



Creating a leading specialist lender

OneSavings Bank plc
Annual Report and Accounts 2019

one
Savings Bank

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Chairman's statement

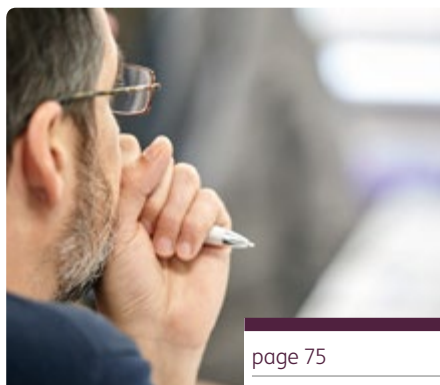
Focused on our stakeholders

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Operating sustainably and responsibly

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Who we are

OneSavings Bank ('OSB') is a leading specialist mortgage lender, primarily focused on carefully selected segments of the mortgage market. Our specialist lending is supported by our Kent Reliance and Charter Savings Bank retail savings franchises. Diversification of funding is provided by sophisticated securitisation platforms. OSB's unique cost-efficient operating model is supported by our wholly-owned subsidiary OSBIndia.

On 4 October 2019, OSB combined with Charter Court Financial Services Group plc ('CCFS'), bringing increased scale, diversification and product capabilities to the Group.

Our purpose

To become our customers' favourite bank; one that delivers its very best, challenges convention and opens doors that others can't.

Our strategy

- Be a leading specialist lender in our chosen market segments, targeting customers in underserved, secured lending market segments that offer attractive risk-adjusted returns
- Leverage OSB's bespoke, manual underwriting with CCFS' automated risk assessment to offer a full range of specialist mortgages to our target market segments through our specialist brands
- Further deepen the relationships and reputation for delivery with our intermediaries increasing breadth of channels to market
- Deliver consistently good value savings products and excellent customer service to build on the Kent Reliance and Charter Savings Bank propositions
- Pursue sophisticated wholesale funding and active balance sheet management opportunities



To find out more about our strategy, see Strategic framework **on page 24**

Why invest in OSB?

- Market-leading customer propositions
- Experienced leadership team
- Experts in specialist lending market segments, including professional Buy-to-Let
- Sustainable growth, margin and returns
- Strong risk management framework
- Capital strength



View more online

Our investor site gives you direct access to a wide range of information about OSB: www.osb.co.uk



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Highlights

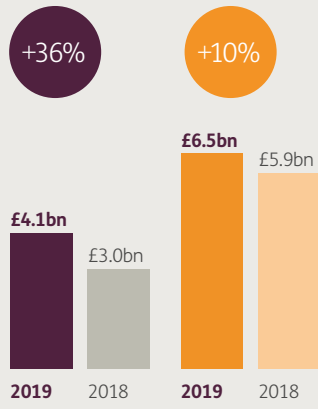
On 4 October 2019, OneSavings Bank plc ('OSB') combined with Charter Court Financial Services Group plc ('CCFS'), creating a leading specialist lender.

As a result, throughout this Strategic Report, in addition to statutory results, we also present pro forma underlying results.

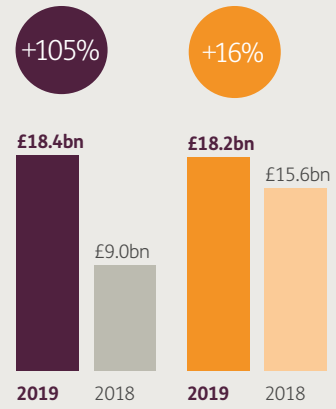


Read more on page 46

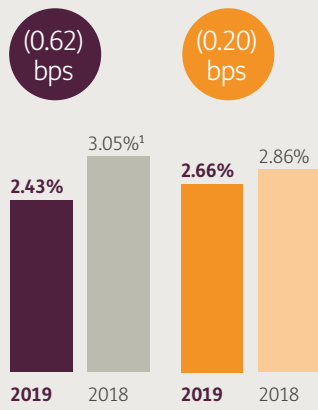
Gross new lending



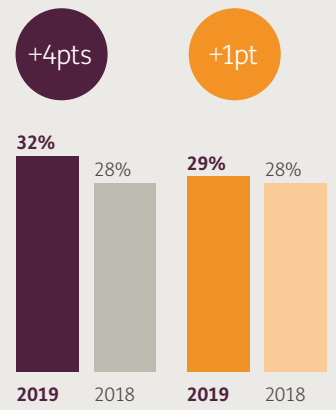
Net loan book



Net interest margin

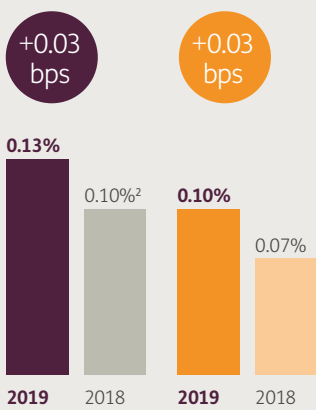


Cost to income ratio

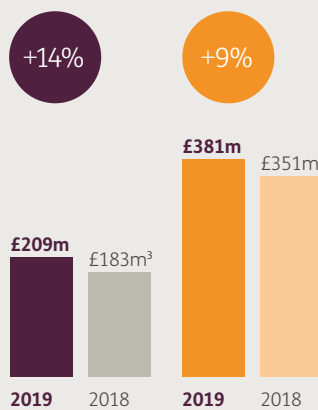


- Group statutory 2019
- Group statutory 2018
- Group pro forma underlying 2019
- Group pro forma underlying 2018

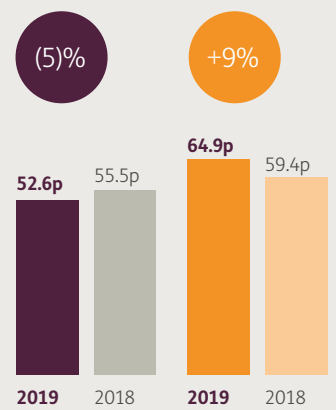
Loan loss ratio



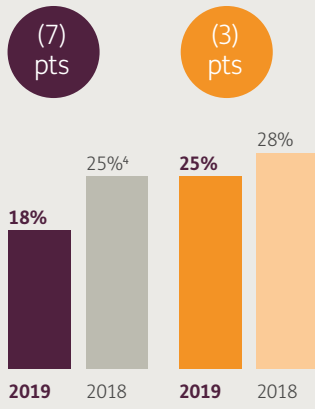
Profit before tax



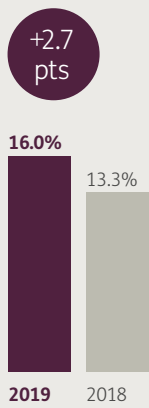
Basic EPS (pence per share)



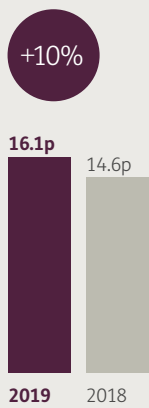
Return on equity



Fully loaded Common Equity Tier 1 ratio



Full year dividend per share (pence per share)



Explanation of statutory and pro forma underlying results

Statutory results

In this Annual Report, statutory results are the results prepared under the requirements of accounting standards and constitute the Financial statements.

Statutory results reflect 12 months of OSB's results and CCFS' results from 4 October 2019, the date on which the Combination completed and became effective, to 31 December 2019. The comparative period results reflect 12 months of OSB's results only as presented in the OSB 2018 Annual Report.

Pro forma underlying results

Pro forma underlying results are also presented in the Strategic Report, as Management believes they provide a more consistent basis for comparing the Group's performance between financial periods.

Pro forma underlying results assume that the Combination occurred on 1 January 2018, and include 12 months of results from CCFS. They also exclude exceptional items, integration costs and other acquisition-related items.

A reconciliation between results on a pro forma underlying basis and statutory basis is presented on page 51, and the calculation of APMs is presented in the Appendix on page 260.

1. To align calculation methods post Combination, OSB amended NIM calculation to include average interest earning assets on a 13 point average from a simple average. The comparative NIM ratio was restated.
2. To align calculation methods post Combination, loan loss ratio was amended to include gross loans on a 13 point average from a simple average. The comparative ratio remained unchanged.
3. Profit before tax was restated to recognise interest expense on the £22m Perpetual Subordinated Bonds previously classified as equity.
4. To align calculation methods post Combination, return on equity was amended to include average shareholders' equity on a 13 point average from a simple average. The comparative ratio was restated.

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Chairman's statement

Delivering a successful Combination, positioning the Group to prosper

I am delighted to welcome you to OneSavings Bank's Annual Report for 2019, our first report since the Combination of OneSavings Bank plc ('OSB') and Charter Court Financial Services Group plc ('CCFS').

It is a year since we announced the Combination and I am particularly pleased that both businesses maintained momentum during the process of the transaction. Strong financial and operational performances by both OSB and CCFS underpin the first combined results for the Group.

As promised, we moved at pace to deliver the Combination and I will introduce you later to the newly combined Board. We have also created a single Executive team and are well advanced in merging corporate and support functions.

I am confident that we have the right team in place to complete the integration and deliver greater shareholder value through the enhanced capabilities we have across the Group. We are on target to create a leading specialist lender in the UK.

Focused on our stakeholders

Your Board is focused on ensuring that the Group delivers value to all our stakeholders – our customers, our people, our owners, our partners and the wider community, all within a secure risk management framework. On page 89 we talk in more detail about our stakeholder approach (s.172); nonetheless, I would like to highlight a couple of achievements during a year of significant change:

- Both OSB and CCFS achieved exceptional customer Net Promoter Scores in the year, demonstrating strong customer satisfaction, and
- Employees also continue to demonstrate their satisfaction and both OSB and CCFS were included in the Sunday Times 100 Best Companies to Work For in 2019.

Board and corporate governance framework

Following completion of the Combination, I have the pleasure of introducing the Group's newly combined Board to shareholders. All members are introduced on pages 96 and 97 of this Annual Report. Changes were necessary in order to downsize the combined Board and we are now at eight people. The combined Board is committed to the highest standards of corporate governance and we have made several changes to our Board and Committee membership.

I would like to thank the Board for its continued dedication during the Combination and the integration work to date. I would also like to personally thank Sir Malcolm Williamson, who recently retired from his role as Non-Executive Chairman of the Board, for his contribution to CCFS and OSB and for his stewardship that led to the successful combination of the two groups. I would also like to thank Eric Anstee, Rod Duke,

Tim Brooke, Margaret Hassall and Ian Ward, who have stood down from the Board or are not standing for election or re-election at the AGM, for their significant contributions to OSB and CCFS; Eric as previous Chair of the OSB Audit Committee, Rod as Senior Independent Director for OSB, Margaret as a member of various Committees for OSB and Tim and Ian for their contributions to CCFS.

Dividend proposal

I am pleased to welcome all of our new shareholders to the register. In recognition of the Group's continued excellent progress and confidence in its future prospects, the Board is recommending the payment of a final dividend of 11.2 pence per share. Together with the interim dividend of 4.9 pence per share, this brings the total ordinary dividend for the year to 16.1 pence per share.

Future prospects

The economic outlook remains uncertain, as it has been since the decision to leave the European Union was taken. Negotiations regarding trade deals and our ongoing commercial relationships continue. The potential impact of the Coronavirus on the global and UK economies is also very uncertain at this time. However, we have continued to deliver excellent business growth and increased returns. Now, with greater scale, enhanced underwriting capabilities and leading positions in the market segments we serve, we are better positioned to deliver attractive, sustainable returns for our shareholders, across the cycle.

Before I go, I cannot leave without mentioning the obvious; the critical importance of all my colleagues (wherever they are based, in the UK or in India) to the success of the business. I do so unashamedly and would like to thank all of you for your dedicated contribution during 2019. You are building a fantastic business.

David Weymouth

Non-Executive Chairman
19 March 2020



We are on target
to create a leading
specialist lender
in the UK.

David Weymouth
Non-Executive Chairman



The rationale behind the Combination

- Create a leading specialist lender in the UK with greater scale and resources to deploy on growth opportunities.
- Leverage complementary strengths to create a comprehensive and diversified platform across product capabilities, brands and team cultures.
- Leverage complementary underwriting capabilities to enhance the customer proposition.
- Establish well-balanced, resilient and diversified retail-wholesale funding platform.
- Maintain two leading, independent distribution platforms to create an enhanced proposition to the broker community.
- Maintain operational centres of excellence to drive service levels and platform efficiency.

Strategic report

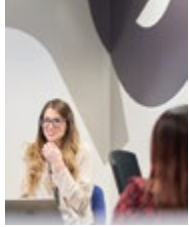


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Our business model

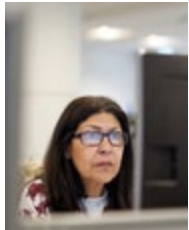
Our purpose is to enable our customers to achieve their personal and business goals by providing access to fair financial services.

Resources and relationships



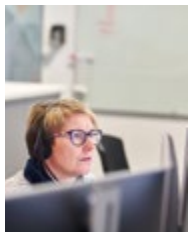
Brands and heritage

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



Employees

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



Infrastructure

We benefit from cost and efficiency advantages provided by our wholly-owned subsidiary OSBIndia as well as credit expertise and mortgage administration services provided by Exact Mortgage Experts.



Relationships with intermediaries

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



Capital strength

We have a strong CET1 ratio and proven capital generation and management capability to support significant loan book growth through profitability.

What we do



Sophisticated funding platform

Our key strengths

- Stable savings funding via Kent Reliance and Charter Savings Bank brands
- Capital markets expertise with securitisation platforms allowing for programmatic issuance of high quality residential mortgage-backed securities ('RMBS')

Statutory retail deposits

£16.3bn

2018: £8.1bn



Specialist lending business

Our key strengths

- Strong levels of mortgage origination
- Excellent loan performance
- Award-winning product propositions
- Strong relationships with intermediaries

Statutory net loans to customers

£18.4bn

2018: £9.0bn



Unique operating model

Our key strengths

- OSBIndia: Best-in-class customer service
- Exact Mortgage Experts: credit expertise and mortgage administration service
- Continued, disciplined cost management

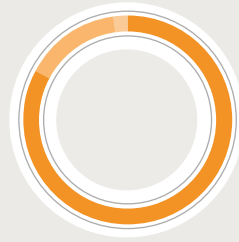
Statutory cost to income ratio

32%

2018: 28%

Strategic priorities

- Provide cost-efficient funding through a resilient and diversified funding platform to support our future growth
- Deliver consistently good value savings products to our customers
- Pursue sophisticated wholesale funding markets and efficient balance sheet management

Group's funding channels as at 31 December 2019

• Retail	83%
• Bank of England	15%
• Wholesale	2%

17

securitisations since 2013 across OSB and CCFS worth over

£5.7bn

2018: 13 securitisations worth £4.2bn



Read more on page 24

Outcomes and value creation**For shareholders****Statutory basic EPS**

52.6p

Dividend per share

16.1p

For customers**OSB customer NPS¹**

+66

OSB customer retention²

91%

CCFS customer NPS¹

+72

CCFS retention²

88%

For intermediaries**OSB broker NPS¹**

+27

CCFS broker NPS¹

+18

For employees**Total number of employees at the end of 2019**

1,834

Number of Group employees promoted in 2019

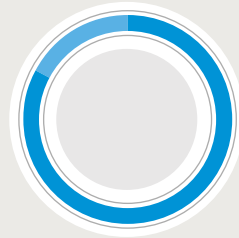
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For communities**Pro forma underlying sponsorship and donations³**

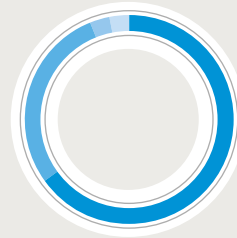
£398k

Strategic priorities

- Be a leading specialist lender in our chosen market segments
- Retain focus on our complementary underwriting platforms: OSB's bespoke and manual and CCFS' automated risk assessment platforms
- Further deepen relationships and distribution with intermediaries

OSB sub-segments net loans

• Buy-to-Let/SME	83%
• Residential	17%

CCFS sub-segments net loans

• Buy-to-Let	65%
• Residential	29%
• Bridging	3%
• Second charge	3%



Read more on page 24

Strategic priorities

- Continue to leverage our unique and cost-efficient operating model
- Leverage deep credit expertise and data analytics of Exact Mortgage Experts
- Maintain an efficient, scalable and resilient infrastructure

Assets administered by Exact as at 31 December 2019

£9.3bn

2018: £7.8bn (pro forma underlying)



Read more on page 24

1. OSB customer score relates to Kent Reliance savings customers; CCFS customer NPS relates to Charter Savings Bank customers; OSB broker NPS relates to Kent Reliance brokers and CCFS broker NPS relates to Precise Mortgage brokers.
2. Retention is defined as average maturing fixed contractual retail deposits that remain with the Bank on their maturity date.
3. Includes pre-Combination donations from CCFS.

Our business model explained

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



Specialist lending business

Gross loan book¹

£10.8bn

2018: £9.0bn

Organic originations¹

£3.4bn

2018: £3.0bn

Net interest income¹

£316m

2018: £286m

1. Statutory.

OneSavings Bank

KentReliance

InterBay
Commercial

Heritable
Development Finance

Buy-to-Let/SME sub-segments

Buy-to-Let

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

Commercial mortgages

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

Residential development

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

Funding lines

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

Asset finance

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

Residential sub-segments

First charge

We provide loans to individuals, secured by a first charge against their residential home.

Our target customers include those with a high net worth and complex income streams.

We are also experts in shared ownership, lending to first-time buyers and key workers buying a property in conjunction with a housing association.

Second charge

We provide loans to individuals seeking to raise additional funds secured by a second charge against their residential home.

Funding lines

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



Read more
on page 34



Sophisticated funding platform

Statutory retail deposits

£16.3bn

2018: £8.1bn

17

Securitisations since 2013 across OSB and CCFS worth over

£5.7bn

KentReliance

Charter
Savings Bank

Retail savings

Online

Kent Reliance is our award-winning retail savings franchise with over 150 years of heritage, attracting retail savings deposits via the internet.

Charter Savings Bank is a multi-award-winning online bank providing a range of competitive savings products.

Direct

The direct channel sources savings products via telephone (Kent Reliance) and post (Kent Reliance and Charter Savings Bank).

High street branches

Our Kent Reliance branded network operates in the South East of England and offers a variety of fixed, notice, easy access and regular savings products, including ISAs.

Our securitisation platforms

CCFS has been a programmatic issuer of high-quality residential mortgage-backed securities through the Precise Mortgage Funding ('PMF') and Charter Mortgage Funding ('CMF') franchises, completing 12 securitisations worth more than £3.8bn since 2013 to 31 December 2019.

OSB issued its inaugural securitisation under Canterbury Finance in July 2019, having previously issued two securitisations in the Rochester programme.



Read more
on page 41



Specialist lending business

Gross loan book²

£7.4bn

2018: £6.7bn

Organic originations²

£3.1bn

2018: £2.8bn

Net interest income²

£202m

2018: £181m

2. Pro forma underlying.

Charter Court Financial Services



Buy-to-Let

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

Residential

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

Bridging

We offer products with flexible features, focusing on lending to prime borrowers only, for customers who need to fund short-term cash flow needs, for example, to cover light and heavy refurbishments, home improvements, auction purchases and also to 'bridge' delays in obtaining mortgages and 'chain breaks'.

Second charge

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



Read more
on page 38



Unique operating model

Statutory cost to income ratio

32%

2018: 28%

Assets administered by Exact

£9.3bn

2018: £7.8bn (pro forma underlying)

osbIndia

OSBIndia

OSBIndia ('OSBI') is a wholly-owned subsidiary based in Bangalore, India.

OSBI puts customer service at the heart of everything it does, demonstrated by our excellent customer Net Promoter Score.

Various functions are also supported by OSBI, including support services, operations, IT, finance and human resources.

We have a one team approach between the UK and India.

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



Exact Mortgage Experts

Exact Mortgage Experts is a wholly-owned subsidiary that provides administration services for mortgages originated by Precise Mortgages and third parties.



Read more
on page 30

Relationships with our key stakeholders

Our vision is to become our customers' favourite bank; one that delivers its very best, challenges convention and opens doors that others can't.

Strong relationships, built on regular engagement with all our stakeholders, are fundamental to achieving this vision, central to the Group's culture and embedded in the Board's responsibilities.

The Combination with CCFS extended our stakeholder reach as we added new colleagues, customers, brokers and shareholders. The Board is committed to doing the right thing for all of our stakeholders as they fulfil their duty to promote the success of the Group under section 172 of the Companies Act 2006.

The following pages outline how OSB Group engaged with its key stakeholders during the year, which includes information on how the Directors have discharged their duty under section 172 of the Companies Act 2006. For more information on how the Directors discharged their duty under section 172 of the Companies Act 2006, see page 89 and the Corporate Governance Report.

Customers

We pride ourselves on delivering straightforward and transparent products and propositions to both our borrowers and our savers.

Each time that Kent Reliance savers call or interact with the Bank, we offer them an opportunity to let us know how we did. We listen to them and act upon what they tell us. The feedback that we regularly gather informs and reflects our unique product offering and the excellent customer service we offer. We consistently achieve high satisfaction scores and in 2019 the Kent Reliance customer Net Promoter Score increased to +66.

97% of customers who save via Charter Savings Bank had a good or excellent experience with the Bank¹ and the Net Promoter Score increased to +72 in 2019.

Kent Reliance welcomed over 40,000 new savings customers in the year and achieved a retention rate of 91%. Charter Savings Bank had nearly 27,000 new customers join in the year, reflecting our propositions being highly valued in the marketplace, with an 88% retention rate.

The satisfaction scores, retention rates, together with the number of complaints, and how long it took us to resolve them, form part of the management and Board monthly reporting packs, ensuring the visibility of the customer experience to management.

In addition, the Management and the Board engage with customers through the Kent Reliance Provident Society ('KRPS') which conducts customer engagement activity studies for OSB. During 2019 KRPS conducted six such studies.



For further information on how we focused on being our savings customers' favourite bank in the year, see page 76.

Shareholders

As a result of the Combination with CCFS, we welcomed new investors to OSB Group and some of our existing investors increased their holdings. Even though our shareholder register has changed, our approach to investor engagement has remained straightforward and uncomplicated as we favour an open dialogue.

The Group's Chief Executive Officer ('CEO') and Chief Financial Officer ('CFO') are supported by the Investor Relations team and meet with institutional investors and sell-side analysts. The Board's primary contact with shareholders comes through the CEO and the CFO. The Board is also regularly informed by Investor Relations updates which include shareholders' feedback, analysts' recommendations and market views.

The Annual General Meeting is another opportunity for shareholders to engage and it is attended by Board members and Management.

As a result of the Combination with CCFS, the Group conducted a remuneration consultation regarding the Executive Directors during the year, consulting with the top 20 shareholders. This included meetings attended by the then Chairman, Sir Malcolm Williamson, and the new Chairman, David Weymouth, providing an opportunity to discuss not only the proposed remuneration, but also any other topics of interest to our investors.

In 2019, for OSB only, the Investor Relations team met 140 individual investors at one-to-one meetings, industry conferences and roadshows.

Our corporate website contains useful investor information, as well as the Group's previous results: www.osb.co.uk/investors



For further information on how the Board engaged with the shareholders in the year, please **see page 108**.

Intermediaries

All of our lending products, with the exception of funding lines and residential development loans, are distributed via mortgage brokers. Needless to say, mortgage intermediaries are vital to our success.

The unique and consistent lending propositions across all lending brands fulfil our goal of making it easier for intermediaries to serve our borrowers. However, our efforts extend beyond our proposition, as we continuously enhance the service we provide, grow our teams as the number of intermediaries grows and regularly engage with the broker community. Our business development managers listen and work with intermediaries, making themselves available to discuss cases and helping to obtain swift and reliable decisions.

The Board and Management track broker satisfaction scores in monthly Board reporting packs. The Board is also presented with monthly borrowers' satisfaction scores for both the OSB and CCFS brands and details of complaints.

The OSB Sales team participated in 224 intermediary events and CCFS in 297 during 2019, interacting with brokers and keeping abreast of industry developments and intermediary requirements. The OSB broker NPS score was +27 and the CCFS score was +18 for 2019.

Colleagues

Our people are our key asset, and our success depends on the talented individuals we employ. Following the Combination with CCFS, the talent pool of the combined Group increased and at the end of 2019 we had 1,834 employees.

We have always favoured two-way communication between management and our employees through regular town hall meetings, informal sessions with management and opportunities to ask questions anonymously. These interactions are a source of many initiatives undertaken throughout the business to make OSB the best workplace it can be. We have introduced 'OneVoice', a platform for employees to express their ideas and feedback. This increases the level of engagement that employees have with the Board and operates as a formal forum. The forum meets quarterly and representatives from each Group office location gather opinions from employees and feed this back to the Board and Executives.

What our employees think is paramount to us and we also regularly ask for their opinion in Group-wide surveys. Responses from UK employees enabled us to enhance the working experience, resulting in both OSB and CCFS being included in The Sunday Times 100 Best Companies to Work For in 2019. OSB employees also took part in the Banking Standards Board Survey for the third time. OSBIndia was officially certified as a 'Great Place to Work' in 2019. Detailed results of these surveys are also discussed by the Board and feature frequently on the Board's agenda.



For more details on how we strived to make OSB the best workplace it can be, **see page 77**.

Communities

OSB Group cares about the communities in which it is based. Each year, OSB engages with charitable causes in Kent and supports a chosen national charity by taking part in a variety of charitable events and partnerships. CCFS is heavily involved in the West Midlands community and every year supports a chosen local charity. OSBIndia is also active in the community local to the office in Bangalore, as well as in areas where there are critical needs.

In 2019, the combined Group raised £398,000² for its charity partners and our employees dedicated time in a variety of volunteering activities.



For more information on how the Group engages with the communities it operates in, **see page 86**.

1. Based on the Charter Savings Bank Customer Satisfaction Survey conducted throughout 2019.
2. Includes pre-Combination donations from CCFS.

Market review

UK Buy-to-Let gross advances

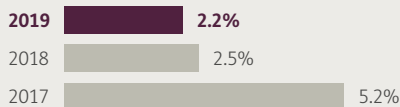
£41bn



Source: UK Finance, New and outstanding Buy-to-Let mortgages, 6 Feb 2020.

UK average house price inflation

2.2%



Source: ONS, UK House Price Index, 19 Feb 2020.

The UK housing and mortgage market

For the majority of 2019, the housing market continued to experience slowing transaction levels from lacklustre buyer demand as recent trends continued. Political uncertainty surrounding Brexit continued and caused a market drag, with prospective buyers delaying decisions until the outlook became clearer. The combination of affordability challenges and low housing supply also contributed to slowing levels of transaction activity. House price growth fell with price reductions again seen in some parts of London and the South East.

However, the year ended on a more buoyant note for the housing market following the results of the UK General Election in December 2019. There was a boost in market activity in the final weeks of 2019 which has continued into 2020, matched by strong house price growth in the first month of the year. Reports of both new instructions and new buyer enquiries are at their highest level since before the Brexit referendum in 2016. As uncertainty reduces, pent-up demand is being released into the marketplace. This demand is supported by low mortgage interest rates as competition persists.

According to the Bank of England, gross mortgage lending reached £267.6bn¹ in 2019, broadly flat compared with £269.3bn in 2018, with refinancing driving lending activity.

The UK savings market

The UK savings market continued to grow in 2019 with c.£71bn added in the year to reach a total of £1,731bn² (2018: £1,660bn).

Despite new competition entering the savings market (6% more providers than a year ago²), rates showed a gradual decrease during 2019 as a result of economic uncertainty caused in part by concerns around Brexit. Average one-year fixed rate bonds were paying 1.23% in December 2019, down from an average of 1.45% a year ago, with similar falls seen in the longer-term bond market (34bps) and ISA fixed bond markets (17bps for one-year ISA and 25bps for longer-term ISAs).²

Average rates also fell on no-notice accounts, down from 0.63% to 0.60% at the end of 2019, with 'top of the market' rates falling by c. 15bps.² Although the Bank of England base rate has remained at 0.75% since August 2018, the percentage of accounts paying over base rate has now fallen to 68.7%, the lowest percentage since September 2018.²

Despite the falling interest rates, variable rate products continued to be popular with growth of £25bn² in the year, 35% of total growth, as customers sought flexibility and accessibility of their funds over higher returns, potentially reflecting the macroeconomic uncertainty during the year.

Aside from the rates offered, other trends in the savings market included:

- the growth of platforms in the UK, which offer a marketplace for savings products and a 'one-stop shop' for consumers to maximise their Financial Services Compensation Scheme coverage while benefiting from competitive deposit rates, and
- a resurgence in ISA accounts has been seen for the first time since the introduction of the personal savings allowance in 2016.

The Group's lending segments

Buy-to-Let/SME

Positive dynamics for the specialist Buy-to-Let sector

Government and regulatory intervention in the Buy-to-Let segment of the mortgage market slowed in 2019, following a period of sustained regulatory change. The only notable changes during the year were the penultimate instalment of the phased tax relief restrictions in April (which will be fully implemented from 6 April 2020) and the implementation of the Tenant Fees Act on 1 June 2019.

Whilst these changes have the potential to disrupt the Buy-to-Let sector, the impact is likely to be relatively small against the context of much larger regulatory changes in recent years. The culmination of these changes to the regulatory and tax landscape has deterred amateur landlords from entering the segment, while professional landlords have had to adjust their approach by diversifying their portfolios – benefiting the more specialist aspects of the market such as limited company Buy-to-Let and high-yielding property types.

The private rented sector, however, grew in 2019, showing its sustained importance to the UK housing market, and new lending in the Buy-to-Let segment increased 1% to £41.0bn from £40.5bn in 2018.³ Despite a softening of house price inflation in 2019, house prices remain high, and affordability measures remain stretched, as such, the market for rental property is expected to remain strong. Landlord confidence did, however, fall in 2019, weighed down by political and economic uncertainty, and perhaps exacerbated by the introduction of the Tenant Fees Act in June. This could ultimately put upwards pressure on rents as landlords pass on increased costs via rent hikes or sell properties, leading to reduced supply. However, 2020 has started on a positive note with reduced uncertainty fuelling a rise in sales expectations, consumer confidence and housing market indicators.

The trend in amateur landlords withdrawing from the market looks set to stay, leaving professional landlords, whose primary income is obtained from their property portfolio, to pick up the demand. The professional segment, whilst not immune to the changes, has persisted because of the strong fundamentals which underpin it: sustained demand from tenants, and the potential for long-term capital gains.

Borrowing through limited company structures also continues to be a feature of the market, with professional landlords continuing to mitigate the impact of income tax changes via this route. The Group is a respected lender within the specialist Buy-to-Let sector, through its Kent Reliance, InterBay Commercial and Precise brands, with a strong reputation for limited company lending which has been beneficial to date and is expected to continue to be so.



Market review continued

Commercial

Resilience in UK yields

Investment in UK commercial property reduced to £48.4bn⁴ in 2019, a fall of c.£11.0bn compared with 2018, although that figure remains above the ten-year average.

Since the UK General Election, anecdotal evidence suggests increased investor activity, and there is optimism that greater political certainty could lead to positive investment returns across the sector in 2020 and during the next five years.

The UK remains attractively priced, relative to other European markets, largely due to perceived Brexit risk. Overseas investors continued to dominate the segment in 2019, increasing market share to 49%,⁴ with a significant rise in North American investors.

The office segment performed well in 2019, with rents increasing in central London and other key UK cities, while demand for industrial and logistics space is supported by continued growth in e-commerce.

Once again, the retail property segment is expected to be challenging during 2020, with values in high-yielding high streets and shopping centres likely to be the hardest hit, and where excess space may need to be redeveloped and repositioned for alternative uses.

The lending segment is dominated by the high street banks. Opportunity exists for specialist lenders, whose manual underwriting approach, and willingness to engage in a dialogue to ensure robust understanding of customer requirements, can provide a service differential.

Residential development

Continued under-supply

The UK has experienced a long-term upward trend in real house prices, creating affordability problems, as demand for housing outstripped both supply and real wage growth. Turnover in the second-hand housing market has fallen, resulting in reduced liquidity within this segment.

The new-build segment has also been adversely affected, especially in London, with some regions structurally reliant on the Government's Help to Buy product, which will be restricted to first-time buyers and be subject to regional caps from April 2021. The support required by the small and medium-sized developers, which form our core audience for development finance, will continue to increase as high street lenders appear to be pulling away from development finance.

Specialist residential lending

In spite of support from the Help to Buy scheme, political uncertainty and lower remortgage activity impacted the market-wide residential sector, which was largely flat in 2019 compared with 2018.

The Help to Buy scheme remains popular and has supported strong first-time buyer activity in recent years and UK Finance suggests that Government support for the scheme has had a material impact on the supply of new homes. The Help to Buy scheme was originally due to end in 2021; however, it has been extended until April 2023 but will be restricted to first-time buyers only and regional price caps will be applied.

Market analysis by Savills estimates that 36%⁵ of current Help to Buy sales across England could be lost once the new regional house price caps are introduced if developers fail to adapt the size of homes they deliver.

Residential remortgage activity decreased by 1.8% in 2019 to £80.2bn⁶ compared with £81.6bn in 2018. Remortgages have been fuelled by low rates and uncertainty in recent years as borrowers looked to lock in their repayments for the medium term. The remortgage market slowed throughout 2019 due to the market shift towards five-year fixed rate products and the concurrent growth in product transfers.

The Group targets complex prime borrowers including those with non-standard asset and income structures, the self-employed, Help to Buy, Right to Buy, new-build and near-prime borrowers as well as those seeking shared ownership mortgages. They are ill-served by the commoditised and inflexible decision-making processes of mainstream lenders.

Second charge lending

The second charge sector grew strongly in 2019, with approximately £1.25bn⁷ of gross new lending (2018: £1.07bn). Growth has been supported by increased house prices over the past few years, which has reduced outstanding loan to values, increasing the capital available for release via a second charge. Homeowners are also moving less frequently, partly due to market uncertainty, and are instead choosing to remain in their current property and make home improvements which may be financed by a second charge loan. There is also the potential for the growing volume of borrowers on five-year fixed rate mortgages to use a second charge mortgage rather than remortgage, to avoid the cost of early repayment charges.

Funding lines

Strong pipeline

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

OSB is an active provider of secured funding lines to these specialty finance providers, to date focusing on short-term real estate finance, leasing and development finance. Through these activities OSB has achieved senior secured exposure at attractive returns to asset classes that it knows well. This financing activity covers a broad range of business sectors and its overall size is thus difficult to quantify. OSB sees a regular flow of opportunities, adopts a very selective approach and has a strong pipeline of new business.

1. UK Finance, New mortgage lending by purpose of loan, 3 Feb 2020.
2. Moneyfacts, UK Savings Trends Treasury Report, Dec 2019.
3. UK Finance, New and outstanding buy-to-let mortgages, 6 Feb 2020.
4. Savills, UK Commercial outlook, January 2020.
5. Savills, Market in Minutes: New Homes and Help to Buy, December 2019.
6. UK Finance, UK residential originations, 18 February 2020.
7. FLA, Second charge mortgage market reports volumes up by 19% in 2019, Feb 2020.



Chief Executive Officer's statement

We successfully completed our Combination with Charter Court

We are in the early stages of integration, however, I am pleased with progress so far and I am particularly happy to have many talented staff from both organisations working really well together to benefit the combined Group.



The logic for the Combination remains compelling.

Andy Golding
CEO



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

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

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

Statutory net interest margin ('NIM') for 2019 reduced to 243bps (2018: restated 305bps¹), primarily due to the dilutive impact of including CCFS' results post Combination and the impact of the changing mix of the OSB loan book, despite broadly stable asset pricing.

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

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

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

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

Statutory basic earnings per share

52.6p

2018: 55.5p

Dividend per share

16.1p

2018: 14.6p

Chief Executive Officer's statement continued

“Strong new business volumes reflect attractive lending propositions.”

An award-winning secured lender

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

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

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

OSB and CCFS have further strengthened broker networks and relationships with mortgage intermediaries in the year, especially amongst those that support borrowers with more complex needs. The Combination allows us to underwrite a wider range of customer cases than would have been possible as standalone businesses. On a pro forma underlying basis, the Group sustained its market share as industry-wide gross Buy-to-Let advances reached £41bn² in the year.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

“I am delighted that Kent Reliance was highly commended with the Savers' Choice Award by Savings Champion.”

Chief Executive Officer's statement continued

Sophisticated funding model

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

The combined Group remained predominantly retail funded in 2019 and we had £16bn of retail deposits at the end of 2019. On a pro forma underlying basis, retail deposits were up 23% from £13bn at the end of 2018. We offer a competitive retail savings proposition, which allows the Group to raise significant funds as we require them. Over 40,000 new savings customers joined Kent Reliance in 2019 and Charter Savings Bank grew customer numbers by nearly 27,000 for the full year of 2019. Our vision remains to become our customers' favourite bank and we continue to put our customers at the heart of everything we do. This was reflected in a retention rate of 91% amongst Kent Reliance customers with maturing fixed rate bonds and ISAs and a Net Promoter Score ('NPS') of +66 for the year. 97% of Charter Savings Bank's customers had a good or excellent experience with the Bank³ and the NPS was exceptional, at +72 for 2019. Charter Savings Bank had a retention rate of 88% at the end of 2019.

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

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

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



For further information on our securitisation platforms, [see page 41](#)

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

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

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

Our strong and sustainable business

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

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

“The expertise in securitisation funding and balance sheet management is a capability that has been enhanced through the Combination...”

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

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

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

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

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

Looking forward to 2020

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

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

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

Andy Golding

Chief Executive Officer
19 March 2020

1. To align calculation methods post Combination, OSB amended NIM calculation to include average interest earning assets on a 13 point average from a simple average. The comparative NIM was restated.
2. UK Finance, New and outstanding buy-to-let mortgages, 6 Feb 2020.
3. Based on the Charter Savings Bank Customer Satisfaction Survey conducted throughout 2019.

Our strategic framework

Priorities

Our goals

2019 progress

Looking forward

Key risks

Key performance indicators

Our vision is to become our customers' favourite bank; one that delivers its very best, challenges convention and opens doors that others can't.

Specialist lending business

Be a leading specialist lender in our chosen market segments

Grow loan originations at attractive margins in our chosen market segments

- Target market segments that offer attractive returns on a risk-adjusted basis
- Deliver incremental, non-organic business
- Invest in highly responsive, customer-focused culture
- Innovate to secure sustainable long-term market leadership

- Organic originations of £4.1bn on a statutory basis. On a pro forma underlying basis organic originations were £6.5bn, up 10% from £5.9bn in 2018
- OSB commercial business loan book £888m, up 62%
- Multiple awards for Kent Reliance including Best Specialist Lender and Best Buy-to-Let Lender from Mortgage Strategy Awards and Best Specialist Lender by the L&G Mortgage Club
- CCFS was awarded Mortgage Lender of the Year and Specialist Lender of the Year by Mortgage Introducer

- Continue to evaluate the attractiveness and growth opportunities in our current market sub-segments
- Deploy greater scale and resources on organic growth opportunities
- Identify new market sub-segments with high returns on a risk-adjusted basis
- Identify potential revenue synergies

- Market conditions affecting long-term demand
- Increased regulatory pressure
- Continued political and economic uncertainty
- New specialist lenders entering the market



Read more **on page 26**

Organic originations, pro forma underlying

£6.5bn

2018: £5.9bn

Specialist lending business

Focus on automated and bespoke manual underwriting

High-quality decisions protecting the business

- Use deep credit experience to deliver high-quality lending decisions
- Leverage CCFS' automated approach in conjunction with OSB's skilled manual underwriting capabilities and in-house real estate expertise
- Deliver a quality, differentiated service supported by highly responsive decision-making
- Clear decisions recognised by intermediaries for their quality and fairness – a critical friend

- The OSB Transactional Credit Committee met twice a week in 2019 to assist with more complex or larger new mortgage applications
- Increased stress testing in specialist sub-segments

- Bring together OSB's and CCFS' credit experience in a best-of-both approach
- Leverage differentiated but complementary underwriting capabilities to enhance customer propositions
- Increase underwriting efficiency to better serve borrower needs across complementary brands
- Create enhanced data insight and analysis by combining OSB and CCFS data sets and analytic capabilities

- Changing regulation for underwriting
- More complex underwriting requirements
- Difficulty in recruiting experienced staff
- Increasing intermediary demands
- Demands of ever-changing technology



Read more **on page 26**

Loan loss ratio, pro forma underlying

10bps

2018: 7bps

Specialist lending business

Further deepen relationships and reputation for delivery with intermediaries

Increase partner reach in response to demand

- Access to specialist products developed by listening to intermediary partners
- Be accessible and available to intermediaries
- Complementary distribution models for CCFS and OSB brands
- Gain intermediary recognition for delivering sustainable propositions
- Deliver bespoke solutions to meet intermediary and customer needs

- The Kent Reliance Choices programme had another successful year with retention rates in 2019 of 69%
- CCFS enhanced service standards including direct to broker second charge proposition
- Increased attendance at intermediary events across our target geographies for both CCFS and OSB to 521 in total
- Published thought leadership pieces including periodic market-leading Kent Reliance 'Buy-to-Let Britain' reports

- Continue to deliver direct relationships with high-quality intermediaries
- Increase breadth of channels to market via the direct to broker and packager channels
- Leverage best practice of CCFS and OSB across the combined Group to maintain and further enhance best-in-class service performance to brokers

- Loss of key broker relationships
- Competition reducing pricing below the Group's risk-adjusted return appetite
- More complex underwriting requirements slowing the process



Read more on page 26

OSB broker NPS

+27

2018: +28

CCFS broker NPS

+18

2018: +41

Sophisticated funding platform

Deliver a stable, high-quality diversified funding platform

Expertise in funding options

- Create resilient and diversified funding platform to support future growth and ensure liquidity requirements are met through the economic cycle, and cost of funds is optimised
- Be primarily funded through attracting and retaining a loyal retail savings customer base
- Maintain a sophisticated securitisation funding and balance sheet management capability
- Deliver a proposition offering transparent, straightforward savings products, providing long-term value combined with excellent service levels

- Gained c. 67,000 new savings customers across both Banks for full year 2019
- Achieved 91% customer retention for Kent Reliance and 88% for Charter Savings Bank
- Charter Savings Bank accessed four new third party funding pools of savings bringing the total to six
- Received multiple awards for savings products, including Best Business Easy Access Account Provider from Savings Champion for Kent Reliance, and Best Bank Savings Provider and ISA Provider of the Year by Moneyfacts for Charter Savings Bank

- Continue to invest in the established Kent Reliance retail deposit franchise
- Ensure optionality to benefit from the potential to execute structured balance sheet management transactions across the combined Group's enlarged balance sheet
- Utilise CCFS' in-house expertise to enable efficient access to capital markets

- Increased competition for retail funds
- Increased customer expectation for technology
- Volatility of capital markets
- Increased burden of regulatory compliance – for example, Open Banking (which currently does not apply to the Group)



Read more on page 28

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securitisations since 2013
across OSB and CCFS worth over

£5.7bn

Unique operating model

Leverage our unique and cost-efficient operating model

Best-in-class customer service

- Have customer service at the heart of everything that we do
- Maintain centres of excellence across OSB's and CCFS' existing locations in Chatham, Wolverhampton and Bangalore, India
- Extend activity in OSBIndia ('OSBI'), developing high-quality areas of excellence
- Deliver cost efficiencies through excellent process design and management

- Investments in training and process development contributed to enhanced customer NPS of +66 for Kent Reliance and +72 for Charter Savings Bank
- Continued to develop deep credit know-how through proprietary data analytics at Exact Mortgage Experts
- Increased number of employees in OSBI to 490 from 445 in 2018

- Use greater scale to deliver efficient, scalable and resilient infrastructure including IT security
- Deliver cost efficiencies and operational enhancements by leveraging OSBI's lending, savings and support operations and capabilities
- Deliver efficiencies and enhanced capabilities in centres of excellence
- Use robotics technology and improve workflows to further enhance primary servicing

- Difficulty in continuous service improvement as OSB grows
- Global economic uncertainty increasing costs in India
- Increasing complexity from compliance with changing regulation
- Lack of operational resilience due to rapid growth



Read more on page 30

Cost to income ratio,
pro forma underlying

29%

2018: 28%

Strategy in action

Creating a leading specialist lender in our chosen market segments

The Combination with CCFS provides us with greater scale, complementary strengths and enhanced customer propositions to become a leading specialist lender in the UK.



Leading lender in our chosen market segments

Our market coverage and depth have increased as a result of the Combination and we can now attract customers who want an automated approach to underwriting in addition to those who need a bespoke manual solution.

Through the Group's greater scale and resources, we:

- are leaders and experts in our chosen specialist, secured market segments
- offer both bespoke and automated underwriting capability
- have strong relationships with intermediaries which provide us with rapid and widespread distribution, supporting stronger origination volumes.

Our market segments

Through our lending brands we target specialist mortgage market segments that are underserved by UK retail banks and building societies, and are underpinned by positive long-term market dynamics. We continually evaluate the attractiveness and growth opportunities within our current market segments, together with assessing opportunities to move into new specialist segments. We concentrate on areas where margins are attractive relative to risk and lending is sustainable within our conservative risk appetite. Our increased scale enables us to achieve growth in market share and expand our reach across specialist segments.

We currently lend in the following specialist market segments:

- Buy-to-Let
- commercial and semi-commercial
- residential development
- bespoke specialist and near prime residential
- second charge residential
- shared ownership residential
- bridging and short-term loans
- funding lines, and
- asset finance.

1. Statutory loan book growth in 2019 was +105%.

Deep credit expertise

Our credit expertise and extensive product knowledge will help us to achieve market leadership. Each of our brands are led by experienced industry professionals and are supported by highly skilled teams with experience and insight spanning the entire mortgage life cycle. Through Exact Mortgage Experts, we have gained proprietary data analytics, enhancing our deep credit knowledge. The Group uses this knowledge and data to adapt quickly to changing market conditions, identifying niche lending opportunities and tailoring its product offering accordingly.

Expanded underwriting capability

Bespoke underwriting

Our Kent Reliance brand does not use automated or scorecard-based processes. All of its loans are underwritten by experienced and skilled underwriters,

supported by technology to reduce the administrative burden on underwriters and mortgage intermediaries. We consider each loan on its own merit, responding quickly and flexibly to offer the best solution for each of our customers. No case is too complex for us, and for those borrowers with more tailored or larger borrowing requirements, our Transactional Credit Committee meets twice a week, demonstrating our responsiveness to broker needs.

Automated underwriting platform

The Combination provided the Group with an automated underwriting platform to manage mortgage applications, delivering a rapid decision in principle, based on rigorous lending policy rules and credit scores. The platform is underpinned by extensive underwriting expertise, enabling identification of new niches and determining appropriate lending

parameters. The platform enables Precise Mortgages to react quickly to non-standard mortgage requests which are common in the Group's target market segments, while ensuring consistent underwriting within the Group's risk appetite. Quick response times help the Group to compete for the 'first look' at credit opportunities, while a robust manual verification process further strengthens the disciplined approach to credit risk.

Expanded intermediary relationships

Both OSB and CCFS have developed extensive intermediary relationships and combined, the Group can now leverage both sets of intermediaries to support stronger origination volumes.

10

minutes – average time to Decision in Principle through Precise Mortgages

624

cases referred to OSB Transactional Credit Committee during the year

OSB organic lending, (pro forma underlying)



CCFS organic lending, (pro forma underlying)



Strategy in action continued

Sophisticated funding platform

The Combination with CCFS provides attractive diversification to the Group's primarily retail savings base, through wholesale funding. This enables the enlarged Group to optimise its cost of funds while prudently managing funding and liquidity risks.



Retail savings

OSB Group is predominantly funded by retail savings deposits, operated under two brands: Kent Reliance and Charter Savings Bank ('CSB').

Kent Reliance is a savings franchise with over 150 years of heritage and eight branches in the South East of England. It also takes deposits via post and online while CSB offers its products online and via post.

Both Banks have a wide range of savings products, including easy access, fixed term bonds, cash ISAs and business savings accounts. Kent Reliance continued to offer its business savings account for SMEs with total deposits of c. £83m at the end of 2019.

In line with its dynamic funding strategy, CSB continued to diversify its retail funding sources by expanding the number of pooled funding platforms from two to six in the year. The range of products sourced via these platforms includes easy access and non-retail deposits.

Customer satisfaction and transparent savings products

Our customers' satisfaction is key to how we do business and at the heart of our corporate culture.

Our key strengths are:

- customer focus, and
- transparent, good-value savings products.

The outstanding customer service that we consistently provide to our savings customers is evidenced by our high NPS. For 2019, Kent Reliance had NPS of +66 and CSB +72. In addition, 91% of Kent Reliance customers whose savings products matured in the year renewed with us and 97% of CSB's customers had a Good or Excellent experience with the Bank¹. During the year, Kent Reliance welcomed over 40,000 new customers and CSB welcomed nearly 27,000 customers.

Both Banks were also recognised by the industry, winning multiple awards in the year, including Best Business Easy Access Account Provider from Savings Champion for Kent Reliance and ISA Provider of the Year and Best Bank Savings Provider from Moneyfacts for CSB amongst others.

Kent Reliance's proposition for savers is simple: to offer consistently good-value savings products that meet customer needs for cash savings without having to price at the very top of the best buy tables. The Bank also offers loyalty rates for its existing customers.

CSB's philosophy is to maintain and develop its award-winning business, by further diversifying its product offering to access new funding pools. It also aims to offer competitively priced new savings products in its existing product lines. Operating with an agile, nimble approach, CSB can respond quickly to the funding requirements of the business, providing advantageous cost of funds.

1. Statutory retail savings growth in 2019 was +101%.

Wholesale funding

The Combination with CCFS in October 2019 provided the Group with attractive diversification opportunities to retail funding.

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

CCFS has been a programmatic issuer of high-quality residential mortgage-backed securities ('RMBS') through the Precise Mortgage Funding and Charter Mortgage Funding franchises since 2013.

OSB returned to the securitisation market in July 2019, securitising £500m of organically originated mortgages under its newly established Canterbury Finance programme.

CCFS also maintains warehouse funding capacity through two tier 1 investment banks. These facilities act 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.

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



For more information about the Group's securitisation funding, [see page 41](#).

Bank of England funding

The Group also takes advantage of the Bank of England's funding schemes.

Drawings under the Term Funding Scheme were £1.5bn for OSB and £1.1bn for CCFS at 31 December 2019. In addition, borrowings under the Indexed Long-Term Repo were £290m at base rate +15bps, a total of 90bps as at 31 December 2019.

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

17

securitisations to date across OSB and CCFS worth over

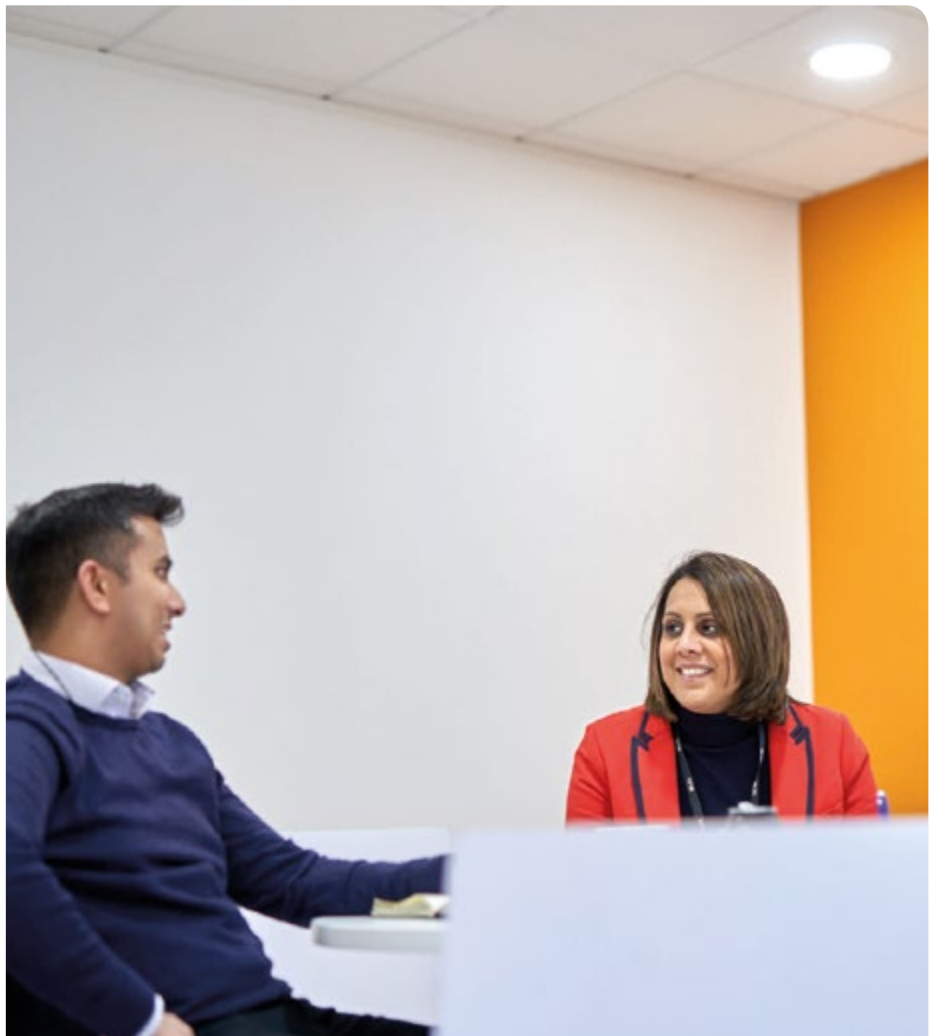
£5.7bn

Customer retention

OSB



CCFS



Strategy in action continued

Efficient and resilient infrastructure and systems

Through its wholly-owned subsidiary OSBIndia, the Group leverages its unique and cost-efficient operating model.



+29%

Pro forma underlying cost to income ratio in 2019¹

Focus on customers

Our customer service functions, based in our wholly-owned subsidiary OSBIndia and in Wolverhampton post the Combination, help us deliver on our aim of putting customers first.

We reward our people based on the quality of service they provide to customers, further protecting our retail savings franchise and leading to high customer satisfaction. In 2019, OSB achieved a customer NPS of +66 and CCFS' was an excellent +72.

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

We are proud of our low employee turnover in India, with an excellent 16% regretted attrition rate, substantially outperforming local industry averages.

Our key strengths:

- Excellent customer experience
- High customer NPS
- High employee retention rates

Focus on quality and cost discipline

The Combination has increased the Group's scope to deliver efficient, scalable and resilient infrastructure and invest in IT security, supported by market-leading data security and resilience experts.

Both OSB and CCFS are extremely cost-efficient with low cost to income ratios, reflecting historical high growth in income, the benefits of OSBI to OSB and high operating leverage as the balance sheets have grown.

1. Statutory cost to income ratio in 2019 was 32%.

OSBI colleagues at the end of 2019

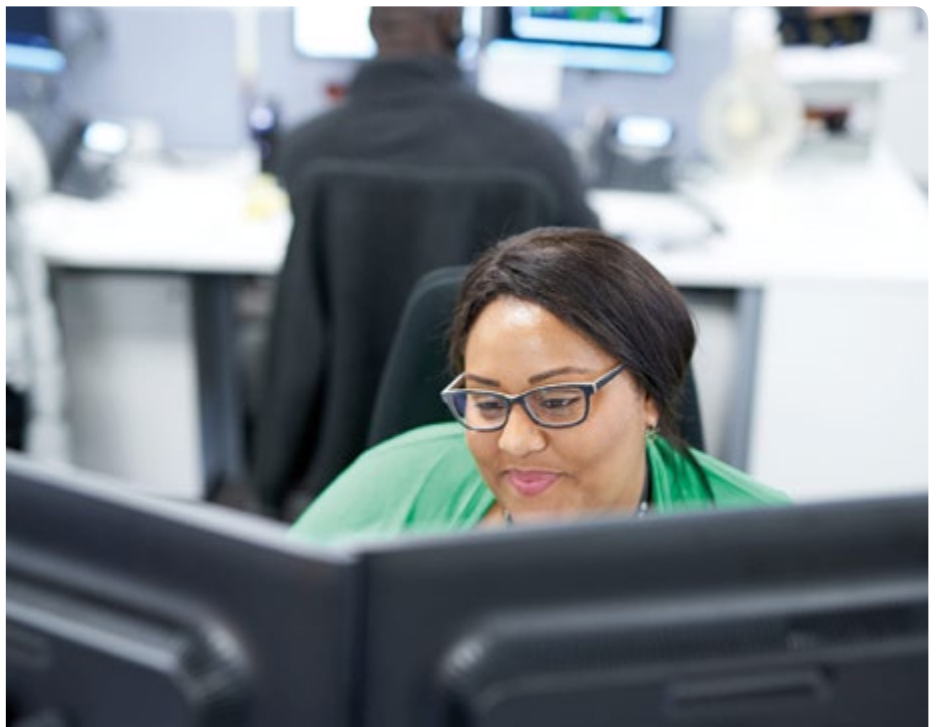
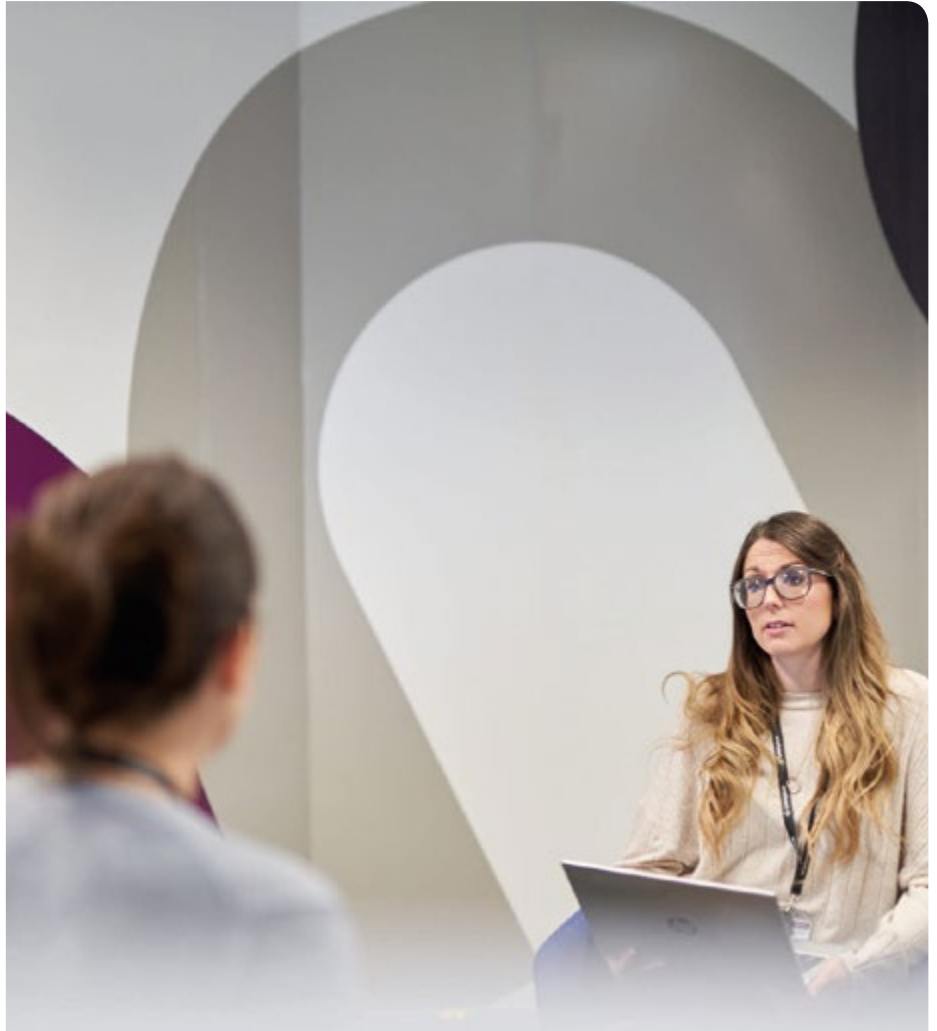
490

2018: 445

**Assets administered by Exact
(pro forma underlying)****Exact Mortgage Experts**

Exact is a valuable addition to the Group's operating model, providing an administration service for mortgages originated by Precise Mortgages. Its proven collections capabilities and expertise in case management, from initial arrears through to repossession, provide the Group with access to the experience and expertise of a larger-scale bank, supporting future growth and offering valuable insights into, as well as the opportunity to learn from, the performance of other lenders' mortgage loan products.

Over the years, Exact has developed deep credit expertise through proprietary data analytics.



Operating review

The Combination with CCFS in October 2019 was an important milestone for the Group on our journey to create a leading specialist lender in the UK, with greater scale and resources to deploy on growth opportunities.

Statutory net loan book

£18.4bn

2018: £9.0bn

Statutory net interest income

£345m

2018: restated £286m¹

Statutory total assets

£21.4bn

2018: £10.5bn

Group highlights

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

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

During 2019, 69% of Kent Reliance borrowers chose a new product within three months of their initial product ending, totalling £885m (2018: 69%, £722m). This performance demonstrates the success of our Choices programme. Buy-to-Let performed strongly in both businesses, due to continued activity from professional landlords. OSB also saw exceptional growth in lending through its InterBay Commercial brand and a strong

performance from its first charge residential sub-segment, where new product ranges launched in 2018 proved popular and continued to gain momentum during 2019. CCFS' residential segment also benefited from an improved product range, with the gross loan book up 27% in the year on a pro forma underlying basis.

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

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

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



For further information on the Group's securitisation platforms, **see page 41**.

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

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

Statutory pre-tax profit was up 14% to £209.1m for 2019 (2018: restated £182.8m¹), as a result of strong growth at attractive margins and the inclusion of CCFS' profits from the date of Combination, more than offsetting the impact of exceptional items, integration costs and other acquisition-related items. On a pro forma underlying basis, profit before tax increased by 9% due to strong growth at attractive margins and continued cost efficiency and discipline.

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

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

1. Net interest income and profit before tax were restated as a result of the recognition of interest expense on the £22m of Perpetual Subordinated Bonds previously classified as equity.
2. To align calculation methods post Combination, OSB amended its calculation of return on equity to include average equity on a 13 point average from a simple average. The comparative return on equity ratio was restated.



Operating review continued

Segment review – OneSavings Bank Buy-to-Let/SME

Buy-to-Let/SME

Gross loan book*

£8,983.2m

+22%

2018: £7,389.2m

Net interest income*

£253.5m

+15%

2018: restated £219.5m¹

Contribution to profit*

£231.7m

+9%

2018: restated £212.8m¹

* Statutory.

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

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

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

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

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

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

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

The weighted average loan to value ('LTV') of the Buy-to-Let book as at 31 December 2019 was 73% with an average loan size of £260,000 (2018: 70% and £260,000). The weighted average interest coverage ratio for Buy-to-Let origination during 2019 was 187% (2018: restated 185%²).

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

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

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

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

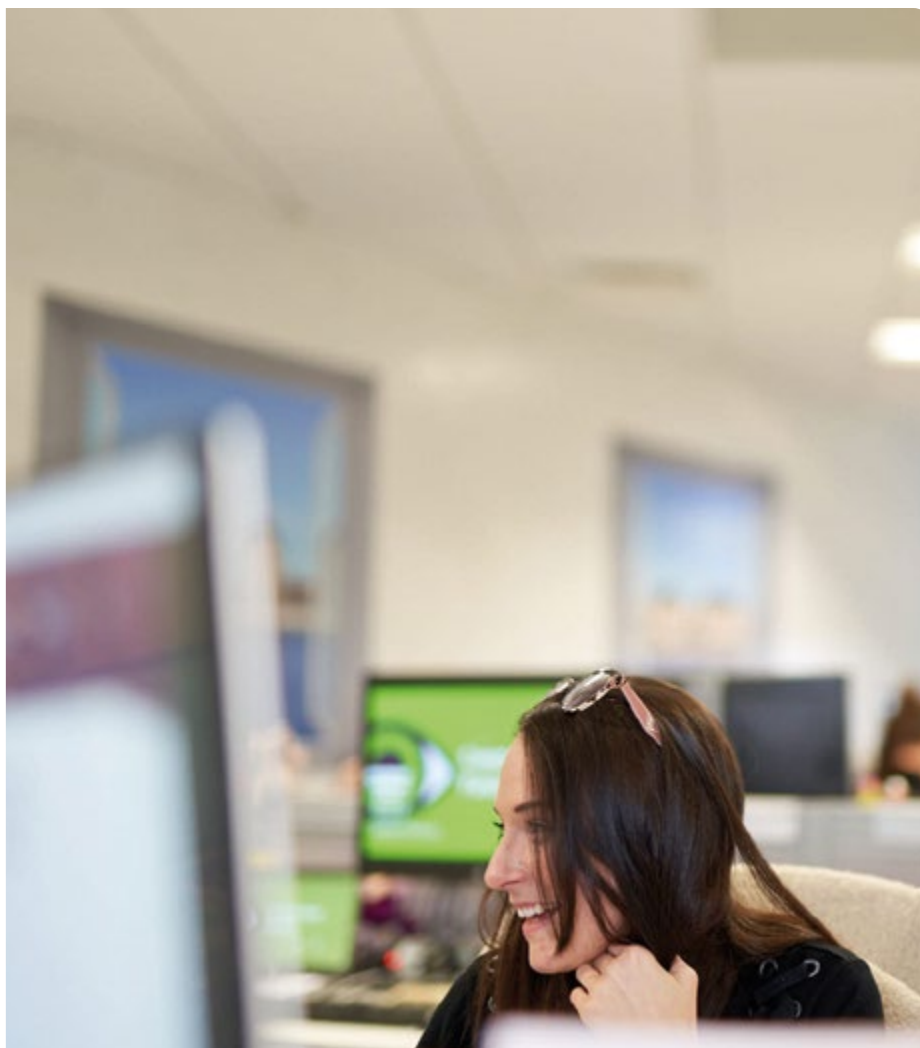
In addition, OSB continued to provide secured funding lines to non-bank lenders which operate in certain high-yielding, specialist sub-segments, such as bridging finance and asset finance. Total credit-approved limits as at 31 December 2019 were £540.0m with total loans outstanding of £222.1m (31 December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

Buy-to-Let/SME made a contribution to profit of £231.7m in 2019, up 9% compared with the restated value of £212.8m¹ in 2018, primarily due to the growth in new lending, partially offset by higher impairment losses of £13.8m (2018: £5.7m). The increase in impairment

losses was driven by an increase in the number of Law of Property Act ('LPA') receivers appointed in the first half of the year, which attract higher provision requirements under an IFRS 9 approach. During the second half of 2019, the LPA flow stabilised. Alignment of IFRS 9 modelling methodologies and loan book growth also contributed to the increase in loan losses.

The Group remains highly focused on the risk assessment of new lending as demonstrated by the average LTV in the Buy-to-Let/SME segment as at 31 December 2019 of 72% (31 December 2018: 70%) with only 1.8% of loans exceeding 90% LTV (31 December 2018: 0.6%). The average LTV for new Buy-to-Let/SME origination remained at 70%.

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



Operating review continued

Segment review – OneSavings Bank Residential mortgages

Residential mortgages

Gross loan book*

£1,837.4m

+14%

2018: £1,616.0m

Net interest income*

£62.7m

-6%

2018: restated £66.8m¹

Contribution to profit*

£59.7m

-1%

2018: restated £60.2m¹

* Statutory.

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

Residential sub-segment: gross loans

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

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

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

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

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

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

Residential mortgages made a contribution to profit of £59.7m in 2019, broadly flat compared with the restated value of £60.2m¹ in 2018, despite growth in the loan book, primarily due to the changing mix of the book and EIR gains on acquired portfolios in the prior year, partially offset by provision releases resulting from falling arrears levels across both first and second charge lending.

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

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

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

Year ended 31-Dec-2019	BTL/SME £m	Residential £m	Total £m
BALANCES AT THE REPORTING DATE			
Gross loans and advances to customers	8,983.2	1,837.4	10,820.6
Provision for impairment losses	(21.6)	(14.0)	(35.6)
Loans and advances to customers	8,961.6	1,823.4	10,785.0
Risk-weighted assets	4,244.0	846.0	5,090.0
PROFIT OR LOSS FOR THE YEAR			
Net interest income	253.5	62.7	316.2
Other expense	(8.0)	(4.9)	(12.9)
Total income	245.5	57.8	303.3
Impairment (losses)/credit	(13.8)	1.9	(11.9)
Contribution to profit	231.7	59.7	291.4
Year ended 31-Dec-2018			
BALANCES AT THE REPORTING DATE			
Gross loans and advances to customers	7,389.2	1,616.0	9,005.2
Provision for impairment losses	(11.0)	(10.9)	(21.9)
Loans and advances to customers	7,378.2	1,605.1	8,983.3
Risk-weighted assets	3,453.8	758.0	4,211.8
PROFIT OR LOSS FOR THE YEAR			
Net interest income ¹	219.5	66.8	286.3
Other expense	(1.0)	(4.2)	(5.2)
Total income ¹	218.5	62.6	281.1
Impairment losses	(5.7)	(2.4)	(8.1)
Contribution to profit ¹	212.8	60.2	273.0

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

Operating review continued

Segment review – Charter Court Financial Services

Charter Court Financial Services

Gross loan book*

£7,374.4m

+11%

2018: £6,665.1m

Net interest income*

£202.2m

+12%

2018: £180.5m

Contribution to profit*

£254.8m

+14%

2018: £222.8m

* Pro forma underlying.

