Charter Court Financial Services Limited

Annual report and financial statements
for the year ended 31 December 2020
Registered number: 06749498

Charter Court Financial Services Limited
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Charter Court Financial Services Limited
Company information

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SECRETARY	Jason Elphick
REGISTERED OFFICE	2 Charter Court Broadlands Wolverhampton West Midlands WV10 6TD
REGISTERED NUMBER	06749498 (England and Wales)
AUDITOR	Deloitte LLP Statutory Auditor 4 Brindley Place Birmingham B1 2HZ United Kingdom

The Directors present their Annual Report, together with the audited Financial Statements and Auditor's Report for the year ended 31 December 2020.

Charter Court Financial Services Limited (the Company or CCFSL) is a wholly-owned subsidiary within the OSB Group; which comprises, OSB GROUP PLC (OSBG) and its subsidiaries.

Principal activities

The principal activities of the Company comprise the provision of Buy-to-Let and residential mortgage loans, secured short-term lending (bridging), second charge loans, savings products, mortgage administration services and a range of analytical services within the UK residential mortgage sector.

The Company operates under three brands: Charter Savings Bank, Precise Mortgages and Exact Mortgage Experts.

Business model

Our purpose is to help our customers, colleagues and communities to prosper.

We provide specialist mortgage lending with strong levels of mortgage originations, good loan performance, award winning product propositions and strong relationships with intermediaries. Our strategic priorities are to be the leading specialist lender in our chosen markets, retain focus on our automated risk assessment platforms and further deepen relationships and distribution with intermediaries.

We have a sophisticated funding platform with stable funding through the Charter Savings Bank brands and operate within the wider group utilising capital market expertise with securitisation platforms allowing for programmatic issuance of high quality residential mortgage-backed securities (RMBS). The Company together with the Group was able to complete the majority of its intended capital markets transactions early in the year. It then utilised central bank repo facilities for its wholesale funding needs through the rest of the period at a time during which the capital markets were exceptionally volatile. The Company intends to maintain a diversified approach to funding mortgage lending whilst remaining predominantly retail funded. Our strategic priorities are to provide cost-efficient funding through a resilient and diversified funding platform to support our future growth and deliver consistently good value savings products to our customers.

Our operating model has access to deep credit experience and analytics, a continued focus on disciplined cost management and access to the Group's customer servicing centre in India. Our strategic priorities are to leverage the group's unique and cost effective operating model, continue to leverage deep credit expertise and data analytics and to maintain an efficient, scalable and resilient infrastructure.

Business review

The profit after taxation for the year was £72.8m (2019: £66.0m). There was a small increase in net interest income with total income slightly lower in the period. The Company benefitted from lower administration costs. The adverse impacts of the increase in impairment predominantly related to COVID-19, as the Company adopted more adverse COVID-19 related forward-looking assumptions in its IFRS9 models. This was offset by favourable impacts of exceptional transaction costs recognised in 2019 only incurred through the acquisition of Charter Court Financial Services Group (CCFSG) by OneSavings Bank plc (OSB).

Net interest income for the year increased by 1.69% to £192.3m from £189.1m in 2019 as a result of the growth in the Company's customer loans and receivables balance by 6.2% to £7.7 billion as at 31 December 2020, from £7.2 billion as at 31 December 2019, partially offset by a lower net interest margin in the year due primarily to index repricing and a delay in passing on the base rate cuts to savers in full.

Business review (continued)

Fair value losses on Financial Instruments of £5.1m (2019: £9.2m) is mainly due to swap ineffectiveness. There was also a £4.9m loss on swap cancellations which arose on swaps which were cancelled on sale of customer loans and receivables (2019: £nil), offset by £2.2m other income (2019: £5.1m).

Administrative expenses decreased by 8.4% to £64.5m (2019: £70.4m) with integration benefits being realised and lower discretionary spend in lockdowns, whilst growing the customer loan and receivables balance.

In 2019 the Company incurred one-off costs in relation to the acquisition of CCFSG by OSB of £15.5m (see note 15 of the financial statements for further details). Integration costs, the post-acquisition costs incurred in integrating the operations of OSB and CCFSG, incurred during 2020 were lower at £2.2m from £2.7m in 2019 (see note 14 of the financial statements for further details).

Impairment losses increased to £19.8m (2019: £4.4m) primarily due to the impact of adopting more adverse forward looking macroeconomic scenarios as the coronavirus pandemic changed the outlook for the UK economy, changes to the Company's staging criteria in line with guidance from the Prudential Regulation Authority (PRA), which moved certain higher risk accounts with payment deferrals to stage 2 and COVID-related enhancements to the Company's models. The Company implemented a suite of adverse economic scenarios, which incorporated the potential impact of the lockdown periods on economic activity, resulting in rising forecasted unemployment levels and falling property prices. For more detail see the Principal risks and uncertainties section below.

The Company generated £1.9bn in new mortgage originations (2019: £3.1bn), down 39.8% on the previous year (2019: up 9.2%), reflecting the impact of COVID-19 on the mortgage market.

In late March 2020, as the lockdown and social distancing measures were imposed by the government, the OSB Group took the decision to temporarily suspend new business activity across its lending sub-segments. This decision was largely due to the ban on home visits making physical property valuations, a critical component of the OSB Group's bespoke underwriting process, all but impossible. As a result, the OSB Group concentrated on progressing the pipeline of applications with existing physical valuations, whilst ensuring resources were deployed to prioritise the needs of customers, including those who wished to request a mortgage payment deferral. As the restrictions on physical valuations began to ease in the middle of May, the OSB Group took the opportunity to undertake a controlled increase of business volumes in its core Buy-to-Let and residential sub-segments, although with a limited suite of products, tighter lending criteria and higher headline rates. Gradually, additional products were introduced and criteria expanded, however the more cyclical business line of second charge residential lending was greatly reduced with tightly controlled and limited product sets introduced later in the year. The second national lockdown, imposed in early November, did not significantly impact lending volumes since new processes, policies and procedures agreed during the first lockdown were already in place and market disruption was limited as physical valuations continued to be carried out. The OSB Group maintained its prudent risk assessment and a controlled approach to its lending proposition for the remainder of the year.

The Company's Buy-to-Let originations were down 40.8% on the previous year at £1.1bn (2019: £1.9bn). The loan book increased to £5.3 billion (2019: £4.7 billion) reflecting increasing application levels in the second half of the year, despite the introduction of tighter underwriting criteria and increased headline interest rates after the March 2020 lockdown. Demand was especially strong from those borrowing via a limited company structure, which represented 56% of Buy-to-Let completions in 2020, up from 50% in 2019.

Business review (continued)

During 2020, the Company's specialist residential lending decreased by 28.0% year-on-year, with originations of £573.9m (2019: £797.2m). Throughout the year, the Company has seen robust demand for its residential products despite a shift in focus towards prime borrowers. Lending under the Government's Help to Buy scheme performed exceptionally well in the year as applications increased compared with 2019; more first time buyers turned to the scheme to take their first step onto the property ladder as the number of mortgage products available for borrowers with small deposits reduced significantly due to the effects of the coronavirus pandemic.

The Company's short-term bridging originations fell by 57.5% at £141.8m (2019: £333.7m) and at the year end the bridging loan book was £106.1m (2019: £214.4m). In late March 2020, the OSB Group paused lending in this sub-segment and returned with a much reduced suite of products and highly restricted underwriting criteria in the second half of the year, with a focus on high-quality lending in the regulated sector of the market.

Second charge lending originations fell by 61.2% to £31.9m (2019: £82.2m) and the second charge loan book reduced to £197.9m at the end of 2020 (2019: £218.6m). Second charge products were withdrawn from the market in late March 2020 and once the OSB Group returned to lending, risk criteria were tightened with a focus on prime borrowers, offering a maximum LTV of 50% and a maximum loan size of £200,000, demonstrating control over new business written whilst the outlook remains uncertain.

The Company also manages a small number of portfolios of third party client assets along with Precise Mortgages' originations, covering both securitised and non-securitised loan portfolios.

The Company continued to price its retail savings products carefully throughout 2020 to ensure these appeared at the top end of "best buy" tables when most efficient and effective. At the end of 2020, the Company had 138,263 savings customers (2019: 143,480), operating 181,427 savings accounts (2019: 188,444), with an average balance per account of £33,400 (2019: £33,500). Retail savings products provide a relatively stable source of funds for the Company, with 82.9% of savings deposited in fixed term and notice-based products at the year end (31 December 2019: 87.2%).

In line with its dynamic funding strategy, the Company continued to diversify its retail funding sources, expanding the range of pooled funding platforms and the range of products it offers via those platforms.

The quality of the Company's savings business was recognised by the industry, with the Charter Savings Bank brand winning multiple awards in the year, including Best Bank Savings Provider in the Moneyfacts Awards and Best Savings Provider in the Savings Champion Awards amongst others.

The net assets of the Company increased from £506.6m to £566.6m in 2020. No dividend was paid during the year (2019: £nil). The Directors do not propose a final dividend for the year ended 31 December 2020.

The Company's capital resources and requirements are determined on the basis of the EU Capital Requirements Directive IV regulatory framework, as implemented by the PRA in the United Kingdom. Regulatory capital is reviewed on a regular basis by the Board and the OSB Group Assets and Liabilities Committee (ALCO) on both a current and forward-looking basis. The Company prepared an Internal Capital Adequacy Assessment Process (ICAAP) during 2020, which demonstrates how the Company would manage its capital resources and requirements during a plausible but severe period of stress. The ICAAP was reviewed by the Group Risk Committee and approved by the Board.

At 31 December 2020 the Company's Common Equity Tier 1 (CET1) ratio was 18.2% (31 December 2019: 15.9%). CET 1 was strengthened in January 2020 by the sale and derecognition of mortgage assets to the Precise Mortgage Funding 2020-1B plc (PMF 2020-1B) securitisation. The ratio was further strengthened in the year by the application of the Capital Requirements Regulation 'Quick Fix' package and strong capital generation from profitability which was all retained within the Company.

Business review (continued)

The Company holds liquid assets above its regulatory minimum requirement to ensure obligations can be met as they fall due on a business as usual and stressed basis. The appropriateness of the Company's liquidity risk appetite and risk management framework and controls is subject to at least an annual review through the Internal Liquidity Adequacy Assessment Process (ILAAP). As at 31 December 2020 the Company held £900.1m (2019: £883.1m) of liquid assets consisting mainly of £900.1m (2019: £834.4m) of Bank of England (BoE) Reserve Account balances. The Company's main source of funding is retail deposits. The Company also has access to facilities provided by the BoE, pre-positioning collateral with the BoE, enabling access to further funding and liquidity facilities at short notice.

Future developments

Charter Savings Bank

The Company continues to explore opportunities to further diversify its retail funding base, which is administered by a third party, seeking out new products, markets and channels to enhance its range and reduce cost of funds whilst continuing to meet consumer needs.

COVID-19

The COVID-19 pandemic continues to cause significant economic and social disruption and has led to unprecedented uncertainty in the outlook for the UK and global economies. Whilst there is some reason for cautious optimism with the vaccination roll-out, it remains unclear what the true impact of the pandemic will be on the economy and the Company's customers and business after government support ends. Throughout 2020, the Company demonstrated the resilience of its operations and business and continued to generate attractive returns. The foundations of the business, including its strong capital position, remain very robust which positions the Company well to respond to future challenges and opportunities.

Principal risks and uncertainties

The Company's activities expose it to a number of financial risks and uncertainties, primarily credit risk, liquidity and funding risk, market risk, business risk, operational risk and assurance of compliance with regulations which are explained in more detail below and in note 39. A risk that arose during 2020 and that continues is the COVID-19 risk; the risks to the Company associated with pandemic risk are explained in more detail at the end of this section of the Strategic Report.

Credit risk

Credit risk is the risk of financial loss arising from the failure of a customer or counterparty to settle their financial and contractual obligations as they fall due.

Credit risk arises on the Company's financial assets consisting of investments in debt securities, customer loans and receivables, derivative financial instruments, trade and other receivables, loans and advances to credit institutions and loan commitments.

Wholesale credit risk is managed by ensuring treasury counterparties are subject to ALCO approval, and continue to meet minimum external credit ratings. Exposures to single counterparties are assigned and monitored on an ongoing basis against the underlying instruments, such as cash or derivative exposures which are used to manage risk, or provide liquidity.

Principal risks and uncertainties (continued)

Credit risk (continued)

Expected Credit Losses (ECL)

The Company recognises expected credit losses based on unbiased forward-looking information. The impairment model applies to all financial assets at amortised cost, debt financial assets at fair value through other comprehensive income and loan commitments.

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 Company 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 Company would observe an increasing number of accounts moving into arrears. If residential property prices fall the risk of losses being realised on the sale of a property would increase. The Company has adopted an approach which utilises four macroeconomic scenarios. These 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, along with a plausible upside scenario. Two downside scenarios are also provided (downside and a severe downside). The table below sets out the forecasted macroeconomic variables over a five-year period at 31 December 2020 (it includes average over five years and the peak to trough projections) together with weightings applied.

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

Principal risks and uncertainties (continued)

Credit risk (continued)

iv. Changes made during 2020

a. Macroeconomic scenario

Post the onset of COVID-19, the Company implemented a suite of adverse economic scenarios, which incorporated the potential impact of the lockdown periods on economic activity, resulting in rising forecasted unemployment levels and falling property prices. The Company continued to utilise four scenarios including base and upside scenarios and two downside scenarios. The downside scenarios also include potential future economic disruption, resulting from the United Kingdom leaving the European Union.

Throughout 2020 the scenario suite was monitored and updated as government measures were updated and the impact of the pandemic evolved. Detail surrounding the scenarios utilised to set the 31 December 2020 IFRS 9 provision levels are provided in the table below.

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

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

Principal risks and uncertainties (continued)

Credit risk (continued)

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 (%)	1.3	1.5	0.2	0.1
	Cumulative growth/(fall) to peak/(trough) (%)	+1.5	+1.7	-0.7	-0.6
Unemployment Rate (UR)	5 year average (%)	4.5	3.4	6.3	7.2
	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

b. Significant increase in credit risk rules

The Company's Significant Increase in Credit Risk (SICR) rules, prior to the COVID-19 pandemic, considered changes in default risk, internal impairment measures, changes in customer credit bureau files, or whether forbearance measures had been applied.

The Company took steps to adjust the SICR criteria throughout the pandemic to account for the changes in risk profile and specifically for payment deferrals granted, noting that not all of the instances of a payment deferral would be a significant increase in credit risk. Payment deferrals granted due to COVID-19 alone were not automatically considered as a SICR event in line with issued guidance, and adjustments to the rules were as follows:

- Payment deferrals considered as a SICR event where other significant high risk factors are identified on customer's credit files;
- Payment deferrals considered as a SICR event where an account also had recent arrears; and
- Customers with stress to their income considered as a SICR event.

Principal risks and uncertainties (continued)

Credit risk (continued)

COVID-19 post model adjustments

The Group implemented a number of post model adjustments to ensure that modelled estimates remained appropriate, considering the impact that government support measures such as the repossession moratorium and payment deferrals had on credit bureau files and on loss given default and probability of default estimates. The quantum of these post model adjustments was impacted by the interaction with the severe forward looking macroeconomic scenarios, during the impairment calculation process. The combined impact of these COVID-19 related post model adjustments contributed £7.9m to the total 2020 impairment charge.

Forbearance

Where a borrower experiences 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 Company.

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

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

- Temporary switch to interest only: a temporary account change to assist customers through periods of financial difficulty where arrears do not accrue at the original contractual payment. Any arrears existing at the commencement of the arrangement are retained.
- Interest rate reduction: the Company may, in certain circumstances, where the borrower meets the required eligibility criteria, transfer the mortgage to a lower contractual rate. Where this is a formal contractual change the borrower will be requested to obtain independent financial advice as part of the process.
- Loan term extension: a permanent account change for customers in financial distress where the overall term of the mortgage is extended, resulting in a lower contractual monthly payment.
- Payment holiday: a temporary account change to assist customers through periods of financial difficulty where arrears accrue at the original contractual payment. Any arrears existing at the commencement of the arrangement are retained.
- Voluntary-assisted sale: a period of time is given to allow borrowers to sell the property and arrears accrue based on the contractual payment.
- Reduced monthly payments: a temporary arrangement for customers in financial distress. For example, a short-term arrangement to pay less than the contractual payment. Arrears continue to accrue based on the contractual payment.
- Capitalisation of interest: arrears are added to the loan balance and are repaid over the remaining term of the facility or at maturity for interest only products. A new payment is calculated, which will be higher than the previous payment.
- Full or partial debt forgiveness: where considered appropriate, the Company 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 Company'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 Company, and on the subsequent sale where there has been a shortfall loss.

Principal risks and uncertainties (continued)

Credit risk (continued)

Forbearance *(continued)*

- Arrangement to Pay: where an arrangement is made with the borrower to repay an amount above the contractual monthly instalment, which will repay arrears over a period of time.
- Promise to Pay: where an arrangement is made with the borrower to defer payment or pay a lump sum at a later date.
- Bridging loans which are more than 30 days past their maturity date. Repayment is rescheduled to receive a balloon or bullet payment at the end of the term extension where the institution can duly demonstrate future cash flow availability the Company aims to proactively identify and manage forborne accounts, utilising external credit reference bureau information to analyse probability of default and customer indebtedness trends over time, feeding pre-arrears watch list reports. Watch list cases are in turn carefully monitored and managed as appropriate. Further information regarding forbearance can be found in note 39 to the financial statements

Fair value of collateral methodology

The Company ensures that security valuations are reviewed on an ongoing basis for accuracy and appropriateness. Residential properties are indexed against monthly HPI data.

Solvency risk

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

Liquidity and funding risk

Liquidity risk is the risk that CCFSL fails to meet its financial obligations as they fall due; funding risk is the adverse impact of higher funding costs and/or lack of available funds on CCFSL's cash flow.

The Company 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. The Company's liquidity risk appetites have been calibrated to ensure that it 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 main funding risk for the Company is that of funding long term mortgage assets primarily with short-term retail deposits, and the risk that retail deposits may be withdrawn or new deposits cannot be raised over the life of the assets. The Company has developed a successful retention programme for maturing fixed term bonds customers, and the Company structures its retail deposit products and product mix so as to provide maximum foresight on customer withdrawals. The Company also considers wholesale funding options (dependent on market conditions), including securitisation issuances and use of retained notes, which, provide longer term or matched funding for the assets.

The Company actively managed its liquidity and funding profile within the confines of the risk appetites as set out in the Company's ILAAP.

Principal risks and uncertainties (continued)

Market risk

The Company proactively manages its risk profile in respect of adverse movements in interest rates, and counterparty exposures.

The Company 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 ALCO and approved by the Board.

The Company's balance sheet is completely GBP denominated. Wholesale counterparty risk is measured on a daily basis and constrained by counterparty risk limits.

Transition away from London Interbank Offered Rate (LIBOR)

The PRA and Financial Conduct Authority (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.

An internal working group has been established with strong oversight from the Compliance and Risk functions. Risk assessments have been completed to ensure this process is managed in a measured and controlled manner. The Company no longer writes any LIBOR-linked business and has transitioned new and back book swaps from a LIBOR to a Sterling Overnight Index Average (SONIA) basis, see note 39 for further details.

Interest rate risk

The Company 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 and estimated annual net interest income to cover capital and profit and loss risks.

