reconciliation of statutory to underlying results in the Financial review.

Charter Court Financial Services (CCFS) segment

CCFS gross loans

	Group 31-Dec-2021 £m	Group 31-Dec-2020 £m
Buy-to-Let	**6,301.9**	5,292.0
Residential	**2,451.8**	2,386.1
Bridging	**56.3**	106.1
Second charge	**153.7**	197.9
Other[1]	**17.7**	19.1
Gross loans to customers	**8,981.4**	8,001.2
Expected credit losses	**(19.6)**	(28.2)
Net loans to customers	**8,961.8**	7,973.0

1. Other relates to acquired loan portfolios.

CCFS targets specialist mortgage market sub-segments with a focus on specialist Buy-to-Let mortgages secured on residential property held for investment purposes by both non-professional and professional landlords. It also provides specialist residential mortgages to owner-occupiers, secured via either first or second charge against prime and complex prime residential property and under the Help to Buy scheme. In addition, it provides short-term bridging, secured against residential property in both the regulated and unregulated sectors of the market and second charge lending.

The CCFS underlying net loan book grew by 12% to £8,961.8m at the end of 2021 (31 December 2020: £7,973.0m) supported by organic originations of £2,160.2m, which increased by 16% from £1,870.2m of new business written in 2020.

Buy-to-Let sub-segment
During 2021, CCFS' organic originations in the Buy-to-Let sub-segment through the Precise Mortgages brand increased by 32% to £1,482.3m (2020: £1,122.6m) as the Group benefitted from strong demand for new purchases driven by the stamp duty holiday and the gradual return to pre-pandemic lending criteria. The new business supported a 19% increase in the underlying gross Buy-to-Let loan book to £6,301.9m from £5,292.0m at the end of 2020.

The demand for CCFS' Buy-to-Let products was particularly strong amongst landlords borrowing through a limited company, which represented 69% of Buy-to-Let completions for the Precise Mortgages brand in 2021 (2020: 56%) and loans for specialist property types, including houses of multiple occupation and multi-unit properties represented 26% of completions in this sub-segment (2020: 30%). Landlords also took the opportunity to add to their portfolios while the SDLT holiday was available and purchases increased to 61% of completions for Precise Mortgages (2020: 43%). Five-year fixed rate mortgages were popular as well at 64% of completions, up from 61% in 2020.

The weighted average LTV of the loan book in this sub-segment was 68% at the end of 2021 (31 December 2020: 69%). The new lending average LTV was 74% with an average loan size of £192k (2020: 74% and £170k, respectively). The weighted average interest coverage ratio for Buy-to-Let origination was 188% during 2021 (2020: 193%).

Underlying net interest income in this sub-segment increased by 32% to £151.0m, compared with £114.8m in 2020, due primarily to growth in the loan book and a lower cost of retail funds, partially offset by an underlying effective interest rate reset loss of £14.7m to reflect customers choosing a new product at the end of their fixed rate period earlier, and spending less time on the higher revert rate. This segment also benefitted from an impairment credit of £4.3m (2020: £14.9m loss) due to less severe forward-looking macroeconomic scenarios adopted by the Group and strong house price performance, partially offset by model enhancements applied during the year. On an underlying basis, Buy-to-Let made a contribution to profit of £155.3m in 2021, up 55% compared to the prior year (2020: £100.2m).

On a statutory basis, the Buy-to-Let sub-segment made a contribution to profit of £109.5m (2020: £71.5m).

Residential sub-segment
The underlying gross loan book in CCFS' Residential sub-segment reached £2,451.8m in 2021, an increase of 3% from £2,386.1m as at 31 December 2020. Organic originations were £558.0m in 2021 (2020: £573.9m) with restricted criteria in place until July 2021. As the macroeconomic indicators improved, the Group made a decision to relax some of the criteria to pre-pandemic levels, in particular the maximum loan to value limits.

The Group continued to benefit from CCFS' expertise, with a particularly strong focus on first-time buyers and those purchasing new build properties under the popular Help to Buy scheme. As new restrictions to the scheme were introduced at the end of March 2021, there was a spike in completions as borrowers sought to finalise their purchases ahead of the new rules coming into force. Strong activity under the Help to Buy scheme was further boosted by the stamp duty holiday with purchases representing 86% of completions in this sub-segment in the period (2020: 79%).

The average loan size in this sub-segment was £136k (31 December 2020: £160k) with an average LTV for new lending of 66% (2020: 67%) and the book LTV reduced to 59% as at 31 December 2021 benefitting from house price appreciation in the year (31 December 2020: 62%).

Underlying net interest income grew to £81.3m (2020: £67.8m) reflecting the growth in the loan book and a lower cost of retail funds. The Residential sub-segment recorded an impairment credit of £2.3m (2020: £4.0m loss) due to less severe forward-looking macroeconomic scenarios adopted by the Group and strong house price performance, partially offset by post model adjustments. Overall, on an underlying basis, the Residential sub-segment made a contribution to profit of £83.6m, up by 30% compared with £64.1m in 2020.

On a statutory basis, the Residential sub-segment made a contribution to profit of £67.1m (2020: £45.4m).

Bridging sub-segment
The Group continued to control volumes in its high-quality regulated bridging sub-segment, by continuing to limit the number of products available and applying restricted lending criteria for much of the year. Some relaxation of these restrictions commenced in October 2021, with the maximum loan to value for standard and light refurbishment products increasing to 75% in line with pre-pandemic criteria. Short-term bridging originations were lower at £109.1m in 2021 compared with £141.8m in 2020, and as a result the gross underlying loan book in this sub-segment reduced to £56.3m as at 31 December 2021(31 December 2020: £106.1m).

Underlying net interest income reduced to £5.2m from £11.8m in 2020, primarily reflecting the decrease in the loan book. The bridging sub-segment made a contribution to profit of £6.6m in 2021 on an underlying basis, compared with £10.5m in 2020, reflecting the reduction in the underlying net interest income, partially offset by an impairment credit of £1.4m (2020: £1.3m loss). The impairment credit was due to less severe forward-looking macroeconomic scenarios adopted by the Group, strong house price performance and the reduction in the loan book in this sub-segment.

On a statutory basis, the bridging sub-segment made a contribution to profit of £6.4m (2020: £9.7m).

Second charge sub-segment

The second charge gross underlying loan book reduced to £153.7m compared with £197.9m as at 31 December 2020, due to lower organic originations of £10.8m in the year (2020: £31.9m). Throughout 2021, the Group applied significant lending policy restrictions, with the controlled increase in the maximum loan to value from 50% to 65% in March being the only relaxation of criteria. The Group also continued to focus on prime borrowers.

Underlying net interest income in the second charge sub-segment reduced to £6.7m (2020: £7.4m) due to the lower lending and the contribution to profit remained flat for the year at £7.1m. An impairment credit of £0.4m (2020: £0.3m loss) was due to less severe forward-looking macroeconomic scenarios adopted by the Group and strong house price performance, partially offset by post model adjustments.

On a statutory basis, the contribution to profit from the second charge sub-segment was £5.7m (2020: £6.6m).

Wholesale funding overview

Securitisation is central to the Group's liability management strategy, as well as a key funding source, with c. £10bn of issuance since December 2013 across CCFS and OSB.

In addition to providing cost efficient funding, the Group uses securitisations to provide efficient access to commercial and central bank repo facilities.

The Group's strategy is to be fleet-of-foot and dynamic rather than deterministic with its securitisation issuance plans, enabling it to maximise the opportunity of a strong market with repeat issuances and use other options when the market is poor.

2021 exemplified the strength of this approach. The Group issued its largest ever securitisation transaction, Canterbury No. 4, in July 2021. This transaction securitised c. £1.7bn of mortgage loans and provided the Group with c. £1.4bn of AAA rated senior bonds which can be used as collateral in commercial and central bank repo facilities, or be sold into the market at short notice for liquidity purposes. In the year, the Group sold £200m of the AAA- rated Canterbury No. 4 bonds post completion to satisfy short term funding needs.

The Canterbury No. 4 transaction also forms part of a broader strategy to increase the Group's wholesale funding options and, in particular, to increase its encumbrance efficiency. The Group can access more wholesale funding for each pound of assets encumbered and thus use wholesale funding to a greater degree than would otherwise be possible.

A combination of balance sheet growth and the increased use of securitised collateral enabled the Group to expand its total borrowings from the Bank of England in 2021. Before the closure of the Term Funding Scheme in October 2021, the Group repaid its drawings under this scheme and replaced them with drawings under the Term Funding for SMEs, which at the end of 2021 totalled £4.2bn. These borrowings provide four-year funding at a cost of Bank Base Rate.

During 2021, the Group also arranged Rochester Financing No.3, which involved the re-financing of the Rochester Financing No.2 transaction issued in 2016, which securitised a portfolio of acquired third party originated UK mortgages.

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.

OSB GROUP PLC
Preliminary results
for the year ended 31 December 2021

Financial review

Summary statutory results for 2021 and 2020

Summary Profit or Loss	**Group 31 Dec 2021 £m**	**Group 31 Dec 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	**345.3**	196.3

Key ratios[1]

Net interest margin	**253bps**	216bps
Cost to income ratio	**26%**	31%
Management expense ratio	**71bps**	71bps
Loan loss ratio	**(2)bps**	38bps
Return on equity	**20%**	13%
Basic EPS, pence per share	**76.0**	42.8
Dividend per share, pence per share	**26.0**	14.5

Extracts from the Statement of Financial Position

	£m	**£m**
Loans and advances to customers	**21,080.3**	19,230.7
Retail deposits	**17,526.4**	16,603.1
Total assets	**24,531.9**	22,654.5

Key ratios

Common equity tier 1 ratio	**19.6%**	18.3%
Total capital ratio	**21.2%**	18.3%
Leverage ratio	**7.9%**	6.9%

1. For more detail on the calculation of key ratios, see the Appendix

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 £345.3m 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. Statutory basic earnings per share increased to 76.0 pence (2020: 42.8 pence), in line with the increase in profit after taxation.

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. It also included net effective interest rate (EIR) reset gains of £11.5m (2020: £6.0m loss) 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 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.

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

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, 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.

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.

Dividend
The Board has recommended a final dividend of 21.1 pence per share for 2021, which together with the 2021 interim dividend of 4.9 pence per share, represents 30% of underlying profit attributable to ordinary shareholders. See the Appendix for the calculation of the 2021 final dividend.

The recommended dividend will be paid on 18 May 2022, subject to approval at the AGM on 12 May 2022, with an ex-dividend date of 24 March 2022 and a record date of 25 March 2022.

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 £24,531.9m (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 schemes. In the year, the drawings under the Term Funding Scheme 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 Prudential Regulation Authority's liquidity regime and are managed separately for liquidity risk. Both Banks hold their own significant liquidity buffer of liquidity coverage ratio (LCR) eligible high-quality liquid assets (HQLA).

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.