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

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

Statutory information is shown in the table on page 40.

CCFS segment: gross loans

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

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

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

Buy-to-Let sub-segment

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

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

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

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

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

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

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

Residential sub-segment

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

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

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

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

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

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

Bridging sub-segment

Short-term bridging originations increased by 4% in 2019, reaching £333.7m (2018: £321.8m). The business maintained its focus on high-quality lending in regulated and unregulated markets, rather than reacting to increased competition in the short-term lending market. Strong repayments during the year saw the gross loan book reduce to £214.4m compared with £244.1m at the end of 2018.

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

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

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

Second charge sub-segment

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

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

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

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

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

Operating review continued

Segment review – Charter Court Financial Services continued

The following tables show CCFS' pro forma underlying and statutory segment's loans and advances and contribution to profit:

Year ended 31-Dec-2019	Buy-to-Let £m	Residential £m	Bridging £m	Second charge £m	Other ¹ £m	Total pro forma underlying £m	Reverse pre- acquisition results £m	Acquisition- related items £m	Total statutory £m	
BALANCES AT THE REPORTING DATE										
Gross loans and advances to customers	4,748.5	2,170.8	214.4	218.6	22.1	7,374.4	–	294.7	7,669.1	
Provision for impairment losses	(3.5)	(3.6)	(0.5)	(0.4)	–	(8.0)	–	0.7	(7.3)	
Loans and advances to customers	4,745.0	2,167.2	213.9	218.2	22.1	7,366.4	–	295.4	7,661.8	
Risk-weighted assets	2,002.4	934.0	127.9	95.4	8.4	3,168.1	–	124.9	3,293.0	
PROFIT OR LOSS FOR THE YEAR										
Net interest income	114.3	63.6	15.5	7.1	1.7	202.2	(152.1)	(21.6)	28.5	
Fees and commissions income	0.1	0.2	0.1	–	3.4	3.8	(3.7)	–	0.1	
Fair value losses on financial instruments	–	–	–	–	(5.5)	(5.5)	13.7	3.3	11.5	
Gain on sale of loans	–	–	–	–	58.7	58.7	(58.7)	–	–	
Total income	114.4	63.8	15.6	7.1	58.3	259.2	(200.8)	(18.3)	40.1	
Impairment losses	(2.1)	(1.7)	(0.5)	(0.1)	–	(4.4)	4.3	(3.6)	(3.7)	
Contribution to profit	112.3	62.1	15.1	7.0	58.3	254.8	(196.5)	(21.9)	36.4	
Year ended 31-Dec-2018										
BALANCES AT THE REPORTING DATE										
Gross loans and advances to customers					4,508.3	1,707.0	244.1	184.2	21.5	6,665.1
Provision for impairment losses					(1.5)	(1.8)	–	(0.3)	–	(3.6)
Loans and advances to customers					4,506.8	1,705.2	244.1	183.9	21.5	6,661.5
Risk-weighted assets					1,789.2	685.4	141.6	74.0	7.5	2,697.7
PROFIT OR LOSS FOR THE YEAR										
Net interest income					104.6	54.5	15.0	6.4	–	180.5
Fees and commissions income					1.9	2.2	0.2	0.3	3.4	8.0
Gain on sale of loans					–	–	–	–	36.4	36.4
Total income					106.5	56.7	15.2	6.7	39.8	224.9
Impairment losses					(0.8)	(1.1)	–	(0.2)	–	(2.1)
Contribution to profit					105.7	55.6	15.2	6.5	39.8	222.8

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

Wholesale funding overview

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

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

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

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

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

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

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

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

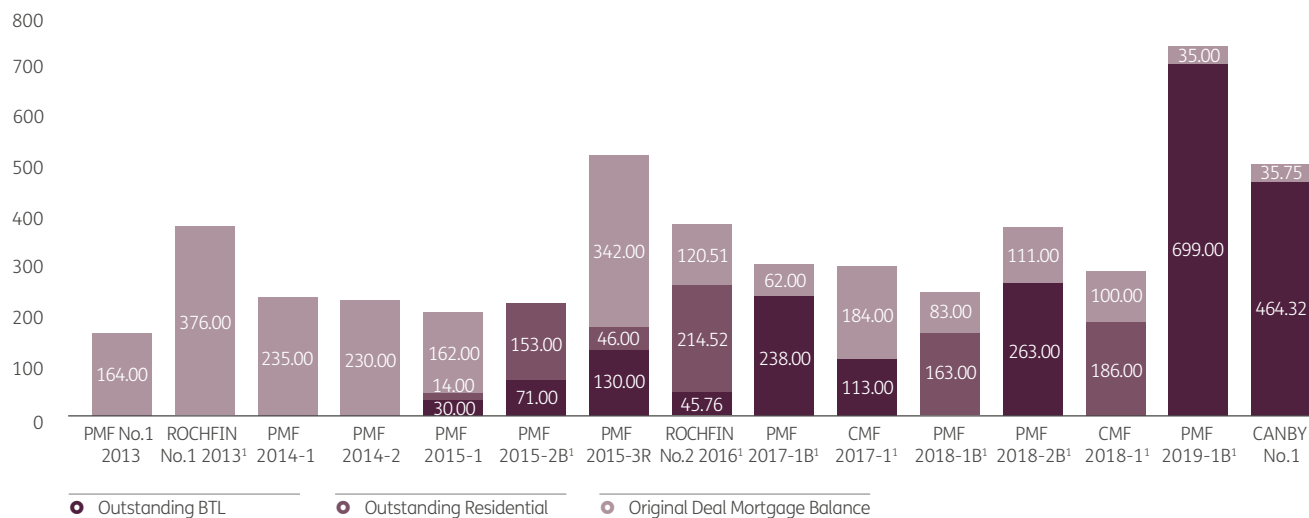
Operating review continued

Wholesale funding overview continued

The PMF transaction also enabled CCFS to refinance assets held on its committed warehouse facility. The facility, which provides committed senior finance of up to £350m (31 December 2018: £350m for CCFS only) against both prime residential and Buy-to-Let mortgage assets, was extended during the year for a further 15 months. In combination with a second facility available for such purposes, on a statutory basis, the Group had a total of up to £600m (31 December 2018: £nil) of contingent wholesale funding capacity available to it through its warehouse facilities, £94m of which was utilised at the year end.

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

OSB and CCFS issuances from 2013 to 31 December 2019 (£m)



● Outstanding BTL ● Outstanding Residential ● Original Deal Mortgage Balance

	PMF No.1 2013	ROCHFIN No.1 2013 ¹	PMF 2014-1	PMF 2014-2	PMF 2015-1	PMF 2015-2B ¹	PMF 2015-3R	ROCHFIN No.2 2016 ¹	PMF 2017-1B ¹	CMF 2017-1 ¹	PMF 2018-1B ¹	PMF 2018-2B ¹	CMF 2018-1 ¹	PMF 2019-1B ¹	CANBY No.1
Number of accounts 3+ months in arrears	n/a	n/a	n/a	n/a	4	2	13	179	2	7	0	2	8	1	3
Losses to date (£k)	n/a	n/a	n/a	n/a	0	7	20	1,546	0	0	0	0	0	0	0
Weighted average mortgage interest rate	n/a	n/a	n/a	n/a	5.02%	4.76%	4.71%	3.53%	4.08%	4.79%	4.14%	4.06%	4.51%	3.66%	3.79%
Senior note spread (over LIBOR)	1.15%	1.45%	0.80%	0.95%	0.95%	1.25%	n/a	1.30%	0.75%	0.50%	0.65%	0.68%	0.47%	n/a	n/a
Senior note spread (over SONIA)	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	0.93%	1.17%
Weighted average margin at closing	1.43%	n/a	0.88%	1.11%	1.10%	1.53%	1.00%	n/a	1.02%	0.64%	0.74%	0.77%	0.55%	1.27%	1.45%

1. Group derecognition deal.

PMF – Precise Mortgage Funding plc

ROCHFIN – Rochester Finance plc

CMF – Charter Mortgage Funding plc

CANBY – Canterbury Finance plc

Key performance indicators

Throughout the Strategic Report, we present KPIs on a statutory and a pro forma underlying basis, which Management believes provide a more consistent basis for comparing the Group's performance between financial periods.

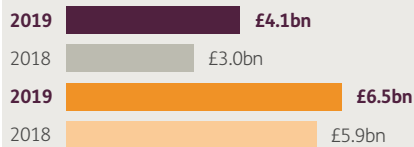
Pro forma underlying results assume that the Combination occurred on 1 January 2018, and include 12 months of results from CCFS. They also exclude exceptional items, integration costs and other acquisition-related items.

For a reconciliation of statutory results to pro forma underlying results, see page 51.

- Group statutory 2019
- Group statutory 2018
- Group pro forma underlying 2019
- Group pro forma underlying 2018
- OSB
- CCFS

1. Gross new lending

Statutory £4.1bn (2018: £3.0bn)
Pro forma underlying £6.5bn (2018: £5.9bn)



Definition

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

2019 performance

Gross new lending reflects strong growth in new origination. For both OSB and CCFS, Buy-to-Let and residential lending performed strongly as our specialist propositions continued to appeal to professional landlords and homeowners.

2. Net interest margin ('NIM')

Statutory 243bps (2018: restated 305bps¹)
Pro forma underlying 266bps (2018: 286bps)



Definition

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

2019 performance

Statutory NIM was lower primarily due to the dilutive impact of including CCFS' results post Combination and the changing asset mix of the OSB loan book, despite broadly stable asset pricing.

Pro forma NIM also reflects the changing asset mix of the OSB loan book and marginally higher cost of funds in CCFS.

3. Cost to income ratio

Statutory 32% (2018: 28%)
Pro forma underlying 29% (2018: 28%)



Definition

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

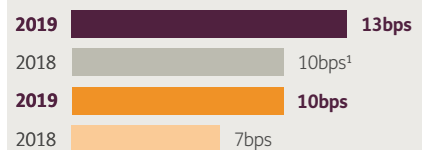
2019 performance

Statutory cost to income ratio of 32% was impacted by the acquisition-related adjustments, which reduced total income and the inclusion of CCFS income and administrative expenses post Combination.

On a pro forma underlying basis, cost to income remained strong at 29% as the business retained its focus on cost efficiency and discipline.

4. Loan loss ratio

Statutory 13bps (2018: restated 10bps¹)
Pro forma underlying 10bps (2018: 7bps)



Definition

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

2019 performance

The 2019 statutory and pro forma underlying loan loss ratios reflect an alignment of IFRS 9 modelling methodologies post Combination and an impact of a number of high value Buy-to-Let cases having LPA receivers appointed during the first half of 2019 which attract higher provision requirements under an IFRS 9 approach.

In addition, the statutory loan loss ratio included the initial recognition of ECL provisions on the CCFS loan book on Combination.

5. Dividend per share

Statutory 16.1 pence per share
(2018: 14.6 pence per share)



Definition

Dividend per share is defined as the sum of the recommended final dividend for 2019 plus the interim dividend divided by the number of ordinary shares in issue at the year end.

2019 performance

The Board will recommend a final dividend of 11.2 pence per share in respect of 2019 at the Bank's AGM on 7 May 2020. This, together with the interim dividend of 4.9 pence per share, and the pre-acquisition CCFS interim dividend, represents 25% of pro forma underlying profit after tax after deducting coupons on AT1 securities.

For calculation of the final dividend, see page 262 in the Appendix.

6. Basic EPS

Statutory 52.6 pence per share (2018: 55.5)
Pro forma underlying 64.9 pence per share
(2018: 59.4)



Definition

Basic EPS is defined as profit attributable to ordinary shareholders, which is profit after tax and after deducting coupons on AT1 securities, gross of tax, divided by the weighted average number of ordinary shares in issue.

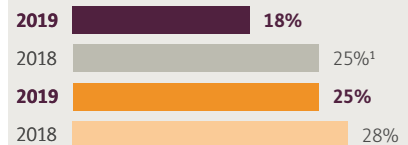
2019 performance

The reduction in basic statutory EPS was due to the 14% increase in profit after taxation being more than offset by the impact of the additional shares issued for the all-share Combination with CCFS.

On a pro forma underlying basis, EPS increased broadly in line with the increase in profit after taxation.

7. Return on equity

Statutory 18% (2018: restated 25%¹)
Pro forma underlying 25% (2018: 28%)



Definition

Return on equity is defined as profit attributable to ordinary shareholders, which is profit after tax and after deducting coupons on AT1 securities, gross of tax, as a percentage of a 13 point average shareholders' equity (excluding £60m of AT1 securities).

2019 performance

On a statutory basis, return on equity decreased, primarily due to exceptional items, integration costs and other acquisition-related items.

On a pro forma underlying basis, return on equity remained strong at 25%.

8. CRD IV fully-loaded Common Equity Tier 1 capital ratio

Statutory 16.0% (2018: 13.3%)



Definition

This is defined as Common Equity Tier 1 ('CET1') capital as a percentage of risk-weighted assets (calculated on a standardised basis) and is a measure of the capital strength of the Bank.

2019 performance

The CET1 ratio of 16.0% reflects the strong organic capital generation capability of the business to support significant growth through profitability and the beneficial impact of the fair value uplift on CCFS' net assets on Combination.

9. Customer satisfaction – Net Promoter Score ('NPS')

OSB +66 (2018: +63)

CCFS +72 (2018: +39)



Definition

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

2019 performance

OSB's customer NPS improved to +66 and CCFS' was an outstanding +72.

1. To align calculation methods post Combination, OSB amended NIM, loan loss and return on equity calculations to include average interest earning assets for NIM, average gross loans for loan loss ratio and average shareholders' equity for return on equity on a 13 point average from a simple average. The comparative ratios were restated accordingly.

Financial review

Review of the Group's performance presented on a statutory basis including CCFS from the date of the Combination

Strong profit growth

The Group reported 14% growth in statutory profit before taxation to £209.1m (2018: restated £182.8m¹) after exceptional items, integration costs and other acquisition-related items of £33.2m² (2018: exceptional cost of Heritable option of £9.8m) and including £28.0m of profit before taxation from the CCFS business, after exceptional transaction costs of £15.7m.

Statutory profit after taxation in 2019 increased by 14% to £158.8m (2018: restated £139.6m¹) including the after tax exceptional items, integration costs and other acquisition-related items of £27.4m² (2018: exceptional cost of Heritable option of £7.2m) and including £24.8m of profit after taxation from the CCFS business, after post tax pre-combination transaction costs of £15.5m.

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

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

Summary statutory results for 2019 and 2018

	Group 31-Dec-2019 £m	Restated ¹ Group 31-Dec-2018 £m
Summary Statement of Profit or Loss		
Net interest income	344.7	286.3
Net losses on financial instruments	(3.4)	(5.2)
Net fees and commissions	2.2	0.6
External servicing fees	(0.1)	(0.6)
Administrative expenses	(108.7)	(79.6)
Provisions	–	(0.8)
Impairment losses	(15.6)	(8.1)
Gain on Combination with CCFS	10.8	–
Integration costs	(5.2)	–
Exceptional items	(15.6)	(9.8)
Profit before taxation	209.1	182.8
Profit after taxation	158.8	139.6

Key ratios – for more information, see Appendix

Net interest margin ^{1,4}	243bps	305bps
Cost to income ratio ⁵	32%	28%
Management expense ratio ⁶	0.76%	0.84%
Loan loss ratio ^{4,5}	0.13%	0.10%
Basic EPS, pence per share ⁵	52.6	55.5
Return on equity ^{1,4}	18%	25%
Dividend per share, pence per share ⁵	16.1	14.6

Extracts from the Statement of Financial Position

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

Key ratios – for more information, see Appendix

Common Equity Tier 1 ratio ⁷	16.0%	13.3%
Total capital ratio	17.3%	15.8%
Leverage ratio	6.5%	5.9%

Notes

- The Group restated the prior year comparatives to recognise interest expense and taxation on the £22m Perpetual Subordinated Bonds previously classified as equity.
- This comprises £48.9m (£42.9m after tax) of acquisition-related items as shown in the reconciliation of statutory to pro forma underlying results on page 51, less CCFS' pre-acquisition transaction costs of £15.7m (£15.5m after tax).
- Effective tax rate excludes £2.7m of adjustments relating to prior years.
- To align calculation methods post Combination, OSB amended the NIM, loan loss ratio and return on equity calculations to include average interest earning assets for NIM, average gross loans for loan loss ratio and average shareholders' equity for return on equity on a 13 point average rather than a simple average. The comparative ratios were restated.
- See definition in Key performance indicators on pages 44 and 45.
- Administrative expenses as a percentage of 13 point average of total assets.
- Fully-loaded under Basel III/CRD IV.

Net interest margin ('NIM')

The Group reported an increase in net interest income of 20% to £344.7m in 2019 (2018: restated £286.3m^{1,4}), reflecting strong growth in the loan book and the inclusion of CCFS' net interest income post Combination.

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

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

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

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

Losses on financial instruments

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

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

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

Net fees and commission

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

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

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

Efficient and scalable operating platform

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

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

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

Provisions

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

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

Impairment losses

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

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

Gain on Combination with CCFS

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

Integration costs

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

Exceptional items

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

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

Dividend

The Board recommends a final dividend for 2019 of 11.2 pence per share. Together with the 2019 interim dividend of 4.9 pence per share and the pre-Combination CCFS interim dividend of 4.3 pence per share, this represents 25% of pro forma underlying profit attributable to ordinary shareholders. For the calculation of the 2019 final dividend, see the Appendix on page 262.

Financial review continued

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

Balance sheet growth

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

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

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

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

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

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

The Group also utilises sophisticated securitisation platforms to complement its funding requirements. For more information on residential mortgage-backed securities issuances in 2019, see page 41.

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

Summary Cash Flow Statement

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

significant liquidity buffer of liquidity coverage ratio ('LCR') eligible high-quality liquid assets ('HQLA').

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

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

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

Capital

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

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

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

Cash flow statement

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

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

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

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

Review of the Group's performance on a pro forma underlying basis

Strong profit growth

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

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

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

Net interest margin

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

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

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

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

Summary pro forma underlying results for 2019 and 2018

	Group 31-Dec-2019 £m	Group 31-Dec-2018 £m
Summary Statement of Profit or Loss		
Net interest income	518.4	466.8
Gain on sale of loans	58.6	36.4
Net losses on financial instruments	(20.3)	(5.2)
Net fees and commissions	5.9	8.6
External servicing fees	(0.1)	(0.6)
Administrative expenses	(165.1)	(144.2)
Provisions	–	(0.8)
Impairment losses	(16.3)	(10.2)
Profit before taxation	381.1	350.8
Profit after taxation	294.2	267.6
Key ratios – for more information, see Appendix		
Net interest margin	266bps	286bps
Cost to income ratio	29%	28%
Management expense ratio	0.84%	0.88%
Loan loss ratio	0.10%	0.07%
Basic EPS, pence per share	64.9	59.4
Return on equity	25%	28%
Extracts from the Statement of Financial Position		
	£m	£m
Loans and advances	18,151.4	15,644.8
Retail deposits	16,248.6	13,166.4
Total assets	21,166.5	18,246.7

Alternative performance measures

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

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

For more information on the APMs and the reconciliation between APMs and the statutory equivalents, see page 260 in the Appendix.

Financial review continued

Gain on sale of loans

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

Losses on financial instruments

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

Net fees and commissions

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

Administrative expenses

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

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

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

Provisions

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

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

Impairment losses

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

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

Balance sheet

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

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

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

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

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

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

The Group also utilises sophisticated securitisation platforms to complement its funding requirements. For more information on RMBS issuances in 2019, see page 41.

Reconciliation of statutory to pro forma underlying results

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

- Amortisation of the net fair value uplift to CCFS' mortgage loans and retail deposits on Combination.
- Inception adjustment on CCFS' derivative assets and liabilities on Combination.
- Amortisation of intangible assets recognised on Combination.
- Recognition of expected credit losses arising on acquisition of CCFS' loan book.
- Recognition of negative goodwill on Combination as a result of a decrease in the OSB share price between announcement and completion and an increase in the fair value of the loan book acquired due to movements in the LIBOR curve between announcement and completion.
- Costs of integration of the two Banks post Combination.
- Transaction costs include consultant, legal, professional and success fees in relation to the Combination.

- Recognition of a fair value uplift to CCFS' loan book of £317.0m less amortisation of the fair value uplift of £22.6m and a movement on credit provisions of £1.0m.
- Fair value adjustment to hedged assets of £63.2m.
- Adjustment of £0.7m to deferred tax asset and £19.1m relating to recognition of acquired intangibles on Combination.
- Fair value adjustment to CCFS' retail deposits of £7.4m at Combination less amortisation of £1.0m.
- Fair value adjustment to hedged liabilities of £10.0m.
- Adjustment to deferred tax liability of £63.1m relating to the fair value adjustments on the loan book and retail deposits and other acquisition-related adjustments.
- The Group restated the prior year comparatives to recognise interest expense and taxation on the £22m Perpetual Subordinated Bonds previously classified as equity.

Risk review

Executive summary

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

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

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

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

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

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

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

High level key risk indicators

The Group aligns its risk appetite to a select range of key performance indicators that are used to assess its success against strategic, business, operational and regulatory objectives. Actual performance against these indicators is continually assessed and reported. The table on the opposite page outlines the comparative analysis of the leading risk indicators with supporting commentary.

Key achievements in 2019

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

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

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

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

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

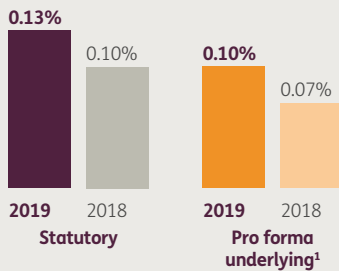
During 2019, further enhancements were made to the Group's credit risk management information and reporting capabilities, with more granular information being provided to the Credit and Group Risk Committees. Particular focus was given to providing more segmented information to allow management and the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

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

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

Key risk indicators

Loan loss ratio

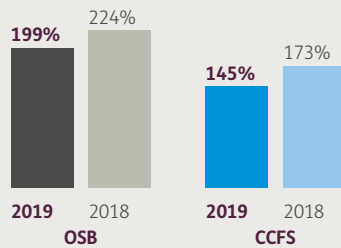


Commentary

The Group's statutory loan loss ratio remained low at 13bps (2018: 10bps), on a pro forma underlying basis¹ the loan loss ratio was 10bps (2018: 7bps).

During 2019 impairment losses included initial recognition of expected credit losses across the CCFS book following the Combination, as well as a one-off charge across the OSB Group aligning IFRS 9 provisioning methodologies. During the first half of 2019, the Group implemented a more focused collections approach across the OSB Buy-to-Let portfolio which increased the number of cases where Law of Property Act receivers were appointed, which resulted in higher provisions. The number of LPA appointments stabilised in the second half of 2019.

Liquidity coverage ratio

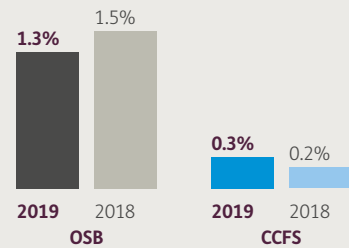


Commentary

As at 31 December 2019, both OSB and CCFS continued to hold strong levels of liquidity, significantly in excess of the 2019 regulatory minimum of 100%.

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.

3+ months in arrears

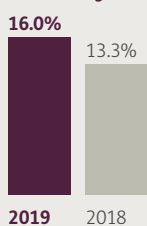


Commentary

Across the OSB lending portfolios the percentage of loans more than three months in arrears at the end of 2019 was 1.3% (2018: 1.5%). This trend was driven by changes in the loan book mix, improvement in arrears performance across the Residential segment and the impact of more targeted collections activity across Buy-to-Let lending.

The CCFS lending portfolios continue to display low levels of arrears of 0.3% as at 31 December 2019 (2018: 0.2%), with a marginal increase observed as the lending portfolios continued to season in line with expectations.

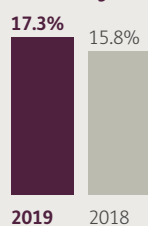
Statutory CET1 ratio



Commentary

The Group remained well above targeted capital levels throughout 2019, with lending portfolios continuing to generate strong levels of organic capital.

Statutory total capital ratio



Commentary

The Group's total capital ratio remained strong at 17.3% in 2019 (2018: 15.8%).

1. Pro forma underlying basis assumes that the Combination completed on 1 January 2018 and includes 12 months of OSB and CCFS results.

Risk review continued

Priority areas for 2020

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

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

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

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

Pandemic risk factors

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

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

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

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

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

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

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

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

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

Risk management

Approach to risk management

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

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

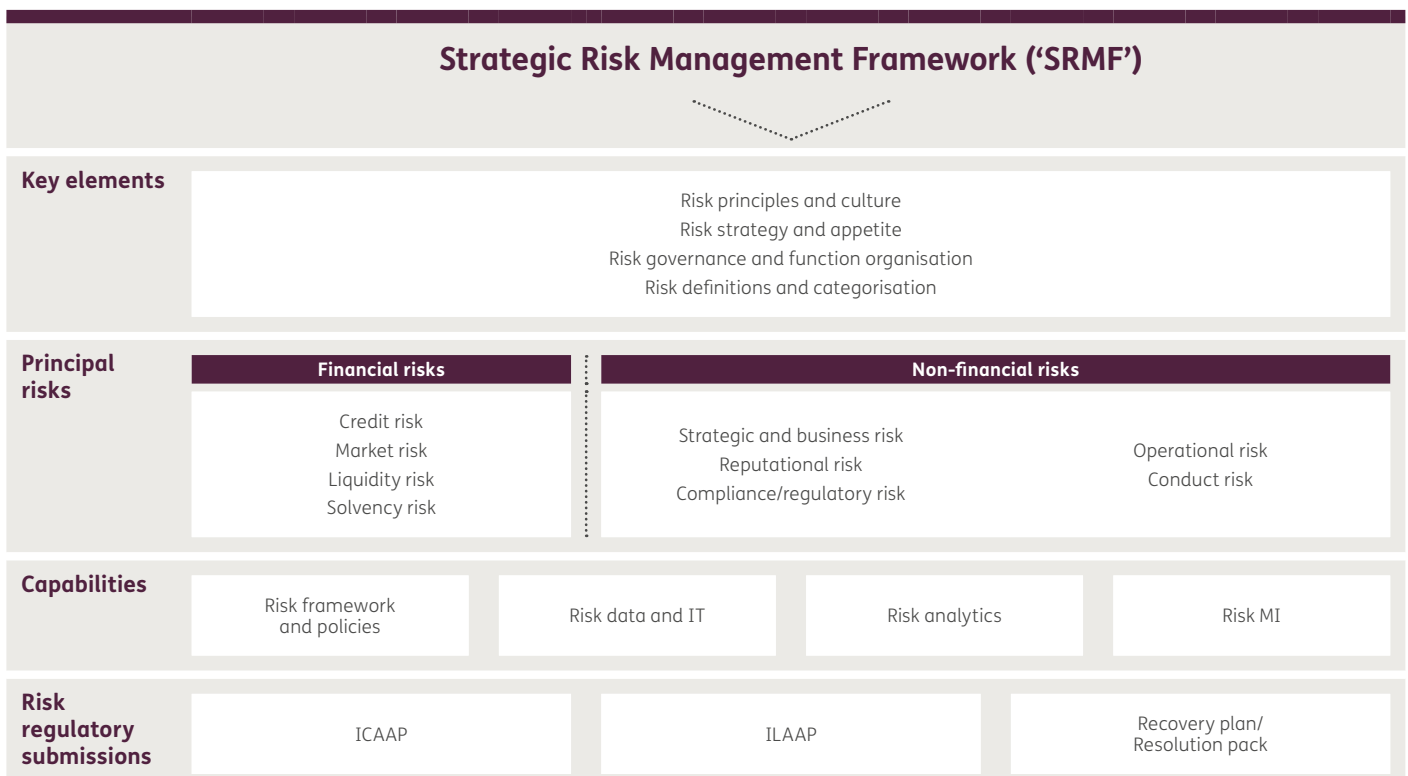
The SRMF also provides a structured mechanism to align all critical components of an effective approach to risk management. The SRMF links overarching risk principles to day-to-day risk monitoring and management activities.

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

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

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

Strategic Risk Management Framework (‘SRMF’)



Risk review continued

Group risk organisational structure

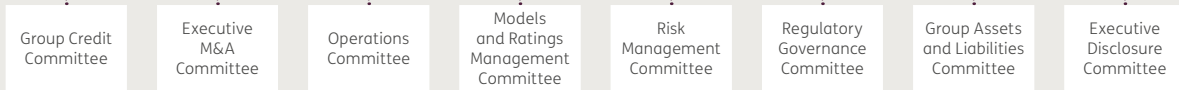
Board Committees

Board of Directors



Management Committees

Group Executive Committee



Business and control functions

First Line of Defence

Ensures that risks are identified, measured, monitored and reported in line with policy in an effective manner.

- Key Brands
- Finance and HR
- Operations
- IT and Change
- Commercial
- Sales and Marketing
- Legal and Regulation

Second Line of Defence

Provides an independent review and challenge to the business and control functions to ensure that all aspects of the risk profile are managed in adherence to risk appetite and policies.

- Risk and Compliance

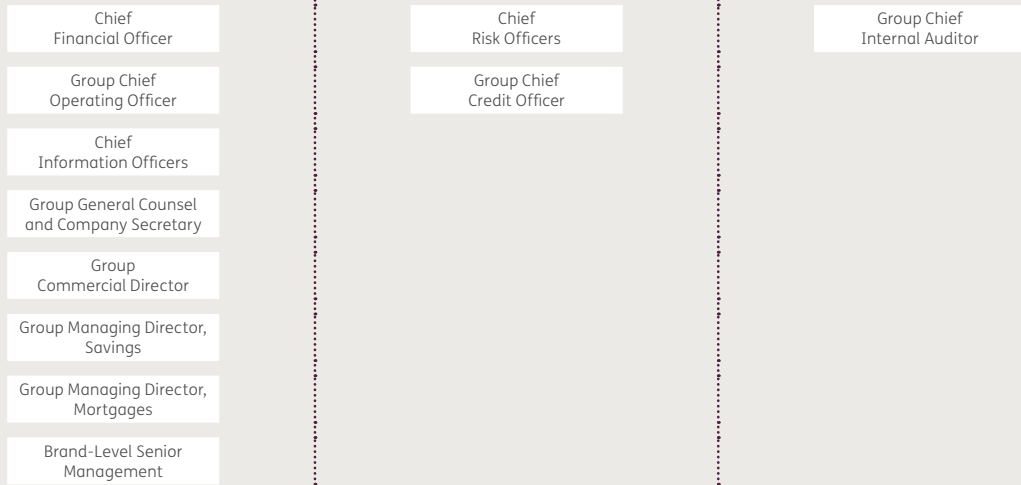
Third Line of Defence

Provides independent assurance on the effectiveness of the SRMF, compliance with regulations, adherence to policies and effectiveness of controls.

- Internal Audit

Executives

Chief Executive Officer



Risk appetite

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

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

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

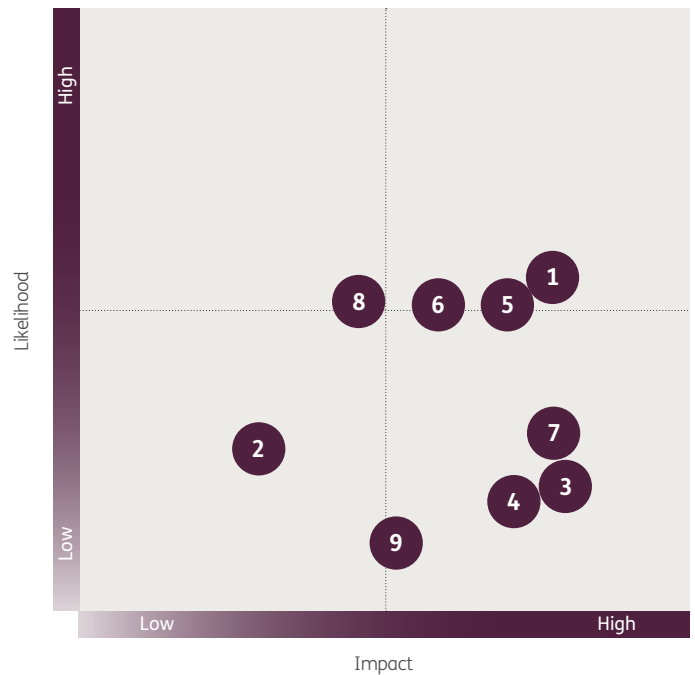
The risk appetite is calibrated using statistical analysis and stress testing to inform the process for setting management triggers and limits against key risk indicators. The calibration process is designed to ensure that timely and appropriate actions are taken to maintain the risk profile within approved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

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



The Group's principal risks are set out in the below heat map and in detail, **on pages 58 to 66**.

Current assessment of principal risks



- | | |
|--------------------------------------|-------------------------------------|
| 1 Strategic and business risk | 6 Solvency risk |
| 2 Reputational risk | 7 Operational risk |
| 3 Credit risk | 8 Conduct risk |
| 4 Market risk | 9 Compliance/regulatory risk |
| 5 Liquidity and funding risk | |

Principal risks and uncertainties

The Board carried out a robust assessment of the principal risks and uncertainties facing the Group, including those that could threaten its strategic objectives, business operating model, future financial performance and regulatory compliance commitments. The principal risks and uncertainties are outlined below:

1 Strategic and business risk

Definition

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 a strong and dependable saving franchise.

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

Risk	Mitigation	Direction
<p>Performance against targets</p> <p>Performance against strategic and business targets does not meet stakeholder expectations. This has the potential to damage the Group's franchise value and reputation.</p>	<p>Regular monitoring by the Board and the Group Executive Committee of business and financial performance against strategic agenda and risk appetite. The financial plan is subject to regular reforecasts. The balanced business scorecard is the primary mechanism to support the Board and assesses management performance against key targets. Use of stress testing to flex core business planning assumptions to assess potential performance under stressed operating conditions.</p>	<p>➔ Unchanged</p> <p>The benefits realised from the integration will support the Group in meeting the challenges posed by increasing levels of competition in our key market segments.</p>
<p>Economic environment</p> <p>The economic environment is an important factor impacting the strategic and business risk profile. A macroeconomic downturn may impact the credit quality of the Group's existing loan portfolio and may influence future business strategy as the Group's new business proposition becomes less attractive due to lower returns.</p>	<p>The Group continued to utilise and enhance its stress testing capabilities to assess and minimise potential areas of macroeconomic vulnerabilities.</p>	<p>➔ Unchanged</p> <p>The Group's strategic and business risk profile is impacted by the uncertainty surrounding the impact of trade negotiations following Brexit. Economic risks to which the Group is exposed remain high but stable compared with 2018.</p>
<p>Regulatory requirements</p> <p>The potential for emerging regulatory requirements to increase the demands on the Group's operational capacity and increase the cost of compliance.</p>	<p>The Group continues to invest in its IT and data management capabilities to increase the ability to respond to regulatory change.</p> <p>A structured approach to change management and fully leveraging internal and external expertise allows the Group to respond effectively to regulatory change.</p>	<p>➔ Increased</p> <p>Increased levels of regulatory scrutiny and increased regulatory expectations are driven by the increased size of the Group post-Combination.</p>
<p>Integration risk</p> <p>The risk that the Combination with CCFS does not create operational and financial benefits as planned.</p>	<p>The Board will maintain oversight of the integration process through the Board Integration Committee. A dedicated Integration Management Office has been established to drive the integration process forward.</p> <p>Independent second line and third line assessment, monitoring and reporting will be undertaken by the Risk function and Internal Audit function respectively.</p>	<p>➔ Increased</p> <p>Risk of an ineffective integration or delays to integration may result in synergy and cost targets being missed, disruption to business as usual activities, operating and financial performance falling below expectations or damage to reputation.</p>

2

Reputational risk**Definition**

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

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

Risk appetite statement

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

Risk**Deterioration of reputation**

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

Mitigation

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

Direction**Increased**

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

Principal risks and uncertainties continued

3 Credit risk

Definition

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.

Risk	Mitigation	Direction
<p>Individual borrower defaults</p> <p>Borrowers may encounter idiosyncratic problems in repaying their loans, for example loss of a job or execution problems with a development project.</p> <p>While in most cases of default the Group's lending is secured, some borrowers may fail to maintain the value of the security.</p>	<p>Across both OSB and CCFS a robust underwriting assessment is undertaken to ensure a customer has the ability and propensity to repay and sufficient security is available to support the new loan requested. At CCFS an automated scorecard approach is taken, whilst OSB utilises a bespoke manual underwriting approach.</p> <p>Should there be problems with a loan, the Collections and Recoveries team works with customers unable to meet their loan service obligations to reach a satisfactory conclusion while adhering to the principle of treating customers fairly.</p> <p>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.</p> <p>Development lending is extended only after a deep investigation of the borrower's track record and stress testing the economics of the specific project.</p>	<p>Unchanged</p> <p>The Group continues to observe strong and stable credit profile performance but remains alert to potential macroeconomic uncertainty arising from Brexit-related negotiations.</p>
<p>Macroeconomic downturn</p> <p>A broad deterioration in the economy would adversely impact both the ability of borrowers to repay loans and the value of the Group's security. Credit losses would impact across the lending portfolio, so even if individual impacts were to be small, the aggregate impact on the Group could be significant.</p>	<p>The Group works within portfolio limits on LTV, affordability, name, sector and geographic concentration that are approved by the Group Risk Committee and the Board. These are reviewed on a semi-annual basis. In addition, stress testing is performed to ensure that the Group maintains sufficient capital to absorb losses in an economic downturn and continue to meet its regulatory requirements.</p>	<p>Unchanged</p> <p>The economic outlook is uncertain driven by the unknown impact of trade negotiations following Brexit. Economic risks to which the Group is exposed remain high but stable compared with the previous year.</p>
<p>Wholesale credit risk</p> <p>The Group has wholesale exposures both through call accounts used for transactional and liquidity purposes and through derivative exposures used for hedging.</p>	<p>The Group transacts only with high quality wholesale counterparties. Derivative exposures include collateral agreements to mitigate credit exposures.</p>	<p>Unchanged</p> <p>The Group's wholesale credit risk exposure remains limited to high quality counterparties, overnight exposures to clearing bank and swap counterparties.</p>

4

Market risk

Definition

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 rates and it limits its mismatched and basis risk exposures.

Risk	Mitigation	Direction
Interest rate risk An adverse movement in the overall level of interest rates could lead to a loss in value due to mismatches in the duration of assets and liabilities.	The Group's Treasury department actively hedges to match the timing of cash flows from assets and liabilities.	– Unchanged The Group continues to assess interest on a regular basis ensuring that interest rate risk exposure is limited. The profile of the asset book has increased but this is offset by frequent hedging.
Basis risk A divergence in market rates could lead to a loss in value, as assets and liabilities are linked to different rates.	Due to the Group balance sheet structure no active management of basis risk was required by OSB in 2019. CCFS actively replace back book LIBOR asset swaps with SONIA swaps to balance basis risk across assets and liabilities and reduce possible exposure of dislocation of market rates from base rate.	– Unchanged Product design, balance sheet structure and replacing LIBOR swaps with SONIA swaps has enabled the Group to maintain the overall level of basis risk across both Banks through the year.

5

Liquidity and funding risk

Definition

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

Risk appetite statement

The Group actively maintains stable and efficient access to funding and liquidity to support its ongoing operations.

It also maintains an appropriate level and quality of liquid asset buffer so as to withstand market and idiosyncratic liquidity-related stresses.

Risk	Mitigation	Direction
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.	The Group's funding strategy is focused on a highly stable retail deposit franchise. The large number of depositors provides diversification and a high proportion of balances are covered by the FSCS and so there is no material risk of a retail run. In addition, the Group performs in-depth liquidity stress testing and maintains a liquid asset portfolio sufficient to meet obligations under stress. The Group holds prudential liquidity buffers to manage funding requirements under normal and stressed conditions. The Group proactively manages its savings proposition through both the Liquidity Working Group and the Group Assets and Liabilities Committee. Finally, the Group has prepositioned mortgage collateral with the Bank of England which allows it to consider other alternative funding sources to ensure it is not solely reliant on retail savings. The Group also has a mature RMBS programme and access to warehouse facilities.	– Unchanged The Group's funding mix remained stable throughout the year.

Principal risks and uncertainties continued

5 Liquidity and funding risk continued

Risk	Mitigation	Direction
<p>Wholesale funding stress</p> <p>A market-wide stress could close securitisation markets or make issuance costs unattractive for the Group.</p>	<p>The Group continuously monitors wholesale funding markets for securitisation opportunities and will execute funding transactions or sell additional residual positions in the securitisations when market conditions are advantageous.</p> <p>The strong retail franchise, access to pooled deposits, Bank of England pre-positioned collateral and warehouse funding facilities through tier 1 investment banks provide the Group with a range of funding options.</p>	<p>Decreased</p> <p>The combined Group has a wider range of wholesale funding options available, including repo or sale of retained notes, collateral upgrade trades and warehouse facilities.</p>
<p>Refinancing of Term Funding Scheme</p> <p>The Group has drawn a total £2.6bn of funding under the TFS creating a refinancing concentration around the maturity of this scheme.</p>	<p>The Group has fully factored in repayment of TFS into the funding plans of both Banks, with planned repayment prior to the contractual date to minimise timing and concentration risk. The combined Group has a wider range of funding options to manage this process.</p>	<p>Unchanged</p> <p>The overall TFS position for the Group has increased but the combined Group has a wider range of funding options.</p>

6 Solvency risk

Definition

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 Group's solvency risk appetite is constrained within the leverage ratio-related requirements.

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

Risk	Mitigation	Direction
<p>Deterioration of capital ratios</p> <p>Key risks to solvency arise from balance sheet growth and unexpected losses which can result in the Bank's capital requirements increasing or capital resources being depleted such that it no longer meets the solvency ratios as mandated by the PRA and Board risk appetite.</p> <p>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.</p>	<p>Currently the Group operates from a strong capital position and has a consistent record of strong profitability.</p> <p>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.</p> <p>The Bank also holds prudent levels of capital buffers based on CRD IV requirements and expected balance sheet growth.</p> <p>The Group engages actively with regulators, industry bodies, and advisers to keep abreast of potential changes and provides feedback through the consultation process.</p>	<p>Increased</p> <p>The Group maintained a prudent and stable CET1 capital and total capital position providing resilience against unexpected losses. The Group continued to fund its balance sheet growth using organic profit generation.</p> <p>Following the integration, the Group will be subject to minimum requirements for own funds and eligible liabilities ('MREL') requirements and will need to issue MREL-qualifying debt instruments to meet this requirement.</p>

7

Operational risk

Definition

The risk of loss or negative impact to 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 Bank's reputation and any detrimental impact on financial performance.

The Bank 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.

Risk	Mitigation	Direction
<p>IT security (including cyber risk)</p> <p>The risks resulting from a failure to protect the Bank's systems and the data within them. This includes both internal and external threats.</p>	<p>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.</p>	<p>➔ Unchanged</p> <p>Whilst IT security risks continue to evolve, the level of maturity of the Group's controls and defences have significantly matured, supported by dedicated IT security experts. The Group's ongoing penetration testing continues to drive enhancements by identifying potential areas of risk.</p>
<p>Data quality and completeness</p> <p>The risks resulting from data being either inaccurate or incomplete.</p>	<p>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.</p>	<p>➔ Unchanged</p> <p>Whilst the Data Strategy Programme enjoyed some notable achievements, there remains significant work in 2020 in order to ensure all data-related risks have been appropriately addressed.</p>
<p>Change management</p> <p>The risks resulting from unsuccessful change management implementations, including the failure to respond effectively to release-related incidents.</p>	<p>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.</p>	<p>⬆️ Increased</p> <p>The Group continues to adopt an ambitious change agenda and recognises that it is entering a period of significant change following the Combination and that risks of integration will be heightened during this period.</p>
<p>IT failure</p> <p>The risks resulting from a major IT application or infrastructure failure impacting access to the Bank's IT systems.</p>	<p>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.</p>	<p>➔ Unchanged</p> <p>Whilst progress was made in reducing both the likelihood and impact of an IT failure, the Group has identified additional enhancements that it will look to implement in 2020.</p>
<p>Organisational change and integration</p> <p>The risks resulting from the Group's ongoing integration activities, including systems, people and infrastructure.</p>	<p>There is a low risk integration project plan (e.g. no large scale integration-related IT project change planned). Experienced and capable project management office, with close oversight and direction provided by the Group Executive and Board Integration Committees.</p>	<p>⬆️ Increased</p> <p>The Group is in the early stages of the integration project, with no material issues identified with respect to delivering agreed objectives within planned timelines to date. Close oversight of the integration risks will be carried out by the Group's Risk and Compliance function.</p>

Principal risks and uncertainties continued

8 Conduct risk

Definition

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

Risk appetite statement

The Group aims to operate and conduct its business to the highest standards which ensure integrity and trust with respect to how the Group operates and manages its relationships with key stakeholders. In this respect, the Group has no appetite to knowingly assume risks which may result in an unfair outcome for customers and/or cause disruptions in the market segments in which it operates.

However, where the Group identifies potential conduct risks it will proactively intervene by managing, escalating and mitigating them promptly to ensure a fair outcome is achieved.

Risk	Mitigation	Direction
<p>Product suitability</p> <p>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.</p>	<p>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.</p>	<p>Unchanged</p> <p>Whilst this risk remained low as a result of increased awareness and dedicated oversight, the Bank remains aware of the changes to the regulatory environment and their possible impact on product suitability.</p>
<p>Data protection</p> <p>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.</p>	<p>In addition to a series of network/system controls, the Bank performs extensive root cause analysis of any data leaks in order to ensure that the appropriate mitigating actions are taken.</p>	<p>Unchanged</p> <p>Despite a number of additional controls introduced in 2019, the network/system threats continue to evolve in both volume and sophistication.</p>
<p>Integration risk</p> <p>The risk that the integration programme directly or indirectly causes poor outcomes for customers and the market.</p>	<p>During the integration process, the Group is committed to adopting a low-risk approach with a view to taking reasonable steps to avoid causing poor outcomes for our customers and the market. The Group will conduct detailed analysis of potential customer harm associated with particular integration steps.</p>	<p>Increased</p> <p>The Group is in the early stages of the integration project, with no material issues identified with respect to poor customer outcomes.</p>

9

Compliance/regulatory risk

Definition

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 facet of its risk culture. The Group does not knowingly accept compliance risk which could result in regulatory sanctions, financial loss or damage to its reputation.

The Group will not tolerate any systemic failure to comply with applicable laws, regulations or codes of conduct relevant given its business operating model.

Risk

Prudential regulatory changes

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

Mitigation

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

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

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

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

Direction

⬆️ Increased

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

Conduct regulation

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

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.

⬆️ Increased

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

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

Emerging risks

Description

Mitigation action

Integration risk

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

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

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

Political and macroeconomic uncertainty

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

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

Principal risks and uncertainties continued

Emerging risks	Description	Mitigation action
Climate change	<p>As the worldwide focus on climate change intensifies, both the physical risks and the transitional risks associated with climate change continue to grow. Physical risks can relate to specific weather events, such as storms and flooding, or to longer-term shifts in the climate, such as rising sea levels. Transitional risks may arise from the adjustment towards a 'low-carbon' economy, such as tightening energy efficiency standards for domestic and commercial buildings.</p>	<p>The Group developed an approach to addressing the increasing climate risks within its Risk Management Framework. This includes scenario analysis, development of key risk indicators and inclusion of climate risks within operational resilience activities. A cross-functional working group will drive the Group's climate change agenda with Board oversight ensuring climate change is considered in key business and strategic decision-making. To assess portfolio collateral sensitivities to climate change, the Group is engaging with a third party to assist with modelling physical risks (flood, subsidence and coastal erosion) and transitional risks (Government policy) against a series of scenarios relating to global temperature change.</p>
Model risk	<p>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.</p> <p>Post the completion of the Combination with CCFS, the Group notes the increasing usage of models to conduct financial assessments whilst informing business decisions. The Group also notes changes in industry best practice with respect to managing model risk.</p>	<p>Both OSB and CCFS have well-defined model governance frameworks and processes in place, including Committees, frameworks, policies, model inventories and independent validation processes.</p> <p>In light of this emerging risk, the Group implemented a Group Models and Ratings Committee to ensure an appropriate level of oversight is provided in 2020 by the Board, in conjunction with the Models and Ratings Management Committee.</p> <p>A key area of focus for 2020 will be further enhancing the Group's model risk governance arrangements including developing and implementing Group-level frameworks and policies, whilst implementing the planned target operating model.</p>
LIBOR reform	<p>The LIBOR benchmark may cease to be set after the end of 2021 due to the low level of supporting unsecured loans in the wholesale interbank loan market. The Group has exposure to the LIBOR benchmark within some of its customer lending products and wholesale derivative hedging transactions. If the benchmark were to cease or become unreliable, these loans and derivatives may reflect rates that do not accurately represent short-term funding costs, therefore having an adverse effect on returns.</p>	<p>The Group ALCO has set up a dedicated working group to focus on this risk and transition away from the LIBOR benchmark is underway. The priority is to remove the LIBOR component from all new loan products and new swap hedges. With regard to existing loans and derivative hedges it is planned that they are transitioned onto alternative benchmarks before LIBOR ceases.</p>
Coronavirus	<p>The outbreak of Coronavirus (COVID-19) has now been labelled a global pandemic by the World Health Organization. If this continues to spread through contagion, it is likely to further intensify the disruptive impact on the global and UK economy. This would result in deteriorating market sentiments, falling investment and consumer spending and diminishing trade flows. Government actions, both fiscal and monetary, may prove to be slow to take effect and/or uncertain in their impact.</p> <p>A spreading global pandemic could adversely impact the Group across a number of key financial and operational areas (as described in Pandemic risk factors on page 54).</p>	<p>The Group has taken a considered approach to minimising and managing the impact of a Coronavirus-related global pandemic. The Group approach represents a comprehensive response strategy covering both severity and consequences of a global pandemic. The Group's response strategy covers key aspects of an effective pandemic response approach, including prevention, continuity, impact assessment and stress testing. Supporting the Group's response strategy are established underlying capabilities to facilitate operational and financial resilience testing and planning, active monitoring and reporting procedures, and active communications with all staff (UK and India) and supervisory authorities.</p>
Treating customers fairly	<p>The industry-wide and firm-specific practices in relation to arrears, collections and forbearance procedures resulting in poor customer outcomes and financial distress continues to be an important area of regulatory focus. The practices within the regulated residential mortgage markets, both first and second charge mortgages, have in particular been subject to active supervisory monitoring through market data analysis, complaints to firms, notifications from firms and multi firm thematic reviews.</p> <p>If the Group's arrears, repossession, forbearance and vulnerable customer policies and procedures are assessed to be misaligned to the individual needs of the customers and regulatory expectations, the Group runs the risk of causing harm to its customers, particularly those experiencing financial hardship or vulnerable customers, with the potential for reputational damage, redress and other regulatory actions.</p>	<p>All Group entities operate under arrears, repossession, forbearance and vulnerable customer policies which are designed to comply with regulatory rules and expectations. These policies articulate the Group's commitment to ensuring that all customers, including those that are vulnerable or experiencing financial hardship, are treated fairly, consistently and in a way that considers their individual needs and circumstances.</p> <p>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.</p>

Risk profile performance overview

Credit risk

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

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

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

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

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

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

Expected Credit Losses ('ECL')

Low arrears and sensible loan to value levels resulted in strong loan loss performance during 2019.

On a statutory basis, impairment losses were £15.6m (2018: £8.1m) representing 13bps on average gross loans and advances (2018: 10bps). On a pro forma underlying basis, the loan loss ratio was 10bps¹ (2018: 7bps).

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

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

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

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

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

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

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

1. The 2019 statutory results reflect 12 months of OSB results and CCFS' results from 4 October 2019, the date on which the Combination completed and became effective. The 2018 statutory results include OSB results only. The pro forma underlying results reflect what the results would have been had the Combination occurred on 1 January 2019.

Risk profile performance overview continued

The Group continues to closely monitor impairment coverage levels:

	Gross carrying amount £m	Expected Credit Losses £m	Incurring loss remaining ¹ £m	Coverage ratio ²
As at 31 December 2019				
Stage 1	17,286.9	5.6	–	0.03%
Stage 2	749.5	5.6	–	0.75%
Stage 3 (+ POCI)	431.2	31.7	–	7.35%
Undrawn loan facilities	–	–	–	–
Total	18,467.6	42.9	–	0.23%
As at 31 December 2018				
Stage 1	8,286.8	4.3	–	0.05%
Stage 2	436.8	5.6	–	1.28%
Stage 3 (+ POCI)	281.6	11.8	7.2	6.75%
Undrawn loan facilities	–	0.2	–	–
Total	9,005.2	21.9	7.2	0.32%

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

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

The Group's total coverage ratio fell slightly to 0.23% as at 31 December 2019 (2018: 0.32%). The fall was driven by the loan to value profile and low arrears performance of newly-originated mortgages and the CCFS lending portfolios acquired, resulting in balances growing faster than ECL provisions raised, resulting in the ratio falling.

Macroeconomic scenarios

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

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

i. How macroeconomic variables and scenarios are selected

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

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

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

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

1. Incurred loss is the expected loss of the portfolio at the point of acquisition and is offset against the modelled future cash flows to derive the effective interest rate for the book. The incurred loss protection is therefore recognised over the life of the book against the unwind of any purchase discount or premium through interest income. Incurred loss remaining is this protection reduced by the cumulative losses observed since acquisition.

In 2019, the Group reclassified incurred loss protection on acquired portfolios from loans and advances to ECL to reflect the Group's total ECL position.

2. Coverage ratio is the total provisions plus incurred losses remaining divided by gross loans and advances.

ii. How macroeconomic scenarios are utilised within ECL calculations

Probability of default estimates are either scaled up or down based on the macroeconomic scenarios utilised.

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

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

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

iii. Macroeconomic scenario governance

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

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

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

iv. Changes made during 2019

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

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

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

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

As at 31 December 2019		Base case %	Upside scenario %	Downside scenario %	Severe downside scenario %
Weighting applied		40	10	35	15
Economic driver	Measure				
Gross Domestic Product ('GDP')	5 year average (yearly GDP growth %)	1.2	1.7	0.5	-0.3
	Cumulative growth/(fall) to peak/(trough) (%)	6.4	8.5	-3.6	-5.8
House Price Index ('HPI')	5 year average (yearly HPI growth %)	1.3	3.2	-1.5	-3.2
	Cumulative growth/(fall) to peak/(trough) (%)	+5.6	+14.8	-13.4	-21.1
Bank Base Rate ('BBR')	5 year average (%)	1.31	1.45	0.19	0.08
	Cumulative growth/(fall) to peak/(trough) (%)	+1.5	+1.7	-0.7	-0.6
Unemployment Rate ('UR')	5 year average (%)	4.49	3.41	6.26	7.15
	Cumulative growth/(fall) to peak/(trough) (%)	+0.7	-1.0	+2.9	+4.1
Commercial Real Estate Index ('CRE')	5 year average (yearly HPI growth %)	1.3	3.2	-1.5	-5.8
	Cumulative growth/(fall) to peak/(trough) (%)	+5.6	+14.8	-13.4	-40.0
As at 31 December 2018		Base case %	Upside scenario %	Downside scenario %	Severe downside scenario %
Weighting applied		50	0	40	10
Economic driver	Measure				
House Price Index ('HPI')	5 year average (yearly HPI growth %)	2.6	3.3	-1.7	-3.6
	Cumulative growth/(fall) to peak/(trough) (%)	+13.0	+16.1	-10.5	-30.0
Bank Base Rate ('BBR')	5 year average (%)	1.6	2.0	1.6	3.4
	Cumulative growth/(fall) to peak/(trough) (%)	+1.5	+1.8	+1.4	+4.5
Unemployment Rate ('UR')	5 year average (%)	4.3	3.8	5.7	6.4
	Cumulative growth/(fall) to peak/(trough) (%)	+0.5	-0.4	+2.4	+3.3
Commercial Real Estate Index ('CRE')	5 year average (yearly HPI growth %)	0.3	1.4	-5.5	-7.8
	Cumulative growth/(fall) to peak/(trough) (%)	+2.6	+8.0	-27.0	-48.4

Risk profile performance overview continued

Forbearance

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

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

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

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

- Promise to Pay (CCFS only): where an arrangement is made with the borrower to defer payment or pay a lump sum at a later date.
- Bridging loans more than 30 days past due (CCFS only): Bridging loans which are more than 30 days past their maturity date. Repayment is rescheduled to receive a balloon or bullet payment at the end of the term extension where the institution can duly demonstrate future cash flow availability.

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

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

Fair value of collateral methodology

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

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

Solvency risk

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

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

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

Liquidity and funding risk

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

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

In 2019, both Banks actively managed their liquidity and funding profiles within the confines of their risk appetite as set out in each Bank's Internal Liquidity Adequacy Assessment Process ('ILAAP'). Each Bank's risk appetite is based on internal stress tests that cover a range of scenarios and time periods and therefore are a more severe measure of resilience to a liquidity event than the standalone liquidity coverage ratio ('LCR'). Both OSB and CCFS' LCR at 199% and 145% respectively remain above risk appetite and well above regulatory minimums.

Market risk

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

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

Transition away from LIBOR

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

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

Interest rate risk

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

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

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

Basis risk

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

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

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

Risk profile performance overview continued

Operational risk

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

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

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

Regulatory and compliance risk

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

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

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

Conduct risk

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

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

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

Strategic and business risk

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

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

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

Reputational risk

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

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

Viability statement

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

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

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

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

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

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

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

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

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

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

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

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

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

Viability statement continued

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

The Board has also considered the potential implications of the COVID-19 pandemic in its assessment of the financial and operational viability of the Group and has a reasonable belief that the Group retains adequate levels of financial resources (capital and liquidity) and operational contingency. In assessing the viability of the Group, the Board has considered the potential impact and risks facing the Group with respect to the virus as set out in the Risk review on page 54 and the Principal risks and uncertainties on page 66.

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

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

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

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

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

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

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

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

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

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

Corporate responsibility report

Operating sustainably and responsibly

... is integral to our business model and strategy.

Corporate responsibility report

We take a **SPECIALIST** approach to everything we do – we challenge ourselves to ensure we understand our stakeholders' requirements and use our creativity, skill and expertise to fulfil them with honesty and integrity.

We take a **PERSONAL** approach to everything we do – we treat everyone with respect and take accountability for our actions.

We take a **FLEXIBLE** approach to everything we do – we ensure that we work collaboratively with our colleagues, customers and other stakeholders to achieve shared positive outcomes.

What we achieved in 2019

In October 2019, the Combination with CCFS became effective, and as a result we welcomed new customers and employees to the OSB Group. We also extended our reach in the communities in which we operate. As we integrate the two businesses, the focus of the combined Group remains the same: to become the financial services provider of choice for all of our customers and to build on OneSavings Bank's long tradition of putting the customer at the heart of everything we do.

The achievements in the year that we are particularly proud of and which highlight how we are continuously improving our relationships with our key stakeholders include:

- Customers – consistently high consumer Net Promoter Score for both OSB: +66, and CCFS: +72
- Employees – OSB and CCFS were included in the Sunday Times 100 Best Companies to Work For and OSB India certified as a Great Place to Work
- Communities – donated £398,000 to community and charitable causes across OSB and CCFS

Focused on our customers

OneSavings Bank encourages a culture that aims to:

- communicate and work with each customer on an individual basis
- act with consistency across all channels
- promote a confident, open and trustworthy workforce
- offer simplicity and ease of business
- offer long-term value for money, and
- offer transparent products without the use of short-term bonus rates, and to offer existing customers the benefit of loyalty rates.

Our customers are part of our success and we aim to become a financial services provider of choice. To support this, we use the OSB and CCFS established governance frameworks for consistent best practice across the business and ensure we have combined robust policies and procedures to minimise the risk of failure to deliver the service both our savers and our borrowers have come to expect.

The main policies which govern how we transact with customers are discussed below and apply at a Group level. As the integration with CCFS progresses, duplicate policies will be replaced by a combined Group-wide policy.

- Lending policy – ensures that the Group lends money responsibly and within the Bank's lending criteria and risk appetite. The Lending policy is approved annually and rolled out to all relevant operational employees to use within their day-to-day roles. The Lending policy goes through two quality assurance processes with both the Operations and the Credit team, with results presented to the Group Risk Committee each year. The performance of our lending and potential risks and changes are discussed, challenged and approved at Group Credit Committee and Group Risk Committee.
- Vulnerable Customer and Suicide Awareness policy – sets out the standards and approach for the identification and treatment of vulnerable customers and provides guidance to all parts of the Group to ensure vulnerable customers consistently receive fair outcomes.

It ensures that employees are appropriately trained to identify vulnerability and potential suicide risks in our customers and put in place appropriate actions to deal with such issues as effectively as possible.

The Vulnerable Customer Review Committee continually improves standards and ensures that policy and outcomes are reported to the Group Risk Committee and ultimately the Board. The Group is committed to delivering fair and suitable outcomes to all customers based on their individual circumstances.

- Arrears, Repossessions and Forbearance policy – ensures that handling of arrears and repossessions delivers fair and suitable outcomes tailored to the circumstances of the individual customer. The policy is focused on seeking to work proactively with customers to prevent them falling into arrears, or to cure the arrears position to deliver an appropriate outcome. The Group Risk Committee, a Committee of the Board, is responsible for reviewing risk issues and reporting regularly to the Board, which retains responsibility for understanding and controlling the degree of risk undertaken.

Employees have mandatory annual training on all key policies, with a completion rate of 99% in 2019.

There are also policies that apply to the business as a whole and govern our operations, including:

- Data Protection and Retention policies to ensure the Group protects its customer data and manages and retains it fairly and appropriately.
- Conduct Risk framework, including treating customers fairly to ensure the Group conducts its business fairly and without causing customer detriment.
- Conflicts of Interest policy to ensure the Group can identify and, if possible, avoid conflicts, and where this is not possible, to manage conflicts fairly.

Customer engagement

We take a personal approach to our customers, treating each customer as an individual and listening to their needs. Many of our customers are also members of the Kent Reliance Provident Society ('KRPS'), the Society that took over the management of the membership of the former Kent Reliance Building Society. The Bank and the Society have benefited from member engagement through the online 'portal' launched late in 2015, enabling input from a geographically broader range of members. During 2019, six major studies were undertaken, with the 514 members on our KRPS panel helping OSB to identify the areas of our propositions most valuable to members.

Customer complaints

Whilst we concentrate on providing an excellent service, when things go wrong, we aim to put them right and learn from any mistakes made.

- Complaints Handling policy – ensures that the Group responds to complaints swiftly, fairly and consistently and that customers' concerns are taken seriously. We investigate complaints competently, diligently and impartially, supported by appropriately trained employees. Through the Operations Committee, management information on complaints is collected and reported on a regular basis to the

Board and other relevant Committees as appropriate for them to consider if additional actions are required. Root cause analysis is used to identify and solve underlying issues rather than apply quick fixes.

Focused on our employees

Our employees are our key asset. Their skills, expertise and enthusiasm are fundamental to achieving our strategic goals, and throughout 2019 we have continued to invest in training, development and employee engagement activities in order to make OSB an even better place to work.

In the latter part of the year, a central focus was on the Combination with CCFS. We strived to ensure a joined-up approach in terms of proactive employee communications in order to ensure that our employees in all sites were kept up to date with how the Combination progressed, and that messages were consistent. Employees also had the opportunity to raise questions with the CEO anonymously and responses to those questions were published centrally for all employees to view.

Recruitment

OSB has dedicated Talent Acquisition Teams in place in both the UK and India. Recruitment specialists partner with hiring managers in all departments and provide bespoke support in attracting high quality candidates for vacant positions and, through robust selection processes, assist them to make strong selection decisions.

We advertise vacancies internally on a weekly basis in order to provide career development opportunities for existing employees. In 2019, we filled 22% of UK OSB vacancies (47 out of 217), 5% of vacant positions in India (11 of 210) and 56% of vacancies in CCFS (72 of 127) with internal candidates during the year.

A key focus for our Talent Acquisition Teams was again placed on proactively identifying potential candidates directly and through improved use of the OSB internet and external job boards. Our UK Talent Acquisition Team filled 20% of roles on a direct recruitment basis, resulting in a saving in excess of £280,000 on agency recruitment fees. Within OSBI, almost 50% of vacancies closed in 2019 were by way of direct recruitment activities.



We take a personal approach to our customers, treating each customer as an individual and listening to their needs.

Corporate responsibility report continued

We will expand our Talent Acquisition Team approach within CCFS in 2020, in order to ensure that hiring managers in Wolverhampton can utilise local, dedicated and specialist recruitment support.

Our recruitment procedures are fair and inclusive, with shortlisting, interviewing and selection always carried out without regard to gender reassignment, sexual orientation, marital or civil partnership status, colour, race, caste, nationality, ethnic or national origin, religion or belief, age, pregnancy or maternity leave or trade union membership.

No candidate with a disability is excluded unless it is clear that the candidate is unable to perform a duty that is intrinsic to the role, having taken into account reasonable adjustments. Reasonable adjustments to the recruitment process are made to ensure that no applicant is disadvantaged because of their disability and questions asked during the process are not discriminatory or unnecessarily intrusive.

In 2019, OSB welcomed 156 new UK employees with a further 142 joining OSB India. CCFS saw 128 new employees, which at the end of the year resulted in our Group-wide employee base expanding to a total of 1,834.

Both CCFS and OSB operate successful referral schemes with CCFS' Recommend a Friend Scheme resulting in the recruitment of 12 new employees in 2019. Within OSB, 22 vacant UK positions were filled during the year as a result of the Employee Referral Scheme, with a further 32 vacancies filled as a result of the Employee Referral Scheme in OSBI.

Training and development

The OSB People Development Team, based in both the UK and India, concentrates on providing learning and development opportunities for all employees, using a mix of internal and externally-sourced content, which are delivered through a range of media, including workshop and digital formats.

A key focus throughout 2019 was the implementation of OSB's Fit to Practice Scheme, which requires line managers to play a more proactive role in identifying development needs, providing developmental feedback and establishing appropriate activities to continually progress competence levels of their direct reports.

Within CCFS, the approach regarding training and competence requirements is managed on a departmental basis and, as such, there is an opportunity for us to establish a consistent and Group-wide approach throughout 2020.

In 2019, we provided a wide range of workshops, including bespoke management development programmes, regulatory training and business change content to support operational and systemic training needs. There were 354 separate workshops or learning events delivered by the People Development Team in the UK and over 100 other separate learning events attended by OSB staff that were either delivered at external events or delivered internally by external training providers.

Within OSBI, we concentrate on making all those who join the Group feel as welcome as possible. We provide as much training as necessary to enable employees to perform to their best ability. In 2019, new employees were provided with an average of 108 hours of training before starting their role and in addition to this, there was significant focus placed on establishing consistency with workshops and content that is being delivered by the UK People Development Team. During 2019, we delivered 187 workshops at OSBI.

During 2019, the Learning and Development Team at CCFS increased the amount of training they deliver, with the number of learning hours per full time employee increasing from 40 in 2018 to 45 in 2019. Over 200 sessions were run by the CCFS team.

OSB saw 99% of monthly mandatory regulatory training completed within the monthly deadlines, which shows the importance we place on ensuring that our employees are suitably aware of key requirements. Mandatory training is similarly taken seriously at CCFS, where 98.6% of all training was completed by the end of 2019.

The Group is also committed to supporting employees undertaking professional development and, in 2019, 19 OSB employees received financial support to pursue professional qualifications, with a further six being financially supported by CCFS.

Under OSB's UK Apprenticeship Scheme, at the end of 2019, we had six apprentices working within a number of different functions throughout the business. With each individual apprenticeship arrangement running for two years, we remain positive that this will lead to a number of permanent appointments and ongoing careers within the Group.

Retention and progression

The Group has a genuine desire to retain, support and develop its employee base. During 2019, 87 UK OSB employees, 43 employees in OSBI and 76 CCFS employees were formally promoted to a more senior grade.

Our Group-wide regretted attrition rate for 2019 was 11%, made up of an OSB UK rate of 10%, a rate of 7% in CCFS and 16% in OSBI, all below industry averages. In addition to this, we achieved a low rate of non-regretted attrition, which on a Group-wide basis was 5%.

In 2019, OSB again identified Primary Talent Groups in both the UK and India, which were provided a range of talent management activities, in order to aid their ongoing progression. Activities included: access to a Board, Executive or senior mentor, career development interviews, psychometric profiling and related coaching and bespoke off-site group leadership workshops delivered via an external Business School or specialist. The Group considers this initiative as an integral part of retaining and developing our emerging talent, either as technical specialists or as potential leaders of the future.