The Company 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 historical and potential stress scenarios at consistent levels of modelled severity. Throughout 2020, the Company managed interest rate risk exposures within its 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 and managed rates. As with structural interest rate risk, the Company does not seek to take a significant basis risk position, but maintains defined limits to allow operational flexibility. Exposure is assessed and monitored regularly across a range of 'business as usual' and stressed scenarios. Throughout 2020, the Company managed basis risk exposure within its risk appetite limits.

Principal risks and uncertainties (continued)

Regulatory and compliance risk

The Company is committed to the highest standards of regulatory conduct and aims to minimise breaches, financial costs and reputational damage associated with non-compliance. The Company 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 Company maintains a proactive relationship with key regulators, engages with industry bodies such as UK Finance, and seeks external expert advice. The Company 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.

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

Strategic and business risk

The Board has clearly articulated the Company’s strategic vision and business objectives supported by performance targets. The Company does not intend to undertake any medium to long-term strategic actions, which would put at risk the Company’s strategic or financial objectives at risk.

Conduct risk

The Company 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 Company 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 Company 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.

Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, human factors or external events where the root cause is not due to credit or market risks. It includes information technology, information security, change management, outsourcing, tax, legal, people and financial control risks.

The Company continues to build its understanding of potential adverse effects resulting from emerging and changing risks such as IT risks, cybercrime and the broader macro economy. The Company is alert to these risks and they are assessed, monitored and controlled as part of the Company’s IT strategy and operational risk management activities.

The Company 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.

Principal risks and uncertainties (continued)

Operational risk (continued)

The Company's operational processes, systems and controls are designed to minimise disruption to customers, damage to the Company's reputation and any detrimental impact on financial performance. The Company actively promotes the continual evolution of its operating environment.

Operational risk and the broader framework is reviewed by the Operational Risk Management Committee which comprises senior members of the Risk function and all business areas and is overseen by the Risk Management Committee and Group Risk Committee.

Ongoing stress testing demonstrates that the Company is resilient to extreme but plausible scenarios in the context of the ongoing uncertainty surrounding the economic, political and regulatory environment. The risk relating to a no trade deal Brexit has subsided following a deal agreement being reached, however the implications of the deal arrangements being operationalised are yet to be observed. The Company'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.

For the Company's response to COVID-19 see Pandemic risk below.

Emerging risks

Emerging risks with a description of the risk and the mitigating actions are also included within the OSB GROUP PLC Annual Reports and Accounts, and include political and macroeconomic uncertainty, climate change, model risk, LIBOR reform, pandemic risk and negative interest rates which we have expanded on below.

Political and macroeconomic uncertainty

The Company provides a number of products and services, principally the provision of mortgage lending, to the UK mortgage market. The pandemic has adversely impacted the Company meeting its strategic and business targets and, in particular, lending activity within the UK mortgage market has been restricted during 2020. The Company's ability to meet its future forecasts is partially dependent upon any future changes in the level of activity in the economy and mortgage market as a whole. Risks also remain around the disruption that the UK's exit from the European Union will have on the economy.

The Directors believe that the Company's products and services are targeted at specific segments of the market and are confident that growth can be achieved independently of changes in market activity levels. Opportunities remain including the Company realising integration benefits from the combination with OSB Group, which will support the Company in any future macroeconomic stress, whilst managing challenges posed by increasing levels of competition in our key market segments.

Climate change

As the worldwide focus on climate change intensifies, both the physical risks and the transitional risks associated with climate change continue to grow. A cross-functional working group is overseeing the Group's response to climate change, in line with industry best practice and regulatory guidelines.

Model risk

The risk of financial loss, adverse regulatory outcomes, reputational damage or customer detriment resulting from deficiencies in the development, application or ongoing operation of models and ratings systems. During 2020 Board and executive level model oversight committees and a suite of OSB Group level policies were introduced.

Principal risks and uncertainties (continued)

LIBOR reform

The LIBOR benchmark may cease to be set after the end of 2021 due to the low level of supporting unsecured loans in the wholesale interbank loan market. The Company 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, see note 39 for further details.

Pandemic risk

The COVID-19 pandemic dominated 2020 and had a material impact on society, businesses and the economy. Despite the unprecedented nature of the events in the year and the challenges that arose, the OSB Group and the Company proved its ability to successfully manage through its adaptability, operational resilience and prudent management and continued to create value for all stakeholders in the year.

The Company has taken a considered approach to minimising and managing the impact of a Coronavirus-related global pandemic. The Company's approach represents a comprehensive response strategy covering both severity and consequences of a global pandemic. The Company's response strategy covers key aspects of an effective pandemic response approach, including, continuity, impact assessment and stress testing. Supporting the Company'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 employees and supervisory authorities.

Management and the Board took early decisions about the Company's risk appetite and chose to further protect the business by withdrawing most products in late March 2020. Once the situation improved, the Company returned to the market with a limited set of products with tighter underwriting criteria and higher pricing. The Company also controlled the volume of new business by pausing lending in the more cyclical segment of second charge residential lending with tightly controlled and limited product sets introduced later in the year.

COVID-19 presented the Company and wider OSB Group with the unprecedented challenge of balancing the needs of our customers with the welfare of our colleagues. The combination of a dramatic increase in volumes for some of our services, such as mortgage payment deferral requests, coupled with the need to transition the majority of our colleagues to homeworking, was undoubtedly challenging. Throughout the year, we continued to meet the demands of both our savings and borrowing customers. Whilst the effectiveness of the Company's response is a result of many contributing factors, the roll-out of a OSB Group video communication platform, together with the very high levels of reliability and stability of the OSB Group's IT systems were crucial factors, as was the flexibility, resilience and professionalism of all OSB Group employees.

During 2020 there was a significant focus on supporting mental health and wellbeing of OSB Group employees via the provision of related workshops which were delivered on a remote basis. Specific guidance, support and training relating to the pandemic was also provided given the challenges presented with the requirements of lockdown, isolation and home schooling.

It is unclear how COVID-19 will evolve during 2021 and the impact that the roll-out of vaccines will have and whether any new strains emerge. A further risk relates to the impact once government support measures subside during 2021 and the resultant impact on business failures, unemployment levels and house prices.

Principal risks and uncertainties (continued)

Risk of negative interest rates

To support economic performance, resulting from the impact of COVID-19, the BoE may consider reducing the BoE base rate below 0%. The Company would be impacted across its lending portfolios with adverse movements in interest income, offset by reductions in interest payable on savings accounts.

A further risk relates to increased operational and conduct risks arising from system and process changes required to accommodate negative interest rates.

Negative interest rates may also impact customer behaviour, with changes in the demand for lending and savings products potentially impacting the Company's loan book growth plans and liquidity coverage levels.

The Company has reviewed readiness for negative interest rates and presented findings to the Board. The review covered the terms and conditions of the Company's financial contracts and any systems limitations. Some key servicing systems have been identified as requiring further development to allow negative rates and in particular negative pay rates. Given a mixture of floors in terms and conditions for certain products and the Company's margins, negative interest rates would be unlikely to cause an issue until the BoE base rate reaches a rate of -75bps or below. A working group is currently examining further system development to manage significantly negative rates.

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 of the Company give careful consideration to the factors set out above in discharging their duties under section 172. The stakeholders considered in this regard are the employees of the OSB Group, suppliers, customers, brokers, 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 receives reports from management on issues concerning customers, the environment, communities, suppliers, employees and regulators, which it takes into account in its discussions and in its decision-making process under section 172.

The Board and its Committees undertake deep dive reviews to further develop its understanding of key issues impacting its stakeholders. In addition to this, the Board seeks to understand the interests and views of the OSB Group's stakeholders by engaging with them, as appropriate. Some of the ways in which the Board has engaged directly with stakeholders over the year are shown below.

The Company is committed to doing the right thing for all of our stakeholders as they fulfil their duty to promote the success of the Company under section 172 of the Companies Act 2006. Below we outline how the Company engaged with its key stakeholders during the year.

Employees

The Company has no employees (2019: none) as all operational services have been formally contracted to other subsidiaries of the OSB Group, the Company's ultimate parent company. OSBG favours two-way communication between management and employees and regularly asks for their opinions in OSB Group-wide surveys. One of the key topics in 2020 was the impact of the pandemic on employees' lives, both professionally and personally; their well-being and mental health. The Group retained its 'Two Star' rating in The Sunday Times 100 Best Companies to Work For. The Group also participated in the Banking Standards Board Survey in 2020.

Section 172 statement (continued)

Customers

In an internal customer satisfaction survey, 97.7% of customers who save via the Charter Savings Bank brand had a good or excellent experience with the Company and the Net Promoter Score (NPS) remained high at +72 in 2020 (2019: +72). The satisfaction scores, retention rates together with the number of complaints, and how long it took us to resolve them, form part of the OSB Group management and Board monthly reporting packs, ensuring the visibility of customer experience to OSB management.

The Company targets underserved specialist mortgage market segments with a focus on specialist Buy-to-Let, residential, bridging and second charge lending. The Company's automated risk assessment, together with strong risk management and enhanced stress testing, give it a deep understanding of these lending market segments. The Company's mortgage customer NPS remained high, at +51 in 2020 (2019: +52).

The Company takes a personal approach to customers, treating each customer as an individual and listening to their needs. Whilst the Company concentrates on providing an excellent service, when things go wrong, we aim to put them right and learn from any mistakes made. The customer 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 OSB management.

Brokers

All of the Company's products under the Precise Mortgages brand, are distributed via mortgage brokers which are vital to our success. The unique and consistent lending proposition fulfils our goal of making it easier for intermediaries to serve the Company's borrowers. However, efforts extend beyond the proposition, as the Company continuously enhances the service provided, growing its resources available as the number of intermediaries grows and regularly engages with the broker community. The Company's business development managers listen and work with intermediaries, making themselves available to discuss cases and helping to obtain swift and reliable decisions. OSB Group management tracks broker satisfaction scores, borrowers' satisfaction scores and number of complaints in monthly Board reporting packs. The Company's mortgage broker NPS improved to +54 in 2020 (2019: +18).

Community

The Company is heavily involved in the West Midlands community, sponsoring local sports teams and every year supports an employee-chosen local charity. Opportunities for involvement in, and fundraising for, charity were restricted during 2020 but the wider OSB Group and employees still donated c£516,000 to its charity partners during the year.

Regulators

Members of the Board regularly meet with the Company's regulators. The number of meetings held with regulators increased again in 2020 and included, among other topics, operational resilience, the ability to respond to a financial stress and business continuity review and incident management.

Management also regularly interacts and has constructive relationships with the BoE and HM Revenue & Customs among others, which helps to ensure that the Company is aligned with the relevant regulatory frameworks and that the business is engaged with issues impacting the financial services industry.

Section 172 statement (continued)

Environment

The Company is committed to operating sustainably and to continually reducing our environmental impact by not only promoting awareness of environmental issues among our employees, but also by adhering to our plan to become a greener organisation.

The Board is responsible for encouraging and overseeing an environmentally-friendly culture and ensuring that the business is ready to respond to the growing impact of climate change on the Company's activities and enhanced regulation.

Decision making

The Board recognises that considering our stakeholders in key business decisions is fundamental to our ability to deliver the Company's strategy in line with our long-term values and operating the business in a sustainable way. Balancing the needs and expectations of our key stakeholders has been at the forefront of the Board's mind and has been more important than ever during 2020, as a result of the global pandemic; whilst acknowledging that some decisions will result in different outcomes for each stakeholder.

Key strategic decision in the year

One key project for 2020 related to the harmonisation of the different remuneration approaches and employee benefit offerings provided by the OSB Group following the Combination. The project focused on creating a new Group Grading Structure with a robust classification process undertaken in order to establish new grades for each individual role. All core benefits were subject to an external benchmarking process undertaken by the Group's external remuneration consultants to establish differing levels of benefit applicable to each grade. This resulted in a new Group Grading Structure which offers a consistent and compelling remuneration and benefits proposition to all existing and prospective employee at each and every level across the Group.

Additionally, harmonised approaches were established in respect of generic terms and conditions of employment, the methodologies for determining annual pay increases, discretionary bonus awards and all non-core benefits and schemes. The harmonised approach also provides employees with an element of choice, enabling them to determine their preference for either a higher employee pension contribution and slightly lower discretionary bonus opportunity or a slightly lower employee pension contribution and a high discretionary bonus opportunity. Employees also had an opportunity to select from two separate Health and Insurance packages, depending on their preferences regarding levels of cover for Life Insurance, Income Protection, Private Medical Insurance and a Medical Cash Plan.

For the vast majority of employees, the harmonised approach represented an enhanced benefits offer in comparison to their previous arrangements and for some, the changes represented a neutral position. For a very small number of employees who were seeing their allocated grade result in a reduction of their overall benefits package, the Group committed to offset the deficit via an appropriate increase to their basic salary.

The proposals were discussed and considered in detail by the Group Remuneration Committee, Group Executive Committee, external remuneration consultants and shared with a number of employee forums prior to launching to employees. On balance, the aim was to ensure that all employees were treated fairly in terms of the grading system, benefits and terms and conditions provided by the Group and that employees were given the opportunity to decide and take responsibility for themselves on certain aspects of their remuneration package.

Key performance indicators (KPIs)

In pursuing its strategy, CCFSL aims to deliver high quality growth and sustainable and attractive risk-adjusted returns. The Company seeks to accomplish its aims by maintaining balance and delivering success across its key goals:

Strategic goal	KPIs	2020	2019
Origination Deliver sustainable balance sheet growth	Originations (number) (1)	11,216	18,517
	Loan book (£m) (1)	7,694.5	7,246.6
Risk management Maintain disciplined risk management	Cost of risk (2)	0.270%	0.069%
	CET1 (3)	18.2%	15.9%
Profitability Conduct rigorous margin management	Net interest income (£m) (4)	192.3	189.1
	Cost income ratio (5)	35.0%	38.1%
Shareholders Deliver shareholder value	Return on equity (6)	12.9%	13.0%

Number of mortgage and loan originations and loan book growth

These measures enable management to monitor and control the growth of this business activity throughout the year. Despite the impact of the pandemic on the level of mortgage originations, there is continued overall growth of the mortgage loan book. Performance across all segments was supported by continued successful new product development that addressed changing customer needs and regulatory requirements.

Cost of risk

Impairment charge or release per the Statement of Comprehensive Income as a percentage of the mortgage assets as a thirteen point average (the average customer loans and receivables balances is calculated as the sum of the opening and closing balances for the year and the balances at each month end during the year divided by 13).

This is the cost of managing risks and incurring losses. The low percentage cost of risk reflects the quality of lending. The increase since 2019 is primarily as a result of adopting more adverse forward-looking macroeconomic scenarios due to the pandemic, changes to the staging criteria in line with PRA guidance, COVID-19 related enhancements to the models (see note 22).

CET1 (Common Equity Tier 1 capital)

A measure of the capital strength. The highest quality form of regulatory capital that comprises total shareholders' equity and intangible assets and certain other regulatory adjustments. CET 1 was strengthened in January 2020 by the sale of the PMF 2020-1B residual certificates and the consequent derecognition of the PMF 2020-1B mortgage assets. The ratio was further strengthened in the year by the application of the Capital Requirements Regulation 'Quick Fix' package and strong capital generation from profitability which was all retained within the Company.

Key performance indicators (KPIs) (continued)

Net interest income = interest income and similar income less interest expense and similar charges

As the key revenue stream for the business is from the interest income from customer mortgages, the net interest income is a key figure that management use to assess the performance of the Company. On a monthly basis the net interest margin is monitored for the different types of mortgage assets; Buy-to-Let, homeowner, short-term bridging and second charge revenue streams. Net interest income continues to grow as a result of the continued growth of the mortgage loan book.

Cost income ratio

Administrative expenses as a percentage of total net income as set out in the Statement of Comprehensive Income.

The cost income ratio has decreased. This reflects cost synergies realised following the combination of CCFSG with OSB and lower discretionary spend in lockdowns.

Return on equity = profit after tax as a percentage of equity

Profit after tax expressed as a percentage of equity.

Equity being share capital and reserves per the Statement of Financial Position.

The purpose of this measure is to show how efficiently the Company is making use of resources available to it.

Environment

The Company recognises the importance of its environmental responsibilities, monitors its impact on the environment and designs and implements policies to reduce any damage that might be caused by its activities. By having the majority of its activities in a single location, the Company believes it has a relatively small impact on the environment. Initiatives designed to minimise the impact on the environment include recycling and reducing energy consumption.

Approval

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

Jason Elphick

26 April 2021

2 Charter Court, Broadlands,
Wolverhampton,
West Midlands,
WV10 6TD

Registered number: 06749498

The Directors present their annual report, together with the audited financial statements, for the year ended 31 December 2020.

Information presented in other sections

Information relating to future developments, dividends, employees, principal risks and uncertainties, and section 172 and how the Directors considered and engaged with stakeholders are included in the Strategic Report. Information on derivative financial instruments can be found in note 25, for information on risk management see note 39.

The Company recognised research and developments costs in the year (note 28) relating to development of an internal model which will help to calculate risk weightings for regulatory capital purposes and help the Company optimise capital allocation. Once approved by the PRA, this will replace the standard calculation approach and should help the Company to be capital efficient and improve credit risk management capability.

Going concern statement

The Board undertakes regular rigorous assessments, in accordance with the 'Guidance on Risk Management, Internal Control and Related Financial and Business Reporting', published by the Financial Reporting Council in September 2014, of whether the Company is a going concern in light of current economic conditions and all available information about future risks and uncertainties.

In assessing whether the going concern basis is appropriate, projections for the Company and wider Group have been prepared, covering its future performance, capital and liquidity for a period in excess of 12 months from the date of approval of these financial statements. These forecasts have been subject to sensitivity tests, including stress scenarios, which have been compared to the latest Brexit and COVID-19 pandemic economic scenarios provided by the Group's external economic advisors, as well as reverse stress tests.

The assessments were significantly influenced by COVID-19 implications, covering the wider Group's capital, liquidity and operational resilience, including the following:

- The financial and capital forecasts were prepared under stress scenarios which were assessed against the latest COVID-19 related economic forecasts provided by the Group's external economic advisors. Reverse stress tests were also run, to assess what combinations of HPI and unemployment variables would result in the Group utilising its regulatory capital buffers in full and breaching the Group's minimum prudential requirements along with analysis and insight from the Group's ICAAP. The Directors assessed the likelihood of those reverse stress scenarios occurring within the next 12 months and concluded that the likelihood is remote.
- The latest liquidity and contingent liquidity positions and forecasts were assessed against the ILAAP stress scenarios, which were reviewed for suitability in the context of COVID-19 related stresses.
- The Group continues to assess the resilience of its business operating model and supporting infrastructure in the context of the emerging economic, business and regulatory environment. The key areas of focus continue to be on the provision of critical services to customers, employee health and safety and the evolving governmental policies and guidelines. The Group has assessed and enhanced its information technology platforms to support its employees with flexible working and homeworking across all locations, ensuring stable access to core systems, data and communication devices. The response to the pandemic demonstrates the inherent resilience of the Group's critical processes and infrastructure. It also reflects the necessary agility in responding to future operational demands. The operational dependencies on third party vendors and outsourcing arrangements continues to be an important area of focus.

Going concern statement (continued)

The Company's financial projections, supported by the COVID-19 assessments, demonstrate that the Company has sufficient capital and liquidity to continue to meet its regulatory capital requirements as set out by the PRA.