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 Group's capital position remained exceptionally strong, with a fully-loaded CET1 ratio of 19.6% and a total capital ratio of 21.2% as at the end of 2021 (31 December 2020: 18.3% and 18.3%, respectively), with the improvement in both ratios largely due to capital generation from profitability in the year. In addition, the total capital ratio benefitted from the issue of £150.0m of Additional Tier 1 securities from the Group's holding company.

The Group had a leverage ratio of 7.9% as at 31 December 2021 (31 December 2020: 6.9%).

The combined Group had a Pillar 2a requirement of 1.27% (2020: 1.18%) of risk-weighted assets (excluding a static integration add-on of £19.5m) as at 31 December 2021.

Summary cash flow statement

	Group 31-Dec-2021 £m	Group 31-Dec-2020 £m
Profit before tax	**464.6**	260.4
Net cash generated/(used in):		
Operating activities	**(461.7)**	(1,326.3)
Investing activities	**80.6**	755.8
Financing activities	**747.2**	838.3
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 £747.2m 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 £838.3m 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, 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 below.

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Summary of underlying results for 2021 and 2020

	Group 31 Dec 2021 £m	Group 31 Dec 2020 £m
Summary Profit or Loss		
Net interest income	**650.5**	534.0
Net fair value gain/(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	**393.1**	264.9

Key ratios[1]

Net interest margin	**282bps**	247bps
Cost to income ratio	**24%**	27%
Management expense ratio	**70bps**	70bps
Loan loss ratio	**(2)bps**	38bps
Return on equity	**24%**	19%
Basic EPS, pence per share	**86.7**	58.1

Extracts from the Statement of Financial Position

	£m	£m
Loans and advances to customers	**20,936.9**	19,020.8
Retail deposits	**17,524.8**	16,600.0
Total assets	**24,403.6**	22,472.2

1. For more detail on the calculation of key ratios, see the Appendix.

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.

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

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

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 £393.1m, 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 24.7% 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, and underlying basic earnings per share increased to 86.7 pence (2020: 58.1 pence), due to the increase in profit after tax.

Net interest income
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 reset 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.

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 £24,403.6m (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).

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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	**345.3**	**47.8**	**393.1**	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	**69.3**	**(6.9)**[10]	**62.4**	82.0	(9.2)	72.8
Total assets	**24,531.9**	**(128.3)**	**24,403.6**	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	**72.4**	**(45.0)**[13]	**27.4**	77.9	(61.4)	16.5
Total liabilities	**22,507.5**	**(44.3)**	**22,463.2**	20,977.6	(60.1)	20,917.5
Net assets	**2,024.4**	**(84.0)**	**1,940.4**	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 13 to the accounts
7. Reversal of exceptional items, see note 14 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 provisions based on its underlying prudent risk appetite, was an important consideration of the Board and senior management. Expected credit loss 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.

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 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.

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 Internal Ratings Based (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 Prudential Regulation Authority 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 Strategic Risk Management Framework. 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. For further detail please see the 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 Groups 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 Strategic Risk Management Framework 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 Resolvability Assessment Framework (RAF) and Operational Continuity in Resolution (OCIR).
- 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 Strategic Risk Management Framework (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 strategic risk management framework.
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.

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.

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:

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 Energy Performance Certificate (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.

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 bank, measured through change to Expected Credit Loss (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).

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 risk weighted asset values (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 risk and control assessment (RCSA) process across the Group.

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.

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.

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.

<u>3.2 Macroeconomic downturn</u>
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.

<u>3.3 Wholesale credit risk</u>
The Group has wholesale exposures both through call accounts used for transactional and liquidity purposes and through derivative exposures used for hedging.

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

Direction: unchanged
The Group's wholesale credit risk exposure remains limited to high-quality counterparties, overnight exposures to clearing 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 ILAAP stress scenarios.

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 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. 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.

<u>5.2 Wholesale funding stress</u>
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.

<u>5. 3 Refinancing of TFSME</u>
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.

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.

<u>6. Solvency risk</u>

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 Jan 2023 date moving out to potentially 2025.

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.

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.

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 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 Resolvability Assessment Framework requirements, including updated minimum requirements for own funds and eligible liabilities ('MREL').

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.

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.

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 its ESG and climate risk strategy and on development of its Task Force on Climate-Related Financial Disclosures (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 Resolvability Assessment Framework and Operational Continuity in Resolution. 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.

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

Evolving working practices
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 overview

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 holidays 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.

Expected Credit Losses (ECL)
Balance sheet expected credit losses 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.

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 probability of default (PD), loss given default (LGD) and likely exposure at default (EAD). An assessment of the maximum contractual period with which the Group is exposed to the credit risk of the asset is also undertaken.

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

i. How macroeconomic variables and scenarios are selected

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

The Group 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.

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)

				Scenario %	
Scenario	**Probability weighting (%)**		**Economic measure**	**5 year average (yearly growth %)**	**Cumulative growth/(fall) to peak/(trough) (%)**
Base case	40		GDP	3.3	14.5
			House Price Index	1.9	(3.5)
			Bank Base Rate	0.3	0.7
			Unemployment rate	4.2	0.1
			Commercial Real Estate Index	1.9	(3.5)
Upside	20		GDP	4.0	18.5
			House Price Index	4.5	(1.0)
			Bank Base Rate	1.1	1.7
			Unemployment rate	3.7	(1.2)
			Commercial Real Estate Index	4.5	(1.0)
Downside	28		GDP	2.3	1.2
			House Price Index	(2.9)	(22.2)
			Bank Base Rate	(0.1)	(0.4)
			Unemployment rate	6.1	1.8
			Commercial Real Estate Index	(2.9)	(22.2)
Severe downside	12		GDP	1.7	(0.4)
			House Price Index	(5.8)	(33.9)
			Bank Base Rate	(0.3)	(0.6)
			Unemployment rate	6.5	2.1
			Commercial Real Estate Index	(5.8)	(33.9)

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:

- Temporary switch to interest only: a temporary account change to assist customers through periods of financial difficulty where arrears do not accrue at the original contractual payment. Any arrears existing at the commencement of the arrangement are retained.

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

- 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.

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 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 Group's fully-loaded CET1 and total capital ratios under CRD IV increased to 19.6% and 21.2%, respectively as at 31 December 2021 (31 December 2020: 18.3% and 18.3%, 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 Group's strong capital ratios. The Group's leverage ratio was 7.9% as at 31 December 2021 (31 December 2020: 6.9%).

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.

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.

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.

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

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

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.

Viability statement

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

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

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

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 viability assessment horizon. The impacts of climate risk have been assessed as part of the Internal Capital Adequacy Assessment Process (ICAAP), which concluded that at present the associated financial risks are not material for the Group.

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

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

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

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

Stress testing is an integral risk management discipline, used to assess the financial and operational resilience of the Group. The Group has developed bespoke stress testing capabilities to assess the impact of extreme but plausible scenarios in the context of its principal risks impacting the primary strategic, financial and regulatory objectives. Stress test scenarios are identified in the context of the Group's operating model, identified risks, business and economic outlook. The Group actively engages external experts to inform the process by which it develops business and economic stress scenarios.

A broad range of stress scenarios are analysed considering the potential impacts to changes in HPI, unemployment and interest rates over a range of severity scenarios. The Group's capabilities are well established and continue to support proactive management of the Group's risk profile, ongoing operational resilience and liquidity and capital positions.

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

The Group has identified a broad suite of credible management actions which can be implemented to manage and mitigate the impact of stress scenarios. These management actions are assessed under a range of scenarios varying in severity and duration. Management actions are evaluated based on speed of implementation, second order consequences and dependency on market conditions and counter parties. Management actions are used to inform capital, liquidity and recovery planning under stress conditions.

In addition, the Group identifies a range of catastrophic scenarios, which could result in the failure of its current business model. Business model failure scenarios (Reverse Stress Tests or RSTs) are primarily used to inform the Board of the outer limits of the Group's risk profile. RSTs play an important role in helping the Board and Executives to assess the available recovery options to revive a failing business model.

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

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

The pandemic has had a disruptive impact on the Group's business growth objectives and the changing characteristics of the underlying risk profiles, particularly in relation to credit and operational risks. The Group has enhanced its risk assessment, monitoring and reporting procedures to ensure that these risks are effectively managed and has accordingly adjusted its risk appetite.

The Group has also maintained strong capital and funding profiles with a view to ensuring continued financial resilience. However, the Group remains fully cognisant of the evolving nature of the pandemic crisis with respect to the potential impact of new variants.

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

In line with prior years, in the viability assessment process the Board considered the latest macroeconomic forward-looking scenarios utilised for business planning and the Group's IFRS 9 calculations which consider the ongoing risks relating to new COVID-19 variants and other macroeconomic risks such as rising inflation and interest rate rises. Utilising analysis which identifies scenarios which would result in the Group becoming unviable, the Board considered the plausibility of these scenarios materialising, whilst considering the likely impact of new COVID-19 variants. Forecasts and capital stress tests considered the impact of the countercyclical buffer being progressively phased back in, IFRS9 transitional arrangements unwinding, the Group's go forward Minimum Requirements for Own Funds and Liabilities (MREL) phasing in and a range of Basel 3.1 outcomes.

The potential impact of the pandemic on the economy and the Group's operations is subject to continuous monitoring through the Group's Management Committees, capital and liquidity, operational resilience and business continuity planning working groups, with appropriate escalation to the Board and supervisory authorities.

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

- Enhancing stress testing capabilities through more focused assessment of more vulnerable cohorts of its lending portfolio supported by increased granularity of monitoring and risk reporting.
- Increasing the diversification of its funding profile, supported by enhanced assessment of funding and liquidity risk profiles.
- Enhancing the assessment of operational resilience through the ongoing review of priority business functions, including supporting infrastructure and dependencies through a simulated business continuity exercise.

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

Statement of Directors' responsibilities

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

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

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

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

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent Company's transactions and disclose with reasonable accuracy at any time the financial position of the parent Company and 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, Directors' Remuneration Report and Corporate Governance Statement that complies with that law and those regulations.

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

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

Each of the persons who is a Director at the date of approval of this report confirms, to the best of their knowledge, 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/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.

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

- so far as the Director is aware, there is no relevant audit information of which the Company's auditor is unaware; and
- they have taken all the steps they ought to have taken as a Director in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Approved by the Board and signed on its behalf by:

Jason Elphick
Group General Counsel and Company Secretary
17 March 2022

OSB GROUP PLC
Consolidated Statement of Comprehensive Income
For the year ended 31 December 2021

	Note	**2021 £m**	2020 £m
Interest receivable and similar income	4	**746.8**	711.9
Interest payable and similar charges	5	**(159.2)**	(239.7)
Net interest income		**587.6**	472.2
Fair value gains on financial instruments	6	**29.5**	7.4
Gain on sale of financial instruments	7	**4.0**	20.0
Other operating income	8	**7.9**	9.0
Total income		**629.0**	508.6
Administrative expenses	9	**(166.5)**	(157.0)
Provisions	38	**(0.2)**	(0.1)
Impairment of financial assets	25	**4.4**	(71.0)
Impairment of intangible assets	10	**3.1**	(7.0)
Integration costs	13	**(5.0)**	(9.8)
Exceptional items	14	**(0.2)**	(3.3)
Profit before taxation		**464.6**	260.4
Taxation	15	**(119.3)**	(64.1)
Profit for the year		**345.3**	196.3
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	20	**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		**344.8**	196.8
Attributable to:			
Equity shareholders of the Company		**340.1**	191.3
Non-controlling interest		**4.7**	5.5
		344.8	196.8
Dividend, pence per share	17	**26.0**	14.5
Earnings per share, pence per share			
Basic	16	**76.0**	42.8
Diluted	16	**75.2**	42.4

The above results are derived wholly from continuing operations.