Within CCFS, the approach to talent management in 2019 saw a continued focus on future leadership through its Aspiring and New Line Manager programmes. The first is aimed at staff members who aspire to become a manager in the near future, and was designed to allow the employee to deepen their understanding of the knowledge, skills and attitude required in a managerial or supervisory role. The second programme is for new line managers and was developed to equip CCFS line managers and supervisors with the tools to develop and grow their leadership and management capabilities. It consists of ten core modules, which make up the essential elements of the programme, with an optional nine modules which can be completed thereafter.

Remuneration and benefits

We believe in rewarding our employees fairly and transparently, enabling them to share in the success of the business. Details of the Group's remuneration policies can be found in the Remuneration Report on page 131.

We offer our employees a comprehensive range of benefits, and continue to review these to ensure they are in line with market practice.

Whilst there are some differences within the standard benefits packages provided by OSB and CCFS, we will be undertaking a detailed Group-wide review during 2020 in order to establish how these approaches can be harmonised.

In 2019, key additions to OSB benefits included the provision of a fully-funded Medical Cash Plan for all employees and the opportunity to sacrifice part of annual bonuses directly into the pension plan.

Enhancements made during 2019 to the CCFS benefits package included the introduction of flexible and voluntary benefits which included the following: Health Cash Plan, Health Screening, Cycle to Work Scheme, Car Leasing Scheme, Holiday Trading Scheme and a Retail, Health and Wellbeing Discount Scheme.

We also encourage our employees to hold shares in the Bank for the long term, via an annual ShareSave Scheme. These schemes are open to all UK-based employees and allow them to save a fixed amount of between £5 and £500 per month over either three or five years in order to use these savings at the end of the qualifying period to buy OSB shares at a fixed option price. At the current time, around 58% of OSB employees and 68% of CCFS employees are members of one of our ShareSave Schemes.

Redundancy and redeployment

There is a Group-wide Redundancy and Redeployment policy designed to ensure that, ahead of any potential redundancy, we take all reasonable steps to identify feasible alternatives that meet the needs of the business. If a redundancy situation is unavoidable, employees would be given maximum warning possible, support to seek alternative positions, priority for retraining, counselling if required and support to seek alternative employment. The Board has safeguarded the existing contractual and statutory rights of OSB and CCFS employees and for a period following completion of the Combination, the Group amended redundancy policies to provide enhanced payments.



We believe in rewarding our employees fairly and transparently, enabling them to share in the success of the business.



Employee engagement and culture

In October 2019, for the fifth consecutive year, OSB's UK employees were invited to participate in the Sunday Times Best Companies to Work For employee engagement survey, and almost 90% of employees submitted a response.

We achieved an overall score increase of 2.3% and, for the first time, OSB achieved a Two Star Accreditation Rating, signifying outstanding levels of workplace engagement. The continuous improvement in employee engagement saw OSB included within The Sunday Times 100 Best Companies to Work For list for the second time. The improved results were primarily achieved as a result of the creation and implementation of Culture and Engagement Plans within all departments and the broader identification and implementation of initiatives by the Engagement Steering Group.

Corporate responsibility report continued

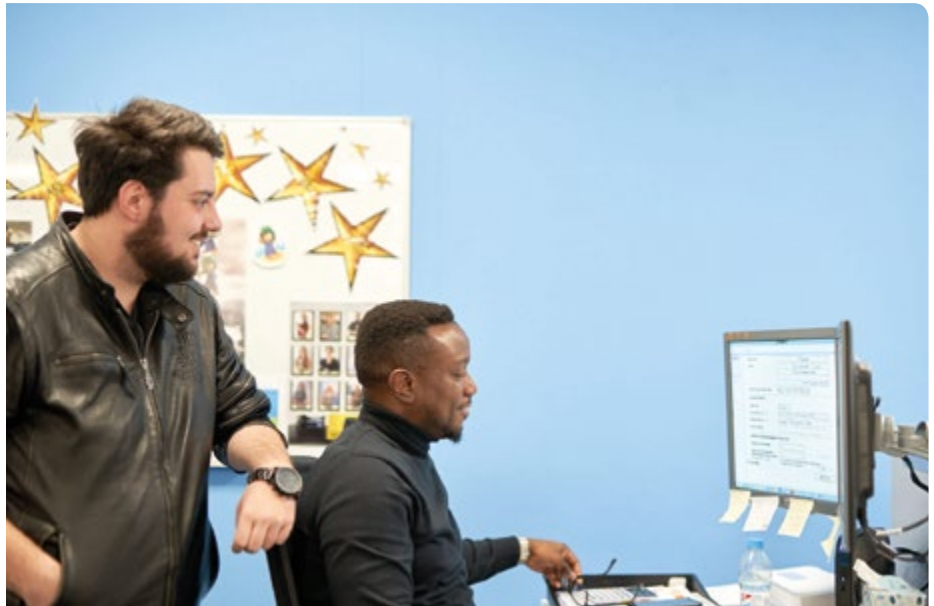
Whilst CCFS did not participate in the Best Companies to Work For survey as a result of the Combination, it was placed in the Top 20 of the Sunday Times Best Companies to Work For list of 2019, the fourth consecutive year that CCFS achieved Top 20 status.

Our participation in the next Best Companies to Work For survey will be on a Group-wide basis, including all UK employees within both OSB and CCFS.

In June 2019, OSB employees in both the UK and India also took part in the annual Banking Standards Board survey for the third consecutive year, which aims to influence positive change throughout the banking sector. This saw another extremely high overall participation rate of 76% and provided an insight into employees' perceptions of the application of the Group's values, potential barriers to challenge and to speak up along with their observations of unethical or inappropriate behaviour. The results showed an increase in the majority of the nine separate survey categories, with the average category score increasing by 1.4% compared with the 2018 results, giving OSB an average ranking of 14 out of the 29 banks who participated in the survey. When the 2020 Banking Standards Board Survey is undertaken, we will also be inviting all CCFS employees to participate for the first time.

OSBI participates in a separate employee engagement survey, run by the Great Place to Work Institute, and has been officially certified as a 'Great Place to Work' for the third year in succession, with strong results in all five survey categories (credibility of management, respect for people, fairness at the workplace, pride and camaraderie between people). The highest score related to the Pride category, reflecting the strong brand and culture that exists throughout the teams in Bangalore.

In 2018, OSB partnered with specialist external consultants to design and launch the Group's Mission, Vision, Values and the supporting behaviours and in 2019 we focused on embedding these throughout the business, and weaving them into our cultural DNA through an ongoing programme of related communications and pulse surveys.



OSB's four values (Stronger Together, Aim High, Take Ownership and Create Your Future) were implemented into Group-wide processes, including goal setting, appraisals, and interview and selection. To support this further, around 80 senior managers and the same number of line managers attended workshops focusing on truly embedding our values and progressing towards the achievement of our Mission and Vision. In addition, we launched a separate and extensive programme of communications to introduce all staff to our different types of customers, who are at the heart of our Mission and Vision statements.

Our proactive approach in driving organisation culture and the associated efforts in the design of our Mission, Vision, Values and supporting behaviours saw OSB listed as finalists at the 2019 Business Culture Awards in two separate categories: (a) Best Employer Brand and Values Initiative for Business Culture and (b) Best Medium-Sized Organisation for Business Culture. We were delighted that our work in the design and implementation of our Mission, Vision and Values was further recognised at the Business Culture Awards ceremony when we achieved the runner-up award in both categories.

CCFS has five established principles that act as organisational values (Respect, Excellence, Attention, Challenge and Honesty) which are already embedded within its performance appraisal processes. A key challenge for 2020 will relate to establishing a harmonised approach to Mission, Vision and Values that will enable us to further build on the cultural progression that has been achieved to date in both OSB and CCFS.

2019 also saw the inception of OSB's Workforce Advisory Forum ('OneVoice'), which aims to improve the level of engagement that OSB's Board has with the wider workforce. In addition to rotating Non-Executive Directors and Group Executive Committee members, the forum is attended by employees who have nominated themselves to represent the employees within their respective department or office location.

Within CCFS, the Employee Representative Committee, which met four times in 2019, includes representatives from all parts of the business who meet with senior management teams to raise any concerns they may have and provide input.

The Group operates a Whistleblowing policy, championed by the Chair of the Group Audit Committee. We encourage employees to feel confident in raising serious concerns at the earliest opportunity, and provide avenues to raise concerns confidentially, protected from possible reprisals. Regular reports are provided to the Group Audit Committee, including an annual report, which is also presented to the Board.

Employee recognition and awards

In 2019, OSB recognised the significant tenure of 51 employees who reached a five, ten, 15 or 20-year milestone of employment with the Group via our Long Service Award programme. There were two employees who reached 20 years' service and our longest-serving employee now has over 32 years' service. CCFS commenced trading in 2008 and in 2019 was able to provide 10 Year Service Awards to eight employees and 5 Year Service Awards to a further 53 individuals.

Every quarter, OSB employees are invited to nominate their colleagues as part of our OneTeam Award programme, which aligns with OSB's four values. Throughout 2019, we received over 400 nominations from which 29 individuals and teams were awarded. CCFS continues to recognise those employees who consistently demonstrate our values and behaviours and two employees each quarter are recognised as Charter Champions. The expertise of our employees was also acknowledged within the mortgage industry during 2019 with Alison Drysdale winning Underwriter of the Year at the British Specialist Lending Awards.

Health and safety

The Board recognises the importance of health and safety and takes responsibility for it within the Group. We have a duty of care to all of our employees and customers, and a safe and healthy work environment is paramount. We are committed to fostering and maintaining a working environment in which our employees can flourish, and our customers can safely transact with us. We operate a Health and Safety policy and we review our employee and customer environment regularly.

Annual mandatory health and safety training is completed by all Group employees. In 2019, we undertook a full review of OSB's real estate. The review demonstrated that all sites are compliant with statutory health and safety regulations and provided us with additional best practice improvements and recommendations which will be implemented in the future.

Diversity and inclusion

We recognise the benefits that diversity of our people brings to the business and we actively promote and encourage a culture and environment which values and celebrates our differences. In 2019, we continued our journey to become a truly diverse and inclusive organisation, which is committed to providing equal opportunities through the recruitment, training and development of our employees.

The commitment to actively promote an environment where disabled candidates and employees are welcomed was again an area of focus. In line with OSB's Disability Confident Employer (Level Two) status, we are proud to have a number of employees who are registered as disabled.

CCFS has already achieved Disability Confident Committed status and we'll be working towards increasing this to Level Two status in the future.

CCFS is a signatory of the MIND 'Pledge to Change' and we are committed to reducing the stigma of mental health within the workplace. All CCFS managers undergo training aimed at preventing discrimination and promoting good mental health throughout our business. This training programme is delivered with the support of 'Mental Health First Aid England' and the programme is accredited by the Royal Society for Public Health.

Within OSB, there has been a significant focus on supporting mental health via the provision of Mindfulness Workshops which were delivered in a number of different office locations throughout the year.

CCFS' Wolverhampton offices are in the heart of the West Midlands and boast a richly diverse local community that is reflected in the diversity of our people. As a Group, we value and celebrate diversity by hosting theme days on key festival dates such as Eid, Diwali, Vaisakhi and Easter.

OSB published its 2019 Gender Pay Gap Report in line with legislation that applies to all UK companies with more than 250 employees. The full publication is available on the Group's website: www.osb.co.uk.

OSB's median gender pay gap as at the snapshot date of 5 April 2019 was 37.6%, with the mean gap at 43.1%, these figures reduced from the 2018 reported figures of 44.0% and 45.5%, respectively.

CCFS' median gender pay gap as at the snapshot date of 5 April 2019 was 17.8%, with the mean gap at 49.8%, these figures reduced from the 2018 reported figures of 19.5% and 52.2% respectively.

Whilst it is pleasing to see progression across the Group, we are committed to reducing these gaps further. Fundamentally, in both OSB and CCFS, the gaps relate to the structure of our workforce and reflect the fact that we have more men than women in senior roles and more female employees undertaking clerical roles. Progress has been made to positively impact both aspects of our workforce structure, and we remain confident that our gaps will continue to close.

We recognise that we need to focus on improving our gender balance and have made solid progress towards the commitments that OSB and CCFS have made as signatories of HM Treasury's Women in Finance Charter. Both OSB and CCFS committed to a target of 30% of senior management positions being undertaken by female employees, with OSB's target date being the end of 2020 and CCFS by the end of 2022.

Corporate responsibility report continued

Solid progress was made towards these commitments throughout 2019, with OSB increasing from 28% at the end of 2018 and closing the year on 31%.

In 2020 we will be reporting our Women in Finance Charter progress on a joint basis, maintaining an overall target of 30% by the end of 2020, at which point a new ongoing target will be established.

In 2019, OSB's Women's Networking Forum, which is focused on helping to identify and break down the barriers that prevent women from progressing within financial services, continued to develop both its membership and range of activities. It provided regular opportunities for individuals to participate in relevant discussions, listen to and engage with guest speakers and undertake bespoke development activities to support and encourage career progression.

CCFS formed a Diversity and Inclusion Working Group in July 2019, comprised of 14 members, who introduced themselves to the business during National Inclusion Week. To date, they have coordinated a mental health quiz, undertaken sign language sessions and engaged with a local charity to deliver a thought-provoking training session, challenging managers to think 'how fair are they?'.

At the end of 2019, over 56% of our UK OSB workforce was female, as was 59% of the CCFS employee base, and within OSBIndia females constitute 41% of all staff.

CCFS is also engaged with Stonewall and became a diversity champion employer, ensuring that we do even more to ensure that our LGBT employees (and future hires) recognise CCFS as an inclusive employer of choice. Additionally, CCFS became a member of The Employers Network for Equality & Inclusion (ENEI), the UK's leading employer network covering all aspects of equality and inclusion issues in the workplace.

At the end of 2019, over 56% of our UK OSB workforce was female, as was 59% of the CCFS employee base, and within OSBIndia females constitute 41% of all staff. Currently, 15% of our Group Executive Committee and 45% of our Board are female, placing us 12th in the Financial Services Sector of the November 2019 Hampton-Alexander Review of the FTSE 250.

We have both Flexible Working and Homeworking policies in place to provide increased support to our staff who have parental and/or carer responsibilities. Within CCFS, we have around 18% of employees working under a formal flexible working arrangement relating to reduced or compressed working hours. Within OSB, around 10% of our UK employees work part-time hours with a further 11 individuals working a compressed working week.

	Male	Female
Number of Board Directors	9	5
Number of Directors of subsidiaries	19	3
Number of senior managers (not Directors)	98	44
All other employees ¹	763	929

At the end of 2019, over 56% of our UK OSB workforce was female, as was 59% of the CCFS employee base, and within OSBIndia females constitute 41% of all staff.



1. Includes OSB, OSBI and CCFS.

Human rights

We want each member of our workforce and other stakeholders to be treated with dignity and respect. OSB endorses the UN Declaration of Human Rights and supports the UN Guiding Principles of Business and Human Rights. The Group adheres to the International Labour Organisation Fundamental Conventions. We seek to engage with stakeholders with fairness, dignity and respect. The Group does not tolerate child labour or forced labour. OSB respects freedom of association and the rights of employees to be represented by trade unions or works councils. The Group is a fair employer and does not discriminate on the basis of gender, religion, age, caste, disability or ethnicity. Our policy applies throughout the Group and is communicated to our employees during induction training.

The Group's third annual statement under the Modern Slavery Act 2015 was published on our website in June 2019. Over the year, no instances of modern slavery were reported and we continue to ensure all relevant employment policies have direct consideration to the risk of modern slavery. These policies include Recruitment and Selection and Diversity and Inclusion.

CCFS has zero tolerance for slavery and human trafficking and, in line with the Modern Slavery Act 2015, takes active steps to identify and combat slavery and human trafficking in its business and supply chains. In 2019, CCFS continued work to identify and assess potential risk areas in its supply chains, grading the risks as 'high' or 'low' based on criteria and factors we have determined to be relevant in the assessment of the risks. Enhanced due diligence is undertaken on suppliers considered to be high risk and anti-modern slavery provisions are incorporated into our contracts with suppliers.

OSB and CCFS have an Anti-Bribery policy, reviewed annually and approved by the Group Audit Committee. It will not accept or condone any behaviour connected with accepting, requesting or offering any bribe or inducement in return for providing a favour.

OSB and CCFS do not consider themselves to be at a high risk of bribery; they conduct all of their business in the UK and the only significant outsourcing arrangement is with a wholly-owned subsidiary of a UK Building Society in relation to CCFS' deposit-taking business.

In relation to the procurement of goods and services, the Anti-Bribery policy operates in conjunction with a number of other Group policies which are incorporated into the Conflicts of Interest policy, Modern Slavery Act Statement, and Vendor Management and Outsourcing policy.

All staff are required to complete an Anti-Bribery and Corruption Compliance Training module on induction and every other year afterwards. On an annual basis all staff have to acknowledge that they have read the Employee Handbook, which reminds them of the need to comply with the Anti-Bribery policy.

If an employee suspects that the Policy is being violated, they are required to immediately report this in accordance with the Group's Internal Fraud policy and Response Plan or the Financial Crime reporting procedure as appropriate. The Group's Whistleblowing policy and procedure is also available as an alternative reporting process, if for whatever reason, it is felt that the other procedures above are not appropriate.

OSBIndia

OSBIndia is a wholly-owned subsidiary of the Group. OSBI operates from an office in Bangalore and employs 490 employees, of which 41% are female. OSBI supports the Bank across various functions including Support Services, Operations, IT, Finance and Human Resources. We actively promote integration between our colleagues in the UK and India with frequent employee exchanges, transfers, overseas training, staff and management visits.

As part of the Group, OSBI falls under the same Group policies that are in force in the UK offices, most importantly, Equal Opportunities, Non-discrimination and Harassment, Whistleblowing, Information Security and Clear Desk policies. There are only very slight differences in the Group's main HR policies due to local legislation.

OSBI is a holder of ISO 27001: 2013 certified, which demonstrates high standards of information security. To that end, the business continuity site in Hyderabad was opened and became fully operational in 2017. OSBI prides itself on excellence in customer service and the ISO 9001: 2015 certified is a testament to meeting customer and regulatory requirements by providing outstanding customer service.

In compliance with the Modern Slavery Act, we do not support excessive overtime and our employees in India are encouraged to work in accordance with local legislation. Employees in our Bangalore office enjoy a range of benefits which include 22 days of annual leave, 12 days' sick leave and cafeteria services.



Corporate responsibility report continued

Focused on the environment

OSB's Environmental policy states that we are committed to reducing our environmental impact and to continually improve our environmental performance as an integral part of our business strategy. This policy ensures that we meet or exceed all relevant environmental obligations under law and regulation.

The Environmental policy is under review to include additional risk assessments and develop actions and measures to include the impact of environmental change on the Group's business activities, in addition to focusing on our impact on the environment.

2019 was yet another year when the Group took on initiatives, or advanced existing ones, to achieve its goal of becoming a greener organisation.

OSB Greenhouse gas emissions

Emission source	2019 Tonnes CO ₂ e	2018 Tonnes CO ₂ e
Combustion of fuel	89	76
Operation of facilities	3	5
Purchased electricity	884	951
Total greenhouse gas emissions	976	1,032
Total emissions per employee	0.88	1.04

CCFS Greenhouse gas emissions

Emission source	2019 Tonnes CO ₂ e	2018 Tonnes CO ₂ e
Combustion of fuel	213	158
Operation of facilities	3	3
Purchased electricity	201	273
Total greenhouse gas emissions	417	434
Total emissions per employee	0.61	0.68
Purchase of renewable energy	(50.4)	n/a
Total net GHG emissions	366.6	n/a
Net emissions per employee	0.54	n/a

Fuel type	Emissions conversion factor source
UK electricity – location based (excluding transmission and distribution), UK gas, diesel, R134-a, R32 and R22 F-gas	Department for Environment, Food and Rural Affairs 2019–20
Overseas electricity	http://www.carbon-calculator.org.uk/

The Group is committed to promoting awareness of environmental issues amongst our employees. In 2019, OSB was successful in reducing single use plastic consumption by taking away unnecessary bins and installing large recycling stations across the estate. We now have a Green Committee, made up of volunteers, our Green Ninjas, who actively support the policy.

OSB is active in attempting to reduce its carbon footprint and, in 2019, it introduced two electric vans which the Maintenance team use to travel between sites. Electric charging points are now also available for employees to use, encouraging the use of electric vehicles.

CCFS operates an environmental management system that is certified to the internationally recognised ISO 14001 standard. This not only supports legal compliance but provides a framework for ongoing improvements.

In 2019, further progress was made on tackling CCFS' carbon footprint (see Greenhouse gas emissions). This included undertaking an 'ESOS' energy assessment, introducing a Cycle to Work scheme and providing support for employees to choose ultra-low emissions vehicles. Improvements were also made to waste management and recycling by introducing reusable cups, enhancing segregation of waste and introducing battery recycling. Employee engagement has been key, and CCFS rolled out online environmental awareness training, plus various communications and activities throughout the year, led by its enthusiastic Environmental Committee.

Across the Group, we have high-level environmental objectives to:

- Accept responsibility for contributing to the protection of the environment and strive to ensure that our actions will not detract from the long-term sustainability of environmental resources
- Minimise harmful emissions
- Promote advantageous environmental practices by all staff
- Consult with suppliers to improve the environmental impact of goods and services provided to the Group

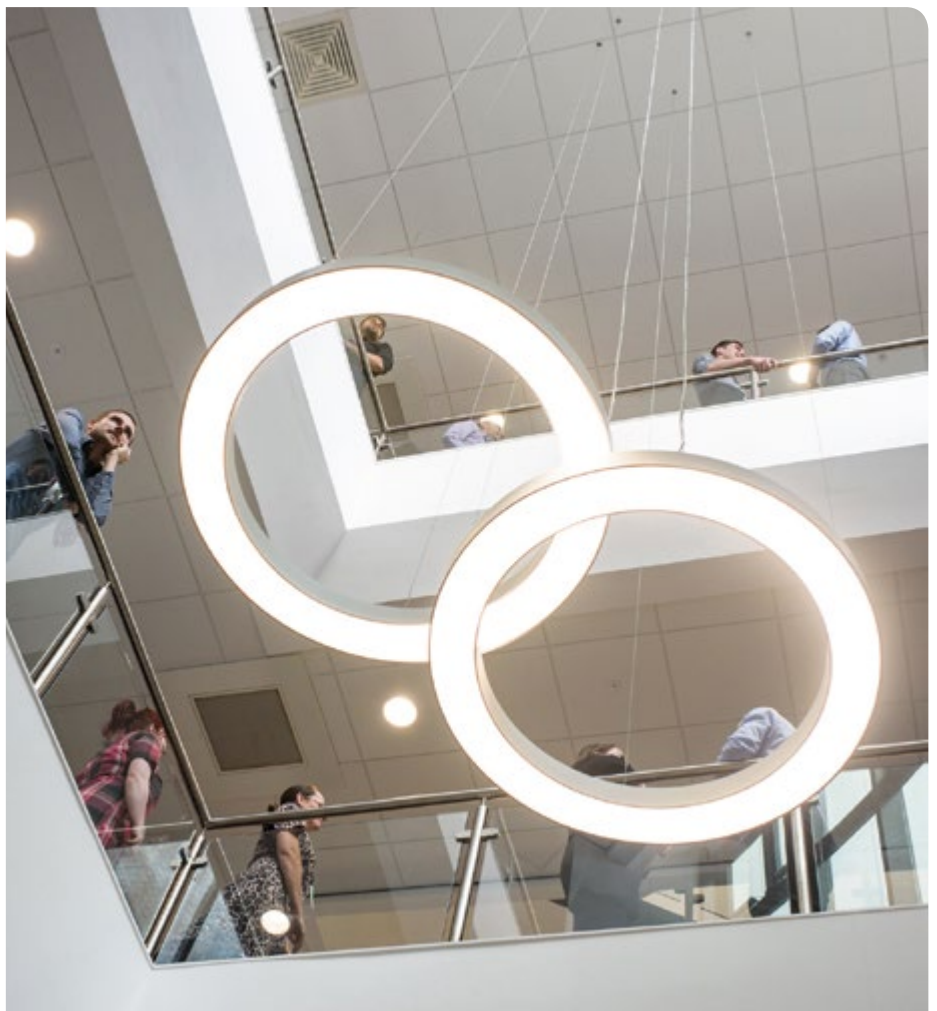
Mandatory greenhouse gas report Reporting scope

- Our methodology has been based on the principles of the Greenhouse Gas Protocol, taking account of the 2015 amendment which sets out a 'dual reporting' methodology for the reporting of Scope 2 emissions. This means that UK electricity is reported using two methods.
- We have reported on all the measured emissions sources required under The Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013, except where stated.
- The period of our report is 01/01/2019 – 31/12/2019.
- This includes emissions under Scope 1 and 2, except where stated, but excludes any emissions from Scope 3.
- Conversion factors for UK electricity (location-based methodology), gas and other emissions are those published by the Department for Environment, Food and Rural Affairs for 2019–20.
- Conversion factors for UK electricity (market-based methodology) have been set as 0, due to the 100% renewable electricity tariffs which were in place throughout the 2019 year.
- The market-based methodology has only been applied to UK electricity supplies.
- Conversion factors for overseas electricity have been provided by the Government of India, taken from 2018.
- Conversion factors for overseas (India only) diesel usage are those published by the Department for Environment, Food and Rural Affairs for 2019–20.
- Conversion factors used for the reporting of F-Gases R22, R32 and R134-a are those published by the Department for Environment, Food and Rural Affairs for 2019–20.
- The following emission IDs have been retired and are not included within the 2019 report:
 - Prestige Finance – gas meters 2978102004 (OSB-INV-04189-10-07-NAT-004) and 2978102105 (OSB-INV-04189-10-07-NAT-105) have been disconnected and replaced by new gas meter (OSB-04189-10-07-GAS-104).
 - Maidstone – site closed in November 2017. Emission ID for electricity (OSB-INV-04189-10-05-ELE-841) retired.

- The following sites have been added to the portfolio during the 2019 reporting year: 30 Watersmeet and 51 Watersmeet.
- There has been a significant reduction in F-Gas recharges between 2018 and 2019 as no F-Gas recharges were required for any of the UK sites.
- There has been an increase in combustion, due primarily to the estimation applied to the 'Prestige' site as no gas data was available for the 2019 year, therefore benchmarking estimation based on office type and floor area has been applied (using TM46 benchmarks).
- There has been a reduction in emissions relating to purchased energy (electricity) which is due in large part to the lower 2019 carbon factor for location-based grid electricity, as electricity usage increased in 2019 to 2,314.5 MWh (from 2,180 MWh in 2018).

Statement of exclusions

- Global diesel/petrol use (for vehicles) has been excluded from the report on the basis that data is not available for reporting. This is due to be reviewed for inclusion in future years.
- It has been confirmed that there is no LPG use within the estate, either in the UK or overseas.
- It has been confirmed that there is no mains gas supply in relation to the India operations.
- Two UK sites, Interbay and Fleet, continue to be excluded from reporting as these are managed rented properties with energy charged as a flat rate as part of a service charge and are therefore excluded on the basis of the financial control approach. Heritable at Newman Street is a landlord site, but as data was available for reporting in the 2018 year, this data has been used as a direct comparison estimation for 2019 to ensure consistency.



Corporate responsibility report continued

Focused on our communities

We have a strong tradition of caring about our local communities. Each year, OSB engages with people across the UK and India, by taking part in a variety of charitable events and partnerships.

In 2019, the Group, including CCFS pre-Combination donations, raised £398,000 for its charity partners and our employees also volunteered their time to support a variety of community-based activities. OSBI is also heavily engaged within its local community in Bangalore through participation in charitable causes and programmes that require critical assistance.

Giving something back

We are proud of our strong links with our local community, especially through the Kent Reliance brand, which has been synonymous with the county for over 150 years. As our employee numbers have grown, so has our commitment to give something back to our local communities.

Our community strategy is built primarily around three key pillars consisting of Volunteering, Fundraising and Community Investment, which provide a platform for OSB to live its vision and values.

2019 marked the beginning of a new partnership with our current national charity partner, My Shining Star, Children's Cancer Charity, as well as the introduction of local charity partners for each of our brands. By partnering with national and local charities, we can offer employees the chance to make a difference, both nationwide and closer to home. By focusing our efforts on our nominated charities, we can make a more meaningful impact to the lives of those that the charities support.

Throughout the year, we continued to enable employees to have an impact on the charities that matter to them, by encouraging an active 'hands on' approach, through fundraising and volunteering opportunities. More employees than ever before used their 'Day to Make a Difference' this year; this is a paid day to help support any registered charity or community group. This is often linked to one of our local charity partners, for example our annual community-based campaign, 'Project Kent', that Kent Reliance runs alongside KMFM, or something close to the hearts of our employees. Furthermore, if employees choose to undertake additional fundraising activities, the Bank will match any funds raised up to a specific amount.

The OSB Community Fund

As well as encouraging fundraising and volunteering, we also offer financial support for causes close to our employees' hearts through our Community Fund initiative. Any employee can apply for funding on behalf of a registered charity or community project that they are actively involved with. A total of 34 applications were made in 2019, and we are hoping for even more in 2020, as the popularity of the scheme grows. The initiative, since being piloted successfully in OSB's UK offices, has also now been introduced in India.

Our national charity partner

My Shining Star: Children's Cancer Charity

My Shining Star is a charity that supports families through the financial hardship associated with childhood cancer. Around 1,600 children are diagnosed with cancer in the UK every year.

Families spend an extra £600 per month, on average, during their child's cancer treatment (mainly for transport, food and accommodation) and many fall into debt as a result, or families become separated as siblings of the child are left at home.

The money we have raised throughout 2019 has gone directly to improving the lives of families in their darkest times.



Our local charity partners

Each of our locations supports our national charity partner by taking part in Group-wide fundraisers, but we also encourage our employees to support a charity on their doorstep. By engaging with charity champions at each location, we are able to ensure the views of each location are represented when a local charity partner was agreed. Our charity champions have been instrumental in supporting our Giving Something Back initiative and have organised a number of fundraisers in support of our national and local charity partners.

Demelza Hospice Care for Children – supported by Kent Reliance

Kent Reliance branches continue to support Demelza as their local charity partner, fundraising in branches and offering customers the dedicated Demelza Children's Account, whereby the charity receives an annual donation equivalent to an agreed percentage of the combined funds held across the associated accounts at the end of the year.

Breast Cancer Haven, Wessex – supported by InterBay Commercial

Breast Cancer Haven is a centre in Titchfield, Hampshire. The charity provides free support and advice for those affected by breast cancer and their families, in a relaxing, non-clinical environment. This year, the team has raised money for Breast Cancer Haven through a variety of fundraisers, including a sponsored fire-walk, tea party events, a summer festival and skydives.

Age UK Hertfordshire – supported by Prestige Finance

Age UK Hertfordshire works tirelessly to help improve the lives of thousands of the elder generation. It is one of the largest charities providing services to the elderly in Hertfordshire, providing vital support for many people in need of later life care. Not only have the team been fundraising with events like their Easter charity bake sale, they've been getting hands on and volunteering in the local care home and taking part in a Strictly Come Dancing themed event.

Shooting Star Children's Hospices – supported by InterBay Asset Finance

Shooting Star Children's Hospices supports 700 life-limited babies, children and young



people living in London and Surrey, and their families. Bespoke support is available 365 days a year at their two purpose-built children's hospices, as well as in families' own homes at no cost to them. As our newest local charity partner, joining us in October, OSB employees have already helped Shooting Star to move items from its old warehouse, to a new 'fit-for-purpose' facility, so they can store more equipment to help more people.

OSBI fundraising

Corporate social responsibility is extremely important to OSBI. The concept of helping society is embedded in its corporate governance structure through its Corporate Social Responsibility ('CSR') Policy and also through employee engagement.

As part of the OSBI CSR Policy, funds are kept aside each year to spend on social causes. This is governed by a CSR Committee and implemented by the Corporate and Social Responsibility Group. The focus is to help and contribute in areas where there is critical need and within the office locality so they are also able to contribute their time.

In 2019, the CSR Group continued to support the areas of child welfare, education and healthcare.

Child welfare and education

OSBI has partnered with SOS Children's Village, located in Bangalore, to fund education, food, clothing and housing for 20 orphans. Working together with SOS, OSBI employees helped to provide support for the holistic development of orphans and women and children belonging to vulnerable families. OSBI also hosted some events at SOS for employees to spend time with the children, which was highly appreciated by both the children and employees.

Healthcare

OSBI is currently supporting HBS Hospital to provide dialysis sessions to 40 individuals who live below the poverty line. OSBI has also contributed two dialysis machines which can provide over 11,000 dialysis sessions over a period of five years. HBS Hospital is a non-profit hospital which provides critical healthcare to members of society who could otherwise not afford the care they need.

OSBI also continued to support maintaining the gardens at CV Raman General Hospital for the second year. Hospital workers and patients have appreciated the positive impact such a space has had on patients, their relatives and the hospital staff.

Corporate responsibility report continued

CCFS and the community

Giving back

CCFS has established itself as one of the local area's largest and fastest growing employers, now employing 684 people primarily in Wolverhampton. Providing support to our community is an important part of our overall strategy. Every year we ask our employees to nominate a local charity that they would like us to support. This decision is made by the Charity Committee with final approval from the CEO.

In 2019, we raised over £92k for Socks and Chocs, a local charity that supports the homeless in the West Midlands and beyond. In addition to our existing charitable contributions which have totalled £373k since 2008, CCFS offers a 'Good Causes' fund that can be used towards special charity events being undertaken by, or linked to, employees or their families. In addition, we have longstanding relationships as supporters of local cricket and rugby clubs, and CCFS and its brands are passionate supporters of the local community. This year, Charter Savings Bank increased its focus on supporting overlooked and underserved UK communities through new partnerships with local sports clubs.

Working alongside both Coventry Rugby Club and Wolverhampton Rugby Club, we are actively demonstrating the values we share with our customers.

Coventry Rugby Club

In 2019, Charter Savings Bank entered into a new partnership with Coventry Rugby Club, focusing on inspiring young children through two important initiatives: Rugby and Reading, and Rugby in Schools.

Rugby and Reading is designed to inspire disadvantaged and disaffected children to read more. Our programme is led by members of Coventry's elite first team who go into schools to read books with children aged between 5 and 11, enabling them to exercise both body and mind as they experience an hour of engaging storytelling before enjoying a hands-on game of tag rugby.

Rugby in Schools gives boys and girls aged between 5 and 16 access to coaching sessions delivered by one of Coventry's top performing first team players, providing one-to-one interactions with positive role models as well as receiving professional coaching.

As title partners for both programmes, we have committed to support over 100 hours of rugby-based learning activity in total – a fantastic opportunity for children in local schools.

In addition to the two programmes, CSB is supporting Coventry Rugby's charitable Foundation with their efforts to improve the lives of children currently living in poverty across the city, by providing access to a Match Day Experience and supporting their Project:500 initiative.

Match Day Experience gives 40 disaffected and disadvantaged children the opportunity to attend a live Championship rugby game, enjoy a tour of the ground, take part in a pre-game coaching session on the pitch and participate in a Q&A with first team players.

Project:500 aims to use rugby to drive positive engagement with children living in poverty, giving 500 disadvantaged and disaffected children the chance to learn through sport and give them an opportunity to be part of a positive and inclusive community. CSB has funded spaces for children on the programme, with the first event in October reported as a major success and the first step in Coventry's goal to lift children out of poverty.

Wolverhampton Rugby Club

In November 2019, Charter Savings Bank and Wolverhampton Rugby Club announced an extension to their longstanding partnership, reinforcing the Bank's commitment to the Club's development.

To mark the occasion, CSB upgraded the Club's Castlecroft base with a brand-new pitch-side electronic scoreboard, which will now provide up-to-the-minute information for over 200 grassroots rugby fans each week.

Since the partnership began, the Bank has been keen to ensure its support makes a real difference.

In 2016, it was instrumental in providing significant funds towards renovations to Wolverhampton's changing room facilities, which are now used by up to 15 of Wolverhampton's male and female development teams.

By partnering for a further five years, CSB is helping the club provide grassroots sporting opportunities for the local community for both male and female players, across a wide-range of ages, and for their loyal supporters in the local area.

Looking forward to 2020

As OneSavings Bank and Charter Court Financial Services have now come together, we will be looking to bring together the best of all of our community activities, and continue to support our people in fulfilling their passions to support matters that are close to their hearts.

Section 172 statement

Section 172 of the Companies Act 2006 requires a Director of a company to act in the way he or she considers, in good faith, would be most likely to promote the success of the company for the benefit of its members as a whole. In doing this, section 172 requires a Director to have regard, among other matters, to: the likely consequences of any decision in the long term; the interests of the company's employees; the need to foster the company's business relationships with suppliers, customers and others; the impact of the company's operations on the community and the environment; the desirability of the company maintaining a reputation for high standards of business conduct; and the need to act fairly with members of the company.

The Directors give careful consideration to the factors set out above in discharging their duties under section 172. The stakeholders we consider in this regard are our employees, our customers, our shareholders, the regulators and the local communities in which we are located.

The Board recognises that building strong relationships with our stakeholders will help us to deliver our strategy in line with our long-term values, and operate the business in a sustainable way.

Stakeholder engagement

The Board is committed to effective engagement with all of its stakeholders. The Board and its Committees regularly receive reports from management on issues concerning customers, the environment, communities, suppliers, employees, regulators and investors, which they take into account in their discussions and in their decision-making process under section 172.

The Board and its Committees undertake deep dive reviews to further develop their understanding of key issues impacting all stakeholders. In addition to this, the Board seeks to understand the interests and views of the Group's stakeholders by engaging with them directly as appropriate. Some of the ways in which the Board has engaged directly with stakeholders over the year are shown below.

Customers

Our customers are at the centre of what we do. During 2019, we ran a special campaign focusing on different customer groups. The campaign focused on bringing the customers to life through life-sized cardboard cut-outs in the office and video clips telling their stories. These customers were then used to generate discussions on the needs of such customers and how the best outcome can be achieved for them. The campaign generated numerous conversations and insights into how customer service can be tailored to maximise customer experience. More information on our customers is provided on page 76.

Employees

In addition to the Board receiving updates from senior management on various metrics and feedback tools in relation to employees, members of the Board engage with the Group's employees in a variety of ways. A Workforce Advisory Forum (OneVoice) was established and Mary McNamara serves as the designated Non-Executive Director representing the view of employees. Other Non-Executive Directors and members of the Group Executive Committee are also encouraged to attend OneVoice on a rotating basis. More details on OneVoice are provided on page 145 in the Corporate Governance Report. Further information on engagement with employees is provided on pages 77.

Investors

The Board regularly receives updates on feedback from investors from senior management. In addition, various members of the Board, including the Chairman and Chair of the Group Remuneration Committee meet frequently with institutional investors to discuss and provide updates about – and seek feedback on – the business, strategy, long-term financial performance and the Directors' Remuneration Policy. Members of the Board also met shareholders at the AGM, as well as receiving briefings from the Group Head of Investor Relations on shareholders. Further information on feedback from institutional investors in relation to the Remuneration Policy is provided on page 144.

Regulators

Members of the Board regularly meet with the Group's regulators. There was increased engagement with regulators during 2019, due to the Combination. Since the Combination, the Group has moved to a Level 2 firm, as designated by the Financial Conduct Authority ('FCA'). This means that the number of interactions with regulators will increase for 2020 and beyond.

Decision-making





We set out below an example of how the Directors have had regard to the matters set out in section 172(1)(a)–(f) when discharging their duties under section 172 and the effect of the decisions taken by them. The most significant decision taken during 2019 was the Combination with CCFS. The Board carefully weighed the benefits of the Combination for investors, customers, employees and the company (which are outlined on page 5) against any impact on those stakeholders.







The financial consequences of the Combination were assessed by the Board and independently challenged by external advisers. The Board also considered the operational consequences of the decision and the resources needed to achieve the desired outcomes; this included meeting the expectations of our regulators. On balance, the Board considered that the benefits of the Combination outweighed the detriment to certain stakeholders and the risk associated with the transaction.

Corporate responsibility report continued






Non-financial information statement




In the 2019 Annual Report, OSB Group has addressed the requirements of sections 414CA and 414CB of the Companies Act 2006 relating to non-financial reporting. The table below summarises key disclosure requirements and provides references to where further information can be found, which taken together form the 2019 Non-financial information statement.

Policies	Due diligence	Outcomes/impact	Section within the Annual Report
Environmental matters			
<p>Description inc. objectives</p> <p>OSB's Environmental Policy sets out commitment to reducing our environmental impact and to continually improve our environmental performance as an integral part of our business strategy. This policy seeks to ensure that we meet or exceed all relevant environmental obligations under law and regulation.</p>	<p>How reviewed and by whom and how frequently</p> <p>The policy is approved annually by the Group Nomination and Governance Committee. It has an accountable executive and it is reviewed by the Group Executive Committee before Board Committee approval.</p>	<p>What actions were taken/ outputs of actions</p> <p>There are ongoing initiatives, which are described in this corporate responsibility report. This is part of an ongoing and developing set of environmentally focused actions. The actions have resulted in outcomes during 2019 such as reduced single use plastic consumption.</p>	<p> Corporate responsibility report, see page 84.</p>
Employees			
<p>Description inc. objectives</p> <p>The Flexible Working Policy outlines the approach of the Group to support flexible working for its employees. This is designed to improve engagement among staff and is also now an important recruitment offering.</p>	<p>How reviewed and by whom and how frequently</p> <p>The Chief Financial Officer is the accountable executive for the Group's employee policies. The Group's Governance Forum reviews these policies annually and they are approved annually by the Group Executive Committee.</p>	<p>What actions were taken/ outputs of actions</p> <p>The application of the Flexible Working Policy is managed by HR, who ensure consistency in its application. HR also report regularly to the Executive Committee on the take-up of flexible working arrangements in the Group.</p>	<p> Corporate responsibility report, see page 82.</p>
<p>The Diversity and Inclusion Policy confirms the Group's commitment to encourage and promote diversity, equality and inclusion, and promote a culture that actively values difference and recognises that individuals from different backgrounds and experience can bring valuable insights into the Group and enhance the way in which we work.</p>	<p>There is an accountable executive for the Diversity and Inclusion Policy. The Group Executive Committee reviews this policy annually and they are approved annually by the Group Nomination and Governance Committee.</p>	<p>Gender diversity is regularly measured and reported in the organisation and externally. Hiring and promotion processes are monitored to ensure suitable male and female candidates are presented for all roles. This has resulted in more gender balanced hiring and recruiting decisions. Both OSB and CCFS have achieved external disability confident recognition. The Group will continue to work on promoting diversity and inclusion across a broader range of measures in the future.</p>	<p> Corporate responsibility report, see page 81.</p>
<p>The Health and Safety Policy ensures that the Group complies with legislation to protect its employees and customers and provide a suitable and safe environment for customers, employees and anyone affected by the Group's operations.</p>	<p>There is an accountable executive for the Health and Safety Policy. The Policy is reviewed annually by the various Committees and approved by the Board.</p>	<p>Health and safety statistics are reported to the Board on a regular basis through the year.</p> <p>Annual health and safety training is completed by all employees. The Group also conducted a review of the entire real estate portfolio in 2019, which resulted in actions to continue to improve employee health and safety.</p>	<p> Corporate responsibility report, see page 81.</p>

Policies	Due diligence	Outcomes/impact	Section within the Annual Report
Social matters			
<p>Description inc. objectives</p> <p>The Vendor Management and Outsourcing Policy outlines the core requirements which must be met by the Group and provides a structure to efficiently manage potential and contracted third party relationships with service providers and compliance with the specific regulatory obligations.</p>	<p>How reviewed and by whom and how frequently</p> <p>The Group Chief Operating Officer is the accountable executive. The Vendor Management Committee reviews these policies annually and they are approved by the Risk Management Committee.</p>	<p>What actions were taken/ outputs of actions</p> <p>The Group operate robust assurance processes in relation to these policies as described further in the report.</p>	<p> Risk review, see page 83.</p>
<p>The Lending Policy sets out the assessment of a prospective customer's ability and willingness to repay a mortgage and determines the adequacy of the security offered.</p>	<p>The Group Chief Credit Officer is the accountable executive. The Credit Committee reviews the policy annually and it is approved by the Group Risk Committee.</p>	<p>The Group Risk Committee challenges how the policy is applied to ensure that the right outcomes are achieved.</p>	<p> Corporate responsibility report, see page 76.</p>
<p>The Complaints Handling Policy outlines at a high level the Group's regulatory expectations from a complaint handling in a customer-centric and complaint perspective.</p>	<p>The Group Chief Operating Officer is the accountable executive. The Operations Committee reviews the policy annually and it is approved by the Risk Management Committee.</p>	<p>The number of complaints and how long it took us to resolve them forms part of the management and Board monthly reporting packs and an annual report of complaints is presented to the Board. Low levels of complaints were indicated during 2019 with a maximum result in the Business Balanced Scorecard.</p>	<p> Corporate responsibility report, see page 77.</p>
<p>The Vulnerable Customer Policy sets the standards and approach for the identification and treatment of vulnerable customers and provides guidance to all areas of the Group to ensure vulnerable customers consistently receive fair outcomes.</p>	<p>The Group Chief Credit Officer is the accountable executive. The Vulnerable Customer Review Committee reviews the policy annually and it is approved by the Risk Management Committee.</p>	<p>A new training programme has been developed to focus on more complex customer scenarios including identifying vulnerable customers and how best to serve them and their changing needs.</p>	<p> Corporate responsibility report, see page 76.</p>
<p>The Data Protection Policy ensures that there are adequate policies and procedures for ensuring the Group's compliance with the General Data Protection Regulation and confirms the necessary steps that should be taken to protect personal data.</p>	<p>The Group General Counsel and Company Secretary is the accountable executive. The Data Governance Forum reviews the policy annually, which is then approved by the Group Risk Committee. The Data Protection Officers for both CCFS and OSB report twice a year to the Group Executive Committee and the Board regarding compliance with the Data Protection Policy and customer data requests.</p>	<p>Additional new controls were introduced in 2019.</p>	<p> Risk review, see page 64.</p>
<p>The Arrears, Repossessions and Forbearance Policy covers policies and procedures in place to deal with cases of arrears, including those more serious cases of arrears which result in the Group taking possession of and selling a mortgage property.</p>	<p>The Group Chief Credit Officer is the accountable executive. The Credit Committee reviews the policy annually and it is approved by the Risk Management Committee.</p>	<p>The Group Risk Committee challenged and approved updates to policies including, the Group Lending Policy, the Arrears, Repossessions and Forbearance Policies and the Loan Impairment Provisioning Policy.</p>	<p> Risk review, see page 70.</p>

Corporate responsibility report continued

Policies	Due diligence	Outcomes/impact	Section within the Annual Report
Respect for human rights			
<p>Description inc. objectives</p> <p>The Whistleblowing Policy is designed to ensure that employees can raise their concerns about wrongdoing or malpractice within the Group, without fear of victimisation, subsequent discrimination or dismissal.</p>	<p>How reviewed and by whom and how frequently</p> <p>The Group General Counsel and Company Secretary is the accountable executive and the Chair of the Group Audit Committee is directly accessible to all employees with whistleblowing concerns. The Group Audit Committee reviews the policy annually and it is approved annually by the Board.</p> <p>There are also quarterly reports to the Board Audit Committee regarding whistleblowing reports.</p>	<p>What actions were taken/ outputs of actions</p> <p>The Group regularly promotes awareness of the Whistleblowing Policy throughout the year.</p>	<p> Corporate responsibility report, see page 81.</p>
<p>The Modern Slavery Statement sets out the steps taken by the Group to ensure there is no slavery in our operations and supply chains.</p>	<p>The Chief Risk Officer is the accountable executive. The Risk Management Committee and Group Executive Committee review the statement annually and it is approved annually by the Board. The Group continues to classify suppliers as low, medium and high risk in relation to modern slavery and enhanced due diligence is applied to suppliers and contractors deemed high risk.</p>	<p>Over the year, no instances of modern slavery were reported and we continue to ensure all relevant employment policies have direct consideration to the risk of modern slavery.</p>	<p> Corporate responsibility report, see page 83.</p>
Anti-corruption and anti-bribery matters			
<p>Description inc. objectives</p> <p>The Anti-Bribery and Corruption Policy aims to provide employees and contractors with a clear set of guidelines to ensure the Group conducts its activities in an ethical and appropriate manner as well as complying with the laws and regulations of each jurisdiction in which it operates.</p> <p>Vendor Management and Outsourcing Policy – see above.</p>	<p>How reviewed and by whom and how frequently</p> <p>The Chief Risk Officer is the accountable executive. The Risk Management Committee reviews the policy annually and it is approved by the Group Audit Committee. Mandatory annual training is applied to all employees regarding the Anti-Bribery and Corruption Policy.</p>	<p>What actions were taken/ outputs of actions</p> <p>The Group does not consider itself to be high risk regarding bribery and corruption and there were no bribery or corruption issues identified during 2019.</p>	<p> Corporate responsibility report, see page 83.</p> <p> Risk review, see page 83.</p>
<p>The Conflict of Interest Policy provides guidance around managing conflicts of interest under the Financial Conduct Authority ('FCA') regulations, the Companies Act 2006, and the FCA High Level Standards – the Senior Management Systems and Controls ('SYSC').</p>	<p>The Group General Counsel and Company Secretary is the accountable executive. The Risk Management Committee reviews the policy annually and it is approved by the Group Executive Committee. Group Compliance maintain gifts and hospitality and conflicts registers, which are reviewed annually by the Risk Management Committee and the Group Nomination and Governance Committee. External directorships and interests of NEDs are also reviewed annually by the Group Nomination and Governance Committee.</p>	<p>There were no breaches of the conflicts of interest policy during 2019.</p>	<p> Corporate responsibility report, see page 76.</p>

Policies	Due diligence	Outcomes/impact	Section within the Annual Report
Anti-corruption and anti-bribery matters continued			
<p>Description inc objectives</p> <p>The Anti-Money Laundering and Counter Terrorist Financing Policy provides a consistent approach throughout the Group to the deterrence and detection of those suspected of laundering the proceeds of crime or those involved in the funding of terrorism and the relevant disclosure to the necessary authorities.</p>	<p>How reviewed and by whom and how frequently</p> <p>The Chief Risk Officer is the accountable executive. The Risk Management Committee reviews the policy annually and it is approved by the Group Audit Committee. All employees must complete mandatory anti-money laundering training annually.</p>	<p>What actions were taken/ outputs of actions</p> <p>There were no instances of money laundering during 2019.</p>	<p> Risk review, see page 115.</p>
Description of business model			<p> Strategic report, Our business model, see page 8–11.</p>
Description of principal risks			<p> Strategic report, Principal risks and uncertainties, see page 58–66.</p>
Non-financial key performance indicators			<p>Shown throughout the Strategic report</p>

This Strategic report is approved by the Board and signed on it's behalf by:

Jason Elphick

Group General Counsel and Company Secretary
19 March 2020

Governance



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How our Board and Executive team set the strategic direction and provide oversight and control.

Key reads within this section:

Corporate Governance Report

"We are pleased to report full compliance"



For more information **See page 100**

Group Risk Committee Report

"We continued to enhance and integrate the Strategic Risk Management Framework"



For more information **See page 118**

Group Remuneration Report

"Extensive engagement with shareholders"



For more information **See page 144**

Board of Directors (biographies)



David Weymouth Chairman

Appointment

David was appointed to the Board in September 2017 and held the position of Chairman until October 2019. He was re-appointed as Chairman on 4 February 2020.

Committee membership

Chair of the Board Integration and of the Group Nomination and Governance Committees; a member of the Group Remuneration Committee.

Experience and qualifications

David was previously Chief Information Officer at Barclays Bank plc and Chief Risk Officer at RSA Insurance Group plc. He sat on the Executive Committee of both companies. He served as a Non-Executive Director of Bank of Ireland (UK) plc. His experience as an executive includes a wide range of senior roles in operations, technology, risk and leadership. David is also Chairman of Mizuho International Plc and his other current Non-Executive directorships include Fidelity International Holdings (UK) Limited and The Royal London Mutual Insurance Society.

Key skills

David has over 40 years' experience in the financial services industry and has a degree in Modern Languages from University College London and an MBA from the University of Exeter.



Noël Harwerth¹ Senior Independent Director

Committee membership

Member of the Group Nomination and Governance, Group Remuneration and Group Risk Committees.

Experience and qualifications

Noël was appointed to the Board of CCFS in June 2017 and was its Senior Independent Director from August 2017. Noël is a Non-Executive Director of Scotiabank Europe plc and Sirius Minerals plc. She is a former Non-Executive Director of Standard Life Aberdeen plc and RSA Insurance Group plc, prior to which she held a variety of senior roles with Citicorp for 15 years, latterly serving as the Chief Operating Officer of Citibank International. Noël's prior non-executive roles also include GE Capital Bank Limited, Sumitomo Mitsui Banking Corporation Europe Avocet Mining, Alent plc, Corus, Logica, The London Metal Exchange and Standard Life Assurance Limited.

Key skills

Noël has extensive experience in both the public sector with government bodies and the private sector with global banking companies, which brings valuable insight to the boardroom debate.



Andy Golding Chief Executive Officer

Appointment

Andy was appointed to the Board in December 2011.

Committee membership

Member of the Board Integration Committee.

Experience and qualifications

Andy was previously CEO of Saffron Building Society, where he had been from 2004. Prior to that he held senior positions at NatWest, John Charcol and Bradford & Bingley. Andy currently holds a number of posts with industry institutions, including membership of the UK Finance Executive Committee. He is also a Director of the Building Societies Trust and has served as a Non-Executive Director for Northamptonshire NHS and Kreditech. Andy was a member of the Building Societies Association's Council; and of the Financial Conduct Authority's Small Business Practitioners Panel until October 2019.

Key skills

Andy has over 30 years' experience in financial services.



April Talintyre Chief Financial Officer

Committee membership

Member of the Group Models and Ratings Committee.

Experience and qualifications

April was previously an Executive Director in the Rothesay Life pensions insurance business of Goldman Sachs and worked for Goldman Sachs International for over 16 years, including as an Executive Director in the Controllers division in London and New York. April began her career at KPMG in a general audit department.

Key skills

April has broad financial services experience. She has been a member of the Institute of Chartered Accountants in England and Wales since 1992.

¹ Independent Non-Executive Director.



Graham Allatt¹

Non-Executive Director

Committee membership

Chair of the Group Risk Committee and the Group Models and Ratings Committee; a member of the Group Audit Committee.

Experience and qualifications

Graham was previously Acting Group Credit Director at Lloyds TSB and Chief Credit Officer at Abbey National. Prior to this he spent 18 years in the NatWest Group culminating in the role of Managing Director, Credit Risk at NatWest Markets. A Fellow of the Institute of Chartered Accountants, Graham was involved with housing associations for nearly 30 years as Treasurer and Board member in the North of England and in London.

Key skills

Graham has significant banking, credit risk and financial services experience.

Appointment

Graham was appointed to the Board in May 2014.



Rajan Kapoor¹

Non-Executive Director

Committee membership

Chair of the Group Audit Committee and member of the Board Integration, Group Remuneration, Group Risk and Group Models and Ratings Committees.

Experience and qualifications

Rajan was appointed to the Board of CCFS in September 2016. He was Financial Controller of the Royal Bank of Scotland ('RBS') Group and held a number of senior finance positions in a 28-year career with RBS. Rajan is a Fellow of the Institute of Chartered Accountants and of the Chartered Institute of Bankers in Scotland.

Key skills

Rajan has wide-ranging experience of all aspects of banking including external reporting, financial planning and analysis, asset and liability management, taxation and stress testing. He also has extensive experience of financial and regulatory reporting in the UK and US with a strong background in internal financial controls, governance and compliance.

Appointment

Rajan was appointed to the Board and the position of Chair of the Group Audit Committee in October 2019.



Sarah Hedger¹

Non-Executive Director

Committee membership

Member of the Group Audit, Group Remuneration and Board Integration Committees.

Experience and qualifications

Sarah held leadership positions at General Electric for 12 years in its Corporate, Aviation and Capital business development teams, leaving General Electric as Leader of Business Development and M&A for its global GE Capital division. Prior to General Electric, she worked at Lazard & Co., Limited for 11 years, leaving as Director, Corporate Finance and spent five years as an auditor at PwC. Sarah is an Independent Non-Executive Director of Balta Group NV, a Belgian company listed on Euronext.

Key skills

Sarah has significant capital management and mergers and acquisitions experience in financial services. She is a qualified chartered accountant.

Appointment

Sarah was appointed to the Board in February 2019.



Mary McNamara¹

Non-Executive Director

Committee membership

Chair of the Group Remuneration Committee and member of the Group Nomination and Governance Committee.

Experience and qualifications

Mary is a Non-Executive Director of Motorpoint plc and, until December 2019, of Dignity plc. She was previously CEO of the Commercial Division and Board Director of the Banking Division at Close Brothers Group PLC. Prior to that, Mary was Chief Operating Officer of Skandia, the European arm of Old Mutual Group. Mary spent 17 years at GE Capital, running a number of businesses including GE Fleet Services Europe and GE Equipment Finance.

Key skills

Mary has broad senior management experience in the banking and finance sectors.

Appointment

Mary was appointed to the Board in May 2014.

Group Executive team (biographies)

A strong core team



Jens Bech
Group Commercial Director

Experience and qualifications

Jens joined the Bank as Chief Risk Officer in 2012, before becoming Group Commercial Director in 2014.

Jens joined the Bank from the Asset Protection Agency, an executive arm of HM Treasury, where he held the position of Chief Risk Officer. Prior to joining the Asset Protection Agency, Jens spent nearly a decade at management consultancy Oliver Wyman where he advised a global portfolio of financial services firms and supervisors on strategy and risk management. Jens led Oliver Wyman's support of Iceland during the financial crisis.



Alan Cleary
Group Managing Director, Mortgages

Experience and qualifications

Alan joined the Bank following the Combination with CCFS in October 2019.

Alan was the Managing Director at Precise Mortgages, and a co-founder of that business. Alan is responsible for Group mortgage product development, marketing and originations.

Alan has worked in the mortgage industry for over 25 years. He was Head of Sales at BM Solutions from inception in 2001 to 2005 when he became Director of Halifax Intermediaries, the largest intermediary mortgage brand in the UK at the time.



Richard Davis
Chief Information Officer

Experience and qualifications

Richard joined the Bank in 2013.

Richard has worked in financial services for 20 years, rising to Chief Information Officer at GE Money UK in 2004.

He subsequently helped launch MoneyPartners (an Investec subsidiary), as IT Director, through to the eventual sale to Goldman Sachs. Prior to joining the Bank, Richard worked for four years at Morgan Stanley covering IT, Projects and Transaction Management for the European residential business as an Interim Director.



Peter Elcock
Chief Risk Officer, CCFS

Experience and qualifications

Peter joined the Bank following the Combination with CCFS in October 2019.

Peter is responsible for the CCFS Risk. He has over 39 years of experience in financial services, having held a number of senior positions in financial institutions, including 27 years at Barclays plc in a variety of roles and most latterly at director level leading risk management strategy and change. He was previously the Chief Risk Officer at Coventry Building Society.



Jason Elphick
Group General Counsel and Company Secretary

Experience and qualifications

Jason joined the Bank in June 2016.

Jason has over 25 years of legal private practice and in-house financial services experience.

Jason's private practice experience was primarily in Australia with King & Wood Mallesons and in New York with Sidley Austin LLP and he has been admitted to practice in Australia, New York and England and Wales.

Jason's in-house financial services experience was most recently as Director and Head of Bank Legal at Santander in London. Prior to this Jason held various roles at National Australia Bank, including General Counsel Capital and Funding, Head of Governance, Company Secretary and General Counsel Product, Regulation and Resolution.



John Gaunt
Group Chief Information Officer

Experience and qualifications

John joined the Bank following the Combination with CCFS in October 2019.

John held the position of Director of IT and Change Management at CCFS and had responsibility for the operational and tactical delivery of all business matters relating to information technology, information security and change management.

With over 19 years' experience in information technology, information security and change management within the financial services sector, John has held a number of senior IT roles within Nationwide Building Society and Derbyshire Building Society.



Hasan Kazmi
Chief Risk Officer, OSB

Experience and qualifications

Hasan joined the Bank in September 2015 as Chief Risk Officer.

Hasan has over 19 years of risk experience having worked at several financial institutions, including Barclays Capital, Royal Bank of Canada and Standard Chartered Bank. Prior to joining the Bank, Hasan was a Senior Director at Deloitte within its Risk and Regulatory practice with responsibility for leading the firm's enterprise risk, capital, liquidity, recovery and resolution practice. Hasan graduated from the London School of Economics with a MSc in Systems Design and Analysis and a BSc in Management.



Clive Kornitzer
Group Chief Operating Officer

Experience and qualifications

Clive joined the Bank in 2013. Clive has over 25 years of financial services experience, having worked at several financial organisations including Yorkshire Building Society, John Charcol and Bradford and Bingley.

Prior to joining the Bank, Clive spent six years at Santander where he was the Chief Operating Officer for the intermediary mortgage business. Clive has also held positions at the European Financial Management Association and has been the Chair of the FS Forums Retail Banking Sub-Committee. Clive is a Fellow of the Chartered Institute of Bankers.



Lisa Odendaal
Group Chief Internal Auditor

Experience and qualifications

Lisa joined the Bank in April 2016.

Prior to joining the Bank, Lisa worked for Grant Thornton where she was an Associate Director responsible for leading several outsourced audit functions within the Business Risk Services division.

Lisa is a qualified Chartered Internal Auditor and has over 25 years of internal audit and operational experience gained in the UK, UAE and Switzerland, having worked at several financial institutions, including PwC, Morgan Stanley, HSBC and Man Group.



Paul Whitlock
Group Managing Director, Savings

Experience and qualifications

Paul joined the Bank following the Combination with CCFS in October 2019.

Paul was an Executive of Charter Savings Bank. Paul brings specialist knowledge of the savings market and is responsible for all aspects of the Group's savings strategy, products, propositions, sales, distribution and operations.

With over 20 years of UK and international experience in the retail banking industry, including senior positions at First Direct, HSBC and Shawbrook Bank, Paul has extensive experience delivering banking products to the consumer market.



Richard Wilson
Group Chief Credit Officer

Experience and qualifications

Richard joined the Bank in 2013.

Prior to joining the Bank, Richard was head of the credit function for Morgan Stanley's UK origination business and subsequently looked after the Credit and Collections strategy within its UK, Russian and Italian businesses. Between 1988 and 2006, Richard held various roles at Yorkshire Building Society, including the position of Mortgage Application Centre Manager.

Corporate Governance Report

Dear Shareholder,

The statement of corporate governance practices, including the Reports of Committees, set out on pages 109 to 144 and information incorporated by reference, constitutes the Corporate Governance Report of OneSavings Bank.

UK Corporate Governance Code ('the Code')

Compliance Statement

During 2019, the Company applied the principles and complied with the applicable provisions of the Code.



The Code is available at www.frc.org.uk.

¹ Independent Audit Limited has no other connection with the Company or individual Directors.

I am pleased to present to you the Company's Corporate Governance Report for 2019, and to report full compliance throughout the year with the Code as updated in 2018.

This is my first report to you following the Combination with CCFS. The Board continues to be committed to the highest standards of corporate governance and considers that good corporate governance is essential to provide the Executive team with the environment and culture in which to drive the success of the business. In a year of considerable uncertainty relating to Brexit, a key focus of the Board has been on the Combination with CCFS and governance has been and will continue to be a key aspect.

Just prior to the Combination, the Board and its Committees undertook an external evaluation facilitated by Independent Audit Limited¹ ('Independent Audit'), details of which are set out in the Report on page 107. The review concluded that the Board and its Committees continue to operate effectively.

I would like to welcome Directors who joined the Board on 4 October 2019; Tim Brooke, Noël Harwerth, Rajan Kapoor and Ian Ward. Sir Malcolm Williamson served on the Board from 4 October 2019 until 4 February 2020. Noël Harwerth was appointed as the Senior Independent Director, succeeding Rod Duke. Rajan Kapoor was appointed as Chair of the Group Audit Committee, succeeding Eric Anstee. I would like to thank Sir Malcolm Williamson, Eric Anstee and Rod Duke, who have left the Board since the Combination. I would also like to thank Tim Brooke, Margaret Hassall and Ian Ward, who are not seeking election or re-election at the AGM, for their service and contributions.

David Weymouth
Non-Executive Chairman
19 March 2020



The Investor Relations function continues to assist the Board in developing a programme of meetings and presentations to both institutional and private shareholders, details of which are also set out in the Report below. We welcome shareholders to attend the AGM, which will be held at the offices of Slaughter and May, One Bunhill Row, London EC1Y 8YY on 7 May 2020 at 11am.

The role and structure of the Board

The Board of Directors (the 'Board') is responsible for the long-term success of the Company and provides leadership to the Group. The Board focuses on setting strategy and monitoring performance and ensures that the necessary financial and human resources are in place to enable the Company to meet its objectives. In addition, it ensures appropriate financial and business systems and controls are in place to safeguard shareholders' interests and to maintain effective corporate governance. The Board now also has a particular focus on integration matters.

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

The Board operates in accordance with the Company's Articles of Association (the 'Articles') and its own written terms of reference. The Board has established a number of Committees as indicated in the chart on page 56. Each Committee has its own terms of reference which are reviewed at least annually. Details of each Committee's activities during 2019 are shown in the Group Nomination and Governance, Group Audit, Group Risk, Group Remuneration, Group Models and Ratings and Board Integration reports on pages 109 to 144.

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

A summary of the matters reserved for decision by the Board is set out below:

Strategy and management

- Overall strategy of the Group
- Approval of long-term objectives
- Approval of annual operating and capital expenditure budgets
- Review of performance against strategy and objectives

Structure and capital

- Changes to the Group's capital or corporate structure
- Changes to the Group's management and control structure

Risk management

- Overall risk appetite of the Group
- Approval of the Strategic Risk Management Framework

Financial reporting and controls

- Approval of financial statements
- Approval of dividend policy
- Approval of significant changes in accounting policies
- Ensuring maintenance of a sound system of internal control and risk management

Remuneration

- Determining the remuneration policy for the Executive Directors
- Oversee the introduction of new share incentive plans or major changes to existing plans

Corporate governance

- Review of the Group's overall governance structure
- Determining the independence of Directors

Board members

- Changes to the structure, size and composition of the Board
- Appointment or removal of the Chairman, Chief Executive Officer, Senior Independent Director and Company Secretary

Other

- The making of political donations
- Reviewing the overall levels of insurance for the Group

Corporate Governance Report continued

Accountability

In line with the Code provisions, the Board ensures that a fair, balanced and understandable assessment of the Group's position and prospects is presented in all financial and business reporting. The Board is responsible for determining the nature and extent of the principal risks it is willing to take in achieving its strategic objectives and maintains sound risk management and internal control systems. The Board has established formal and transparent arrangements for considering how it should apply the corporate reporting, risk management and internal control principles and for maintaining an appropriate relationship with the Group's auditors.

Financial and business reporting

The Board is committed to ensuring that all external financial reporting presents a fair, balanced and understandable assessment of the Group's position and prospects. To achieve this, the Board reviews each report and considers the level of consistency throughout; whether there is a balanced review of the competitive landscape; the use of sufficiently simple language; the analysis of risks facing the business; and that there is equal prominence given to statutory and alternative performance measures. The Board has established a Group Audit Committee to assist in making its assessment. The activities of the Group Audit Committee are set out on pages 112 to 117.

Risk management and internal control

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

The Board has carried out a robust assessment of the principal risks facing the business, including those that would threaten its business model, future performance, solvency or liquidity. Further details are contained in the viability statement on pages 73 and 74.

The Board has established a Group Risk Committee to which it has delegated authority for oversight of the Group's risk appetite, risk monitoring and capital management. The Group Risk Committee provides oversight and advice to the Board on current risk exposures and future risk strategy and assists the Board in fostering a culture within the Group, which emphasises and demonstrates the benefits of a risk-based approach to internal control and management.

Further details of the Group's risk management approach, structure and principal risks are set out in the Group Risk review on pages 52 to 72. The Board has delegated authority to the Group Audit Committee for reviewing the effectiveness of the Company's internal control systems including oversight of financial reporting processes. The Group Audit Committee is supported by the Internal Audit function in discharging this responsibility, and receives regular reports from the Group Chief Internal Auditor as to the overall effectiveness of the control system within the Group. The Group Audit Committee also receives reports from the external auditors on control matters. Details of the review of the effectiveness of the Company's internal control systems are set out in the Group Audit Committee report on page 115.

Control environment

The Group is organised along the 'three lines of defence' model to ensure at least three stages of independent oversight to protect the customer and the Group from undue influence, conflict of interest and poor controls.

The first line of defence is provided by the operational business lines which measure, assess and control risks through the day to day activities of the business within the frameworks set by the second line of defence. The second line of defence is provided by the Risk, Compliance and governance functions which include the Board and Group Executive Committee. As noted above, the Board sets the Company's risk appetite and is ultimately responsible for ensuring an effective Strategic Risk Management Framework is in place. The Compliance function maintains the 'key controls framework' which tracks and reports on key controls within the business to ensure compliance with the main provisions of the Financial Conduct Authority ('FCA') and the Prudential Regulation Authority ('PRA') handbooks. Policy documents also include key controls that map back to the key controls framework. The third line of defence is the Internal Audit function.