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

Directors

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

Graham Allatt*
Tim Brooke Thom (resigned 7 May 2020)
Rodney Duke* (appointed as Director and Chairman from 4 February 2020)
Andrew Golding
Elizabeth Noël Harwerth*
Rajan Kapoor*
Mary McNamara (resigned 13 May 2020)
April Talintyre
Ian Ward (resigned 7 May 2020)
Sir Malcolm Williamson (resigned on 4 February 2020)

*Independent Non-Executive Director

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

The Company Secretary during the year and to the date of this report was Jason Elphick.

Directors' indemnities

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

Corporate Governance

The role and structure of the Board

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

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

The Board operates in accordance with the Company's Articles of Association (the Articles) and its own written terms of reference. The Board has established an Audit and a Risk Committee, which each have their own terms of reference and are reviewed at least annually. Details of each Committee's activities during 2020 are shown below.

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

The Board met four times during 2020. Additional joint meetings were held with the OSB and OSBG Boards. All Directors attended these meetings.

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

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

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

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

Balance and independence

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

Audit Committee

The primary role of the Committee is to assist the Board in overseeing the systems of internal control and external financial reporting. The Committee's specific responsibilities are set out in its terms of reference, which are reviewed at least annually. The Audit Committee is Chaired by Rajan Kapoor, the other members are Graham Allatt and Noël Harwerth. The Committee met eight times during 2020; all members attended these meetings. The Committee considered, on behalf of the Board, whether the 2020 Annual Report and audited financial statements taken as a whole are fair, balanced and understandable and, whether the disclosures are appropriate. Further details on the activities of the Committee are set out in the OSBG annual report and accounts.

Risk Committee

The primary objective of the Committee is to support the Board in discharging its risk oversight and governance responsibilities. The Committee's specific responsibilities are set out in its terms of reference, which are reviewed at least annually. The Committee is Chaired by Graham Allatt, the other members are Noël Harwerth and Rajan Kapoor. The Committee met 11 times during 2020; an additional standalone meeting was also held. All members attended these meetings. Further details on the activities of the Committee are set out in the OSBG annual report and accounts.

Environment

Environmental matters are considered in the Strategic report above.

Internal control

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

Capital structure

No Ordinary shares were issued during 2020 (2019: one Ordinary share with a nominal value of £1 was issued for a total consideration of £25.6m).

Details of issued share capital of the Company are set out in note 37 to the financial statements. The Company has one class of ordinary shares which carries no right to fixed income. The rights and obligations attaching to ordinary shares are set out in the Articles of Association of the Company.

Post balance sheet events

There have been no events between 31 December 2020 and the date of approval of the financial statements which would require change or disclosure in the financial statements.

Audit disclosure

Each of the persons who is a Director at the date of approval of this Annual 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
- the Director has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

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

Auditor

Deloitte were appointed by the Board of Directors on 6 July 2009 to audit the financial statements for the year ending 31 December 2009 and subsequent financial periods. The period of Deloitte's total uninterrupted engagement including previous renewals and reappointments is 12 years, covering the years ending 31 December 2009 to 31 December 2020. The Company was granted a banking licence in 2015 and as a public interest entity ('PIE') Deloitte has a maximum tenure of 10 years from 2015 which can be extended to 20 years by way of mandatory tender. Since the Company became a PIE, Deloitte's period of uninterrupted engagement is 6 years, covering the years ending 31 December 2015 to 31 December 2020.

Deloitte LLP was appointed as auditor for the year and has indicated its willingness to continue in office as auditor.

Approved by the Board of Directors and signed on its behalf by:

Jason Elphick
26 April 2021

2 Charter Court,
Broadlands,
Wolverhampton,
West Midlands,
WV10 6TD

Charter Court Financial Services Limited
Directors’ responsibilities statement

For the Year Ended 31 December 2020

The Directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006. 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 Company and of the profit or loss of the Company for that period. In preparing these financial statements, International Accounting Standard 1 requires that directors:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRS are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Company's financial position and financial performance; and
- make an assessment of the Company's ability to continue as a going concern.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company’s transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Charter Court Financial Services Limited
Independent auditor's report to the members of Charter Court Financial Services Limited

Report on the audit of the financial statements

1. Opinion

In our opinion the financial statements of Charter Court Financial Services Limited (the "Company"):

- give a true and fair view of the state of the Company's affairs as at 31 December 2020 and of its profit for the year then ended;
- have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the statement of comprehensive income;
- the statement of financial position;
- the statement of changes in equity;
- the statement of cash flows; and
- the related notes 1 to 44.

The financial reporting framework that has been applied in their preparation is applicable law, international accounting standards in conformity with the requirements of the Companies Act 2006 and IFRSs as adopted by the EU.

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 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 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 Company.

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

3. Summary of our audit approach

Key audit matters	The key audit matters that we identified in the current year were: • Loan impairment provisions; • Effective interest rate ('EIR') income recognition; and • The value of assets held at fair value through other comprehensive income ('FVOCI'). Within this report, key audit matters are identified as follows: Newly identified Increased level of risk Similar level of risk Decreased level of risk
Materiality	The materiality that we used in the current year was £5.3m which was determined on the basis of net assets.
Scoping	Audit work to respond to the risks of material misstatement was performed directly by the audit engagement team.
Significant changes in our approach	The key audit matters presented in our report reflect the activity of the Company for the year. In the prior year, as a result of the acquisition of Charter Court Financial Services Group plc ('CCFSG') and its subsidiaries by OneSavings Bank plc we identified the classification of exceptional items and integration costs to be a key audit matter. In the current year, due to the reduction in exceptional items and integration costs, from £18.2m to £2.2m, this has not been identified as a key audit matter for the year ended 31 December 2020. As a result of the outbreak of Covid-19, in the prior year we identified a key audit matter in relation to going concern. This has not been identified as a key audit matter for the current year due to reduced uncertainty regarding the impact of Covid-19 on the company at the date of approval of the financial statements.

4. Conclusions relating to going concern

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

Our evaluation of the directors' assessment of the Company's ability to continue to adopt the going concern basis of accounting included:

- We obtained and read management's going concern assessment, which included specific consideration of the impacts of the Covid-19 pandemic and the Company's operational resilience, in order to understand, challenge and evidence the key judgements made by management;
- We obtained an understanding of relevant controls around management's going concern assessment;
- We obtained management's income statement, balance sheet and capital and liquidity forecasts and challenged key assumptions and their projected impact on capital and liquidity ratios, particularly with respect to loan book growth and potential credit losses;

Supported by our in-house prudential risk specialists, we read the most recent ICAAP and ILAAP submissions, assessed management's capital and liquidity projections, assessed the results of management's capital reverse stress testing, challenged key assumptions and methods used in the audit

- capital reverse stress testing models and tested the mechanical accuracy of the capital reverse stress testing models;
- We read correspondence with regulators to understand the capital and liquidity requirements imposed by the Company's regulators, and evidence any changes to those requirements;
- We met with the Company's lead regulators, the Prudential Regulation Authority and the Financial Conduct Authority, and discussed their views on existing and emerging risks to the Company and we considered whether these were reflected appropriately in management's forecasts and stress tests;
- We assessed the historical accuracy of forecasts prepared by management; and
- We assessed the appropriateness of the disclosures made in the financial statements in view of the FRC guidance.

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

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

5. Key audit matters

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

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

5.1. Loan impairment provisions

Refer to the critical accounting estimates on page 61, the accounting policy on pages 53 to 55 and Notes 23 and 39 on pages 70 and 80.

Key audit matter description	IFRS 9 requires loan impairment provisions to be recognised on an expected credit loss ('ECL') basis. The estimation of ECL provisions in the Company's loan portfolios is inherently uncertain and requires management to make significant judgements and estimates. ECL provisions as at 31 December 2020 were £27.7m (2019: £8.0m), which represented 0.4% (2019: 0.1%) of loans and advances to customers. ECLs are calculated on a portfolio basis which require the use of statistical models incorporating loss data and assumptions on the recoverability of customers' outstanding balances. Covid-19 has increased the complexity in estimating ECLs, particularly with regards to determining appropriate forward looking macroeconomic scenarios and appropriately identifying significant increases in credit risk. The ECL provision requires management to make significant judgements and estimates. We therefore consider this to be a key audit matter due to the risk of fraud or error in respect of the Company's ECL provision. We identified four specific areas in relation to the ECL that require significant management judgement or relate to assumptions to which the overall ECL provision is particularly sensitive. • Significant increase in credit risk ('SICR'): The assessment of whether there has been a significant increase in credit risk between the date of origination of the exposure and 31 December 2020. There is a risk that management's staging criteria does not capture SICR and/or are applied incorrectly. • Macroeconomic scenarios: The Company sourced economic forecasts from a third party economics expert and considered four probability weighted scenarios, including base, upside, downside and severe downside scenarios. Due to the economic uncertainty arising from Covid-19, there have been significant changes to the economic assumptions in each of the scenarios, as well as a change to the weightings applied to each scenario. The key economic variables were determined to be the house price index ('HPI') and unemployment. There is significant judgement in determining the probability weighting of each scenario and the assumptions and characteristics of each scenario applied. • Probability of Default ('PD') for accounts which have taken Covid-19 payment holidays: Management applies significant judgement in determining the PD for

	borrowers who have taken Covid-19 payment holidays. There is limited observed behavioural data for accounts which took payment holidays in 2020, and the data are likely to have been distorted by current government support measures and therefore may not be an accurate reflection of the underlying credit risk of the Covid-19 payment holiday population as at 31 December 2020. • Propensity to go into possession following default ('PPD') and forced sale discount ('FSD') assumptions: PPD measures the likelihood that a defaulted loan will progress into repossession. FSD measures the difference in sale proceeds between a sale under normal conditions and sale at auction. The loss given default ('LGD') by loan assumed in the ECL provision calculation is highly sensitive to the PPD and FSD assumptions.

How the scope of our audit responded to the key audit matter	We obtained an understanding of the relevant financial controls over the ECL provision with particular focus on controls over significant management assumptions and judgements used in the ECL determination. To challenge the Company's SICR criteria, we: • Evaluated the Company's SICR policy and assessed whether it complies with IFRS 9; • Assessed the PD thresholds used in the SICR assessment by reference to standard validation metrics including the proportion of transfers to stage two driven solely by being 30 days past due, the volatility of loans in stage two and the proportion of loans that spend little or no time in stage two before moving to stage three; • Challenged the appropriateness of changes made to management's staging framework in response to Covid-19 during the year against the requirements of IFRS 9 and, supported by our modelling specialists, assessed the appropriateness of the changes made in the staging model; • Tested whether the PD thresholds set by management had been appropriately applied in practice as at 31 December 2020; and • Performed an independent assessment for a sample of loan accounts, including a focused sample of Covid-19 payment holiday accounts which exited forbearance, to determine whether they have been appropriately allocated to the correct stage. To challenge the Company's macro-economic scenarios and the probability weightings applied we: • Agreed the macroeconomics scenarios used in the ECL model to reports prepared by the third party economics expert; • Assessed the competence, capability and objectivity of the third party economics expert, which included making specific inquiries to understand their approach and modelling assumptions to derive the scenarios; • Supported by our economic specialists, assessed and challenged management's assessment of scenarios considered and the probability weightings assigned to them in light of the economic position as at 31 December 2020;

- Involved our economic specialists to challenge the Company's economic outlook by reference to other available economic outlook data;
- Performed a benchmarking exercise to compare the appropriateness of selected macroeconomic variables and weightings to those used by peer lenders. The key economic variables were the HPI and unemployment;
- Supported by our analytics and modelling specialists, assessed and challenged the changes made to the model methodology and computer code in the macroeconomics overlay model which applies the scenarios to the relevant ECL components; and
- For a sample of loans, we independently recalculated the ECL using the macroeconomic variables to check they were being applied appropriately.

To challenge the Company's PDs for accounts which took Covid-19 payment holidays in 2020 we:

- Evaluated the Company's staging framework and, considering PRA guidance, assessed whether the treatment of accounts which took Covid-19 payment holidays in 2020 complies with IFRS 9;
- Supported by our analytics and modelling specialists, assessed and challenged the computer code script to determine whether the PD adjustments for accounts which took Covid-19 payment holidays in 2020 had been implemented within the model correctly;
- Performed an independent assessment for a sample of loan accounts which took Covid-19 payment holidays in 2020 and those which had not taken such holidays to challenge the completeness and accuracy of the recording of payment holiday forbearance in the lending systems;
- Assessed the recent performance of borrowers who were granted payment holidays in order to challenge the PDs applied;
- Performed a peer benchmarking exercise to industry peers to compare the Company's ECL coverage ratio on the Covid-19 payment holiday population.

To challenge the Company's PPD and FSD assumptions we:

- Supported by our analytics and modelling specialists, challenged the changes made to computer code in the LGD models;
- Recalculated the PPD rates observed on defaulted cases and compared them with the rates used by the Company in the ECL models;
- Recalculated the FSD observed on recent property sales on the defaulted accounts and compared them with the rates used by the Company in the ECL models;
- Assessed the appropriateness of PPD and FSD assumptions adopted by management through benchmarking to industry peers; and
- Assessed the impact of findings raised in management's independent model validation conducted in 2020.

Key observations	We determined that the methodology used and the SICR criteria, PDs applied to accounts which took Covid-19 payment holidays in 2020, and PPD and FSD assumptions management have made in determining the ECL provision as at 31 December 2020 were reasonable. Notwithstanding that estimating the probability and impact of future economic outcomes is inherently judgemental and that there is heightened economic uncertainty due to Covid-19, on balance, we consider that the macroeconomic scenarios selected by the Directors and the probability weightings applied generate an appropriate portfolio loss distribution. We therefore determined that loan impairment provisions are appropriately stated.

5.2. Effective interest rate income recognition

Refer to the critical accounting estimates on page 60, the accounting policy on page 48 and Note 22 on page 68.

Key audit matter description	In accordance with the requirements of IFRS 9, management is required to spread directly attributable fees, discounts, incentives and commissions on a constant yield basis ("effective interest rate, EIR") over the shorter of the expected and contractual life of the loan assets. EIR is complex and the Company's approach to determining the EIR involves the use of models and significant estimation in determining the behavioural life of loan assets. Given the complexity and judgement involved in accounting for EIR and given that revenue recognition is an area susceptible to fraud, there is an opportunity for management to manipulate the amount of interest income reported in the financial statements. . The Company's net interest income for the year ended 31 December 2020 was £192.3m (2019: £189.1m). 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. The EIR adjustments are sensitive to changes in the behavioural life "curves". Covid-19 introduces additional uncertainty with regards to forecasting expected behavioural lives and prepayment rates due to its significant impact on the UK economy and housing market, as well as the measures taken by the UK government to stimulate the economy in response to Covid-19, such as the furlough scheme, payment holidays and the stamp duty holiday. We therefore identified the estimation of the behavioural life for these portfolios as a focus area of our audit.

How the scope of our audit responded to the key audit matter	We obtained an understanding of the relevant controls over EIR, focusing on the calculation and review of EIR adjustments and the determination of prepayment curves. We involved our in-house analytics and modelling specialists to run the Company's loan data for all products through our own independent EIR model, using the behavioural life curves derived by the Company. We compared our calculation of the EIR adjustment required to the amount recorded by management. For the same portfolios, we involved our in-house modelling specialists to independently derive a behavioural life curve using the Company's loan data over recent years. We used these curves in our own independent EIR model to derive an independent output showing the EIR adjustments that should have been recorded in 2020. 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 loans originated in the year. In challenging the Company's assumptions over the estimated life of loan accounts, we also independently considered whether behavioural data since the start of the first national lockdown in March 2020 were indicative of future behaviour. We considered factors such as the significant impact that Covid-19 has had on the UK economy and housing market, and the measures taken by the UK government to stimulate the economy, such as the furlough scheme, payment holidays and the stamp duty holiday.
Key observations	Notwithstanding that estimating the future behaviour of loan assets is inherently judgemental and that there is heightened economic uncertainty due to Covid-19, we determined that the EIR models and assumptions used were appropriate and that net interest income for the period is appropriately stated.

5.3. The valuation of assets held at fair value through other comprehensive income

Refer to the key sources of estimation uncertainty on page 60, the accounting policy on page 51 and Note 22 on page 69

Key audit matter description	Under IFRS 9, the Company has a secondary business model which is 'held to collect and sell' and therefore a significant portion of the Company's loans and receivables are held at FVOCI. At 31 December 2020, the Company held £656.0m (2019: £916.4m) of loans and receivables at FVOCI. The fair value adjustment is individually material and is highly sensitive to changes in key assumptions, being the discount rate and prepayment rates. Given the complexity and judgement involved in the fair value adjustment, this could give risk to material misstatement in the financial statements due to fraud or error.

How the scope of our audit responded to the key audit matter	We obtained an understanding of the relevant controls relating to the FVOCI model with particular focus on controls over significant management assumptions and judgements. To challenge the valuation of the loan book that is held at FVOCI, we involved our in-house valuation specialists to derive an independent fair value using external inputs. We compared our fair value adjustment to that derived by management. We have tested the completeness and accuracy of a sample of inputs into the FVOCI model. 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 Company. We have challenged the appropriateness of the overall movement in the fair value uplift in 2020 by comparison to that of 2019, assessing the significant impact of Covid-19 on discount rates and prepayment rates within the model.
Key observations	We determined the valuation of the assets held at FVOCI recognised by management to be within an acceptable range of our independent valuation. We determined that management's valuation is appropriately stated.

6. Our application of materiality

6.1. Materiality

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

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

Materiality	£5.3m (2019: £5.3m)
Basis for determining materiality	1.0% of net assets, capped at prior year materiality of £5.3m (2019: 5% of normalised profit before tax). Normalised profit before tax is statutory profit before tax of £91.9m for the year ended 31 December 2019 excluding the exceptional transaction costs of £15.5m.
Rationale for the benchmark applied	We considered both a profit based measure and net assets as benchmarks for determining materiality. In the prior year our benchmark was profit before tax. The emergence of Covid-19 has caused significant economic uncertainty and we therefore deemed it appropriate to use net assets as a more stable benchmark, capped at the materiality of prior year, £5.3m.

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. Performance materiality was set at 70% of materiality for the 2020 audit (2019: 70%). In determining performance materiality, we considered the following factors:

- the quality of the control environment;
- the low number of corrected and uncorrected misstatements identified in the prior year; and
- the impact of Covid-19 on the control environment.

Error reporting threshold

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £265k (2019: £265k), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

7. An overview of the scope of our audit

7.1. Scoping

Our audit was scoped by obtaining an understanding of the entity and its environment, including internal control, and assessing the risks of material misstatement. Audit work to respond to the risks of material misstatement was performed directly by the audit engagement team.

7.2. Our consideration of the control environment

We identified the key IT systems relevant to the audit to be those used in the financial reporting and lending businesses. For these controls we involved our IT specialists to perform testing over the general IT controls, including testing of user access and change management systems.

In the current year we relied on controls for the lending business and related interest income. For the areas where we relied on controls, we performed walkthroughs with management to understand the process and controls, identified and tested relevant controls that address risks of material misstatement in financial reporting.

8. Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor’s report thereon. The directors are responsible for the other information contained within the annual report.

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

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

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

We have nothing to report in this regard.

9. Responsibilities of directors

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

In preparing the financial statements, the directors are responsible for assessing the 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 Company or to cease operations, or have no realistic alternative but to do so.

10. Auditor’s responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC’s website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor’s report.