The notes below form part of these accounts.

The financial statements were approved by the Board of Directors on 17 March 2022.

OSB GROUP PLC
Consolidated Statement of Financial Position
As at 31 December 2021

	Note	**2021 £m**	2020 £m
Assets			
Cash in hand		**0.5**	0.5
Loans and advances to credit institutions	19	**2,843.6**	2,676.2
Investment securities	20	**491.4**	471.2
Loans and advances to customers	21	**21,080.3**	19,230.7
Fair value adjustments on hedged assets	27	**(138.9)**	181.6
Derivative assets	26	**185.7**	12.3
Other assets	28	**10.2**	9.1
Current taxation asset		**-**	8.4
Deferred taxation asset	29	**5.6**	4.7
Property, plant and equipment	30	**35.1**	39.2
Intangible assets	31	**18.4**	20.6
Total assets		**24,531.9**	22,654.5
Liabilities			
Amounts owed to credit institutions	32	**4,319.6**	3,570.2
Amounts owed to retail depositors	33	**17,526.4**	16,603.1
Fair value adjustments on hedged liabilities	27	**(19.7)**	8.2
Amounts owed to other customers	34	**92.6**	72.9
Debt securities in issue	35	**460.3**	421.9
Derivative liabilities	26	**19.7**	163.6
Lease liabilities	36	**10.7**	11.7
Other liabilities	37	**29.6**	27.8
Provisions	38	**2.0**	1.8
Current taxation liability		**1.0**	-
Deferred taxation liability	39	**39.8**	48.3
Subordinated liabilities	40	**10.3**	10.5
Perpetual Subordinated Bonds	41	**15.2**	37.6
		22,507.5	20,977.6
Equity			
Share capital	43	**4.5**	1,359.8
Share premium	43	**0.7**	-
Retained earnings		**3,215.1**	1,608.6
Other reserves	44	**(1,195.9)**	(1,351.5)
Shareholders' funds		**2,024.4**	1,616.9
Non-controlling interest	44	**-**	60.0
Total equity and liabilities		**24,531.9**	22,654.5

The notes below form part of these accounts. The financial statements were approved by the Board of Directors on 17 March 2022 and signed on its behalf by

Andy Golding
Chief Executive Officer

April Talintyre
Chief Financial Officer

Company number: 11976839

OSB GROUP PLC

Consolidated Statement of Changes in Equity

For the year ended 31 December 2021

	Share capital[1] £m	Share premium £m	Capital contribution £m	Transfer reserve £m	Own shares[2] £m	Foreign exchange reserve £m	FVOCI reserve £m	Share-based payment reserve £m	Retained earnings £m	Additional Tier 1 securities £m	Non-controlling interest 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	-	-	-	-	-	-	-	-	196.3	-	-	196.3
Other comprehensive income	-	-	-	-	-	-	1.0	-	-	-	-	1.0
Tax on items in other comprehensive income	-	-	-	-	-	-	(0.5)	-	-	-	-	(0.5)
Total comprehensive income	-	-	-	-	-	-	0.5	-	196.3	-	-	196.8
Coupon paid on non-controlling interest 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[2]	-	-	-	-	(0.3)	-	-	-	0.4	-	-	0.1
Cancellation of OneSavings Bank plc share capital and share premium	(4.5)	(866.8)	-	-	-	-	-	-	866.8	-	-	(4.5)
Issuance of OSB GROUP PLC share capital	1,359.8	-	-	(1,355.3)	-	-	-	-	-	-	-	4.5
At 31 December 2020	1,359.8	-	-	(1,355.3)	(4.0)	(1.0)	1.0	7.8	1,608.6	-	60.0	1,676.9
Profit for the year	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**345.3**	**-**	**-**	**345.3**
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)**	**-**	**345.3**	**-**	**-**	**344.8**
Coupon paid on non-controlling interest securities	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(4.7)**	**-**	**-**	**(4.7)**
Dividends paid	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(86.7)**	**-**	**-**	**(86.7)**
Share-based payments	**-**	**0.7**	**-**	**-**	**-**	**-**	**-**	**4.0**	**2.9**	**-**	**-**	**7.6**
Own shares[2]	**-**	**-**	**-**	**-**	**0.5**	**-**	**-**	**-**	**(0.5)**	**-**	**-**	**-**
Capital reduction of OSB GROUP PLC share capital[1]	**(1,355.3)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**1,355.3**	**-**	**-**	**-**
Redemption of non-controlling interest securities	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(60.0)**	**(60.0)**
Transactions costs on redemption of non-controlling interest securities	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(3.5)**	**-**	**-**	**(3.5)**
Issuance of Additional Tier 1 securities	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**150.0**	**-**	**150.0**
Transactions costs on issuance of Additional Tier 1 securities	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(1.6)**	**-**	**-**	**(1.6)**
Tax recognised in equity	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**1.6**	**-**	**-**	**-**	**1.6**
At 31 December 2021	**4.5**	**0.7**	**-**	**(1,355.3)**	**(3.5)**	**(1.1)**	**0.6**	**13.4**	**3,215.1**	**150.0**	**-**	**2,024.4**

[1] On 26 February 2021, OSB GROUP PLC reduced the nominal value of 447,312,780 shares from three hundred and four (304) pence each to one (1) penny each, see note 1 for further details.
[2] The Group has adopted look-through accounting (see note 2 c)) and recognised the Employee Benefit Trusts within OSB GROUP PLC.

Share capital and premium is disclosed in note 43 and the reserves are further disclosed in note 44.

OSB GROUP PLC

Consolidated Statement of Cash Flows

For the year ended 31 December 2021

	Note	**2021 £m**	2020 £m
Cash flows from operating activities			
Profit before taxation		**464.6**	260.4
Adjustments for non-cash items	51	**(10.0)**	79.2
Changes in operating assets and liabilities	51	**(799.0)**	(1,537.2)
Cash used in operating activities		**(344.4)**	(1,197.6)
Provisions refunded	38	**-**	0.1
Net tax paid		**(117.3)**	(128.8)
Net cash used in operating activities		**(461.7)**	(1,326.3)
Cash flows from investing activities			
Maturity and sales of investment securities		**547.7**	407.3
Purchases of investment securities		**(468.2)**	(190.9)
Interest received on investment securities		**1.9**	7.0
Sales of financial instruments	7	**4.0**	539.9
Proceeds from sale of property, plant and equipment	30	**2.0**	-
Purchases of property, plant and equipment and intangible assets	30,31	**(6.8)**	(7.5)
Cash generated from investing activities		**80.6**	755.8
Cash flows from financing activities			
Financing received	42	**5,058.6**	1,991.2
Financing repaid	42	**(4,295.4)**	(1,103.6)
Cash held in deconsolidated special purpose vehicles		**-**	(23.0)
Interest paid on financing		**(8.4)**	(21.4)
Coupon paid on non-controlling interest securities		**(4.7)**	(5.5)
Dividends paid	17	**(86.7)**	-
Redemption of non-controlling interest securities		**(63.5)**	-
Issuance of Additional Tier 1 securities		**148.4**	-
Proceeds from issuance of shares under employee SAYE schemes		**0.8**	2.6
Cash payments on lease liabilities	36	**(1.9)**	(2.0)
Cash generated from financing activities		**747.2**	838.3
Net increase in cash and cash equivalents		**366.1**	267.8
Cash and cash equivalents at the beginning of the year	18	**2,370.6**	2,102.8
Cash and cash equivalents at the end of the year	18	**2,736.7**	2,370.6
Movement in cash and cash equivalents		**366.1**	267.8

1. Capital reduction

On 11 January 2021, the parent company OSB GROUP PLC (the Company) published a Circular in relation to the Capital reduction, which subject to shareholder approval as well as certain other conditions set out in the Circular, was undertaken to create the required distributable reserves to enable the Company to pay dividends and other distributions to shareholders in the future. The Circular stated that there would be no change to the total number of shares or the total capital in the Company, or in the Company and its subsidiaries' (the Group) capital ratios as a result of the Capital reduction. On 26 February 2021, the Capital reduction became effective with the Company reducing the nominal value of 447,312,780 shares from three hundred and four (304) pence each to one (1) penny each. This generated £1.4bn of distributable reserves following interim accounts as at 28 February 2021 being prepared and delivered to Companies House, supporting the dividend distribution of £64.8m on 2 June 2021 by the Company.

2. Accounting policies

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 2 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.

The figures shown for the year ended 31 December 2021 are not statutory accounts within the meaning of section 435 of the Companies Act 2006. The statutory accounts for the year ended 31 December 2021 on which the auditors have given an unqualified audit report and did not contain an adverse statement under section 498(2) or 498(3) of the Companies Act 2006 will be delivered to the Registrar of Companies after the Annual General Meeting. The figures shown for the year ended 31 December 2020 are not statutory accounts. A copy of the statutory accounts has been delivered to the Registrar of Companies, contained an unqualified audit report and did not contain an adverse statement under section 498(2) or 498(3) of the Companies Act 2006. This announcement has been agreed with the Company's auditors for release.

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.

• 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.

2. Accounting policies (continued)

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) is controlled and recognised by the Company using the look-through approach, i.e. as if the EBT is included within the accounts of the Company.

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.

2. 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 46 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 2 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.

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.

2. Accounting policies (continued)

When the contractual terms of non-derivative financial instruments have been amended as a direct consequence of 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 non-controlling interest securities and 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 non-controlling interest securities and 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.

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.

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.

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.

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 2 to the Company's financial statements.

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.

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, non-controlling interest securities and AT1 securities. Accordingly, the coupons paid on the non-controlling interest securities and 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.

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 Interbank Offered Rate (IBOR) transition, see note 46). 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.

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).

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).

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.

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.

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 2 aa)).

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 exposure at default;
- the expected LGD; and
- the average maturity of the swaps.

w) Provisions and contingent liabilities

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

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

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

x) Employee benefits – defined contribution scheme

The 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.

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.

Own shares are recorded at cost and deducted from equity and represent shares of OSBG that are held by the Employee Benefit Trust.

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 46 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.

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 2 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.

3. 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.

As set out in the Task Force on Climate-related Financial Disclosures (TCFD) report, 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 expected credit losses 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.

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.

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

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 24.

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.

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 Credit Risk section of the Risk profile performance overview.