The Board is committed to the consistent application of appropriate ethical standards, and the Conduct Risk Policy sets out the basic principles to be followed to ensure ethical considerations are embedded in all business processes and decision-making forums. The Group also maintains detailed policies and procedures in relation to the prevention of bribery and corruption, and a Whistleblowing Policy.

Directors

The Directors who served during the year are listed in the table on page 103. Sir Malcolm Williamson, Tim Brooke, Noël Harwerth, Rajan Kapoor and Ian Ward were appointed on 4 October 2019. Sir Malcolm Williamson, Eric Anstee and Rod Duke ceased to be Directors on 4 February 2020. Tim Brooke, Margaret Hassall and Ian Ward will not stand for election or re-election at the AGM and will cease to be Directors on 7 May 2020.

The Board currently consists of 11 Directors; the Chairman, two Executive Directors and eight independent Non-Executive Directors ('NEDs'). The biographies of the Directors (excluding NEDs stepping down from the Board) can be found on pages 96 and 97.

Board meetings and attendance

The Board met 13 times during the year. The Board has a formal meeting schedule with ad hoc meetings called as and when circumstances require. This includes an annual calendar of agenda items to ensure that all matters are given due consideration and are reviewed at the appropriate point in the

regulatory and financial cycle. The Board has established a number of Committees as shown in the table below, including the newly-established Board Integration Committee which is chaired by David Weymouth. The table also shows each Director's attendance at Board and Committee meetings they were eligible to attend in 2019.

Director	Board	Group Audit Committee	Group Remuneration Committee	Group Nomination and Governance Committee	Group Risk Committee	Board Integration Committee
Sir Malcolm Williamson (Chairman)	1/1 ¹	n/a	1/1 ¹	1/1 ¹	n/a	3/3 ¹
David Weymouth (Deputy Chair)	13/13	n/a	7/7	5/5	n/a	3/3
Graham Allatt	12/13	7/7	n/a	n/a	7/7	n/a
Eric Anstee	12/13	7/7	n/a	n/a	7/7	n/a
Tim Brooke	1/1 ¹	2/2 ¹	n/a	n/a	2/2 ¹	n/a
Rod Duke	13/13	n/a	7/7	5/5	n/a	3/3
Andy Golding	13/13	n/a	n/a	n/a	n/a	3/3
Noël Harwerth	1/1 ¹	n/a	1/1 ¹	1/1 ¹	1/2 ¹	n/a
Margaret Hassall	13/13	5/5 ³	n/a	n/a	5/5 ³	3/3
Sarah Hedger	12/12 ²	2/2 ²	n/a	n/a	n/a	3/3 ²
Rajan Kapoor	1/1 ¹	2/2 ¹	1/1 ¹	n/a	2/2 ¹	3/3 ¹
Mary McNamara	12/13	n/a	7/7	4/4 ³	5/5 ³	n/a
April Talintyre	13/13	n/a	n/a	n/a	4/5 ³	n/a
Ian Ward	1/1 ¹	n/a	n/a	n/a	n/a	n/a

1. Appointed as a Director on 4 October 2019.

2. Appointed as a Director on 1 February 2019.

3. Ceased to be a member on 4 October 2019.

All Directors are expected to attend all meetings of the Board, any Committees of which they are members and to devote sufficient time to the Company's affairs to fulfil their duties as Directors. Where Directors are unable to attend a meeting, they are encouraged to submit any comments on the meeting materials in advance to the Chair, to ensure that their views are recorded and taken into account during the meeting.

The first combined Board meeting was held in Wolverhampton and provided an opportunity for Directors and Executives to meet with representatives from different parts of the business. Similarly, introductory meetings were held in Chatham.

Key Board activities during the year included:

- Strategy – the Board convened a number of meetings and update calls leading up to the Combination with CCFS
- Risk monitoring and review
- Governance and compliance
- External affairs and competitor analysis
- Talent review/succession planning
- Annual, interim and quarterly reporting
- Customer/brand/product review
- Policy review and update
- Investment proposals
- Mission, Vision and Values

Roles of the Chairman and Chief Executive Officer

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

The Chairman, David Weymouth, is responsible for setting the 'tone at the top' and ensuring that the Board has the right mix of skills, experience and development so that it can focus on the key issues affecting the business and for leading the Board and ensuring it acts effectively. Andy Golding, as CEO, has overall responsibility for managing the Group and implementing the strategies and policies agreed by the Board. A summary of the key areas of responsibility of the Chairman and CEO, and how these have been discharged during the year, are set out on page 104.

Corporate Governance Report continued

Chairman's responsibilities	Activities carried out in 2019
Chairing the Board and general meetings of the Company.	David Weymouth chaired 12 out of 13 Board meetings held in during 2019, as well as the 2019 AGM. Sir Malcolm Williamson chaired one Board meeting following his appointment in October 2019. He retired from the Board on 4 February 2020.
Setting the Board agenda and ensuring that adequate time is available for discussion of all agenda items.	The Chairman liaised with the Company Secretary, set the annual calendar of Board business and the agendas for the individual meetings. Time is allocated for each item of business at meetings.
Promoting the highest standards of integrity, probity and corporate governance throughout the Company.	The Board received regular updates from its Committees on changes in corporate governance and its application to the Company.
Ensuring that the Board receives accurate, timely and clear information in advance of meetings.	The Chairman, in liaison with the Company Secretary and the CEO, agreed the information to be distributed to the Board in advance of each meeting.
Promoting a culture of openness and debate by facilitating the effective contribution of all NEDs.	The Chairman ran meetings in an open and constructive way, encouraging contribution from all Directors and regularly met with the NEDs without management present so that any concerns could be expressed.
Ensuring constructive relations between Executive and NEDs and the CEO in particular.	
Regularly considering succession planning and the composition of the Board.	The Board received regular updates from the Group Nomination and Governance Committee. Details of the Committee's activities are explained in the Group Nomination and Governance Committee report on pages 109 to 111.
Ensuring training and development needs of all Directors are met, and that all new Directors receive a full induction.	The Chairman, in liaison with the Company Secretary, has reviewed the Directors' training requirements. Details of induction and training held during the year are given on page 106.
Ensuring effective communication with shareholders and stakeholders.	The Chairman, along with the Board, and assisted by the CEO, CFO and Investor Relations team, agreed a programme of investor relations meetings. Details of meetings carried out during the year are shown on page 108.

Chief Executive Officer's responsibilities

Andy Golding's responsibilities as CEO are to ensure that the Company operates effectively at strategic, operational and administrative levels. He is responsible for all the Group's activities; he provides leadership and direction to encourage others to effect strategies agreed by the Board; channels expertise, energy and enthusiasm; builds individual capabilities within the team; develops and encourages talent within the business; identifies commercial and business opportunities for the Group, building strengths in key areas; and is responsible for all commercial activities of the Group, liaising with regulatory authorities where appropriate. He is responsible for the quality and financial wellbeing of the Group, represents the Group to external organisations and builds awareness of the Group externally. Following the Combination, Andy now has a specific focus on the delivery of integration objectives.

An experienced Group Executive team, comprising specialists in finance, banking, risk, legal and IT matters, assist the CEO in carrying out his responsibilities. The biographies for the Group Executive team are set out on pages 98 and 99.

Group Executive Committee

The CEO chairs the Group Executive Committee, whose members also include the Chief Financial Officer ("CFO"), Group Chief Operating Officer, Chief Risk Officers of OSB and CCFS, Group General Counsel and Company Secretary, Group Commercial Director, Group Chief Information Officer, Chief Information Officer, Group Chief Credit Officer, Group Managing Director for Mortgages; Group Managing Director for Savings and the Group Chief Internal Auditor. Members of the CCFS Executive team joined the Group Executive Committee following the Combination. The Group Executive Committee is supported by a number of Management Committees. The purpose of the Group Executive Committee is to assist the CEO in the performance of his duties, including:

- The development and implementation of the strategic plan as approved by the Board.
- The development, implementation and oversight of a strong operating model that supports the strategic plan.
- The development and implementation of systems and controls to support the strategic plan.
- To review and oversee operational and financial performance.
- To prioritise and allocate the Group's resources in accordance with the strategic plan.
- To oversee the development of a high performing senior management team.
- To oversee the customer proposition and experience to ensure consistency with the Group's obligation to treat customers fairly.
- To oversee the appropriate protection and control of private and confidential data.
- To review and oversee the key and strategic business risks.
- To oversee how the Mission, Vision and Values are being embedded.

The Group Executive Committee's activities during the year included:

- Business review
- Capital and funding
- Human resources and succession planning
- Governance, control and risk environment – current and forward-looking
- Integration planning
- Monitoring target operating model progress
- Mission, Vision and Values

Senior Independent Director

Following the Combination, Noël Harwerth was appointed as the Senior Independent Director ('SID'), succeeding Rod Duke. The SID's role is to act as a sounding board for the Chairman and to support him in the delivery of his objectives. This includes ensuring that the views of all other Directors are communicated to, and given due consideration by, the Chairman. In addition, the SID is responsible for leading the annual appraisal of the Chairman's performance.

The SID is also available to shareholders should they wish to discuss concerns about the Company other than through the Chairman and CEO.

Company Secretary

The Company Secretary, Jason Elphick, plays a key role within the Company, advising on good governance and assisting the Board to discharge its responsibilities, acting with integrity and independence to protect the interests of the Company, its shareholders and employees. Jason advises the Company to ensure that it complies with all statutory and regulatory requirements and he works closely with the Chairman, CEO and Chairs of the Committees of the Board so that Board procedures (including setting agendas and the timely distribution of papers) are complied with, and that there is a good communication flow between the Board, its Committees, senior management and NEDs. Jason also provides the Directors with advice and support, including facilitating induction programmes and training in conjunction with the Chairman.

Effectiveness

Balance and independence

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

The Board comprises eight NEDs, the Chairman and two Executive Directors. All of the NEDs, including the Chairman, have been determined by the Board to be independent in character and judgement and free from relationships or circumstances which may affect, or could appear to affect, the relevant individual's judgement. The independence of the NEDs is reviewed continuously, including a formal annual review. Any NED who does not meet the independence criteria will not stand for election or re-election at the AGM.

The size and composition of the Board is kept under review by the Group Nomination and Governance Committee and the Board to ensure an appropriate balance of skills and experience are represented. An external skills review was undertaken during 2019. The Board is satisfied that its current composition allows it to operate effectively and that all Directors are able to bring specific insights and make valuable contributions to the Board, due to their varied commercial backgrounds. The NEDs provide constructive challenge to the Executives, and the Chairman ensures that the views of all Directors are taken into consideration in the Board's deliberations. The Directors' biographies can be found on pages 96 and 97.

Non-Executive Directors' terms of appointment

NEDs are appointed for terms of three years, subject to annual re-election by shareholders. The initial term may be renewed up to a maximum of three terms (nine years). The terms of appointment of the NEDs specify the amount of time they are expected to devote to the business, which is a minimum of two and half days per month, calculated based on the time required to prepare for and attend Board and Committee meetings, the AGM, meetings with shareholders and training. Their commitment also extends to working such additional hours as may be required in exceptional circumstances.

NEDs are required to confirm annually that they continue to have sufficient time to devote to the role.

Appointment, retirement and re-election of Directors

The Board may appoint a Director, either to fill a vacancy or as an addition to the existing Board. All appointments are subject to a formal, rigorous and transparent procedure; succession is also considered. Appointments and succession planning are based on merit and objective criteria and, within this context, promotes diversity of gender, social and ethnic backgrounds, cognitive and personal strengths. Any new Director must then retire at the next AGM and is put forward for election by the shareholders. All other Directors are put forward for re-election annually. In addition to any power of removal conferred by the Companies Act, any Director may be removed by special resolution, before the expiration of his or her period of office and, subject to the Articles, another person who is willing to act as a Director may be appointed by ordinary resolution in his or her place. Tim Brooke, Margaret Hassall and Ian Ward will not stand for election or re-election at the AGM and will cease to be Directors on 7 May 2020.

Corporate Governance Report continued

Conflicts of interest

The Company's Articles set out the policy for dealing with Directors' conflicts of interest and are in line with the Companies Act 2006. The Articles permit the Board to authorise conflicts and potential conflicts, as long as the potentially conflicted Director is not counted in the quorum and does not vote on the resolution to authorise the conflict.

Directors are required to complete an annual confirmation including a fitness and propriety questionnaire, which requires declarations of external interests and potential conflicts. In addition, all Directors are required to declare their interests in the business to be discussed at each Board and Committee meeting. The interests of new Directors are reviewed during the recruitment process and authorised, if appropriate, by the Board at the time of their appointment. The Group Nomination and Governance Committee also reviews conflicts of interest relating to Directors at least annually; periodic reviews are also undertaken as required. The Group has also adopted a Conflicts of Interest Policy, which includes a procedure for identifying potential conflicts of interest within the Group.

No Director had a material interest in any contract of significance in relation to the Group's business at any time during the year or at the date of this report.

Directors' indemnities

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

Directors' powers

As set out in the Articles, the business of the Company is managed by the Board, which may exercise all the powers of the Company. In particular, save as otherwise provided in company law or in the Articles, the Directors may allot (with or without conferring a right of renunciation), grant options over, offer, or otherwise deal with or dispose of shares in the Company to such persons at such times and generally on such terms and conditions as they may determine. The Directors may at any time after the allotment of any share but before any person has been entered in the Register as the holder, recognise a renunciation thereof by the allottee in favour of some other person and may accord to any allottee of a share a right to effect such renunciation upon and subject to such terms and conditions as the Directors may think fit to impose. Subject to the provisions of company law, the Company may purchase any of its own shares (including any redeemable shares).

Training and development

The Chairman ensures that all Directors receive a tailored induction on joining the Board, with the aim of providing a new Director with the information required to allow him or her to contribute to the running of the Group as soon as possible. The induction programme is facilitated and monitored by the Company Secretary to ensure that all information provided is fully understood by the new Director and that any queries are dealt with. Typically, the induction programme will include a combination of key documents and face to face sessions covering the governance, regulatory and other arrangements of the Group. Since the Combination, all Directors have had meetings with specific areas of the business within the Group.

As senior managers, under the Senior Managers Regime operated by the PRA and FCA, all Directors have had to maintain the skills, knowledge and expertise required to meet the demands of their positions of 'significant influence' within the Bank. As part of the annual fitness and propriety assessment, Directors are required to complete a self-certification that they have undertaken sufficient training during the year to maintain their skills, knowledge and expertise and to make declarations as to their fitness and propriety. The Company Secretary supports the Directors to identify relevant internal and external courses to ensure Directors are kept up to date with key regulatory changes, their responsibilities as senior managers and other matters impacting the business.

Information and support

The Company Secretary and the Chairman agree an annual calendar of matters to be discussed at each Board meeting to ensure that all key Board responsibilities are discharged over the year. Board agendas are then distributed with accompanying detailed papers to Directors in advance of each Board and Committee meeting. These include reports from Executive Directors and other members of senior management. All Directors have direct access to senior management should they require additional information on any of the items to be discussed. The Board and Group Audit Committee also receive further regular and specific reports to allow the monitoring of the adequacy of the Group's systems and controls.

The information supplied to the Board and its Committees is kept under review and formally assessed on an annual basis as part of the Board evaluation exercise to ensure it is fit for purpose and that it enables sound decision-making.

There is a formal procedure through which Directors may obtain independent professional advice at the Group's expense. The Directors also have access to the services of the Company Secretary as described on page 105.

Board evaluation

The Board undertakes an evaluation of its performance and that of its Committees and individual Directors annually. An externally-facilitated evaluation was conducted during 2019 by Independent Audit. The evaluation was conducted by face to face interviews. Independent Audit concluded that members of the Board brought a wide range of relevant skills, knowledge and experience. The report outlined that OSB and the Board benefited from a very capable senior management team noting that the energetic, confident and committed CEO and CFO were universally well regarded and possessed the necessary skills to drive growth. The report noted that their relationship with the Board was one of mutual respect and openness. It further stated that the quality of reports had improved across most areas, giving the Board foundation for good discussions. It was felt that OSB was on a positive path and that the Board was well placed to perform its duties effectively.

Independent Audit made suggestions which may, collectively or in some combination, contribute to more discursive Board meetings, with adjustments being made to ways in which the Directors and senior management interact in order to benefit the Board. The Board was aware that the technology strategy required ongoing attention in light of OSB's growth, as did culture in order to monitor how successfully it is being integrated and understood throughout the Group. Independent Audit was satisfied that no individual or group of Directors dominated the discussions or had undue influence in the decision-making process.

Suggestion	Action proposed
Explore ways in which NEDs can be increasingly equipped to provide more wide-ranging strategic challenge as the business grows.	Chairman to review Board and individual NED challenge as part of the regular Board effectiveness reviews. Actions to be considered if required.
Increase the opportunities for NEDs to interact with each other, with Executives and with counterparts from the combined entity.	Informal catch-ups will be scheduled around some meetings.
Ensure that a skills matrix is in place (and adjusted following the Combination) for NEDs and Executives, with input from the Group Nomination and Governance Committee.	Skills matrix developed by an external firm and presented to the Group Nomination and Governance Committee in December 2019.
Continue to monitor closely the implementation and integration of the new culture.	A number of culture surveys were conducted during and after the Combination. This will continue as part of the broader post integration culture strategy review.
Consider dedicating additional time on Board meeting days to cover the extra workload of the combined Board.	50% extra time has been allocated to post Combination Board meetings. This will be monitored and adjusted as appropriate. Chairman and secretary to monitor as part of the Board effectiveness monitoring post Combination.
Consider additional support for HR Department, such as appointing a remuneration specialist.	To be considered by CEO and Group Nomination and Governance Committee post Combination as part of the operating model review.
Continue to monitor risk reporting to the Board, to ensure it gives a clear and effective summary of the debate and encourages NEDs to focus on the overarching risk picture.	The management information ('MI') relating to Risk has been reviewed and refined throughout 2019. Risk MI will also be benchmarked against industry standards.
The Group Nomination and Governance Committee could be more proactive on succession, feeding back more detailed reports to the Board to fuel the creation of a skills matrix for NEDs, which acknowledges the value of the Board as a combined entity which can be stronger than the sum of its parts.	An external review was commissioned, which involved interaction with each Board member to create a detailed skills matrix of the existing Board. This report is scheduled for full Board discussion in 2020. A new Board Effectiveness review will be commissioned in 2020 which will continue to work on this and review the effectiveness of the Board as a whole.

Corporate Governance Report continued

Whistleblowing

The Group has established procedures by which employees may, in confidence, raise concerns relating to possible improprieties in matters of financial reporting, financial control or any other matter. The Whistleblowing Policy applies to all employees of the Group and is benchmarked against industry standards. The Group Audit Committee is responsible for monitoring the Group's whistleblowing arrangements and the Policy.

The Group is confident that the arrangements are effective, facilitate the proportionate and independent investigation of reported matters and allow appropriate follow-up action to be taken. Further details are provided on page 116.

Relations with shareholders

Dialogue with shareholders

The Group has a dedicated Investor Relations function which maintains regular, open and transparent dialogue with institutional investors and sell-side analysts. The team has access to the CEO and CFO who are available for meetings with shareholders and frequently attend industry conferences. Twice a year, post year end and half year results, the CEO and the CFO participate in roadshows meeting larger investors. In 2019, for OSB only, the Investor Relations team and management met a total of 140 individual existing and potential investors.

The Board's primary contact with institutional shareholders and sell-side analysts is through the CEO and the CFO. The Board is also regularly presented with shareholders' feedback, analysts' recommendations and market views via Investor Relations updates, topics which are frequently on the Board agenda.

As a result of the Combination and becoming a Level 2 firm, the Group conducted a remuneration consultation of the Executive team in the year, meeting with the top ten shareholders. These meetings were attended by the then Chairman, Sir Malcolm Williamson and the re-appointed Chairman, David Weymouth providing an opportunity to discuss the proposed remuneration but also any other topics of interest to our investors.

Annual General Meeting

The AGM will be held at the offices of Slaughter and May, One Bunhill Row, London EC1Y 8YY on 7 May 2020 at 11am. The Chairs of each of the Committees of the Board will be present to answer questions put to them by shareholders. The Annual Report and Accounts and Notice of the AGM will be sent to shareholders at least 20 working days prior to the date of the meeting.

Shareholders are encouraged to participate in the AGM process, and all resolutions will be proposed and voted on at the meeting on an individual basis by shareholders or their proxies. Voting results will be announced and made available on the Company's website, www.osb.co.uk.

Shareholders may require the Directors to call a general meeting other than an AGM as provided by the Companies Act 2006. Requests to call a general meeting may be made by members representing at least 5% of the paid-up capital of the Company as carries the right of voting at general meetings of the Company (excluding any paid-up capital held as treasury shares). A request must state the general nature of the business to be dealt with at the meeting and may include the text of a resolution that may properly be moved and is intended to be moved at the meeting. A request may be in hard copy form or in electronic form and must be authenticated by the person or persons making it. A request may be made in writing to the Company Secretary to the registered office or by sending an email to company.secretariat@osb.co.uk. At any general meeting convened on such request, no business shall be transacted, except that stated by the requisition or proposed by the Board.

Group Nomination and Governance Committee Report

The Combination provided an opportunity for an extensive review of the balance of skills required on the Board.

Dear Shareholder,

I am pleased to present my first report to you as Chair of the Group Nomination and Governance Committee.

Membership and meetings

The Committee met a total of five times during 2019.

The members of this Committee are myself as Chairman of the Board (David Weymouth), Noël Harwerth and Mary McNamara. Prior to the Combination, Rod Duke served as Chair of the Committee and I would like to thank him for his service and contribution.

A number of items were considered by the Committee during 2019, including examination of the revised UK Corporate Governance Code against practices to ensure compliance at the earliest opportunity. The Bank's progress in terms of achieving the commitments set out in the Women in Finance Charter and various diversity initiatives were also reviewed. I am very pleased to announce that OSB achieved its three year target during 2019 of having 30% of senior roles in the Bank occupied by women by 2020. During 2019, CCFs also made progress towards its targets, and since the Combination the Committee has been reviewing and intends to shortly publish a new revised Group target for the combined entity.

Further details on areas considered by the Committee are provided on pages 110 and 111.

David Weymouth

Chair of the Group Nomination and Governance Committee and Chairman of the Board
19 March 2020



Group Nomination and Governance Committee Report continued

Responsibilities

The specific responsibilities and duties of the Committee are set out in its terms of reference which are available on our website, www.osb.co.uk.

Composition of the Board and its Committees

The Committee conducted a review of the composition of the Group Audit, Group Remuneration and Group Risk Committees and its own composition during 2019, carefully considering the skills of the existing members and looking at any skills gaps applicable to each Committee. Sarah Hedger was appointed as a NED on 1 February 2019 following an extensive search for an individual whose skills it was felt would add additional value to the Board.

On combining with CCFS, a number of changes were made to the Board and Committee memberships. Sir Malcolm Williamson was appointed Chairman of the Board, with David Weymouth (the previous Chairman) assuming the role of Deputy Chair and leading the newly-established Board Integration Committee with a clear focus on the delivery of cost synergies and other expected benefits of the Combination. As part of the Combination, Tim Brooke, Noël Harwerth, Rajan Kapoor and Ian Ward (previously NEDs of CCFS) were appointed to the Board, with Noël Harwerth assuming the role of the SID. In addition, Rajan Kapoor was appointed as Chair of the Group Audit Committee; Sir Malcolm Williamson was appointed as Chair of this Committee and has since retired; David Weymouth now Chairs this Committee. Graham Allatt and Mary McNamara remained as Chairs to the Group Risk Committee and Group Remuneration Committee respectively. A Group Models and Ratings Committee was also established, with effect from January 2020, which Graham Allatt will Chair.

On 4 February 2020, Sir Malcolm Williamson retired as Chairman of the Board and David Weymouth resumed the role of Chairman. On the same date, Rod Duke resigned from the OSB Board and was appointed Chairman of the CCFSL Board; Eric Anstee also resigned. Tim Brooke, Margaret Hassall and Ian Ward will step down from the Board after the AGM. David Weymouth was not involved in discussions relating to his appointment as Chairman.

Succession planning

The Committee considered both Board and Executive level succession planning during 2019, including ways in which skills could be developed. The Combination provided an opportunity for a wholesale review of the balance of skills required on the Board. An external firm was engaged to assist with this process. The findings were then used to discuss the optimum composition of the Board. In 2019, there has been considerable focus in the Bank on establishing the new Group Executive Committee, drawing on senior executives from both OSB and CCFS in doing so. That process is now complete, noting that whilst two banking licences are retained there will be a separate Chief Risk Officer for each of the regulated Banks. In 2019, the Committee refined its review of Executive skills, in particular with a detailed succession plan established for each role, drawing upon a review of existing talent across both of the Banks.

The Committee also received updates on the performance of the wider employee population, including those participating in the Primary Talent Group.

Diversity

Our Bank recognises and embraces the benefits of having a diverse Board and workforce, and sees diversity at Board level as an essential element in maintaining a competitive advantage. We believe that a truly diverse Board and workforce will include and make good use of differences in the skills, regional and industry experience, age, background, race, gender and other distinctions between people. The Board recognises for itself that diversity is the key to better decision-making and avoiding 'group think'.

These differences are considered in determining the optimum composition of the Board and, where possible, will be balanced appropriately. All Board appointments are made on merit, in the context of the skills, experience, independence and knowledge which the Board as a whole requires to be effective.

The Committee regularly reviews diversity initiatives including its annual review of the Diversity and Inclusion Policy. The Board remains committed to the Women in Finance Charter and has introduced measurable objectives with the aim continuing to be that 30% of senior management positions within the Group's UK population will be undertaken by female employees by the end of 2020. Currently, 15% of the Group Executive Committee and 45% of our Board are female, placing us in the top 12 of the FTSE 250 for gender diversity. 9% of the Board is from an ethnic minority. The Board recognises and embraces the benefits that diversity can bring to its Board and sees diversity and inclusion at Board level as an essential element in maintaining a competitive advantage. This will be reviewed again at the end of 2020, post significant integration activities.

Our Bank has also appointed a Diversity and Inclusion Champion, Jason Elphick, to promote a series of diversity initiatives such as our commitment to those with a disability, mental health in the workplace and unconscious bias training.



Further details relating to diversity and inclusion are set out on page 81.

Governance

The Committee reviewed changes in the regulatory landscape, particularly the remit and composition of Committees following the Combination.

Activities during 2019

In last year's report the Committee identified eight key priorities.

A summary of actions taken and outcomes are set out in the table below.

Objective	Action taken
Consider the approach to Board and Group Executive succession planning and the extent to which that planning incorporates a range of diversity criteria beyond gender diversity.	The Combination with CCFS in 2019 meant the focus of this action was firstly to establish the new optimal Board and Group Executive team. An external review led to a series of recommendations to be actioned by the Committee and the Board regarding Board composition in 2020. In addition, the Committee reviewed the succession plans for the prior Executive team (before the Combination) during 2019 and will conduct an in-depth review of executive succession plans across both Banks during 2020.
Consider further training and development needs for Committee members.	Training and development needs for Committee members were reviewed and training plans prepared for each Committee and broader Board members during 2019. This involved a combination of tailored internally provided training and attendance at externally provided training events.
Provide oversight of how the Mission, Vision and Values are being embedded.	The Committee received regular updates on culture and engagement, reviewed and tested externally run surveys (the Sunday Times Best Companies to Work For and the Banking Standards Board surveys).
Corporate governance reform.	The Committee receives regular updates on corporate governance changes in the industry, including the steps being taken by the Group to ensure compliance with any relevant changes.
Embedding diversity initiatives and reduction of the gender pay gap.	The Bank has raised awareness of the various initiatives that have been put in place to support diversity. Such initiatives relate to disabled facilities, mental health awareness workshops, the introduction of a Women's Networking Forum and unconscious bias training. Regular updates are provided to the Committee on the progress of diversity initiatives.
External Board and Committee effectiveness.	An externally-facilitated evaluation of the Board and its Committees was undertaken during 2019, with a positive result overall. The Committee also reviewed and monitored the action plan of suggested improvements. Further details are set out on page 107.
Oversee progress with the Group's purpose and sustainability.	The Committee reviewed the Environmental Policy and the actions being taken to enable the Bank to continue to operate sustainably.
Oversee development of the talent pipeline.	Members of the Committee met with the Primary Talent Group ('PTG') to understand the level of support provided to them and what other support would be beneficial. The Committee also received periodic reports of the activities undertaken by the PTG.

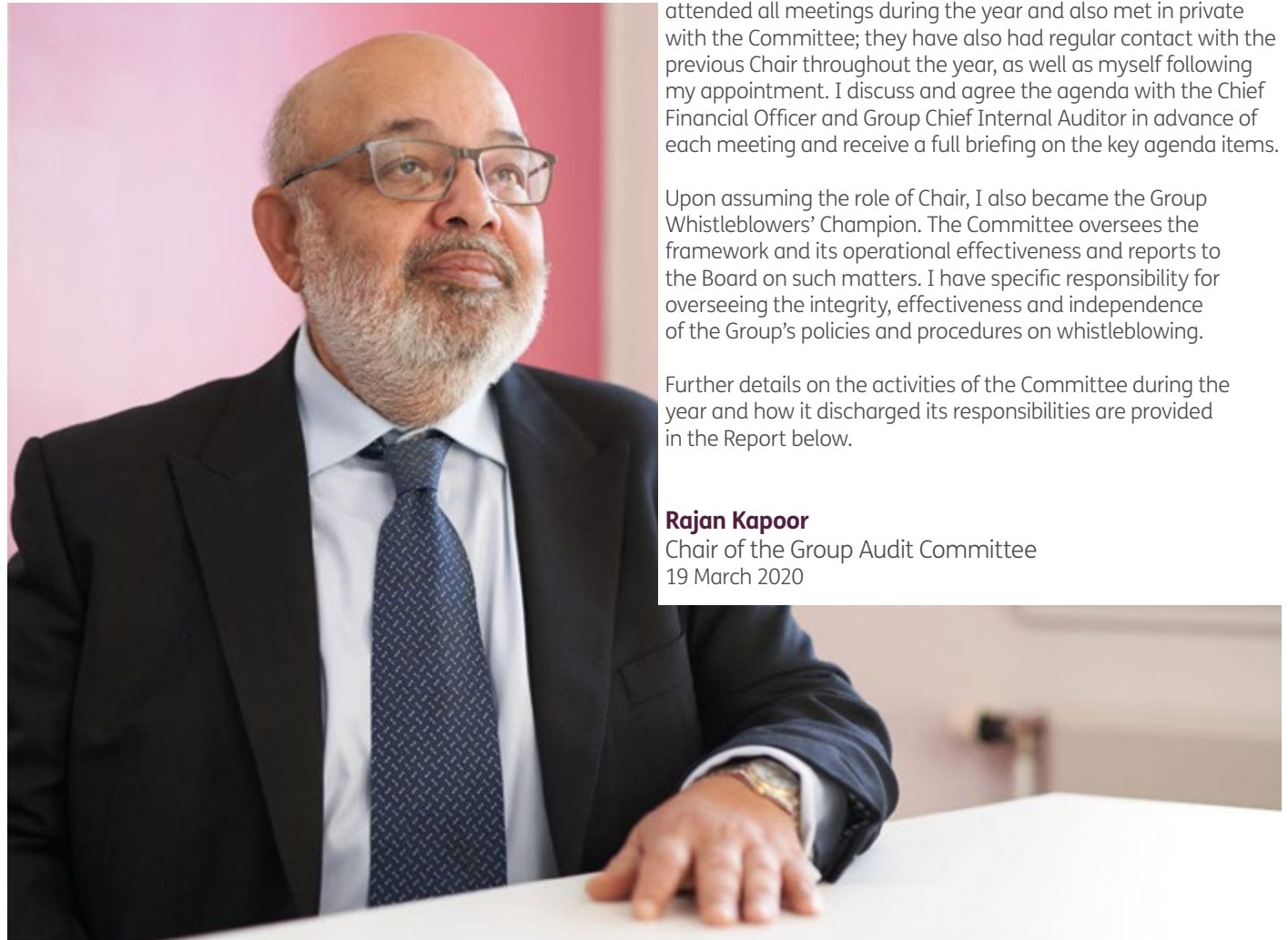
Priorities for 2020

The Committee's priorities for 2020 are:

- Ensuring that the composition and size of the Board and Board Committees remains appropriate post Combination.
- Overseeing the development of succession plans for Group Executive Committee members and key Board roles.
- Oversee the development of the revised Mission, Vision and Values for the combined Group, along with the strategy to embed them.
- Review and agree the new combined diversity initiatives and reduction of the gender pay gap.
- External Board and Committee effectiveness review.
- Oversee progress with the Group's combined purpose and sustainability initiatives.
- Oversee the development of the talent pipeline and its relationship to succession planning.
- Provide oversight of the newly-established employee forum, OneVoice.

Group Audit Committee Report

The Committee is responsible for monitoring and reviewing the Group's financial reports and disclosures.



Dear Shareholder,

I am pleased to present my first report of the Group Audit Committee for 2019, following my appointment as its Chair in October 2019. The Committee is responsible for monitoring and reviewing the Group's financial reports and disclosures, its accounting policies and practices and systems of internal controls, including internal financial controls. The Committee manages the relationship with the external auditors and oversees the work of the Internal Audit function. During the year, the Committee has continued to focus on areas of significant judgement in the financial statements, including those relating to the Combination with CCFS, as set out in the report below.

Taken as a whole, the Committee has an appropriate balance of skills, including recent and relevant financial experience. In addition to members, standing invitations to Committee meetings are extended to the Executive Directors, Chief Risk Officer, Chief Internal Auditor, Group Conduct and Compliance Director and the external audit partner; all of whom attend meetings as a matter of practice. Other non-members may be invited to attend all or part of any meeting as and when appropriate.

The Company Secretary acts as Secretary to the Committee. The Group Chief Internal Auditor and the external auditor attended all meetings during the year and also met in private with the Committee; they have also had regular contact with the previous Chair throughout the year, as well as myself following my appointment. I discuss and agree the agenda with the Chief Financial Officer and Group Chief Internal Auditor in advance of each meeting and receive a full briefing on the key agenda items.

Upon assuming the role of Chair, I also became the Group Whistleblowers' Champion. The Committee oversees the framework and its operational effectiveness and reports to the Board on such matters. I have specific responsibility for overseeing the integrity, effectiveness and independence of the Group's policies and procedures on whistleblowing.

Further details on the activities of the Committee during the year and how it discharged its responsibilities are provided in the Report below.

Rajan Kapoor

Chair of the Group Audit Committee
19 March 2020

Membership and meetings

The Committee met seven times during the year. The current members of the Committee are Rajan Kapoor as Chair, Graham Allatt, Tim Brooke and Sarah Hedger. Eric Anstee was Chair of the Committee until 4 October 2019 and a member until 4 February 2020 when he stepped down from the Board. Margaret Hassall ceased to be a member of the Committee on 4 October 2019. Tim Brooke will cease to be a member of the Committee on 7 May 2020. Rajan Kapoor served as Chair of the CCFS Audit Committee and has wide-ranging finance experience in the banking industry.

Responsibilities

The primary role of the Committee is to assist the Board in overseeing the systems of internal control and external financial reporting across the Group. The Committee's specific responsibilities are set out in its terms of reference, which are reviewed at least annually. These are available on the Company's website, www.osb.co.uk, and cover external and internal audit, financial reporting, compliance, whistleblowing, fraud and internal controls.

In addition, the Chair of the Group Audit Committee is available to meet with the Company's investors on request, in accordance with the Financial Reporting Council's ('FRC') Stewardship Code.

Activities during 2019

The principal activities undertaken by the Committee during the year are described below.

Significant areas of judgement considered by the Committee

The following significant accounting judgements were considered by the Committee in relation to the interim and full year results of the Group. The Committee also focused on the classification of integration costs including exceptional items. In its assessment, the Committee considered and challenged reports from management, explaining each area of significant judgement and management's recommended approach. The Committee also received reports from the external auditor setting out their views on the accounting treatment and judgements underpinning the financial statements.

Loan book Expected Credit Losses

The Committee received and challenged reports from management prior to each reporting date, explaining the approach taken to provisioning and the resulting changes in provision levels during the period.

Post completion of the Combination with CCFS, the Committee reviewed and challenged management's proposals relating to the:

- IFRS 9 provision requirements for the purchase of originated credit impaired ('POCI') assets in respect of CCFS as set as at the date of Combination.
- Stage 2 transfer criteria: management proposed the implementation of an aligned transfer criteria framework which incorporated both a quantitative approach, which assessed whether a significant increase in credit risk had been observed (i.e. change in probability of default level) from the point of origination, supplemented by a qualitative rules-based approach, using both internal and external credit bureau information.
- Stage 3 transfer criteria: CCFS implemented an aligned stage 3 logic within the reporting period.
- Macroeconomic scenarios and probability weightings: management proposed utilising a common set of macroeconomic scenarios across both businesses, coupled with aligned probability weightings. Post the UK General Election result, the Committee received reports from the Group's economic adviser and management proposing a revised set of probability weightings. The Committee revised the original management proposals on how probabilities attached to the scenarios had changed during the period and ultimately approved the final weightings utilised within the Group's impairment calculations. The Group continued to utilise four scenarios; an upside, base case and two further downside scenarios.

Loan book acquisition accounting and income recognition

The Group did not acquire any loan portfolios (other than the loans acquired in the Combination) in 2019. However, it has acquired a number of portfolios in prior years. Acquired loan books are initially recognised at fair value. Significant judgement is required in calculating their effective interest rate ('EIR'), using cash flow models, which include assumptions on the likely macroeconomic environment, including House Price Index ('HPI'), unemployment levels and interest rates, as well as loan level and portfolio attributes and history used to derive prepayment rates, the probability and timing of defaults and the amount of incurred losses. The EIRs on loan books purchased at significant discounts are particularly sensitive to the prepayment and default rates assumed, as the purchase discount 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 and loss as impairment losses) and therefore have the same impact on EIR as prepayments. Incurred losses at acquisition are calculated using the Group's collective provision model. The Committee reviewed and challenged reports from management before each reporting date on the approach taken. Particular focus was given to loan books where performance varied from expectation. The Committee reviewed a comparison of actual

Group Audit Committee Report continued

cash flows to those assumed in the cash flow models by book to challenge management's assessment of the need to update cash flow projections and adjust carrying values accordingly.

Effective interest rate

A number of assumptions are made when calculating the effective interest rate for newly-originated loan assets. These include their expected lives, likely redemption profiles and the anticipated level of any early redemption charges ('ERCs'). Certain mortgage products offered by the Group include significant directly-attributable net fee income, in particular certain Buy-to-Let products, and/or those that transfer to a higher revert rate after an initial discount or fixed period. Judgement is used in assessing the expected rate of prepayment during the discounted or fixed period and during the period post rate reversion. The Group uses historical experience of customer behaviour in its assessment along with economic outlook and market conditions.

OSB

In 2018, OSB introduced a period spent on the higher reversion rate in the EIR for two year fixed products. This was expanded to include three and five year fixed mortgages in 2019, as additional behavioural trends emerged. The assumed period spent on the revert rate was based on a careful consideration of past behavioural data and the potential impact of the economic and regulatory outlook. The Committee also reviewed and challenged other assumptions used in the EIR calculations, in particular, prepayment curves applied in the redemption profile. Prepayment curves for fixed rate mortgages were approved by the OSB Assets and Liabilities Committee prior to implementation.

CCFS

The Committee received information on the prepayment curve change proposals and supporting analysis to enable them to independently challenge the approach and conclusions.

The Committee also received and reviewed sensitivity analysis for key assumptions. Based on this work, the Committee is satisfied that the approach taken and judgements made were reasonable.

Further details of the above significant areas of judgement can be found in note 3 to the financial statements.

Combination accounting

The Committee considered, reviewed and challenged the acquisition accounting for the Combination with CCFS. This included the purchase price allocation ('PPA') incorporating fair valuation of acquired tangible assets and liabilities and the identification and valuation of intangible assets.

An established model already in place at CCFS was used to determine the fair value of the loan book and associated pipeline. The Committee received and challenged the sensitivity analysis presented by management and also considered prices achieved on structured asset sales in 2019 and 2020.

Management used an independent external expert for advice on PPA and the identification and valuation of intangibles. The Committee reviewed and challenged the approach taken and key assumptions and judgements made together with sensitivity analysis. Based on this work, the Committee was satisfied that the approach taken and judgements made in respect of the Combination accounting and PPA were reasonable.

Hedged assets

The Committee was also updated on the results of management's regular reviews of the amortisation profile of fair value adjustments on hedged assets associated with cancelled swaps in OSB, against the roll-off of the underlying legacy back book of long-dated fixed rate mortgages. The Group accelerated the amortisation of fair value adjustments on hedged assets during the year, in line with the mortgage asset run-off, due to faster than expected prepayments.

Financial Reporting

The Committee's review of financial reporting during the year included the Annual Report and Accounts, the Interim Results, quarterly trading updates, analysts presentations and pillar 3 disclosures. As part of its review, the Committee assessed management's application of key accounting policies, significant accounting judgements and compliance with disclosure requirements to ensure that these were consistent and appropriate to satisfy the relevant requirements. In particular, the Committee considered carefully the presentation of results on both a statutory and pro forma basis to ensure transparency and consistency throughout.

Viability and Going Concern

The Committee considered the current position of the Group, along with principal and emerging risks and assessed the prospects of the Group before recommending to the Board the Group's long-term viability statement. The Committee also undertook a review before recommending to the Board that the going concern basis should be adopted in preparing the annual and interim financial statements.

Financial Reporting Council review

The Committee reviewed comments received from the Financial Reporting Council ('FRC') on the OSB 2018 Annual Report and Accounts and management's proposed responses. These included enhancing disclosures in the 2019 Annual Report and Accounts in respect of non-financial information and aligning ECL disclosures, where possible, with the recommendations made by the Taskforce on Disclosures about Expected Credit Losses. The Committee notes that the review conducted by the FRC was based solely on the Group's published report and accounts and does not provide any assurance that the report and accounts are correct in all material respects.

Fair, balanced and understandable

The Committee considered, on behalf of the Board, whether the 2019 Annual Report and Accounts taken as a whole are fair, balanced and understandable, and whether the disclosures are appropriate. The Committee reviewed the Group's procedures around the preparation, review and challenge of the Annual Report and the consistency of the narrative sections with the financial statements and the use of alternative performance measures and associated disclosures.

Following its review, the Committee is satisfied that the Annual Report is fair, balanced and understandable, and provides the information necessary for shareholders and other stakeholders to assess the Group's position and performance, business model and strategy, and has advised the Board accordingly.

Pillar 3 disclosures

The Committee approved the Group's Pillar 3 regulatory disclosures for publication on the Group's website, following a review of the governance and control procedures around their preparation.

Internal Audit

The primary role of the Internal Audit function is to protect the assets, reputation and sustainability of the Group. It assists the Group in accomplishing its objectives by providing independent and objective assurance on the design and operating effectiveness of the Group's risk management, governance, control framework and processes.

The Group Chief Internal Auditor and her team are supported by a panel of co-source firms who provide expert resource, when requested, on specific internal audits. The co-source model has been applied to CCFS as at 1 January 2020. Prior to this date, CCFS outsourced its Internal Audit function to KPMG. KPMG now forms part of the co-source panel to ensure that the experience and knowledge gained from CCFS is retained within the Group.

The Internal Audit Charter, which formally defines Internal Audit's purpose, authority and responsibility, was benchmarked against the latest guidance published by the Institute of Internal Auditors ('IIA') and approved by the Committee in November 2019. The Committee also approved the annual Internal Audit Plan, which was developed, based on a prioritisation of the audit universe

using a risk-based methodology, including input from senior management and the Committee. A written report is prepared following the conclusion of each Internal Audit engagement and distributed to the Committee and senior management. Responsibility for ensuring appropriate corrective action is taken, lies with management. The Internal Audit function follows up on engagement findings and recommendations until remedial actions have been completed.

Internal Audit maintains a close relationship with the Group's external auditor, Deloitte LLP ('Deloitte'). The external auditor is informed of Internal Audit's activities and results. The Committee carries out an annual review of the effectiveness of the Internal Audit function. In 2019, this was facilitated by a survey completed by Committee members, certain executives and the external auditors who had interacted with the Internal Audit function during the year. Following the review, the Committee was satisfied that the Internal Audit function operated effectively during the year.

Systems of internal control and risk management

The Committee received regular reports from the Group Chief Internal Auditor during 2019, which included progress updates against the Internal Audit Plan, the results of audits undertaken and any outstanding audit action points. The Committee approved the annual review of the Compliance Risk Assessment and Assurance Plan and received regular reports from the Group's Compliance function. The Committee used the Internal Audit and Compliance Reports for its assessment of the effectiveness of the Group's system of internal controls and risk management. The Committee also received a report on the effectiveness of the Group's system of controls from the CEO, which was based on a self-assessment process completed by senior managers and executives in the Group.

The Committee received and reviewed reports from management on the status of the substantiation of balance sheet general ledger accounts prior to the reporting date. The systems of internal control and risk management have been in place for the year under review and up to the date of approval of the Annual Report and Accounts.

The Committee reviewed and approved a number of policies following their annual update, including: anti-bribery and corruption, data protection, data retention and record management, fraud, sanctions, whistleblowing and anti-money laundering and counter terrorist financing. The Committee received reports on fraud prevention arrangements, fraud incidents, whistleblowing and an annual report from the Group's Money Laundering Reporting Officer during the year. The Committee also received regular updates on data governance and controls as the Group continued to enhance its data governance arrangements in connection with its planned application for an Internal Ratings-Based ('IRB') model for capital requirements.

Group Audit Committee Report continued

Whistleblowing

The Committee is responsible for monitoring the Group's Whistleblowing Policy and arrangements. Where concerns have been raised, a detailed report is provided on the investigation, actions taken, lessons learnt and changes made as a result. The Chair of the Committee has overall responsibility for whistleblowing arrangements with oversight from the Board. Training and periodic updates are provided to all employees who are encouraged to use the multiple channels available to raise any concern they have. No concerns were raised that required a report to be made to the regulators.

External auditor

The Committee is responsible for overseeing the Group's relationship with its external auditor, Deloitte LLP ('Deloitte'). This includes the ongoing assessment of the auditor's independence and the effectiveness of the external audit process, the results of which inform the Committee's recommendation to the Board relating to the auditor's appointment (subject to shareholder approval) or otherwise.

Appointment and tenure

Deloitte was appointed as external auditor of the Group from 2019 following a competitive tender process, with Rob Topley as the lead audit partner. The Committee confirms that the Group has complied with the Statutory Audit Services for Large Companies Market Investigation (mandatory use of competitive tender processes and Audit Committee Responsibilities) Order 2014, which requires FTSE 350 companies to put their statutory audit services out to tender no less frequently than every ten years.

New EU legislation adopted by the UK in 2016 set a maximum audit tenure of 20 years and also requires a tender at least every ten years. The new legislation is effective for financial periods commencing on or after 17 June 2016. Against this backdrop, the Group put the external audit contract out for tender for the 2019 financial year. There are no restrictive contractual provisions limiting the Company's choice of auditor. The next external audit tender is expected to be 2028 for the financial year 2029. A resolution to re-appoint Deloitte as auditors will be presented at the AGM.

Effectiveness

The Committee assesses the effectiveness of the external audit function on an annual basis. In 2019, the review was facilitated through a survey completed by members of the Committee, certain Executive Directors and other key employees who had significant interaction with the external audit team during the year. The survey assessed the effectiveness of the lead partner and audit team, the audit approach and execution, the role of management in the audit process, communication, reporting and support to the Committee as well as the independence and objectivity of the external auditor. The assessment concluded that the external audit process was effective throughout 2019.

Non-audit services

The engagement of the external auditor to provide non-audit services to the Group could impact the assessment of its independence and objectivity. The Group has therefore established a policy governing the use of the external auditor for non-audit services. The policy specifies prohibited and approved permitted services and sets the framework within which permitted non-audit services may be provided. Prohibited services comprise activities that are generally perceived to involve the auditor making judgements or decisions that are the responsibility of management.

The Group maintains active relationships with several other large firms and any decision to appoint the external auditor for non-audit services is taken in the context of its understanding of the Group, which can place it in a better position than other firms to undertake the work and includes an assessment of the cost-effectiveness and practicality of using an alternative firm.

The new EU statutory audit market reform legislation adopted in the UK also applies a cap on permissible non-audit services of 70% of the preceding three-year average of audit fees for UK incorporated Public Interest Entities ('PIEs'). This is applicable for financial periods commencing on or after 17 June 2019. The changes in EU law have been directly implemented in the UK by amendments to the Companies Act. The changes will continue to apply despite the UK's exit from the EU. As a result of the Combination of OSB and CCFS, the new combined Group contains multiple PIEs. Furthermore, where there has been a recent change in auditor, as is the case for OSB, the application of the rules needs to be considered carefully for each PIE. For the OSB Group, the rules on capping non-audit services will apply for the first time in 2022 (based on the average audit fees for 2019, 2020 and 2021). For the CCFS Group, the rules will apply for the first time in 2020 (based on the average audit fees for 2017, 2018 and 2019).

The Committee pre-approved a number of permitted services in 2019, including interim profit verifications and the half year review. The Committee also pre-approved other permitted non-audit services subject to an overall threshold of 50% of the final cost of 2019 Group annual audit services. The Committee, post Combination, also reviewed and approved non-audit services provided to the CCFS Group. The Committee regularly reviews a schedule of year to date non-audit services. All permitted engagements where the fee is expected to be less than £25,000 may be approved by the CFO; where the fee is expected to be above £25,000 but below £100,000 it must be approved by the Chair of the Committee. Engagements over £100,000 are approved by the Committee.

The OSB and CCFS policies were aligned for 2020 and incorporate the revised FRC ethical standard and audit standards effective from March 2020. The policy incorporates a 'whitelist' of permitted non-audit services for UK incorporated PIEs which primarily relate to those services required by law and regulation and other assurance services associated with the annual audit or annual report and reporting accountant services.

The fees paid to the external auditor in respect of non-audit services during 2019 totalled £329,000, representing 16% of 2019

Group audit services of £2,115,000 (2018: £135,000 representing 17% of 2018 Group audit services of £814,000) and are detailed in the table below.

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

Fees payable to the Company's auditor for the audit of the Company's annual accounts include £540,000 in respect of the audit of the acquisition date balance sheet and acquisition accounting. Fees payable to the Company's auditor for the audit of the accounts of subsidiaries includes £592,000 in relation to the CCFS year end audit and £65,000 in relation to the audit of Canterbury Finance No.1 plc. Audit-related assurance services include fees in respect of the interim review and profit verification and include services for CCFS, relating to profit verifications from the date of the Combination. Other assurance services include

other Combination-related work and agreed upon procedures in respect of securitisations (2018: review of data submitted to the Bank of England under the Term Funding Scheme and a review of the OSB India financial statements as required by Indian income tax rules).

The Committee is satisfied that Deloitte is independent. It took into account the non-audit services provided during the year, and confirmations given by Deloitte as to its continued independence at various stages in the year.

Training

The Committee undertook training during the year, including making extensive use of the Audit Committee Institute and training programmes run by the major accountancy firms. The members of the Committee attended seminars and update meetings held by the FRC. In addition, Committee members attended a number of in-house workshops on specific areas. Some members of the Committee also met with key staff during the year to increase their knowledge and understanding of the business.

Effectiveness

The Committee formally considers its effectiveness annually. In 2019, the assessment was facilitated using a survey completed by members of the Committee. The review concluded that the Committee operated effectively throughout 2019 with no significant improvements required.

Group Audit Committee – key responsibilities

Internal Control and Risk Management

- Review internal financial control systems to identify, assess and monitor financial risks and other internal control and risk management systems
- Review and approve systems and controls for the prevention of bribery and procedures for detecting fraud including conduct risk and related activities
- Review the adequacy and effectiveness of anti-money laundering systems and controls
- Review the adequacy and security of the Group's whistleblowing arrangements and procedures

Financial Reporting

- Monitor the integrity of the financial statements, including annual and interim reports, trading updates, Pillar 3 disclosures, and any other formal announcements relating to financial performance
- Provide challenge and oversight on the consistency, quality and appropriateness of significant accounting policies and on the methods used to account for significant or unusual transactions
- Ensure appropriate accounting standards, estimates and judgements have been followed, taking into account the view of the external auditor
- Recommend significant changes to accounting policy to the Board

Internal Audit

- Monitor and assess the role and effectiveness of the Internal Audit function in the overall context of the risk management system and the work of compliance, finance and the external auditor
- Review and approve the annual internal audit plan and the internal audit charter to ensure alignment to the key risks of the business

External Audit

- Ensure that at least once every ten years, the audit services contract is put out to tender to enable the Committee to compare the quality and effectiveness of the services provided by the incumbent auditor
- Consider and recommend to the Board the appointment, re-appointment and removal of the external auditor and to put this to shareholders for approval at the AGM
- Oversee the relationship with the external auditor to include assessing the external auditor's independence and objectivity taking into account relevant UK law, regulation, ethical guidance and other professional requirements, approving remuneration for both audit and non-audit services and approving terms of engagement
- Discuss and review factors that could affect audit quality with the external auditor and approve the annual audit plan
- Develop and recommend to the Board the Group's formal policy on the provision of non-audit services by the external auditor and assess whether there is a direct or material effect on the audited financial statements

Group Risk Committee Report

The Committee robustly challenged the Group's performance against the Board-approved risk appetite.



Dear Shareholder,

I am pleased to present the report of the Group Risk Committee.

The Group Risk Committee met seven times in 2019. Since the Combination in October 2019, the composition of the Committee has changed, with Eric Anstee, Margaret Hassall, Mary McNamara and April Talintyre ceasing to be members. I would like to thank each of them for their contributions during their time spent on the Committee. Tim Brooke, Noël Harwerth and Rajan Kapoor have been appointed as members with effect from October 2019 and, along with myself (Graham Allatt) form the membership of the Committee. Tim Brooke will cease to be a member on 7 May 2020. Only members of the Committee are entitled to attend meetings; however, the Chairman of the Board has a standing invitation to the Committee, along with the Chief Executive Officer ('CEO'), Chief Financial Officer ('CFO'), Chief Risk Officers ('CROs') and Group Chief Credit Officer ('GCCO'), unless the Chairman of the Committee informs any of them that they should not attend a particular meeting or discussion.

The Committee robustly challenged the Group's performance against the Board-approved risk appetite, ensuring appropriate and timely consideration was given to business, economic and regulatory factors impacting the Group's risk profile. The Committee maintained oversight of the Group's Strategic Risk Management Framework ('SRMF') to ensure that it remained fit for purpose to support the Group's strategic growth objectives.

The Committee assessed and recommended for approval by the Board, key regulatory submissions including the Internal Capital Adequacy Assessment Process ('ICAAP'), the Group Recovery Plan and the Internal Liquidity Adequacy Assessment Process ('ILAAP'). In discharging this responsibility, the Committee focused on risk quantification techniques, underlying assumptions and the resulting risk assessment.

The Committee retains oversight of the strategic risk-based initiatives, including the Internal Ratings-Based ('IRB') programme, operational resilience and the data enhancement programme.

Further information on the role and activities of the Committee is provided in the following Report.

Graham Allatt

Chair of Group Risk Committee
19 March 2020

Responsibilities

The primary objective of the Committee is to support the Board in discharging its risk oversight and governance responsibilities. In particular, the Committee enables the Board to:

- Set a clear tone from the top in relation to a risk-based culture which fosters individual and collective accountability for risk management.
- Continuously review, challenge and recommend enhancements to the Group's SRMF.
- Ensure adequacy of how the Group organises and resources its risk management and oversight functions across the first and second line.
- Actively assess performance against risk appetite and challenge management to ensure that the Board's strategic, business and regulatory objectives are not put at unacceptable levels of risk.

The Committee's specific responsibilities are set out in its terms of reference, which are available on the Company's website at www.osb.co.uk.

Activity during 2019

In 2019, with oversight from the Committee, the Group continued to enhance and further integrate its SRMF, which represents the overarching framework established to manage its risk profile in line with the Board strategy and risk appetite. The detailed overview of the SRMF is provided in the Group's Pillar 3 disclosures. The key areas of the Committee's focus during 2019 are outlined below.

Risk appetite

The Committee played an active role in shaping and assessing the design of the Group's risk appetite in the context of economic and business outlook and uncertainties, the strategic growth agenda of the Group and regulatory developments. Members of the Committee participated in a risk appetite workshop in which risk appetite statements, risk metrics and guiding limits and triggers were discussed and challenged prior to recommendation to the Board for approval. The Committee also ensured that the proposed risk appetite was subject to appropriate alignment to the Group's strategic agenda, business plans and stress testing capabilities.

The Committee also reviewed the Group's position against risk appetite across all principal risks and escalated issues to the Board where appropriate.

IRB Programme

The Committee reviewed regular project updates including a detailed plan to merge the OSB and CCFS specific IRB projects which incorporated an approach to develop and implement enhanced model governance arrangements.

Credit risk

The Committee has monitored the performance of the Group loan book on aggregated and asset class sub-segment levels by assessing the key indicators of credit quality, security coverage (including flood risk), affordability and borrower risk profile. The Committee also assessed forward-looking credit risk indicators in the form of bureau data on customer credit scores, mover alerts and indebtedness, business and economic early warning indicators.

The Committee challenged and approved updates to policies including the Group Lending Policy, the Arrears, Repossessions and Forbearance Policies and the Loan Impairment Provisioning Policy. The Committee also exercised oversight over credit risk models and provided an appropriate level of challenge in relation to model construction and validation to ensure that the models are appropriate and robust. The Committee has also directed management on how to monitor model performance.

During 2019, the Committee oversaw plans for the alignment of IFRS 9 methodologies and approaches across OSB and CCFS. The Committee also assessed and approved the Group's provision adequacy levels throughout the year.

Market risk and liquidity risk

Market risk and liquidity risk are continually monitored by the Group Assets and Liabilities Committee ('ALCO') which reports to the Committee. The Committee reviewed ALCO's regular assessments of the UK macroeconomic environment and potential impacts on the Group's assets and liquidity.

The Committee undertook an extensive assessment of the ILAAP prior to submission to the Board for approval. Key areas of Committee focus were in relation to scenarios, funding assumptions under stress and calibration of liquidity and funding risk appetites.

Solvency risk and ICAAP

The Committee was involved with the design and approval of appropriate macroeconomic scenarios to be used in the Group's ICAAP. The ICAAP demonstrates how the Group would manage its business and capital during adverse macroeconomic and idiosyncratic stresses. The Committee assessed the results of all the risk-based capital assessments and stress testing before finally recommending the full ICAAP document to the Board for approval.

The Committee also reviewed and challenged the Group Capital Plan and monitored total capital and CET1 forecasts throughout the year, ensuring risks were understood and managed appropriately.

The Committee additionally started to consider moving towards a combined ICAAP for OSB and CCFS and sought external advice on the best approach to alignment.

Group Risk Committee Report continued

Operational risk

The Committee received reports on operational risks at each of its meetings. The reports covered risk incidents that had arisen to allow the Committee to assess management's response and remedial action proposed. The reports also covered key risk indicators ('KRIs'), which can be quantitative or qualitative and provided insights regarding changes in the Group's operational risk profile.

The Committee requested a detailed analysis of operational incidents occurring during the course of 2019 to further understand any causes and trends. The Committee was satisfied that the actions taken were appropriate and that the control of operational incidents continued to improve.

A full programme of operational resilience testing was undertaken throughout the year, including a Board-level disaster recovery test simulation which was externally-facilitated and constructive feedback was provided.

Compliance and regulatory risk

The Committee received reports covering compliance and financial crime KRIs, which can be quantitative or qualitative and provide insights regarding changes in the Group's compliance and regulatory risk profile. The Committee also assessed and recommended enhancements to the compliance and financial crime risk appetite before recommending it for approval by the Board.

Risk Management Framework integration

The Committee considered the Combination Integration Plan and harmonisation of the Risk Management Frameworks and functions of OSB and CCFS. An external firm assisted the Group with the creation of the Integration Plan which sets out the key components of the respective firms' frameworks. The scope of all components is broken down into three distinct groupings, namely; 'business as usual', 'regulatory requirements' and 'risk projects' and sets out a summary of workstreams and timelines to achieve harmonisation.

Other risk types

The Committee reviewed the Group profiles of conduct risk, reputational risk, climate change risk and business and strategic risk against their respective risk appetites.

Recovery Plan

The Recovery Plan process is designed to ensure that in a time of stress the Group has a credible recovery plan that can be implemented in a timely manner. The Committee reviewed and commented on the proposed set of recovery options within its plan.

Group Risk Committee – key responsibilities

Risk appetite and assessment

- Advise the Board on overall risk appetite, tolerance and strategy
- Review risk assessment processes that inform the Board's decision-making
- Consider the Group's capability to identify and manage new risks
- Advise the Board on proposed strategic transactions, including acquisitions or disposals, ensuring risk aspects and implications for risk appetite and tolerance are considered

Risk monitoring and framework

- Review credit risk, interest rate risk, liquidity risk, market risk, compliance and regulatory risks, solvency risk, conduct risk, reputational risk and operational risk exposures by reference to risk appetite
- Challenge and endorse the SRMF
- Provide challenge and oversight to the ICAAP framework
- Monitor actual and forecast risk and regulatory capital positions
- Recommend changes to capital utilisation
- Provide challenge and oversight to the ILAAP framework
- Monitor the actual and forecast liquidity position
- Review reports on risk appetite thresholds, identify where a risk of a material breach of risk limits exists and ensure proposed actions are adequate
- Provide challenge and oversight to the Recovery Plan framework

CROs and risk governance structure

- Consider and approve the remit of the Risk function
- Recommend to the Board the appointment and removal of the CROs
- Review promptly all reports from the CROs
- Review and monitor management's responsiveness to the findings of the CROs
- Receive reports from the ALCO and the Risk Management Committees

Other Committees

Group Models and Ratings Committee

Following the Combination, the Group Models and Ratings Committee was established as a sub-committee of the Group Risk Committee in January 2020. The primary purpose of the Committee is to act as the designated Committee for the purpose of material aspects of the rating and estimation processes (as articulated in Article 189 of the EU Capital Requirements Regulation) and provide assurance of the Group's models and ratings systems. The Committee is chaired by the Chair of the Group Risk Committee, Graham Allatt. Rajan Kapoor and April Talintyre are members of the Committee.

Board Integration Committee

The Board Integration Committee was established in October 2019, following the Combination with CCFS. The primary objective of the Committee is to oversee planning and execution of the integration of OSB and CCFS, including oversight of synergies realisation. David Weymouth has been appointed as Chair of the Committee, with Andy Golding, Margaret Hassall, Sarah Hedger and Rajan Kapoor as members. Rod Duke served as a member until he stepped down from the Board on 4 February 2020. The Committee met three times during 2019.

Directors' Remuneration Report Annual Statement by the Chair of the Group Remuneration Committee

2019 was a transformational year for OSB following the Combination with CCFS.

Dear Shareholder,

I am pleased to present the 2019 Directors' Remuneration Report which sets out details of Directors' remuneration in respect of 2019, our new Policy for financial years 2020 to 2022 and how we intend to implement the Policy in 2020.

New Remuneration Policy

The Combination of OSB and CCFS completed with effect from 4 October 2019. This is transformational for OSB, nearly doubling its size and enhancing its ability to compete in its core markets. As a result, the Board and Group Remuneration Committee have considered the Remuneration Policy for the newly formed Group Executive team, which comprises both legacy CCFS and OSB Executives.

The current Directors' Remuneration Policy was approved at the AGM in May 2018 and we had planned to operate it for the full three years; however, the Combination will accelerate the Bank becoming a FCA Level 2 Firm under the regulations applicable to the financial services sector. Accordingly, we will be seeking shareholder approval for a new Policy in line with the more stringent regulatory requirements applicable to FCA Level 2 Firms at the May 2020 AGM, a year earlier than planned.

We are also taking the opportunity to incorporate into the Policy, the recommendations in the 2018 UK Corporate Governance Code and latest investor guidance on matters such as executive pension and executive shareholdings.



The key change to the Policy as a FCA Level 2 Firm is that the value of variable pay (annual bonus and performance shares) is limited to one times the value of fixed pay (base salary, benefits and pension). This limit may be increased under the FCA regulations from one times to two times fixed pay, with shareholder approval. Accordingly, alongside seeking shareholder approval for the new Policy, we will also be seeking shareholder approval to increase this regulatory limit imposed on variable pay to two times fixed pay. In order to retain the competitiveness of the overall total remuneration package, a direct consequence of this regulatory requirement means that the package had to be re-weighted so that the annual bonus and performance shares are reduced from 150% of salary each, to 110% of salary each with a corresponding increase to base salaries.

We will also be required to comply with the FCA regulations on deferral and holding requirements for variable pay, as follows:

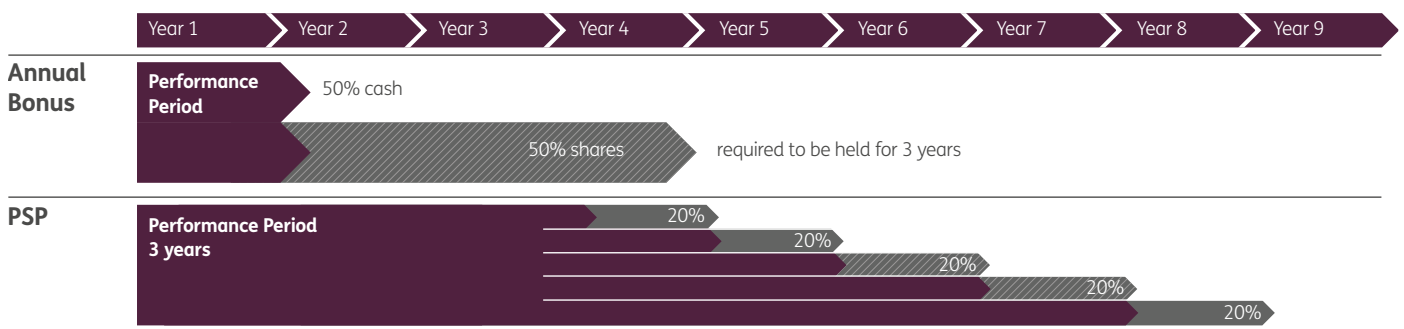
- At least 60% of variable remuneration will be deferred over a seven year period, with no vesting earlier than three years after the award is granted, and pro-rated for the remaining years.
- When each tranche of deferred remuneration vests, shares will be required to be held for a further year.

In practice this means that:

- In most instances annual bonus will be paid at least 50% in shares and the remainder in cash following the publication of the audited results, with the shares subject to a holding period. Whilst under the FCA regulations the shares are only required to be held for a minimum of one year, to enhance the shareholder alignment of Directors' pay further, this has been extended to three years (in line with the current bonus deferral horizons).
- Performance Share Plan ('PSP') awards will continue to be subject to a three-year performance period, with vesting pro-rated between years three and seven. Shares delivered on each vesting date will also be subject to a one year holding period, taking the overall time horizon for each PSP award to eight years.

The structure of the deferral and holding requirements is set out in the diagram below.

There will be enhanced clawback and malus for up to seven years after the grant of an award (ten years in exceptional circumstances).



Directors' Remuneration Report continued

Annual Statement by the Chair of the Group Remuneration Committee continued

Other structural changes to ensure compliance with the Code and investor guidelines are as follows:

- The pension provision for the Executive Directors has been reduced from 13% of salary to 8% of salary, which is at the same percentage level as the majority of the workforce. For any new Executive Directors, the Policy will be the same.
- The minimum required shareholding level will remain at 250% and 200% of salary respectively, for the CEO and CFO. Added to this will be a new requirement so that after ceasing employment, Executive Directors will be required to retain a shareholding at the lower of the in-service shareholding requirement and the actual level of shareholding on cessation, for a two year period.

Operation of the Policy for 2020

As well as restructuring the packages as a consequence of becoming a Level 2 Firm, which of itself would result in a re-weighting of the package from variable pay to fixed pay; subject to shareholder approval, we are increasing the overall level of remuneration in light of the increased scope of the roles and increased legal and fiduciary responsibility entailed in managing and overseeing a significantly larger business. In particular, this includes leading a series of long-term strategic initiatives to ensure that the full anticipated benefits of the Combination are actually realised.

The Board considers that Andy Golding and April Talintyre, our CEO and CFO respectively, have been instrumental in the exceptional performance delivered to shareholders since OSB's Initial Public Offering ('IPO') and will be critical in relation to the successful integration of CCFS and delivering the longer-term strategy for the combined business. Since the IPO in 2013, the CEO and CFO have overseen continued growth in underlying earnings of OSB, with an attractive net interest margin and loan

book growth achieved whilst providing ongoing investment in the business and controlling costs. Significant shareholder value has also been delivered since listing, well above the FTSE All Share Index despite uncertain economic times and Brexit headwinds specifically affecting our market.