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

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

11.1. Identifying and assessing potential risks related to irregularities

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

- the nature of the industry and sector, control environment and business performance including the design of the Company's remuneration policies, key drivers for directors' remuneration, bonus levels and performance targets;
- 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 Company'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 and relevant internal specialists, including tax, valuations, information technology, financial instruments, prudential regulatory and analytics and modelling specialists regarding how and where fraud might occur in the financial statements and any potential indicators of fraud.

As a result of these procedures, we considered the opportunities and incentives that may exist within the organisation for fraud and identified the greatest potential for fraud in the following areas: loan impairment provisions, effective interest rate income recognition, the valuation of assets held at fair value through other comprehensive income and classification of exceptional items and integration costs. 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 Company 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 UK Companies Act and tax legislation etc.

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 Company's ability to operate or to avoid a material penalty. These included the Company's prudential regulatory requirements and capital, liquidity and conduct requirements.

11.2. Audit response to risks identified

As a result of performing the above, we identified loan impairment provisions, effective interest rate income recognition and the valuation of assets held at fair value through other comprehensive income 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 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 in the classification of exceptional items and integration costs, testing the appropriateness of the classification for a sample of these items; and
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

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

Report on other legal and regulatory requirements

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

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

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

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

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

13.1. Adequacy of explanations received and accounting records

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

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

We have nothing to report in respect of these matters.

13.2. Directors' remuneration

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

We have nothing to report in respect of this matter.

14. Other matters which we are required to address

14.1. Auditor tenure

Following the recommendation of the Audit Committee, we were appointed by the Board of Directors on 6 July 2009 to audit the financial statements for the year ending 31 December 2009 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 12 years, covering the years ending 31 December 2009 to 31 December 2020.

14.2. Consistency of the audit report with the additional report to the Audit Committee

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

15. Use of our report

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

Matthew Perkins FCA (Senior statutory auditor)

For and on behalf of Deloitte LLP

Statutory Auditor

Birmingham, United Kingdom

April 2021

Charter Court Financial Services Limited
Statement of Comprehensive Income
For the year ended 31 December 2020

	Note	**2020** **£m**	2019 £m
Interest receivable and similar income	6	**294.2**	308.5
Interest payable and similar charges	7	**(101.9)**	(119.4)
Net interest income		**192.3**	189.1
Fair value losses on financial instruments	8	**(5.1)**	(9.2)
Loss on swap cancellations	9	**(4.9)**	-
Other income	10	**2.2**	5.1
Total income		**184.5**	185.0
Administrative expenses	11	**(64.5)**	(70.4)
Provisions		**(0.1)**	(0.1)
Impairment of financial assets	13	**(19.8)**	(4.4)
Integration costs	14	**(2.2)**	(2.7)
Exceptional items	15	**-**	(15.5)
Profit before taxation		**97.9**	91.9
Taxation	17	**(25.1)**	(25.9)
Profit for the year		**72.8**	66.0
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		**(16.6)**	(12.3)
Tax on items in other comprehensive expense		**3.8**	0.6
Other comprehensive expense		**(12.8)**	(11.7)
Total comprehensive income for the year		**60.0**	54.3

The above results are derived wholly from continuing operations.

Charter Court Financial Services Limited
Statement of Financial Position
As at 31 December 2020

	Note	**2020 £m**	2019 £m
Assets			
Loans and advances to credit institutions	20	**1,022.5**	931.3
Investment securities	21	**460.7**	485.5
Loans and advances to customers	22	**7,694.5**	7,246.6
Fair value adjustments on hedged assets	24	**81.4**	27.5
Derivative assets	25	**7.7**	11.8
Other assets	26	**3.2**	3.4
Current taxation asset		**2.5**	-
Property, plant and equipment	27	**8.4**	9.8
Intangible assets	28	**5.4**	4.0
Total assets		**9,286.3**	8,719.9
Liabilities			
Amounts owed to credit institutions	29	**1,669.2**	1,301.8
Amounts owed to retail depositors	30	**6,894.7**	6,812.8
Fair value adjustments on hedged liabilities	24	**9.6**	5.0
Amounts owed to other customers	31	**67.1**	20.8
Derivative liabilities	25	**58.1**	38.5
Lease liabilities	32	**6.4**	7.5
Other liabilities	33	**11.1**	7.7
Provisions	34	**0.2**	0.1
Current taxation liability		**-**	12.1
Deferred taxation liability	36	**3.3**	7.0
		8,719.7	8,213.3
Equity			
Share capital	37	**2.9**	2.9
Share premium	37	**67.3**	67.3
Retained earnings		**494.0**	421.2
Other reserves		**2.4**	15.2
		566.6	506.6
Total equity and liabilities		**9,286.3**	8,719.9

Notes 1 to 44 form an integral part of the financial statements.

Company Number: 06749498

The financial statements were approved by the Board of Directors and authorised for issue on 26 April 2021. They were signed on its behalf by:

April Talintyre, Director

Charter Court Financial Services Limited
Statement of Changes in Equity
For the year ended 31 December 2020

	Note	Share capital £m	Share premium £m	Other reserves £m	Retained earnings £m	Total £m
		37	37			
At 31 December 2018		2.9	41.7	26.9	355.2	426.7
Profit for the year					66.0	66.0
Shares issue		-	25.6		-	25.6
Other comprehensive income				(12.3)		(12.3)
Tax recognised in equity				0.6		0.6
At 31 December 2019		2.9	67.3	15.2	421.2	506.6
Profit for the year		**-**	**-**	**-**	**72.8**	**72.8**
Dividends paid		**-**	**-**	**-**	**-**	**-**
Other comprehensive income		**-**	**-**	**(16.6)**	**-**	**(16.6)**
Tax recognised in equity		**-**	**-**	**3.8**	**-**	**3.8**
At 31 December 2020		**2.9**	**67.3**	**2.4**	**494.0**	**566.6**

At 31 December 2020, fair value movements of residential mortgages classified as FVOCI are stated after a loss allowance for the year of £1.1m (2019: £0.6m) and EIR adjustments for the year of £(0.3)m (2019: £(4.4)m) on customer loans and receivables measured at FVOCI.

Charter Court Financial Services Limited
Statement of Cash Flows
For the year ended 31 December 2020

	Note	2020 £m	2019 £m
Cash flows from operating activities			
Profit before taxation		**97.9**	91.9
Adjustments for non-cash items	42	**(37.3)**	(43.8)
Changes in operating assets and liabilities	42	**(617.6)**	387.2
Cash (used in) / generated from operating activities		**(557.0)**	435.3
Net tax paid		**(39.6)**	(28.9)
Net cash (used in) / generated from operating activities		**(596.6)**	406.4
Cash flows from investing activities			
Sales of loans and advances to customers		**605.3**	-
Maturity and sales of loan note receivable		**-**	23.4
Maturity and sales of investment securities	21	**131.1**	44.9
Purchases of investment securities	21	**(105.0)**	(392.8)
Purchases of equipment and intangible assets	27,28	**(2.4)**	(2.7)
Cash generated from / (used in) investing activities		**629.0**	(327.2)
Cash flows from financing activities			
Repayment of deemed loans due to Group undertakings	35	**-**	(104.3)
Proceeds from issuance of shares	37	**-**	25.6
Cash payments on lease liabilities	32	**(1.3)**	(1.3)
Cash used in financing activities		**(1.3)**	(80.0)
Net increase in cash and cash equivalents		**31.1**	(0.8)
Cash and cash equivalents at the beginning of the year	19	**869.0**	869.8
Cash and cash equivalents at the end of the year	19	**900.1**	869.0
Movement in cash and cash equivalents		**31.1**	(0.8)

In order to align with the Group's cash flow statement presentation, encumbered loans and advances to credit institutions are no longer classified as cash and cash equivalents, and 2019 comparatives are also presented on this basis. As a result, the 2019 cash and cash equivalents at the beginning of the year is lower by £8.2m and the 2019 cash and cash equivalents at the end of the year is lower by £62.3m, resulting in an overall £54.1m cash outflow which has been reclassified to operating assets and liabilities.

1. General information

Charter Court Financial Services Limited is a company incorporated in the United Kingdom and registered in England and Wales under the Companies Act 2006 with company number 06749498. The address of the registered office is 2 Charter Court, Broadlands, Wolverhampton, West Midlands, WV10 6TD. The Company is a private company limited by shares. The nature of the Company's operations and its principal activities are set out in the Strategic Report.

2. Basis of preparation

OneSavings Bank plc was the ultimate controlling party of the Company until 27 November 2020, when the Group inserted OSB GROUP PLC (OSBG) as the new ultimate controlling party and listed holding company of the Group.

The financial statements for the Company have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC). The IFRS's applied for all periods herein presented, are those that are effective for accounting periods beginning on or after 1 January 2020.

The Company's financial statements are prepared under the historical cost convention as modified by the revaluation of derivative financial instrument and other assets held at fair value through profit or loss (FVTPL) or held at fair value through other comprehensive income (FVOCI). Historical cost is generally based on the fair value of the consideration given in exchange for services. 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, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Company takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these financial statements is determined on such a basis, except for leasing transactions that are within the scope of IFRS 16, and measurements that have some similarities to fair value but are not fair value, such as value in use in IAS 36.

The financial statements are presented in pounds sterling. The functional currency of the Company is pounds sterling, which is the currency of the primary economic environment in which the entities operate. There are currently no foreign operations within the Company.

The Company's accounting reference date is 31 December so that the year end is aligned with its ultimate parent company, immediate parent company and fellow subsidiaries within the OSB Group for the purposes of preparing consolidated financial statements for the OSB Group. The Company has no subsidiaries and accordingly, these financial statements relate to the Company only.

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

In assessing whether the going concern basis is appropriate, projections for the Company and wider Group have been prepared, covering its future performance, capital and liquidity for a period in excess of 12 months from the date of approval of these financial statements. These forecasts have been subject to sensitivity tests, including stress scenarios, which have been compared to the latest Brexit and COVID-19 pandemic economic scenarios provided by the Group's external economic advisors, as well as reverse stress tests.

2. Basis of preparation (continued)

The assessments were significantly influenced by COVID-19 implications, covering the wider Group's capital, liquidity and operational resilience, including the following:

- The financial and capital forecasts were prepared under stress scenarios which were assessed against the latest COVID-19 related economic forecasts provided by the Group's external economic advisors. Reverse stress tests were also run, to assess what combinations of HPI and unemployment variables would result in the Group utilising its regulatory capital buffers in full and breaching the Group's minimum prudential requirements along with analysis and insight from the Group's ICAAP. The Directors assessed the likelihood of those reverse stress scenarios occurring within the next 12 months and concluded that the likelihood is remote.
- The latest liquidity and contingent liquidity positions and forecasts were assessed against the ILAAP stress scenarios, which were reviewed for suitability in the context of COVID-19 related stresses.
- The Group continues to assess the resilience of its business operating model and supporting infrastructure in the context of the emerging economic, business and regulatory environment. The key areas of focus continue to be on the provision of critical services to customers, employee health and safety and the evolving governmental policies and guidelines. The Group has assessed and enhanced its information technology platforms to support its employees with flexible working and homeworking across all locations, ensuring stable access to core systems, data and communication devices. The response to the pandemic demonstrates the inherent resilience of the Group's critical processes and infrastructure. It also reflects the necessary agility in responding to future operational demands. The operational dependencies on third party vendors and outsourcing arrangements continues to be an important area of focus.

The Company's financial projections, supported by the COVID-19 assessments, demonstrate that the Company has sufficient capital and liquidity to continue to meet its regulatory capital requirements as set out by the PRA.

The Board has therefore concluded that the Company 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.

3. Adoption of new International financial reporting standards

International financial reporting standards issued and adopted for the first time in the year ended 31 December 2020

The following financial reporting standard amendments and interpretations were in issue and have been applied in the financial statements from 1 January 2020.

- 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

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

3. Adoption of new International financial reporting standards (continued)

International financial reporting standards issued but not yet adopted which are applicable to the Company

The following financial reporting standards were in issue but have not been applied in the financial statements, as they were not yet effective on 31 December 2020.

Effective for accounting periods beginning on or after 1 June 2020:

- Amendments to IFRS 16 – COVID-19 related rent concessions

Effective for accounting periods beginning on or after 1 January 2021:

- Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 Interest Rate Benchmark Reform – Phase 2
- Amendments to IAS 1 – Classification of liabilities as current or non-current.
- Annual improvements to IFRS Standards 2018-2020 – Minor amendments to IFRS 1, IFRS 9 and IFRS 16.

The Company does 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.

4. Accounting policies

Interest income and expense

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

When calculating the EIR, the Company 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 Company 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 Company considers the cash variance on an absolute and percentage basis. The Company 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, SONIA or base rate) affecting portfolios with a variable interest rate which will impact future cash flows. The revised EIR is the rate which exactly discounts the revised cash flows to the net carrying value of the loan portfolio.

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.

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 Company includes early redemption charges within the EIR.

4. Accounting policies (continued)

Non-interest income

Non-interest income is measured at the fair value of the consideration received or receivable and represents amounts receivable for services provided in the normal course of business, net of discounts, VAT and other sales-related taxes.

Fees that are not an integral part of the effective interest rate of a financial instrument and are accounted for in accordance with IFRS 15 Revenue from Contracts with Customers include fees received from the mortgage administration services, the sale of investment in debt securities, the sale of residual interest in securitisations and mortgage origination activities.

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.

Gain on sale of loans

The difference between the carrying amount of customer loans and receivables (measured at the date of derecognition) and the consideration received (including any new asset obtained less any new liability assumed) is recognised as a gain on sale of loans in the Statement of Comprehensive Income.

Lease

The Company recognises right-of-use assets and lease liabilities for leases over 12 months long. Right-of-use assets and lease liabilities are initially recognised at the net present value of future lease payments, discounted at the rate implicit in the lease or, where not available, the Company'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 Company recognises lease liability payments within financing activities in the Statement of Cash Flows.

The Company 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 in profit or loss.

4. Accounting policies (continued)

Taxation

Income tax comprises current and deferred tax. It is recognised in profit or loss, other comprehensive income or directly in equity, consistent with the recognition of items it relates to. The Company recognises tax on the non-controlling interest securities directly in profit or loss.

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

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

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

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

Dividends

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

Cash and cash equivalents

For the purposes of the Consolidated 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.

Property, fixtures and equipment

Leasehold property improvements, fixtures and equipment and computer equipment are 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, fixtures and equipment are depreciated on a straight-line basis over their estimated useful economic lives as follows:

Leasehold property improvements	10 years
Fixtures and equipment	5 years
Computer equipment	5 years

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

4. Accounting policies (continued)

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 Company and will generate future economic benefits. Costs to establish technological feasibility or to maintain existing levels of performance are recognised as an expense. The Company 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.

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	5 year straight line
Development costs	4 year straight line

The Company 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.

Financial instruments

Classification

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

- **Amortised cost** – assets in a business model to hold financial assets in order to collect contractual cash flows, where the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.
- **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 Company measures derivatives and an acquired mortgage portfolio under this category.

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

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

The Company reassesses its business models each reporting period.

4. Accounting policies (continued)

The Company 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 non-controlling interest securities. Accordingly, the coupon paid on the non-controlling interest securities is recognised directly in retained earnings when paid.

Recognition

The Company 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 Company becomes a party to the contractual provisions of the instrument.

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

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

Derecognition

The Company derecognises financial assets when the contractual rights to the cash flows expire or the Company transfers substantially all risks and rewards of ownership of the financial asset. In assessing the Company’s retention programmes 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 Company are considered a modification event as the contractual cash flows are renegotiated or otherwise modified. The Company 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.

Offsetting

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

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

4. Accounting policies (continued)

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

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.

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 Company has access at that date.

When available, the Company 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 Company measures the fair value of its investment securities using quoted market prices.

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

The Company 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 Company'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. Derivatives are valued using discounted cash flow models and observable market data and are sensitive to benchmark interest and basis rate curves.

Identification and measurement of impairment of financial assets

The Company assesses all financial assets for impairment.

Loans and advances to customers

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

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

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

4. Accounting policies (continued)

Individual assessment

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

The Company estimates cash flows from these loans, including expected interest and principal payments, rental or sale proceeds, selling and other costs. The Company 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 Company applies a modelled assessment to all loans with no individually-assessed provision.

IFRS 9 modelled impairment

Measurement of ECL

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

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

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

Significant increase in credit risk (movement to stage 2)

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

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

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

4. Accounting policies (continued)

Definition of default (movement to stage 3)

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

- If an account is more than 90 days past due.
- Accounts that have moved into an unlikely to pay position, which includes forbearance, bankruptcy, repossession and interest-only term expiry.

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

Forward-looking macroeconomic scenarios

The risk of default and expected credit loss assessments take into consideration expectations of economic changes that are deemed to be reasonably possible.

The Company conducts analysis to determine the most significant factors which may influence the likelihood of an exposure defaulting in the future. The macroeconomic factors relate to the HPI, UR, GDP, CRE and the BBR.

The Company 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 Company currently does not have an in-house economics function and therefore sources economic forecasts from an appropriately qualified third party. The Company considers four probability-weighted scenarios, base, upside, downside and severe downside scenarios.

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

Period over which ECL is measured

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

Purchased or originated credit impaired (POCI)

Acquired loans that meet the Company's definition of default (90 days past due or an unlikeliness to pay position) at acquisition are treated as a POCI asset. These assets 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 Company does not originate credit-impaired loans.

Intercompany loans

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

4. Accounting policies (continued)

Other financial assets

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

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 Company 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 Company transfers its rights to the collateral thereon to the BoE under the Term Funding Scheme (TFS), Term Funding Scheme with additional incentives for SMEs (TFSME) and Indexed Long-Term Repo (ILTR) schemes are not derecognised from the Statement of Financial Position, as the Company 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 Company classifies TFS, TFSME and ILTR as amortised cost under IFRS 9 Financial Instruments.

Loans and advances include a small acquired mortgage portfolio where the contractual cash flows include payments that are not solely payments of principal and interest and as such are measured at FVTPL. The Company 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.

Investment securities

Investment securities comprise securities held for liquidity purposes (UK treasury bills and RMBS). 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 at 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.

Deposits, debt securities in issue and subordinated liabilities

Deposits and debt securities in issue are the Company's sources of debt funding. They comprise deposits from retail customers and credit institutions, including collateralised loan advances from the BoE under the TFS, TFSME and ILTR and asset-backed loan notes issued through the Company's securitisation programmes. 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, TFSME and ILTR is recorded in amounts owed to credit institutions. Interest is accrued over the life of the agreements on an EIR basis.

4. Accounting policies (continued)

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 'Derecognition' 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.

Derivative financial instruments

The Company 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 Company 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 Company also uses derivatives to hedge the interest rate risk inherent in irrevocable offers to lend. This exposes the Company 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 Company 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.

Hedge accounting

The Company has chosen to continue to apply the hedge accounting requirements of IAS 39 instead of the requirements in Chapter 6 of IFRS 9. The Company 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 Company 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 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 Company 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.

4. Accounting policies (continued)

Hedge accounting (continued)

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

The Company 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.

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 Company's default. The CVA reflects the Company'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 EAD;
- the expected LGD; and
- the average maturity of the swaps.

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 Company'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.

5. Judgements in applying accounting policies and critical accounting estimates

In preparing these financial statements, the Company 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.

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

Judgements

The following are the critical accounting judgements, apart from those involving estimations (which are dealt with separately below), that the Directors have made in the process of applying the Company's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.