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:

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

As at 31-Dec-21	Weighted (see note 24)	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

(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.

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).

OSB GROUP PLC
Notes to the Consolidated Financial Statements
For the year ended 31 December 2021

4. Interest receivable and similar income

	2021 £m	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.

5. Interest payable and similar charges

	2021 £m	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.

6. Fair value gains on financial instruments

	2021 **£m**	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.

[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.

7. 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.

7. Gain on sales of financial instruments (continued)

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.

8. Other operating income

	2021 £m	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

9. Administrative expenses

	2021 £m	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**	18.4
Professional fees	**16.9**	22.3
Other costs	**7.3**	5.7
Depreciation (see note 30)	**5.0**	5.6
Amortisation (see note 31)	**9.5**	8.2
	166.5	157.0

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

9. Administrative expenses (continued)

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

	2021 £'000	2020 £'000
Fees payable to the Company's auditor for the audit of the Company's annual accounts	**68**	65
Fees payable to the Company's auditor for the audit of the accounts of subsidiaries	**2,330**	2,198
Total audit fees	**2,398**	2,263
Audit-related assurance services[1]	**258**	217
Other assurance services[2]	**121**	45
Other non-audit services[3]	**240**	101
Total non-audit fees	**619**	363
Total fees payable to the Company's auditor	**3,017**	2,626

[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.

Staff costs comprise the following:

	2021 £m	2020 £m
Salaries, incentive pay and other benefits	**72.9**	68.5
Share-based payments	**6.7**	5.1
Social security costs	**7.7**	8.1
Other pension costs	**5.2**	4.3
	92.5	86.0

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

	2021	2020
UK	**1,220**	1,330
India	**535**	486
	1,755	1,816

10. 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).

11. Directors' emoluments and transactions

	2021 **£'000**	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. Deferred Share Bonus Plan (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 12 and the Annual Report on Remuneration.

The Directors of the Company are employed and compensated by OneSavings Bank plc.

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 Annual Report on Remuneration and note 12 Share-based payments provide further details on Directors' emoluments.

12. Share-based payments

Following the insertion of OSB GROUP PLC as the holding company on 27 November 2020, the share awards and options over OneSavings Bank plc shares were automatically transferred to OSB GROUP PLC shares.

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 Company’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.

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

12. Share-based payments (continued)

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

	2021 £m	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**	**-**	**-**
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).

12. Share-based payments (continued)

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

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 the Company's share price. 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.

12. Share-based payments (continued)

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.

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 Performance Share Plan) 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

13. Integration costs

	2021 £m	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.

14. Exceptional items

	2021 £m	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 of the Group.

15. 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:

	2021 £m	2020 £m
Corporation taxation	**128.0**	79.7
Deferred taxation	**(0.2)**	(0.8)
Release of deferred taxation on CCFS Combination[1]	**(8.5)**	(14.8)
Total taxation	**119.3**	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).

15. 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:

	2021 **£m**	2020 £m
Profit before taxation	**464.6**	260.4
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 non-controlling interest securities	**(2.5)**	(1.5)
Timing differences	**(1.3)**	(1.3)
Total taxation charge	**119.3**	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 29 and 39).

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.

15. 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.

16. Earnings per share

Earnings per share (EPS) is based on the profit for the year and the weighted average number of ordinary shares in issue. Basic EPS are calculated by dividing profit attributable to ordinary shareholders by the weighted average number of ordinary shares in issue during the year. Diluted EPS take into account share options and awards which can be converted to ordinary shares.

For the purpose of calculating EPS, profit attributable to ordinary shareholders is arrived at by adjusting profit for the year for the coupon on non-controlling interest securities classified as equity:

	2021 £m	2020 £m
Statutory profit after tax	**345.3**	196.3
Less: Coupon on non-controlling interest securities classified as equity	**(4.7)**	(5.5)
Statutory profit attributable to ordinary shareholders	**340.6**	190.8

	2021	2020
Weighted average number of shares, millions		
Basic	**448.1**	446.2
Dilutive impact of share-based payment schemes	**4.6**	4.0
Diluted	**452.7**	450.2
Earnings per share, pence per share		
Basic	**76.0**	42.8
Diluted	**75.2**	42.4

17. Dividends

On 27 November 2020, OSB GROUP PLC became the ultimate parent company, and soon after the listed entity of Group, replacing OneSavings Bank plc which is now a 100% subsidiary of OSB GROUP PLC.

	2021		2020	
	£m	**Pence per share**	£m	Pence per share
Final dividend for the prior year	**64.8**	**14.5**	-	-
Interim dividend for the current year	**21.9**	**4.9**	-	-
	86.7		-	

The Directors recommend a final dividend of £94.7m, 21.1 pence per share (2020: £64.8m, 14.5 pence per share) payable on 18 May 2022 with an ex-dividend date of 24 March 2022 and a record date of 25 March 2022. This dividend is not reflected in these financial statements as it is subject to approval by shareholders at the AGM on 12 May 2022. This will make up the total dividend for 2021 of £116.6m, 26.0 pence per share (2020: £64.8m, 14.5 pence per share).

A summary of the Company's distributable reserves is shown below:

	2021	2020
	£m	£m
Retained earnings	**1,358.4**	-
Other distributable reserves[1]	**(3.5)**	-
Distributable reserves	**1,354.9**	-

[1] Other distributable reserves comprises own shares held in the Group's EBT of £3.5m which are recognised within OSBG under look-through accounting.

Further additional distributable reserves are expected to be realised over time from dividend receipts from profits generated from the subsidiaries including two regulated banks within the Group.

As at 31 December 2020 OSB GROUP PLC had no distributable reserves. The Company reduced the nominal value of OSB GROUP PLC shares from 304 pence each to 1 penny each on 26 February 2021 (see note 1). The dividend of £64.8m was paid on 2 June 2021 out of the distributable reserves following this capital reduction exercise.

18. Cash and cash equivalents

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

	2021	2020
	£m	£m
Cash in hand	**0.5**	0.5
Unencumbered loans and advances to credit institutions	**2,636.2**	2,370.1
Investment securities	**100.0**	-
	2,736.7	2,370.6

19. Loans and advances to credit institutions

	2021 £m	2020 £m
Unencumbered:		
BoE call account	**2,496.4**	2,256.5
Call accounts	**43.3**	55.6
Cash held in special purpose vehicles[1]	**89.6**	51.0
Term deposits	**6.9**	7.0
Encumbered:		
BoE cash ratio deposit	**59.5**	52.3
Cash held in special purpose vehicles[1]	**48.0**	42.7
Cash margin given	**99.9**	211.1
	2,843.6	2,676.2

[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.

20. Investment securities

	2021 £m	2020 £m
Held at FVTPL:		
RMBS loan notes	**0.7**	-
	0.7	-
Held at FVOCI:		
UK Sovereign debt	**152.1**	-
RMBS loan notes	**15.5**	285.0
	167.6	285.0
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

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 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.

20. Investment securities (continued)

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

	2021 £m	2020 £m
At 1 January	**471.2**	635.3
Additions[1,2]	**568.2**	291.6
Disposals and maturities[3]	**(549.7)**	(457.2)
Movement in accrued interest	**0.6**	0.5
Changes in fair value	**1.1**	1.0
At 31 December	**491.4**	471.2

[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, investment securities included investments in unconsolidated structured entities (note 46) 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.

21. Loans and advances to customers

	2021 £m	2020 £m
Held at amortised cost:		
Loans and advances (see note 22)	**21,047.9**	19,257.1
Finance leases (see note 23)	**116.2**	65.5
	21,164.1	19,322.6
Less: Expected credit losses (see note 24)	**(101.5)**	(111.0)
	21,062.6	19,211.6
Residential mortgages held at FVTPL	**17.7**	19.1
	21,080.3	19,230.7

22. Loans and advances

	2021			2020		
	OSB £m	**CCFS £m**	**Total £m**	OSB £m	CCFS £m	Total £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

22. Loans and advances (continued)

The mortgage loan balances pledged as collateral for liabilities are:

	2021 £m	2020 £m
BoE under TFS and TFSME	**5,887.2**	5,203.2
Securitisation	**486.5**	435.4
	6,373.7	5,638.6

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

	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).

23. Finance leases

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

	2021 £m	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).

24. Expected credit losses

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

	2021			2020		
	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 Credit risk section of the Risk profile performance review.

The Group's ECL by segment and IFRS 9 stage is shown below:

	2021			2020		
	OSB £m	CCFS £m	Total £m	OSB £m	CCFS £m	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

24. 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.

	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**

24. Expected credit losses (continued)

The table below shows the stage 2 ECL balances by transfer criteria:

	2021			2020		
	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

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.

25. Impairment of financial assets

The (credit)/charge for impairment of financial assets in the Consolidated Statement of Comprehensive Income comprises:

	2021 £m	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

26. Derivatives

The table below reconciles the gross amount of derivative contracts to the carrying balance shown in the Consolidated Statement of Financial Position:

	Gross amount of recognised financial assets / (liabilities)	Net amount of financial assets / (liabilities) presented in the Consolidated Statement of Financial Position	Contracts subject to master netting agreements not offset in the Consolidated Statement of Financial Position	Cash collateral paid / (received) not offset in the Consolidated Statement of Financial Position	Net amount
	£m	£m	£m	£m	£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.

26. Derivatives (continued)

The table below profiles the timing of nominal amounts for interest rate risk hedging derivatives based on contractual maturity:

	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%).

27. Hedge accounting

	2021 £m	2020 £m
Hedged assets		
Current hedge relationships	**(190.9)**	197.5
Swap inception adjustment	**(26.2)**	(100.5)
Cancelled hedge relationships	**78.2**	84.6
Fair value adjustments on hedged assets	**(138.9)**	181.6
Hedged liabilities		
Current hedge relationships	**19.6**	(11.8)
Swap inception adjustment	**3.3**	6.2
Cancelled hedge relationships	**(1.4)**	-
De-designated hedge relationships	**(1.8)**	(2.6)
Fair value adjustments on hedged liabilities	**19.7**	(8.2)

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).

27. Hedge accounting (continued)

The tables below analyse the Group's portfolio hedge accounting for fixed rate loans and advances to customers:

	2021		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	(117.4)
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.

The movement in cancelled hedge relationships is as follows:

Hedged assets	**2021 £m**	2020 £m
At 1 January	**84.6**	20.4
New cancellations[1]	**33.5**	86.1
Amortisation	**(39.9)**	(17.9)
Derecognition of hedged item	**-**	(4.0)
At 31 December	**78.2**	84.6

[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 portfolio hedge accounting for fixed rate amounts owed to retail depositors:

	2021		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	**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.

28. Other assets

	2021 £m	2020 £m
Prepayments	**9.3**	7.3
Other assets	**0.9**	1.8
	10.2	9.1

29. Deferred taxation asset

	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.

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.

30. Property, plant and equipment

	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 13 integration cost (2020: nil).

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

31. Intangible assets

	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.