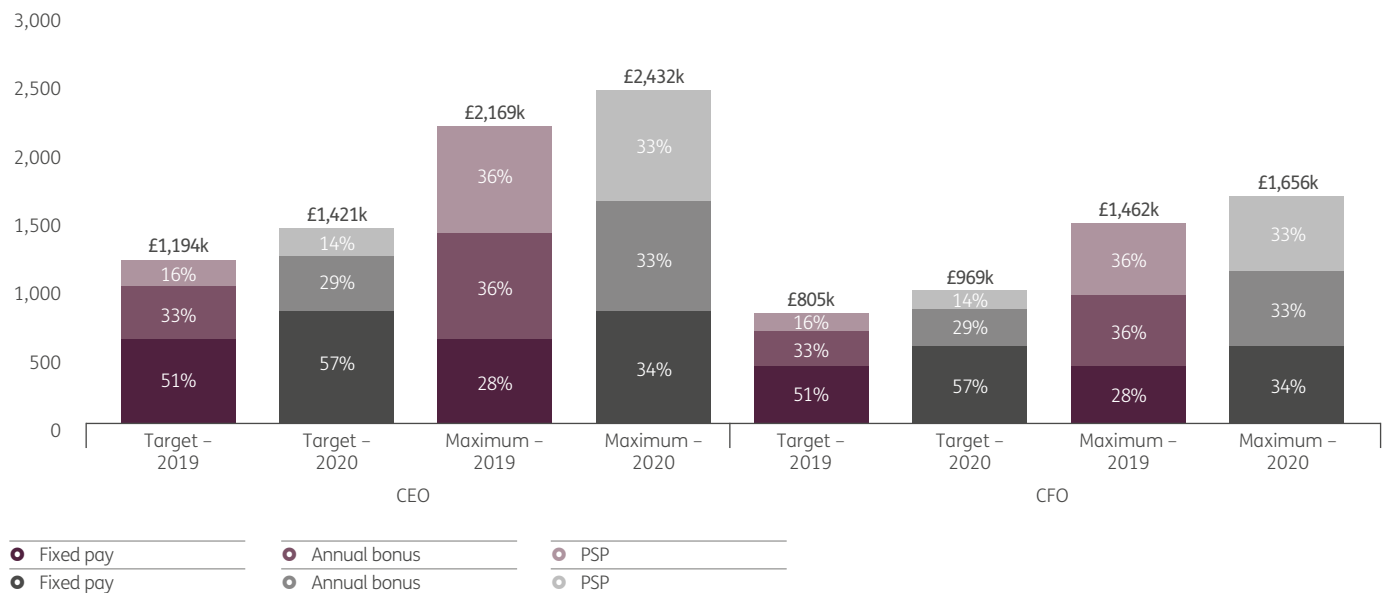
The Committee has carefully considered the appropriate pay levels for the roles of CEO and CFO of the combined Group that will be appropriate for the scope of the roles following the integration of the two businesses. As a consequence of becoming a FCA Level 2 Firm, even if the value of the total package was to remain unchanged, there would still need to be a significant increase to base salary to offset the required reduction in bonus and PSP opportunity, from 150% of salary each, to 110% of base salary. On top of this adjustment, the salary will be increased further, to deliver the targeted overall level of remuneration, recognising that the value of the salary increase flows through to the other elements of the package.

For the CEO, rather than moving to the targeted package immediately from 1 January 2020, following investor feedback during the consultation, we are proposing a two-stage increase, with the first stage representing 50% of the increase. On this basis, from 1 January 2020 his overall package will increase by just over 12%. The Committee will validate the second stage increase, which will be effective from 1 January 2021, taking into account (i) the performance against the integration plan, (ii) the level of cost savings against published guidance, (iii) whether the desired culture and customer focus has been delivered across the whole organisation and (iv) the performance against the compliance plan. For the CFO, where the increase to the overall package is lower, we propose to increase the package in one step, by just over 13%.

On this basis, subject to shareholder and regulatory approval, we propose that the remuneration packages would change as summarised below:

	Salary £'000s	Pension (% salary)	Maximum Annual Bonus (% salary)	Maximum PSP Award (% salary)	Increase to total remuneration
Chief Executive Officer					
<i>Current package</i>	£520	13%	150%	150%	
With effect from 1 January 2020	£735	8%	110%	110%	12.1%
With effect from 1 January 2021	£815	8%	110%	110%	24.2%
Chief Financial Officer					
<i>Current package</i>	£350	13%	150%	150%	
With effect from 1 January 2020	£500	8%	110%	110%	13.2%

Proposed changes to Directors' remuneration packages



The Committee recognises the stakeholder sensitivity in increasing Executive Directors' pay and has debated this issue at length and consulted with significant shareholders. We believe that the proposed new packages are commensurate with the additional complexity of each role and greater responsibility for managing a significantly larger and more complex business and, as part of this, delivering the successful integration of the two businesses. Following the Combination, the combined business will have total assets of £21.4bn (£10.5bn previously), total headcount of around 1,800 employees (around 1,000 previously), an increase in the number of products offered, an increase in the number of customers served and a near doubling of shareholders' funds for which we are responsible. The combined business will also be subject to materially higher regulatory scrutiny, including being a FCA Level 2 Firm.

The proposed remuneration levels also ensure that there are appropriate relativities compared to other Executives within the combined Group and the rest of the workforce where, within prudent cost constraints, other employees' packages are being adjusted, as appropriate, for increased role complexity and responsibility.

We have also considered carefully pay levels within the limited number of peers in the financial services sector and the FTSE more generally and we are comfortable that the proposed packages would deliver a total remuneration equivalent to a broadly mid-market position.

In summary, we believe that this level of pay is appropriate remuneration for the task in hand and will be appropriately competitive to ensure that their services are retained.

Overview of 2019 performance

2019 was a transformational year for OSB following the Combination with CCFS, which completed on 4 October 2019. The business maintained momentum during the extended transaction process and has made strong progress in the period since the Combination. Statutory pre-tax profit was up 14% to £209.1m, although statutory basic EPS decreased 5% as a result of the increased share count post Combination. During 2019, OSB also returned to the securitisation market through the Canterbury Finance programme, and the Combination with CCFS strengthened our expertise in the area. Financial results were delivered whilst maintaining a focus on customers (customer NPS of +66 at OSB and +72 at CCFS) and we were included in The Sunday Times 100 Best Companies to Work For list.

Incentive outcomes for 2019

The 2019 Executive Bonus Scheme was based 90% on the Business Balanced Scorecard, which measures corporate performance against financial, customer, quality and staff metrics and 10% on personal objectives. Targets for each measure were set and assessed by the Committee following the end of the financial year. As the Combination completed late in the year, performance was based on OSB alone, with the Committee having the ability to adjust the outcome to reflect the overall combined Group performance for the remainder of the year, if appropriate.

The Executive team delivered strong performance across the Business Balanced Scorecard with above-target levels of performance in all categories other than the cost to income ratio and broker satisfaction. In particular, underlying profit before tax of £199.1m was achieved against a target of £196.9m (an increase of c.3% versus 2018), with an improved customer satisfaction score and low levels of complaints. There were also no 'high severity' operational incidents in the year and a low number of overdue management actions and staff metrics for diversity

Directors' Remuneration Report continued

Annual Statement by the Chair of the Group Remuneration Committee continued

and employee engagement were both achieved in full. As such, the Executive Directors earned 65.89% out of the 90% of bonus assessed against the scorecard.

As previously noted, given the Combination with CCFS completed late in the year, the scorecard was assessed based on OSB's performance as a standalone entity. The Committee maintained discretion to adjust the outcome based on performance of the Group as a whole; however, having considered this, confirmed that the outcome did not require adjusting and was reflective of Group performance over the period. In combination with strong performance against individual targets, the Committee determined that 75.89% of the bonus was earned by each of the CEO and CFO. Full details are provided on page 137. As in previous years, 50% of the bonus will be deferred into shares for three years.

The 2017 Award under the PSP will vest in March 2020 at 75.1% of maximum based on performance over the three-year performance period ending on 31 December 2019. As most of the three year performance period relates to the performance of OSB before the Combination, the earnings per share ('EPS') performance relates to OSB alone. The total shareholder return ('TSR') performance will naturally include the share price impact of the transaction over the final three months of the performance period. Performance against the EPS targets exceeded the maximum threshold and so 100% of the EPS part of the award vested. The TSR of 37.4% placed OSB between the median and upper quartile of the FTSE 250 peer group and 50.2% of the TSR part of the award vested. Overall, the Committee is comfortable that there has been a clear and strong link between reward and performance and that discretion should not be exercised to adjust the incentive outcome.

Implementation of Policy in 2020

As explained above, the CEO's salary will be increased from £520,000 to £735,000, as the first stage of a planned increase; and the CFO's salary will be increased from £350,300 to £500,000.

The pension contribution has been reduced from 13% to 8% of base salary under the new Policy, aligning the rate with the majority of the workforce.

The 2020 annual bonus will be subject to a maximum limit of 110% of salary and will be based on 90% of performance against the Business Balanced Scorecard and 10% on personal objectives. Across all measures there will be a strong focus on the successful integration of the two businesses. 50% of any bonus will be delivered in shares, which may not be sold for at least three years.

PSP awards of 110% of salary will be made to the Executive Directors with performance being measured over the period to 31 December 2022 based on TSR (35% weighting), EPS growth (35% weighting), return on equity ('ROE') (15% weighting), and as required by the regulations applicable to a Level 2 Firm, a newly-introduced risk-based measure (15% weighting). Furthermore, at the time of vesting the Committee will assess whether the formulaic vesting outcome is aligned with the underlying performance, risk appetite and individual conduct over the period.

The targets for each measure are set out in this report and the Committee is satisfied that these provide the appropriate stretch, taking into account the business plan, external operating environment and market expectations.

Awards will vest 20% each year between three and seven years after grant, with each vested tranche subject to a one year holding period.

Chairman and Non-Executive Director fees

The Committee also reviewed and agreed the fees payable to the Chairman and Deputy Chairman following the Combination and these are set out on page 144 along with the details of the NEDs' fees, which were agreed by the Board.

Consideration of shareholder views and response to the new UK Corporate Governance Code

The Committee undertook extensive engagement with shareholders during the review of the Policy and made several changes to the Policy following investor feedback.

The Committee has also considered the updated UK Corporate Governance Code (the 'Code') and updates to shareholder and proxy advisor guidelines and we believe that the new Policy is fully in line with the Code requirements and the latest investor guidelines.

Consideration of employee policies and views

I am pleased to have been appointed as the NED representing the workforce on the Board. As a result, I regularly meet with employees, individually and through forums such as the Primary Talent Group, the Women's Networking Forum and the newly established Workforce Advisory Forum, known as OneVoice, to understand their views and report those to the Board. Further details on the activities of OneVoice can be found on pages 146 and 147.

As part of the Policy review connected with the Combination, the Committee oversaw a review of pay and benefits across the Group to ensure coherence with the Executive Directors' Policy and FCA Level 2 regulatory compliance.

Concluding remarks

I would like to welcome new members to the Committee; Noël Harwerth and Rajan Kapoor who have joined since completion of the Combination; and Sarah Hedger who joined in March 2020. Rod Duke has stepped down from the Committee and I would like to thank him for the significant contribution he made to the formulation of these Policy proposals.

I look forward to your support for the binding resolutions to approve the new Remuneration Policy; the increase of the limit to variable pay to two times fixed pay and the advisory resolution to approve the Annual Report on Remuneration at the 2020 AGM.

Mary McNamara

Chair of the Group Remuneration Committee
19 March 2020

Remuneration Policy

This section describes our Directors' Remuneration Policy, for which shareholder approval will be sought at the AGM on 7 May 2020 and will formally come into effect from that date. It is intended that this Policy will last the three financial years, 2020 to 2022.

Changes to the Policy

The following changes have been made to the Remuneration Policy.

Base salary

The salary review date will be changed from 1 April to 1 January, to align Executive Directors' pay with the financial year.

Pension

The pension contribution rate (for incumbent and new Directors) has been reduced to 8% of base salary, in line with the rate applicable for the majority of the workforce.

Annual bonus

The maximum limit has been reduced from 150% to 110% of salary.

In line with the regulations applicable to a Level 2 Firm, the policy on deferral will be changed so that instead of 50% of any bonus being deferred in the form of an award over shares, which vest after three years, the shares will be subject only to a holding period for the same length of time. In the event of a near maximum bonus there could be an additional requirement that part of this bonus would need to be deferred in line with the deferral arrangements for the PSP described below in order to comply with the FCA requirement that 60% of total variable pay must be deferred over a seven year period.

Performance Share Plan

The maximum value of PSP awards has been reduced from 200% to 110% of base salary.

Instead of PSP awards vesting after three years and then being subject to a two year holding period, awards will vest from the third anniversary of grant and in tranches of 20% over years three to seven. A one year holding period will apply following the vesting of each tranche.

Share ownership guidelines

A requirement has been added so that the CEO and CFO must retain shares equivalent to the in-service shareholding guideline requirement (250% of salary for the CEO and 200% for the CFO) or, if lower, the actual shareholding on cessation of employment, for two years after cessation of employment (other than in exceptional circumstances).

Clawback and malus

Enhanced provisions ensure that incentive payments may be recovered for up to seven years (ten years in exceptional circumstances).

Policy overview

This Policy has been prepared in accordance with the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008, as amended in 2013. The Policy has been developed taking into account a number of regulatory and governance principles, including:

- The 2018 UK Corporate Governance Code
- The regulatory framework applying to the Financial Services Sector (including the Dual-regulated firms Remuneration Code and provisions of CRD IV)
- The executive remuneration guidelines of the main institutional investors and their representative bodies

Approach to designing the Remuneration Policy

The Committee is responsible for the development, implementation and review of the Directors' Remuneration Policy. In addressing this responsibility the Committee works with management and external advisers to develop proposals and recommendations. The Committee considers the source of information presented to it, takes care to understand the detail and ensures that independent judgement is exercised when making decisions. The Group Risk Committee considers whether the Remuneration Policy and practices are in line with the risk appetite and the Group Audit Committee confirms incentive plan performance results, where appropriate.

Directors' Remuneration Report continued

Remuneration Policy continued

The Code sets out principles against which the Committee should determine the Remuneration Policy for Executives. These are shown in the first column of the table below, together with the Committee's approach, in the second column:

Principle	Committee approach
Clarity – remuneration arrangements should be transparent and promote effective engagement with shareholders and the workforce.	<ul style="list-style-type: none"> • We aim to set out our approach to remuneration in this report as transparently as possible. • We will engage with our Workforce Advisory Forum (OneVoice) to explain the alignment of the Executive Director Remuneration Policy with that of the workforce.
Simplicity – remuneration structures should avoid complexity and their rationale and operation should be easy to understand.	<ul style="list-style-type: none"> • Within the required regulatory framework and in line with investor guidance, we have structured the Remuneration Policy to be as simple as possible. • We have a simple policy offering pension at the same rate as employees, an annual bonus plan which cascades to most employees and, for senior employees, performance shares to provide alignment with longer-term performance. • There is however, a degree of complexity required for Executive Director packages to ensure a robust link to performance and to avoid reward for failure and to comply with investor and Code requirements.
Risk – remuneration arrangements should ensure reputational and other risks from excessive rewards, and behavioural risks that can arise from target-based incentive plans, are identified and mitigated.	<ul style="list-style-type: none"> • We have mitigated these risks through careful policy design, including long-term performance measurement, the use of specific risk-based measures, deferral and shareholding requirements (including post cessation of employment) and discretion and clawback provisions if incentive payment levels are inappropriate.
Predictability – the range of possible values of rewards to individual directors and any other limits or discretions should be identified and explained at the time of approving the Policy.	<ul style="list-style-type: none"> • We look carefully each year at the range of likely performance outcomes for incentive plans when setting performance target ranges for threshold, target and maximum payouts and would use discretion where necessary where this leads to an inappropriate pay outcome.
Proportionality – the link between individual awards, the delivery of strategy and the long-term performance of the Company should be clear. Outcomes should not reward poor performance.	<ul style="list-style-type: none"> • Incentive plans are determined based on a proportion of base salary so there is a sensible balance between fixed pay and performance-linked elements. • There are provisions to override the formula-driven outcome of incentive plans deferral and clawbacks to ensure that poor performance is not rewarded or if incentive payments are too high for the performance delivered, in the view of the Committee. • As illustrated by the chart showing our TSR performance and historic CEO remuneration on page 140, we believe that there has been a strong link between Directors' pay and performance.
Alignment to culture – incentive schemes should drive behaviours consistent with company purpose, values and strategy.	<ul style="list-style-type: none"> • The Business Balanced Scorecard used for the annual bonus is based on a wide range of measures linked to financial performance, customer, quality and employees, to ensure that payments are aligned to Company culture and values. • Bonus plans operate widely throughout the Company and are approved by the Committee to ensure consistency with Company purpose, values and strategy.

How the views of employees and shareholders are taken into account

The Committee does not formally consult directly with employees on Executive pay but receives updates in relation to the remuneration structure throughout the Group and salary and bonus reviews each year. As set out in the policy table, in setting remuneration for the Executive Directors, the Committee takes note of the overall approach to reward for employees in the Company and salary increases will ordinarily be in line (in percentage of salary terms) with those of the wider workforce. Thus, the Committee is satisfied that the decisions made in relation to Executive Directors' pay are made with an appropriate understanding of the wider workforce.

The Committee undertook extensive engagement with shareholders during the review of the Policy. The Committee will seek to engage with major shareholders and the main shareholder representative bodies and proxy advisory firms when it is proposed that any material changes are to be made to the Remuneration Policy or its implementation. In addition, we will consider any shareholder feedback received in relation to the AGM.

The Remuneration Policy for Executive Directors

The table below and accompanying notes describe the Policy for Executive Directors.

Element	Purpose and link to strategy	Operation and performance conditions	Maximum
Salary	To reward Executives for the role and duties required. Recognises individual's experience, responsibility and performance.	<p>Paid monthly.</p> <p>Base salaries are usually reviewed annually, with any changes usually effective from 1 January.</p> <p>No performance conditions apply to the payment of salary. However, when setting salaries, account is taken of an individual's specific role, duties, experience and contribution to the organisation.</p> <p>As part of the salary review process, the Committee takes account of individual and corporate performance, increases provided to the wider workforce and the external market for UK listed companies both in the financial services sector and across all sectors.</p>	Increases will generally be broadly in line with the average of the workforce. Higher increases may be awarded in exceptional circumstances such as a material increase in the scope of the role, following the appointment of a new Executive (which could also include internal promotions) to bring an initially below-market package in line with the market over time or in response to market factors.
Benefits	To provide market competitive benefits to ensure the well-being of employees.	<p>The Company currently provides:</p> <ul style="list-style-type: none"> • car allowance • life assurance • income protection • private medical insurance • other benefits as appropriate for the role 	There is no maximum cap on benefits, as the cost of benefits may vary according to the external market.
Pension	To provide a contribution to retirement planning.	Directors may participate in a defined contribution plan, or, if they are in excess of the HM Revenue & Customs ('HMRC') annual or lifetime allowances for contributions, may elect to receive cash in lieu of all or some of such benefit.	In line with the rate receivable by the majority of the workforce, which is currently 8% of salary.
Annual bonus	To incentivise and reward individuals for the achievement of pre-defined, Committee-approved, annual financial, operational and individual objectives which are closely linked to the corporate strategy.	<p>The annual bonus targets will have a 90% weighting based on performance under an agreed balanced scorecard which includes an element of risk appraisal. Within the scorecard, at least 50% of the bonus will be based on financial performance. 10% of the bonus will be based on personal performance targets.</p> <p>The objectives in the scorecard, and the weightings on each element will be set annually, and may be flexed according to role. Each element will be assessed independently, but with Committee discretion to flex the payout (including to zero) to ensure there is a strong link between payout and performance. On top of this, there is a general discretion to adjust the outturn to reflect other exceptional factors at the discretion of the Committee.</p> <p>50% of any bonus earned will be delivered in shares, subject to a three year holding period. In exceptional circumstances of high bonus payments there may be a requirement to defer a proportion of bonus with vesting staggered over three to seven years, in line with the deferral arrangements for the PSP described below.</p> <p>Updated clawback/malus provisions apply, as described in note 1 overleaf.</p>	<p>The maximum bonus opportunity is 110% of salary per annum.</p> <p>The threshold level for payment is up to 25% of maximum for any measure.</p>

Directors' Remuneration Report continued

Remuneration Policy continued

Element	Purpose and link to strategy	Operation and performance conditions	Maximum
Performance Share Plan	<p>To incentivise and recognise execution of the business strategy over the longer term.</p> <p>Rewards strong financial performance over a sustained period.</p>	<p>PSP awards will typically be made annually at the discretion of the Committee, usually following the announcement of full year results.</p> <p>Usually, awards will be based on a mixture of internal financial performance targets, risk-based measures and relative TSR. At least 50% of the PSP award will ordinarily be based on financial and relative TSR metrics.</p> <p>The performance targets will usually be measured over three years.</p> <p>Any vesting will be subject to an underpin, whereby the Committee must be satisfied; (i) that the vesting reflects the underlying performance of the Company; (ii) that the business has operated within the Board's risk appetite framework; and (iii) that individual conduct has been satisfactory. On top of this, there is a general discretion to adjust the outturn to reflect other exceptional factors at the discretion of the Committee.</p> <p>Awards granted after 1 January 2020 will vest in five equal tranches of 20%, following the Committee's determination of performance and annually thereafter. At the time each tranche vests, a one year holding period will apply. (Awards granted before this date will vest in accordance with the terms of the previous Policy).</p> <p>Clawback and malus provisions apply as described in note 1 below.</p>	<p>The maximum PSP grant limit is 110% of salary in respect of grants in any financial year.</p> <p>The threshold level for payment is 25% for any measure.</p>
All-employee share plan (Sharesave Plan)	<p>All employees, including Executive Directors, are encouraged to become shareholders through the operation of an all-employee share plan.</p>	<p>Tax-favoured plan under which regular monthly savings may be made over a three or five year period and can be used to fund the exercise of an option, where the exercise price is discounted by up to 20%.</p>	<p>Maximum permitted savings based on HMRC limits.</p>
Share ownership guidelines	<p>To increase alignment between Executives and shareholders.</p>	<p>Executive Directors are expected to build and maintain a minimum holding of shares.</p> <p>Executive Directors must retain at least 50% of the shares acquired on vesting of any share awards (net of tax) until the required holding is attained.</p> <p>On cessation of employment, Executive Directors must retain the lower of the in-service shareholding requirement, or the Executive Directors' actual shareholding, for two years.</p>	<p>At least 250% of salary for the CEO and at least 200% of salary for the CFO or such higher level as the Committee may determine from time to time.</p> <p>The net of tax value of any unvested deferred awards (which are not subject to any future performance condition) may count towards the definition of a shareholding for this purpose.</p>

1. Clawback and malus provisions apply to both the annual bonus, including amounts deferred into shares, and PSP awards. These provide for the recovery of incentive payments within seven years in the event of; (i) a material misstatement of results, (ii) an error, (iii) a significant failure of risk management, (iv) regulatory censure, (v) in instances of individual gross misconduct, (vi) corporate failure, (vii) reputational damage or (viii) any other exceptional circumstance as determined by the Board. A further three years may be applied following such a discovery, in order to allow for the investigation of any such event. In order to effect any such clawback, the Committee may use a variety of methods: withhold deferred bonus shares, future PSP awards or cash bonuses, or seek to recoup cash or shares already paid.

Choice of performance measures for Executive Directors' awards

The use of a balanced scorecard for the annual bonus reflects the balance of financial and non-financial business drivers across the Company. The combination of performance measures ties the bonus plan to both the delivery of corporate targets, risk measures and strategic/personal objectives. This ensures there is an appropriate focus on the balance between financial and non-financial targets and risk, with the scorecard composition being set by the Committee from year to year depending on the corporate plan.

The PSP is based on a mixture of financial and risk measures and relative TSR, in line with our key objectives of sustained growth in earnings leading to the creation of shareholder value over the long term within an appropriate risk framework. TSR provides a close alignment between the relative returns experienced by our shareholders and the rewards to executives.

There is an underpin in place on the PSP to ensure that the payouts are aligned with underlying performance, financial and non-financial risk and individual conduct.

Annual bonus and PSP targets are set taking into account the business plans, shareholder expectations, the external market and regulatory requirements.

In line with HMRC regulations for such schemes, the Sharesave Plan does not operate performance conditions.

How the Group Remuneration Committee operates the variable pay policy

The Committee operates the share plans in accordance with their respective rules, the Listing Rules and HMRC requirements where relevant. The Committee, consistent with market practice, retains discretion over a number of areas relating to the operation and administration of certain plans, including:

- Who participates in the plans.
- The form of the award (for example, conditional share award or nil cost option).
- When to make awards and payments; how to determine the size of an award; a payment; and when and how much of an award should vest.
- Whether share awards will be eligible to receive dividend equivalents and the method of calculation.
- The testing of a performance condition over a shortened performance period.
- How to deal with a change of control or restructuring of the Group.
- Whether a participant is a good/bad leaver for incentive plan purposes; what proportion of an award vests at the original vesting date or whether and what proportion of an award may vest at the time of leaving.
- How and whether an award may be adjusted in certain circumstances (e.g. for a rights issue, a corporate restructuring or for special dividends).
- What the weighting, measures and targets should be for the annual bonus plan and PSP from year to year.

The Committee also retains the discretion within the Policy to adjust existing targets and/or set different measures for the annual bonus. For the PSP, if events happen that cause it to determine that the targets are no longer appropriate, an amendment could be made so they can achieve their original intended purpose and ensure the new targets are not materially less difficult to satisfy.

Any use of the above discretions would, where relevant, be explained in the Annual Report on Remuneration and may, as appropriate, be the subject of consultation with the Company's major shareholders.

OSB operates in a heavily regulated sector, the rules of which are subject to frequent evolution. The Committee therefore also retains the discretion to make adjustments to payments under this Policy as required by financial services regulations.

Conflicts of interest

The Committee ensures that no Director is present when their remuneration is being discussed and considers any potential conflicts prior to meeting materials being distributed and at the beginning of each meeting.

Awards granted prior to the effective date

Any commitments entered into with Directors prior to the effective date of this Policy will be honoured. Details of any such payments will be set out in the Annual Report on Remuneration as they arise.

Remuneration Policy for other employees

The Committee has regard to pay structures across the wider Group when setting the Remuneration Policy for Executive Directors and ensures that policies at and below the executive level are coherent. There are no significant differences in the overall remuneration philosophy, although pay is generally more variable and linked more to the long term for those at more senior levels. The Committee's primary reference point for the salary reviews for the Executive Directors is the average salary increase for the broader workforce.

A highly collegiate approach is followed in the assessment of the annual bonus, with our corporate scorecard being used to assess bonus outcomes throughout the Group, with measures weighted according to role, where relevant.

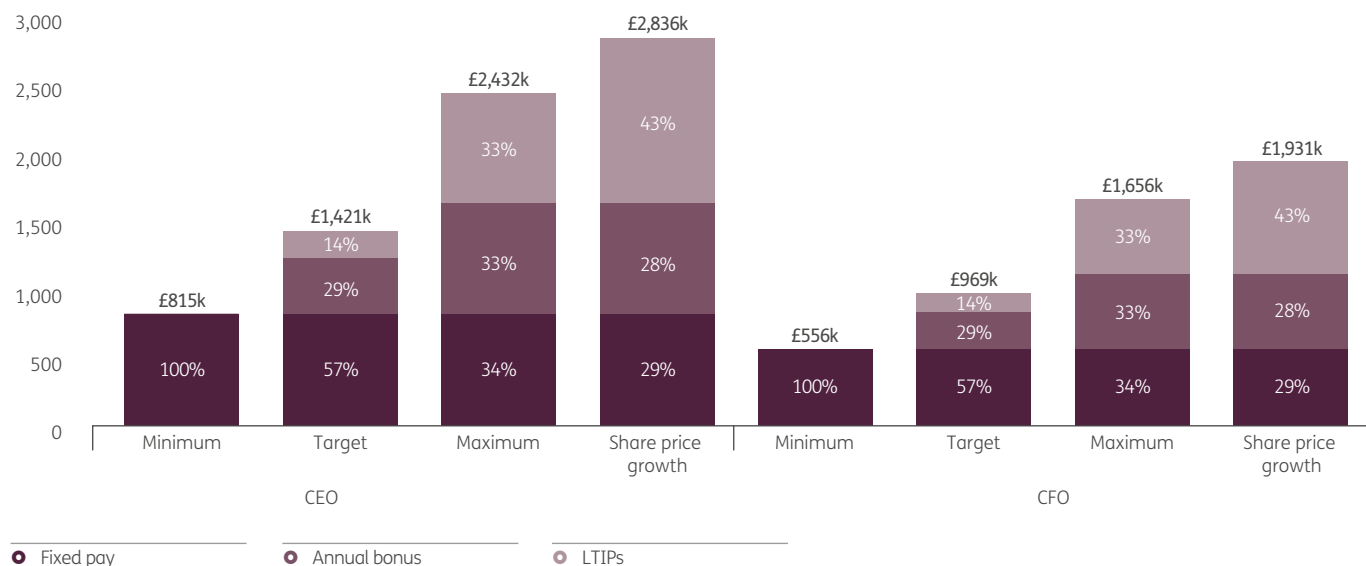
Overall, the Remuneration Policy for the Executive Directors is more heavily weighted towards performance-related pay than for other employees. In particular, performance-related long-term incentives are not provided outside of the most senior executive population as they are reserved for those considered to have the greatest potential to influence overall levels of performance.

Although PSPs are awarded only to the most senior managers in the Group, the Company is committed to widespread equity ownership and a Sharesave Plan is available to all employees. Executive Directors are eligible to participate in this plan on the same basis as other employees.

Directors' Remuneration Report continued Remuneration Policy continued

Illustrations of application of Remuneration Policy

The chart below illustrates how the composition of the Executive Directors' remuneration packages (as it is intended the Policy will be implemented in 2020) would vary under various performance scenarios.



1. Minimum performance assumes no award is earned under the annual bonus plan and no vesting is achieved under the PSP - only fixed pay (salary, benefits and pension are payable).
2. At on-target, half of the annual bonus is earned (i.e. 55% of salary) and 25% of maximum is achieved under the PSP (i.e. 27.5% of salary).
3. At maximum, full vesting is achieved under both plans (i.e. 110% of salary under the bonus and PSP).
4. As at maximum, but illustrating the effect of a 50% increase in the share price on PSP awards.

Other than as noted above, share price growth and all-employee share plan participation are not considered in these scenarios.

The terms and provisions that relate to remuneration in the Executive Directors' service agreements are set out below. Service contracts are available for inspection at the Company's registered office.

Provision	Policy
Notice period	12 months on either side.
Termination payments	A payment in lieu of notice may be made on termination to the value of the Executive Director's basic salary at the time of termination. Such payments may be made in instalments and in such circumstances can be reduced to the extent that the Executive Directors mitigate their loss. Rights to DSBP and PSP awards on termination are shown below. The employment of each Executive Director is terminable with immediate effect without notice in certain circumstances, including gross misconduct, fraud or financial dishonesty, bankruptcy or material breach of obligations under their service agreements.
Remuneration	Salary, pension and core benefits are specified in the agreements. There is no contractual right to participate in the annual bonus plan or to receive long-term incentive awards.
Post-termination	These include six months post termination restrictive covenants against competing with the Company; nine months restrictive covenants against dealing with clients or suppliers of the Company; and nine months restrictive covenants against soliciting clients, suppliers and key employees.
Contract date	Andy Golding 12 February 2020, April Talintyre 12 February 2020.
Unexpired term	Rolling contracts.

Payments for loss of office

On termination, other than for gross misconduct, the Executive Directors will be contractually entitled to salary, pension and contractual benefits (car allowance, private medical cover, life assurance and income protection) over their notice period. The Company may make a payment in lieu of notice equivalent to the salary for the remaining notice period. Payments in lieu of notice would normally be phased and subject to mitigation, by offsetting the payments against earnings elsewhere.

The Company may also pay reasonable legal costs in respect of any compromise settlement.

Annual bonus on termination

There is no automatic/contractual right to bonus payments and the default position is that the individual will not receive a payment. The Committee may determine that an individual is a 'good leaver' and may elect to pay a pro-rated bonus for the period of employment at its discretion and based on full year performance.

Deferred bonus awards on termination

In respect of outstanding awards made under the previous policy, deferred bonus awards normally lapse on termination of employment. However, in certain good leaver situations, awards may instead vest on the normal vesting date (or on cessation of employment in exceptional circumstances). Good leaver scenarios include; (i) death; (ii) injury, ill-health or disability; (iii) retirement with the agreement of the Company; (iv) redundancy; (v) the employing company ceasing to be a member of the Group; or (vi) any other circumstance the Committee determines good leaver treatment is appropriate. Shares which are subject to a holding period will ordinarily be released at the normal time. Where a portion of the annual bonus is required to be deferred in line with FCA regulations, the treatment on cessation will be in line with deferred awards made under the previous policy (as above).

Performance Share Plan awards on termination

Awards normally lapse on termination of employment. However, in certain good leaver situations, awards may vest on the normal vesting date and to the extent that the performance conditions are met. The Committee is, however, permitted under the PSP rules and FCA regulations to allow early vesting of the award to the extent it considers appropriate, taking into account performance to date. Unless the Committee determines otherwise, awards vesting in good leaver situations will be pro-rated for time employed during the performance period. Shares which are subject to a post vesting holding period will ordinarily be released at the normal time.

Approach to recruitment and promotions

The ongoing remuneration package for a new Executive Director would be set in accordance with the terms of the Company's approved Remuneration Policy.

On recruitment, the salary may (but need not necessarily) be set at a lower rate, with phased increases (which may be above the average for the wider employee population) as the Executive Director gains experience. The salary would in all cases be set to reflect the individual's experience and skills and the scope of the role. Annual bonus and PSP award levels would be in line with the Policy.

The Company may take into account and compensate for remuneration foregone upon leaving a previous employer using cash awards, the Company's share plans or awards under Listing Rule 9.4.2 as may be required. This would include taking into account the quantum foregone; the extent to which performance conditions apply; the form of award; and the time left to vesting. These would be structured in line with any regulatory requirements (such as the PRA Rulebook).

For all appointments, the Committee may agree that the Company will meet certain appropriate relocation costs.

For an internal appointment, including the situation where an Executive Director is appointed following corporate activity, any variable pay element awarded in respect of their prior role would be allowed to pay out broadly according to its terms.

Should an individual be appointed to a role (Executive or Non-Executive) on an interim basis, the Company may provide additional remuneration, in line with the Policy for the specific role, for the duration the individual holds the interim role.

For the appointment of a new Chairman or NED, the fee arrangement would be in accordance with the approved Remuneration Policy in force at that time.

External appointments

Executive Directors may accept one directorship of another company with the consent of the Board, which will consider the time commitment required. The Executive Director would normally be able to retain any fees from such an appointment.

Directors' Remuneration Report continued

Remuneration Policy continued

The Remuneration Policy for the Chairman and Non-Executive Directors

Element	Purpose and link to strategy	Operation	Maximum opportunity
Fees	To attract and retain a high-calibre Chairman and NEDs by offering a market competitive fee.	<p>The Chairman and NEDs are entitled to an annual fee, with supplementary fees payable for additional responsibilities including the Chair of the Group Audit, Group Nomination and Governance, Group Remuneration and Group Risk Committees and for acting as the SID.</p> <p>Fees are reviewed periodically.</p> <p>The Chairman and NEDs are entitled to reimbursement of travel and other reasonable expenses incurred in the performance of their duties.</p>	There is no prescribed maximum annual increase. The Committee is guided by the general increase in the non-executive market but on occasion may need to recognise, for example, change in responsibility and/or time commitments.

Letters of appointment

The NEDs are appointed by letters of appointment that set out their duties and responsibilities. The key terms are:

Provision	Policy
Period of appointment	Initial three year term, subject to annual re-election by shareholders. On expiry of the initial term and subject to the needs of the Board, NEDs may be invited to serve a further three years. NEDs appointed beyond nine years will be at the discretion of the Group Nomination and Governance Committee.
Notice periods	<p>Three months on either side.</p> <p>The appointments are also terminable with immediate effect and without compensation or payment in lieu of notice if the Chairman or NEDs are not elected or re-elected to their position as a Director of the Company by shareholders.</p>
Payment in lieu of notice	The Company is entitled to make a payment in lieu of notice on termination.

Letters of appointment are available for inspection at the Company's registered office. The effective dates of the current NEDs' appointments are shown in the table below.

Non-Executive Director	Date of appointment
Graham Allatt	6 May 2014
Noël Harwerth	4 October 2019 (appointed to the CCFS Board in June 2017)
Sarah Hedger	1 February 2019
Rajan Kapoor	4 October 2019 (appointed to the CCFS Board in September 2016)
Mary McNamara	6 May 2014
David Weymouth	1 September 2017

2019 Annual Report on Remuneration

Introduction

This section sets out details of the remuneration received by Executive Directors and NEDs in respect of the financial year ended 31 December 2019. This Annual Report on Remuneration will, in conjunction with the Annual Statement of the Committee Chair on pages 122 to 126, be proposed for an advisory vote by shareholders at the forthcoming AGM to be held on 7 May 2020. Where required, data has been audited by Deloitte and this is indicated where applicable.

Membership

The Committee met seven times during the year. Mary McNamara (Chair), Rod Duke and David Weymouth were members of the Committee throughout the year. Sir Malcolm Williamson, Noël Harwerth and Rajan Kapoor joined the Committee on 4 October 2019 following completion of the Combination. Sarah Hedger joined the Committee in March 2020. Rod Duke and Sir Malcolm Williamson ceased to be Directors from 4 February 2020. The attendance of individual Committee members is set out in the Corporate Governance Report.

The Board considers each of the members of the Committee to be independent in accordance with the UK Corporate Governance Code.

Responsibilities

The Committee's responsibilities are set out in its terms of reference, which are available on the Company's website. In summary, the responsibilities of the Committee include:

- Pay for employees under the Committee's scope:
 - Setting the Remuneration Policy.
 - Determining total individual remuneration (including salary increases, bonus opportunities and outcomes and LTIP awards).
 - Ensuring that contractual terms on termination, and any payments made, are fair to the individual, and the Company, that failure is not rewarded and that the duty to mitigate loss is fully recognised.
- Approving the design of, and determining targets for, any performance-related pay schemes operated by the Company and approving total payments made under such schemes.

Employees under the Committee's scope include Executive Directors, the Chairman of the Board, the Company Secretary and all employees that are identified as Material Risk Takers for the purposes of the PRA and FCA's Dual Regulated Remuneration Code ('Code Staff').

Key matters considered by the Committee

Key issues reviewed and discussed by the Committee during the year included:

- Significant review of the Remuneration Policy
- Extensive consultation with major investors
- Combination-related remuneration matters
- Leaving arrangements for senior employees
- All business as usual matters for employees under the Committee's scope:
 - Review and approve salary increases
 - Review and approve bonus awards
 - Determine the grants under the PSP
- Consider and approve the Directors' Remuneration Report.

Advisers to the Committee

Korn Ferry provided independent advice to the Committee during 2019, having been appointed following a competitive tender process in 2017. The total fees paid to Korn Ferry in 2019 were £238,632 and were charged on a time and materials basis. This figure includes a significant amount in respect of support for the Committee and management in relation to the Combination.

Korn Ferry has no other connection with the Group and therefore the Committee is satisfied that it provides objective and independent advice. Korn Ferry is a member of the Remuneration Consultants Group and abides by the voluntary code of conduct of that body, which is designed to ensure objective and independent advice is given to remuneration committees.

The Committee consults with the CEO, as appropriate, and seeks input from the Group Risk Committee to ensure that any remuneration or pay scheme reflects the Company's risk appetite and profile and considers current and potential future risks.

The Committee also receives input on senior executive remuneration from the CFO and Group HR Director. The Group General Counsel and Company Secretary acts as Secretary to the Committee and advises on regulatory and technical matters, ensuring that the Committee fulfils its duties under its terms of reference.

No individual is present in discussions directly relating to their own pay.

Directors' Remuneration Report continued

2019 Annual Report on Remuneration continued

Directors' pay outcomes for 2019

Remuneration and fees payable for 2019 – (audited)

The table below sets out a single figure for the total remuneration received by each Executive Director and NED for the years ending 31 December 2019 and 31 December 2018.

Executive Directors	Year	Basic salary £'000	Taxable benefits ¹ £'000	Pension £'000	Annual bonus paid ² £'000	Amount bonus deferred ² £'000	LTIP ³ £'000	Total £'000
Andy Golding	2019	516	21	67	296	296	413	1,609
	2018	501	21	65	347	347	321	1,602
April Talintyre	2019	347	16	45	199	199	219	1,025
	2018	336	16	44	232	232	227	1,087

1 Taxable benefits received include car allowance (CEO £20,000; CFO £15,000) and private medical cover.

2 50% of bonus is payable in cash and 50% in shares deferred for three years.

3 The LTIP figure for the year ended 2018 has been restated based on the share price on vesting of £3.9652 for the 2016 PSP.

Total fees £'000	2018	2019
Chairman		
Sir Malcolm Williamson	–	63 ¹
David Weymouth	250	250 ¹
Non-Executive Directors		
Graham Allatt	89	91
Eric Anstee	83	88
Rod Duke	78	89
Margaret Hassall	63	71
Sarah Hedger	–	67 ²
Mary McNamara	78	90
Directors appointed from CCFS		
Tim Brooke	–	26 ³
Noël Harwerth	–	31 ³
Rajan Kapoor	–	29 ³
Ian Ward	–	28 ³
Former Directors		
Andrew Doman	22	– ⁴
Total	663	923 ⁵

NEDs cannot participate in any of the Company's share schemes and are not eligible to join the Company pension scheme.

1 David Weymouth served as Chairman until 4 October 2019, his fee remained unchanged due to additional responsibilities; Sir Malcolm Williamson became Chairman from that date.

2 Appointed to the Board on 1 February 2019.

3 From completion on 4 October 2019.

4 Ceased to be a Director on 10 May 2018.

5 An additional amount of £5,000 was payable to each NED for significant extra time spent on matters relating to the Combination.

Executive bonus scheme:

As noted in the Statement from the Committee Chair, given that the Combination with CCFS completed late in the year, the Committee determined that the Business Balanced Scorecard should be assessed based on OSB's performance as a standalone entity. The Committee however, retained the discretion to adjust the outcome based on performance of the Group as a whole. The performance is set out below. The Committee agreed that no adjustments were required and that the outcome was reflective of underlying performance.

2019 performance against the Business Balanced Scorecard

Category	Key performance indicator	Targets ¹			Actual result	Outcome CEO	Outcome CFO
		Threshold (25%)	Budget (50%)	Max (100%)			
Financial (50%)	Underlying PBT	£192.9m	£196.9m	£204.9m	£199.1m	33.44%	33.44%
	All-in ROE	21.4%	22.4%	24.4%	23.2%		
	Cost to income ratio	31.0%	30.0%	28.0%	30.4%		
	Net loan book growth	16.2%	17.2%	19.2%	20.1%		
Customer (15%)	Customer satisfaction	45	50	60	67	11%	11%
	Broker satisfaction	27.5	30	35	26.6		
	Complaints	0.8%	0.5%	0.1%	0.1%		
Quality (15%)	Overdue actions	3	2	0	1	11.45%	11.45%
	Arrears	1.25%	1.0%	0.5%	0.96%		
	High-severity incidents	4	3	1	0		
Staff (10%)	Diversity ²	27.0%	28.0%	30.0%	30.9%	10%	10%
	Employee engagement ³	3	4	6	7		
Personal (10%)	Vary by executive – see section below					10%	10%
Total						75.89%	75.89%

1. Targets – based on a sliding scale between threshold, target and maximum.

2. Diversity – based on the gender diversity of the senior leadership team.

3. Employee engagement – the employee engagement score represents the number of categories which showed improvement versus the prior year.

Directors' Remuneration Report continued 2019 Annual Report on Remuneration continued

2019 personal performance:

The Executive Directors were allocated up to a maximum of 10% of their bonus based on their personal performance against agreed objectives.

The priorities for 2019 were identified in our 2018 Annual Report and objectives built around these. Performance against the objectives for both Executive Directors was outstanding, as was their overall leadership of the Bank.

The objectives set at the start of the year and the Committee's assessment of performance against them are set out below:

	Objectives	Key achievements
CEO	Oversee the progression of all established 2019 strategic objectives in line with the operating plan	Outstanding leadership in relation to the successful completion of the Charter Court transaction, whilst still also delivering against BAU objectives
	Maintain strong relationships with all regulators	Open and honest relationship with regulators maintained throughout 2019. This was a year of exceptional regulator interactions in the context of the Combination transaction
	Continue to embed the OSB Mission, Vision and Values and the associated activities to positively impact on employee survey results.	Outstanding leadership during a significant corporate transaction. Externally measured employee engagement increased
	Establish and maintain strong relationships with key investors, brokers and analysts	Outstanding performance in relation to investor roadshows and securing investor support for the transaction, including with new shareholders following the completion of the Combination
	Undertake all prescribed and additional responsibilities allocated under the Senior Managers Regime	All responsibilities delivered positively and proactively
	Consistently act as a positive ambassador for OSB at all times, demonstrating role model behaviours.	Outstanding leadership in year of significant change
CFO	Deliver all Board-approved BAU and strategic projects, with a particular personal focus on Data and MI and People-related initiatives	Outstanding leadership in relation to the successful completion of the Charter Court transaction, which became the single most important strategic project of the year
	Complete feasibility assessment and project plan for Bankline Direct	Feasibility and project plan completed
	Continued automation of regulatory process and successful go-live with new PRA templates	Significant progress on automation of regulatory process including use of new template during a year when resources were otherwise diverted to the Combination transaction
	Delivery of a new procurement system to facilitate enhanced Opex reporting and efficiencies	Delivered on time and on budget with new system operational by year end
	Continue to strengthen relationships with shareholders and other stakeholders, including regulator	Outstanding performance in relation to investor roadshows and securing investor support for the transaction. Open and honest relationship with regulators maintained throughout 2019
	Effective oversight of the management of the Bank's capital and funding covering accurate forecasting, maintenance of the capital and funding plans	Step change in the Bank's capital and funding forecasting and planning capabilities during 2019
	Successful 2018 year end and 2019 first half close and delivery to the market. Includes early finalisation of subsidiary statutory accounts	Smooth delivery of OSB and pro forma combined Group accounts
	Consistently act as a positive ambassador for OSB at all times, demonstrating role model behaviours.	Outstanding leadership in year of significant change

Based on this performance, the Committee determined that 10% of a possible 10% for the individual element of the bonus should be paid to each of the CEO and CFO. The CEO and CFO therefore each earned 75.89% of maximum (114% of salary). Half of the bonus will be deferred into shares for three years.

Long-term incentive plan (audited)

The 2017 LTIP award was granted on 16 March 2017 and measured performance over the three financial years to 31 December 2019. Awards will vest after publication of this report, based on the EPS and TSR performance, at 75.1% of maximum, as set out below. Given that the Combination with CCFS only completed approximately 33 months into a 36 month performance period, the Committee determined that the EPS should be assessed against OSB's performance as if the transaction had not occurred (the adjustments to EPS were agreed by the Committee and the Chair of the Group Audit Committee).

Performance level	Percentage of that part of the award vesting	EPS element (50% of total award)	EPS performance	Vesting of EPS part	TSR (50% of total award)	TSR performance versus FTSE 250 constituents	Vesting of TSR part (50% of total award)
Below 'threshold'	0%	Less than 6% CAGR	13.6% CAGR	100%	Below median	74 out of 176	50.2%
'Threshold'	25%	6% CAGR			Median		
'Stretch'	100%	12% CAGR			Upper quartile		

The 2017 PSP awards will therefore vest as follows:

Executive Directors	Number of shares granted	Number of shares due to vest	Number of shares lapsed	Value from share price increase ¹	Total value vesting £'000 ²
Andy Golding	143,544	107,801	35,743	£77,832	£413,093
April Talintyre	76,066	57,125	18,941	£41,244	£218,903

1. Value of share price increase based on a £3.11 share price at the time of grant of the award, to the three-month average share price of £3.8320 to 31 December 2019.

2. Value of shares based on a three-month average share price of £3.8320 to 31 December 2019. This value will be restated next year based on the actual share price on the date of vesting. Dividend equivalents are not paid under the Performance Share Plan.

The Committee is comfortable that the level of vesting is in line with underlying performance and shareholder experience over the performance period.

Executive pay outcomes in context

Percentage change in the remuneration of the CEO (audited)

The table below sets out the percentage change in base salary, value of taxable benefits and bonus for the CEO compared with the average percentage change for employees. For these purposes, UK employees who have been employed for over a year (and therefore eligible for a salary increase) have been used as a comparator group as they are the analogous population (based on service and location).

	Average percentage change 2018-2019		
	Salary	Taxable benefits	Annual bonus
CEO	3.02%	0%	(14.7)%
UK employees	6.26%	0%	9.9%

Comparison of Company performance and CEO remuneration (audited)

The following table summarises the CEO single figure for total remuneration, annual bonus and LTIP pay-out as a percentage of maximum opportunity for the period between 2013 and 2019:

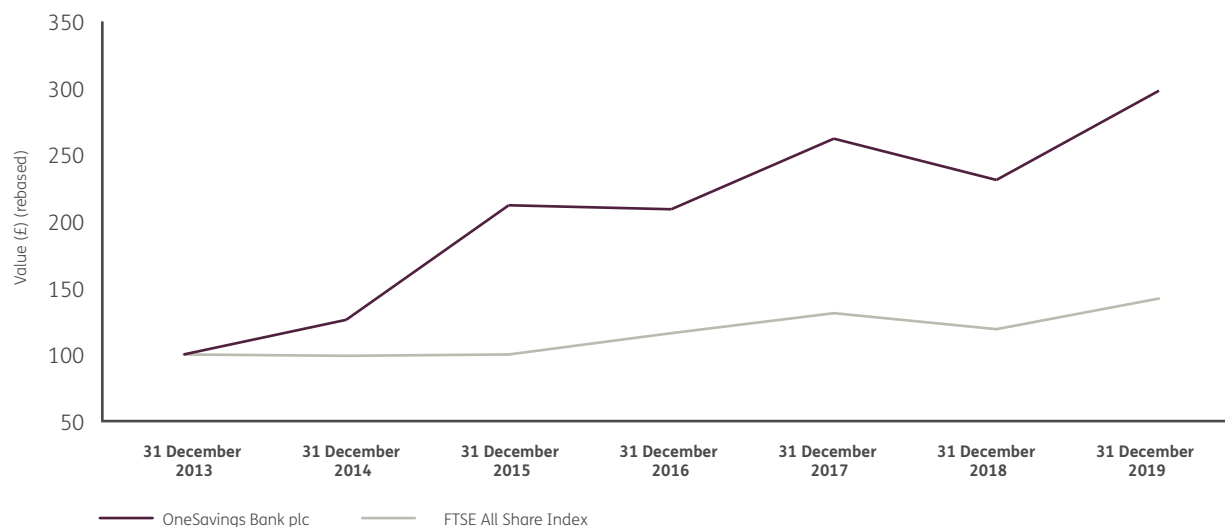
	2013	2014	2015	2016	2017	2018	2019
Andy Golding							
Annual bonus (as a percentage of maximum opportunity)	92.5%	92.63%	93.00%	88.75%	85%	91.75%	75.89%
LTIP vesting (as a percentage of maximum opportunity)	-	-	-	-	100%	50%	75.1%
CEO single figure of remuneration (£'000)	518	777	848	910	1,614	1,602	1,609

Directors' Remuneration Report continued 2019 Annual Report on Remuneration continued

Total shareholder return

The chart below shows the TSR performance of the Company over the period from listing to 31 December 2019 compared to the performance of the FTSE All Share Index. This index is considered to be the most appropriate index against which to measure performance as the Company is a member of this index.

Total shareholder return



This graph shows the value, at 31 December 2019, of £100 invested in OneSavings Bank plc on admission (5 June 2014) compared with the value of £100 invested in the FTSE All Share Index on the same date. The other points plotted are the values at intervening financial year ends.

Source: Datastream (Thomson Reuters)

CEO pay ratios

The ratio of the CEO's single figure of total pay to median employee pay is set out in the table below. The ratio has been calculated in accordance with methodology B as it is the same pay data for employees as is used for the Gender Pay Gap analysis. Full time equivalent pay for individuals that do not work full time has been calculated by increasing their pay pro rata to that of a full time individual. The median ratio has decreased between 2018 and 2019 as a result of a combination of factors, which result in the total pay for the median individual within the workforce increasing, including positive changes to the Group's pay policy and changes in the employee population between 2018 and 2019. There has been no change to the Company's employment models between the two years. The decrease in the ratio between 2017 and 2018 was as a result of the above factors. Additionally, the total pay for the CEO decreased between 2017 and 2018. The median ratio is consistent with the pay, reward and progression policies within the Company.

CEO pay ratio	2017	2018	2019
Method	B	B	B
CEO single figure	1,614	1,574	1,609
Upper quartile	62.1	58.4	65.5
Median	46.1	39.4	38.5
Lower quartile	24.8	21.9	26.2

2019	Basic salary (£'000)	Total pay (£'000)
CEO	516.2	1,609
Lower quartile – Employee A	22.6	24.6
Median – Employee B	34.7	41.8
Upper quartile – Employee C	50.3	61.5

Relative importance of the spend on employee pay (audited)

The table below shows the Company's total employee remuneration (including the Directors) compared to distributions to shareholders and operating profit before tax for the year under review and the prior year. In order to provide context for these figures, underlying operating profit as a key financial metric used for remuneration purposes has been shown.

	2018	2019
Total employee costs	£43.6m	£60.5m
Distributions to shareholders	£35.7m	£61.8m
Underlying profit before tax (PBT)	£193.6m	£199.1m
Total employee costs vs PBT	22.5%	30.4%
Average headcount	989	1,278
Average PBT per employee	£195,753	£155,790

Other disclosures relating to 2019 executive remuneration

Scheme interests awarded during the financial year (audited)

The table below shows the conditional share awards made to Executive Directors in 2019 under the PSP and the performance conditions attached to these awards:

Executive	Face value of award (percentage of salary)	Face value of award	Number of shares ¹	Percentage of awards released for achieving threshold targets	End of performance period	Performance conditions (weighting)
Andy Golding	150%	£780,000	199,959	25%	31 December 2021	EPS (40%) TSR (40%)
April Talintyre	150%	£525,450	134,703			ROE (20%)

- The number of shares awarded was calculated using a share price of £3.9008 (the average mid-market quotation for the preceding five days before grant on 14 March 2019).
- Performance conditions are: (i) 40% TSR versus the FTSE 250 (25% vesting for median performance increasing to maximum vesting for upper quartile performance); (ii) 40% EPS (25% vesting for growth in EPS of 5% per annum increasing to maximum vesting for 10% per annum); and (iii) 20% ROE (25% vesting for average ROE of 20% increasing to maximum vesting for an average of 25%). Financial performance conditions have been adjusted as a result of the Combination to ensure that they are no harder or easier to achieve than was originally intended when the targets were set. This is also the case for the 2018 awards. Full details will be provided in the relevant report at the end of the performance period.

All-employee share plans (audited)

Executive	Date of grant	Exercise price	Market price 31 December 2019	Exercisable from	Exercisable to	Number of options granted	Number of options as at 31 December 2019
Andy Golding	1 November 2019	£2.65496	£4.3340	1 December 2022	1 June 2023	6,779	6,779
April Talintyre	1 November 2019	£2.65496	£4.3340	1 December 2022	1 June 2023	6,779	6,779

Directors' Remuneration Report continued

2019 Annual Report on Remuneration continued

Statement of Directors' shareholdings and share interests (audited)

Total shares owned by Directors:

	Interest in shares		Interest in share awards		Shareholding requirements	
	Beneficially owned at 1 January 2019	Beneficially owned at 31 December 2019	Without performance conditions at 31 December 2019	Subject to performance conditions as at 31 December 2019	Shareholding requirement (percentage of basic salary)	Current shareholding (percentage of basic salary) ¹
Executive						
Andy Golding	680,429	512,941	194,916	523,942	250%	428% (Met)
April Talintyre	263,001	220,346	132,554	331,774	200%	273% (Met)
Non-Executive						
Eric Anstee	4,960	4,960				
Rod Duke	80,000	80,000				
Rajan Kapoor	–	8,970				
Mary McNamara	22,350	22,350				
Ian Ward	–	35,882				
David Weymouth	13,178	13,178				
Sir Malcolm Williamson	–	71,764				

1. Shareholding based on the closing share price on 31 December 2019 (£4.3340) and year end salaries.

External appointments

Andy Golding is a Director/Trustee of the Building Societies Trust Limited. He receives no remuneration for this position. Andy Golding was a member of the Financial Conduct Authority's Small Business Practitioners Panel until his resignation on 17 October 2019.

Payments to departing Directors (audited)

During the year, the Company did not make any payments to past Directors; neither has it made any payments to Directors for loss of office.

How we will implement the Remuneration Policy for Directors in 2020

As set out in the Statement from the Group Remuneration Committee Chair, there will be significant changes in the Directors' remuneration, largely driven by increased regulatory requirements as a Level 2 Firm under the PRA/FCA remuneration rules.

In particular, there has been a rebalancing of the package to comply with the regulations capping variable pay (i.e. bonus + PSP award) at two times fixed pay (salary + pension + benefits). As such, the CEO's salary has been increased from £520,000 to £735,000, as the first stage of a planned increase and the CFO's salary has been increased from £350,300 to £500,000. The pension contribution has been reduced from 13% to 8% of base salary, in line with the rate for the wider employee population. The opportunity under the annual bonus and the PSP has been reduced from 150% of salary to 110% of salary to ensure that variable pay is in line with the cap.

Annual bonus

The 2020 annual bonus will be subject to a maximum limit of 110% of salary. The performance measures have been set in line with the Business Balanced Scorecard. Accordingly, the balance of the metrics are as follows:

Financial	Customer	Quality	Staff	Personal objectives
50% of bonus opportunity	15% of bonus opportunity	15% of bonus opportunity	10% of bonus opportunity	10% of bonus opportunity
Underlying PBT	Customer satisfaction	Overdue management actions	Diversity	Vary by executive
All-in ROE	Broker satisfaction	Arrears	Employee engagement	Details of objectives (and performance against these) will be disclosed retrospectively in next year's report
Cost to income ratio	Complaints	High-severity incidents		
Net loan book growth		Regulatory compliance		

Performance targets are considered to be commercially sensitive so will not be published in advance. However, there will be full disclosure of the targets set and the extent of their achievement in the 2020 Annual Report on Remuneration. The Committee may apply discretion to adjust the resultant bonus from the Business Balanced Scorecard if the result fails to reflect broader performance and the wider shareholder experience.

Half of any bonus earned will be paid in shares which cannot be sold for three years.

Performance Share Plan

PSP awards of 110% of salary will be made to the Executive Directors with performance being measured over the period to 31 December 2022. The performance conditions will be EPS (35% weighting), relative TSR (35% weighting), return on equity (15% weighting) and a new non-financial/risk-based metric (15% weighting).

At the time of vesting, the Committee will assess whether the formulaic vesting outcome is aligned with the underlying performance, risk appetite and individual conduct over the period.

The target range for EPS has been increased from the range used for the full year 2019 PSP award with the growth referenced off the combined pro forma full year 2019 EPS figure for the two businesses. The minimum threshold for the ROE target range has, however, been reduced slightly from a 20% average to a 19% average. This was to ensure delivery of the threshold, plan and maximum performance levels would result in appropriate payouts for the performance of the combined business, recognising that this target range and required performance would still remain market-leading against the banking sector. The Committee is comfortable that these provide the appropriate stretch, taking into account the business plan, external operating environment and market expectations.

Performance level	EPS element (35% of total award)	TSR element (35% of total award)	Return on equity (15% of total award)	Non-financial/risk scorecard (15% of total award)	Percentage of that part of the award vesting
Below 'threshold'	Less than 5% CAGR	Below median	Below 19%	Commercially sensitive	0%
'Threshold'	5% CAGR	Median	19%		25%
'Stretch'	12% CAGR	Upper quartile	25%		100%
Pro rata vesting in between the above points					

For the newly-introduced risk-based measure, the Committee will assess the risk management performance with regard to all relevant risks including, but not limited to, conduct, credit, funding, liquidity, market, operational and regulatory risk. There will be full disclosure of the Committee's assessment on a retrospective basis.

Awards will vest 20% each year between three and seven years after grant, with each vested tranche subject to a one year holding period.

Share ownership guidelines

The CEO and the CFO are required to accumulate and maintain a holding in ordinary shares in the Company equivalent to no less than 250% of salary and 200% of salary respectively. This is calculated on the basis of the value of beneficially owned shares plus the net of tax value of deferred bonus shares or any other unvested share awards which are not subject to performance. Half of any vested share awards must be retained until the guideline is achieved. Based on the current share price, the CEO and CFO hold shares in excess of these levels. Under the new policy, the guidelines will apply for two years following cessation of employment.

Directors' Remuneration Report continued 2019 Annual Report on Remuneration continued

Chairman and Non-Executive Director fees

Following the completion of the Combination, the fees for the Chairman and NEDs were reviewed in light of the changed responsibilities. The NED fees for 2020 are as follows:

Base fees	£'000	
Chairman		300
Non-Executive Director		70
Senior Independent Director		20
Additional Board Committee fees	Chair	Member
Group Nomination and Governance Committee	20	5
Board Integration Committee	n/a	5
Group Audit Committee	30	5
Group Remuneration Committee	30	5
Group Risk Committee	30	5
Group Models and Ratings Committee	10	5

Statement of voting at the Annual General Meeting

Shareholders were asked to approve the 2018 Annual Report on Remuneration at the 2019 AGM. The Directors' Remuneration Policy was approved at the 2018 AGM. The votes received are set out below:

Resolution	Votes for	% of votes cast	Votes against	% of votes cast	Total votes cast	Votes withheld
To approve the 2018 Remuneration Report (2019 AGM)	184,483,824	91.42	17,322,608	8.58	201,806,432	1,003,684
To approve the Remuneration Policy (2018 AGM)	164,447,865	83.71	32,004,658	16.29	196,452,523	8,008,753

The Committee has undertaken extensive engagement throughout 2019 as the new policy has been formulated. The Committee has considered feedback and made changes in response to views expressed. The Committee has continued to engage with shareholders and has written to shareholders who voted against the Remuneration Policy in 2018 to understand their rationale, which related to the increase in incentive opportunity. In response, the Committee will continue to ensure that incentives are subject to stretching performance conditions commensurate with the overall level of remuneration payable.

Approval

This report was approved by the Board of Directors, on the recommendation of the Group Remuneration Committee, on 19 March 2020 and signed on its behalf by:

Mary McNamara

Chair of the Group Remuneration Committee
19 March 2020

Directors' Report: Other Information

Share capital and rights attaching to shares

The Company had 445,443,454 ordinary shares of £0.01 each in issue as at 31 December 2019. 1,312,862 ordinary shares were issued during 2019; 65,124 at a price of £1.34; 5,516 at a price of £2.2658; 82,750 at a price of £2.40; 1,573 at a price of £3.1454 and 1,157,899 at £0.01. 199,643,055 ordinary shares were issued at a price of £0.01 per share for the Combination.

Further details relating to share capital can be found in note 42.

Without prejudice to any special rights previously conferred on the holders of any existing shares or class of shares, any share in the Company may be issued with such rights (including preferred, deferred or other special rights) or such restrictions, whether in regard to dividend, voting, return of capital or otherwise as the Company may from time to time by ordinary resolution determine (or, in the absence of any such determination, as the Directors may determine).

Authorities to allot and pre-emption rights

At the 2019 AGM, shareholders renewed the general authority for the Directors to allot up to £817,184 of the nominal value of ordinary shares of £0.01 each. In addition, shareholders gave authority for the Directors to grant rights to subscribe for, or to convert any security into regulatory capital convertible instruments up to £294,186 of the nominal value of ordinary shares equivalent to 12% of issued share capital.

Repurchase of shares

The Company has an unexpired authority to repurchase ordinary shares up to a maximum of 24,515,503 ordinary shares. The Company did not repurchase any of its ordinary shares during 2019 (2018: none).

Employee share schemes

The details of the Company's employee share schemes are set out on pages 129 and 130 in the Directors' Remuneration Report.

Results and dividends

The results for the year are set out in the Statement of Comprehensive Income on page 162. Our dividend policy for 2020 remains a payout ratio of at least 25% of underlying profit after taxation to ordinary shareholders. The Directors recommend the payment of a final dividend of 11.2 pence per share on 13 May 2020, subject to approval at the AGM on 7 May 2020, with an ex-dividend date of 26 March 2020 and a record date of 27 March 2020. This is in addition to the 2019 interim dividend of 4.9 pence per share paid during the year (2018: 14.6 pence total dividend).

Directors and Directors' interests

The names of the Directors who served during the year can be found in the attendance chart on page 102.

Directors' interests in the shares of the Company are set out on page 142 in the Directors' Remuneration Report. None of the Directors had interests in shares of the Company greater than 0.28% of the ordinary shares in issue. There have been no changes to Directors' interests in shares since 31 December 2019.

Equal opportunities

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

Employee engagement

Employees are kept informed of developments within the business and in respect of their employment through a variety of means, such as employee meetings, briefings and the intranet. Employee involvement is encouraged and views and suggestions are taken into account when planning new products and projects. The Sharesave 'save as you earn' Scheme is an all-employee share option scheme which is open to all UK-based employees. The Sharesave Scheme allows employees to purchase options by saving a fixed amount of between £5 and £500 per month over a period of either three or five years, at the end of which the options, subject to leaver provisions, are usually exercisable. The Sharesave Scheme has been in operation since June 2014 and is granted annually, with the exercise price set at a 20% discount of the share price on the date of grant.

During the year, a new Workforce Advisory Forum (known as OneVoice or the Forum) was established to gather the views of the workforce to enable the Board and Group Executive Committee to consider a broadly representative range of stakeholder perspectives to guide strategic decisions for the future of the Company and its subsidiaries. The Forum consists of volunteer representatives from each of the various business areas, as well as permanent members consisting of a designated NED, Mary McNamara, a member of the Group Executive Committee, Jason Elphick and a representative from HR Management. Other NEDs and members of the Group Executive Committee are invited to attend meetings on a rotational basis.

Directors' Report: Other Information continued

The first OneVoice meeting was held in November 2019 and provided an introduction for the nominated employee representatives. In advance of this meeting, the employee representatives held drop-in sessions within their business areas in order to engage with employees and identify topics impacting the workforce, of which it was felt the Board and Group Executive Committee should have an awareness. These topics were then raised at the November 2019 meeting and noted as future agenda items. It is anticipated that a similar process will be followed in advance of each subsequent meeting.

Greenhouse gas emissions

Information relating to greenhouse gas emissions can be found on page 84 in the Strategic Report.

Political donations

Shareholder authority to make aggregate political donations not exceeding £50,000 was obtained at the 2019 AGM. Neither the Company nor any of its subsidiaries made any political donations this year.

Notifiable interests in share capital

At 31 December 2019, the Company had received the following notifications of major holdings of voting rights pursuant to the requirements of Rule 5 of the Disclosure Guidance and Transparency Rules:

	No. of ordinary shares	% of issued share capital
Barclays Plc	29,199,962	6.56
Elliot Capital Advisors L.P.	52,937,640	11.90
Eleva Capital SAS	18,319,400	4.12
JPMorgan Asset Management (UK) Limited ¹	13,035,838	5.36
Merian Global Investors (UK) Ltd	73,911,283	16.64

1. This notification was received in April 2017, no other notifications have been received since.

Since 31 December 2019, the Company received the following notifications:

	No. of ordinary shares	% of issued share capital
BlackRock, Inc. ¹	21,031,243	4.72
Elliot Capital Advisors L.P.	43,953,201	9.87
Merian Global Investors (UK) Ltd	65,938,917	14.80

1. BlackRock, Inc. also gave notice of financial instruments and financial instruments with a similar economic effect to qualifying financial instruments representing 1,192,067 (0.29 per cent) of voting rights.

Barclays Plc gave notice on 6 February 2020 that its shareholding fell below the notifiable threshold.

Annual General Meeting

Accompanying this report is the Notice of the AGM which sets out the resolutions to be proposed to the meeting, together with an explanation of each. This year's AGM will be held at the offices of Slaughter and May, One Bunhill Row, London EC1Y 8YY on 7 May 2020. The meeting will start at 11am with registration from 10.30am.

Other information

Likely future developments in the Group are contained in the Strategic Report on pages 8 to 93.

Information on financial instruments including financial risk management objectives and policies including, the policy for hedging the exposure of the Group to price risk, credit risk, liquidity risk and cash flow risk can be found in the Risk review on pages 52 to 72.

Details on how the Company has complied with section 172 can be found throughout the Strategic and Directors' Reports and on page 89.

Going concern statement

The Directors have undertaken a going concern assessment in accordance with 'Guidance on Risk Management, Internal Control and Related Financial and Business Reporting', published by the Financial Reporting Council in September 2014.

As a result of this assessment, the Directors are satisfied that the Group and the Company have adequate resources to continue to operate as a going concern for a period in excess of 12 months from the date of this report and have prepared the financial statements on that basis. In assessing whether the going concern basis is appropriate, the Directors have considered the information contained in the financial statements, the latest business plan, profit forecasts and the latest working capital forecasts.