Significant increase in credit risk for classification in stage 2

The Company's SICR rules, prior to the COVID-19 pandemic, considered changes in default risk, internal impairment measures, changes in customer credit bureau files, or whether forbearance measures had been applied. The Company took steps to adjust the SICR criteria through the pandemic to account for the changes in risk profile and specifically for payment deferrals granted, noting that not all of the instances of a payment deferral would be a significant increase in credit risk. Payment deferrals granted due to COVID-19 alone were not automatically considered as a SICR event in line with issued guidance, and adjustments to the rules were as follows:

- Payment deferrals considered as a SICR event where other significant high risk factors are identified on customer's credit files;
- Payment deferrals considered as a SICR event where an account also had recent arrears; and
- Customers with stress to their income considered as a SICR event.

Derecognition of financial assets

The primary management judgement around the derecognition of financial assets is in determining the extent to which the Company retains risks and rewards in relation to the residential mortgages after they are sold to other companies within the Group.

During the year, the Company sold at par £329.8m of residential mortgages to Broadlands Finance Limited and £275.6m at par of residential mortgages were sold to CML (2019: £587.9m of residential mortgages to CML), fellow subsidiaries of the Company. Following the sales, the Company did not retain the risks and rewards of the mortgage assets and management concluded that the criteria for derecognition were met in the Company. No material gain or loss was recognised.

Business model

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

Management considered the manner in which the Company manages its financial assets by reference to how the performance of the assets is evaluated and their performance measured, the risks that affect the performance of the assets and how these are managed.

Management concluded that the Company's primary business model is a 'held to collect' business model, which means that the majority of the Company's assets are held at amortised cost. This conclusion was reached on the basis that the Company originates in order to collect contractual cash flows over the life of the originated instrument.

Management concluded that the Company's secondary business model is a 'held to collect and sell' business model and a significant portion of the Company's assets are held at FVOCI. This conclusion was reached on the basis that customer loans may on occasion be sold to fellow subsidiaries; such sales are expected to be a relatively small proportion of total loan assets. The Company securitises some of its mortgage assets. The Company sells the residual income in some securitisations resulting in the derecognition of those mortgage assets.

The Audit Committee also considered the business model assessment of IFRS 9 and agreed with management's conclusions on the business models.

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

Estimation

Fair values of the residential mortgages at FVOCI

The fair values of the residential mortgages at FVOCI (see note 22) are calculated using an expected cash flow model, including assumptions on expected repayments rates and expected credit losses. Expected future principal and interest cash flows are discounted using a rate of 1 month LIBOR plus a margin, where the margin is a function of credit spread and lender commercial margin.

Determining discount rates in fair value models is a key area of judgment. In 2020, which has seen unprecedented uncertainty in the macro environment, mortgage pricing has remained relatively stable with only a modest sustained widening of lender spreads. Given that the Company had increased its discount margins in its fair value models during the year; then a reasonable expectation in the next 12 months would be, to see a reversal of that increase as the macro environment improves, or a similar further widening to that experienced in 2020 reflecting prolonged economic uncertainty.

The fair value calculation is sensitive to the credit spreads embedded in the discount rates applied. An increase of 0.25% in the discount rate results in a decrease of £5.9m (2019: increase of 1.00% results in a decrease of £33.8m) to the fair value of residential mortgages at FVOCI. A decrease of 0.25% in the discount rate results in an increase of £6.0m (2019: decrease of 1.00% results in an increase of £36.2m) to the fair value of residential mortgages at FVOCI.

Effective interest rate on organic lending

Estimates are made when calculating the EIR for newly originated loan assets. These include the likely customer redemption profiles.

Mortgage products offered by the Company include directly attributable net fee income and a period on reversion rates after the fixed/discount period, products revert to a LIBOR/Base plus a margin. The Company uses historical customer behaviours, expected take-up rate of retention products and macroeconomic forecasts in its assessment of prepayment rates. Customer prepayments in a fixed rate or incentive period can give rise to Early Repayment Charge (ERC) income.

Estimation is used in assessing whether and for how long mortgages that reach the end of the initial product term stay on reversion rates, and to the quantum and timing of prepayments that incur ERCs. The estimate of customer weighted average life will determine the period over which net fee income and expected reversionary income is recognised.

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

The potential duration of a change in customer behaviour as a result of COVID-19 remains uncertain. However, a period of six months’ variance in the weighted average lives of the loan books was selected for this sensitivity, given the initial quick recovery in the property and mortgage markets post national lockdown experienced in 2020. This recovery was due, in part, to government stimulus in the form of a temporary reduction in stamp duty and the provision of cheaper funding to banks, in the form of the BoE’s TFSME.

Applying a six month extension in the expected weighted average life of the organic loan books, would result in a gain of c. £18.0m (2019: £20.2m) recognised in Net Interest Income.

Applying a six month reduction in the expected weighted average life of the loan books, would result in a reset loss of c. £18.5m (2019: £20.2m) recognised in Net Interest Income.

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

Estimation (continued)

Loan book impairments

Set out below are details of the critical accounting estimates which underpin loan impairment calculations. Less significant estimates are not discussed as they do not have a material effect. The Company has recognised total impairments (excluding pipeline) of £25.6m (2019: £8.0m) at the reporting date as disclosed in note 23.

Loss given default model

The Company 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. As at 31 December 2020 a 10% fall in house prices would result in an incremental £12.9m (2019: £3.6m) of provision being required.

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.

The Company sources economic forecasts from an appropriately qualified, independent third party. The Company considers four probability-weighted scenarios: base, upside, downside and severe downside scenarios. Due to the current uncertainty in relation to the ongoing COVID-19 global pandemic and the recently agreed Brexit trade agreement the choice of scenarios and weightings are subject to a significant degree of estimation. The Company's macroeconomic scenarios can be found under Credit Risk in the Principal risks and uncertainties section of the Strategic report.

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

As at 31 December 2020	**Weighted**	**100% Base case scenario**	**100% Upside scenario**	**100% Downside scenario**	**100% Severe downside scenario**
Total mortgages before provisions, £m	**7,045.0**	**7,045.0**	**7,045.0**	**7,045.0**	**7,045.0**
ECL, £m	**16.1**	**11.7**	**8.4**	**27.0**	**38.2**
ECL Coverage, %	**0.2**	**0.2**	**0.1**	**0.4**	**0.5**

As at 31 December 2019	Weighted	100% Base case scenario	100% Upside scenario	100% Downside scenario	100% Severe downside scenario
Total mortgages before provisions, £m	6,315.2	6,315.2	6,315.2	6,315.2	6,315.2
ECL, £m	7.1	3.1	2.1	10.8	14.4
ECL Coverage, %	0.1	0.1	0.0	0.2	0.2

6. Interest receivable and similar income

	2020 £m	2019 £m
At amortised cost:		
On mortgages	**292.6**	265.7
On investment securities	**2.5**	4.2
On other liquid assets	**2.2**	6.6
Amortisation of fair value adjustments on hedged assets	**(11.4)**	(4.8)
At FVTPL		
Net expense on derivative financial instruments - lending activities	**(20.6)**	(9.1)
On mortgages	**-**	0.8
At FVOCI:		
On mortgages	**24.1**	41.0
On investment securities	**4.8**	4.1
	294.2	308.5

7. Interest payable and similar charges

	2020 £m	2019 £m
On retail deposits	**109.6**	109.5
On BoE borrowings	**2.7**	8.5
On wholesale borrowings	**1.7**	0.9
On deemed loan from other Group undertaking	**-**	3.4
On lease liabilities	**0.2**	0.2
Net income on derivative financial instruments - savings activities	**(12.3)**	(3.1)
	101.9	119.4

8. Fair value losses on financial instruments

	2020 £m	2019 £m
Fair value changes in hedged assets	**25.2**	37.3
Hedging of assets	**(25.8)**	(38.3)
Fair value changes in hedged liabilities	**(3.1)**	(5.5)
Hedging of liabilities	**3.1**	5.5
Ineffective portion of hedges	**(0.6)**	(1.0)
Net (loss) / gains on unmatched swaps	**(9.4)**	(9.9)
Amortisation of inception adjustment	**5.1**	1.7
Fair value movements on mortgages at FVTPL	**(0.2)**	-
	(5.1)	(9.2)

9. Loss on swap cancellation

	2020 £m	2019 £m
Loss on swap cancellations	**4.9**	-
	4.9	-

The loss on swap cancellation arose on swaps which were cancelled on sale of customer loans and receivables.

10. Other income

All revenues are generating within the UK from a single income generating unit of business.

	2020 £m	2019 £m
Income received on mortgages at FVTPL	**0.6**	3.0
Fees and commissions receivable	**1.6**	2.1
	2.2	5.1

11. Administrative expenses

	2020 £m	2019 £m
Facilities costs	**1.7**	1.7
Marketing costs	**1.1**	1.5
Research and development costs	**1.3**	1.1
Support costs	**4.8**	3.9
Professional fees	**9.9**	10.3
Depreciation (see note 27)	**1.9**	2.0
Amortisation (see note 28)	**0.5**	0.5
Other costs	**43.3**	49.4
	64.5	70.4

The auditor's remuneration for audit and other services is disclosed in note 12.

12. Auditor's remuneration

The analysis of auditor's remuneration is as follows:

	2020 £m	2019 £m
Fees payable to the Company's auditor for the audit of the Company's annual accounts	**0.4**	0.3
Total audit fees	**0.4**	0.3
Audit-related assurance services	**-**	0.2
Other assurance services	**-**	0.1
Total non-audit fees	**-**	0.3
Total fees payable to the Company's Auditor	**0.4**	0.6

In 2019, fees payable to Deloitte LLP for audit related assurance services and other assurance services included profit verification services, securitisation due diligence services, and risk and regulation services.

13. Impairment of financial assets

	2020	2019
	£m	£m
Write-offs in year	**0.1**	-
Increase in provision:		
- On residential mortgages at amortised cost	**18.5**	3.8
- On residential mortgages at FVOCI	**1.1**	0.6
- On undrawn loan facilities	**0.1**	-
	19.8	4.4

14. Integration costs

	2020	2019
	£m	£m
Consultant fees	**0.4**	0.9
Staff costs	**1.8**	1.8
	2.2	2.7

Following the acquisition of CCFSG by OSB in October 2019, integration costs are the post-acquisition costs incurred in integrating the operations of OSB and CCFSG.

15. Exceptional costs

	2020	2019
	£m	£m
Consultant fees	**-**	0.2
Legal and professional fees	**-**	7.0
Success fees	**-**	8.3
	-	15.5

The exceptional transaction costs in 2019 incurred by CCFSG and recharged to the Company relate to the acquisition of CCFSG by OSB in October 2019.

16. Staff costs

The Company has no employees (2019: none). All services to the Company are provided by employees of Exact Mortgage Experts Limited (EME), a fellow subsidiary within the Company's immediate group as stated in note 41. The Company pays servicing fees to EME for management services provided as disclosed further in note 41.

From 4 October 2019 onwards, all Directors were employees of OSB and therefore received their remuneration from that entity (prior to 4 October 2019 employees of and remunerated by EME), see note 43 for further details.

17. Taxation

The tax charge on the profit for the year ended 31 December 2020 was £25.1m (2019: £25.9m). The effective tax rate for the year ended 31 December 2020 is 25.6% (2018: 28.1%), reflecting non-deductible legal and professional fees relating to the combination with OSB. A reconciliation from the expected tax charge based on the standard rate of tax for the year ended 31 December 2020 of 19% (2019: 19%) to the actual tax charge is set out below.

	2020 £m	2019 £m
Corporation taxation	**25.0**	26.1
Deferred taxation	**0.1**	(0.2)
Total taxation	**25.1**	25.9

	2020 £m	2019 £m
Profit before taxation	**97.9**	91.9
Profit multiplied by the standard rate of UK Corporation Tax	**18.6**	17.5
Bank surcharge	**6.8**	6.7
Taxation effects of:		
Expenses not deductible for taxation purposes	**0.1**	3.0
Adjustments in respect of earlier years	**(0.4)**	(0.4)
Adjustments in respect of transfer pricing	**-**	(0.4)
Group relief	**-**	(0.5)
Total taxation charge	**25.1**	25.9

Deferred tax balances are in respect of timing differences of capital allowances in excess of depreciation and other short-term differences. The net deferred tax on FVOCI movements of £3.8m (2019: £0.6m) has been recognised in the Statement of Comprehensive Income and a corresponding net deferred tax liability has been recognised. For further details refer to note 36.

Factors that may affect future tax charges

In the March 2020 Budget, it was announced that the cuts in corporation tax rate to 18% and then to 17% previously enacted would not occur with the corporation tax rate held at 19%. As a result, closing deferred tax balances are calculated at 19% with the impact of the increase from 17%/18% to 19% reflected in the period.

On 3 March 2021, the Government announced that the corporation tax rate will increase from 19% to 25% from 1 April 2023. This rate change was not substantively enacted at the balance sheet date and so has not been reflected in these financial statements. The Government has also acknowledged that this increase in the main rate will result in an uncompetitive position for UK banks which also currently pay the 8% Bank Surcharge, and so has also announced a review of the Bank Surcharge will take place in Autumn 2021. Given that the majority of the Company's deferred tax is recognised at the combined corporation tax and Bank Surcharge rate, we are not yet able to estimate the impact of the combined rate changes on our deferred tax balances. We have assessed the impact of the increase of the corporation tax rate in isolation and concluded that it will not have a material impact on the Group's deferred tax balances.

18. Dividends

No interim dividend (2019: £nil) and no final dividend (2019: £nil) has been paid or proposed.

19. Cash and cash equivalents

Cash and cash equivalents for the purpose of the Statement of Cash Flows comprise the unencumbered loans and advances to credit institutions, per note 20.

20. Loans and advances to credit institutions

	2020 £m	2019 £m
Unencumbered:		
BoE call account	**900.1**	834.4
Call accounts	**-**	34.6
	900.1	869.0
Encumbered:		
BoE cash ratio deposit	**18.3**	14.1
Swap margin given	**104.1**	48.2
	122.4	62.3
	1,022.5	931.3

Loans and advances to credit institutions comprise cash and short-term bank deposits with an original maturity of three months or less and an insignificant risk of change to fair value.

The BoE call account forms part of the Company's liquid assets, there are no restrictions on access to this reserve.

All loans and advances to credit institutions held by the Company are denominated in pounds sterling.

21. Investments securities

	2020 £m	2019 £m
Held at FVOCI:		
RMBS loan notes	**274.4**	358.9
Held at amortised cost:		
RMBS loan notes	**186.3**	126.6
	460.7	485.5
Less: Expected credit losses	**-**	-
	460.7	485.5

During 2019, Charter Mortgages Limited a fellow subsidiary of the OSB Group, securitised £733.7m of prime Buy-to-Let mortgages through PMF 2019-1B and subsequently sold the residual certificates. The Company acquired £359.5m of PMF 2019-1B's A2 notes that are carried at FVOCI. During 2020, the Company sold £85.6m of the A2 notes.

All other debt securities at 31 December 2020 and 31 December 2019 are carried at amortised cost.

At 31 December 2020 included within investments in debt securities is £0.3m (2019: £17.1m) of balances with a contractual maturity due within 12 months and £460.4m (2019: £468.4m) due after 12 months.

21. Investments securities (continued)

Movements during the year of investment securities are analysed as follows:

	2020 £m	2019 £m
At 1 January	**485.5**	138.3
Additions	**105.3**	392.4
Disposals and redemptions	**(131.1)**	(44.9)
Amortisation	**0.1**	0.3
Accrued interest	**(0.3)**	0.4
Changes in fair value	**1.2**	(1.0)
At 31 December	**460.7**	485.5

Redemptions relate to quarterly repayments of the mortgage backed debt securities in line with the repayments and redemption of the underlying mortgage portfolios, and to the sales of mortgage backed securities.

The credit risk on debt securities held at amortised cost has not significantly increased since initial recognition and they are categorised as stage 1. The ECL provisions are not material.

Encumbered assets

At 31 December 2020, none of the Company's FVOCI RMBS loan notes were pledged as collateral in respect of sale and repurchase agreements (2019: £173.0m).

22. Loans and advances to customers

	2020 £m	2019 £m
Loans and advances held at amortised cost	**7,045.0**	6,315.2
Residential mortgages held at FVOCI	**656.0**	916.4
	7,701.0	7,231.6
Less: Expected credit losses (see note 23)	**(25.6)**	(7.1)
	7,675.4	7,224.5
Residential mortgages held at FVTPL	**19.1**	22.1
	7,694.5	7,246.6

Gross carrying amount	2020 £m	2019 £m
Held at amortised cost:		
Stage 1	**5,681.1**	5,726.6
Stage 2	**1,267.6**	519.0
Stage 3	**78.5**	66.1
Stage 3 POCI	**1.4**	-
	7,028.6	6,311.7
Held at FVOCI:		
Stage 1	**566.3**	850.8
Stage 2	**79.9**	38.4
Stage 3	**4.0**	2.8
Fair value adjustment	**5.8**	24.4
	656.0	916.4

22. Loans and advances to customers (continued)

Mortgage loans have a contractual term of up to 35 years. Borrowers may settle the loan at any point and in most cases settlement before the contractual date does take place. All borrowers are required to make monthly payments, except where interest is retained on origination and applied to the account as monthly payments would fall due.

Encumbered assets

The gross residential mortgage loans above pledged as collateral for liabilities are shown in the table below.

	2020 £m	2019 £m
BoE under TFS and ILTR	**2,285.4**	1,508.3
Securitisation	**-**	262.3
	2,285.4	1,770.6

The Company's securitisation programme and use of the TFS results in certain assets being encumbered as collateral against such funding. Assets that are encumbered cannot be used for other purposes. As at 31 December 2020 the percentage of customer loans and receivables that are encumbered was 29.7% (2019: 24.4%).

Residential mortgages at amortised cost

The following table analyses residential mortgages at amortised cost balances as at 31 December 2020 by stage of impairment.

Held at amortised cost	**Stage 1 £m**	**Stage 2 £m**	**Stage 3 £m**	**Stage 3 POCI £m**	**Total £m**	**EIR adjustments £m**	**Provision for loan impairments £m**	**Net balance £m**
At 31 December 2018	4,635.6	306.8	15.1	-	4,957.5	(12.9)	(3.3)	4,941.3
EIR adjustments	-	-	-	-	-	16.4	-	16.4
Originations	2,744.5	-	-	-	2,744.5	-	-	2,744.5
Repayments and redemptions	(1,087.2)	(6.3)	(0.6)	-	(1,094.1)	-	-	(1,094.1)
Sales to Group entities	(295.4)	(1.6)	-	-	(297.0)	-	-	(297.0)
Repurchases from third parties	0.8	-	-	-	0.8	-	-	0.8
Transfers between stages	(271.7)	220.1	51.6	-	-	-	-	-
Charge for loan impairments	-	-	-	-	-	-	(3.8)	(3.8)
At 31 December 2019	5,726.6	519.0	66.1	-	6,311.7	3.5	(7.1)	6,308.1
EIR adjustments	**-**	**-**	**-**	**-**	**-**	**12.9**	**-**	**12.9**
Originations	**1,555.2**	**-**	**-**	**-**	**1,555.2**	**-**	**-**	**1,555.2**
Repayments and redemptions	**(830.8)**	**4.4**	**0.5**	**(0.1)**	**(826.0)**	**-**	**-**	**(826.0)**
Sales to Group entities	**(73.2)**	**(1.4)**	**-**	**-**	**(74.6)**	**-**	**-**	**(74.6)**
Repurchases from third parties	**56.2**	**4.4**	**0.2**	**1.5**	**62.3**	**-**	**-**	**62.3**
Transfers between stages	**(752.9)**	**741.2**	**11.7**	**-**	**-**	**-**	**-**	**-**
Charge for loan impairments	**-**	**-**	**-**	**-**	**-**	**-**	**(18.5)**	**(18.5)**
At 31 December 2020	**5,681.1**	**1,267.6**	**78.5**	**1.4**	**7,028.6**	**16.4**	**(25.6)**	**7,019.4**

22. Loans and advances to customers (continued)

Sales to Group entities during 2019 of mortgages at amortised cost are in excess of the sales mortgages at FVOCI, as management chose to increase the size of a securitisation in 2019 at short notice and mortgages at amortised cost were used to meet the required amount.