32. Amounts owed to credit institutions

	2021 £m	2020 £m
BoE TFS	**-**	2,568.6
BoE TFSME	**4,203.1**	1,000.1
Commercial repo	**0.5**	0.1
Loans from credit institutions	**0.6**	1.4
Cash collateral and margin received	**115.4**	-
	4,319.6	3,570.2

33. Amounts owed to 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

34. Amounts owed to other customers

	2021 £m	2020 £m
Fixed rate deposits	**50.3**	46.0
Variable rate deposits	**42.3**	26.9
	92.6	72.9

35. Debt securities in issue

	2021 £m	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

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:

	2021 £m	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

36. Lease liabilities

	2021 £m	2020 £m
At 1 January	**11.7**	13.3
New leases	**0.7**	0.1
Lease terminated	**(0.1)**	-
Lease repayments	**(1.9)**	(2.0)
Interest accruals	**0.3**	0.3
At 31 December	**10.7**	11.7

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.

37. Other liabilities

	2021 £m	2020 £m
Falling due within one year:		
Accruals	**23.2**	19.7
Deferred income	**0.9**	0.6
Other creditors	**5.5**	7.5
	29.6	27.8

38. Provisions and contingent liabilities

The Financial Services Compensation Scheme (FSCS) provides protection of deposits for the customers of authorised financial services firms, should a firm collapse. FSCS protects retail deposits of up to £85k for single account holders and £170k for joint holders. As OSB and CCFS both hold banking licences, the full FSCS protection is available to customers of each Bank.

The compensation paid out to consumers is initially funded through loans from the BoE and HM Treasury. In order to repay the loans and cover its costs, the FSCS charges levies on firms regulated by the PRA and the 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 FSCS and other provisions is presented below:

	2021				2020			
	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

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.

39. 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.

	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).

40. Subordinated liabilities

	2021 £m	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

The Group's outstanding subordinated liabilities are summarised below:

	2021 £m	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.

41. Perpetual Subordinated Bonds

	2021 £m	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 OneSavings Bank plc 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.

42. Reconciliation of cash flows for financing activities

The tables below show a reconciliation of the Group's liabilities classified as financing activities within the Consolidated Statement of Cash Flows:

	Amounts owed to credit institutions (see note 32) £m	Debt securities in issue (see note 35) £m	Subordinated liabilities (see note 40) £m	PSBs (see note 41) £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**

43. Share capital

Ordinary shares	Number of shares issued 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 OSB GROUP PLC £3.04 share capital	447,304,198	1,359.8	-
Shares issued under OSBG employee share plans	8,582	-	-
At 31 December 2020	447,312,780	1,359.8	-
Capital reduction of £3.04 nominal value shares to £0.01 nominal value shares	**-**	**(1,355.3)**	**-**
Shares issued under OSBG employee share plans	**1,315,075**	**-**	**0.7**
At 31 December 2021	**448,627,855**	**4.5**	**0.7**

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.

44. Other reserves

The Group's other reserves are as follows:

	2021 £m	2020 £m
Share-based payment	**13.4**	7.8
Transfer	**(1,355.3)**	(1,355.3)
Own shares	**(3.5)**	(4.0)
FVOCI	**0.6**	1.0
Foreign exchange	**(1.1)**	(1.0)
Non-controlling interest securities	**-**	60.0
AT1 securities	**150.0**	-
	(1,195.9)	(1,291.5)

44. Other reserves (continued)

Transfer reserve
On 27 November 2020, a new ultimate parent company was inserted into the Group, being OSBG. The share capital generated from issuing 447,304,198 nominal shares at £3.04 per share, replacing the nominal shares of £0.01 in OSB previously recognised in share capital at the consolidation level, created a transfer reserve of £1,355.3m.

Own shares
The Company has adopted the look-through approach for the EBT, including the EBT within the Company. As at 31 December 2021, the EBT held 848,221 OSBG shares (2020: 1,001,238 OSBG shares). The Group and Company show these shares as a deduction from equity, being the cost at which the shares were acquired of £3.5m (2020: £4.0m).

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.

Non-controlling interest securities
Non-controlling interest securities comprised £60.0m of Fixed Rate Resetting Perpetual Subordinated Contingent Convertible Securities issued by OSB. The securities previously qualified as AT1 capital under the Capital Requirements Directive and Regulation (CRD IV) for OSB; however, they do not qualify for OSBG under the CRD IV with the application of article 85–87 requirements where there is an article 9 permission. 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 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 securities. The 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 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.

AT1 Securities
On 5 October 2021, OSBG issued AT1 securities. AT1 securities comprise £150.0m of Fixed Rate Resetting Perpetual Subordinated Contingent Convertible Securities that qualify as AT1 capital under CRD IV. The securities will be subject to full conversion into ordinary shares of OSBG in the event that the Group's CET1 capital ratio falls below 7%. 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. OSBG 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. OSBG 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.

45. 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:

	2021 £m	2020 £m
Land and buildings: due within:		
One year	**-**	0.1
	-	0.1

c) Undrawn loan facilities:

	2021 £m	2020 £m
OSB mortgages	**706.4**	547.2
CCFS mortgages	**434.5**	420.8
Asset finance	**14.4**	11.5
	1,155.3	979.5

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).

46. Risk management

Overview

Financial instruments form the vast majority of the Group'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.

46. Risk management (continued)

Derivatives are used by the Group solely to reduce (hedge) the risk of loss arising from changes in market rates. Derivatives are not used for speculative purposes.

Types of derivatives and uses

The derivative instruments used by the Group in managing its risk exposures are interest rate swaps. Interest rate swaps convert fixed interest rates to floating or vice versa. As with other derivatives, the underlying product is not sold and payments are based on notional principal amounts.

Unhedged fixed rate liabilities create the risk of paying above-the-market rate if interest rates subsequently decrease. Unhedged fixed rate mortgages and liquid assets bear the opposite risk of income below-the-market rate when rates go up. While fixed rate assets and liabilities naturally hedge each other to a certain extent, this hedge is usually never perfect because of maturity mismatches and principal amounts.

The Group uses swaps to convert its instruments, such as mortgages, deposits and liquid assets, from fixed or base rate-linked rates to 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. This is included as an emerging risk within the Risk review.

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 Assets and Liabilities Committee. 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.

46. Risk management (continued)

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 2 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.

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.

Non-controlling interest securities
The £60.0m non-controlling interest 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.

46. Risk management (continued)

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.

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.

46. Risk management (continued)

The following tables show the Group'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 £m	**Capped collateral held £m**	**Gross carrying amount £m**	**Capped collateral held £m**	**Gross carrying amount £m**	**Capped collateral held £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**

	2020					
	OSB		CCFS		Total	
	Gross carrying amount £m	Capped collateral held £m	Gross carrying amount £m	Capped collateral held £m	Gross carrying amount £m	Capped collateral held £m
Stage 1	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.

46. Risk management (continued)

The Group uses indexed loan to value (LTV) ratios to assess the quality of the uncapped collateral held. Property values are updated to reflect changes in the HPI. A breakdown of loans and advances to customers by indexed LTV is as follows:

	2021				2020			
	OSB £m	**CCFS £m**	**Total £m**	**%**	OSB £m	CCFS £m	Total £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

The table below shows the LTV banding for the OSB segments' two major lending streams:

	2021				2020			
OSB	**BTL/SME £m**	**Residential £m**	**Total £m**	**%**	BTL/SME £m	Residential £m	Total £m	%
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

46. Risk management (continued)

The tables below show the LTV analysis of the OSB BTL/SME sub-segment:

OSB	2021 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**

OSB	2020 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

The tables below show the LTV analysis of the OSB Residential sub-segment:

	2021				2020			
OSB	**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%	**1,173.3**	**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

46. 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

46. 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 Principal risks and uncertainties.

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.

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 review.

46. 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.

46. Risk management (continued)

Approach to measurement of credit quality

The Group categorises the credit quality of loans and advances to customers into internal risk grades based on the 12 month PD calculated at the reporting date. The PDs include a combination of internal behavioural and credit bureau characteristics. The risk grades are further grouped into the following credit quality segments:

- Excellent quality – where there is a very high likelihood the asset will be recovered in full with a negligible or very low risk of default.
- Good quality – where there is a high likelihood the asset will be recovered in full with a low risk of default.
- Satisfactory quality – where the assets demonstrate a moderate default risk.
- Lower quality – where the assets require closer monitoring and the risk of default is of greater concern.

The credit grade for the Group's investment securities and loans and advances to credit institutions is based on the external credit rating of the counterparty.

The following tables disclose the credit risk quality ratings of loans and advances to customers by IFRS 9 stage:

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**

46. Risk management (continued)

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

The tables below show the Group'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

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.

46. Risk management (continued)

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:

	2021		2020	
	£m	**%**	£m	%
BoE[1]	**2,555.9**	**76**	2,308.8	73
Other banks	**287.7**	**9**	367.4	12
Central government	**252.1**	**8**	-	-
Securitisation	**239.3**	**7**	471.2	15
Total	**3,335.0**	**100**	3,147.4	100

[1] Balances with the BoE include £59.5m (2020: £52.3m) held in the cash ratio deposit.

The tables below show the geographical exposure of the Group's loans and advances to credit institutions and investment securities:

	2021		2020	
	£m	**%**	£m	%
United Kingdom	**3,328.0**	**100**	3,137.5	100
India	**7.0**	**-**	9.9	-
Total	**3,335.0**	**100**	3,147.4	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.

46. Risk management (continued)

The tables below provide a contractual maturity analysis of the Group's financial assets and liabilities:

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**

46. Risk management (continued)

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

46. 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:

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**

46. Risk management (continued)

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.

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.

46. 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:

	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	**-**	**-**	**-**	**(69.6)**	**(69.6)**
	6,595.4	**107.5**	**5,612.8**	**12,216.2**	**24,531.9**

	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.

46. 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:

	2021 **£m**	2020 £m
Unencumbered balances with central banks	**2,496.4**	2,256.5
Unencumbered cash and balances with other banks	**139.8**	113.6
Other cash and cash equivalents	**0.5**	0.5
Unencumbered investment securities	**369.6**	310.2
	3,006.3	2,680.8

Market risk

Market risk is the risk of an adverse change in the Group's income or the Group's net worth arising from movement in interest rates, exchange rates or other market prices. Market risk exists, to some extent, in all the Group's businesses. The Group recognises that the effective management of market risk is essential to the maintenance of stable earnings and preservation of shareholder value.

Interest rate risk

The primary market risk faced by the Group is interest rate risk. Interest rate risk is the risk of loss from adverse movement in the overall level of interest rates. It arises from mismatches in the timing of repricing of assets and liabilities, both on and off-balance sheet. 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.

46. Risk management (continued)

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. The table below shows the maximum decreases to net interest income under these scenarios after taking into account the derivatives:

	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:

	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. bank base rate, LIBOR or SONIA) or administered (e.g. the Group’s SVR, other discretionary variable rates, or that received on call accounts with other banks).

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:

	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.

46. 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 20 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.