These forecasts have been subject to sensitivity tests, including stress scenarios relating to Coronavirus and Brexit. Having reviewed the ICAAP and ILAAP, the Directors are satisfied that the Group and the Company have adequate resources to continue in operational existence for a period in excess of 12 months.

Key information in respect of the Group's SRMF, objectives and processes for mitigating risks, including liquidity risk, are set out in detail on pages 54 to 72.

Jason Elphick

Group General Counsel and Company Secretary
 OneSavings Bank plc
 Registered number: 07312896
 19 March 2020

Statement of Directors' Responsibilities in respect of the Annual Report and the financial statements

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

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

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

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

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

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

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

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

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

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

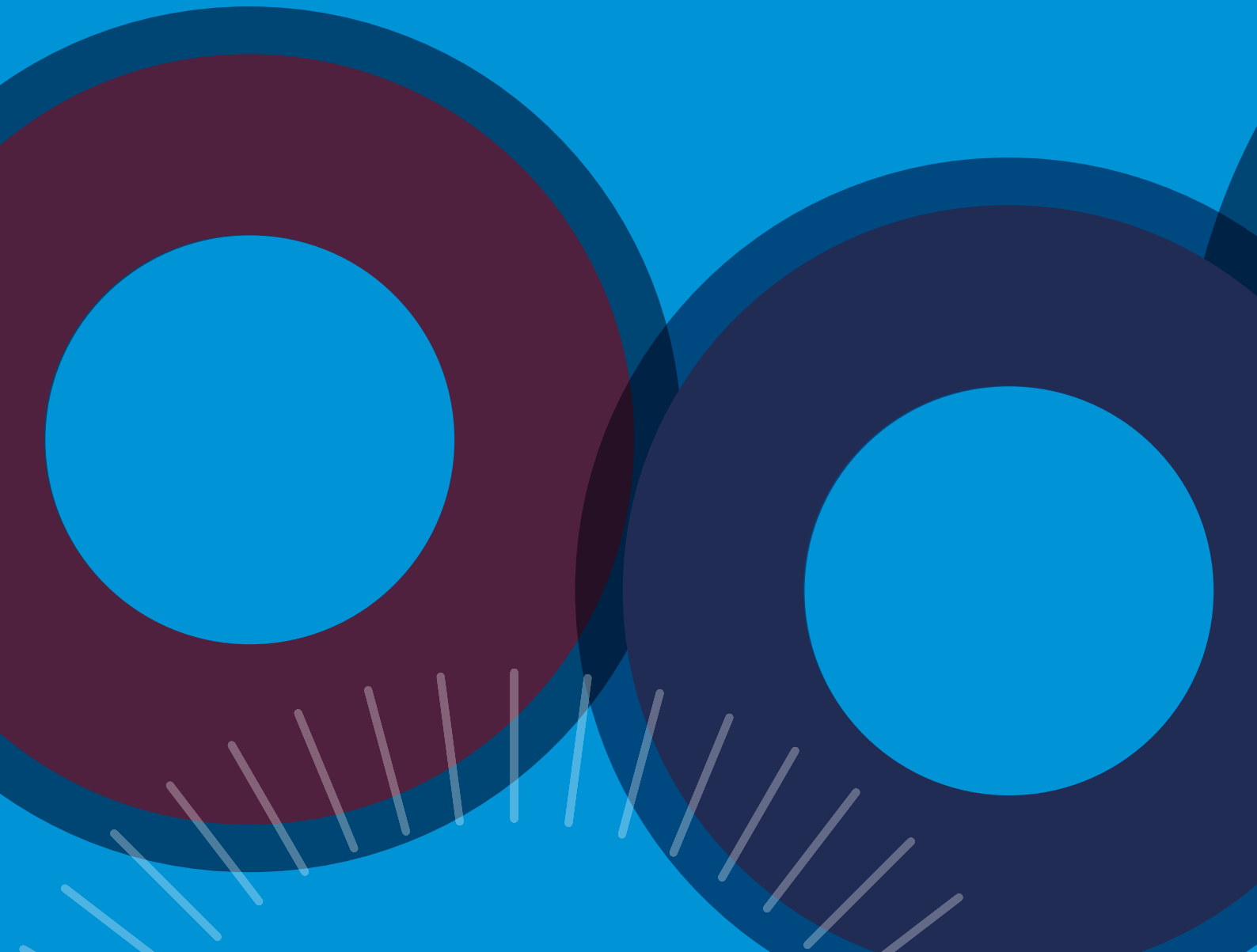
- so far as the Director is aware, there is no relevant audit information of which the Company's auditor is unaware; and
- they have taken all the steps they ought to have taken as a Director in order to make themselves aware of any relevant audit information and to establish that the Company's auditors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

Approved by the Board and signed on its behalf by:

Jason Elphick

Group General Counsel and Company Secretary
19 March 2020

Financial statements and notes



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Independent Auditor's Report

To the Members of OneSavings Bank plc

Report on the audit of the financial statements

1. Opinion

In our opinion:

- the financial statements of OneSavings Bank plc (the 'parent company') and its subsidiaries (the 'Group') give a true and fair view of the state of the Group's and of the parent company's affairs as at 31 December 2019 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation.

We have audited the financial statements which comprise:

- the consolidated statement of comprehensive income;
- the consolidated and parent company statement of financial position;
- the consolidated and parent company statements of changes in equity;

- the consolidated and parent company statement of cash flows;
- the statement of accounting policies; and
- the related notes 1 to 52.

The financial reporting framework that has been applied in their preparation is applicable law and IFRSs as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

2. Basis for opinion

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

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

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

3. Summary of our audit approach

Key audit matters	The key audit matters that we identified in the current year were: <ul style="list-style-type: none"> • accounting for the acquisition of Charter Court Financial Services Group; • classification of exceptional transaction costs and integration costs; • loan impairment provisions; and • effective interest rate income recognition.
Materiality	The materiality that we used for the Group financial statements was £14m which was determined by reference to normalised profit before tax and net assets. Normalised profit before tax is explained on page 156
Scoping	Our Group audit scope focused primarily on three subsidiaries subject to a full scope audit. The subsidiaries selected for a full scope audit were OneSavings Bank plc (company only), Charter Court Financial Services Limited and Interbay ML Ltd. These three subsidiaries account for 98% of the Group's total assets, 98% of the Group's total liabilities, 96% of the Group's interest receivable and similar income and 97% of the Group's profit before tax

4. Conclusions relating to going concern, principal risks and viability statement

4.1. Going concern

We have reviewed the directors' statement in note 2 to the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them and their identification of any material uncertainties to the Group's and parent company's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements.

We considered as part of our risk assessment the nature of the Group, its business model and related risks including where relevant the impact of Brexit and COVID 19, the requirements of the applicable financial reporting framework and the system of internal control. We evaluated the directors' assessment of the group's ability to continue as a going concern, including challenging the underlying data and key assumptions used to make the assessment, and evaluated the directors' plans for future actions in relation to their going concern assessment.

We are required to state whether we have anything material to add or draw attention to in relation to that statement required by Listing Rule 9.8.6R(3) and report if the statement is materially inconsistent with our knowledge obtained in the audit.

Going concern is the basis of preparation of the financial statements that assumes an entity will remain in operation for a period of at least 12 months from the date of approval of the financial statements.

We confirm that we have nothing material to report, add or draw attention to in respect of these matters.

4.2. Principal risks and viability statement

Based solely on reading the directors' statements and considering whether they were consistent with the knowledge we obtained in the course of the audit, including the knowledge obtained in the evaluation of the directors' assessment of the Group's and the parent company's ability to continue as a going concern, we are required to state whether we have anything material to add or draw attention to in relation to:

- the disclosures on pages 58 to 66 that describe the principal risks, procedures to identify emerging risks, and an explanation of how these are being managed or mitigated;
- the directors' confirmation on page 58 that they have carried out a robust assessment of the principal and emerging risks facing the group, including those that would threaten its business model, future performance, solvency or liquidity; or
- the directors' explanation on pages 73 and 74 as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We are also required to report whether the directors' statement relating to the prospects of the group required by Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit.

Viability means the ability of the group to continue over the time horizon considered appropriate by the directors.

We confirm that we have nothing material to report, add or draw attention to in respect of these matters.

5. Key audit matters

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

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

Independent Auditor's Report continued

To the Members of OneSavings Bank plc

5.1. Accounting for the acquisition of Charter Court Financial Services Group ("CCFSG")

Refer to the key areas of judgements in applying accounting policies and critical accounting estimates on page 180 and Note 4 on page 181

Key audit matter description

As detailed on page 181, the Group completed the acquisition of CCFSG on 4 October 2019. The acquisition resulted in a credit of £11m being recognised in the consolidated income statement in respect of negative goodwill as the amount of total consideration transferred was less than the fair value of the net assets acquired. The acquisition of CCFSG was a significant unusual transaction in the year that could give rise to material misstatement in the financial statements due to fraud or error.

Accounting for the acquisition gives rise to two key areas of management judgement and estimation uncertainty:

- the valuation of adjustments required to reflect the assets and liabilities of CCFSG at their fair value as at 4 October 2019; and
- the valuation of separately identifiable intangible assets as at 4 October 2019.

The Directors engaged external specialists to support their assessment of the acquisition accounting and the completeness and valuation of intangible assets. In accordance with IFRS 3, the Group has recognised separate intangible assets in the combination of £24m and £187m of net fair value adjustments to assets and liabilities.

The most significant fair value adjustment is a circa £300m uplift to the valuation of loans and advances to customers compared to the carrying amount in the books and records of CCFSG. The fair value adjustment is individually material and is highly sensitive to changes in key assumptions.

The Group has recognised £24m of separately identifiable intangible assets of which the most significant separately identifiable intangible asset is £17m and relates to broker relationships.

How the scope of our audit responded to the key audit matter

We obtained an understanding of the design and implementation of relevant controls relating to the provisional accounting for the acquisition of CCFSG.

To challenge the valuation of the loan book, we:

- Tested the accuracy and completeness of data used by management in deriving the fair value of the loan book;
- Engaged our own valuation specialists to derive an independent fair value for the two largest portfolios that make up over 90% of the fair value of the loan book acquired and compared this to the fair value derived by management; and
- For the key assumptions to which the fair value was most sensitive, such as the discount rate and prepayment rates, where relevant we examined the consistency of those assumptions with other models used within the Group.

To challenge the valuation of the broker relationship intangible assets, we:

- Assessed the objectivity and expertise of the Group's external specialist meeting with them to discuss their approach and the findings within their final report;
- Engaged our own valuation specialists to challenge the methodology and assumptions used in the valuation through comparison to industry practice;
- Challenged the cash flow forecasts used in the valuation by reference to historical performance and management's track record of forecasting accuracy; and
- Tested the appropriateness of other inputs and significant assumptions used in valuing the broker relationships including the discount rate.

We also challenged whether further fair value adjustments are required to the assets and liabilities of CCFSG or whether additional intangible assets should be recognised by reference to the requirements of IFRS and our understanding of the CCFSG balance sheet.

Key observations

For the two loan portfolios that we independently valued, we determined the fair value of the portfolios recognised by management to be within 2% of our independent valuation. We considered management's valuation to be reasonable.

We considered the identification of the broker relationships and the valuation methodology used to be appropriate and in line with industry practice. We considered the cash flow forecasts, key inputs and assumptions to be reasonable in the context of the known facts and circumstances and historical performance. We did not identify any significant unrecognised fair value adjustments or intangible assets.

5.2. Classification of exceptional transaction costs and integration costs

Refer to the Statement of Comprehensive Income, Note 12 on page 190 and Note 13 on page 190

Key audit matter description	<p>The Directors have presented exceptional transaction costs relating to the acquisition of CCFSG of £15.6m and integration costs of £5.2m relating to the integration of the two businesses as separate line items on the face of the consolidated statement of comprehensive income. Management has also excluded these items from underlying profit before tax disclosed in the front half of the Annual Report.</p> <p>There is a risk that items that reflect the underlying performance of OSB Group are incorrectly classified as exceptional transaction and integration costs on the face of the income statement due to fraud or error and are therefore inappropriately excluded from the underlying performance of the business.</p>
How the scope of our audit responded to the key audit matter	<p>We obtained an understanding of the design and implementation of management's controls over the identification and classification of exceptional transaction costs and integration costs.</p> <p>For a sample of exceptional transaction costs and integration costs we obtained supporting evidence to test whether the items were related to the acquisition of CCFSG or the integration of the two businesses and therefore whether the items were appropriately classified.</p>
Key observations	<p>We identified no items within exceptional transaction costs and integration costs that were incorrectly classified.</p> <p>We reviewed management's presentation of exceptional transaction costs and integration items and consider it to be fair, balanced and understandable.</p>

5.3. Loan impairment provisions

Refer to the judgements in applying accounting policies and critical accounting estimates on page 179 and Note 23 on page 196

Key audit matter description	<p>IFRS 9 requires impairment losses to be recognised on an expected credit loss ("ECL") basis. ECL provisions as at 31 December 2019 were £43m (2018: £22m), which represented 0.23% (2018: 0.24%) of loans and advances to customers. ECLs are calculated both for individually significant loans and collectively on a portfolio basis which require the use of statistical models incorporating loss data and assumptions on the recoverability of customers' outstanding balances. The ECL provision requires management to make significant judgements and estimates. We therefore consider there to be a significant risk of material misstatement due to fraud or error in respect of the Group's ECL provision.</p> <p>We identified five specific areas in relation to the ECL that require significant management judgement or relate to assumptions to which the overall ECL provision is particularly sensitive.</p> <ul style="list-style-type: none"> • Significant increase in credit risk ("SICR"): The assessment of whether there has been a significant increase in credit risk since origination date of the exposure to the reporting date. Following the acquisition of CCFSG, management aligned the staging criteria across the Group to include both quantitative and qualitative factors in the SICR assessment. • Macroeconomic scenarios: Management has reassessed the macroeconomic scenarios used in the ECL model and the probability weightings applied. As set out on page 173, the Group sources economic forecasts from a third party economics expert and considers a minimum of four probability weighted scenarios, including base, upside, downside and severe downside scenarios. • Propensity to go into possession given default ("PPD") assumption: The loss given default by loan assumed in the ECL provision calculation is sensitive to the PPD assumption which is based on historical data. PPD measures the likelihood that a defaulted loan will progress to repossession. • Forced sale discount ("FSD") assumption: The loss given default is also sensitive to the FSD assumption which is based on historical data. FSD measures the difference in sale proceeds between a sale under normal conditions and a sale at auction. • Commercial and individually assessed collateral valuation: Management uses an internally developed index for commercial property valuations. The internally developed commercial property index ("CPI") is applied annually to adjust management's commercial collateral valuations to reflect changes in market prices. Management uses an in-house real estate team to estimate the market value of collateral on a case by case basis for individually assessed loans.
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Independent Auditor's Report continued

To the Members of OneSavings Bank plc

How the scope of our audit responded to the key audit matter

We obtained an understanding of the design and implementation of the key financial controls over the ECL provision with particular focus on controls over significant management assumptions and judgements used in the ECL determination.

To challenge management's SICR criteria, we:

- Assessed the probability of default ("PD") thresholds used in the SICR assessment by reference to emerging standard validation metrics including the proportion of transfers to stage two driven solely by being 30 days past due, the volatility of loans in stage two and the proportion of loans that spend little or no time in stage two before moving to stage three.
- Assessed the transfer criteria methodology applied against best practice and considered whether the Group's staging judgements have been appropriately implemented in the model design.
- Tested whether the PD thresholds set by management had been appropriately applied in practice as at 31 December 2019.
- Performed an independent assessment for a sample of loan accounts to determine whether they have been appropriately allocated to the correct stage.

To challenge management's macro-economic scenarios and the probability weightings applied we:

- Reviewed management's assessment of scenarios considered and the probability weightings assigned to them in light of the economic position as at 31 December 2019.
- Agreed the macroeconomics scenarios used in the ECL model to a report prepared by the third party economics expert dated December 2019.
- Made specific inquiries of the third party economics expert to understand their approach and modelling assumptions to derive the scenarios.
- Assessed the competence, capability and objectivity of the third party economics expert.
- Engaged our economic specialists to challenge the third party economics expert's outlook by reference to other available economic outlook data.
- Performed a peer benchmarking exercise to check the appropriateness of selected macroeconomic variables and weightings. The key economic variables were the house price index ("HPI"), unemployment and base rate.
- Engaged our analytics and modelling specialists to review the model methodology and computer code in the macroeconomics overlay model which applies the scenarios to each ECL component.
- For a sample of loans, we independently recalculated the ECL using the macroeconomic variables to check they were being applied appropriately.

To challenge management's PPD and FSD assumptions we:

- Involved our analytics and modelling specialists to challenge the model methodology and computer code in the loss given default ("LGD") models.
- Recalculated the PPD rates observed on defaulted cases and compared them with the rates used by management.
- Recalculated the FSD observed on recent property sales on defaulted accounts and compared them with the rates used by management.
- Assessed the appropriateness of PPD and FSD assumptions adopted by management through benchmarking to industry peers.

We performed the following procedures to challenge management's internally developed index for commercial property valuations and management's case by case estimate of the market value of collateral for individually assessed loans:

- Engaged our in-house property valuation specialists to examine management's valuation policies and to challenge a sample of collateral valuations for individually assessed loans by reference to available market data.
- Selected a sample of the commercial properties used by management to derive the CPI and worked with our property valuation specialists to challenge the collateral valuations used by reference to available market data.
- Selected a sample of other commercial properties not considered by management in determining the CPI to challenge the collateral valuations and assess whether management had applied any bias in their selection of properties.
- Tested the mechanical accuracy of management's CPI calculation and that the indexed valuation was appropriately applied in the ECL determination.

Key observations

We determined that the methodology used and the SICR criteria, PPD and FSD assumptions management have made in determining the ECL provision as at 31 December were reasonable. We determined management's collateral valuations to be reasonable and the CPI to be appropriately determined and applied.

We did not identify any issues in the competence, capability and objectivity of the third party economic expert. Notwithstanding that estimating the probability and impact of future economic outcomes is inherently judgemental, on balance, we consider that the macroeconomic scenarios selected by the Directors and the probability weightings applied generate an appropriate portfolio loss distribution including a 15% weighting to a relatively severe economic downturn scenario. The Directors have appropriately included sensitivity analysis on page 180 showing the impact on the ECL of a 100% weighting to each scenario.

5.4. Effective interest rate income recognition

Refer to the judgements in applying accounting policies and critical accounting estimates on page 180, the accounting policy on page 168 and Notes 5 and 6 on page 183

Key audit matter description

In accordance with the requirements of IFRS 9, the Group is required to spread directly attributable fees, discounts, incentives and commissions on a constant yield basis ("effective interest rate, EIR") over the shorter of the expected and contractual life of loan assets. EIR is complex and the Group's approach to determining the EIR involves the use of models and significant estimation in determining the behavioural life of loan assets. Given the complexity and judgement involved in accounting for EIR, there is an opportunity and incentive for management to potentially manipulate the amount of interest income reported in the financial statements and revenue recognition is an area susceptible to fraud.

The Group's net interest income for the year ended 31 December 2019 was £345m.

EIR adjustments arise from revisions to estimated cash receipts or payments for loan assets that occur for reasons other than a movement in market interest rates or credit losses. They result in an adjustment to the carrying amount of the loan asset, with the adjustment recognised in the income statement in interest income and similar income. As the EIR adjustments reflect changes to the timing and volume of forecast customer redemptions, they are inherently judgemental. The level of judgement exercised by management is increased given the limited availability of historical repayment information. For two of the loans portfolios, KRBS and Precise, the EIR adjustments are sensitive to changes in the behavioural life "curves". We have therefore identified the estimation of the behavioural life for these portfolios as focus area of our audit.

We also identified a significant risk of material misstatement in relation to EIR adjustments on the Group's legacy acquired portfolios. EIR on acquired loan portfolios is inherently more judgemental than originated loan portfolios as it involves modelling the expected cash flows on acquisition and comparing to actual and forecast cash flows at each balance sheet date. These loan portfolios are also underwritten outside of the Group's standard processes and therefore may have different profiles than self-originated loans. As set out on page 168, the Group monitors the actual cash flows for each acquired book and where they diverge significantly from expectation, the future cash flows are "reset". In assessing whether to adjust future cash flows on an acquired portfolio, the Group considers the cash variance on an absolute and percentage basis. The Group also considers the total variance across all acquired portfolios. Where cash flows for an acquired portfolio are reset, they are discounted at the EIR to derive a new carrying value, with changes taken to profit or loss as interest income.

Independent Auditor's Report continued

To the Members of OneSavings Bank plc

How the scope of our audit responded to the key audit matter

We obtained an understanding of the design and implementation of key controls over EIR, focusing on the calculation and review of EIR adjustments and the determination of prepayment curves.

For the two portfolios where the EIR adjustments were most significant and sensitive to changes in behavioural life, we involved our in-house modelling specialists to run the Group's loan data for all products through our own independent EIR model, using the behavioural life curves derived by the Group. We compared our calculation of the EIR adjustment required to the amount recorded by management.

For the same portfolios, we also worked with our in-house modelling specialists to independently derive a behavioural life curve using the Group's loan data tapes over recent years. We used these curves in our own independent EIR model to derive an independent output showing the EIR adjustments that should have been recorded in 2019. We compared this output to the amounts recorded by management.

We also tested the completeness and accuracy of a sample of inputs into the EIR model for originated loans.

For the legacy acquired portfolios, we tested the completeness and accuracy of actual cash flow data used in the Group's reset analysis. For a sample of legacy acquired portfolios where the Group's analysis determined that a reset was required based on variances in actual cash flow data compared to expected cash flows, we challenged the assumptions and modelling approach taken to determine the EIR adjustment by testing a sample of inputs to the analysis, reperforming the discounted cash flow calculation for a sample of loans and challenging whether forecasts were consistent with historical performance and our understanding of the nature of the cash flows.

Key observations

We determined that the EIR models and assumptions used were appropriate and that net interest income for the period is not materially misstated.

6. Our application of materiality

6.1. Materiality

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

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

	Group financial statements	Parent company financial statements
Materiality	£14.0m	£10.2m
Basis for determining materiality	<p>We determined materiality for the Group by reference to a range of £11m to £15m based on 5% of normalised profit before tax of £219m and 1% of net assets of £1,477m as at 31 December 2019.</p> <p>Normalised profit before tax is statutory profit before tax of £209m excluding the negative goodwill credit of £11m, integration costs of £5m and the exceptional transaction costs of £16m.</p>	<p>We determined materiality based on 5% of normalised profit before tax. We excluded integration costs and exceptional transaction costs from statutory profit before tax, consistent with our approach to Group materiality.</p>

<p>Rationale for the benchmark applied</p>	<p>As a listed company, we normally consider a profit based measure to be the most relevant benchmark for users of the accounts given the Group's stakeholder focus on maximising returns. However, we have not used a purely profit based measure to determine materiality as the balance sheet of the consolidated Group has increased significantly as a result of the acquisition of CCFSG but, given the timing of the acquisition, there has not been a commensurate increase in the consolidated Group's profit before tax. As a result, we concluded that a materiality based solely on the profit of the consolidated Group is not appropriate and we therefore also considered the net assets as at 31 December 2019.</p> <p>Given the volatility expected in statutory profit before tax as a result of the CCFSG acquisition, we consider normalised profit before tax to be a more stable metric for the consolidated Group's profitability.</p>	<p>We consider a profit based measure to be the most relevant benchmark for users of the accounts given the parent company is publically listed with stakeholder focus on maximising returns.</p>
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6.2. Performance materiality

We set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the financial statements as a whole. Group performance materiality of £9.8m was set at 70% of Group materiality for the 2019 audit. In determining performance materiality, we considered a number of factors, including: our understanding of the control environment, including entity-level controls and the degree of centralisation of controls and processes; our understanding of the business through our work performed at the planning stage and as part of the interim review for the six months ended 30 June 2019; and the low number of uncorrected misstatements identified in the prior year.

6.3. Error reporting threshold

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £0.7m for the Group and £0.5m for the parent company, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

7. An overview of the scope of our audit

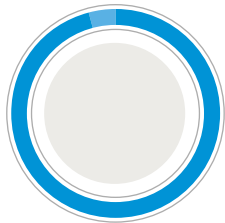
Our Group audit was scoped by obtaining an understanding of the Group and its environment, including group-wide controls and assessing the risks of material misstatement at the Group level.

Our Group audit scope focused primarily on three subsidiaries: the two main banking entities OneSavings Bank plc (company only) and Charter Court Financial Services Limited, as well as Interbay ML Ltd, another significant lending subsidiary. These three subsidiaries were significant components and subject to a full scope audit. They represent 96% of the Group's interest receivable and similar income, 97% of profit before tax, 98% of total assets and 98% of total liabilities. The subsidiaries were selected to provide an appropriate basis of undertaking audit work to address the risks of material misstatement including those identified as key audit matters above. Our audits of each of the subsidiaries were performed using lower levels of materiality based on their size relative to the Group. The materiality for each subsidiary audit ranged from £5.4m to £10.2m.

Independent Auditor's Report continued

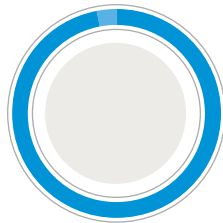
To the Members of OneSavings Bank plc

Interest receivable and similar income



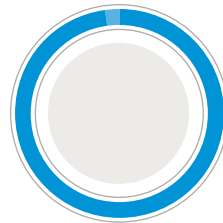
Full audit scope 96%
 Review at group level 4%

Profit before tax



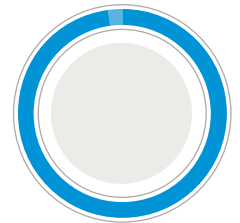
Full audit scope 97%
 Review at group level 3%

Total assets



Full audit scope 98%
 Review at group level 2%

Total liabilities



Full audit scope 98%
 Review at group level 2%

All audit work for the purposes of the Group audit was performed by Deloitte LLP in the UK. The audit team for the Group and the parent company were based in London. There was a separate component audit team for the component audit of Charter Court Financial Services Limited which is based in Wolverhampton. The Senior Statutory Auditor has responsibility for directing and supervising all aspects of the audit work of the component auditor. In discharging this responsibility, he met local management and had regular meetings with the component audit team to oversee the component audit. Members of the Group audit team also visited the component audit team as well as performing a remote file review of their work. The Group audit team maintained dialogue with the component auditor throughout all phases of the audit and received written reports from the component auditor setting out the results of their audit procedures.

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

8. Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon.

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

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

In this context, matters that we are specifically required to report to you as uncorrected material misstatements of the other information include where we conclude that:

- **Fair, balanced and understandable** – the statement given by the directors that they consider the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the group's position and performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or
- **Audit committee reporting** – the section describing the work of the audit committee does not appropriately address matters communicated by us to the audit committee; or
- **Directors' statement of compliance with the UK Corporate Governance Code** – the parts of the directors' statement required under the Listing Rules relating to the company's compliance with the UK Corporate Governance Code containing provisions specified for review by the auditor in accordance with Listing Rule 9.8.10R(2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

We have nothing to report in respect of these matters.

9. Responsibilities of directors

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

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

10. Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Details of the extent to which the audit was considered capable of detecting irregularities, including fraud and non-compliance with laws and regulations are set out below.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

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

We identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and then design and perform audit procedures responsive to those risks, including obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion.

11.1. Identifying and assessing potential risks related to irregularities

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

- the nature of the industry and sector, control environment and business performance including the design of the Group's remuneration policies, key drivers for directors' remuneration, bonus levels and performance targets;
- the Group's own assessment of the risks that irregularities may occur either as a result of fraud or error that was approved by the Board;
- results of our enquiries of management, internal audit and the audit committee about their own identification and assessment of the risks of irregularities;
- any matters we identified having obtained and reviewed the Group's documentation of their policies and procedures relating to:
 - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
 - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud;
 - the internal controls established to mitigate risks of fraud or non-compliance with laws and regulations;
- the matters discussed among the audit engagement team including the component audit team and involving relevant internal specialists, including tax, valuations, real estate, IT and credit specialists regarding how and where fraud might occur in the financial statements and any potential indicators of fraud.

As a result of these procedures, we considered the opportunities and incentives that may exist within the organisation for fraud and identified the greatest potential for fraud in the following areas which are referred to as key audit matters above: accounting for the acquisition of CCFSG, classification of exceptional transaction costs and integration costs, loan impairment provisions and effective interest rate income recognition. In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override.

We also obtained an understanding of the legal and regulatory frameworks that the Group operates in, focusing on provisions of those laws and regulations that had a direct effect on the determination of material amounts and disclosures in the financial statements. The key laws and regulations we considered in this context included the relevant provisions of the UK Companies Act 2006, Listing Rules and tax legislation.

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

Independent Auditor's Report continued

To the Members of OneSavings Bank plc

11.2. Audit response to risks identified

As a result of performing the above, we identified accounting for the acquisition of CCFSG, classification of exceptional transaction costs and integration costs, loan impairment provisions and revenue recognition using the effective interest rate as key audit matters related to the potential risk of fraud. The key audit matters section of our report explains the matters in more detail and also describes the specific procedures we performed in response to those key audit matters.

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

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

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

Report on other legal and regulatory requirements

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

In our opinion the part of the directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

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

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

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

13. Opinion on other matter prescribed by the Capital Requirements (Country-by-Country Reporting) Regulations 2013

In our opinion the information given in note 49 to the financial statements for the financial year ended 31 December 2019 has been properly prepared, in all material respects, in accordance with the Capital Requirements (Country-by-Country Reporting) Regulations 2013.

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

14.1. Adequacy of explanations received and accounting records

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

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

We have nothing to report in respect of these matters.

14.2. Directors' remuneration

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of directors' remuneration have not been made or the part of the directors' remuneration report to be audited is not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

15. Other matters

15.1. Auditor tenure

Following the recommendation of the audit committee, we were appointed by the shareholders of the Group on 9 May 2019 to audit the financial statements for the year ended 31 December 2019 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is one year, covering the year ended 31 December 2019.

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

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

16. Use of our report

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

Robert Topley FCA (Senior statutory auditor)

For and on behalf of Deloitte LLP
Statutory Auditor
London, United Kingdom
19 March 2020

Statement of Comprehensive Income

For the year ended 31 December 2019

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

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

The above results are derived wholly from continuing operations.

The notes on pages 166 to 258 form part of these accounts.

The financial statements on pages 162 to 258 were approved by the Board of Directors on 19 March 2020.

Statement of Financial Position

As at 31 December 2019

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

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

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

The notes on pages 166 to 258 form part of these accounts. The financial statements on pages 162 to 258 were approved by the Board of Directors on 19 March 2020.

Andy Golding
Chief Executive Officer

April Talintyre
Chief Financial Officer

Company number: 07312896

Statement of Changes in Equity

For the year ended 31 December 2019

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

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

1. OSB has adopted look-through accounting and recognised the CCFS Employee Benefit Trust within the Bank.

2. Equity bonds comprise £60.0m of Additional Tier 1 securities. The Group has restated the prior year comparatives to classify the £22.0m Perpetual Subordinated Bonds previously classified as equity as a liability (see note 1).

3. Shares issued as consideration for CCFS Combination includes £6.4m of expenses recognised directly in equity relating to the issuance of new shares.

The reserves are further disclosed in note 43.

Statement of Cash Flows

For the year ended 31 December 2019

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

1. The Group has restated the prior year comparatives for the interest expense on the £22.0m Perpetual Subordinated Bonds previously classified as equity (see note 1).

2. The Group has reclassified the prior year comparatives to include all components of amounts owed to credit institutions as financing activities. Previously the Group only classified the Bank of England Term Funding Scheme and Indexed Long-Term Repo scheme as financing activities.

Notes to the Financial Statements

For the year ended 31 December 2019

1. Restatement of prior year

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

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

2. Accounting policies

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

a) Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the European Union ('EU') and interpretations issued by the International Financial Reporting Interpretations Committee ('IFRIC').

The financial statements have been prepared on a historical cost basis, as modified by the revaluation of investment securities held at fair value through other comprehensive income ('FVOCI') and derivative contracts and other financial assets held at fair value through profit or loss ('FVTPL') (see note o(vi)).

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

b) Going concern

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

Projections for the Group have been prepared, covering its future performance, capital and liquidity for a period in excess of 12 months from the date of approval of these financial statements including stress scenarios. The stress scenarios include Brexit scenarios, the impact of Bank of England ('BoE') Term Funding Scheme ('TFS') repayments and the introduction of a COVID-19 pandemic scenario. These pandemic scenarios may continue to evolve, but at the present time they are less severe across the key macroeconomic

variables than the most severe stress tests run by the Group, including the BoE's rates down scenarios. The Group's projections and stress scenarios show that the Group has sufficient capital and liquidity to continue to meet its regulatory requirements as set by the Prudential Regulatory Authority ('PRA').

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

c) Basis of consolidation

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

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

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

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

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

d) Business combinations

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

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

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

Notes to the Financial Statements continued

For the year ended 31 December 2019

2. Accounting policies continued

e) Foreign currency translation

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

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

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

f) Segmental reporting

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

The Group lends within the UK and the Channel Islands.

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

- OneSavings Bank plc ("OSB")
- CCFS

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

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

g) Interest income and expense

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

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

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

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

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

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

h) Fees and commissions

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

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

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

i) Taxation

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

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

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

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

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

j) Dividends

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

k) Cash and cash equivalents

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

l) Intangible assets

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

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

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

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

Notes to the Financial Statements continued

For the year ended 31 December 2019

2. Accounting policies continued

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

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

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

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

m) Property, plant and equipment

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

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

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

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

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

n) Investment in subsidiaries

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

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

o) Financial instruments

i. Classification

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

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

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

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

The Group reassesses its business models each reporting period.

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

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

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

ii. Recognition

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

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

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

iii. Derecognition

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

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

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

iv. Offsetting

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

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

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

v. Amortised cost measurement

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

Notes to the Financial Statements continued

For the year ended 31 December 2019

2. Accounting policies continued

vi. Fair value measurement

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

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

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

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

vii. Identification and measurement of impairment of financial assets

The Group assesses all financial assets for impairment.

Loans and advances to customers

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

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

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

Individual assessment

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

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

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

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

IFRS 9 modelled impairment

Measurement of ECL

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

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

Significant increase in credit risk (movement to stage 2)

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

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

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

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

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

Definition of default (movement to stage 3)

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

- The rebuttable presumption that more than 90 days past due is an indicator of default. The Group has not rebutted this presumption and therefore deems more than 90 days past due as an indicator of default.
- The Group has also deemed it appropriate to classify accounts that have moved into an unlikelihood 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 unlikelihood to pay criteria and following this has completed an internally approved probation period. The borrower will move to stage 1 or stage 2 dependent on whether the SICR applies.

Forward-looking macroeconomic scenarios

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

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

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

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

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

Notes to the Financial Statements continued

For the year ended 31 December 2019

2. Accounting policies continued

Period over which ECL is measured

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

Purchased or originated credit impaired ('POCI')

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

Intercompany loans

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

Other financial assets

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

p) Loans and receivables

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

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

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

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

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

q) Investment securities

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

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

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

r) Deposits, debt securities in issue and subordinated liabilities

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

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

s) Sale and repurchase agreements

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

t) Derivative financial instruments

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

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

The Group also uses derivatives to hedge the interest rate risk inherent in 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 options and warrants. These are recognised as a derivative financial instruments as applicable where a trigger event takes place and the fair value of the option or warrant can be reliably measured.

u) Hedge accounting

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

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

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

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

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

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

Notes to the Financial Statements continued

For the year ended 31 December 2019

2. Accounting policies continued

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

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

v) Debit and credit valuation adjustments

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

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

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

w) Provisions and contingent liabilities

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

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

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

x) Employee benefits – defined contribution scheme

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

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

y) Share-based payments

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

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

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

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

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

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

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

z) Leases

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

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

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

aa) Adoption of new standards

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

IFRS 16: Leases

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

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

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

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

Notes to the Financial Statements continued

For the year ended 31 December 2019

2. Accounting policies continued

IAS 12: Income Taxes

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

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

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

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

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

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

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

Standards in issue but not yet effected

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

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

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

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 next financial year. Actual results may differ from these estimates.

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

Judgements

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

(i) Loan book impairments

Significant increase in credit risk for classification in stage 2

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

(ii) IFRS 9 classification

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

Estimates

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

(i) Loan book impairments

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

Modelled impairment

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

Loss given default model

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

Forward-looking macroeconomic scenarios

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

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

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

Notes to the Financial Statements continued

For the year ended 31 December 2019

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

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

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

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

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

(ii) Loan book acquisition accounting and income recognition

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

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

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

The EIR calculated at acquisition is not changed for subsequent variances in actual to expected cash flows. The Group monitors the actual cash flows for each acquired book and where they diverge significantly from expectation, the future cash flows are updated with a reset gain or loss taken. In assessing whether to adjust future cash flows on an acquired portfolio, the Group considers the cash variance on an absolute and percentage basis. The Group also considers the total variance across all acquired portfolios and the economic outlook. Where cash flows for an acquired portfolio are reset, they are discounted at the EIR calculated at acquisition to derive a new carrying value, with changes taken to the Statement of Comprehensive Income as interest income. The Group recognised £0.5m gain in 2019 as a result of resetting cash flows on acquired books (2018: gain of £2.0m). The largest acquired book is Precise with sensitivities completed on increasing/reducing the life of the book by six months which results in a reset gain/loss of c.£48.0m/£50.0m.

(iii) Effective interest rate on organic lending

A number of estimates are made when calculating the EIR for newly originated loan assets. These include their expected lives, likely redemption profiles and the anticipated level of any early redemption charges.

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

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

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

4. Acquisition of Chartered Court Financial Services Group plc

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

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

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

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

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

Consideration and goodwill

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

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

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

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

Transaction costs

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

Notes to the Financial Statements continued

For the year ended 31 December 2019

4. Acquisition of Chartered Court Financial Services Group plc continued

Identifiable assets acquired and liabilities assumed

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

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

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

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

Contribution to profit or loss

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

Acquired receivables

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

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

5. Interest receivable and similar income

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

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

6. Interest payable and similar charges

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

1. Amortisation of fair value adjustments on CCFS customer deposits at Combination.

2. The Group has restated the prior year comparatives to include the interest expense on the £22.0m PSBs previously classified as equity (see note 1).

Notes to the Financial Statements continued

For the year ended 31 December 2019

7. Fair value losses on financial instruments

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

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

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

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

8. Loss on sales of financial instruments

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

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

9. Administrative expenses

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

1. Other costs mainly consist of irrecoverable VAT expense.

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

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

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

Staff costs comprise the following:

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

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

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

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

Notes to the Financial Statements continued

For the year ended 31 December 2019

10. Directors' emoluments and transactions

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

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

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

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

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

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

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

11. Share-based payments

The Group operates the following share-based schemes:

IPO Share Awards

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

Sharesave Scheme

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

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

Deferred Share Bonus Plan

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

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

Performance Share Plan

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

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

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

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

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

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

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11. Share-based payments continued

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

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

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

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

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

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

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

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

Sharesave Scheme

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

Deferred Share Bonus Plan

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

Performance Share Plan

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

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11. Share-based payments continued

CCFS PSP Mirror Schemes

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

IPO Share Awards

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

12. Integration costs

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

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

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

13. Exceptional items

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

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

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

14. Taxation

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

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

1. The Group has restated the prior year comparatives for the taxation on the interest expense on the £22.0m PSBs previously classified as equity (see note 1).

2. Release of deferred taxation on CCFS Combination relates to the unwind of the deferred tax asset recognised on the fair value adjustment of the CCFS assets and liabilities at the acquisition date.

The charge for taxation on the Group's profit before taxation differs from the charge based on the standard rate of UK Corporation Tax of 19% (2018: 19%) as follows:

	Group 2019 £m	Restated Group ¹ 2018 £m
Profit before taxation	209.1	182.8
Profit multiplied by the standard rate of UK Corporation Tax	(39.7)	(34.6)
Bank surcharge	(10.4)	(8.6)
Taxation effects of:		
Expenses not deductible for taxation purposes	(3.0)	0.1
Negative goodwill on acquisition not taxable	2.0	–
Rate difference on unwind of deferred tax arising on acquisition	1.9	–
Adjustments in respect of earlier years	(2.7)	0.1
Tax adjustments in respect of share-based payments	(0.7)	0.2
Impact of tax losses carried forward	0.5	–
Tax on AT1 securities	1.0	–
Timing differences on capital items	0.2	(0.4)
Other	0.6	–
Total taxation charge	(50.3)	(43.2)

1. The Group has restated the prior year comparatives for the taxation on the interest expense on the £22.0m PSBs previously classified as equity (see note 1).

The effective tax rate for the year ended 31 December 2019, excluding the impact of adjustments in respect of earlier years, was 22.8% (2018: 23.4%).

During the year £1.1m (2018: nil) of tax has been recognised directly within equity relating to the Group's share-based payment schemes. Following the amendments to IAS 12, the tax on AT1 securities has been recognised directly in profit or loss (2018: £1.5m directly in equity).

During the year a tax credit of £0.2m (2018: nil) has been recognised within other comprehensive income relating to investment securities classified as FVOCI.

A reduction in the UK corporation tax rate from 19% to 18% (effective from 1 April 2020) was enacted on 26 October 2015. A further reduction to 17% (effective from 1 April 2020) was substantively enacted on 6 September 2016. In the March 2020 Budget it was announced that the cut in the rate to 17% will now not occur and the corporation tax rate will be held at 19%. As this has not been enacted by the balance sheet date, deferred tax balances as at 31 December 2019 continue to be measured at 17%.

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15. Earnings per share

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

For the purpose of calculating EPS, profit attributable to ordinary shareholders is arrived at by adjusting profit for the year for the coupons on AT1 securities classified as equity. The tax on coupons for the current period is included within the profit for the period, in line with the changes to IAS 12 Income Taxes. The tax on coupons for the prior period is based on the rate of taxation applicable to the Bank, including the bank surcharge:

	Group 2019 £m	Restated Group ¹ 2018 £m
Profit for the year	158.8	139.6
Adjustments:		
Coupon on AT1 securities classified as equity	(5.5)	(5.5)
Tax on coupons	–	1.5
Profit attributable to ordinary shareholders	153.3	135.6
	Group 2019	Group 2018
Weighted average number of shares, millions		
Basic	291.6	244.2
Dilutive impact of share-based payment schemes	1.8	2.0
Diluted	293.4	246.2
Earnings per share, pence per share		
Basic	52.6	55.5
Diluted	52.2	55.0

1. The Group has restated the prior year comparatives for the interest expense and tax on the £22.0m PSBs previously classified as equity (see note 1).

16. Dividends

During the year, the Bank paid the following dividends:

	Bank 2019		Bank 2018	
	£m	Pence per share	£m	Pence per share
Final dividend for the prior year	25.3	10.3	22.7	9.3
Interim dividend for the current year	12.0	4.9	10.5	4.3
	37.3		33.2	

The Directors propose a final dividend of £49.9m, 11.2 pence per share (2018: £25.2m, 10.3 pence) payable on 13 May 2020 with an ex-dividend date of 26 March 2020 and a record date of 27 March 2020. This dividend is not reflected in these financial statements as it is subject to approval by shareholders at the AGM on 7 May 2020. Together with the interim dividend of £12.0m, 4.9 pence (2018: £10.5m, 4.3 pence) per share, the total dividend for 2019 is £61.9m, 16.1 pence (2018: £35.8m, 14.6 pence) per share.

A summary of the Bank's distributable reserves from which dividends can be paid is shown below:

	Bank 2019 £m	Restated Bank ¹ 2018 £m
Retained earnings	407.0	296.7
Unrealised gains ²	(52.8)	(19.8)
Other distributable reserves (see note 43)	5.3	4.7
Distributable reserves	359.5	281.6

1. The Bank has restated the prior year comparatives to classify the transfer reserve as non-distributable.
 2. Unrealised gains relate to the Bank's fair value adjustments on hedged assets.

17. Cash and cash equivalents

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

	Group 2019 £m	Group 2018 £m	Bank 2019 £m	Bank 2018 £m
Cash in hand	0.4	0.4	0.4	0.4
Unencumbered loans and advances to credit institutions	2,052.5	1,323.8	1,106.3	1,316.5
Investment securities with original maturity less than 3 months	49.9	-	49.9	-
	2,102.8	1,324.2	1,156.6	1,316.9

18. Loans and advances to credit institutions

	Group 2019 £m	Group 2018 £m	Bank 2019 £m	Bank 2018 £m
Unencumbered:				
BoE call account	1,916.2	1,295.2	1,081.8	1,295.2
Call accounts	81.7	28.6	24.0	21.3
Cash held in special purpose vehicles ¹	44.0	-	0.5	-
Term deposits	10.6	-	-	-
Encumbered:				
BoE cash ratio deposit	41.7	20.0	27.5	20.0
Swap margin given	110.4	3.5	62.2	3.5
	2,204.6	1,347.3	1,196.0	1,340.0

1. Cash held in special purpose vehicle is ring-fenced for the use in managing the Group's securitised debt facilities under the terms of securitisation agreements.

19. Investment securities

	Group 2019 £m	Group 2018 £m	Bank 2019 £m	Bank 2018 £m
Held at FVOCI:				
UK and EU Sovereign debt	149.8	58.9	149.8	58.9
RMBS loan notes	358.9	-	-	-
	508.7	58.9	149.8	58.9
Held at amortised cost:				
RMBS loan notes	126.6	-	-	-
	635.3	58.9	149.8	58.9

At 31 December 2019 the Group had £173.0m of FVOCI RMBS loan notes sold under repos. The Group had no investment securities sold under repos or pledged as at 31 December 2018. The Bank had no investment securities sold under repos or pledged as collateral as at the 2019 and 2018 reporting dates.

The Directors consider that the primary purpose of holding investment securities is prudential. These securities are held as liquid assets with the intention of use on a continuing basis in the Group's activities and are classified as FVOCI and amortised cost in accordance with the Group's business model for each security (2018: FVOCI).

Movements during the year of investment securities held by the Group and Bank are analysed as follows:

	Group 2019 £m	Group 2018 £m	Bank 2019 £m	Bank 2018 £m
At 1 January	58.9	19.1	58.9	19.1
Additions ¹	439.8	79.9	439.8	79.9
CCFS Combination	493.5	-	-	-
Disposals and maturities	(357.7)	(39.9)	(349.0)	(39.9)
Changes in fair value	0.8	(0.2)	0.1	(0.2)
At 31 December	635.3	58.9	149.8	58.9

1. Additions include £49.9m of investment securities with an original maturity of less than three months, as disclosed in note 17 (2018: nil).

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For the year ended 31 December 2019

20. Loans and advances to customers

	Group 2019 £m	Group 2018 £m	Bank 2019 £m	Bank 2018 £m
Held at amortised cost:				
Loans and advances (see note 21)	18,419.9	8,998.0	8,420.8	7,224.3
Finance leases (see note 22)	47.7	7.2	–	–
	18,467.6	9,005.2	8,420.8	7,224.3
Less: Expected credit losses (see note 23)	(42.9)	(21.9)	(26.6)	(16.1)
	18,424.7	8,983.3	8,394.2	7,208.2
Residential mortgages held at fair value	22.1	–	–	–
	18,446.8	8,983.3	8,394.2	7,208.2

21. Loans and advances

Group	2019			2018
	OSB £m	CCFS £m	Total £m	OSB £m
Gross carrying amount				
Stage 1	9,999.2	7,240.0	17,239.2	8,279.6
Stage 2	442.4	307.1	749.5	436.8
Stage 3	277.7	16.7	294.4	225.4
Stage 3 (POCI)	53.6	83.2	136.8	56.2
	10,772.9	7,647.0	18,419.9	8,998.0
Bank			2019 £m	2018 £m
Gross carrying amount				
Stage 1			7,785.0	6,657.0
Stage 2			371.3	346.6
Stage 3			211.1	164.8
Stage 3 (POCI)			53.4	55.9
			8,420.8	7,224.3

The mortgage loan balances pledged as collateral for liabilities are:

	Group 2019 £m	Restated Group ¹ 2018 £m	Bank 2019 £m	Restated Bank ¹ 2018 £m
BoE under TFS and ILTR	4,458.3	2,552.5	2,775.7	2,552.5
Securitisation	366.7	–	234.3	–
Warehouse funding	97.4	–	–	–
Master servicer for securitisation vehicle	40.4	16.0	40.4	16.0
	4,962.8	2,568.5	3,050.4	2,568.5

1. The Group and Bank have restated the 2018 comparatives to show excess collateral with the BoE under TFS and ILTR as unencumbered in line with guidance from the PRA.

The Group's securitisation programmes, use of TFS and ILTR and Warehouse funding arrangements result in certain assets being encumbered as collateral against such funding. Assets that are encumbered cannot be used for any other purposes. As at 31 December 2019 the percentage of the Group's gross customer loans and receivables that are encumbered is 27% (2018: 28%) and the Bank's 36% (2018: 36%).

The Bank's deemed loan liability of £240.2m is comprised of £464.3m of mortgage loans sold by the Bank to Canterbury Finance No.1 plc and £6.5m of deemed loan premium, offset by retained notes issued by Canterbury Finance No.1 plc of £230.6m as the bank adopts the net accounting approach for retained interests.

The tables below show the movement in loans and advances to customers by IFRS 9 stage during the year, based on the following assumptions:

Group	Stage 1 £m	Stage 2 £m	Stage 3 £m	Stage 3 (POCI) £m	Total £m
At 31 December 2017	6,782.5	292.4	183.0	69.7	7,327.6
Originations ¹	3,043.4	–	–	–	3,043.4
Repayments and write-offs ²	(1,265.3)	(50.8)	(43.4)	(13.5)	(1,373.0)
Transfers:					
– To Stage 1	170.5	(150.0)	(20.5)	–	–
– To Stage 2	(353.8)	375.1	(21.3)	–	–
– To Stage 3	(97.7)	(29.9)	127.6	–	–
At 31 December 2018	8,279.6	436.8	225.4	56.2	8,998.0
Originations ¹	4,098.6	–	–	–	4,098.6
CCFS Combination ³	7,091.1	43.5	–	94.4	7,229.0
Repayments and write-offs ²	(1,825.2)	(21.6)	(47.5)	(17.3)	(1,911.6)
Transfers:					
– To Stage 1	176.9	(162.7)	(14.2)	–	–
– To Stage 2	(495.9)	517.7	(21.8)	–	–
– To Stage 3	(86.1)	(64.5)	150.6	–	–
Incurring loss protection ⁴	0.2	0.3	1.9	3.5	5.9
At 31 December 2019	17,239.2	749.5	294.4	136.8	18,419.9

1. Originations include further advances and drawdowns on existing commitments.

2. Repayments and write-offs include customer redemptions.

3. The mortgages acquired in the all-share Combination with CCFS are shown at the acquisition date fair value.

4. During the period the Group reclassified £5.9m of incurred loss protection on acquired portfolios from loans and advances to ECL to reflect the Group's total ECL position. The Group has not reclassified the comparative information where the incurred loss balance included within loans and advances was £7.2m.

The Group did not purchase any external mortgage books during 2019 (2018: nil) other than those acquired in the Combination.

Bank	Stage 1 £m	Stage 2 £m	Stage 3 £m	Stage 3 (POCI) £m	Total £m
At 31 December 2017	5,679.0	185.8	131.6	69.1	6,065.5
Originations ¹	2,276.2	–	–	–	2,276.2
Repayments and write-offs ²	(1,049.4)	(28.7)	(26.1)	(13.2)	(1,117.4)
Transfers:					
– To Stage 1	101.0	(83.6)	(17.4)	–	–
– To Stage 2	(279.0)	297.5	(18.5)	–	–
– To Stage 3	(70.8)	(24.4)	95.2	–	–
At 31 December 2018	6,657.0	346.6	164.8	55.9	7,224.3
Originations ¹	2,395.3	–	–	–	2,395.3
Repayments and write-offs ²	(1,153.2)	(19.1)	(26.4)	(6.0)	(1,204.7)
Transfers:					
– To Stage 1	117.8	(106.8)	(11.0)	–	–
– To Stage 2	(178.7)	196.4	(17.7)	–	–
– To Stage 3	(53.4)	(46.1)	99.5	–	–
Incurring loss protection ³	0.2	0.3	1.9	3.5	5.9
At 31 December 2019	7,785.0	371.3	211.1	53.4	8,420.8

1. Originations include further advances and drawdowns on existing commitments.

2. Repayments and write-offs include customer redemptions.

3. During the period the Bank reclassified £5.9m of incurred loss protection on acquired portfolios from loans and advances to ECL to reflect the Bank's total ECL position. The Bank has not reclassified the comparative information where the incurred loss balance included within loans and advances was £7.2m.

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22. Finance leases

The Group commenced asset finance lending in October 2018 through an existing subsidiary in the Group, InterBay Asset Finance Limited.

	Group 2019 £m	Group 2018 £m
Net investment in finance leases, receivable		
Less than one year	11.5	2.2
Between one and five years	35.0	4.9
More than five years	1.2	0.1
	47.7	7.2

The Group has recognised £0.3m of ECLs on finance leases as at 31 December 2019 (2018: £0.1m).

23. Expected credit loss

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

Group At 31 December	ECL provision 2019 £m	Weighting 2019 %	Weighted ECL provision 2019 £m	ECL provision 2018 £m	Weighting 2018 %	Weighted ECL provision 2018 £m
Scenarios						
Upside	14.6	10	1.5	8.6	–	–
Base case	24.4	40	9.7	9.2	50	4.6
Downside scenario	48.1	35	16.8	12.8	40	5.1
Severe downside scenario	62.5	15	9.4	56.2	10	5.6
Total weighted provisions			37.4			15.3
Non-modelled Provisions:						
Individually assessed provisions	–	–	4.2	–	–	5.4
Post model adjustments ¹	–	–	1.3	–	–	1.0
Undrawn loan facilities	–	–	–	–	–	0.2
Total provision			42.9			21.9

Bank At 31 December	ECL provision 2019 £m	Weighting 2019 %	Weighted ECL provision 2019 £m	ECL provision 2018 £m	Weighting 2018 %	Weighted ECL provision 2018 £m
Scenarios						
Upside	9.9	10	1.0	7.0	–	–
Base case	17.2	40	6.9	7.6	50	3.8
Downside scenario	31.1	35	10.9	11.2	40	4.5
Severe downside scenario	39.1	15	5.9	54.6	10	5.4
Total weighted provisions			24.7			13.7
Non-modelled Provisions:						
Individually assessed provisions	–	–	0.8	–	–	1.3
Post model adjustments ¹	–	–	1.1	–	–	0.9
Undrawn loan facilities	–	–	–	–	–	0.2
Total provision			26.6			16.1

1. Post model adjustments have been made to a number of probability of default models and the OSB segment mortgage loss given default model to ensure predicted estimates are aligned to recently observed actual performance. Where model predictions more closely align with actual performance these post model adjustments will be reduced or removed over time. The Group is currently developing second generation models which will replace existing models, with a target implementation date within 2020.

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

Group	2019			2018
	OSB £m	CCFS £m	Total £m	OSB £m
Stage 1	3.5	2.1	5.6	4.3
Stage 2	3.6	2.0	5.6	5.6
Stage 3	23.4	0.4	23.8	10.2
Stage 3 (POCI)	5.1	2.8	7.9	1.6
Undrawn loan facilities ¹	–	–	–	0.2
	35.6	7.3	42.9	21.9

Bank	2019 £m	2018 £m
Stage 1	2.8	3.4
Stage 2	3.3	4.7
Stage 3	15.4	6.2
Stage 3 (POCI)	5.1	1.6
Undrawn loan facilities ¹	–	0.2
	26.6	16.1

1. Following the Combination, the Group has adopted a consistent approach in recognising ECL on undrawn loan facilities within provisions (see note 38). The ECL on undrawn loan facilities was previously classified as Stage 1.

The tables below show the movement in the ECL by IFRS 9 stage during the year. ECLs on originations reflect the IFRS 9 stage of loans originated during the year as at 31 December and not the date of origination. Remeasurement of loss allowance relates to existing loans which did not redeem during the year and includes the impact of loans moving between IFRS 9 stages.

Group	Stage 1 £m	Stage 2 £m	Stage 3 £m	Stage 3 (POCI) £m	Total £m
At 31 December 2017	7.8	2.3	13.3	1.8	25.2
Originations	2.1	–	–	–	2.1
Repayments and write-offs	(0.3)	(0.2)	(7.0)	(0.2)	(7.7)
Remeasurement of loss allowance	(6.1)	6.9	4.0	–	4.8
Transfers:					
– To Stage 1	1.4	(0.8)	(0.6)	–	–
– To Stage 2	(0.8)	1.3	(0.5)	–	–
– To Stage 3	(5.8)	(0.4)	6.2	–	–
Changes in assumptions and model parameters	6.2	(3.5)	(5.2)	–	(2.5)
At 31 December 2018	4.5	5.6	10.2	1.6	21.9
Originations	1.9	–	–	–	1.9
CCFS Combination	–	–	–	3.6	3.6
Repayments and write-offs	(0.6)	(0.4)	(4.3)	(0.2)	(5.5)
Remeasurement of loss allowance	(3.4)	(0.5)	18.8	(0.6)	14.3
Transfers:					
– To Stage 1	1.9	(1.6)	(0.3)	–	–
– To Stage 2	(0.2)	0.6	(0.4)	–	–
– To Stage 3	(0.1)	(1.0)	1.1	–	–
Changes in assumptions and model parameters	1.4	2.6	(3.2)	–	0.8
Incurring loss protection ¹	0.2	0.3	1.9	3.5	5.9
At 31 December 2019	5.6	5.6	23.8	7.9	42.9

1. During the period the Group reclassified £5.9m of incurred loss protection on acquired portfolios from loans and advances to ECL to reflect the Group's total ECL position. The Group has not reclassified the comparative information where the incurred loss balance included within loans and advances was £7.2m.

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23. Expected credit loss continued

Bank	Stage 1 £m	Stage 2 £m	Stage 3 £m	Stage 3 (POCI) £m	Total £m
At 31 December 2017	5.1	1.4	8.6	1.8	16.9
Originations	1.8	–	–	–	1.8
Repayments and write-offs	(0.1)	(0.1)	(4.1)	(0.2)	(4.5)
Remeasurement of loss allowance	(1.7)	6.8	1.6	–	6.7
Transfers:					
– To Stage 1	0.9	(0.4)	(0.5)	–	–
– To Stage 2	(0.6)	1.0	(0.4)	–	–
– To Stage 3	(4.4)	(0.3)	4.7	–	–
Changes in assumptions and model parameters	2.6	(3.7)	(3.7)	–	(4.8)
At 31 December 2018	3.6	4.7	6.2	1.6	16.1
Originations	1.3	–	–	–	1.3
Repayments and write-offs	(0.3)	(0.4)	(2.8)	(0.1)	(3.6)
Remeasurement of loss allowance	(4.5)	(2.3)	12.8	0.1	6.1
Transfers:					
– To Stage 1	1.4	(1.2)	(0.2)	–	–
– To Stage 2	(0.2)	0.5	(0.3)	–	–
– To Stage 3	(0.1)	(0.9)	1.0	–	–
Changes in assumptions and model parameters	1.4	2.6	(3.2)	–	0.8
Incurred loss protection ¹	0.2	0.3	1.9	3.5	5.9
At 31 December 2019	2.8	3.3	15.4	5.1	26.6

1. During the period the Bank reclassified £5.9m of incurred loss protection on acquired portfolios from loans and advances to ECL to reflect the Bank's total ECL position. The Bank has not reclassified the comparative information where the incurred loss balance included within loans and advances was £7.2m.

The tables below show the stage 2 ECL balances by transfer criteria:

Group	Carrying value 2019 £m	ECL 2019 £m	Coverage 2019 %	Carrying value 2018 £m	ECL 2018 £m	Coverage 2018 %
Criteria:						
Relative PD movement	588.2	4.8	0.82	414.4	5.4	1.28
Qualitative measures	79.8	0.4	0.44	–	–	–
30 days past due backstop	81.5	0.4	0.54	22.4	0.2	1.09
Total	749.5	5.6	0.75	436.8	5.6	1.27

Bank	Carrying value 2019 £m	ECL 2019 £m	Coverage 2019 %	Carrying value 2018 £m	ECL 2018 £m	Coverage 2018 %
Criteria:						
Relative PD movement	306.8	3.0	0.98	325.7	4.5	1.37
Qualitative measures	35.2	0.1	0.32	–	–	–
30 days past due backstop	29.3	0.2	0.80	20.9	0.2	1.13
Total	371.3	3.3	0.90	346.6	4.7	1.35

The Group has a number of qualitative measures to determine whether a SICR has taken place. These triggers utilise both internal performance information, to analyse whether an account is in distress but not yet in arrears, and external credit bureau information, to determine whether the customer is experiencing financial difficulty with an external credit obligation.

24. Impairment losses

	Group 2019 £m	Group 2018 £m
Write-offs in year	4.1	11.1
Disposals	–	0.3
CCFS Combination	3.6	–
Increase/(decrease) in provision	7.9	(3.3)
	15.6	8.1

The CCFS Combination losses relate to the initial ECL recognised on the CCFS loan book following Combination in October 2019.

25. Derivatives

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

Group	Gross amount of recognised financial assets/ (liabilities) £m	Net amount of financial assets/ (liabilities) presented in the Statement of Financial Position £m	Contracts subject to master netting agreements not offset in the Statement of Financial Position £m	Cash collateral paid/(received) not offset in the Statement of Financial Position £m	Net amount £m
At 31 December 2019					
Derivative assets:					
Interest rate risk hedging	21.1	21.1	(9.8)	(8.0)	3.3
Derivative liabilities:					
Interest rate risk hedging	(92.8)	(92.8)	9.8	110.4	27.4
At 31 December 2018					
Derivative assets:					
Interest rate risk hedging	11.7	11.7	(10.3)	(1.0)	0.4
Derivative liabilities:					
Interest rate risk hedging	(15.1)	(15.1)	10.3	3.5	(1.3)
Heritable option ¹	(9.8)	(9.8)	–	–	(9.8)
	(24.9)	(24.9)	10.3	3.5	(11.1)

Included within the Group's derivative liabilities £3.4m (2018: £3.0m) of derivative contracts not covered by master netting agreements and therefore no cash collateral has been paid.

Bank	Gross amount of recognised financial assets/ (liabilities) £m	Net amount of financial assets/ (liabilities) presented in the Statement of Financial Position £m	Contracts subject to master netting agreements not offset in the Statement of Financial Position £m	Cash collateral paid/(received) not offset in the Statement of Financial Position £m	Net amount £m
At 31 December 2019					
Derivative assets:					
Interest rate risk hedging	8.7	8.7	(2.5)	(7.8)	(1.6)
Derivative liabilities:					
Interest rate risk hedging	(54.3)	(54.3)	2.5	62.2	10.4
At 31 December 2018					
Derivative assets:					
Interest rate risk hedging	11.7	11.7	(10.3)	(1.0)	0.4
Derivative liabilities:					
Interest rate risk hedging	(15.1)	(15.1)	10.3	3.5	(1.3)
Heritable option ¹	(9.8)	(9.8)	–	–	(9.8)
	(24.9)	(24.9)	10.3	3.5	(11.1)

1. The Group had a put/call option over Heritable Capital Limited ('HCL') as part of the development finance joint venture, as further discussed in note 13.

Included within the Bank's derivative liabilities is £3.4m (2018: £3.0m) of derivative contracts not covered by master netting agreements and therefore no cash collateral has been paid.

Notes to the Financial Statements continued

For the year ended 31 December 2019

25. Derivatives continued

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

Group	Total nominal £m	Less than 3 months £m	3–12 months £m	1–5 years £m	More than 5 years £m
At 31 December 2019					
Derivative assets	7,795.4	1,110.8	2,608.2	3,760.9	315.5
Derivative liabilities	9,982.4	144.3	2,528.6	7,155.5	154.0
	17,777.8	1,255.1	5,136.8	10,916.4	469.5
At 31 December 2018					
Derivative assets	1,999.0	106.0	330.0	1,563.0	–
Derivative liabilities	4,532.2	195.0	2,090.0	1,966.2	281.0
	6,531.2	301.0	2,420.0	3,529.2	281.0

The Group has 1,175 (2018: 206) derivative contracts with an average fixed rate of 0.91% (2018: 1.23%).

Bank	Total nominal £m	Less than 3 months £m	3–12 months £m	1–5 years £m	More than 5 years £m
At 31 December 2019					
Derivative assets	3,080.0	475.0	1,395.0	1,110.0	100.0
Derivative liabilities	4,462.9	8.3	789.6	3,549.0	116.0
	7,542.9	483.3	2,184.6	4,659.0	216.0
At 31 December 2018					
Derivative assets	1,999.0	106.0	330.0	1,563.0	–
Derivative liabilities	4,532.2	195.0	2,090.0	1,966.2	281.0
	6,531.2	301.0	2,420.0	3,529.2	281.0

The Bank has 205 (2018: 206) derivative contracts with an average fixed rate of 1.17% (2018: 1.23%).

26. Hedge accounting

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

Loans and advances to customers	Group 2019		Group 2018	
	Hedged item £m	Hedging instrument £m	Hedged item £m	Hedging instrument £m
Carrying amount of hedged item/nominal value of hedging instrument	10,312.5	10,248.3	3,168.7	3,166.2
Cumulative fair value adjustments	64.2	(75.6)	2.5	(2.2)
Fair value adjustments for the period	70.1	(75.1)	(13.8)	11.0
Cumulative fair value on cancelled hedge relationships	20.4	–	17.3	–

The cumulative fair value adjustments of the hedging instrument comprise £13.2m (2018: £11.7m) recognised within derivative assets and £88.8m (2018: £13.9m) recognised within derivative liabilities.

Loans and advances to customers	Bank 2019		Bank 2018	
	Hedged item £m	Hedging instrument £m	Hedged item £m	Hedging instrument £m
Carrying amount of hedged item/nominal value of hedging instrument	4,574.0	4,537.9	3,168.7	3,166.2
Cumulative fair value adjustments	36.1	(45.5)	2.5	(2.2)
Fair value adjustments for the period	39.8	(43.7)	(13.8)	11.0
Cumulative fair value on cancelled hedge relationships	16.7	–	17.3	–

The cumulative fair value adjustments of the hedging instrument comprise £6.8m (2018: £11.7m) recognised within derivative assets and £52.3m (2018: £13.9m) recognised within derivative liabilities.

The cumulative fair value adjustments on cancelled hedge relationships represent the fair value adjustment for interest rate risk predominantly on the legacy long-term fixed rate mortgages (c. 25 years at origination) where the interest rate swap hedges were terminated before maturity and were effective at the point of termination.

The movement in cancelled hedge relationships is as follows:

	Group 2019 £m	Group 2018 £m	Bank 2019 £m	Bank 2018 £m
At 1 January	17.3	16.0	17.3	16.0
New cancellations ¹	8.6	5.9	4.9	5.9
Amortisation	(5.5)	(4.6)	(5.5)	(4.6)
At 31 December	20.4	17.3	16.7	17.3

1. Following the securitisation of mortgages during the year, the Group cancelled swaps which were effective prior to the securitisation, with the designated hedge moved to cancelled hedge relationships to be amortised over the original life of the swap.

The tables below analyse the Group's and Bank's portfolio hedge accounting for fixed rate amounts owed to retail depositors:

	Group 2019		Group 2018	
	Hedged item £m	Hedging instrument £m	Hedged item £m	Hedging instrument £m
Customer deposits				
Carrying amount of hedged item/nominal value of hedging instrument	6,684.6	6,687.5	3,250.0	3,250.0
Cumulative fair value adjustments	(2.9)	3.5	-	(1.5)
Fair value adjustments for the period	(4.6)	4.8	0.4	(0.3)

The cumulative fair value adjustments of the hedging instrument comprise £5.9m (2018: £0.1m) recognised within derivative assets and £2.4m (2018: £1.6m) recognised within derivative liabilities.

	Bank 2019		Bank 2018	
	Hedged item £m	Hedging instrument £m	Hedged item £m	Hedging instrument £m
Customer deposits				
Carrying amount of hedged item/nominal value of hedging instrument	2,804.9	2,805.0	3,250.0	3,250.0
Cumulative fair value adjustments	(0.1)	0.5	-	(1.5)
Fair value adjustments for the period	(1.8)	2.2	0.4	(0.3)

The cumulative fair value adjustments of the hedging instrument comprise £1.0m (2018: £0.1m) recognised within derivative assets and £0.5m (2018: £1.4m) recognised within derivative liabilities.