Other debits include primarily, administrative fees added to customer loans.

The contractual amount outstanding on financial assets that were written off during the reporting period and are still subject to enforcement activity is less than £0.2m at 31 December 2020 (£0.1m at 31 December 2019).

Residential mortgages held at fair value through other comprehensive income

The residential mortgage portfolio held at fair value is categorised as level 3. The fair value is based on expected future cash flows using an assumed amortisation profile of the pool of mortgages. The cash flows are discounted to present value using zero coupon rates.

The following table analyses residential mortgages held at FVOCI balances as at 31 December 2020 by stage of impairment.

Held at FVOCI	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m	Fair value adjustment £m	Net balance £m
At 31 December 2018	813.1	13.7	0.1	826.9	31.9	858.8
Originations	363.7	-	-	363.7	-	363.7
Repayments and redemptions	(7.3)	(0.3)	(0.1)	(7.7)	-	(7.7)
Sales to Group entities	(288.8)	(2.1)	-	(290.9)	-	(290.9)
Transfers between stage	(29.9)	27.1	2.8	-	-	-
Fair value movements	-	-	-	-	(7.5)	(7.5)
At 31 December 2019	850.8	38.4	2.8	892.0	24.4	916.4
Originations	**315.0**	**0.0**	**0.0**	**315.0**	**-**	**315.0**
Repayments and redemptions	**(24.5)**	**(1.5)**	**(0.1)**	**(26.1)**	**-**	**(26.1)**
Sales to Group entities	**(512.7)**	**(18.0)**	**-**	**(530.7)**	**-**	**(530.7)**
Transfers between stages	**(62.3)**	**61.0**	**1.3**	**-**	**-**	**-**
Fair value movements	**-**	**-**	**-**	**-**	**(18.6)**	**(18.6)**
At 31 December 2020	**566.3**	**79.9**	**4.0**	**650.2**	**5.8**	**656.0**

The Company undertakes a regular review of FVOCI residential mortgages to identify any adjustments to their fair values.

No loss allowance or EIR adjustment is recognised in the Statement of Financial Position for customer loans and receivables measured at FVOCI as the carrying amount is at fair value.

At 31 December 2020 a loss allowance of £1.9m (2019: £0.8m) and EIR adjustments of £(2.2)m (2019: £(1.9)m) on customer loans and receivables measured at FVOCI have been recognised through other comprehensive income.

22. Loans and advances to customers (continued)

Residential mortgages held at fair value through profit and loss

The residential mortgage portfolio held at fair value is categorised as level 3. The fair value is based on expected future cash flows using an assumed amortisation profile of the pool of mortgages. The expected future cash flows are discounted to present value using risk adjusted rates. Movements in the residential mortgages held at FVTPL were:

	2020	2019
	£m	£m
	£m	£m
At 1 January	**22.1**	21.5
Repayments and redemptions	**(3.4)**	(3.2)
Interest charged and other debits	**0.6**	0.8
Fair value movements on mortgages	**(0.2)**	3.0
At 31 December	**19.1**	22.1

23. Expected credit losses

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

	ECL provision 2020 £m	**Weighting 2020 %**	**Weighted ECL provision 2020 £m**	ECL provision 2019 £m	Weighting 2019 %	Weighted ECL provision 2019 £m
Scenarios						
Upside	**8.4**	**30**	**2.5**	2.1	10	0.2
Base case	**11.7**	**40**	**4.7**	3.1	40	1.2
Downside scenario	**27.0**	**23**	**6.2**	10.8	35	3.6
Severe downside scenario	**38.2**	**7**	**2.7**	14.4	15	2.1
Total weighted provisions			**16.1**			7.1
Non-modelled Provisions:						
Individually assessed provisions	**-**	**-**	**1.6**	-	-	0.8
Post model adjustments[1]	**-**	**-**	**7.9**	-	-	-
Total provision against mortgages at amortised cost			**25.6**			7.9
Pipeline	**-**	**-**	**0.2**	-	-	0.1
Total provision			**25.8**			8.0

[1]COVID-19 post model adjustments – the Company implemented a number of post model adjustments to ensure that modelled estimates remained appropriate, in light of the impact that COVID-19 support measures, such as the repossession moratorium and the impact of payment deferrals on the credit bureau files, had on PD and LGD estimates. In addition updated model estimates were also aligned to recently observed actual performance. Additional information can be found in the Credit Risk section of the Strategic report.

23. Expected credit losses (continued)

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

	2020 £m	2019 £m
Held at amortised cost:		
Stage 1	**7.8**	1.8
Stage 2	**13.3**	2.9
Stage 3	**4.4**	2.4
Stage 3 (POCI)	**0.1**	-
	25.6	7.1
Held at FVOCI:		
Stage 1	**0.7**	0.2
Stage 2	**0.8**	0.2
Stage 3	**0.4**	0.4
	1.9	0.8

Impairment provisions on residential mortgages at amortised cost

The Company recognises expected credit losses from default events expected within 12 months of the reporting date if credit risk has not significantly increased since initial recognition (stage 1), and lifetime expected credit losses for financial instruments for which the credit risk has increased significantly since initial recognition (stage 2) or which are credit impaired (stage 3).

Impairment provisions on loans at amortised cost as at 31 December 2020 were £25.6m (2019: £7.1m) and comprise:

Held at amortised cost:	Stage 1 £m	Stage 2 £m	Stage 3 £m	Stage 3 (POCI) £m	Total £m
At 31 December 2018	1.2	1.4	0.7	-	3.3
Originations	1.1	-	-	-	1.1
Repayments and write-offs	(0.2)	(0.1)	(0.2)	-	(0.5)
Remeasurement of loss allowance	(0.7)	2.2	1.7	-	3.2
Transfers:					
- To Stage 1	0.6	(0.5)	(0.1)	-	-
- To Stage 2	(0.2)	0.2	-	-	-
- To Stage 3	-	(0.3)	0.3	-	-
At 31 December 2019	1.8	2.9	2.4	-	7.1
Originations	**2.8**	**-**	**-**	**-**	**2.8**
Acquisitions	**-**	**-**	**-**	**0.1**	**0.1**
Repayments and write-offs	**(0.4)**	**(0.2)**	**(0.8)**	**-**	**(1.4)**
Remeasurement of loss allowance	**3.2**	**11.1**	**2.7**	**-**	**17.0**
Transfers:					
- To Stage 1	**0.8**	**(0.8)**	**-**	**-**	**-**
- To Stage 2	**(0.4)**	**0.6**	**(0.2)**	**-**	**-**
- To Stage 3	**-**	**(0.3)**	**0.3**	**-**	**-**
- To Stage 3 (POCI)	**-**	**-**	**-**	**-**	**-**
At 31 December 2020	**7.8**	**13.3**	**4.4**	**0.1**	**25.6**

23. Expected credit losses (continued)

Impairment provisions on residential mortgages at FVOCI.

Impairment provisions as at 31 December 2020, recognised through other comprehensive income, were £1.9m (2019: £0.8m) and comprise:

Held at FVOCI	Stage 1 £m	Stage 2 £m	Stage 3 £m	Stage 3 (POCI) £m	Total £m
At 31 December 2018	0.2	-	-	-	0.2
Remeasurement of loss allowance	-	0.2	0.4	-	0.6
At 31 December 2019	0.2	0.2	0.4	-	0.8
Originations	**0.3**	**-**	**-**	**-**	**0.3**
Disposals	**-**	**(0.1)**	**-**	**-**	**(0.1)**
Repayments and write-offs	**(0.2)**	**-**	**-**	**-**	**(0.2)**
Remeasurement of loss allowance	**0.4**	**0.7**	**-**	**-**	**1.1**
At 31 December 2020	**0.7**	**0.8**	**0.4**	**-**	**1.9**

The tables below show the stage 2 ECL balances by transfer criteria:

	Carrying value 2020 £m	**ECL 2020 £m**	**Coverage 2020 %**	Carrying value 2019 £m	ECL 2019 £m	Coverage 2019 %
Criteria:						
Relative PD movement	**607.6**	**8.6**	**1.42%**	423.8	2.6	0.60%
Qualitative measures	**629.7**	**4.4**	**0.69%**	54.4	0.2	0.44%
30 days past due backstop	**30.3**	**0.3**	**0.99%**	40.8	0.1	0.34%
Total	**1,267.6**	**13.3**		519.0	2.9	

24. Fair value adjustments on hedged assets

The Company has entered into interest rate swaps that protect it from mismatches in interest rates between the portfolio of fixed rate mortgages and floating rate liabilities that are used to fund them. The net position of certain fixed rate mortgages and floating rate liabilities has been designated as the hedged item in this hedge relationship. Changes in the fair value of these swaps are offset by changes in the FVAHR of the fixed rate mortgages.

	2020 £m	2019 £m
Hedged assets		
Current hedge relationships	**55.4**	30.2
Swap inception adjustment	**(17.0)**	(14.2)
Cancelled hedge relationships	**43.0**	11.5
	81.4	27.5
Hedged liabilities		
Current hedge relationships	**(10.1)**	(5.0)
Swap inception adjustment	**0.5**	-
	(9.6)	(5.0)

24. Fair value adjustments on hedged assets (continued)

Cancelled hedge relationships represent the fair value adjustment for interest rate risk where the interest rate swap hedges were terminated before maturity and were effective at the point of termination.

Movement in cancelled swaps

	2020 £m	2019 £m
At 1 January	**11.5**	(0.3)
New cancellations	**44.5**	12.7
Amortisation	**(13.0)**	(0.9)
At 31 December	**43.0**	11.5

The table below analyses the Company's portfolio hedge accounting for fixed rate loans and advances to customers.

	2020		2019	
Loans and advances to customers	**Hedged item £m**	**Hedging instrument £m**	Hedged item £m	Hedging instrument £m
Carrying amount of hedged item/nominal value of hedging instrument	**5,544.4**	**5,489.0**	5,214.5	5,184.3
Cumulative fair value adjustments	**55.4**	**(55.4)**	30.2	(30.2)
Fair value adjustments for the period	**25.2**	**(25.8)**	37.3	(49.1)
Cumulative fair value on cancelled hedge relationships	**43.0**	**-**	11.5	-

The tables below analyse the Company's portfolio hedge accounting for fixed rate amounts owed to retail depositors.

	2020		2019	
Customer deposits	**Hedged item £m**	**Hedging instrument £m**	Hedged item £m	Hedging instrument £m
Carrying amount of hedged item/nominal value of hedging instrument	**3,797.9**	**3,808.0**	3,877.5	3,882.5
Cumulative fair value adjustments	**(10.1)**	**5.9**	(5.0)	2.8
Fair value adjustments for the period	**(3.1)**	**4.0**	(5.5)	5.5

25. Derivative financial instruments

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

	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 2020					
Derivative assets:					
Interest rate risk hedging	**7.7**	**7.7**	**(7.6)**	**-**	**0.1**
Basis rate risk hedging	**-**	**-**	**-**	**-**	**-**
	7.7	**7.7**	**(7.6)**	**-**	**0.1**
Derivative liabilities:					
Interest rate risk hedging	**(58.1)**	**(58.1)**	**7.6**	**104.1**	**53.6**
Basis rate risk hedging	**-**	**-**	**-**	**-**	**-**
	(58.1)	**(58.1)**	**7.6**	**104.1**	**53.6**
At 31 December 2019					
Derivative assets:					
Interest rate risk hedging	11.8	11.8	-	48.2	**60.0**
Basis rate risk hedging	-	-	-	-	**-**
	11.8	11.8	-	48.2	60.0
Derivative liabilities:					
Interest rate risk hedging	(38.5)	(38.5)	-	-	(38.5)
Basis rate risk hedging	-	-	-	-	**-**
	(38.5)	(38.5)	-	-	(38.5)

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

	Total nominal £m	Less than 3 months £m	3 - 12 months £m	1 - 5 years £m	More than 5 years £m
At 31 December 2020					
Derivative assets	**3,374.0**	**785.0**	**1,125.0**	**1,443.0**	**21.0**
Derivative liabilities	**6,420.5**	**148.0**	**1,734.0**	**4,401.0**	**137.5**
	9,794.5	**933.0**	**2,859.0**	**5,844.0**	**158.5**
At 31 December 2019					
Derivative assets	4,290.1	632.5	1,153.8	2,288.3	215.5
Derivative liabilities	5,519.5	136.0	1,739.0	3,606.5	38.0
	9,809.6	768.5	2,892.8	5,894.8	253.5

26. Other assets

	2020 £m	2019 £m
Prepayments	**2.5**	3.3
Other assets	**0.7**	0.1
	3.2	3.4

The Directors consider that the carrying amount of trade and other receivables is approximately equal to their fair value. There are no trade and other receivables past due (2019: £nil).

At 31 December 2020 and 31 December 2019 all balances are receivable within twelve months.

27. Property, plant and equipment

	Leasehold improvements £m	Equipment and fixtures £m	Right of use assets: Property leases £m	Right of use assets: Other leases £m	Total £m
Cost					
At 1 January 2019	0.6	3.6	-	-	4.2
Additions	0.1	0.6	8.3	0.3	9.3
At 31 December 2019	0.7	4.2	8.3	0.3	13.5
Additions	**-**	**0.5**	**-**	**-**	**0.5**
Disposals and write-offs	**(0.3)**	**(1.3)**	**(0.4)**	**-**	**(2.0)**
At 31 December 2020	**0.4**	**3.4**	**7.9**	**0.3**	**12.0**
Depreciation					
At 1 January 2019	0.3	1.4	-	-	1.7
Charged in year	0.1	0.7	1.1	0.1	2.0
At 31 December 2019	0.4	2.1	1.1	0.1	3.7
Charged in year	**0.1**	**0.7**	**1.0**	**0.1**	**1.9**
Disposals and write-offs	**(0.3)**	**(1.3)**	**(0.4)**	**-**	**(2.0)**
At 31 December 2020	**0.2**	**1.5**	**1.7**	**0.2**	**3.6**
Net book value					
At 31 December 2020	**0.2**	**1.9**	**6.2**	**0.1**	**8.4**
At 31 December 2019	0.3	2.1	7.2	0.2	9.8

The average lease term for leased properties is ten years and for leased equipment is three years. One lease expired during the year ended 31 December 2020 (2019: None).

28. Intangible assets

	Development costs £m	Computer software and licences £m	Total £m
Cost			
At 1 January 2019	1.7	2.0	3.7
Additions	1.4	0.5	1.9
At 31 December 2019	3.1	2.5	5.6
Additions	**1.8**	**0.1**	**1.9**
Disposals and write-offs	**(0.2)**	**(0.9)**	**(1.1)**
At 31 December 2020	**4.7**	**1.7**	**6.4**
Amortisation			
At 1 January 2019	0.2	0.9	1.1
Charged in year	0.1	0.4	0.5
At 31 December 2019	0.3	1.3	1.6
Charged in year	**-**	**0.5**	**0.5**
Disposals and write-offs	**(0.2)**	**(0.9)**	**(1.1)**
At 31 December 2020	**0.1**	**0.9**	**1.0**
Net book value			
At 31 December 2020	**4.6**	**0.8**	**5.4**
At 31 December 2019	2.8	1.2	4.0

The development costs include internally-generated assets in development as at 31 December 2020 and therefore are not being amortised during the year. Amortisation of internally generated assets begins at the point the asset is developed and is capable of being used.

The Directors have considered the carrying value of intangible assets and determined that there are no indications of impairment at the year end.

29. Amounts owed to credit institutions

	2020 £m	2019 £m
BoE TFSME	**600.0**	-
BoE TFS	**1,068.2**	1,129.9
BoE ILTR	**-**	171.6
Commercial repo	**0.1**	-
Swap margin received	**-**	0.3
Loans from credit institutions	**0.9**	-
	1,669.2	1,301.8

As at 31 December 2020 the carrying value of assets pledged as collateral in respect of the BoE's TFS was £2,285.4m (2019: £1,508.3m) and the carrying value of assets pledged as collateral in respect of the sale and repurchase agreements was £nil (2019: £435.3m). Interest and charges accrues daily. Each drawing has a four year term.

As at 31 December 2020 and 31 December 2019, all bank deposits were denominated in pounds sterling.

At 31 December 2020 included within amounts owed to credit institutions was £1.3m (2019: £174.0m) of balances due within twelve months and £1,667.9m (2019: £1,127.8m) due after twelve months.

30. Amounts owed to retail depositors

	2020 £m	2019 £m
Fixed rate deposits	**4,778.3**	4,901.2
Variable rate deposits	**2,116.4**	1,911.6
	6,894.7	6,812.8

Deposits from customers are deposits held by the Company which were received from retail and other customers in the UK and denominated in pounds sterling. The deposits comprise principally term deposits and 30 – 120 day notice accounts.

31. Amounts owed to other customers

	2020 £m	2019 £m
Fixed rate deposits	**40.2**	17.1
Variable rate deposits	**26.9**	3.7
	67.1	20.8

32. Lease liabilities

	£m
At 31 December 2018	-
IFRS 16 Adjustment	8.5
At 1 January 2019	8.5
Lease repayments	(1.3)
Interest accruals	0.3
At 31 December 2019	7.5
Lease repayments	**(1.3)**
Interest accruals	**0.2**
At 31 December 2020	**6.4**

For details on the corresponding right-of-use assets see note 27. Maturity analyses of the lease liabilities and of the future undiscounted cash flows on lease liabilities are disclosed in Treasury Risk within note 39.

For short-term leases (lease term of twelve months or less), the Company has opted to recognise operating lease costs as administrative expenses on a straight-line basis as permitted by IFRS 16.

Operating lease arrangements

	2020 £m	2019 £m
Minimum lease payments under operating leases recognised as an expense in the year	0.2	0.8

Operating lease payments represented rent expense for office premises in London. At 31 December 2020, the Company had no operating leases (2019: remaining lease term of nine months). The lease for office premises in London was terminated during March 2020.

33. Other liabilities

	2020 £m	2019 £m
Falling due within one year:		
Accruals	**2.2**	3.3
Other creditors	**8.9**	4.4
	11.1	7.7

Included within other creditors is £2.9m (2019: £0.7m) payable to EME and £4.3m payable to OSB (2019: £0.9m payable to CCFSG) for management services and holding company services respectively, as disclosed in note 41.

The Company, through the OSB Group, has financial risk management policies in place to ensure that payables are settled within the agreed credit timeframes, without any further liabilities.

34. Provisions

	2020 £m	2019 £m
ECL on undrawn loan facilities	**0.2**	0.1
	0.2	0.1

Provisions for liabilities and charges represent ECL recognised on loan commitments of £420.8m (2019: £564.2m).