47. 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				
	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	19	-	-	-	2,843.6	2,843.6
Investment securities	20	0.7	-	167.6	323.1	491.4
Loans and advances to customers	21	17.7	-	-	21,062.6	21,080.3
Derivative assets	26	-	185.7	-	-	185.7
		18.4	185.7	167.6	24,229.8	24,601.5
Liabilities						
Amounts owed to retail depositors	33	-	-	-	17,526.4	17,526.4
Amounts owed to credit institutions	32	-	-	-	4,319.6	4,319.6
Amounts owed to other customers	34	-	-	-	92.6	92.6
Debt securities in issue	35	-	-	-	460.3	460.3
Derivative liabilities	26	-	19.7	-	-	19.7
Subordinated liabilities	40	-	-	-	10.3	10.3
PSBs	41	-	-	-	15.2	15.2
		-	19.7	-	22,424.4	22,444.1

47. Financial instruments and fair values (continued)

		2020				
	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	19	-	-	-	2,676.2	2,676.2
Investment securities	20	-	-	285.0	186.2	471.2
Loans and advances to customers	21	19.1	-	-	19,211.6	19,230.7
Derivative assets	26	-	12.3	-	-	12.3
		19.1	12.3	285.0	22,074.5	22,390.9
Liabilities						
Amounts owed to retail depositors	33	-	-	-	16,603.1	16,603.1
Amounts owed to credit institutions	32	-	-	-	3,570.2	3,570.2
Amounts owed to other customers	34	-	-	-	72.9	72.9
Debt securities in issue	35	-	-	-	421.9	421.9
Derivative liabilities	26	-	163.6	-	-	163.6
Subordinated liabilities	40	-	-	-	10.5	10.5
PSBs	41	-	-	-	37.6	37.6
		-	163.6	-	20,716.2	20,879.8

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

47. Financial instruments and fair values (continued)

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	
	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

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.

47. Financial instruments and fair values (continued)

Amounts owed to retail depositors
The fair value of fixed rate retail deposits has been estimated by discounting future cash flows at current market rates of interest. Retail deposits at variable rates and deposits payable on demand are considered to be at current market rates and as such fair value is estimated to be equal to carrying value.

Amounts owed to credit institutions
This mainly represents amounts drawn down under the BoE TFS and 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:

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**

47. Financial instruments and fair values (continued)

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

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.

47. 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:

			Estimated fair value			
2021	**Carrying amount £m**	**Principal amount £m**	**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**

47. Financial instruments and fair values (continued)

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

48. 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).

49. 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]	(76.0)	(51.8)	8.5	(119.3)
Profit/(loss) for the year	241.6	147.6	(43.9)	345.3

[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.

49. 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	(95.2)	(57.5)	(4.3)	(157.0)
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	194.9	138.2	(72.7)	260.4
Taxation[1]	(46.9)	(32.0)	14.8	(64.1)
Profit/(loss) for the year	148.0	106.2	(57.9)	196.3

[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.

50. Country by country reporting

Country by country reporting (CBCR) was introduced through Article 89 of CRD IV, aimed at the banking and capital markets industry.

The name, nature of activities and geographic location of the Group's companies are presented below:

Jurisdiction	Country	Name	Activities
UK[1]	England	OSB GROUP PLC	Commercial banking
		OneSavings Bank plc	
		5D Finance Limited	
		Broadlands Finance Limited	
		Charter Court Financial Services Group Plc	
		Charter Court Financial Services Limited	
		Charter Mortgages Limited	
		Easioption Limited	
		Exact Mortgage Experts Limited	
		Guernsey Home Loans Limited	
		Heritable Development Finance Limited	
		Inter Bay Financial I Limited	
		Inter Bay Financial II Limited	
		InterBay Asset Finance Limited	
		Interbay Funding, Ltd	
		Interbay Group Holdings Limited	
		Interbay Holdings Ltd	
		Interbay ML, Ltd	
		Jersey Home Loans Limited	
		Prestige Finance Limited	
		Reliance Property Loans Limited	
		Rochester Mortgages Limited	
	Guernsey	Guernsey Home Loans Limited	
	Jersey	Jersey Home Loans Limited	
UK	England	Canterbury Finance No. 2 plc	Special purpose vehicle
		Canterbury Finance No. 3 plc	
		Canterbury Finance No. 4 plc	
		CMF 2020-1 plc	
		CML Warehouse Number 2 Limited	
India	India	OSB India Private Limited	Back office processing

[1] Guernsey Home Loans Limited (Guernsey) and Jersey Home Loans Limited (Jersey) are incorporated in Guernsey and Jersey respectively, but are considered to be located in the UK as they are managed and controlled in the UK with no permanent establishments in Guernsey or Jersey.

50. Country by country reporting (continued)

Other disclosures required by the CBCR directive are provided below:

2021	**UK**	**India**	**Consolidation[2]**	**Total**
Average number of employees	**1,220**	**535**	**-**	**1,755**
Turnover[1], £m	**628.9**	**9.6**	**(9.5)**	**629.0**
Profit/(loss) before tax, £m	**464.4**	**1.2**	**(1.0)**	**464.6**
Corporation tax paid, £m	**117.0**	**0.3**	**-**	**117.3**

2020	UK	India	Consolidation[2]	Total
Average number of employees	1,330	486	-	1,816
Turnover[1], £m	508.3	9.4	(9.1)	508.6
Profit/(loss) before tax, £m	260.1	1.3	(1.0)	260.4
Corporation tax paid, £m	128.6	0.2	-	128.8

[1] Turnover represents total income before impairment of financial and intangible assets, regulatory provisions and operating costs, but after net interest income, gains and losses on financial instruments and other operating income.
[2] Relates to a management fee from Indian subsidiaries to OneSavings Bank plc for providing back office processing.

The tables below reconcile tax charged and tax paid during the year.

2021	**UK £m**	**India £m**	**Total £m**
Tax charge	**118.9**	**0.4**	**119.3**
Effects of:			
Other timing differences	**9.6**	**(0.1)**	**9.5**
Tax outside of profit or loss	**(1.3)**	**-**	**(1.3)**
Current period tax paid in prior years	**(9.1)**	**-**	**(9.1)**
Tax in relation to future periods prepaid	**(1.1)**	**-**	**(1.1)**
Tax paid	**117.0**	**0.3**	**117.3**

2020	UK £m	India £m	Total £m
Tax charge	63.8	0.3	64.1
Effects of:			
Other timing differences	15.7	(0.1)	15.6
Tax outside of profit or loss	0.2	-	0.2
Prior year tax paid during the year	41.8	-	41.8
Tax in relation to future periods prepaid	7.1	-	7.1
Tax paid	128.6	0.2	128.8

51. Adjustments for non-cash items and changes in operating assets and liabilities

	2021 £m	2020 £m
Adjustments for non-cash items:		
Depreciation and amortisation	**14.5**	13.8
Interest on investment securities	**(2.5)**	(7.5)
Integration cost	**0.6**	-
Interest on subordinated liabilities	**0.8**	0.8
Interest on PSBs	**1.2**	1.7
Interest on securitised debt	**3.9**	3.4
Interest on financing debt	**5.3**	10.9
Impairment (credit)/charge on loans	**(4.4)**	71.0
Impairment (credit)/charge on intangible assets acquired on Combination	**(3.1)**	7.0
Gains on sale of financial instruments	**(4.0)**	(20.0)
Provisions	**0.2**	0.1
Interest on lease liabilities	**0.3**	0.3
Fair value gains on financial instruments	**(29.5)**	(7.4)
Share-based payments	**6.7**	5.1
Total adjustments for non-cash items	**(10.0)**	79.2
Changes in operating assets and liabilities:		
Decrease/(increase) in loans and advances to credit institutions	**98.7**	(154.0)
Increase in loans and advances to customers	**(1,844.0)**	(1,705.0)
Increase in amounts owed to retail depositors	**923.3**	348.1
Net (increase)/decrease in other assets	**(1.1)**	1.3
Net increase/(decrease) in derivatives and hedged items	**3.6**	(64.3)
Net increase in amounts owed to other customers	**18.9**	43.2
Net increase/(decrease) in other liabilities	**1.7**	(6.5)
Exchange differences on working capital	**(0.1)**	-
Total changes in operating assets and liabilities	**(799.0)**	(1,537.2)

52. Events after the reporting date

On 17 January 2022, the Group announced that the FCA had approved the base prospectus (dated 14 January 2022) in relation to the establishment of the Group's £3.0bn Euro Medium Term Note Programme. Under the programme, the Company, 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 Group's website.

The Board has authorised a share repurchase of up to £100m of shares in the market from 18 March 2022. The Company has authority to make such purchases under a resolution approved by shareholders at the AGM on 27 May 2021. Any purchases made under this programme will be announced to the market each day in line with regulatory requirements.

53. Controlling party

As at 31 December 2021 there was no controlling party of the ultimate parent company of the Group, OSB GROUP PLC.

54. 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 Group other than as described below.

Directors' remuneration is disclosed in note 11 and in the Directors' Remuneration Report. The Executive team are all employees of OSB, the table below shows their aggregate remuneration:

	2021 **£'000**	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).

55. Capital management

The Group's capital management approach is to provide a sufficient capital base to cover business risks and support future business development. The Group remained, throughout the year, compliant with its capital requirements as set out by the PRA, the Group's primary prudential supervisor.

The Group manages and reports its capital at a number of levels including Group level and for the two regulated banking entities within the Group, on an individual consolidation and on an individual basis. The capital position of the two regulated banking entities are not separately disclosed.

The Group's capital management is based on the three 'pillars' of Basel II.

Under Pillar 1, the Group calculates its minimum capital requirements based on 8% of risk-weighted assets.

Under Pillar 2, the Group, and its regulated entities, complete an annual self-assessment of risks known as the 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 Group applies 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.

Pillar 3 requires firms to publish a set of disclosures which allow market participants to assess information on the Group's capital, risk exposures and risk assessment process. The Group's Pillar 3 disclosures can be found on the Group's website.

Basel III came into force through CRD IV. Basel III complements and enhances Basel I and II with additional safety measures. Basel III changed definitions of regulatory capital, introduced new capital buffers, 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. The Group's ALCO is responsible for the management of the capital process within the risk appetite defined by the Board, including approving policy, overseeing internal controls and setting internal limits over capital ratios.

The Group actively manages its capital position and reports this on a regular basis to the Board and senior management via the ALCO and other governance committees. Capital requirements are included within budgets, forecasts and strategic plans with initiatives being executed against this plan.