27. Other assets

	Group 2019 £m	Group 2018 £m	Bank 2019 £m	Bank 2018 £m
Prepayments	9.3	2.3	3.2	2.1
Other assets	5.0	3.4	4.3	3.4
	14.3	5.7	7.5	5.5

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28. Deferred taxation

i) Deferred taxation asset:

Group	Losses carried forward £m	Accelerated depreciation £m	Share-based payments £m	IFRS 9 transitional adjustments £m	Others ¹ £m	Total £m
At 31 December 2017	2.5	0.1	2.5	0.7	–	5.8
Profit or loss (charge)/credit	(1.1)	(0.2)	0.6	–	–	(0.7)
Transferred to corporation tax liability	–	–	(1.6)	–	–	(1.6)
At 31 December 2018	1.4	(0.1)	1.5	0.7	–	3.5
Profit or loss (charge)/credit	(0.5)	0.3	0.8	(0.1)	(0.7)	(0.2)
CCFS Combination	–	(0.1)	0.5	0.1	1.4	1.9
Transferred to corporation tax liability	–	–	(1.3)	–	–	(1.3)
Tax taken directly to OCI	–	–	–	–	(0.2)	(0.2)
Tax taken directly to equity	–	–	1.1	–	–	1.1
At 31 December 2019	0.9	0.1	2.6	0.7	0.5	4.8

1. Others include deferred taxation assets recognised on financial assets classified as FVOCI, derivatives and short-term timing differences.

As at 31 December 2019, the Group had £3.5m (2018: £3.5m) of losses for which a deferred tax asset has not been recognised as the Group does not expect sufficient future profits to be available to utilise the losses.

Bank	Accelerated depreciation £m	Share-based payments £m	IFRS 9 transitional adjustments £m	Total £m
At 31 December 2017	–	2.5	0.3	2.8
Profit or loss (charge)/credit	(0.2)	0.6	–	0.4
Transferred to corporation tax liability	–	(1.6)	–	(1.6)
At 31 December 2018	(0.2)	1.5	0.3	1.6
Profit or loss credit	0.3	0.8	–	1.1
Transferred to corporation tax liability	–	(1.3)	–	(1.3)
Tax taken directly to equity	–	0.8	–	0.8
At 31 December 2019	0.1	1.8	0.3	2.2

ii) Deferred taxation liability:

The deferred tax liability recognised on the Combination relates to the timing differences of the recognition of assets and liabilities at fair value, where the fair values will unwind in future periods in-line with the underlying asset or liability. The deferred tax liability has been measured using the relevant rates for the expected periods of utilisation.

Group	CCFS Combination £m
At 31 December 2018	–
CCFS Combination	70.1
Profit or loss credit	(7.0)
At 31 December 2019	63.1

29. Property, plant and equipment

Group	Freehold land and buildings £m	Leasehold improvements £m	Equipment and fixtures £m	Right of use assets		Total £m
				Property leases £m	Other leases £m	
Cost						
At 1 January 2018	16.2	0.6	9.9	-	-	26.7
Additions	-	0.3	2.5	-	-	2.8
Disposals and write-offs	-	-	(1.3)	-	-	(1.3)
Foreign exchange difference	(0.2)	-	(0.1)	-	-	(0.3)
At 31 December 2018	16.0	0.9	11.0	-	-	27.9
Adoption of IFRS 16 (see note 2)	-	-	-	3.8	-	3.8
At 1 January 2019	16.0	0.9	11.0	3.8	-	31.7
Additions	3.1	1.5	2.4	2.5	0.1	9.6
CCFS Combination	-	0.3	2.1	6.4	1.2	10.0
Disposals and write-offs¹	-	-	(1.2)	-	-	(1.2)
Foreign exchange difference	0.2	-	0.1	-	-	0.3
At 31 December 2019	19.3	2.7	14.4	12.7	1.3	50.4
Depreciation						
At 1 January 2018	0.6	0.2	4.4	-	-	5.2
Charged in year	0.2	0.1	1.9	-	-	2.2
Disposals and write-offs	-	-	(1.3)	-	-	(1.3)
At 31 December 2018	0.8	0.3	5.0	-	-	6.1
Charged in year	0.3	0.2	2.3	1.0	0.1	3.9
CCFS Combination	-	-	-	-	-	-
Disposals and write-offs¹	-	-	(1.2)	-	-	(1.2)
At 31 December 2019	1.1	0.5	6.1	1.0	0.1	8.8
Net book value						
At 31 December 2019	18.2	2.2	8.3	11.7	1.2	41.6
At 31 December 2018	15.2	0.6	6.0	-	-	21.8

1. During the year the Group wrote off fully depreciated assets.

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29. Property, plant and equipment continued

Bank	Freehold land and buildings £m	Leasehold improvements £m	Equipment and fixtures £m	Right of use assets		Total £m
				Property leases £m	Other leases £m	
Cost						
At 1 January 2018	11.5	0.6	7.4	–	–	19.5
Additions	–	0.1	1.8	–	–	1.9
Disposals and write-offs	–	–	(1.0)	–	–	(1.0)
At 31 December 2018	11.5	0.7	8.2	–	–	20.4
Adoption of IFRS 16 (see note 2)	–	–	–	2.3	–	2.3
At 1 January 2019	11.5	0.7	8.2	2.3	–	22.7
Additions	–	1.5	1.9	2.6	0.1	6.1
Disposals and write-offs¹	–	–	(0.9)	–	–	(0.9)
At 31 December 2019	11.5	2.2	9.2	4.9	0.1	27.9
Depreciation						
At 1 January 2018	0.6	0.2	3.3	–	–	4.1
Charged in year	0.1	0.1	1.5	–	–	1.7
Disposals and write-offs	–	–	(1.0)	–	–	(1.0)
At 31 December 2018	0.7	0.3	3.8	–	–	4.8
Charged in year	0.2	0.1	1.8	0.7	–	2.8
Disposals and write-offs¹	–	–	(0.9)	–	–	(0.9)
At 31 December 2019	0.9	0.4	4.7	0.7	–	6.7
Net book value						
At 31 December 2019	10.6	1.8	4.5	4.2	0.1	21.2
At 31 December 2018	10.8	0.4	4.4	–	–	15.6

1. During the year the Bank wrote off fully depreciated assets.

30. Intangible assets

Group	Development costs £m	Computer software and licences £m	Assets arising on consolidation ² £m	Total £m
At 1 January 2018	–	12.4	–	12.4
Additions	–	3.5	–	3.5
Disposals and write-offs	–	(2.3)	–	(2.3)
At 31 December 2018	–	13.6	–	13.6
Additions	0.5	3.8	–	4.3
CCFS Combination	–	–	23.6	23.6
Disposals and write-offs¹	–	(2.0)	–	(2.0)
At 31 December 2019	0.5	15.4	23.6	39.5
Amortisation				
At 1 January 2018	–	5.6	–	5.6
Charged in year	–	2.5	–	2.5
Disposals and write-offs	–	(2.3)	–	(2.3)
At 31 December 2018	–	5.8	–	5.8
CCFS Combination	–	–	–	–
Charged in year	–	3.0	1.3	4.3
Disposals and write-offs¹	–	(2.0)	–	(2.0)
At 31 December 2019	–	6.8	1.3	8.1
Net book value				
At 31 December 2019	0.5	8.6	22.3	31.4
At 31 December 2018	–	7.8	–	7.8

1. During the year the Group wrote off fully amortised assets.

2. Assets arising on consolidation comprise broker relationships of £17.1m, technology of £3.2m, brand name of £1.8m and banking licence of £1.5m.

Bank	Computer software and licences £m
Cost	
At 1 January 2018	10.4
Additions	3.2
Disposals and write-offs	(1.5)
At 31 December 2018	12.1
Additions	3.3
Disposals and write-offs¹	(1.9)
At 31 December 2019	13.5
Amortisation	
At 1 January 2018	4.3
Charged in year	2.2
Disposals and write-offs	(1.5)
At 31 December 2018	5.0
Charged in year	2.7
Disposals and write-offs¹	(1.9)
At 31 December 2019	5.8
Net book value	
At 31 December 2019	7.7
At 31 December 2018	7.1

1. During the year the Bank wrote off fully amortised assets.

31. Investments in subsidiaries, intercompany loans and transactions with related parties

The balances between the Bank and its subsidiaries at the reporting date are summarised in the table below:

	Shares in subsidiary undertakings £m	Intercompany loans receivable £m	Intercompany loans payable £m
At 1 January 2018	1.8	1,192.5	(31.2)
Additions	–	782.4	(231.4)
Repayments	–	(76.0)	0.2
At 31 December 2018	1.8	1,898.9	(262.4)
Additions	–	1,062.2	(378.9)
CCFS Combination	707.1	–	(3.6)
Repayments	–	(40.6)	1.0
At 31 December 2019	708.9	2,920.5	(643.9)

The Bank assesses intercompany loans receivable for impairment.

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31. Investments in subsidiaries, intercompany loans and transactions with related parties continued

A list of the Bank's direct subsidiaries is shown below:

At 31 December 2019 Direct investments	Activity	Registered office	Ownership
Charter Court Financial Services Group plc	Holding company	Charter Court	100%
Easioption Limited	Holding company	Reliance House	100%
Guernsey Home Loans Limited	Mortgage provider	Reliance House	100%
Guernsey Home Loans Limited (Guernsey)	Mortgage provider	Guernsey	100%
Heritable Development Finance Limited	Mortgage originator and servicer	Reliance House	100%
Interbay Group Holdings Limited	Holding company	Reliance House	100%
Jersey Home Loans Limited	Mortgage provider	Reliance House	100%
Jersey Home Loans Limited (Jersey)	Mortgage provider	Jersey	100%
OSB India Private Limited	Back office processing	India	100%
Prestige Finance Limited	Mortgage originator and servicer	Reliance House	100%
Reliance Property Loans Limited	Mortgage provider	Reliance House	100%
Rochester Mortgages Limited	Mortgage provider	Reliance House	100%

The Company holds ordinary shares in all its direct subsidiaries.

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

A list of the Bank's indirect subsidiaries is shown below:

At 31 December 2019 Indirect investments	Activity	Registered office	Ownership
5D Finance Limited	Mortgage servicer	Reliance House	100%
Broadlands Finance Limited	Mortgage administration services	Charter Court	100%
Canterbury Finance No.1 plc	Special purpose vehicle	Reliance House	–
	Mortgage lending and deposit taking		100%
Charter Court Financial Services Limited		Charter Court	
	Mortgage administration and analytical services		100%
Charter Mortgages Limited		Charter Court	
CMF 2020-1 plc ¹	Special purpose vehicle	Canada Square, London	–
CML Warehouse Number 1 Limited	Special purpose vehicle	Great St. Helen's, London	–
CML Warehouse Number 2 Limited	Special purpose vehicle	Great St. Helen's, London	–
Exact Mortgage Experts Limited	Group service company	Charter Court	100%
Inter Bay Financial I Limited	Holding company	Reliance House	100%
Inter Bay Financial II Limited	Holding company	Reliance House	100%
	Asset finance and mortgage provider		100%
InterBay Asset Finance Limited		Reliance House	
Interbay Funding, Ltd	Mortgage servicer	Reliance House	100%
InterBay Holdings Ltd	Holding company	Reliance House	100%
Interbay ML, Ltd	Mortgage provider	Reliance House	100%
Precise Mortgage Funding 2014-1 plc	Special purpose vehicle	Great St. Helen's, London	–
Precise Mortgage Funding 2014-2 plc	Special purpose vehicle	Great St. Helen's, London	–
Precise Mortgage Funding 2015-1 plc	Special purpose vehicle	Great St. Helen's, London	–
Precise Mortgage Funding 2015-3R plc	Special purpose vehicle	Great St. Helen's, London	–
Precise Mortgage Funding 2020-1B plc ²	Special purpose vehicle	Canada Square, London	–

1. Incorporated on 4 November 2019.

2. Incorporated on 22 November 2019.

Special purpose vehicles which the Group controls are treated as subsidiaries for accounting purposes.

All of the entities listed above have been consolidated into the Group's consolidated financial statements.

All of the above investments are reviewed annually for impairment. Based on assessment of the future cash flows of each entity no impairment has been recognised.

At 31 December 2018**Direct investments**

	Activity	Registered Office	Ownership
Easioption Limited	Holding company	Reliance House	100%
Guernsey Home Loans Limited	Mortgage provider	Reliance House	100%
Guernsey Home Loans Limited (Guernsey)	Mortgage provider	Guernsey	100%
Heritable Development Finance Limited	Mortgage originator and servicer	Reliance House	85%
Interbay Group Holdings Limited	Holding company	Reliance House	100%
Jersey Home Loans Limited	Mortgage provider	Reliance House	100%
Jersey Home Loans Limited (Jersey)	Mortgage provider	Jersey	100%
OSB India Private Limited	Back office processing	India	100%
Prestige Finance Limited	Mortgage originator and servicer	Reliance House	100%
Reliance Property Loans Limited	Mortgage provider	Reliance House	100%
Rochester Mortgages Limited	Mortgage provider	Reliance House	100%

Indirect investments

Inter Bay Financial I Limited	Holding company	Reliance House	100%
Inter Bay Financial II Limited	Holding company	Reliance House	100%
Interbay Funding, Ltd	Mortgage servicer	Reliance House	100%
Interbay ML, Ltd	Mortgage provider	Reliance House	100%
InterBay Holdings Ltd	Holding company	Reliance House	100%
5D Finance Limited	Mortgage servicer	Reliance House	100%
InterBay Asset Finance Limited (formerly: 5D Lending Ltd)	Asset finance and mortgage provider	Reliance House	100%

The following are the registered offices of the subsidiaries:

Charter Court – 2 Charter Court, Broadlands, Wolverhampton WV10 6TD, United Kingdom

Guernsey – 1st Floor, Tudor House, Le Bordage, St Peter Port, Guernsey, GY1 1DB

Great St. Helen's, London – 35 Great St. Helen's, London, EC3A 6AP

India – Salarpuria Magnificia, 9th & 10th floor, 78 Old Madras Road, Bangalore, India, 560016.

Jersey – 26 New Street, St Helier, Jersey, JE2 3RA

Reliance House – Reliance House, Sun Pier, Chatham, Kent, ME4 4ET, United Kingdom

Canada Square, London – Level 37, 25 Canada Square, London, E14 5LQ

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31. Investments in subsidiaries, intercompany loans and transactions with related parties continued

The transactions between the Bank and its subsidiaries are disclosed below:

	2019		2018	
	Charged by/ (to) the Bank during the year £m	Balance due to/(by) the Bank £m	Charged by/ (to) the Bank during the year £m	Balance due to/(by) the Bank £m
Direct investments				
Charter Court Financial Services Group plc	–	(3.6)	–	–
Easioption Limited	–	0.5	–	0.5
Guernsey Home Loans Limited	0.2	9.6	0.3	13.0
Guernsey Home Loans Limited (Guernsey)	0.7	29.9	0.8	36.8
Heritable Development Finance Limited	(1.8)	(0.9)	(1.5)	(0.8)
Interbay Group Holdings Limited	–	–	–	–
Jersey Home Loans Limited	–	2.5	0.1	2.0
Jersey Home Loans Limited (Jersey)	2.9	123.2	3.3	152.3
OSB India Private Limited	(8.9)	9.0	(6.8)	5.7
Prestige Finance Limited	(2.8)	(0.2)	(2.7)	(1.2)
Reliance Property Loans Limited	0.1	3.4	0.1	3.8
Rochester Mortgages Limited	–	–	–	–
Indirect investments				
5D Finance Limited	–	0.5	–	0.4
Canterbury Finance No.1 plc	–	3.7	–	–
Inter Bay Financial I Limited	0.4	19.3	0.3	20.1
Inter Bay Financial II Limited	0.4	125.7	0.2	6.8
InterBay Asset Finance Limited	0.5	46.0	0.1	6.2
Interbay Funding, Ltd	(7.6)	(639.2)	(2.1)	(260.3)
InterBay Holdings Ltd	–	–	–	–
Interbay ML, Ltd	37.5	2,547.2	19.3	1,651.2
	21.6	2,276.6	11.4	1,636.5

In addition to the above subsidiaries, the Bank has transactions with Kent Reliance Provident Society ('KRPS'), one of its founding shareholders. KRPS runs member engagement forums for the Bank. In exchange, the Bank provides KRPS with various services including IT, finance and other support functions. During the year the Bank was charged for services provided by KRPS amounting to £0.2m (2018: £0.2m). As at 31 December 2019, KRPS had £0.3m (2018: £0.3m) deposited with OSB.

All related party transactions were made on terms equivalent to those that prevail in arm's length transactions. During the year there were no related party transactions between the key management personnel and the Bank other than as described below.

Transactions with key management personnel

During the year the Board extended the definition of key management personnel to comprise the Directors and Executive team, previously Directors only. Directors' remuneration is disclosed in note 10 and in the Annual Report on Remuneration. The table below shows the Executive team's aggregate remuneration:

	Group 2019 £'000	Group 2018 £'000
Short-term employee benefits	4,282	3,844
Post-employment benefits	45	76
Share-based payments	1,888	3,080
	6,215	7,000

No loans were issued to related parties during 2019 (2018: nil).

Key management personnel and connected persons held deposits with the Group of £1.8m (2018 restated: £1.9m).

32. Amounts owed to credit institutions

	Group 2019 £m	Group 2018 £m	Bank 2019 £m	Bank 2018 £m
BoE TFS	2,632.8	1,502.9	1,502.8	1,502.9
BoE ILTR	290.6	80.1	160.5	80.1
Warehouse funding	93.6	-	-	-
Commercial repo	41.4	-	-	-
Swap margin received	8.0	1.0	7.8	1.0
Loans from credit institutions	2.4	-	-	-
	3,068.8	1,584.0	1,671.1	1,584.0

33. Amounts owed to retail depositors

	Group 2019 £m	Group 2018 £m	Bank 2019 £m	Bank 2018 £m
Fixed rate deposits	10,525.5	5,155.5	5,617.9	5,155.5
Variable rate deposits	5,729.5	2,916.4	3,817.8	2,916.4
	16,255.0	8,071.9	9,435.7	8,071.9

34. Amounts owed to other customers

	Group 2019 £m	Group 2018 £m	Bank 2019 £m	Bank 2018 £m
Fixed rate deposits	26.0	32.9	8.9	32.9
Variable rate deposits	3.7	-	-	-
	29.7	32.9	8.9	32.9

35. Debt securities in issue

	Group 2019 £m	Group 2018 £m
Asset backed loan notes at amortised cost	296.3	-
Amount due for settlement within 12 months	40.1	-
Amount due for settlement after 12 months	256.2	-
	296.3	-

The asset backed loan notes are secured on fixed and variable rate mortgages and are redeemable in part from time to time, but such redemptions are limited to the net principal received from borrowers in respect of underlying mortgage assets. The maturity date of the funds matches the maturity date of the underlying mortgage assets. It is likely that a large proportion of the underlying mortgage assets, and therefore these notes, will be repaid within five years.

Asset backed loan notes may all be repurchased by the Group at any interest payment date on or after the call dates (see below), or at any interest payment date when the current balance of the mortgages outstanding is less than or equal to 10% of the principal amount outstanding on the loan notes on the date they were issued.

Interest is payable at fixed margins above LIBOR or SONIA.

As at 31 December 2019, notes were issued through the following funding vehicles:

	Group 2019 £m	Group 2018 £m
Canterbury Finance No.1 plc	256.2	-
Precise Mortgage Funding 2015-1 plc	40.1	-
	296.3	-

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36. Lease liabilities

	Group £m	Bank £m
At 31 December 2018	–	–
IFRS 16 Adjustment	3.8	2.3
At 1 January 2019	3.8	2.3
CCFS Combination	7.7	–
New Leases	3.6	3.5
Lease terminated	(0.8)	(0.8)
Lease repayments	(1.1)	(0.8)
Interest accruals	0.1	0.1
At 31 December 2019	13.3	4.3

During the year the Group incurred expenses of £0.7m in relation to short-term leases and £0.1m in relation to low-value assets.

37. Other liabilities

	Group 2019 £m	Group 2018 £m	Bank 2019 £m	Bank 2018 £m
Falling due within one year:				
Accruals	23.1	11.0	11.7	9.5
Deferred income	1.1	2.0	1.0	0.9
Other creditors	10.7	5.7	4.4	4.3
	34.9	18.7	17.1	14.7

38. Provisions and contingent liabilities

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

The compensation paid out to consumers is initially funded through loans from the BoE and HM Treasury. In order to repay the loans and cover its costs, the FSCS charges levies on firms regulated by the PRA and the FCA. The Group is among those firms and pays the FSCS a levy based on its share of total UK deposits.

The Group has reviewed its current exposure to Payment Protection Insurance ('PPI') claims, following the FCA deadline for PPI claims on 29 August 2019, and has recognised a provision of £0.3m as at 31 December 2019 (2018: £0.4m). The Group has maintained its provision for FCA conduct rules exposures and has recognised a provision of £1.3m (2018: £1.3m) to cover potential future claims.

Following the Combination, the Group recognises ECLs on undrawn loan facilities within provisions (2018: within loans and advances to customers) (see note 23).

An analysis of the Group's and Bank's FSCS and other provisions is presented below:

	2019				2018		
	FSCS £m	Other regulatory provisions £m	ECL on undrawn loan facilities £m	Total £m	FSCS £m	Other regulatory provisions £m	Total £m
Group							
At 1 January	0.1	1.7	–	1.8	0.5	0.9	1.4
Paid during the year (Credit)/charge	(0.1) (0.2)	(0.1) –	– 0.2	(0.2) –	(0.3) (0.1)	(0.1) 0.9	(0.4) 0.8
At 31 December	(0.2)	1.6	0.2	1.6	0.1	1.7	1.8

Bank	2019				2018		
	FSCS £m	Other regulatory provisions £m	ECL on undrawn loan facilities £m	Total £m	FSCS £m	Other regulatory provisions £m	Total £m
At 1 January	0.1	1.7	–	1.8	0.5	0.9	1.4
Paid during the year (Credit)/charge	(0.1)	(0.1)	–	(0.2)	(0.3)	(0.1)	(0.4)
	(0.1)	–	0.1	–	(0.1)	0.9	0.8
At 31 December	(0.1)	1.6	0.1	1.6	0.1	1.7	1.8

In January 2020 the Group was contacted by the FCA in connection with a multi-firm thematic review into forbearance measures adopted by lenders in respect of a portion of the mortgage market. The Group is responding to information requests from the FCA. It is not possible to reliably predict or estimate the outcome of the review, if any, on the Group.

39. Subordinated liabilities

	Group and Bank 2019 £m	Group and Bank 2018 £m
At 1 January	10.8	10.9
Repayment of debt at maturity	(0.2)	(0.1)
At 31 December	10.6	10.8

The Group's outstanding subordinated liabilities are summarised below:

	Group and Bank 2019 £m	Group and Bank 2018 £m
Linked to LIBOR:		
Floating rate subordinated loans 2022 (LIBOR +5%)	0.2	0.3
Floating rate subordinated loans 2022 (LIBOR +2%)	0.2	0.3
Fixed rate:		
Subordinated liabilities 2024 (7.45%) ¹	5.1	5.1
Subordinated liabilities 2024 (7.45%)	5.1	5.1
	10.6	10.8

1. On 27 September 2019, the Group decided not to call the £5.0m second tranche of the subordinated debt with original maturity of 27 September 2024. As the debt was not called, the coupon rate reset to 7.45% until maturity.

The fixed rate subordinated liabilities are repayable at the dates stated or earlier, in full, at the option of the Group with the prior consent of the PRA. All subordinated liabilities are denominated in Pounds Sterling and are unlisted.

The rights of repayment of the holders of these subordinated liabilities are subordinated to the claims of all depositors and all creditors.

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40. Perpetual Subordinated Bonds

	Group and Bank 2019 £m	Restated Group and Bank ¹ 2018 £m
Sterling Perpetual Subordinated Bonds (4.5991%)	22.3	22.3
Sterling Perpetual Subordinated Bonds (4.6007%)	15.3	15.3
	37.6	37.6

1. The Group has restated the prior year comparatives to include the £22.0m PSBs previously classified as equity (see note 1).

The bonds are listed on the London Stock Exchange. The 4.6007% bonds were issued with no discretion over the payment of interest and may not be settled in the Group's own equity. They are therefore classified as financial liabilities. The coupon rate was 5.9884% until the reset date on 27 August 2019. Subsequent to this, the coupon rate is 4.6007% until the next reset date on 27 August 2024.

The 4.5991% bonds were issued with discretion over the payment of interest which is not conditional. They are therefore classified as financial liabilities. The coupon rate is 4.5991% until the next reset date on 7 March 2021.

41. Reconciliation of cash flows for financing activities

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

Group	Amounts owed to credit institutions (see note 32) £m	Debt securities in issue (see note 35) £m	Subordinated liabilities (see note 39) £m	PSBs (see note 40) £m	Total £m
At 31 December 2017	1,250.3	–	10.9	37.6	1,298.8
Cash movements:					
Principal drawdowns	330.7	–	–	–	330.7
Principal repayments	–	–	(0.1)	–	(0.1)
Non-cash movement:					
Accrued interest movement	3.0	–	–	–	3.0
At 31 December 2018	1,584.0	–	10.8	37.6	1,632.4
Cash movements:					
Principal drawdowns	587.7	285.0	–	–	872.7
Principal repayments	(273.7)	(64.6)	(0.2)	–	(338.5)
Non-cash movements:					
CCFS Combination	1,168.4	75.1	–	–	1,243.5
Accrued interest movement	2.4	0.8	–	–	3.2
At 31 December 2019	3,068.8	296.3	10.6	37.6	3,413.3

Bank	Amounts owed to credit institutions (see note 32) £m	Deemed loan (see note 21) £m	Subordinated liabilities (see note 39) £m	PSBs (see note 40) £m	Total £m
At 31 December 2017	1,250.3	–	10.9	37.6	1,298.8
Cash movements:					
Principal drawdowns	330.7	–	–	–	330.7
Principal repayments	–	–	(0.1)	–	(0.1)
Non-cash movement:					
Accrued interest movement	3.0	–	–	–	3.0
At 31 December 2018	1,584.0	–	10.8	37.6	1,632.4
Cash movements:					
Principal drawdowns	316.8	285.0	–	–	601.8
Principal repayments	(230.0)	(44.8)	(0.2)	–	(275.0)
Non-cash movements:					
CCFS Combination	–	–	–	–	–
Accrued interest movement	0.3	–	–	–	0.3
At 31 December 2019	1,671.1	240.2	10.6	37.6	1,959.5

42. Share capital

Ordinary shares – par value £0.01:	Number of shares authorised and fully paid	Nominal value £m	Premium £m
At 1 January 2018	243,464,688	2.4	158.4
Shares issued under OSB employee share plans	1,022,849	–	0.4
At 31 December 2018	244,487,537	2.4	158.8
Shares issued under OSB employee share plans	1,312,862	0.1	0.3
CCFS Combination	199,643,055	2.0	705.1
At 31 December 2019	445,443,454	4.5	864.2

The holders of ordinary shares are entitled to receive dividends as declared from time to time, and are entitled to one vote per share at meetings of the Bank. All ordinary shares rank equally with regard to the Bank's residual assets.

43. Other reserves

The Group's and Bank's other reserves are as follows:

	Group 2019 £m	Group 2018 £m	Bank 2019 £m	Bank 2018 £m
Distributable:				
Share-based payment	5.6	4.7	5.3	4.7
Non-distributable:				
Capital contribution	6.5	6.5	6.2	6.2
Transfer	(12.8)	(12.8)	(15.2)	(15.2)
Own shares	(3.7)	–	(3.7)	–
FVOCI	0.5	(0.1)	–	(0.1)
Foreign exchange	(1.0)	(0.4)	–	–
Equity bonds	60.0	60.0	60.0	60.0
	55.1	57.9	52.6	55.6

Capital contribution

The capital contribution reserve relates to one-off nil price share awards of shares in the Bank granted to certain senior managers on its admission to the London Stock Exchange in June 2014. The awards were granted by the Bank's major shareholder at the time of the IPO.

Transfer reserve

The transfer reserve represents the difference between the value of net assets transferred to the Group from Kent Reliance Building Society in 2011 and the value of shares issued to the A ordinary shareholders.

Own shares

Following the Combination, the Bank has adopted the look-through approach for the CCFS EBT, including the EBT within the Bank. As at 31 December 2019 the CCFS EBT held 862,555 OSB shares which were acquired at a cost of £3.7m. The Group and Bank have shown these shares as a deduction from equity.

FVOCI reserve

The FVOCI reserve represents the cumulative net change in the fair value of investment securities measured at FVOCI.

Foreign exchange

The foreign exchange reserve relates to the revaluation of the Bank's Indian subsidiary, OSB India Private Limited.

Equity bonds

Equity bonds comprise £60.0m of Fixed Rate Resetting Perpetual Subordinated Contingent Convertible Securities ('AT1 securities') that qualify as Additional Tier 1 capital under the Capital Requirements Directive and Regulation ('CRD IV'). The securities will be subject to full conversion into ordinary shares of OSB in the event that its CET1 capital ratio falls below 7%. The AT1 securities will pay interest at a rate of 9.125% per annum until the first reset date of 25 May 2022, with the reset interest rate equal to 835.9 basis points over the five-year semi-annual mid-swap rate for such a period. Interest is paid semi-annually on 25 May and 25 November. OSB may, at any time, cancel any interest payment at its full discretion and must cancel interest payments in certain circumstances specified in the terms and conditions of the AT1 securities. The AT1 securities are perpetual with no fixed redemption date. OSB may, in its discretion and subject to satisfying certain conditions, redeem all (but not some) of the AT1 securities at the principal amount outstanding plus any accrued but unpaid interest from the first reset date and on any interest payment date thereafter.

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44. Financial commitments and guarantees

a) As at 31 December 2019, the Group's contracted or anticipated capital expenditure commitments not provided for amounted to nil (2018: £0.2m). 2018 consisted of refurbishment and fixture costs for the relocation of the Interbay office.

b) The Group's minimum lease commitments under operating leases not subject to IFRS 16 (2018: all operating leases) are summarised in the table below:

	Group 2019 £m	Group 2018 £m	Bank 2019 £m	Bank 2018 £m
Land and buildings: due within:				
One year	0.6	0.7	0.1	0.5
Two to five years	–	2.3	–	1.5
More than five years	–	1.5	–	0.5
	0.6	4.5	0.1	2.5

c) Undrawn loan facilities:

	Group 2019 £m	Group 2018 £m	Bank 2019 £m	Bank 2018 £m
OSB mortgages	639.2	704.6	459.7	487.8
CCFS mortgages	568.1	–	–	–
Asset Finance	3.6	6.1	–	–
	1,210.9	710.7	459.7	487.8

Undrawn loan facilities are approved loan applications which have not yet been exercised. They are payable on demand and are usually drawn down or expire within three months.

d) The Group did not have any issued financial guarantees as at 31 December 2019 (2018: nil).

45. Risk management

Overview

Financial instruments form the vast majority of the Group's and Bank's assets and liabilities. The Group manages risk on a consolidated basis, and risk disclosures that follow are provided on this basis.

Types of financial instrument

Financial instruments are a broad definition which includes financial assets, financial liabilities and equity instruments. The main financial assets of the Group are loans to customers and liquid assets, which in turn consist of cash in the BoE call accounts, call accounts with other credit institutions and UK and EU sovereign debt. These are funded by a combination of financial liabilities and equity instruments. Financial liability funding comes predominantly from retail deposits and drawdowns under the BoE TFS and ILTR, supported by debt securities, subordinated debt, wholesale and other funding. Equity instruments include own shares and AT1 securities meeting the equity classification criteria. The Group's main activity is mortgage lending; it raises funds or invests in particular types of financial assets to meet customer demand and manage the risks arising from its operations. The Group does not trade in financial instruments for speculative purposes.

The Group uses derivative instruments to manage its financial risks. Derivative financial instruments ('derivatives') are financial instruments whose value changes in response to changes in underlying variables such as interest rates. The most common derivatives are futures, forwards and swaps. Of these, the Group only uses swaps.

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

Types of derivatives and uses

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

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

The Group uses swaps to convert its instruments, such as mortgages, deposits and liquid assets, from fixed or base rate-linked rates to LIBOR-linked variable rates. This ensures a guaranteed margin between the interest income and interest expense, regardless of changes in the market rates.

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

In 2019 the Group set up an internal working group comprised of all of the key business lines that are involved with this change with strong oversight from the Compliance and Risk departments. Risk assessments are currently underway to ensure this process is managed in a measured and controlled fashion.

Types of risk

The principal financial risks to which the Group is exposed are credit, liquidity and market risks, the latter comprising interest and exchange rate risk. In addition to financial risks, the Group is exposed to various other risks, most notably operational, conduct and regulatory, which are covered in the Risk review on pages 52 to 57.

Credit risk

Credit risk is the risk that losses may arise as a result of the Group's borrowers or market counterparties failing to meet their obligations to repay.

The Group has adopted the Standardised Approach for assessment of credit risk regulatory capital requirements. This approach considers risk weightings as defined under Basel II and Basel III principles.

The classes of financial instruments to which the Group is most exposed are loans and advances to customers, loans and advances to credit institutions, cash in the BoE call account, call and current accounts with other credit institutions and investment securities. The maximum credit risk exposure equals the total carrying amount of the above categories plus off-balance sheet undrawn committed mortgage facilities.

Credit risk – loans and advances to customers

Credit risk associated with mortgage lending is largely driven by the housing market and level of unemployment. A recession and/or high interest rates could cause pressure within the market, resulting in rising levels of arrears and repossessions.

All loan applications are assessed with reference to the Group's lending policy. Changes to the policy are approved by the Board, with mandates set for the approval of loan applications.

The Credit Committee and the ALCO regularly monitor lending activity, taking appropriate actions to reprice products and adjust lending criteria in order to control risk and manage exposure. Where necessary and appropriate, changes to the lending policy are recommended to the Group Risk Committee and the Board.

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45. Risk management continued

The following tables show the Group's and Bank's maximum exposure to credit risk and the impact of collateral held as security, capped at the gross exposure amount, by impairment stage. Capped collateral excludes the impact of forced sale discounts and costs to sell.

Group	2019					
	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	10,046.9	9,987.1	7,240.0	7,239.5	17,286.9	17,226.6
Stage 2	442.4	441.8	307.1	307.0	749.5	748.8
Stage 3	277.7	275.2	16.7	16.7	294.4	291.9
Stage 3 (POCI)	53.6	50.1	83.2	83.1	136.8	133.2
	10,820.6	10,754.2	7,647.0	7,646.3	18,467.6	18,400.5

Group	2018					
	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	8,286.8	8,274.5	-	-	8,286.8	8,274.5
Stage 2	436.8	436.8	-	-	436.8	436.8
Stage 3	225.4	224.2	-	-	225.4	224.2
Stage 3 (POCI)	56.2	56.1	-	-	56.2	56.1
	9,005.2	8,991.6	-	-	9,005.2	8,991.6

Bank	2019		2018	
	Gross carrying amount £m	Capped collateral held £m	Gross carrying amount £m	Capped collateral held £m
Stage 1	7,785.0	7,774.3	6,657.0	6,653.2
Stage 2	371.3	370.8	346.6	346.5
Stage 3	211.1	209.2	164.8	164.7
Stage 3 (POCI)	53.4	49.9	55.9	55.8
	8,420.8	8,404.2	7,224.3	7,220.2

The Group's and Bank's main form of collateral held is property, based in the UK and the Channel Islands.

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:

Group	2019			
	OSB £m	CCFS £m	Total £m	%
Band				
0% – 50%	1,732.6	567.8	2,300.4	12
50% – 60%	1,301.8	612.3	1,914.1	10
60% – 70%	2,435.7	1,588.5	4,024.2	22
70% – 80%	4,182.1	4,236.3	8,418.4	46
80% – 90%	946.0	641.5	1,587.5	9
90% – 100%	91.1	0.6	91.7	–
>100%	131.3	–	131.3	1
Total loans before provisions	10,820.6	7,647.0	18,467.6	100

Group	2018			
	OSB £m	CCFS £m	Total £m	%
Band				
0% – 50%	1,720.2	–	1,720.2	19
50% – 60%	1,355.6	–	1,355.6	15
60% – 70%	2,215.5	–	2,215.5	25
70% – 80%	3,041.8	–	3,041.8	34
80% – 90%	576.3	–	576.3	6
90% – 100%	65.2	–	65.2	1
>100%	30.6	–	30.6	–
Total loans before provisions	9,005.2	–	9,005.2	100

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

OSB	2019				2018			
	BTL/SME £m	Residential £m	Total £m	%	BTL/SME £m	Residential £m	Total £m	%
Band								
0% – 50%	905.9	826.7	1,732.6	16	935.8	784.4	1,720.2	19
50% – 60%	1,062.8	239.0	1,301.8	12	1,105.9	249.7	1,355.6	15
60% – 70%	2,240.2	195.5	2,435.7	23	2,021.4	194.1	2,215.5	25
70% – 80%	3,993.5	188.6	4,182.1	38	2,864.5	177.3	3,041.8	34
80% – 90%	621.4	324.6	946.0	9	414.1	162.2	576.3	6
90% – 100%	45.1	46.0	91.1	1	32.9	32.3	65.2	1
>100%	114.3	17.0	131.3	1	14.6	16.0	30.6	–
Total loans before provisions	8,983.2	1,837.4	10,820.6	100	7,389.2	1,616.0	9,005.2	100

Notes to the Financial Statements continued

For the year ended 31 December 2019

45. Risk management continued

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

OSB	2019				
	Buy-to-Let £m	Commercial £m	Residential development £m	Funding lines £m	Total £m
Band					
0% – 50%	579.9	96.5	125.7	103.8	905.9
50% – 60%	894.3	119.8	5.0	43.7	1,062.8
60% – 70%	1,994.1	210.2	5.0	30.9	2,240.2
70% – 80%	3,514.5	445.7	–	33.3	3,993.5
80% – 90%	603.3	7.7	10.4	–	621.4
90% – 100%	38.9	1.4	–	4.8	45.1
>100%	102.0	6.7	–	5.6	114.3
Total loans before provisions	7,727.0	888.0	146.1	222.1	8,983.2

OSB	2018				
	Buy-to-Let £m	Commercial £m	Residential development £m	Funding lines £m	Total £m
Band					
0% – 50%	663.9	71.2	108.7	92.0	935.8
50% – 60%	964.8	72.2	38.8	30.1	1,105.9
60% – 70%	1,843.9	163.1	7.3	7.1	2,021.4
70% – 80%	2,617.1	233.5	–	13.9	2,864.5
80% – 90%	408.3	4.8	1.0	–	414.1
90% – 100%	7.5	0.4	–	25.0	32.9
>100%	12.0	2.6	–	–	14.6
Total loans before provisions	6,517.5	547.8	155.8	168.1	7,389.2

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

OSB	2019			
	First charge £m	Second charge £m	Funding lines £m	Total £m
Band				
0% – 50%	708.0	115.4	3.3	826.7
50% – 60%	158.1	77.5	3.4	239.0
60% – 70%	122.3	70.9	2.3	195.5
70% – 80%	137.0	49.5	2.1	188.6
80% – 90%	291.7	32.3	0.6	324.6
90% – 100%	40.0	5.7	0.3	46.0
>100%	9.5	7.3	0.2	17.0
Total loans before provisions	1,466.6	358.6	12.2	1,837.4

OSB	2018			
	First charge £m	Second charge £m	Funding lines £m	Total £m
Band				
0% – 50%	651.9	123.2	9.3	784.4
50% – 60%	160.9	81.8	7.0	249.7
60% – 70%	117.2	74.3	2.6	194.1
70% – 80%	125.2	48.3	3.8	177.3
80% – 90%	137.1	24.4	0.7	162.2
90% – 100%	25.1	6.8	0.4	32.3
>100%	6.5	9.2	0.3	16.0
Total loans before provisions	1,223.9	368.0	24.1	1,616.0

The table below shows the LTV banding for the CCFS segments' four major lending streams:

CCFS	2019					%
	Buy-to-let £m	Residential £m	Bridging £m	Second charge lending £m	Total £m	
Band						
0% – 50%	144.7	261.8	121.1	40.2	567.8	7
50% – 60%	283.9	253.1	29.4	45.9	612.3	8
60% – 70%	957.0	538.6	26.6	66.3	1,588.5	21
70% – 80%	3,246.6	897.7	37.5	54.5	4,236.3	56
80% – 90%	321.5	301.4	1.2	17.4	641.5	8
90% – 100%	0.2	0.4	–	–	0.6	–
Total loans before provisions	4,953.9	2,253.0	215.8	224.3	7,647.0	100

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

Bank	2019				2018			
	BTL/SME £m	Residential £m	Total £m	%	BTL/SME £m	Residential £m	Total £m	%
Band								
0% – 50%	670.7	763.6	1,434.3	17	738.6	717.6	1,456.2	20
50% – 60%	816.4	215.0	1,031.4	12	882.4	219.5	1,101.9	15
60% – 70%	1,639.5	175.9	1,815.4	22	1,547.3	168.3	1,715.6	24
70% – 80%	2,925.4	179.1	3,104.5	37	2,201.9	158.3	2,360.2	33
80% – 90%	560.7	321.0	881.7	10	368.1	156.5	524.6	7
90% – 100%	40.0	45.1	85.1	1	27.7	26.9	54.6	1
>100%	54.9	13.5	68.4	1	–	11.2	11.2	–
Total loans before provisions	6,707.6	1,713.2	8,420.8	100	5,766.0	1,458.3	7,224.3	100

The tables below show the sub-segment LTV analysis of the Bank's BTL/SME lending stream:

Bank	2019				
	Buy-to-Let £m	Commercial £m	Residential development £m	Funding lines £m	Total £m
Band					
0% – 50%	438.9	2.3	125.7	103.8	670.7
50% – 60%	765.2	2.5	5.0	43.7	816.4
60% – 70%	1,601.1	2.5	5.0	30.9	1,639.5
70% – 80%	2,886.3	5.8	–	33.3	2,925.4
80% – 90%	549.8	0.5	10.4	–	560.7
90% – 100%	35.2	–	–	4.8	40.0
>100%	45.8	3.5	–	5.6	54.9
Total loans before provisions	6,322.3	17.1	146.1	222.1	6,707.6

Notes to the Financial Statements continued

For the year ended 31 December 2019

45. Risk management continued

Bank	2018				Total £m
	Buy-to-Let £m	Commercial £m	Residential development £m	Funding lines £m	
Band					
0% – 50%	532.5	5.4	108.7	92.0	738.6
50% – 60%	810.9	2.6	38.8	30.1	882.4
60% – 70%	1,527.0	5.9	7.3	7.1	1,547.3
70% – 80%	2,180.6	7.4	–	13.9	2,201.9
80% – 90%	367.0	0.1	1.0	–	368.1
90% – 100%	2.7	–	–	25.0	27.7
Total loans before provisions	5,420.7	21.4	155.8	168.1	5,766.0

The tables below show the sub-segment LTV analysis of the Bank's Residential lending stream:

Bank	2019			
	First charge £m	Second charge £m	Funding lines £m	Total £m
Band				
0% – 50%	644.9	115.4	3.3	763.6
50% – 60%	134.1	77.5	3.4	215.0
60% – 70%	102.7	70.9	2.3	175.9
70% – 80%	127.5	49.5	2.1	179.1
80% – 90%	288.1	32.3	0.6	321.0
90% – 100%	39.1	5.7	0.3	45.1
>100%	6.0	7.3	0.2	13.5
Total loans before provisions	1,342.4	358.6	12.2	1,713.2

Bank	2018			
	First charge £m	Second charge £m	Funding lines £m	Total £m
Band				
0% – 50%	585.1	123.2	9.3	717.6
50% – 60%	130.7	81.8	7.0	219.5
60% – 70%	91.4	74.3	2.6	168.3
70% – 80%	106.2	48.3	3.8	158.3
80% – 90%	131.4	24.4	0.7	156.5
90% – 100%	19.7	6.8	0.4	26.9
>100%	1.7	9.2	0.3	11.2
Total loans before provisions	1,066.2	368.0	24.1	1,458.3

Analysis of mortgage portfolio by arrears and collateral held

The tables below provide further information on collateral, capped at the value of each individual mortgage, over the mortgage portfolio by payment due status and IFRS 9 stage.

Group	2019					
	OSB		CCFS		Total	
	Loan balance £m	Capped collateral £m	Loan balance £m	Capped collateral £m	Loan balance £m	Capped collateral £m
Stage 1						
Not past due	9,964.3	9,904.5	7,236.2	7,235.7	17,200.5	17,140.2
Past due < 1 month	82.6	82.6	3.8	3.8	86.4	86.4
	10,046.9	9,987.1	7,240.0	7,239.5	17,286.9	17,226.6
Stage 2						
Not past due	261.0	260.7	239.1	239.0	500.1	499.7
Past due < 1 month	118.9	118.9	38.1	38.1	157.0	157.0
Past due 1 to 3 months	62.5	62.2	29.9	29.9	92.4	92.1
	442.4	441.8	307.1	307.0	749.5	748.8
Stage 3						
Not past due	71.3	71.0	4.8	4.8	76.1	75.8
Past due < 1 month	36.3	36.1	1.4	1.4	37.7	37.5
Past due 1 to 3 months	28.8	28.5	6.0	6.0	34.8	34.5
Past due 3 to 6 months	45.9	45.3	4.5	4.5	50.4	49.8
Past due 6 to 12 months	27.4	27.2	–	–	27.4	27.2
Past due over 12 months	25.3	24.7	–	–	25.3	24.7
Possessions	42.7	42.4	–	–	42.7	42.4
	277.7	275.2	16.7	16.7	294.4	291.9
Stage 3 (POCI)						
Not past due	20.8	20.2	30.6	30.5	51.4	50.7
Past due < 1 month	6.1	5.9	8.5	8.5	14.6	14.4
Past due 1 to 3 months	4.9	4.6	21.9	21.9	26.8	26.5
Past due 3 to 6 months	6.5	6.1	10.5	10.5	17.0	16.6
Past due 6 to 12 months	5.7	5.3	5.5	5.5	11.2	10.8
Past due over 12 months	8.3	7.2	1.2	1.2	9.5	8.4
Possessions	1.3	0.8	5.0	5.0	6.3	5.8
	53.6	50.1	83.2	83.1	136.8	133.2
Total loans before provisions	10,820.6	10,754.2	7,647.0	7,646.3	18,467.6	18,400.5

Notes to the Financial Statements continued

For the year ended 31 December 2019

45. Risk management continued

Group	2018					
	OSB		CCFS		Total	
	Loan balance £m	Capped collateral £m	Loan balance £m	Capped collateral £m	Loan balance £m	Capped collateral £m
Stage 1						
Not past due	8,225.3	8,213.3	-	-	8,225.3	8,213.3
Past due < 1 month	61.5	61.2	-	-	61.5	61.2
	8,286.8	8,274.5	-	-	8,286.8	8,274.5
Stage 2						
Not past due	241.9	241.9	-	-	241.9	241.9
Past due < 1 month	124.9	124.9	-	-	124.9	124.9
Past due 1 to 3 months	70.0	70.0	-	-	70.0	70.0
	436.8	436.8	-	-	436.8	436.8
Stage 3						
Not past due	67.8	67.2	-	-	67.8	67.2
Past due < 1 month	16.2	16.2	-	-	16.2	16.2
Past due 1 to 3 months	30.4	30.4	-	-	30.4	30.4
Past due 3 to 6 months	57.2	57.2	-	-	57.2	57.2
Past due 6 to 12 months	32.0	31.9	-	-	32.0	31.9
Past due over 12 months	13.9	13.6	-	-	13.9	13.6
Possessions	7.9	7.7	-	-	7.9	7.7
	225.4	224.2	-	-	225.4	224.2
Stage 3 (POCI)						
Not past due	18.6	18.6	-	-	18.6	18.6
Past due < 1 month	6.7	6.6	-	-	6.7	6.6
Past due 1 to 3 months	6.6	6.6	-	-	6.6	6.6
Past due 3 to 6 months	7.4	7.4	-	-	7.4	7.4
Past due 6 to 12 months	7.7	7.7	-	-	7.7	7.7
Past due over 12 months	9.2	9.2	-	-	9.2	9.2
	56.2	56.1	-	-	56.2	56.1
Total loans before provisions	9,005.2	8,991.6	-	-	9,005.2	8,991.6

	Bank 2019		Bank 2018	
	Loan balance £m	Capped collateral £m	Loan balance £m	Capped collateral £m
Stage 1				
Not past due	7,732.1	7,721.4	6,603.2	6,599.4
Past due < 1 month	52.9	52.9	53.8	53.8
	7,785.0	7,774.3	6,657.0	6,653.2
Stage 2				
Not past due	207.2	207.0	162.6	162.5
Past due < 1 month	109.2	109.2	117.9	117.9
Past due 1 to 3 months	54.9	54.6	66.1	66.1
	371.3	370.8	346.6	346.5
Stage 3				
Not past due	50.1	49.9	32.2	32.1
Past due < 1 month	26.2	26.0	11.4	11.4
Past due 1 to 3 months	27.7	27.4	27.2	27.2
Past due 3 to 6 months	40.4	39.9	54.7	54.7
Past due 6 to 12 months	23.3	23.1	24.7	24.7
Past due over 12 months	12.2	12.0	9.4	9.4
Possessions	31.2	30.9	5.2	5.2
	211.1	209.2	164.8	164.7
Stage 3 (POCI)				
Not past due	20.6	20.0	18.5	18.5
Past due < 1 month	6.1	5.9	6.5	6.4
Past due 1 to 3 months	4.9	4.6	6.6	6.6
Past due 3 to 6 months	6.5	6.1	7.4	7.4
Past due 6 to 12 months	5.7	5.3	7.7	7.7
Past due over 12 months	8.3	7.2	9.2	9.2
Possessions	1.3	0.8	-	-
	53.4	49.9	55.9	55.8
Total loans before provisions	8,420.8	8,404.2	7,224.3	7,220.2

Notes to the Financial Statements continued

For the year ended 31 December 2019

45. Risk management continued

The table below shows the analysis of mortgage portfolio by arrears for the OSB segments' two major lending streams:

OSB	2019			2018		
	BTL/SME £m	Residential £m	Total £m	BTL/SME £m	Residential £m	Total £m
Stage 1						
Not past due	8,514.9	1,449.4	9,964.3	7,019.0	1,206.3	8,225.3
Past due < 1 month	48.7	33.9	82.6	20.3	41.2	61.5
	8,563.6	1,483.3	10,046.9	7,039.3	1,247.5	8,286.8
Stage 2						
Not past due	156.9	104.1	261.0	141.9	100.0	241.9
Past due < 1 month	80.0	38.9	118.9	75.7	49.2	124.9
Past due 1 to 3 months	32.3	30.2	62.5	30.0	40.0	70.0
	269.2	173.2	442.4	247.6	189.2	436.8
Stage 3						
Not past due	39.6	31.7	71.3	43.1	24.7	67.8
Past due < 1 month	22.5	13.8	36.3	3.7	12.5	16.2
Past due 1 to 3 months	9.8	19.0	28.8	12.1	18.3	30.4
Past due 3 to 6 months	17.0	28.9	45.9	24.6	32.6	57.2
Past due 6 to 12 months	9.1	18.3	27.4	11.0	21.0	32.0
Past due over 12 months	13.5	11.8	25.3	3.1	10.8	13.9
Possessions	38.7	4.0	42.7	4.4	3.5	7.9
	150.2	127.5	277.7	102.0	123.4	225.4
Stage 3 (POCI)						
Not past due	0.2	20.6	20.8	0.1	18.5	18.6
Past due < 1 month	–	6.1	6.1	0.2	6.5	6.7
Past due 1 to 3 months	–	4.9	4.9	–	6.6	6.6
Past due 3 to 6 months	–	6.5	6.5	–	7.4	7.4
Past due 6 to 12 months	–	5.7	5.7	–	7.7	7.7
Past due over 12 months	–	8.3	8.3	–	9.2	9.2
Possessions	–	1.3	1.3	–	–	–
	0.2	53.4	53.6	0.3	55.9	56.2
Total loans before provisions	8,983.2	1,837.4	10,820.6	7,389.2	1,616.0	9,005.2

The tables below show the sub-segment analysis of mortgage portfolio by arrears of the OSB BTL/SME lending stream:

OSB	2019				
	Buy-to-Let £m	Commercial £m	Residential development £m	Funding lines £m	Total £m
Stage 1					
Not past due	7,317.3	829.4	146.1	222.1	8,514.9
Past due < 1 month	32.8	15.9	–	–	48.7
	7,350.1	845.3	146.1	222.1	8,563.6
Stage 2					
Not past due	128.6	28.3	–	–	156.9
Past due < 1 month	78.5	1.5	–	–	80.0
Past due 1 to 3 months	29.2	3.1	–	–	32.3
	236.3	32.9	–	–	269.2
Stage 3					
Not past due	37.1	2.5	–	–	39.6
Past due < 1 month	21.0	1.5	–	–	22.5
Past due 1 to 3 months	9.8	–	–	–	9.8
Past due 3 to 6 months	16.1	0.9	–	–	17.0
Past due 6 to 12 months	8.0	1.1	–	–	9.1
Past due over 12 months	13.1	0.4	–	–	13.5
Possessions	35.5	3.2	–	–	38.7
	140.6	9.6	–	–	150.2
Stage 3 (POCI)					
Not past due	–	0.2	–	–	0.2
	–	0.2	–	–	0.2
Total loans before provisions	7,727.0	888.0	146.1	222.1	8,983.2

Notes to the Financial Statements continued

For the year ended 31 December 2019

45. Risk management continued

OSB	2018				
	Buy-to-Let £m	Commercial £m	Residential development £m	Funding lines £m	Total £m
Stage 1					
Not past due	6,193.4	501.7	155.8	168.1	7,019.0
Past due < 1 month	18.5	1.8	-	-	20.3
	6,211.9	503.5	155.8	168.1	7,039.3
Stage 2					
Not past due	102.8	39.1	-	-	141.9
Past due < 1 month	74.7	1.0	-	-	75.7
Past due 1 to 3 months	29.3	0.7	-	-	30.0
	206.8	40.8	-	-	247.6
Stage 3					
Not past due	40.6	2.5	-	-	43.1
Past due < 1 month	3.3	0.4	-	-	3.7
Past due 1 to 3 months	12.0	0.1	-	-	12.1
Past due 3 to 6 months	24.5	0.1	-	-	24.6
Past due 6 to 12 months	10.9	0.1	-	-	11.0
Past due over 12 months	3.1	-	-	-	3.1
Possessions	4.4	-	-	-	4.4
	98.8	3.2	-	-	102.0
Stage 3 (POCI)					
Not past due	-	0.1	-	-	0.1
Past due < 1 month	-	0.2	-	-	0.2
	-	0.3	-	-	0.3
Total loans before provisions	6,517.5	547.8	155.8	168.1	7,389.2

The tables below show the sub-segment analysis of mortgage portfolio by arrears of the OSB Residential mortgages lending stream:

OSB	2019			
	First charge £m	Second charge £m	Funding lines £m	Total £m
Stage 1				
Not past due	1,164.8	272.4	12.2	1,449.4
Past due < 1 month	27.7	6.2	–	33.9
	1,192.5	278.6	12.2	1,483.3
Stage 2				
Not past due	86.1	18.0	–	104.1
Past due < 1 month	34.4	4.5	–	38.9
Past due 1 to 3 months	24.4	5.8	–	30.2
	144.9	28.3	–	173.2
Stage 3				
Not past due	28.1	3.6	–	31.7
Past due < 1 month	11.2	2.6	–	13.8
Past due 1 to 3 months	13.8	5.2	–	19.0
Past due 3 to 6 months	20.7	8.2	–	28.9
Past due 6 to 12 months	14.5	3.8	–	18.3
Past due over 12 months	9.8	2.0	–	11.8
Possessions	3.3	0.7	–	4.0
	101.4	26.1	–	127.5
Stage 3 (POCI)				
Not past due	13.4	7.2	–	20.6
Past due < 1 month	4.2	1.9	–	6.1
Past due 1 to 3 months	2.0	2.9	–	4.9
Past due 3 to 6 months	3.2	3.3	–	6.5
Past due 6 to 12 months	2.6	3.1	–	5.7
Past due over 12 months	2.3	6.0	–	8.3
Possessions	0.1	1.2	–	1.3
	27.8	25.6	–	53.4
Total loans before provisions	1,466.6	358.6	12.2	1,837.4

Notes to the Financial Statements continued

For the year ended 31 December 2019

45. Risk management continued

	2018			
	First charge £m	Second charge £m	Funding lines £m	Total £m
OSB				
Stage 1				
Not past due	906.6	275.6	24.1	1,206.3
Past due < 1 month	32.5	8.7	-	41.2
	939.1	284.3	24.1	1,247.5
Stage 2				
Not past due	80.8	19.2	-	100.0
Past due < 1 month	43.2	6.0	-	49.2
Past due 1 to 3 months	32.7	7.3	-	40.0
	156.7	32.5	-	189.2
Stage 3				
Not past due	22.2	2.5	-	24.7
Past due < 1 month	10.2	2.3	-	12.5
Past due 1 to 3 months	13.0	5.3	-	18.3
Past due 3 to 6 months	23.8	8.8	-	32.6
Past due 6 to 12 months	16.9	4.1	-	21.0
Past due over 12 months	8.8	2.0	-	10.8
Possessions	3.5	-	-	3.5
	98.4	25.0	-	123.4
Stage 3 (POCI)				
Not past due	12.1	6.4	-	18.5
Past due < 1 month	4.4	2.1	-	6.5
Past due 1 to 3 months	4.1	2.5	-	6.6
Past due 3 to 6 months	3.5	3.9	-	7.4
Past due 6 to 12 months	3.4	4.3	-	7.7
Past due over 12 months	2.2	7.0	-	9.2
	29.7	26.2	-	55.9
Total loans before provisions	1,223.9	368.0	24.1	1,616.0

The table below shows the analysis of mortgage portfolio by arrears for the CCFS segments' four major lending streams:

CCFS	2019				Total £m
	Buy-to-let £m	Residential £m	Bridging £m	Second charge lending £m	
Stage 1					
Not past due	4,767.9	2,056.4	195.5	216.4	7,236.2
Past due < 1 month	0.5	1.1	–	2.2	3.8
	4,768.4	2,057.5	195.5	218.6	7,240.0
Stage 2					
Not past due	139.6	83.6	14.6	1.3	239.1
Past due < 1 month	10.1	27.1	0.8	0.1	38.1
Past due 1 to 3 months	6.3	22.4	0.3	0.9	29.9
	156.0	133.1	15.7	2.3	307.1
Stage 3					
Not past due	1.1	3.2	0.2	0.3	4.8
Past due < 1 month	0.5	0.9	–	–	1.4
Past due 1 to 3 months	1.6	4.4	–	–	6.0
Past due 3 to 6 months	3.2	1.2	0.1	–	4.5
	6.4	9.7	0.3	0.3	16.7
Stage 3 (POCI)					
Not past due	10.9	16.6	1.7	1.4	30.6
Past due < 1 month	2.5	5.4	0.4	0.2	8.5
Past due 1 to 3 months	2.6	16.8	1.8	0.7	21.9
Past due 3 to 6 months	1.3	8.8	–	0.4	10.5
Past due 6 to 12 months	1.0	3.9	0.2	0.4	5.5
Past due over 12 months	0.9	0.3	–	–	1.2
Possessions	3.9	0.9	0.2	–	5.0
	23.1	52.7	4.3	3.1	83.2
Total loans before provisions	4,953.9	2,253.0	215.8	224.3	7,647.0

Notes to the Financial Statements continued

For the year ended 31 December 2019

45. Risk management continued

The table below shows the analysis of mortgage portfolio by arrears for the Bank's two major lending streams:

Bank	2019			2018		
	BTL/SME £m	Residential £m	Total £m	BTL/SME £m	Residential £m	Total £m
Stage 1						
Not past due	6,374.7	1,357.4	7,732.1	5,512.3	1,090.9	6,603.2
Past due < 1 month	20.3	32.6	52.9	16.5	37.3	53.8
	6,395.0	1,390.0	7,785.0	5,528.8	1,128.2	6,657.0
Stage 2						
Not past due	111.0	96.2	207.2	65.0	97.6	162.6
Past due < 1 month	72.7	36.5	109.2	72.3	45.6	117.9
Past due 1 to 3 months	27.1	27.8	54.9	29.3	36.8	66.1
	210.8	160.5	371.3	166.6	180.0	346.6
Stage 3						
Not past due	27.5	22.6	50.1	18.3	13.9	32.2
Past due < 1 month	13.2	13.0	26.2	2.6	8.8	11.4
Past due 1 to 3 months	9.3	18.4	27.7	11.1	16.1	27.2
Past due 3 to 6 months	12.8	27.6	40.4	24.5	30.2	54.7
Past due 6 to 12 months	7.6	15.7	23.3	7.4	17.3	24.7
Past due over 12 months	2.9	9.3	12.2	2.3	7.1	9.4
Possessions	28.5	2.7	31.2	4.4	0.8	5.2
	101.8	109.3	211.1	70.6	94.2	164.8
Stage 3 (POCI)						
Not past due	–	20.6	20.6	–	18.5	18.5
Past due < 1 month	–	6.1	6.1	–	6.5	6.5
Past due 1 to 3 months	–	4.9	4.9	–	6.6	6.6
Past due 3 to 6 months	–	6.5	6.5	–	7.4	7.4
Past due 6 to 12 months	–	5.7	5.7	–	7.7	7.7
Past due over 12 months	–	8.3	8.3	–	9.2	9.2
Possessions	–	1.3	1.3	–	–	–
	–	53.4	53.4	–	55.9	55.9
Total loans before provisions	6,707.6	1,713.2	8,420.8	5,766.0	1,458.3	7,224.3

The table below shows the analysis of mortgage portfolio by arrears for the Bank's BTL/SME lending stream:

Bank	2019				
	Buy-to-Let £m	Commercial £m	Residential development £m	Funding lines £m	Total £m
Stage 1					
Not past due	5,993.2	13.3	146.1	222.1	6,374.7
Past due < 1 month	19.9	0.4	-	-	20.3
	6,013.1	13.7	146.1	222.1	6,395.0
Stage 2					
Not past due	110.0	1.0	-	-	111.0
Past due < 1 month	72.3	0.4	-	-	72.7
Past due 1 to 3 months	27.0	0.1	-	-	27.1
	209.3	1.5	-	-	210.8
Stage 3					
Not past due	27.5	-	-	-	27.5
Past due < 1 month	12.2	1.0	-	-	13.2
Past due 1 to 3 months	9.3	-	-	-	9.3
Past due 3 to 6 months	12.4	0.4	-	-	12.8
Past due 6 to 12 months	7.5	0.1	-	-	7.6
Past due over 12 months	2.8	0.1	-	-	2.9
Possessions	28.2	0.3	-	-	28.5
	99.9	1.9	-	-	101.8
Total loans before provisions	6,322.3	17.1	146.1	222.1	6,707.6
Bank	2018				
	Buy-to-Let £m	Commercial £m	Residential development £m	Funding lines £m	Total £m
Stage 1					
Not past due	5,170.6	17.8	155.8	168.1	5,512.3
Past due < 1 month	16.2	0.3	-	-	16.5
	5,186.8	18.1	155.8	168.1	5,528.8
Stage 2					
Not past due	63.3	1.7	-	-	65.0
Past due < 1 month	71.3	1.0	-	-	72.3
Past due 1 to 3 months	29.3	-	-	-	29.3
	163.9	2.7	-	-	166.6
Stage 3					
Not past due	17.9	0.4	-	-	18.3
Past due < 1 month	2.6	-	-	-	2.6
Past due 1 to 3 months	11.0	0.1	-	-	11.1
Past due 3 to 6 months	24.4	0.1	-	-	24.5
Past due 6 to 12 months	7.4	-	-	-	7.4
Past due over 12 months	2.3	-	-	-	2.3
Possessions	4.4	-	-	-	4.4
	70.0	0.6	-	-	70.6
Total loans before provisions	5,420.7	21.4	155.8	168.1	5,766.0

Notes to the Financial Statements continued

For the year ended 31 December 2019

45. Risk management continued

The table below shows the analysis of mortgage portfolio by arrears for the Bank's Residential mortgages lending stream:

Bank	2019			Total £m
	First charge £m	Second charge £m	Funding lines £m	
Stage 1				
Not past due	1,072.7	272.5	12.2	1,357.4
Past due < 1 month	26.4	6.2	–	32.6
	1,099.1	278.7	12.2	1,390.0
Stage 2				
Not past due	78.2	18.0	–	96.2
Past due < 1 month	32.1	4.4	–	36.5
Past due 1 to 3 months	22.0	5.8	–	27.8
	132.3	28.2	–	160.5
Stage 3				
Not past due	19.0	3.6	–	22.6
Past due < 1 month	10.4	2.6	–	13.0
Past due 1 to 3 months	13.2	5.2	–	18.4
Past due 3 to 6 months	19.4	8.2	–	27.6
Past due 6 to 12 months	11.9	3.8	–	15.7
Past due over 12 months	7.3	2.0	–	9.3
Possessions	2.0	0.7	–	2.7
	83.2	26.1	–	109.3
Stage 3 (POCI)				
Not past due	13.4	7.2	–	20.6
Past due < 1 month	4.2	1.9	–	6.1
Past due 1 to 3 months	2.0	2.9	–	4.9
Past due 3 to 6 months	3.2	3.3	–	6.5
Past due 6 to 12 months	2.6	3.1	–	5.7
Past due over 12 months	2.3	6.0	–	8.3
Possessions	0.1	1.2	–	1.3
	27.8	25.6	–	53.4
Total loans before provisions	1,342.4	358.6	12.2	1,713.2

Bank	2018			
	First charge £m	Second charge £m	Funding lines £m	Total £m
Stage 1				
Not past due	791.2	275.6	24.1	1,090.9
Past due < 1 month	28.6	8.7	-	37.3
	819.8	284.3	24.1	1,128.2
Stage 2				
Not past due	78.4	19.2	-	97.6
Past due < 1 month	39.6	6.0	-	45.6
Past due 1 to 3 months	29.5	7.3	-	36.8
	147.5	32.5	-	180.0
Stage 3				
Not past due	11.4	2.5	-	13.9
Past due < 1 month	6.5	2.3	-	8.8
Past due 1 to 3 months	10.8	5.3	-	16.1
Past due 3 to 6 months	21.4	8.8	-	30.2
Past due 6 to 12 months	13.2	4.1	-	17.3
Past due over 12 months	5.1	2.0	-	7.1
Possessions	0.8	-	-	0.8
	69.2	25.0	-	94.2
Stage 3 (POCI)				
Not past due	12.1	6.4	-	18.5
Past due < 1 month	4.4	2.1	-	6.5
Past due 1 to 3 months	4.1	2.5	-	6.6
Past due 3 to 6 months	3.5	3.9	-	7.4
Past due 6 to 12 months	3.4	4.3	-	7.7
Past due over 12 months	2.2	7.0	-	9.2
	29.7	26.2	-	55.9
Total loans before provisions	1,066.2	368.0	24.1	1,458.3

Notes to the Financial Statements continued

For the year ended 31 December 2019

45. Risk management continued

Forbearance measures undertaken

The Group has a range of options available where borrowers experience financial difficulties which impact their ability to service their financial commitments under the loan agreement. These are explained in the Principal risks and uncertainties on page 70.

A summary of the forbearance measures undertaken during the year, where CCFS forbearance is included post Combination, is shown below. The balances disclosed reflect the year end balance of the accounts where a forbearance measure was undertaken during the year.

Group	Number of accounts 2019	At 31 December 2019 £m	Number of accounts 2018	At 31 December 2018 £m
Forbearance type				
Interest-only switch	59	8.4	26	3.7
Interest rate reduction	35	1.6	5	0.8
Term extension	30	6.6	33	3.5
Payment holiday	87	4.1	31	0.6
Voluntary assisted sale	26	1.0	4	0.1
Payment concession (reduced monthly payments)	73	3.6	75	3.5
Full or partial debt forgiveness	6	–	–	–
Total	316	25.3	174	12.2
Loan type				
First charge owner-occupier	85	10.5	40	3.4
Second charge owner-occupier	198	7.4	106	2.9
Buy-to-Let	32	7.4	28	5.9
Commercial	1	–	–	–
Total	316	25.3	174	12.2

Bank	Number of accounts 2019	At 31 December 2019 £m	Number of accounts 2018	At 31 December 2018 £m
Forbearance type				
Interest-only switch	48	7.2	21	2.9
Interest rate reduction	34	1.3	2	0.2
Term extension	19	6.1	28	2.7
Payment holiday	72	1.7	31	0.6
Voluntary assisted sale	24	0.5	4	0.1
Payment concession (reduced monthly payments)	69	2.5	75	3.6
Full or partial debt forgiveness	6	–	–	–
Total	272	19.3	161	10.1
Loan type				
First charge owner-occupier	59	7.0	22	1.6
Second charge owner-occupier	185	5.8	112	2.9
Buy-to-Let	28	6.5	27	5.6
Total	272	19.3	161	10.1

Geographical analysis by region

An analysis of loans by region is provided below:

Region	Group 2019				Group 2018	
	OSB	CCFS	Total	%	OSB	
	£m	£m	£m		£m	%
East Anglia	391.9	810.9	1,202.8	7	316.4	4
East Midlands	415.2	410.3	825.5	4	325.4	4
Greater London	4,738.7	2,713.7	7,452.4	41	3,965.5	43
Guernsey	45.3	–	45.3	–	61.7	1
Jersey	141.4	–	141.4	1	176.0	2
North East	136.7	179.5	316.2	2	115.6	1
North West	587.3	605.4	1,192.7	6	447.6	5
Northern Ireland	14.2	–	14.2	–	14.6	–
Scotland	48.5	190.9	239.4	1	45.2	1
South East	2,375.2	1,209.6	3,584.8	20	1,955.1	22
South West	747.5	466.0	1,213.5	7	634.2	7
Wales	239.3	202.6	441.9	2	187.1	2
West Midlands	702.2	496.0	1,198.2	6	557.5	6
Yorks and Humberside	237.2	362.1	599.3	3	203.3	2
Total loans before provisions	10,820.6	7,647.0	18,467.6	100	9,005.2	100

Region	Bank 2019		Bank 2018	
	£m	%	£m	%
East Anglia	319.3	4	267.3	4
East Midlands	297.1	4	245.5	3
Greater London	3,737.7	44	3,270.7	45
North East	109.3	1	94.7	1
North West	448.1	5	346.9	5
Northern Ireland	14.1	–	14.4	–
Scotland	44.0	1	44.0	1
South East	1,921.3	23	1,667.9	24
South West	601.4	7	515.5	7
Wales	191.1	2	151.3	2
West Midlands	556.8	7	454.9	6
Yorks and Humberside	180.6	2	151.2	2
Total loans before provisions	8,420.8	100	7,224.3	100

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.