35. Reconciliation of cash flows for financing activities

	Lease liability £m	Deemed loans due to Group undertakings £m	Total £m
At 31 December 2018	-	104.3	104.3
Cash movements:			
Lease liability recognised on adoption of IFRS 16	8.5	-	8.5
Principal drawdowns	-	-	-
Principal repayments	(1.3)	(104.3)	(105.6)
Non-cash movements:			
Accrued interest movement	0.3	-	0.3
At 31 December 2019	7.5	-	7.5
Cash movements:			
Principal drawdowns	**-**	**-**	**-**
Principal repayments	**(1.3)**	**-**	**(1.3)**
Non-cash movements:			
Accrued interest movement	**0.2**	**-**	**0.2**
At 31 December 2020	**6.4**	**-**	**6.4**

36. Deferred tax liability

Movement on deferred taxation balance during the year:

	Capital allowances in excess of depreciation £m	Mortgages held at fair value £m	Total £m
At 31 December 2018	-	7.8	7.8
Profit or loss charge	0.1	-	0.1
Tax taken directly to OCI	-	(0.6)	(0.6)
Adjustment in respect of prior years	-	(0.3)	(0.3)
At 31 December 2019	0.1	6.9	7.0
Profit or loss charge	**-**	**0.1**	**0.1**
Tax taken directly to OCI	**-**	**(4.4)**	**(4.4)**
Impact of rate change - OCI	**-**	**0.6**	**0.6**
At 31 December 2020	**0.1**	**3.2**	**3.3**

Deferred tax has been recognised on the fair value adjustments arising on residential mortgages carried at FVOCI under IFRS 9 (see note 22).

At 31 December 2020 and 2019, the Company had no unused tax losses.

37. Share capital

Ordinary shares - par value £1.00:	Number of shares authorised and fully paid	Nominal value £m	Premium £m
At 1 January 2019	2,870,008	2.9	41.7
Shares issued	1	-	25.6
At 31 December 2019	2,870,009	2.9	67.3
Shares issued	-	-	-
At 31 December 2020	**2,870,009**	**2.9**	**67.3**

No Ordinary shares were issued during the year (2019: one Ordinary share with a nominal value of £1).

The ordinary shares carry no right to fixed income.

38. Financial commitments and guarantees

a) The Company did not have any contracted or anticipated capital expenditure commitments not provided for as at 31 December 2020 (2019: nil).

b) The Company's minimum lease commitments under operating leases not subject to IFRS 16 are summarised in the table below:

	2020 £m	2019 £m
Land and buildings: due within:		
One year	**-**	0.5
	-	0.5

c) Undrawn mortgage loan facilities as at year end:

	2020 £m	2019 £m
Mortgages	420.8	564.2
	420.8	564.2

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 Company did not have any issued financial guarantees as at 31 December 2020 (2019: nil).

39. Financial risk management objectives and policies

Risk Management

The Company's activities expose it to a number of financial risks and uncertainties; primarily credit risk, liquidity risk, market risk, interest rate risk, wholesale risk, business risk, operational risk, conduct risk and assurance of compliance with regulations.

IBOR transition

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. The Company has closely monitored the market and the output from the various industry working groups managing the transition to new benchmark interest rates. This includes announcements made by LIBOR regulators (including the FCA) regarding the transition from GBP LIBOR to SONIA. The FCA has made clear that, at the end of 2021, it will no longer seek to persuade, or compel, banks to submit to LIBOR.

In 2018, the Company set up an internal working group, comprising all of the key business lines that are involved with this change, including work streams covering risk management, contracts, systems and conduct risk considerations, with strong oversight from the Compliance and Risk functions. Risk assessments have been completed to ensure this process is managed in a measured and controlled manner.

The Company no longer offers any LIBOR-linked loans and has transitioned new and back book swaps from a GBP LIBOR to a SONIA basis. The Company has no exposure to existing IBORs, other than to GBP LIBOR.

39. Financial risk management objectives and policies (continued)

IBOR transition (continued)

The Company adopted the Phase 1 amendments 'Interest Rate Benchmark reform: Amendments to IFRS 9/IAS 39 and IFRS 7'. These amendments modified specific hedge accounting requirements to allow hedge accounting to continue for affected hedges during the period of uncertainty before the hedged items or hedging instruments are amended as a result of the interest rate benchmark reform. The Company has not early adopted 'Interest Rate Benchmark Reform – Phase 2: Amendments to IFRS 9 Financial Instruments, IAS 39 Financial Instruments: Recognition and Measurement, IFRS 7 Financial Instruments: Disclosures, IFRS 4 Insurance Contracts and IFRS 16 Leases' which was issued in August 2020. These amendments will become mandatory for annual reporting periods beginning on or after 1 January 2021. Adopting these amendments will enable the Company to reflect the effects of transitioning from IBOR to alternative benchmark interest rates (also referred to as 'risk free rates' or RFRs) without giving rise to accounting impacts that would not provide useful information to users of financial statements.

The application of the Phase1 amendments impacts the Company's accounting in the following ways. Hedge accounting relationships will continue despite for IBOR fair value hedges, the benchmark interest rate component may not be separately identifiable.

The Company will not discontinue portfolio hedge accounting should the retrospective assessment of hedge effectiveness for a hedging relationship that is subject to the interest rate benchmark reform fall outside the 80-125% range. For portfolio hedging relationships that are not subject to the interest rate benchmark reform the entity continues to cease hedge accounting if retrospective effectiveness is outside the 80-125% range.

The Company will continue to apply the Phase 1 amendments to IFRS 9/IAS 39 until the uncertainty arising from the interest rate benchmark reform with respect to the timing and the amount of the underlying cash flows to which the Company is exposed ends. The Company expects this uncertainty will continue until the Company's contracts that reference IBORs are amended to specify the date on which the interest rate benchmark will be replaced and the basis for the cash flows of the alternative benchmark rate are determined including any fixed spread.

The phase 1 relief does not extend to the requirement that the designated interest rate risk component continues to be reliably measureable and if the risk component is no longer reliably measureable, the hedging relationship is discontinued. The Company has determined that GBP LIBOR interest rate risk components continue to be reliably measurable.

Mortgages

New loan product transition to BBR was completed in 2019 to replace loans with a LIBOR component.

At 31 December 2020, the Company had £4,937.7m of GBP LIBOR-linked lending, including funding lines and mortgages that will revert to LIBOR in the future, out of a total mortgage balance of £7,694.5m. The Company continues to work through the back book transition for existing loans which is planned to be completed before the end of 2021.

Investment securities

At 31 December 2020, the Company had £64.2m of GBP LIBOR-linked investment securities, comprising RMBS loan notes and the Company is monitoring the issuers' intentions in respect of IBOR transition.

Retail savings

None of the Company's current or back book retail savings products have a GBP LIBOR component within the product.

39. Financial risk management objectives and policies (continued)

IBOR transition (continued)

Derivatives

The Company has £355.0m of mortgage swaps with a fair value liability of £1.2m and £351.0m of savings swaps with a fair value asset of £1.1m. Of these, all but one swap mature in 2021, therefore the swaps will continue until maturity. The outstanding mortgage swap matures in March 2022, with its last LIBOR reset in December 2021, this will also run to maturity.

All of the Company's swaps that need to be transitioned to SONIA have been transitioned.

Credit risk

Credit risk is the risk of financial loss arising from the failure of a customer or counterparty to settle their financial and contractual obligations as they fall due.

Credit risk arises on the Company's financial assets consisting of investments in debt securities, customer loans and receivables, derivative financial instruments, trade and other receivables, loans and advances to credit institutions and loan commitments. Credit risk is reviewed by the Group Credit Committee which superseded the Credit Management Committee following the Combination. The Group Credit Committee is overseen by the Group Executive Committee and the Risk Committee.

The Company's investments, derivatives and loans and advances to credit institutions are with counterparties that are primarily large financial institutions and there is no significant history of credit losses and no significant impairment provisions have been made.

The Company's Treasury team internally assesses the level of credit risk from holdings with individual counterparties. Holding limits are set for each counterparty in order to control the risk.

The change, during the period and cumulatively, in the fair value of investments in debt securities and customer loans and receivables at FVOCI and FVTPL that is attributable to changes in credit risk is not material.

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 Company's Lending Policy. Changes to the policy are approved by the Group Risk Committee, with mandates set for the approval of loan applications.

The Group Credit Committee and ALCO regularly monitor lending activity, taking appropriate actions to reprice products and adjust lending criteria in order to control risk and manage exposure. Where necessary and appropriate, changes to the Lending Policy are recommended to the Group Risk Committee.

39. Financial risk management objectives and policies (continued)

Analysis of loans by Loan to Value

The Company 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:

	2020					
	Buy-to-Let £m	**Residential £m**	**Bridging £m**	**Second charge lending £m**	**Total £m**	**%**
Band						
0% - 50%	**90.0**	**205.4**	**50.3**	**33.5**	**379.2**	**5**
50% - 60%	**190.4**	**197.9**	**17.9**	**34.7**	**440.9**	**6**
60% - 70%	**614.5**	**345.6**	**16.8**	**57.8**	**1,034.7**	**13**
70% - 80%	**3,807.6**	**1,003.8**	**21.1**	**49.3**	**4,881.8**	**64**
80% - 90%	**578.3**	**341.1**	**-**	**21.3**	**940.7**	**12**
90% - 100%	**0.6**	**0.9**	**-**	**-**	**1.5**	**-**
Total loans before provisions	**5,281.4**	**2,094.7**	**106.1**	**196.6**	**7,678.8**	**100**

	2019					
	Buy-to-Let £m	Residential £m	Bridging £m	Second charge lending £m	Total £m	%
Band						
0% - 50%	91.3	209.1	120.6	33.1	454.1	7
50% - 60%	173.7	202.6	29.2	39.8	445.3	6
60% - 70%	567.6	348.8	26.3	65.0	1,007.7	14
70% - 80%	3,226.7	960.2	37.2	55.6	4,279.7	59
80% - 90%	560.8	444.2	1.2	23.4	1,029.6	14
90% - 100%	-	9.4	-	-	9.4	-
Total loans before provisions	4,620.1	2,174.3	214.5	216.9	7,225.8	100

The analysis by LTV is based on the principal amount of the loans, which does not agree to the Statement of Financial Position as it excludes accounting adjustments, such as EIR adjustments, mortgage fair value hedge adjustments, mortgage fair value through other comprehensive income and impairment provisions.

At 31 December 2020, the average LTV of underlying mortgage assets to which the loans relate was 71.9% (2019: 71.3%) and only £2.6m (2019: £1.8m) of the total balance represented the actual amount of unpaid arrears.

The estimated fair value of collateral held in respect of residential mortgages is £13.4 billion (2019: £12.6 billion) which consists of the properties the loans are secured on. The collateral cannot be sold unless it is in possession. At 31 December 2020 there were 58 (2019: 11) properties in possession with a value of £16.4m (2019: £5.4m).

39. Financial risk management objectives and policies (continued)

Forbearance measures undertaken

The Company 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 section.

A summary of the forbearance measures undertaken (excluding COVID-19 related payment deferrals) during the year, is shown below. The balances disclosed reflect the year end balance of the accounts where a forbearance measure was undertaken during the year.

Forbearance type	Number of accounts 2020	At 31 December 2020 £m	Number of accounts 2019	At 31 December 2019 £m
Interest-only switch	**28**	**4.5**	36	4.5
Term extension	**412**	**25.4**	29	4.8
Payment holiday	**103**	**17.5**	67	9.7
Payment concession (reduced monthly payments)	**2**	**0.2**	5	1.3
Total	**545**	**47.6**	137	20.3
Loan type				
First charge owner-occupier	**68**	**9.7**	40	6.0
Second charge owner-occupier	**301**	**8.0**	54	7.3
Buy-to-Let	**11**	**3.2**	13	2.2
Bridging	**165**	**26.7**	30	4.8
Total	**545**	**47.6**	137	20.3

Analysis of loans by region

A geographical analysis of the Company's originated customer loans and receivables by region is set out in the table below.

	2020		2019	
Region	**£m**	**%**	£m	%
East Anglia	**807.2**	**10**	768.5	11
East Midlands	**428.4**	**6**	385.5	5
Greater London	**2,733.4**	**35**	2,584.7	36
North East	**194.0**	**3**	168.8	2
North West	**625.4**	**8**	569.4	8
Scotland	**200.5**	**3**	181.5	3
South East	**1,225.4**	**16**	1,143.3	15
South West	**443.1**	**6**	434.8	6
Wales	**190.3**	**2**	189.9	3
West Midlands	**492.7**	**6**	464.6	6
Yorks & Humberside	**360.6**	**5**	340.6	5
Total loans before provisions	**7,701.0**	**100**	7,231.6	100

39. Financial risk management objectives and policies (continued)

Approach to measurement of credit quality

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

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

The credit grade for the Company'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:

2020	**Stage 1**	**Stage 2**	**Stage 3**	**Stage 3 (POCI)**	**Total**
	£m	**£m**	**£m**	**£m**	**£m**
Excellent	**4,072.6**	**382.5**	**-**	**-**	**4,455.1**
Good	**2,151.6**	**698.3**	**-**	**-**	**2,849.9**
Satisfactory	**39.2**	**148.9**	**-**	**-**	**188.1**
Lower	**2.6**	**121.5**	**-**	**-**	**124.1**
Impaired	**-**	**-**	**82.4**	**-**	**82.4**
POCI	**-**	**-**	**-**	**1.4**	**1.4**
	6,266.0	**1,351.2**	**82.4**	**1.4**	**7,701.0**

2019					
Excellent	3,410.0	34.0	-	-	3,444.0
Good	3,002.2	249.5	-	-	3,251.7
Satisfactory	140.6	106.0	-	-	246.6
Lower	24.6	167.9	-	-	192.5
Impaired	-	-	68.9	-	68.9
POCI	-	-	-	-	-
	6,577.4	557.4	68.9	-	7,203.7

The tables below show the Company's other financial assets by credit risk rating grade:

	Excellent	**Good**	**Satisfactory**	**Total**
2020	**£m**	**£m**	**£m**	**£m**
Investment securities	**460.7**	**-**	**-**	**460.7**
Loans and advances to credit institutions	**950.1**	**72.4**	**-**	**1,022.5**
Derivative assets	**1.9**	**5.8**	**-**	**7.7**
	1,412.7	**78.2**	**-**	**1,490.9**

39. Financial risk management objectives and policies (continued)

Approach to measurement of credit quality (continued)

2019	Excellent £m	Good £m	Satisfactory £m	Total £m
Investment securities	485.5	-	-	485.5
Loans and advances to credit institutions	848.6	82.7	-	931.3
Derivative assets	3.9	7.9	-	11.8
	1,338.0	90.6	-	1,428.6

Credit risk - loans and advances to credit institutions and investment securities

The Company 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 OSB Group's Treasury function. In managing these assets, Group Treasury operates within guidelines laid down in the Treasury Policy approved by ALCO and performance is monitored and reported to ALCO monthly, including through the use of an internally developed rating model based on counterparty credit default swap spreads.

The tables below show the industry sector of the Company's loans and advances to credit institutions and investment securities:

	2020		2019	
	£m	**%**	£m	%
BoE[1]	**918.4**	**62**	848.5	**60**
Other banks	**104.1**	**7**	82.8	**6**
Securitisation	**460.7**	**31**	485.5	**34**
Total	**1,483.2**	**100**	1,416.8	100

[1]Balances with the BoE include £18.2m (2019: £14.2m) held in the cash ratio deposit.

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 Company'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 Company and to enable the Company 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 Company has established a call account with the BoE and has access to its contingent liquidity facilities.

As part of the Liquidity and Treasury Investment policies, the Company holds cash balances at central banks, and investments in high quality assets, such as RMBS, which meet minimum rating requirements. The total investments in the RMBS of any one counterparty is subject to a limit based on the counterparty's credit rating and individual investments must have a credit rating of AA- or above, except for investments in RMBS issued by fellow subsidiaries of CCFSG. Details of investments in RMBS are shown in note 21.

39. Financial risk management objectives and policies (continued)

Liquidity risk (continued)

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 Company financial position. For each material class of financial liability a contractual maturity analysis is provided below.

Wholesale credit risk is managed by ensuring treasury counterparties are subject to ALCO approval, and continue to meet minimum external credit ratings. Exposures to single counterparties are assigned and monitored on an ongoing basis against the underlying instruments, such as cash or derivative exposures which are used to manage risk, or provide liquidity.

The Company 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 Chief Risk Officer, Group Chief Executive Officer, Group Chief Financial Officer and the Group Treasurer.

The Company has established an Internal Liquidity Buffer Requirement (ILBR) for its operational level of required liquidity. ILBR is a stronger measure than the industry standard Liquidity Coverage Ratio (LCR) measure and is calculated on a stressed deposit outflow basis; frequent stress testing is undertaken to ensure ongoing adherence.

The Company undertakes a number of stress tests as part of its ICAAP and ILAAP, IFRS 9 control standards and reporting. Stress testing represents a useful risk and management tool to inform the Company's adequacy and planning of capital and liquidity resources and its capability to protect against adverse impacts from stress events. In addition, liquidity is stressed dynamically and reported and reviewed formally weekly.

The main funding risk for the Company is that of funding longer term mortgage assets primarily with shorter term retail deposits, and the risk that retail deposits may be withdrawn or new deposits cannot be raised over the life of the assets. The Company has developed a successful retention programme for maturing fixed term bonds customers, and the Company structures its retail deposit products and product mix so as to provide maximum foresight on customer withdrawals. The Company also considers utilisation of secured funding and other wholesale funding (dependent on market conditions), which, provide longer term or matched funding for the assets.

Although the Company has a significant proportion of customer deposits which mature within a 12 month period, it has a proven track record of retaining maturing deposits, and when desired, increasing customer balances. The Company has established a framework to ensure that the profile of its customer maturities is spread out to ensure there are no 'cliff' events. This is overseen by the Liquidity Working Group on a weekly basis and ALCO on a monthly basis. As such, the Company is comfortable with this customer deposit profile and in its capabilities to continue to grow, enhance and diversify its retail savings proposition. Customer deposits with the Company are covered by the Financial Services Compensation Scheme (FSCS) and at 31 December 2020, 96% of the deposits benefited from this protection (2019: 96%).