The Group's Pillar 1 capital information is presented below:

	(Unaudited) 2021 £m	(Unaudited) 2020 £m
CET1 capital		
Called up share capital	**4.5**	1,359.8
Share premium, capital contribution and share-based payment reserve	**14.1**	7.8
Retained earnings	**3,215.1**	1,608.6
Transfer reserve	**(1,355.3)**	(1,355.3)
Other reserves	**(4.0)**	(4.0)
Total equity attributable to ordinary shareholders	**1,874.4**	1,616.9
Foreseeable dividends	**(94.7)**	(64.9)
IFRS 9 transitional adjustment[1]	**2.9**	4.9
COVID-19 ECL transitional adjustment[2]	**19.0**	31.0
Deductions from CET1 capital		
Prudent valuation adjustment[3]	**(1.0)**	(0.4)
Intangible assets[4]	**(18.4)**	(20.6)
Deferred tax asset	**(0.5)**	(0.9)
CET1 capital	**1,781.7**	1,566.0
AT1 capital		
AT1 securities	**150.0**	-
Total Tier 1 capital	**1,931.7**	1,566.0
Total regulatory capital	**1,931.7**	1,566.0
Risk-weighted assets (unaudited)	**9,101.6**	8,565.7

[1] The regulatory capital includes a £2.9m add-back under IFRS 9 transitional arrangements. This represents 50.0% of the IFRS 9 transitional adjustment booked directly to retained earnings of £5.9m.
[2] The COVID-19 ECL transitional adjustment relates to the Group's 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] The Group has adopted the simplified approach under the Prudent Valuation rules, recognising a deduction equal to 0.1% of fair value assets and liabilities 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.

55. Capital management (continued)

The movement in CET1 during the year was as follows:

	(Unaudited) 2021 £m	(Unaudited) 2020 £m
At 1 January	**1,566.0**	1,339.6
Movement in retained earnings	**1,606.5**	1,055.4
Share premium from Sharesave Scheme vesting	**0.7**	2.6
Movement in other reserves	**(1,349.7)**	(858.1)
Movement in foreseeable dividends	**(29.8)**	(15.0)
IFRS 9 transitional adjustment	**(2.0)**	(0.4)
COVID-19 ECL transitional adjustment	**(12.0)**	31.0
Movement in prudent valuation adjustment	**(0.6)**	0.1
Net decrease in intangible assets	**2.2**	10.8
Movement in deferred tax asset for carried forward losses	**0.4**	-
At 31 December	**1,781.7**	1,566.0

OSB GROUP PLC

Company Statement of Financial Position

As at 31 December 2021

	Note	2021 £m	2020 £m
Assets			
Investments in subsidiaries and intercompany loans	2	**1,582.6**	1,425.9
Current taxation asset		**0.3**	-
Total assets		**1,582.9**	1,425.9
Liabilities			
Intercompany loans	2	**0.6**	-
Other liabilities		**0.2**	-
		0.8	-
Equity			
Share capital	3	**4.5**	1,359.8
Share premium	3	**0.7**	-
Retained earnings		**1,358.4**	4.0
Other reserves	4	**218.5**	62.1
		1,582.1	1,425.9
Total equity and liabilities		**1,582.9**	1,425.9

The profit after tax for the year ended 31 December 2021 of OSB GROUP PLC was £87.0m (2020: £0.1m). 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 below form an integral part of the Company financial statements.

The financial statements were approved by the Board of Directors on 17 March 2022 and were signed on its behalf by:

Andy Golding
Chief Executive Officer

April Talintyre
Chief Financial Officer

Company number: 11976839

OSB GROUP PLC

Company Statement of Changes in Equity

For the year ended 31 December 2021

	Share capital £m	Share premium £m	Transfer reserve £m	Own shares[1] £m	Share-based payment reserve £m	Additional Tier 1 securities £m	Retained earnings £m	Total £m
At 1 January 2020	-	-	-	-	-	-	-	-
Profit for the year	-	-	-	-	-	-	0.1	0.1
Share-based payments	-	-	-	-	0.4	-	-	0.4
Own shares[1]	-	-	-	(4.0)	-	-	3.9	(0.1)
Shares issued on 27 November 2020	1,359.8	-	65.7	-	-	-	-	1,425.5
At 31 December 2020	1,359.8	-	65.7	(4.0)	0.4	-	4.0	1,425.9
Profit for the year	**-**	**-**	**-**	**-**	**-**	**-**	**87.0**	**87.0**
Dividend paid	**-**	**-**	**-**	**-**	**-**	**-**	**(86.7)**	**(86.7)**
Share-based payments	**-**	**0.7**	**-**	**-**	**5.9**	**-**	**0.9**	**7.5**
Issuance of Additional Tier 1 securities	**-**	**-**	**-**	**-**	**-**	**150.0**	**-**	**150.0**
Transactions costs on issuance of Additional Tier 1 securities	**-**	**-**	**-**	**-**	**-**	**-**	**(1.6)**	**(1.6)**
Own shares[1]	**-**	**-**	**-**	**0.5**	**-**	**-**	**(0.5)**	**-**
Capital reduction	**(1,355.3)**	**-**	**-**	**-**	**-**	**-**	**1,355.3**	**-**
At 31 December 2021	**4.5**	**0.7**	**65.7**	**(3.5)**	**6.3**	**150.0**	**1,358.4**	**1,582.1**

[1] The Company has adopted look-through accounting and consolidated the EBT effective from 27 November 2020. The Company initially recognised £6.1m of own shares, with £3.9m recognised in retained earnings relating to gifts made to the EBT, and £2.2m in intercompany loans, relating to a loan from OSB to the EBT which funded the acquisition of shares prior to 27 November 2020. As at 31 December 2021, the EBT had no outstanding intercompany borrowing (2020: £0.1m).

OSB GROUP PLC
Company Statement of Cash Flows
For the year ended 31 December 2021

	2021 £m	2020 £m
Cash flows from operating activities		
Profit before taxation	**86.7**	0.1
Changes in operating assets and liabilities:		
Net increase in other liabilities	**0.2**	-
Change in intercompany loans	**0.6**	(2.2)
Cash generated/(used) in operating activities	**87.5**	(2.1)
Cash flows from investing activities		
Change in investments in subsidiaries	**(150.0)**	-
Cash used in investing activities	**(150.0)**	-
Cash flows from financing activities		
Dividend paid	**(86.7)**	-
Issuance of Additional Tier 1 securities	**148.4**	-
Proceeds from issuance of shares under employee SAYE scheme	**0.8**	2.1
Cash generated from financing activities	**62.5**	2.1
Net increase in cash and cash equivalents	**-**	**-**
Cash and cash equivalents at the beginning of the year	**-**	-
Cash and cash equivalents at the end of the year	**-**	-
Movement in cash and cash equivalents	**-**	**-**

1. Basis of preparation

The separate financial statements of the Company are presented as required by the Companies Act 2006. As permitted by that Act, the separate financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the United Kingdom (UK), and are presented in Pounds Sterling.

The financial statements have been prepared on the historical cost basis. 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 Company is Pounds Sterling, which is the currency of the primary economic environment in which the Company operates.

The principal accounting policies adopted are the same as those set out in note 2 to the Group's consolidated financial statements, aside from accounting policy 2 y), Share-based payments. For the Company, the cost of the awards are charged on a straight-line basis to investment in subsidiaries (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 Company has adopted the predecessor value method with an investment in subsidiary of OSBG being the book value of the balance sheet in OSB at the date of insertion.

There are no critical judgements and estimates that apply to the Company.

2. Investments in subsidiaries and intercompany loans

The Company holds an investment in ordinary shares of £1,432.6m (2020: £1,425.9m) and in AT1 securities of £90.0m (2020: nil) in its direct subsidiary, OneSavings Bank plc (OSB). The Company also holds an investment in AT1 securities of £60.0m (2020: nil) in an indirect subsidiary, Charter Court Financial Services Limited.

	Investment in subsidiaries £m	Intercompany loans payable £m
At 1 January 2020	-	-
Net book value of OSB on 27 November 2020	1,425.5	-
Additions	0.4	(2.2)
Repayments	-	2.2
At 31 December 2020	1,425.9	-
Additions[1]	**156.7**	**(1.4)**
Repayments	**-**	**0.8**
At 31 December 2021	**1,582.6**	**(0.6)**

[1] Additions include purchase of AT1 securities of £90.0m issued by OSB and £60.0m issued by Charter Court Financial Services Limited; and £6.7m relating to share-based payments.

The transactions with OSB during the year comprise £1.4m transaction costs for the issuance of AT1 securities funded by OSB partially offset by £0.8m cash received in OSB on the Company's share issues.

Investments in subsidiaries are financial assets and intercompany loans are financial liabilities, all carried at amortised cost. Intercompany loans are payable on demand and no interest is charged on these loans.

2. Investments in subsidiaries and intercompany loans (continued)

A list of the Company's direct and indirect subsidiaries as at 31 December 2021 is shown below:

Direct investments	Activity	Registered office	Ownership
OneSavings Bank plc	Mortgage lending and deposit taking	Reliance House	**100%**
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 Group Plc	Holding company	Charter Court	**100%**
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	**-**
Easioption Limited	Holding company	Reliance House	**100%**
Exact Mortgage Experts Limited	Group service company	Charter Court	**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%**
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 Group Holdings Limited	Holding company	Reliance House	**100%**
Interbay Holdings Ltd	Holding company	Reliance House	**100%**
Interbay ML, Ltd	Mortgage provider	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%**

2. Investments in subsidiaries and intercompany loans (continued)

A list of the Company's direct and indirect subsidiaries as at 31 December 2020 is shown below:

Direct investments	Activity	Registered office	Ownership
OneSavings Bank plc	Mortgage lending and deposit taking	Reliance House	**100%**

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 Group Plc	Holding company	Charter Court	**100%**
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	**-**
Easioption Limited	Holding company	Reliance House	**100%**
Exact Mortgage Experts Limited	Group service company	Charter Court	**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%**
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 Group Holdings Limited	Holding company	Reliance House	**100%**
Interbay Holdings Ltd	Holding company	Reliance House	**100%**
Interbay ML, Ltd	Mortgage provider	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%**
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	**-**
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%**

All investments are in the ordinary share capital of each subsidiary.

2. Investments in subsidiaries and intercompany loans (continued)

OSB India Private Limited is owned 70.28% by OneSavings Bank plc, 29.72% by Easioption Limited and 0.001% by Reliance Property Loans Limited.

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. The location of the entities listed above are disclosed in note 50 to the Group's consolidated financial statements.

The investment is reviewed annually for indicators of impairment. If impairment indicators are identified an impairment review of the investment is conducted which will quantify if the carry value is in excess of the recoverable amount or an impairment has occurred. In determining recoverable amount the fair value less costs to sell and the value in use are assessed, with the value in use being an estimate of the present value of future cash flows generated by the investment.

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
Great St. Helen's – 35 Great St. Helen's, London, EC3A 6AP
Guernsey – 1st Floor, Tudor House, Le Bordage, St Peter Port, Guernsey, GY1 1DB
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

The Company received no gifts during the year (2020: £0.1m from OSB).