Notes to the Financial Statements continued

For the year ended 31 December 2019

45. Risk management continued

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:

Group 2019	Stage 1 £m	Stage 2 £m	Stage 3 £m	Stage 3 (POCI) £m	Total £m
Loans and advances to customers – OSB					
Excellent	4,985.9	11.0	–	–	4,996.9
Good	4,859.3	200.5	–	–	5,059.8
Satisfactory	147.3	154.8	–	–	302.1
Lower	6.7	76.1	–	–	82.8
Impaired	–	–	277.7	–	277.7
POCI	–	–	–	53.6	53.6
Loans and advances to customers – CCFS					
Excellent	3,632.7	20.5	–	–	3,653.2
Good	3,359.7	93.7	–	–	3,453.4
Satisfactory	222.8	39.1	–	–	261.9
Lower	24.8	153.8	–	–	178.6
Impaired	–	–	16.7	–	16.7
POCI	–	–	–	83.2	83.2
	17,239.2	749.5	294.4	136.8	18,419.9

Group 2018

Loans and advances to customers – OSB					
Excellent	4,351.9	8.7	–	–	4,360.6
Good	3,755.1	188.6	–	–	3,943.7
Satisfactory	163.1	164.8	–	–	327.9
Lower	9.5	74.7	–	–	84.2
Impaired	–	–	225.4	–	225.4
POCI	–	–	–	56.2	56.2
	8,279.6	436.8	225.4	56.2	8,998.0

Bank 2019	Stage 1 £m	Stage 2 £m	Stage 3 £m	Stage 3 (POCI) £m	Total £m
Loans and advances to customers					
Excellent	3,565.3	10.3	–	–	3,575.6
Good	4,086.1	148.0	–	–	4,234.1
Satisfactory	127.3	147.0	–	–	274.3
Lower	6.3	66.0	–	–	72.3
Impaired	–	–	211.1	–	211.1
POCI	–	–	–	53.4	53.4
	7,785.0	371.3	211.1	53.4	8,420.8

Bank 2018

Loans and advances to customers					
Excellent	3,321.1	3.4	–	–	3,324.5
Good	3,189.2	126.8	–	–	3,316.0
Satisfactory	138.6	149.9	–	–	288.5
Lower	8.1	66.5	–	–	74.6
Impaired	–	–	164.8	–	164.8
POCI	–	–	–	55.9	55.9
	6,657.0	346.6	164.8	55.9	7,224.3

The tables below show the Group's and Bank's other financial assets by credit risk rating grade:

	Excellent £m	Good £m	Satisfactory £m	Total £m
Group 2019				
Investment securities	635.3	–	–	635.3
Loans and advances to credit institutions	2,047.8	146.1	10.7	2,204.6
Derivative assets	11.6	9.5	–	21.1
	2,694.7	155.6	10.7	2,861.0
Group 2018				
Investment securities	58.9	–	–	58.9
Loans and advances to credit institutions	1,315.2	25.4	6.7	1,347.3
Derivative assets	1.3	10.4	–	11.7
	1,375.4	35.8	6.7	1,417.9
Bank 2019				
Investment securities	149.8	–	–	149.8
Loans and advances to credit institutions	1,140.7	55.3	–	1,196.0
Derivative assets	7.2	1.5	–	8.7
	1,297.7	56.8	–	1,354.5
Bank 2018				
Investment securities	58.9	–	–	58.9
Loans and advances to credit institutions	1,315.2	24.8	–	1,340.0
Derivative assets	1.3	10.4	–	11.7
	1,375.4	35.2	–	1,410.6

Credit risk – loans and advances to credit institutions and investment securities

The Group holds treasury instruments in order to meet liquidity requirements and for general business purposes. The credit risk arising from these investments is closely monitored and managed by the Group's treasury department. In managing these assets, Group treasury operates within guidelines laid down in the treasury policy approved by the Board and performance is monitored and reported to ALCO monthly, including through the use of an internally developed rating model based on counterparty credit default swap spreads.

The Group has limited exposure to emerging markets (Indian operations) and non-investment grade debt. ALCO is responsible for approving treasury counterparties.

During the year, the average balance of cash in hand, loans and advances to credit institutions and investment securities on a monthly basis was £2,016.2m (2018: £1,296.1m).

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

	Group 2019		Group 2018	
	£m	%	£m	%
BoE ¹	1,957.9	69	1,315.2	94
Other banks	246.7	9	32.1	2
Central government	149.8	5	39.8	3
Supranationals	–	–	19.1	1
Securitisation	485.5	17	–	–
Total	2,839.9	100	1,406.2	100

1. Balances with the BoE include £41.7m (2018: £20.0m) held in the cash ratio deposit.

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For the year ended 31 December 2019

45. Risk management continued

	Bank 2019		Bank 2018	
	£m	%	£m	%
BoE ¹	1,109.3	83	1,315.2	94
Other banks	86.7	6	24.8	2
Central government	149.8	11	39.8	3
Supranationals	–	–	19.1	1
Total	1,345.8	100	1,398.9	100

1. Balances with the BoE include £27.5m (2018: £20.0m) held in the cash ratio deposit.

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

	Group 2019		Group 2018	
	£m	%	£m	%
United Kingdom	2,829.2	100	1,380.5	98
Rest of Europe	–	–	19.1	2
India	10.7	–	6.6	–
Total	2,839.9	100	1,406.2	100

	Bank 2019		Bank 2018	
	£m	%	£m	%
United Kingdom	1,345.8	100	1,379.8	99
Rest of Europe	–	–	19.1	1
Total	1,345.8	100	1,398.9	100

The Group monitors exposure concentrations against a variety of criteria, including asset class, sector and geography. To avoid refinancing risks associated with any one counterparty, sector or geographical region, the Board has set appropriate limits.

Liquidity risk

Liquidity risk is the risk of having insufficient liquid assets to fulfil obligations as they become due or the cost of raising liquid funds becoming too expensive.

The Group's approach to managing liquidity risk is to maintain sufficient liquid resources to cover cash flow imbalances and fluctuations in funding in order to retain full public confidence in the solvency of the Group and to enable the Group to meet its financial obligations as they fall due. This is achieved through maintaining a prudent level of liquid assets and control of the growth of the business. The Group has established a call account with the BoE and has access to its contingent liquidity facilities.

Liquidity management is the responsibility of ALCO, with day-to-day management delegated to treasury as detailed in the treasury policy. ALCO is responsible for setting limits over the level and maturity profile of wholesale funding and for monitoring the composition of the Group financial position. For each material class of financial liability a contractual maturity analysis is provided below.

The Group also monitors a range of triggers, defined in the contingency funding plan and recovery and resolution plan, which are designed to capture liquidity stresses in advance in order to allow sufficient time for management action to take effect. These are monitored daily by the Risk team, with breaches immediately reported to the CRO, CEO, CFO and the Head of Treasury.

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

Group 2019	Carrying amount £m	On demand £m	Less than 3 months £m	3-12 months £m	1-5 years £m	More than 5 years £m
Financial liability by type						
Amounts owed to retail depositors	16,255.0	4,050.7	2,411.9	6,579.3	3,213.1	–
Amounts owed to credit institutions	3,068.8	10.2	232.0	193.5	2,633.1	–
Amounts owed to other customers	29.7	3.7	2.8	23.1	0.1	–
Derivative liabilities	92.8	–	–	2.3	83.4	7.1
Debt securities in issue	296.3	–	–	40.1	256.2	–
Lease liabilities	13.3	–	0.3	1.0	3.8	8.2
Subordinated liabilities	10.6	–	0.2	0.1	10.3	–
Perpetual Subordinated Bonds	37.6	–	0.6	–	–	37.0
Total liabilities	19,804.1	4,064.6	2,647.8	6,839.4	6,200.0	52.3
Financial asset by type						
Cash in hand	0.4	0.4	–	–	–	–
Loans and advances to credit institutions	2,204.6	2,077.1	85.8	–	–	41.7
Investment securities	635.3	–	49.9	116.4	469.0	–
Loans and advances to customers	18,446.8	4.5	290.7	524.1	1,174.8	16,452.7
Derivative assets	21.1	–	0.3	3.0	16.0	1.8
Total assets	21,308.2	2,082.0	426.7	643.5	1,659.8	16,496.2
Cumulative liquidity gap		(1,982.6)	(4,203.7)	(10,399.4)	(14,939.8)	1,504.1
Restated Group ¹ 2018	Carrying amount £m	On demand £m	Less than 3 months £m	3-12 months £m	1-5 years £m	More than 5 years £m
Financial liability by type						
Amounts owed to retail depositors	8,071.9	2,538.2	880.6	3,008.3	1,644.8	–
Amounts owed to credit institutions	1,584.0	1.0	40.1	40.0	1,502.9	–
Amounts owed to other customers	32.9	–	10.5	22.4	–	–
Derivative liabilities	24.9	–	0.1	11.3	7.0	6.5
Subordinated liabilities	10.8	–	0.2	0.1	0.5	10.0
Perpetual Subordinated Bonds	37.6	–	0.6	–	–	37.0
Total liabilities	9,762.1	2,539.2	932.1	3,082.1	3,155.2	53.5
Financial asset by type						
Cash in hand	0.4	0.4	–	–	–	–
Loans and advances to credit institutions	1,347.3	1,327.3	–	–	–	20.0
Investment securities	58.9	–	–	58.9	–	–
Loans and advances to customers	8,983.3	–	176.0	270.4	522.9	8,014.0
Derivative assets	11.7	–	–	–	11.7	–
Total assets	10,401.6	1,327.7	176.0	329.3	534.6	8,034.0
Cumulative liquidity gap		(1,211.5)	(1,967.6)	(4,720.4)	(7,341.0)	639.5

1. The Group has restated the prior year comparatives for the £22.0m PSBs previously classified as equity (see note 1).

Notes to the Financial Statements continued

For the year ended 31 December 2019

45. Risk management continued

Bank 2019	Carrying amount £m	On demand £m	Less than 3 months £m	3-12 months £m	1-5 years £m	More than 5 years £m
Financial liability by type						
Amounts owed to retail depositors	9,435.7	3,254.6	1,338.4	3,229.0	1,613.7	–
Amounts owed to credit institutions	1,671.1	7.8	160.5	–	1,502.8	–
Amounts owed to other customers	8.9	–	0.5	8.4	–	–
Derivative liabilities	54.3	–	–	0.6	46.8	6.9
Lease liabilities	4.3	–	–	0.2	0.4	3.7
Subordinated liabilities	10.6	–	0.2	0.1	10.3	–
Perpetual Subordinated Bonds	37.6	–	0.6	–	–	37.0
Total liabilities	11,222.5	3,262.4	1,500.2	3,238.3	3,174.0	47.6
Financial asset by type						
Cash in hand	0.4	0.4	–	–	–	–
Loans and advances to credit institutions	1,196.0	1,168.5	–	–	–	27.5
Investment securities	149.8	–	49.9	99.9	–	–
Loans and advances to customers	8,394.2	–	136.7	168.4	273.3	7,815.8
Derivative assets	8.7	–	0.1	1.0	7.1	0.5
Total assets	9,749.1	1,168.9	186.7	269.3	280.4	7,843.8
Cumulative liquidity gap		(2,093.5)	(3,407.0)	(6,376.0)	(9,269.6)	(1,473.4)
Restated Bank ¹ 2018	Carrying amount £m	On demand £m	Less than 3 months £m	3-12 months £m	1-5 years £m	More than 5 years £m
Financial liability by type						
Amounts owed to retail depositors	8,071.9	2,538.2	880.6	3,008.3	1,644.8	–
Amounts owed to credit institutions	1,584.0	1.0	40.1	40.0	1,502.9	–
Amounts owed to other customers	32.9	–	10.5	22.4	–	–
Derivative liabilities	24.9	–	0.1	11.3	7.0	6.5
Subordinated liabilities	10.8	–	0.2	0.1	0.5	10.0
Perpetual Subordinated Bonds	37.6	–	0.6	–	–	37.0
Total liabilities	9,762.1	2,539.2	932.1	3,082.1	3,155.2	53.5
Financial asset by type						
Cash in hand	0.4	0.4	–	–	–	–
Loans and advances to credit institutions	1,340.0	1,320.0	–	–	–	20.0
Investment securities	58.9	–	–	58.9	–	–
Loans and advances to customers	7,208.2	–	131.8	165.1	232.4	6,678.9
Derivative assets	11.7	–	–	–	11.7	–
Total assets	8,619.2	1,320.4	131.8	224.0	244.1	6,698.9
Cumulative liquidity gap		(1,218.8)	(2,019.1)	(4,877.2)	(7,788.3)	(1,142.9)

1. The Bank has restated the prior year comparatives for the £22.0m PSBs previously classified as equity (see note 1).

Liquidity risk – contractual cash flows

The following tables provide an analysis of the Group's gross contractual cash flows, derived using interest rates and contractual maturities at the reporting date and excluding impacts of early payments or non-payments:

Group 2019	Carrying amount £m	Gross inflow/ outflow £m	Up to 3 months £m	3–12 months £m	1–5 years £m	More than 5 years £m
Financial liability by type						
Amounts owed to retail depositors	16,255.0	16,407.3	5,532.0	4,309.7	4,911.8	1,653.8
Amounts owed to credit institutions and other customers	3,098.5	3,133.3	255.1	229.5	2,648.7	–
Derivative liabilities	92.8	91.4	5.6	20.7	61.4	3.7
Debt securities in issue	296.3	315.3	14.4	82.9	218.0	–
Lease liabilities	13.3	22.4	0.7	1.4	17.1	3.2
Subordinated liabilities	10.6	14.2	0.4	0.5	13.3	–
Perpetual Subordinated Bonds	37.6	45.5	0.4	1.3	6.8	37.0
Total liabilities	19,804.1	20,029.4	5,808.6	4,646.0	7,877.1	1,697.7
Off-balance sheet loan commitments	1,210.9	1,210.9	1,210.9	–	–	–
Financial asset by type						
Cash in hand	0.4	0.4	0.4	–	–	–
Loans and advances to credit institutions	2,204.6	2,204.6	2,162.9	–	–	41.7
Investment securities	635.3	672.4	52.1	123.2	497.1	–
Loans and advances to customers	18,446.8	37,024.4	371.6	1,423.6	5,032.4	30,196.8
Derivative assets	21.1	23.4	2.4	5.7	15.1	0.2
Total assets	21,308.2	39,925.2	2,589.4	1,552.5	5,544.6	30,238.7
Restated Group ¹ 2018	Carrying amount £m	Gross inflow/ outflow £m	Up to 3 months £m	3–12 months £m	1–5 years £m	More than 5 years £m
Financial liability by type						
Amounts owed to retail depositors	8,071.9	8,479.5	3,433.0	3,236.7	1,809.8	–
Amounts owed to credit institutions and other customers	1,616.9	1,646.2	54.5	71.2	1,520.5	–
Derivative liabilities	24.9	27.1	3.3	15.6	5.0	3.2
Subordinated liabilities	10.8	15.0	0.3	0.4	3.6	10.7
Perpetual Subordinated Bonds	37.6	46.5	0.5	1.4	7.6	37.0
Total liabilities	9,762.1	10,214.3	3,491.6	3,325.3	3,346.5	50.9
Off-balance sheet loan commitments	710.7	710.7	710.7	–	–	–
Financial asset by type						
Cash in hand	0.4	0.4	0.4	–	–	–
Loans and advances to credit institutions	1,347.3	1,347.3	1,327.3	–	–	20.0
Investment securities	58.9	59.0	–	59.0	–	–
Loans and advances to customers	8,983.3	18,311.2	183.6	841.5	2,649.6	14,636.5
Derivative assets	11.7	12.2	0.4	1.0	10.8	–
Total assets	10,401.6	19,730.1	1,511.7	901.5	2,660.4	14,656.5

1. The Group has restated the prior year comparatives for the £22.0m PSBs previously classified as equity (see note 1).

Notes to the Financial Statements continued

For the year ended 31 December 2019

45. Risk management continued

Bank 2019	Carrying amount £m	Gross inflow/ outflow £m	Up to 3 months £m	3-12 months £m	1-5 years £m	More than 5 years £m
Financial liability by type						
Amounts owed to retail depositors	9,435.7	9,495.9	3,657.4	917.0	3,267.7	1,653.8
Amounts owed to credit institutions and other customers	1,680.0	1,697.6	174.6	13.8	1,509.2	–
Derivative liabilities	54.3	55.0	2.3	11.8	37.3	3.6
Lease liabilities	4.3	4.8	0.2	0.4	1.9	2.3
Subordinated liabilities	10.6	14.2	0.4	0.5	13.3	–
Perpetual Subordinated Bonds	37.6	45.5	0.4	1.3	6.8	37.0
Total liabilities	11,222.5	11,313.0	3,835.3	944.8	4,836.2	1,696.7
Off-balance sheet loan commitments	459.7	459.7	459.7	–	–	–
Financial asset by type						
Cash in hand	0.4	0.4	0.4	–	–	–
Loans and advances to credit institutions	1,196.0	1,196.0	1,168.5	–	–	27.5
Investment securities	149.8	150.0	50.0	100.0	–	–
Loans and advances to customers	8,394.2	18,218.7	114.8	717.7	2,256.2	15,130.0
Derivative assets	8.7	8.7	0.7	1.7	6.2	0.1
Total assets	9,749.1	19,573.8	1,334.4	819.4	2,262.4	15,157.6

Restated Bank ¹ 2018	Carrying amount £m	Gross inflow/ outflow £m	Up to 3 months £m	3-12 months £m	1-5 years £m	More than 5 years £m
Financial liability by type						
Amounts owed to retail depositors	8,071.9	8,479.5	3,433.0	3,236.7	1,809.8	–
Amounts owed to credit institutions and other customers	1,616.9	1,646.2	54.5	71.2	1,520.5	–
Derivative liabilities	24.9	27.1	3.3	15.6	5.0	3.2
Subordinated liabilities	10.8	15.0	0.3	0.4	3.6	10.7
Perpetual Subordinated Bonds	37.6	46.5	0.5	1.4	7.6	37.0
Total liabilities	9,762.1	10,214.3	3,491.6	3,325.3	3,346.5	50.9
Off-balance sheet loan commitments	487.8	487.8	487.8	–	–	–
Financial asset by type						
Cash in hand	0.4	0.4	0.4	–	–	–
Loans and advances to credit institutions	1,340.0	1,340.1	1,320.1	–	–	20.0
Investment securities	58.9	59.0	–	59.0	–	–
Loans and advances to customers	7,208.2	15,496.7	107.3	647.8	1,931.3	12,810.3
Derivative assets	11.7	12.2	0.4	1.0	10.8	–
Total assets	8,619.2	16,908.4	1,428.2	707.8	1,942.1	12,830.3

1. The Bank has restated the prior year comparatives for the £22.0m PSBs previously classified as equity (see note 1).

The actual repayment profile of retail deposits may differ from the analysis above due to the option of early withdrawal with a penalty.

The actual repayment profile of loans and advances to customers may differ from the analysis above since many mortgage loans are repaid prior to the contractual end date.

Liquidity risk – asset encumbrance

Asset encumbrance levels are monitored by ALCO. The following tables provide an analysis of the Group's encumbered and unencumbered assets:

	Group 2019				
	Encumbered		Unencumbered		Total £m
	Pledged as collateral £m	Other ² £m	Available as collateral £m	Other ³ £m	
Cash in hand	–	–	0.4	–	
Loans and advances to credit institutions	110.4	41.7	1,916.2	136.3	2,204.6
Investment securities	173.0	–	462.3	–	635.3
Loans and advances to customers	4,922.4	40.4	1,939.6	11,544.4	18,446.8
Derivative assets	–	–	–	21.1	21.1
Non-financial assets	–	–	–	108.9	108.9
	5,205.8	82.1	4,318.5	11,810.7	21,417.1

	Restated Group ¹ 2018				
	Encumbered		Unencumbered		Total £m
	Pledged as collateral £m	Other ² £m	Available as collateral £m	Other ³ £m	
Cash in hand	–	–	0.4	–	
Loans and advances to credit institutions	3.5	20.0	1,295.2	28.6	1,347.3
Investment securities	–	–	58.9	–	58.9
Loans and advances to customers	2,552.5	16.0	293.5	6,121.3	8,983.3
Derivative assets	–	–	–	11.7	11.7
Non-financial assets	–	–	–	58.6	58.6
	2,556.0	36.0	1,648.0	6,220.2	10,460.2

1. The 2018 comparatives have been restated to show excess collateral with the BoE under TFS and ILTR as unencumbered available as collateral in line with PRA guidance.
2. Represents assets that are not pledged but that the Group believes it is restricted from using to secure funding for legal or other reasons,
3. Represents assets that are not restricted for use as collateral, but the Group treats as available as collateral once they are readily available to secure funding in the normal course of business.

	Bank 2019				
	Encumbered		Unencumbered		Total £m
	Pledged as collateral £m	Other ² £m	Available as collateral £m	Other ³ £m	
Cash in hand	–	–	0.4	–	
Loans and advances to credit institutions	62.2	27.5	1,081.8	24.5	1,196.0
Investment securities	–	–	149.8	–	149.8
Loans and advances to customers	3,010.0	40.4	910.1	4,433.7	8,394.2
Derivative assets	–	–	–	8.7	8.7
Non-financial assets	–	–	–	3,720.8	3,720.8
	3,072.2	67.9	2,142.1	8,187.7	13,469.9

Notes to the Financial Statements continued

For the year ended 31 December 2019

45. Risk management continued

	Restated Bank ¹ 2018				Total £m
	Encumbered		Unencumbered		
	Pledged as collateral £m	Other ² £m	Available as collateral £m	Other ³ £m	
Cash in hand	–	–	0.4	–	0.4
Loans and advances to credit institutions	3.5	20.0	1,295.2	21.3	1,340.0
Investment securities	–	–	58.9	–	58.9
Loans and advances to customers	2,552.5	16.0	293.5	4,346.2	7,208.2
Derivative assets	–	–	–	11.7	11.7
Non-financial assets	–	–	–	1,950.3	1,950.3
	2,556.0	36.0	1,648.0	6,329.5	10,569.5

1. The 2018 comparatives have been restated to show excess collateral with the BoE under TFS and ILTR as unencumbered available as collateral in line with PRA guidance.

2. Represents assets that are not pledged but that the Group believes it is restricted from using to secure funding for legal or other reasons.

3. Represents assets that are not restricted for use as collateral, but the Group treats as available as collateral once they are readily available to secure funding in the normal course of business.

Liquidity risk – liquidity reserves

The tables below analyse the Group's liquidity reserves, where carrying value is considered to be equal to fair value:

	Group 2019 £m	Group 2018 £m	Bank 2019 £m	Bank 2018 £m
Unencumbered balances with central banks	1,916.2	1,295.2	1,081.8	1,295.2
Unencumbered cash and balances with other banks	136.3	28.6	24.5	21.3
Other cash and cash equivalents	0.4	0.4	0.4	0.4
Unencumbered investment securities	462.3	58.9	149.8	58.9
	2,515.2	1,383.1	1,256.5	1,375.8

Market risk

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

Interest rate risk

The primary market risk faced by the Group is interest rate risk. Interest rate risk is the risk of loss from adverse movement in the overall level of interest rates. It arises from mismatches in the timing of repricing of assets and liabilities, both on and off-balance sheet. It is most prevalent in mortgage lending where fixed rate mortgages are not funded by fixed rate deposits of the same duration, or where the fixed rate risk is not hedged by a fully matching interest rate derivative. Exposure is mitigated on a continuous basis through the use of derivatives and reserve allocations.

Currently interest rate risk is managed by separate risk appetites for OSB and CCFS. The Group is currently looking to align measures and risk appetites in 2020. Both banks apply an economic value at risk approach. OSB applies an earnings at risk approach for basis risk while CCFS applies an earnings at risk approach for both interest rate risk and basis risk. The interest rate sensitivity is impacted by behavioural assumptions used by the Group, the most significant of which are prepayments and reserve allocations. Expected prepayments are modelled based on historical analysis and current market rates. The reserve allocation strategy is approved by ALCO and set to reflect the current balance sheet and future plans.

OSB measures economic value at risk using the impact of six different internally derived interest rate scenarios and a parallel 250bps rate curve shift up and down. The internal scenarios are defined by ALCO and are based on three 'shapes' of curve movement (shift, twist and flex). Historical data is used to calibrate the severity of the scenarios to the Group's risk appetite. The Board has set a limit on interest rate risk exposure of 2.25% of CET1. After taking into account the derivatives entered into by OSB, the maximum decrease under these scenarios as at 31 December 2019 would have been £4.2m (2018: £5.6m) and the maximum increase £4.2m (2018: £1.8m). Against a parallel interest rate increase of 250bps, the impact would have been a decrease of £1.9m, (2018: £11.6m).

For CCFS, risk appetite for economic value at risk is set against the impact of a parallel +/-200bps shock. The down shock is floored at zero. The Board has set a limit on interest risk exposure of 1% of CET1 as at 31 December 2019. After taking into account the derivatives entered into by CCFS, the maximum decrease under these scenarios as at 31 December 2019 would have been £1.0m and the maximum increase £0.3m. Exposure for earnings at risk is measured by the impact of a +/-50bps parallel shift in interest rates on the expected profitability of the Group in the next 12 months. The risk appetite limit is 2% of projected 12-month net interest income ('NII'). As at 31 December 2019 the maximum decrease would have been £0.9m.

The Group is also exposed to basis risk. Basis risk is the risk of loss from an adverse divergence in interest rates. It arises where assets and liabilities reprice from different variable rate indices. These indices may be market rates (e.g. bank base rate, LIBOR or SONIA) or administered (e.g. the Group's SVR, other discretionary variable rates, or that received on call accounts with other banks).

OSB measures basis risk using the impact of five scenarios on net interest income over a one-year period including movements such as diverging base, LIBOR and SONIA rates. Historical data is used to calibrate the severity of the scenarios to the Group's risk appetite. The Board has set a limit on basis risk exposure of 2.25% of CET1 as at 31 December 2019.

CCFS measures basis risk using the impact of three scenarios on net interest income over a one-year period including movements such as diverging base, LIBOR and SONIA rates. The Board has set a limit on basis risk exposure of 3% of 12-month NII as at 31 December 2019.

Foreign exchange rate risk

The Group has limited exposure to foreign exchange risk in respect of its Indian operations. A 5% movement in exchange rates would result in a £0.4m (2018: £0.3m) effect in profit or loss and £0.4m (2018: £0.3m) in equity.

The Bank is not exposed to foreign exchange risk since all its assets and liabilities are denominated in Pounds Sterling.

Structured entities

The structured entities within the Group at 31 December 2019 were Canterbury Finance No.1 plc and Precise Mortgage Funding 2015-1 plc. Both entities hold legal title to a pool of mortgages which are used as a security for issued debt. The transfer of mortgages fails derecognition criteria because the Bank retained the remaining notes and residual certificates issued and as such did not transfer substantially the risks and rewards of ownership of the securitised mortgages. Therefore, the Group is exposed to credit, interest rate and other risks on the securitised mortgages to the same extent as other mortgages. The Group mitigates these risks consistently with non-securitised mortgages.

Cash flows generated from the structured entities are ring-fenced and can only be used to pay interest and principal of the issued debt securities in a waterfall order according to the seniority of the bonds. The structured entities are self-funded and the Group is not contractually or constructively obliged to provide further liquidity or financial support. The maximum loss exposure at any point in time is the amount of cash and cash equivalents held in the structured entities.

The Group had no structured entities as at 31 December 2018.

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For the year ended 31 December 2019

46. Financial instruments and fair values

i. Financial assets and financial liabilities

The following tables summarise the classification and carrying value of the Group's financial assets and financial liabilities:

Group	Note	2019			
		Fair value through profit or loss £m	FVOCI £m	Amortised cost £m	Total carrying amount £m
Assets					
Cash in hand		–	–	0.4	0.4
Loans and advances to credit institutions	18	–	–	2,204.6	2,204.6
Investment securities	19	–	508.7	126.6	635.3
Loans and advances to customers	20	22.1	–	18,424.7	18,446.8
Derivative assets	25	21.1	–	–	21.1
		43.2	508.7	20,756.3	21,308.2
Liabilities					
Amounts owed to retail depositors	33	–	–	16,255.0	16,255.0
Amounts owed to credit institutions	32	–	–	3,068.8	3,068.8
Amounts owed to other customers	34	–	–	29.7	29.7
Debt securities in issue	35	–	–	296.3	296.3
Derivative liabilities	25	92.8	–	–	92.8
Subordinated liabilities	39	–	–	10.6	10.6
Perpetual Subordinated Bonds	40	–	–	37.6	37.6
		92.8	–	19,698.0	19,790.8

Restated Group ¹	Note	2018			
		Fair value through profit or loss £m	FVOCI £m	Amortised cost £m	Total carrying amount £m
Assets					
Cash in hand		–	–	0.4	0.4
Loans and advances to credit institutions	18	–	–	1,347.3	1,347.3
Investment securities	19	–	58.9	–	58.9
Loans and advances to customers	20	–	–	8,983.3	8,983.3
Derivative assets	25	11.7	–	–	11.7
		11.7	58.9	10,331.0	10,401.6
Liabilities					
Amounts owed to retail depositors	33	–	–	8,071.9	8,071.9
Amounts owed to credit institutions	32	–	–	1,584.0	1,584.0
Amounts owed to other customers	34	–	–	32.9	32.9
Derivative liabilities	25	24.9	–	–	24.9
Subordinated liabilities	39	–	–	10.8	10.8
Perpetual Subordinated Bonds	40	–	–	37.6	37.6
		24.9	–	9,737.2	9,762.1

1. The Group has restated the prior year comparatives for the £22.0m PSBs previously classified as equity (see note 1).

Bank	Note	2019			
		Fair value through profit or loss £m	FVOCI £m	Amortised cost £m	Total carrying amount £m
Assets					
Cash in hand		–	–	0.4	0.4
Loans and advances to credit institutions	18	–	–	1,196.0	1,196.0
Investment securities	19	–	149.8	–	149.8
Loans and advances to customers	20	–	–	8,394.2	8,394.2
Derivative assets	25	8.7	–	–	8.7
		8.7	149.8	9,590.6	9,749.1
Liabilities					
Amounts owed to retail depositors	33	–	–	9,435.7	9,435.7
Amounts owed to credit institutions	32	–	–	1,671.1	1,671.1
Amounts owed to other customers	34	–	–	8.9	8.9
Derivative liabilities	25	54.3	–	–	54.3
Subordinated liabilities	39	–	–	10.6	10.6
Perpetual Subordinated Bonds	40	–	–	37.6	37.6
		54.3	–	11,163.9	11,218.2
Restated Bank¹					
Restated Bank ¹	Note	2018			
		Fair value through profit or loss £m	FVOCI £m	Amortised cost £m	Total carrying amount £m
Assets					
Cash in hand		–	–	0.4	0.4
Loans and advances to credit institutions	18	–	–	1,340.0	1,340.0
Investment securities	19	–	58.9	–	58.9
Loans and advances to customers	20	–	–	7,208.2	7,208.2
Derivative assets	25	11.7	–	–	11.7
		11.7	58.9	8,548.6	8,619.2
Liabilities					
Amounts owed to retail depositors	33	–	–	8,071.9	8,071.9
Amounts owed to credit institutions	32	–	–	1,584.0	1,584.0
Amounts owed to other customers	34	–	–	32.9	32.9
Derivative liabilities	25	24.9	–	–	24.9
Subordinated liabilities	39	–	–	10.8	10.8
Perpetual Subordinated Bonds	40	–	–	37.6	37.6
		24.9	–	9,737.2	9,762.1

1. The Bank has restated the prior year comparatives for the £22.0m PSBs previously classified as equity (see note 1).

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

Notes to the Financial Statements continued

For the year ended 31 December 2019

46. 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 Statement of Financial Position:

Group	2019		Restated 2018 ¹	
	Carrying value £m	Estimated fair value £m	Carrying value £m	Estimated fair value £m
Assets				
Cash in hand	0.4	0.4	0.4	0.4
Loans and advances to credit institutions	2,204.6	2,204.6	1,347.3	1,347.3
Investment securities	126.6	126.6	–	–
Loans and advances to customers	18,424.7	18,654.2	8,983.3	9,151.1
	20,756.3	20,985.8	10,331.0	10,498.8
Liabilities				
Amounts owed to retail depositors	16,255.0	16,259.7	8,071.9	8,097.5
Amounts owed to credit institutions	3,068.8	3,068.8	1,584.0	1,584.0
Amounts owed to other customers	29.7	29.7	32.9	32.9
Debt securities in issue	296.3	296.3	–	–
Subordinated liabilities	10.6	10.7	10.8	10.8
Perpetual Subordinated Bonds	37.6	33.2	37.6	35.1
	19,698.0	19,698.4	9,737.2	9,760.3

1. The Group has restated the prior year comparatives for the £22.0m PSBs previously classified as equity (see note 1).

Bank	2019		Restated 2018 ¹	
	Carrying value £m	Estimated fair value £m	Carrying value £m	Estimated fair value £m
Assets				
Cash in hand	0.4	0.4	0.4	0.4
Loans and advances to credit institutions	1,196.0	1,196.0	1,340.0	1,340.0
Loans and advances to customers	8,394.2	8,566.3	7,208.2	7,340.1
	9,590.6	9,762.7	8,548.6	8,680.5
Liabilities				
Amounts owed to retail depositors	9,435.7	9,435.8	8,071.9	8,097.5
Amounts owed to credit institutions	1,671.1	1,671.1	1,584.0	1,584.0
Amounts owed to other customers	8.9	8.9	32.9	32.9
Subordinated liabilities	10.6	10.7	10.8	10.8
Perpetual Subordinated Bonds	37.6	33.2	37.6	35.1
	11,163.9	11,159.7	9,737.2	9,760.3

1. The Bank has restated the prior year comparatives for the £22.0m PSBs previously classified as equity (see note 1).

The fair values in these tables are estimated using the valuation techniques below. The estimated fair value is stated as at 31 December and may be significantly different from the amounts which will actually be paid on the maturity or settlement dates of each financial instrument.

Cash in hand

This represents physical cash across the Group's branch network where fair value is considered to be equal to carrying value.

Loans and advances to credit institutions

This mainly represents the Group's working capital current accounts and call accounts with central governments and other banks with an original maturity of less than three months. Fair value is not considered to be materially different to carrying value.

Loans and advances to customers

This mainly represents secured mortgage lending to customers. The fair value of fixed rate mortgages has been estimated by discounting future cash flows at current market rates of interest. Future cash flows include the impact of expected credit losses. The interest rate on variable rate mortgages is considered to be equal to current market product rates and as such fair value is estimated to be equal to carrying value.

Amounts owed to retail depositors

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

Amounts owed to credit institutions

This mainly represents amounts drawn down under the BoE TFS and ILTR, warehouse funding and commercial repos. Fair value is considered to be equal to carrying value.

Amounts owed to other customers

This represents fixed rate saving products to corporations and local authorities with original maturities greater than three months. The fair value is estimated by discounting future cash flows at current market rates of interest.

Debt securities in issue

While the Group's debt securities in issue are listed, the quoted prices for an individual note may not be indicative of the fair value of the issue as a whole, due to the specialised nature of the market in such instruments and the limited number of investors participating in it. Fair value is not considered to be materially different to carrying value.

Subordinated liabilities and Perpetual Subordinated Bonds

The fair value of subordinated liabilities is estimated by discounting future cash flows at current market rates of interest. The PSBs are listed on the London Stock Exchange with fair value being the quoted market price at the reporting date.

Notes to the Financial Statements continued

For the year ended 31 December 2019

46. Financial instruments and fair values continued

iii. Fair value classification

The following tables provide an analysis of financial assets and financial liabilities measured at fair value in the Statement of Financial Position grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

Group 2019	Carrying amount £m	Principal amount £m	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial assets						
Investment securities	509.7	509.5	149.8	358.9	–	508.7
Loans and advances to customers	22.1	24.8	–	–	22.1	22.1
Derivative assets	21.1	7,795.4	–	21.0	0.1	21.1
	552.9	8,329.7	149.8	379.9	22.2	551.9
Financial liabilities						
Derivative liabilities	92.8	9,982.4	–	92.8	–	92.8

Group 2018	Carrying amount £m	Principal amount £m	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial assets						
Investment securities	58.9	59.0	58.9	–	–	58.9
Derivative assets	11.7	1,999.0	–	11.7	–	11.7
	70.6	2,058.0	58.9	11.7	–	70.6
Financial liabilities						
Derivative liabilities	24.9	4,532.2	–	24.9	–	24.9

Bank 2019	Carrying amount £m	Principal amount £m	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial assets						
Investment securities	149.8	150.0	149.8	–	–	149.8
Derivative assets	8.7	3,080.0	–	8.7	–	8.7
	158.5	3,230.0	149.8	8.7	–	158.5
Financial liabilities						
Derivative liabilities	54.3	4,462.9	–	54.3	–	54.3

Bank 2018	Carrying amount £m	Principal amount £m	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial assets						
Investment securities	58.9	59.0	58.9	–	–	58.9
Derivative assets	11.7	1,999.0	–	11.7	–	11.7
	70.6	2,058.0	58.9	11.7	–	70.6
Financial liabilities						
Derivative liabilities	24.9	4,532.2	–	24.9	–	24.9

Level 1: Fair values that are based entirely on quoted market prices (unadjusted) in an actively traded market for identical assets and liabilities that the Group has the ability to access. Valuation adjustments and block discounts are not applied to Level 1 instruments. Since valuations are based on readily available observable market prices, this makes them most reliable, reduces the need for management judgement and estimation and also reduces the uncertainty associated with determining fair values.

Level 2: Fair values that are based on one or more quoted prices in markets that are not active or for which all significant inputs are taken from directly or indirectly observable market data. These include valuation models used to calculate the present value of expected future cash flows and may be employed either when no active market exists or when there are no quoted prices available for similar instruments in active markets.

Level 3: Fair values for which any one or more significant input is not based on observable market data and the unobservable inputs have a significant effect on the instrument's fair value. Valuation models that employ significant unobservable inputs require a higher degree of management judgement and estimation in determining the fair value. Management judgement and estimation are usually required for the selection of the appropriate valuation model to be used, determination of expected future cash flows on the financial instruments being valued, determination of the probability of counterparty default and prepayments, determination of expected volatilities and correlations and the selection of appropriate discount rates.

The following table provides an analysis of financial assets and financial liabilities not measured at fair value in the Statement of Financial Position grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

Group 2019	Carrying amount £m	Principal amount £m	Estimated fair value			Total £m
			Level 1 £m	Level 2 £m	Level 3 £m	
Financial assets						
Cash in hand	0.4	0.4	–	0.4	–	0.4
Loans and advances to credit institutions	2,204.6	2,204.3	–	2,204.6	–	2,204.6
Investment securities	126.6	126.4	126.6	–	–	126.6
Loans and advances to customers	18,424.7	18,281.3	–	3,409.1	15,245.1	18,654.2
	20,756.3	20,612.4	126.6	5,614.1	15,245.1	20,985.8
Financial liabilities						
Amounts owed to retail depositors	16,255.0	16,133.5	–	3,817.8	12,441.9	16,259.7
Amounts owed to credit institutions	3,068.8	3,063.3	–	3,068.8	–	3,068.8
Amounts owed to other customers	29.7	29.5	–	–	29.7	29.7
Debt securities in issue	296.3	295.5	–	296.3	–	296.3
Subordinated liabilities	10.6	10.4	–	–	10.7	10.7
Perpetual Subordinated Bonds	37.6	37.0	33.2	–	–	33.2
	19,698.0	19,569.2	33.2	7,182.9	12,482.3	19,698.4

Restated Group ¹ 2018	Carrying amount £m	Principal amount £m	Estimated fair value			Total £m
			Level 1 £m	Level 2 £m	Level 3 £m	
Financial assets						
Cash in hand	0.4	0.4	–	0.4	–	0.4
Loans and advances to credit institutions	1,347.3	1,346.9	–	1,347.3	–	1,347.3
Loans and advances to customers	8,983.3	9,121.4	–	4,195.3	4,955.8	9,151.1
	10,331.0	10,468.7	–	5,543.0	4,955.8	10,498.8
Financial liabilities						
Amounts owed to retail depositors	8,071.9	8,019.7	–	2,916.4	5,181.1	8,097.5
Amounts owed to credit institutions	1,584.0	1,581.0	–	1,584.0	–	1,584.0
Amounts owed to other customers	32.9	32.8	–	–	32.9	32.9
Subordinated liabilities ²	10.8	10.6	–	–	10.8	10.8
Perpetual Subordinated Bonds	37.6	37.0	35.1	–	–	35.1
	9,737.2	9,681.1	35.1	4,500.4	5,224.8	9,760.3

1. The Group has restated the prior year comparatives for the £22.0m PSBs previously classified as equity (see note 1).

2. The Bank has reclassified the comparatives to disclose the fair value level of subordinated liabilities as Level 3 as the bi-lateral nature of the agreements means the calculation is based on unobservable inputs.

Notes to the Financial Statements continued

For the year ended 31 December 2019

46. Financial instruments and fair values continued

Bank 2019	Carrying amount £m	Principal amount £m	Estimated fair value			Total £m
			Level 1 £m	Level 2 £m	Level 3 £m	
Financial assets						
Cash in hand	0.4	0.4	–	0.4	–	0.4
Loans and advances to credit institutions	1,196.0	1,195.7	–	1,196.0	–	1,196.0
Loans and advances to customers	8,394.2	8,533.2	–	2,431.5	6,134.8	8,566.3
	9,590.6	9,729.3	–	3,627.9	6,134.8	9,762.7
Financial liabilities						
Amounts owed to retail depositors	9,435.7	9,364.5	–	3,817.8	5,618.0	9,435.8
Amounts owed to credit institutions	1,671.1	1,667.8	–	1,671.1	–	1,671.1
Amounts owed to other customers	8.9	8.8	–	–	8.9	8.9
Subordinated liabilities	10.6	10.4	–	–	10.7	10.7
Perpetual Subordinated Bonds	37.6	37.0	33.2	–	–	33.2
	11,163.9	11,088.5	33.2	5,488.9	5,637.6	11,159.7

Restated Bank ¹ 2018	Carrying amount £m	Principal amount £m	Estimated fair value			Total £m
			Level 1 £m	Level 2 £m	Level 3 £m	
Financial assets						
Cash in hand	0.4	0.4	–	0.4	–	0.4
Loans and advances to credit institutions	1,340.0	1,339.7	–	1,340.0	–	1,340.0
Loans and advances to customers	7,208.2	7,337.6	–	3,123.7	4,216.4	7,340.1
	8,548.6	8,677.7	–	4,464.1	4,216.4	8,680.5
Financial liabilities						
Amounts owed to retail depositors	8,071.9	8,019.7	–	2,916.4	5,181.1	8,097.5
Amounts owed to credit institutions	1,584.0	1,581.0	–	1,584.0	–	1,584.0
Amounts owed to other customers	32.9	32.8	–	–	32.9	32.9
Subordinated liabilities ²	10.8	10.6	–	–	10.8	10.8
Perpetual Subordinated Bonds	37.6	37.0	35.1	–	–	35.1
	9,737.2	9,681.1	35.1	4,500.4	5,224.8	9,760.3

1. The Bank has restated the prior year comparatives for the £22.0m PSBs previously classified as equity (see note 1).

2. The Bank has reclassified the comparatives to disclose the fair value level of subordinated liabilities as Level 3 as the bi-lateral nature of the agreements means the calculation is based on unobservable inputs.

47. Pension scheme

Defined contribution scheme

The amount charged to profit or loss in respect of contributions to the Group's defined contribution and stakeholder pension arrangements is the contribution payable in the period. The total pension cost in the year amounted to £3.0m (2018: £1.7m).

Defined benefit scheme

Kent Reliance Building Society (the 'Society') operated a defined benefit pension scheme ('the Scheme') funded by the payment of contributions to a separately administered fund for nine retired members. The Society's Board decided to close the Scheme with effect from 31 December 2001 and introduced a new defined contribution scheme to cover service for Scheme members from 1 January 2002.

The Scheme Trustees, having taken actuarial advice, decided to wind up the Scheme rather than continue to operate it on a 'paid up' basis. The winding up is largely complete. As at 31 December 2019 the liability to remaining members is £2k (31 December 2018: £2k) matched by Scheme assets.

48. Operating segments

Following the Combination, the Group segments its lending business and operates under two segments in line with internal reporting to the Board:

- OSB
- CCFS

In 2018, the Group operated under two segments: BTL/SME and Residential mortgages. The 2018 comparatives have been restated.

The financial position and results of operations of the above segments are summarised below:

2019	OSB £m	CCFS £m	Total £m
Balances at the reporting date			
Gross loans and advances to customers	10,820.6	7,669.1	18,489.7
Expected credit losses	(35.6)	(7.3)	(42.9)
Loans and advances to customers	10,785.0	7,661.8	18,446.8
Capital expenditure	10.2	1.1	11.3
Depreciation and amortisation	6.3	1.9	8.2
Profit or loss for the year			
Net interest income	316.2	28.5	344.7
Other (expense)/income	(12.9)	11.6	(1.3)
Total income	303.3	40.1	343.4
Administrative expenses	(92.3)	(16.4)	(108.7)
Provisions	0.1	(0.1)	–
Impairment losses	(11.9)	(3.7)	(15.6)
Gain on Combination with CCFS	–	10.8	10.8
Integration costs	(2.5)	(2.7)	(5.2)
Exceptional items	(15.6)	–	(15.6)
Profit before taxation	181.8	28.0	209.1
Taxation	(47.1)	(3.2)	(50.3)
Profit for the year	134.0	24.8	158.8
Restated 2018 ¹	OSB £m	CCFS £m	Total £m
Balances at the reporting date			
Gross loans and advances to customers	9,005.2	–	9,005.2
Expected credit losses	(21.9)	–	(21.9)
Loans and advances to customers	8,983.3	–	8,983.3
Capital expenditure	6.3	–	6.3
Depreciation and amortisation	4.7	–	4.7
Profit or loss for the year			
Net interest income	286.3	–	286.3
Other expense	(5.2)	–	(5.2)
Total income	281.1	–	281.1
Administrative expenses	(79.6)	–	(79.6)
Provisions	(0.8)	–	(0.8)
Impairment losses	(8.1)	–	(8.1)
Exceptional cost – Heritable option	(9.8)	–	(9.8)
Profit before taxation	182.8	–	182.8
Taxation	(43.2)	–	(43.2)
Profit for the year	139.6	–	139.6

1. The Group has restated the prior year comparatives for the interest expense and taxation on the £22.0m PSBs previously classified as equity (see note 1).

Notes to the Financial Statements continued

For the year ended 31 December 2019

49. Country by country reporting

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

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

Jurisdiction	Country	Name	Activities
UK ¹	England	OneSavings Bank plc	Commercial banking
		5D Finance Limited	
		Broadlands Finance Limited	
		Charter Court Financial Services Group plc	
		Charter Court Financial Services Limited	
		Charter Mortgages Limited	
		Easioption Limited	
		Exact Mortgage Experts Limited	
		Guernsey Home Loans Limited	
		Heritable Development Finance Limited	
		Inter Bay Financial I Limited	
		Inter Bay Financial II Limited	
		InterBay Asset Finance Limited	
		Interbay Funding, Ltd	
		Interbay Group Holdings Limited	
		InterBay Holdings Ltd	
		Interbay ML, Ltd	
		Jersey Home Loans Limited	
	Prestige Finance Limited		
	Reliance Property Loans Limited		
Rochester Mortgages Limited			
Guernsey	Guernsey Home Loans Limited		
Jersey	Jersey Home Loans Limited		

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

Jurisdiction	Country	Name	Activities
UK	England	Canterbury Finance No.1 plc	Special purpose vehicle
		CMF 2020-1 plc	
		CML Warehouse Number 1 Limited	
		CML Warehouse Number 2 Limited	
		Precise Mortgage Funding 2014-1 plc	
		Precise Mortgage Funding 2014-2 plc	
		Precise Mortgage Funding 2015-1 plc	
		Precise Mortgage Funding 2015-3R plc	
Precise Mortgage Funding 2020-1B plc			
India	India	OSB India Private Limited	Back office processing

Other disclosures required by the CBCR directive are provided below:

2019	UK	India	Consolidation ²	Total
Average number of employees	1,335	454	–	1,789
Turnover ¹ , £m	343.1	8.9	(8.6)	343.4
Profit/(loss) before tax, £m	208.8	1.6	(1.3)	209.1
Corporation tax paid, £m	52.6	0.4	–	53.0
Restated 2018 ³	UK	India	Consolidation ²	Total
Average number of employees	588	401	–	989
Turnover ¹ , £m	280.7	7.2	(6.8)	281.1
Profit/(loss) before tax, £m	182.4	1.1	(0.7)	182.8
Corporation tax paid, £m	38.9	0.2	–	39.1

1. Turnover represents total income before impairment losses, regulatory provisions and operating costs, but after net interest, net commissions and fees, gains and losses on financial instruments and external servicing fees.
2. Relates to a management fee from Indian subsidiaries to OneSavings Bank plc for providing back office processing.
3. The Group has restated the prior year comparatives for the interest expense and taxation on the £22.0m PSBs previously classified as equity (see note 1).

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

2019	UK £m	India £m	Total £m
Tax charge	49.8	0.5	50.3
Effects of:			
Other timing differences	4.3	(0.1)	4.2
Tax outside of profit or loss	(0.9)	–	(0.9)
Prior year tax paid during the year	22.1	–	22.1
Current year tax to be paid after the reporting date	(22.7)	–	(22.7)
Tax paid	52.6	0.4	53.0
Restated 2018 ¹	UK £m	India £m	Total £m
Tax charge	43.0	0.2	43.2
Effects of:			
Other timing differences	(0.8)	–	(0.8)
Tax outside of profit or loss	(3.1)	–	(3.1)
Prior year tax paid during the year	19.5	–	19.5
Current year tax to be paid after the reporting date	(19.7)	–	(19.7)
Tax paid	38.9	0.2	39.1

1. The Group has restated the prior year comparatives for the taxation on the interest expense on the PSBs previously classified as equity (see note 1).

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For the year ended 31 December 2019

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

	Group 2019 £m	Restated Group ¹ 2018 £m	Bank 2019 £m	Restated Bank ¹ 2018 £m
Adjustments for non-cash items:				
Depreciation and amortisation	8.2	4.7	5.4	4.0
Interest on subordinated liabilities	0.7	0.7	0.7	0.7
Interest on Perpetual Subordinated Bonds	1.8	1.9	1.8	1.9
Interest on securitised debt	0.8	–	–	–
Interest on financing debt ²	2.4	3.0	0.3	3.0
Impairment charge on loans	15.6	8.1	7.5	7.1
Loss on sale of financial instruments	0.1	0.1	0.1	0.1
Provisions	–	0.8	–	0.8
Interest on lease liabilities	0.1	–	0.1	–
Fair value losses on financial instruments	3.3	5.1	13.3	5.1
Share-based payments	4.0	2.5	4.0	2.6
Gain on combination with CCFS	(10.8)	–	–	–
Exceptional items	–	9.8	–	9.8
Total adjustments for non-cash items	26.2	36.7	33.2	35.1
Changes in operating assets and liabilities:				
Increase in loans and advances to credit institutions	(36.8)	(1.7)	(66.2)	(1.7)
Increase in loans to customers	(2,230.8)	(1,689.5)	(1,193.5)	(1,166.1)
Increase in intercompany balances	–	–	(644.0)	(475.2)
Increase in retail deposits	1,637.8	1,421.6	1,363.8	1,421.6
Net increase in other assets	(4.8)	(0.8)	(1.9)	(0.8)
Net decrease in derivatives and hedged items	(20.1)	(5.3)	(14.0)	(5.3)
Net (decrease)/increase in credit institutions and other customers' deposits ²	(19.2)	7.2	(24.0)	7.2
Net (decrease)/increase in other liabilities	(37.3)	2.9	2.4	1.3
Exchange differences on working capital	(0.6)	(0.2)	–	–
Total changes in operating assets and liabilities	(711.8)	(265.8)	(577.4)	(219.0)

1. The Group and Bank have restated the prior year comparatives for the interest expense on the £22.0m PSBs previously classified as equity (see note 1).

2. The Group has reclassified the prior year comparatives to include all components of amounts owed to credit institutions as financing activities. Previously the Group only classified the Bank of England Term Funding Scheme and Indexed Long-Term Repo scheme as financing activities.

51. Events after the reporting date

On 17 January 2020, the Bank sold the Canterbury A2 note for proceeds of £ 225.4m. After incurring costs of £0.2m, the Bank recognised a gain on sale of £1.9m.

On 23 January 2020, the Bank sold the F note and residual certificates of the Canterbury securitisation for proceeds of £23.6m. The sale resulted in the Bank having no remaining interest in the Canterbury securitisation, with consolidation of Canterbury into the OSB Group ceasing on disposal. The Group recognised a gain on sale of £16.5m upon deconsolidation.

On 23 January 2020, the Group securitised £375.5m of mortgage loans through Precise Mortgage Funding 2020-1B plc ('PMF 2020-1B'), issuing £388.9m of Sterling floating rate notes. The Group retained the class A2 notes, with all other note classes and the residual certificates being sold to the external market. As such, the Group has not consolidated PMF 2020-1B as the risks and rewards have been transferred. The Group recognised a gain on sale of £2.0m upon deconsolidation.

52. Controlling party

As at 31 December 2019 there was no controlling party of OSB.

53. Capital management

The Group's prime objectives in relation to the management of capital are to provide a sufficient capital base to cover business risks and support future business development. The Group is compliant with the requirements set out by the PRA, the Group's primary prudential supervisor.

Capital management is based on the three 'pillars' of Basel II. Under Pillar 1, the Group calculates its minimum capital requirements based on 8% of risk-weighted assets. The PRA then applies a multiplier to this amount to cover risks under Pillar 2 of Basel II and generates an individual capital guidance ('ICG'). The Group manages and reports its capital both at a Group level and on a solo consolidated basis for the two regulated entities within the Group. The capital position of the two regulated entities are not disclosed separately.

To comply with Pillar 2, the Group, and the two regulated entities, complete an annual self-assessment of risks known as the internal capital adequacy assessment process ('ICAAP') reviewed by the PRA. Pillar 3 requires firms to publish a set of disclosures which allow market participants to assess information on that firm's capital, risk exposures and risk assessment process. The Group's Pillar 3 disclosures can be found on the Group's website.

Basel III came into force through CRD IV. Basel III complements and enhances Basel I and II with additional safety measures. Basel III changed definitions of regulatory capital, introduced new capital buffers and liquidity ratios, and modified the way regulatory capital is calculated.

The ultimate responsibility for capital adequacy rests with the Board of Directors. The Group's ALCO is responsible for the management of the capital process within the risk appetite defined by the Board, including approving policy, overseeing internal controls and setting internal limits over capital ratios.

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

Notes to the Financial Statements continued

For the year ended 31 December 2019

53. Capital management continued

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

	(Unaudited) 2019 £m	(Unaudited) 2018 £m
Common Equity Tier 1 capital		
Called up share capital	4.5	2.4
Share premium, capital contribution and share-based payment reserve	876.3	170.0
Retained earnings	553.2	439.6
Transfer reserve	(12.8)	(12.8)
Other reserves	(4.2)	(0.5)
Total equity excluding equity bonds	1,417.0	598.7
Foreseeable dividends	(49.9)	(25.2)
Solo consolidation adjustments ¹	–	(5.4)
IFRS 9 transitional adjustment ²	5.3	2.7
Deductions from Common Equity Tier 1 capital		
Prudent valuation adjustment ³	(0.5)	(0.1)
Intangible assets	(31.4)	(7.7)
Deferred tax asset	(0.9)	(1.4)
Common Equity Tier 1 capital	1,339.6	561.6
Additional Tier 1 capital		
AT1 securities	60.0	60.0
Total Tier 1 capital	1,399.6	621.6
Tier 2 capital		
Subordinated debt and PSBs	47.4	47.4
Deductions from Tier 2 capital	(0.7)	(3.3)
Total Tier 2 capital	46.7	44.1
Total regulatory capital	1,446.3	665.7
Risk-weighted assets (unaudited)	8,383.0	4,211.8

1. Prior to the Combination the Bank had solo consolidation waivers for most of its subsidiaries. The equity for unconsolidated entities has been removed from CET1 for the 2018 comparatives.
2. The regulatory capital includes a £5.3m add-back under IFRS 9 transitional arrangements. This represents 85% of the IFRS 9 transitional adjustment booked directly to retained earnings of £6.5m. The full impact of IFRS 9, if applied, would reduce total regulatory capital to £1,441.0m.
3. The Group has adopted the simplified approach under the Prudent Valuation rules, recognising a deduction equal to 0.1% of fair value assets and liabilities.

The movement in CET1 during the year was as follows:

	Group (Unaudited) 2019 £m	Group (Unaudited) 2018 £m
At 1 January	561.6	460.1
Movement in retained earnings	113.6	102.1
Share premium from Sharesave Scheme vesting	0.3	0.4
Shares issued on Combination with CCFS	707.1	–
Movement in other reserves	(2.7)	(0.6)
Movement in foreseeable dividends	(24.7)	(2.6)
Movement in solo consolidation adjustment	5.4	(0.6)
IFRS 9 transitional adjustment	2.6	2.7
Movement in prudent valuation adjustment	(0.4)	(0.1)
Net increase in intangible assets	(23.7)	(0.9)
Movement in deferred tax asset for carried forward losses	0.5	1.1
At 31 December	1,339.6	561.6

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Appendix

1. Alternative performance measures

In this Annual report, the Group used alternative performance measures ('APMs') when presenting pro forma underlying results as management believe they provide a more consistent basis for comparing the Group's performance between financial periods.

Pro forma underlying results assume that the Combination with CCFS occurred on 1 January 2018, and include 12 months of results from CCFS. They also exclude exceptional items, integration costs and other acquisition related items.

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

Below we provide definitions and the calculation methodology of ratios used throughout this Annual report both a on statutory and pro forma underlying basis.

Key performance indicators

Net interest margin ('NIM')

NIM is defined as net interest income as a percentage of a 13 point average¹ of interest earning assets (cash, investment securities, loans and advances to customers and credit institutions). It represents the margin earned on loans and advances and liquid assets after swap expense/income and cost of funds.

	2019 £m	2018 £m
Net interest income – statutory A	344.7	286.3 ²
CCFS 2018 results	–	180.5
CCFS 2019 pre-acquisition results	152.1	–
Add back: acquisition-related items ³	21.6	–
Net interest income – pro forma underlying B	518.4	466.8
13 point average of interest earning assets – statutory C	14,163.5	9,383.8
13 point average of interest earning assets – pro forma underlying D*	19,484.3	16,301.2
NIM statutory equals A/C	2.43%	3.05% ⁴
NIM pro forma underlying equals B/D	2.66%	2.86%

* Pro forma underlying average interest earning assets assume that the Combination completed on 1 January 2018 and exclude the impact of average acquisition related items. Acquisition related items comprise the fair value uplift to CCFS' loan book, the amortisation of the fair value uplift and the recognition of expected credit losses.

Cost to income ratio

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

	2019 £m	2018 £m
Administrative expenses – statutory A	108.7	79.6
CCFS 2018 results	–	64.6
CCFS 2019 pre-acquisition results	57.7	–
Add back: acquisition-related items ³	(1.3)	–
Administrative expenses – pro forma underlying B	165.1	144.2
Total income – statutory C	343.4	281.1
CCFS 2018 results	–	224.9
CCFS 2019 pre-acquisition results	200.8	–
Add back: acquisition-related items ³	18.3	–
Total income – pro forma underlying D	562.5	506.0
Cost to income statutory equals A/C	32%	28%
Cost to income pro forma underlying equals B/D	29%	28%

Management expense ratio

The management expense ratio is defined as administrative expenses as a percentage of a 13 point average¹ of total assets.

	2019 £m	2018 £m
Administrative expenses – statutory (as in cost to income ratio above) A	108.7	79.6
Administrative expenses – pro forma underlying (as in cost to income ratio above) B	165.1	144.2
13 point average of total assets – statutory C	14,298.0	9,445.1
13 point average of total assets – pro forma underlying D*	19,752.6	16,373.5
Management expense ratio statutory equals A/C	0.76%	0.84%
Management expense ratio pro forma underlying equals B/D	0.84%	0.88%

* Pro forma underlying average total assets assume that the Combination completed on 1 January 2018 and exclude the impact of average acquisition related items. Acquisition related items comprise the net fair value uplift to CCFS' loan book, adjustment to fair value on hedged assets, recognition of acquired intangibles on Combination and deferred tax assets arising on Combination.

Loan loss ratio

The loan loss ratio is defined as impairment losses as a percentage of a 13 point average¹ of gross loans and advances. It is a measure of the credit performance of the loan book.

	2019 £m	2018 £m
Impairment losses – statutory A	15.6	8.1
CCFS 2018 results	–	2.1
CCFS 2019 pre-acquisition results	4.3	–
Add back: acquisition-related items ³	(3.6)	–
Impairment losses – pro forma underlying B	16.3	10.2
13 point average of gross loans – statutory C	12,171.5	8,117.5
13 point average of gross loans – pro forma underlying D*	16,684.6	13,981.8
Loan loss ratio statutory equals A/C	0.13%	0.10% ⁴
Loan loss ratio pro forma underlying equals B/D	0.10%	0.07%

* Pro forma underlying average gross loans assume that the Combination completed on 1 January 2018 and exclude the impact of average acquisition related items. Acquisition related items comprise the fair value uplift to CCFS' loan book recognised on Combination.

Return on equity ('RoE')

RoE is defined as profit attributable to ordinary shareholders, which is profit after tax and after deducting coupons on AT1 securities, as a percentage of a 13 point average¹ of shareholders' equity (excluding £60m of AT1 securities).

	2019 £m	2018 £m
Profit after tax – statutory	158.8	139.6 ²
Coupons on AT1 securities	(5.5)	(5.5)
Tax on coupons on AT1 securities	–	1.5
Profit attributable to ordinary shareholders – statutory A	153.3	135.6
Add back: Heritable option	–	7.2
CCFS 2018 results	–	120.8
CCFS 2019 pre-acquisition results	92.5	–
Add back: acquisition-related items ³	42.9	–
Profit attributable to ordinary shareholders – pro forma underlying B	288.7	263.6
13 point average of shareholders' equity (excluding AT1 securities) – statutory C	866.6	551.2
13 point average of shareholders' equity (excluding AT1 securities) – pro forma underlying D*	1,147.1	948.7
Return on equity statutory equals A/C	18%	25% ⁴
Return on equity pro forma underlying equals B/D	25%	28%

* Pro forma underlying average shareholders' equity assumes that the Combination completed on 1 January 2018 and excludes the impact of average acquisition-related items.

Appendix continued

1. Alternative performance measures continued

Basic earnings per share

Basic earnings per share is defined as profit attributable to ordinary shareholders, which is profit after tax and after deducting coupons on AT1 securities, gross of tax, divided by the weighted average number of ordinary shares in issue.

	2019 £m	2018 £m
Profit attributable to ordinary shareholders – statutory (as in return on equity ratio above) A	153.3	135.6
Profit attributable to ordinary shareholders – pro forma underlying (as in return on equity ratio above) B*	288.7	263.6
Weighted average number of ordinary shares in issue – statutory C	291.6	244.2
Weighted average number of ordinary shares in issue – pro forma underlying D	444.8	443.9
Basic earnings per share statutory equals A/C	52.6	55.5
Basic earnings per share pro forma underlying equals B/D	64.9	59.4

* Pro forma underlying average shareholders' equity assumes that the Combination completed on 1 January 2018 and excludes the impact of average acquisition-related items.

- 13 point average is calculated as an average of opening balance and closing balances for 12 months of the financial year.
- In 2019, the Group restated the prior year comparatives to recognise interest expense on the £22m Perpetual Subordinated Bonds previously classified as equity.
- The acquisition-related items are detailed in the Financial review on page 51.
- To align calculation methods post Combination, OSB amended NIM, loan loss ratio and return on equity calculations to include average interest earning assets for NIM, average gross loans for loan loss ratio and average shareholders' equity for return on equity on a 13 point average from a simple average. The comparative ratios were restated accordingly.

2. Calculation of 2019 final dividend

The table below shows the basis of calculation of the Bank's proposed final dividend for 2019:

	2019 £m	2018 £m
Statutory profit after tax	158.8	139.6 ¹
Less: Coupons on AT1 Securities classified as equity	(5.5)	(5.5)
Tax on coupons	–	1.5
Statutory profit attributable to ordinary shareholders	153.3	135.6
Add: CCFS pre-acquisition profits	92.5	–
Add back: CCFS pre-acquisition exceptional items	15.7	–
Add back: CCFS pre-acquisition integration costs	5.2	–
Tax on CCFS pre-acquisition integration costs	(1.6)	–
Add back: Group's exceptional items	15.6	9.8
Add back: Tax on Heritable option	2.6	(2.6)
Add back: Amortisation of fair value adjustment	21.6	–
Add back: Inception adjustment	(3.3)	–
Add back: Amortisation of intangible assets acquired	1.3	–
Release of deferred taxation on the above amortisation adjustments	(7.0)	–
Less: gain on Combination	(10.8)	–
Add back: ECL on Combination	3.6	–
Pro forma underlying profit attributable to ordinary shareholders	288.7	142.8
Total dividend: 25% of pro forma underlying profit attributable to ordinary shareholders	72.2	35.7
Less interim dividends paid:		
CCFS (pre-acquisition)	(10.3)	
OSB	(12.0)	(10.5)
Proposed final dividend	49.9	25.2

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

Glossary

AGM	Annual General Meeting
ALCO	Assets and Liabilities Committee
AT1	Additional Tier 1 Capital
BoE	Bank of England
CCFS	Charter Court Financial Services Group plc
CEO	Chief Executive Officer
CFO	Chief Financial Officer
CRD IV	Capital Requirement Directive and Regulation
CRO	Chief Risk Officer
DSBP	Deferred Share Bonus Plan
EAD	Exposure at Default
ECL	Expected Credit Loss
EIR	Effective Interest Rate
EPS	Earnings Per Share
EU	European Union
FCA	Financial Conduct Authority
FRC	Financial Reporting Council
FSCS	Financial Services Compensation Scheme
FSD	Forced Sale Discount
FTSE	Financial Times Stock Exchange
HMRC	Her Majesty Revenue and Customs
HPI	House Price Inflation
IAS	International Accounting Standards
ICAAP	Internal Capital Adequacy Assessment Process
ICR	Interest Coverage Ratio
IFRS	International Financial Reporting Standards
ILAAP	Internal Liquidity Adequacy Assessment Process
ILTR	Indexed Long-Term Repo
IPO	Initial Public Offering
IRB	Internal Ratings-Based approach to credit risk
ISA	Individual Savings Account
KRPS	Kent Reliance Provident Society
LCR	Liquidity Coverage Ratio
LGD	Loss Given Default
LIBOR	London Inter Bank Offered Rate
LTIP	Long-Term Incentive Plan
LTV	Loan to value
NIM	Net Interest Margin
NPS	Net Promoter Score
OSB	OneSavings Bank plc
PD	Probability of Default
PPD	Propensity to go to Possession Given Default
PRA	Prudential Regulation Authority
PSBs	Perpetual Subordinated Bonds
PSP	Performance Share Plan
RMBS	Residential Mortgage Backed Securities
RoE	Return on equity
RWA	Risk weighted assets
SAYE	Save As You Earn or Sharesave
SDLT	Stamp Duty Land Tax
SICR	Significant Increase in Credit Risk
SID	Senior Independent Director
SME	Small Medium Enterprises
SONIA	Sterling Overnight Index Average
SRMF	Strategic Risk Management Framework
TFS	Term Funding Scheme

Appendix continued

Company information

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Private shareholders are welcome to contact the Company Secretary if they have any questions or concerns they wish to be raised with the Board.



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OneSavings Bank plc Annual Report and Accounts 2019