39. Financial risk management objectives and policies (continued)

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

2020	**Carrying amount £m**	**On demand £m**	**Less than 3 months £m**	**3 - 12 months £m**	**1 - 5 years £m**	**More than 5 years £m**
Financial liability by type						
Amounts owed to retail depositors	**6,894.7**	**811.9**	**1,407.7**	**3,095.3**	**1,579.8**	**-**
Amounts owed to credit institutions	**1,669.2**	**1.3**	**-**	**-**	**1,667.9**	**-**
Amounts owed to other customers	**67.1**	**26.9**	**7.0**	**33.2**	**-**	**-**
Derivative liabilities	**58.1**	**-**	**1.2**	**48.6**	**8.3**	**-**
Lease liabilities	**6.4**	**-**	**0.2**	**0.7**	**3.3**	**2.2**
Total liabilities	**8,695.5**	**840.1**	**1,416.1**	**3,177.8**	**3,259.3**	**2.2**
Financial asset by type						
Loans and advances to credit institutions	**1,022.5**	**900.1**	**104.1**	**18.3**	**-**	**-**
Investment securities	**460.7**	**-**	**0.3**	**-**	**455.9**	**4.5**
Loans and advances to customers	**7,694.5**	**3.6**	**98.2**	**100.8**	**362.7**	**7,129.2**
Derivative assets	**7.7**	**-**	**0.9**	**1.8**	**5.0**	**-**
Total assets	**9,185.4**	**903.7**	**203.5**	**120.9**	**823.6**	**7,133.7**
Cumulative liquidity gap		**63.6**	**(1,149.0)**	**(4,205.9)**	**(6,641.6)**	**489.9**

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	6,812.8	958.3	910.4	3,347.8	1,596.3	-
Amounts owed to credit institutions	1,301.8	2.4	71.6	100.0	1,127.8	-
Amounts owed to other customers	20.8	3.7	2.3	14.7	0.1	-
Derivative liabilities	38.5	-	38.5	-	-	-
Lease liabilities	7.5	-	0.3	0.8	3.4	3.0
Total liabilities	8,181.4	964.4	1,023.1	3,463.3	2,727.6	3.0
Financial asset by type						
Loans and advances to credit institutions	931.3	868.9	48.2	14.2	-	-
Investment securities	485.5	-	0.6	16.5	468.4	-
Loans and advances to customers	7,246.6	4.5	90.8	208.0	342.3	6,601.0
Derivative assets	11.8	-	0.2	1.5	8.8	1.3
Total assets	8,675.2	873.4	139.8	240.2	819.5	6,602.3
Cumulative liquidity gap		(91.0)	(974.3)	(4,197.4)	(6,105.5)	493.8

39. Financial risk management objectives and policies (continued)

The future contractual undiscounted cash flows including interest of the liabilities on the previous page are shown below:

2020	Carrying amount £m	Gross inflow / outflow £m	Up to 3 months £m	3 - 12 months £m	1 - 5 years £m	More than 5 years £m
Financial liability by type						
Amounts owed to retail depositors	6,894.7	6,955.2	2,221.6	3,124.4	1,609.2	-
Amounts owed to credit institutions and other customers	1,736.3	1,738.7	34.3	34.5	1,669.9	-
Derivative liabilities	58.1	48.6	5.1	12.8	30.6	0.1
Lease liabilities	6.4	7.0	0.3	0.8	3.7	2.2
Total liabilities	8,695.5	8,749.5	2,261.3	3,172.5	3,313.4	2.3
Off-balance sheet loan commitments	420.8	420.8	420.8	-	-	-
Financial asset by type						
Loans and advances to credit institutions	1,022.5	1,021.6	1,003.3	18.3	-	-
Investment securities	460.7	480.0	1.3	4.0	468.8	5.9
Loans and advances to customers	7,694.5	14,606.0	153.6	324.2	1,654.4	12,473.8
Derivative assets	7.7	7.8	1.9	2.5	3.4	-
Total assets	9,185.4	16,115.4	1,160.1	349.0	2,126.6	12,479.7

39. Financial risk management objectives and policies (continued)

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	6,812.8	6,904.9	1,873.6	3,390.3	1,641.0	-
Amounts owed to credit institutions and other customers	1,322.6	1,341.0	80.1	121.3	1,139.6	-
Derivative liabilities	38.5	36.3	3.3	8.8	24.1	0.1
Lease liabilities	7.5	8.3	0.3	1.0	3.8	3.2
Total liabilities	8,181.4	8,290.5	1,957.3	3,521.4	2,808.5	3.3
Off-balance sheet loan commitments	564.2	564.2	564.2	-	-	-
Financial asset by type						
Loans and advances to credit institutions	931.3	931.3	917.2	14.2	-	-
Investment securities	485.5	521.4	2.2	23.1	496.1	-
Loans and advances to customers	7,246.6	14,429.8	145.9	428.5	1,616.9	12,238.5
Derivative assets	11.8	14.7	1.7	4.0	8.9	0.1
Total assets	8,675.2	15,897.2	1,067.0	469.8	2,121.9	12,238.6

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.

39. Financial risk management objectives and policies (continued)

Liquidity risk – assets encumbered

Asset encumbrance levels are monitored by ALCO. The following tables provide an analysis of the Company's encumbered and unencumbered assets:

	2020				
	Encumbered		Unencumbered		
	Pledged as collateral £m	Other[1] £m	Available as collateral £m	Other[2] £m	Total £m
Loans and advances to credit institutions	**104.1**	**18.3**	**900.1**	**-**	**1,022.5**
Investment securities	**161.0**	**-**	**299.7**	**-**	**460.7**
Loans and advances to customers	**2,285.4**	**-**	**5,409.1**	**-**	**7,694.5**
Derivative assets	**-**	**-**	**-**	**7.7**	**7.7**
Non-financial assets	**-**	**-**	**-**	**100.9**	**100.9**
	2,550.5	**18.3**	**6,608.9**	**108.6**	**9,286.3**

	2019				
	Encumbered		Unencumbered		
	Pledged as collateral £m	Other[1] £m	Available as collateral £m	Other[2] £m	Total £m
Loans and advances to credit institutions	48.2	14.1	869.0	-	931.3
Investment securities	173.0	-	312.5	-	485.5
Loans and advances to customers	1,770.6	-	5,476.0	-	7,246.6
Derivative assets	-	-	-	11.8	11.8
Non-financial assets	-	-	-	44.7	44.7
	1,991.8	14.1	6,657.5	56.5	8,719.9

[1] Represents assets that are not pledged but that the Company believes it is restricted from using to secure funding for legal or other reasons

[2] Represents assets that are not restricted for use as collateral, but the Company would not consider them as readily available to secure funding in the normal course of business

Liquidity risk – liquidity reserves

The tables below analyse the Company's liquidity reserves, where carrying value is considered to be equal to fair value:

	2020 £m	2019 £m
Unencumbered balances with central banks	**900.1**	834.4
Unencumbered cash and balances with other banks	**-**	34.6
Unencumbered investment securities	**299.7**	312.5
	1,199.8	1,181.5

39. Financial risk management objectives and policies (continued)

Market risk

Market risk is the risk of an adverse change in the Company's income or the Company's net worth arising from movement in interest rates, exchange rates or other market prices. The Company recognises that the effective management of market risk is essential to the maintenance of stable earnings.

Interest rate risk

The primary market risk faced by the Company is interest rate risk. Interest rate risk is the risk of loss from adverse movement in the overall level of interest rates. It arises from mismatches in the timing of repricing of assets and liabilities, both on and off-balance sheet. The Company does not run a trading book or take speculative interest rate positions and therefore all interest rate risk resides in the banking book (interest rate risk in the banking book (IRRBB)). IRRBB is most prevalent in mortgage lending where fixed rate mortgages are not funded by fixed rate deposits of the same duration, or where the fixed rate risk is not hedged by a fully matching interest rate derivative. Exposure is mitigated on a continuous basis through the use of derivatives and reserve allocations.

In measuring the impact of the Company's position at year end, account is taken of the Company's assets, liabilities and derivatives and their maturity and repricing arrangements. Account is also taken of pipeline and repayments. The impact on the expected profitability of the Company in the next twelve months of a 0.5% parallel shift in interest rates prevalent at each Statement of Financial Position date is set out below.

	2020 £m	2019 £m
+ 0.5%	9.6	6.8
- 0.5%	(4.0)	(6.8)

This is due to the Company's net exposure to interest rates on its floating rate mortgage assets, floating rate investments, floating rate savings products and floating rate borrowings.

Unconsolidated structured entities

Unconsolidated structured entities, which were sponsored by the Company include Precise Mortgage Funding 2015-1 plc, and Precise Mortgage Funding 2015-2 plc.

These structured entities have been derecognised and are unconsolidated in the Company's results, as the Company is no longer exposed to the risks and rewards of ownership from the securitised mortgages. The Company has no contractual arrangements with the unconsolidated structured entities other than servicing the structured entities' mortgage portfolios.

The Company has not provided any support to the unconsolidated structured entities listed and has no obligation or intention to do so.

During 2020 the Company received £0.1m servicing income (2019: £0.3m) from unconsolidated structured entities.

40. Financial instruments

The table below sets out the classification of financial instruments in the Statement of Financial Position.

		2020			
	Note	FVTPL £m	FVOCI £m	Amortised cost £m	Total carrying amount £m
Financial assets					
Loans and advances to credit institutions	20	**-**	**-**	**1,022.5**	**1,022.5**
Investment securities	21	**-**	**274.4**	**186.3**	**460.7**
Loans and advances to customers	22	**19.1**	**656.0**	**7,019.4**	**7,694.5**
Derivative assets	25	**7.7**	**-**	**-**	**7.7**
		26.8	**930.4**	**8,228.2**	**9,185.4**
Financial liabilities					
Amounts owed to retail depositors	30	**-**	**-**	**6,894.7**	**6,894.7**
Amounts owed to credit institutions	29	**-**	**-**	**1,669.2**	**1,669.2**
Amounts owed to other customers	31	**-**	**-**	**67.1**	**67.1**
Derivative liabilities	25	**58.1**	**-**	**-**	**58.1**
		58.1	**-**	**8,631.0**	**8,689.1**

		2019			
	Note	FVTPL £m	FVOCI £m	Amortised cost £m	Total carrying amount £m
Financial assets					
Loans and advances to credit institutions	20	-	-	931.3	931.3
Investment securities	21	-	358.9	126.6	485.5
Loans and advances to customers	22	22.1	916.4	6,308.1	7,246.6
Derivative assets	25	11.8	-	-	11.8
		33.9	1,275.3	7,366.0	8,675.2
Financial liabilities					
Amounts owed to retail depositors	30	-	-	6,812.8	6,812.8
Amounts owed to credit institutions	29	-	-	1,301.8	1,301.8
Amounts owed to other customers	31	-	-	20.8	20.8
Derivative liabilities	25	38.5	-	-	38.5
		38.5	-	8,135.4	8,173.9

40. Financial instruments (continued)

Financial instruments held at fair value

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 Company 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 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:

2020	Carrying amount £m	Principal amount £m	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial assets						
Investment securities	**274.4**	**274.2**	**-**	**274.4**	**-**	**274.4**
Loans and advances to customers held at FVOCI	**656.0**	**650.2**	**-**	**-**	**656.0**	**656.0**
Loans and advances to customers held at FVTPL	**19.1**	**21.8**	**-**	**-**	**19.1**	**19.1**
Derivative assets	**7.7**	**3,374.0**	**-**	**7.7**	**-**	**7.7**
	957.2	**4,320.2**	**-**	**282.1**	**675.1**	**957.2**
Financial liabilities						
Derivative liabilities	**58.1**	**6,420.5**	**-**	**58.1**	**-**	**58.1**

40. Financial instruments (continued)

Financial instruments held at fair value (continued)

2019	Carrying amount £m	Principal amount £m	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial assets						
Investment securities	358.9	359.5	-	358.9	-	358.9
Loans and advances to customers held at FVOCI	916.4	892.0	-	-	916.4	916.4
Loans and advances to customers held at FVTPL	22.1	24.8	-	-	22.1	22.1
Derivative assets	11.8	4,290.1	-	11.8	-	11.8
	1,309.2	5,566.4	-	370.7	938.5	1,309.2
Financial liabilities						
Derivative liabilities	38.5	5,519.5	-	38.5	-	38.5

Investments in debt securities held at fair value are all Level 2 fair value measurements, being derived from inputs which are not quoted in active markets but are based on observable market data. For further information see note 21.

Customer loans and receivables held at fair value are all Level 3 fair value measurements being derived from inputs which are not quoted in active markets. For further information see note 22.

The majority of interest rate swaps are Level 2 fair value measurements, being derived from inputs which are not quoted in active markets but are based on observable market data. For further information see note 25.

Fair values of financial instruments carried at amortised cost

The fair values for financial assets and liabilities held at amortised cost is summarised below.

			Estimated fair value			
2020	**Carrying amount £m**	**Principal amount £m**	**Level 1 £m**	**Level 2 £m**	**Level 3 £m**	**Total £m**
Financial assets						
Loans and advances to credit institutions	**1,022.5**	**1,022.5**	**-**	**1,022.5**	**-**	**1,022.5**
Investment securities	**186.3**	**186.2**	**-**	**186.6**	**-**	**186.6**
Loans and advances to customers	**7,019.4**	**7,028.6**	**-**	**-**	**7,188.0**	**7,188.0**
	8,228.2	**8,237.3**	**-**	**1,209.1**	**7,188.0**	**8,397.1**
Financial liabilities						
Amounts owed to retail depositors	**6,894.7**	**6,858.4**	**-**	**2,116.4**	**4,810.2**	**6,926.6**
Amounts owed to credit institutions	**1,669.2**	**1,668.8**	**-**	**1,669.2**	**-**	**1,669.2**
Amounts owed to other customers	**67.1**	**66.9**	**-**	**-**	**67.1**	**67.1**
	8,631.0	**8,594.1**	**-**	**3,785.6**	**4,877.3**	**8,662.9**

40. Financial instruments (continued)

Fair values of financial instruments carried at amortised cost (continued)

2019	Carrying amount £m	Principal amount £m	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial assets						
Loans and advances to credit institutions	931.3	931.3	-	931.3	-	931.3
Investment securities	126.6	126.4	-	126.6	-	126.6
Loans and advances to customers	6,308.1	6,311.7	-	-	6,542.8	6,542.8
	7,366.0	7,369.4	-	1,057.9	6,542.8	7,600.7
Financial liabilities						
Amounts owed to retail depositors	6,812.8	6,769.3	-	1,911.6	4,913.8	6,825.4
Amounts owed to credit institutions	1,301.8	1,392.9	-	1,301.8	-	1,301.8
Amounts owed to other customers	20.8	20.7	-	-	20.8	20.8
	8,135.4	8,182.9	-	3,213.4	4,934.6	8,148.0

The fair values of loans and advances to credit institutions, loan notes receivable, trade and other receivables and trade and other payables and are not considered to be materially different from their book values. In arriving at that conclusion, market inputs have been considered but because these assets mature within three months of the year end, and the interest rates charged on financial liabilities reset to market rates on a quarterly basis, little difference arises.

While the Company's investments in debt securities 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. The fair value of investments in debt securities have been calculated using quoted market prices at the relevant date for each security.

To assess the fair value of the Company's customer loans and receivables, amounts owed to other customers and fixed rate retail deposits, the cash flows expected to arise, based on a mixture of market based inputs, such as funding rates, discount rates and target returns; and non-market based inputs such as redemption rates and credit losses, have been considered. 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.

The contractual maturity analysis of the Company's liabilities is disclosed in Liquidity risk in note 39.

41. Related party transactions

Transactions between the Company and its related parties are disclosed below.

	2020		2019	
Management services	**Charged by/(to) the Company during the year £m**	**Balance due to/(by) the Company £m**	Charged by/(to) the Company during the year £m	Balance due to/(by) the Company £m
OneSavings Bank plc	**(4.3)**	**0.2**	-	-
Charter Court Financial Services Group plc	**0.2**	**-**	(16.6)	(0.9)
Exact Mortgage Experts Limited	**(40.6)**	**(2.9)**	(47.3)	(0.7)
Charter Mortgages Limited	**(0.2)**	**-**	-	0.4
Trading transactions				
Precise Mortgage Funding 2014-1 plc	**-**	**-**	0.5	-
Precise Mortgage Funding 2014-2 plc	**-**	**-**	1.3	-
Precise Mortgage Funding 2015-1 plc	**-**	**-**	0.2	-
Precise Mortgage Funding 2015-3R plc	**0.3**	**-**	0.6	-
Canterbury Finance 3 plc	**-**	**4.4**	-	-

All related party transactions are with other subsidiaries of OSB. All transactions with other companies within the OSB Group are considered to be at arm’s length.

OSB and EME provides management services to the Company including the provision of staff, premises and systems. A fee is charged in respect of these services as shown above.

CCFSG provides holding company services to the Company and recharges any of its costs to its subsidiaries as they arise.

Charter Mortgages Limited (CML) collects payments from the Company’s portfolio of acquired mortgages, on behalf of the Company. The debtor outstanding represents payments received not yet paid to the Company.

Sale of residential mortgages

During the year, £329.8m of residential mortgages were sold to Broadlands Finance Limited and £275.6m of residential mortgages were sold to CML (2019: £587.9m of residential mortgages were sold to CML).

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

	2020 £m	2019 £m
Adjustments for non-cash items:		
Depreciation and amortisation	**2.4**	2.5
EIR adjustment	**(13.4)**	(21.1)
Impairment charge on loans	**19.8**	4.5
Movement in fair value hedge	**(49.3)**	(27.2)
Movement in deal costs	**-**	0.1
Interest on lease liabilities	**0.2**	0.3
Movement in fair value of loans and advances to customers held at FVTPL	**3.0**	(3.0)
Movement in other assets held at fair value	**-**	0.1
Total adjustments for non-cash items	**(37.3)**	(43.8)
Changes in operating assets and liabilities:		
Decrease in loans and advances to credit institutions	**367.4**	87.0
Increase in loans and advances to credit institutions	**(60.1)**	(54.1)
Increase in loans to customers	**(1,080.4)**	(1,416.9)
Increase in retail deposits	**81.9**	1,718.3
Net decrease / (increase) in other assets	**0.2**	(0.5)
Net decrease in derivatives and hedged items	**23.7**	30.9
Net increase in other customers deposits	**46.3**	20.8
Net increase in other liabilities	**3.4**	1.7
Total changes in operating assets and liabilities	**(617.6)**	387.2

43. Immediate parent company and ultimate controlling party

The Company is a wholly owned subsidiary of Charter Court Financial Services Group plc (CCFSG). With effect from 4 October 2019, CCFSG became a wholly-owned subsidiary of OneSavings Bank plc (OSB). OSB was the ultimate parent and controlling party of the Company until OSB became a wholly-owned subsidiary of OSB GROUP PLC (OSBG) on 27 November 2020. The OSB Group comprises; OSBG; OSB and its subsidiaries, which includes CCFSG and its subsidiaries.

OSBG is the ultimate parent and controlling party of the Company and is the parent company of the largest group preparing consolidated financial statements of which the Company is a member. Copies of OSBG's financial statements may be obtained from the Company Secretary at the registered office: OSB House, Quayside, Chatham Maritime, Chatham, Kent, ME4 4QZ.

OSB is the parent company of the smallest group preparing consolidated financial statements of which the Company is a member. Copies of OSB's financial statements may be obtained from the Company Secretary at the registered office: Reliance House, Sun Pier, Chatham, Kent ME4 4ET.

44. Capital management

The Company manages its capital to ensure that it has sufficient capital resources to continue as a going concern and meet all regulatory requirements while optimising the return to stakeholders through the balance of its capital resources. The capital structure of the OSB Group consists of debt, which includes the borrowings disclosed in the OSB Group financial statements, cash and cash equivalents and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings as disclosed in the OSB Group financial statements.

The Company conducts an ICAAP, which is approved by the Board of Directors. The ICAAP is used to assess the Company's capital adequacy and determine the levels of capital required to support the current and future risks in the business derived from its five year corporate plan.

The EU Capital Requirements Directive IV introduced the concept of a leverage ratio requirement, a non-risk based measure that is designed to act as a supplement to risk based capital requirements. The UK Leverage Ratio Framework is applicable to firms with over £50 billion of retail deposits.

The Company is supervised by the PRA who review the Capital adequacy, compliance with regulatory requirements and the ICAAP as part of its Supervisory Review and Evaluation Process (SREP). The PRA issues total capital requirement which specifies the level of regulatory capital which the Company is required to hold relative to its risk weighted assets as well as a PRA designated capital buffer.

The Company's regulatory capital is reviewed on a regular basis by the Board of Directors and the ALCO on both a current and forward looking basis. The future regulatory capital requirements are also considered as part of the Company's forecasting and strategic planning process.