3. Share capital

	Number of shares issued and fully paid	Nominal value £m	Premium £m
At 1 January 2020	2	-	-
Conversion of £1 ordinary shares to £0.01 ordinary shares	198	-	-
Issuance of 408 £0.01 ordinary shares	408	-	-
Conversion of £0.01 ordinary shares to £3.04 ordinary shares	(606)	-	-
Issuance of new £3.04 ordinary share on Insertion	447,304,196	1,359.8	-
Shares issued under employee share plans	8,582	-	-
At 31 December 2020	447,312,780	1,359.8	-
Capital reduction of £3.04 nominal value shares to £0.01 nominal value shares	**-**	**(1,355.3)**	**-**
Shares issued under employee share plans	**1,315,075**	**-**	**0.7**
At 31 December 2021	**448,627,855**	**4.5**	**0.7**

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.

4. Other reserves

The Company's other reserves are as follows:

	2021 £m	2020 £m
Share-based payment	**6.3**	0.4
Transfer	**65.7**	65.7
Own shares	**(3.5)**	(4.0)
AT1 securities	**150.0**	-
	218.5	62.1

Transfer reserve
The transfer reserve represents the difference between the net assets of the Group at the point of insertion of OSBG as the listed holding company and the fair value of the newly issued share capital of OSBG.

For own shares and AT1 securities see note 44 of the Group's consolidated financial statements.

5. Directors and employees

The Company has no employees. OneSavings Bank plc provides the Company with employee services and bears the costs associated with the Directors of the Company. These costs are not recharged to the Company.

6. Controlling party

As at 31 December 2021 there was no controlling party of OSB GROUP PLC.

1. Independent assurance statement by Deloitte LLP to OSB GROUP PLC on selected Alternative Performance Measures

Opinion
We have performed an independent reasonable assurance engagement on the Alternative Performance Measures (collectively, the APMs) set out below for the financial year ended 31 December 2021. The assured APMs are highlighted with the symbol ∆ throughout the OSB GROUP PLC (OSB Group) 2021 Annual Report and Accounts (ARA). The definition and the basis of preparation for each of the assured APMs is described below (OSB Group's APM Definitions and Basis of Preparation).

Statutory basis

- Gross new lending
- Net interest margin
- Cost to income
- Management expense ratio
- Loan loss ratio
- Dividend per share
- Basic earnings per share
- Return on equity

Underlying basis

- Net interest margin
- Cost to income
- Management expense ratio
- Loan loss ratio
- Basic earnings per share
- Return on equity

In our opinion the assured APMs for the financial year ended 31 December 2021, have been prepared, in all material respects, in accordance with OSB Group's APM Definitions and Basis of Preparation.

Directors' responsibilities
The directors of OSB Group are responsible for:

- selecting APMs with which to describe the entity's performance and appropriate criteria (as set out in the Group's APM Definitions and Basis of Preparation) to measure them;
- designing, implementing and maintaining internal controls relevant to the preparation and presentation of the assured APMs that are free from material misstatement, whether due to fraud or error; and
- preparing and presenting the APMs.

Our responsibilities
Our responsibility is to express an opinion on the assured APMs, based on our assurance work. We performed a reasonable assurance engagement in accordance with International Standard on Assurance Engagements (ISAE) 3000 (Revised), Assurance Engagements other than Audits or Reviews of Historical Financial Information.

We are required to plan and perform our procedures in order to obtain reasonable assurance as to whether the assured APMs have been prepared, in all material respects, in accordance with OSB Group's APM Definitions and Basis of Preparation.

The nature, timing and extent of the assurance procedures selected depended on our judgment, including the assessment of the risks of material misstatement, whether due to fraud or error, of the assured APMs. In making those risk assessments, we considered internal controls relevant to the preparation of the assured APMs.

Based on that assessment we carried out testing which included:

- Agreeing amounts used in the calculation of APMs which are derived or extracted from the audited financial statements of OSB Group for the year ended 31 December 2021 to the financial statements.
- For amounts used in the calculation of APMs which were not derived or extracted from the financial statements of OSB Group for the year ended 31 December 2021 testing, on a sample basis, the underlying data used in determining the assured APMs.
- Checking the mathematical accuracy of the calculations used to prepare the assured APMs and testing whether they were prepared in accordance with OSB Group's APM Definitions and Basis of Preparation;
- Reading the 2021 ARA and assessing whether the assured APMs were presented and described consistently.

We were not asked to give, and therefore have not given any assurance over (i) any APMs other than the assured APMs or (ii) other data in the ARA as part of this engagement.

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

Our independence and quality control

We have complied with the independence and other ethical requirements of the FRC Ethical Standard and the Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

We apply International Standard on Quality Control 1. Accordingly, we maintain a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Use of our report

This assurance report is made solely to OSB GROUP PLC in accordance with the terms of the engagement letter between us. Our work has been undertaken so that we might state to OSB GROUP PLC those matters we are required to state to them in an independent reasonable assurance report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than OSB GROUP PLC for our assurance work, for this assurance report or for the opinions we have formed.

Deloitte LLP, London

17 March 2022

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2. Alternative performance measures
In these Preliminary results, the Group used alternative performance measures (APMs) when presenting underlying results in 2021 and 2020 as Management believe they provide a more consistent basis for comparing the Group's performance between financial periods. Underlying results exclude exceptional items, integration costs and other acquisition-related items.

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

Below we provide definitions and the calculation of APMs used throughout these Preliminary results both on a statutory basis and underlying basis for 2021 and 2020.

Net interest margin (NIM)
NIM is defined as net interest income as a percentage of a 13-point average[1] of interest earning assets (cash, investment securities, loans and advances to customers and credit institutions). It represents the margin earned on loans and advances and liquid assets after swap expense/income and cost of funds.

	2021 £m	2020 £m
Net interest income – statutory A	**587.6**	472.2
Add back: acquisition-related items[2]	**62.9**	61.8
Net interest income – underlying B	**650.5**	534.0
13 point average of interest earning assets – statutory C	**23,207.7**	21,883.4
13 point average of interest earning assets – underlying D	**23,033.7**	21,663.2
NIM statutory equals A/C	**2.53%**	2.16%
NIM underlying equals B/D	**2.82%**	2.47%

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

	2021 £m	2020 £m
Administrative expenses – statutory A	**166.5**	157.0
Add back: acquisition-related items[2]	**(4.8)**	(4.3)
Administrative expenses – underlying B	**161.7**	152.7
Total income – statutory C	**629.0**	508.6
Add back: acquisition-related items[2]	**50.2**	61.6
Total income – underlying D	**679.2**	570.2
Cost to income statutory equals A/C	**26%**	31%
Cost to income underlying equals B/D	**24%**	27%

Management expense ratio

The management expense ratio is defined as administrative expenses as a percentage of a 13-point average[1] of total assets.

	2021 £m	2020 £m
Administrative expenses – statutory (as in cost to income ratio above) A	**166.5**	157.0
Administrative expenses – underlying (as in cost to income ratio above) B	**161.7**	152.7
13 point average of total assets – statutory C	**23,382.6**	22,140.1
13 point average of total assets – underlying D	**23,231.5**	21,931.8
Management expense ratio statutory equals A/C	**0.71%**	0.71%
Management expense ratio underlying equals B/D	**0.70%**	0.70%

Loan loss ratio

The loan loss ratio is defined as impairment of financial assets as a percentage of a 13-point average[1] of gross loans and advances. It is a measure of the credit performance of the loan book.

	2021 £m	2020 £m
Impairment of financial assets – statutory A	**(4.4)**	71.0
Add back: acquisition-related items[2]	**(0.5)**	0.2
Impairment of financial assets – underlying B	**(4.9)**	71.2
13 point average of gross loans – statutory C	**20,327.5**	18,739.0
13 point average of gross loans – underlying D	**20,164.3**	18,508.5
Loan loss ratio statutory equals A/C	**(0.02)%**	0.38%
Loan loss ratio underlying equals B/D	**(0.02)%**	0.38%

Return on equity (ROE)

ROE is defined as profit attributable to ordinary shareholders, which is profit after tax and after deducting coupons on non-controlling interest securities, as a percentage of a 13-point average[1] of shareholders' equity (excluding £60m of non-controlling interest securities up to September 2021 and £150m of AT1 securities from October 2021).

	2021 £m	2020 £m
Profit after tax – statutory	**345.3**	196.3
Coupons on AT1 securities	**(4.7)**	(5.5)
Profit attributable to ordinary shareholders – statutory A	**340.6**	190.8
Add back: acquisition-related items[2]	**47.8**	68.6
Profit attributable to ordinary shareholders – underlying B	**388.4**	259.4
13 point average of shareholders' equity (excluding AT1 securities) – statutory C	**1,741.1**	1,514.2
13 point average of shareholders' equity (excluding AT1 securities) – underlying D	**1,632.4**	1,363.8
Return on equity statutory equals A/C	**20%**	13%
Return on equity underlying equals B/D	**24%**	19%

Basic earnings per share

Basic earnings per share is defined as profit attributable to ordinary shareholders, which is profit after tax and after deducting coupons on non-controlling interest securities, gross of tax, divided by the weighted average number of ordinary shares in issue.

	2021 £m	2020 £m
Profit attributable to ordinary shareholders – statutory (as in RoE ratio above) A	**340.6**	190.8
Profit attributable to ordinary shareholders – underlying (as in RoE ratio above) B	**388.4**	259.4
Weighted average number of ordinary shares in issue – statutory C	**448.1**	446.2
Weighted average number of ordinary shares in issue – underlying D	**448.1**	446.2
Basic earnings per share statutory equals A/C	**76.0**	42.8
Basic earnings per share underlying equals B/D	**86.7**	58.1

1. 13-point average is calculated as an average of opening balance and closing balances for 12 months of the financial year.
2. The acquisition-related items are detailed in the reconciliation of statutory to underlying results in the Financial review.

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Calculation of 2021 final dividend
The table below shows the basis of calculation of the Company's recommended final dividend for 2021:

	2021 £m	2020 £m
Statutory profit after tax	**345.3**	196.3
Less: coupons on non-controlling interest securities classified as equity	**(4.7)**	(5.5)
Statutory profit attributable to ordinary shareholders	**340.6**	190.8
Add back: Group's integration costs	**5.0**	9.8
Tax on Group's integration costs	**(1.3)**	(2.4)
Add back: Group's exceptional items	**0.2**	3.3
Add back: amortisation of fair value adjustment	**64.5**	64.5
Add back: amortisation of inception adjustment	**(11.0)**	(13.3)
Add back: amortisation of cancelled swaps	**(1.6)**	(2.7)
Add back: amortisation of intangible assets acquired	**4.8**	11.3
Less: Impairment reversal of intangible assets recognised on Combination	**(3.1)**	-
Release of deferred taxation on the above amortisation adjustments	**(8.5)**	(14.8)
Gain on sale of financial assets	**(1.7)**	13.1
Add back: ECL on Combination	**0.5**	(0.2)
Underlying profit attributable to ordinary shareholders	**388.4**	259.4
Total dividend: 30% (2020: 25%) of underlying profit attributable to ordinary shareholders	**116.6**	64.9
Less: interim dividends paid	**(21.9)**	-
Recommended final dividend	**94.7**	64.9
Number of ordinary shares in issue	**448,627,855**	447,312,780
Recommended final dividend per share (pence)	**21.1**	14.5