OSB GROUP PLC

Interim report for the six months ended 30 June 2021

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OSB GROUP PLC
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OSB GROUP PLC (OSBG or the Group), the specialist lending and retail savings group, announces today its results for the six months ended 30 June 2021.

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

Highlights

- Underlying profit before tax[1] increased 62% to a record £252.8m (H1 2020: £156.3m) and statutory profit before tax more than doubled to £221.9m (H1 2020: £99.3m) driven predominantly by a release of impairment provisions and a lower cost of retail funds
- Underlying and statutory net loan book grew by 6% to £20.3bn and £20.4bn, respectively in the period (FY 2020: £19.0bn and £19.2bn). Organic originations in the first six months of 2021 were £2.5bn, up 16% from £2.1bn in the prior period
- Underlying net interest margin (NIM)[2] of 268bps (H1 2020: 250bps) and statutory NIM of 236bps (H1 2020: 217bps) improved, primarily due to lower cost of retail funds
- Growth in income delivered an improved underlying cost to income ratio[3] of 25% (H1 2020: 26%) and 28% on a statutory basis (H1 2020: 31%)
- Underlying and statutory loan loss ratios[4] improved to -15bps (H1 2020: 60bps and 59bps respectively) as the economy and outlook improved, leading to a provision release. Arrears remained stable with balances greater than three months at 1.3% and 0.5% for OSB and CCFS respectively (31 December 2020: 1.3% and 0.5%)
- Fully-loaded Common Equity Tier 1 capital ratio strengthened to 18.7% (31 December 2020: 18.3%) benefiting from profitability
- Underlying return on equity[5] of 24% (H1 2020: 18%) and statutory return on equity of 19% (H1 2020: 9%) reflecting the increase in profitability partially offset by higher equity
- Underlying basic earnings per share[6] of 41.8p (H1 2020: 26.1p) and statutory basic earnings per share of 35.5p (H1 2020: 15.5p)
- Interim dividend[7] of 4.9 pence per share (H1 2020: nil) representing one-third of the total 2020 dividend, in line with the Group's stated policy

Commenting on the results, Group CEO, Andy Golding said:

"I am delighted with the strong financial and operational performance of the Group in the first half of 2021, despite ongoing challenges presented by the pandemic. The underlying net loan book grew by 6%, supported by originations of £2.5bn at attractive margins, as demand remained strong in our Buy-to-Let and Residential sub-segments despite the Group maintaining tighter criteria than pre-COVID.

We continue to produce strong returns for our shareholders, with record half-yearly underlying profit before tax of £252.8m, up 62% on the first half of 2020, earnings per share of 41.8 pence, up 60% and underlying return on equity strengthening to 24%.

Credit performance remained strong in the first half, with stable arrears, and the improving economy and outlook led to a release of impairment provisions, as we updated our forward-looking macroeconomic scenarios and rising house prices outperformed our modelled assumptions.

Whilst we continue to control lending in our more cyclical businesses, demand remains strong in our Buy-to-Let and Residential segments, where we have recently reintroduced pre-pandemic criteria, due to the improving economic backdrop and outlook. The new products will help build our pipeline for completions in the first quarter of 2022.

Based on our current pipeline and application levels, we remain confident to deliver underlying net loan book growth of c.10% for 2021. We now expect full year underlying NIM to be c.270bps and the underlying cost to income ratio to be marginally higher than in the first half.

We remain focused on establishing an optimal capital structure which supports both the strategy of the Group and shareholder distributions. We will also update the market on our capital management framework, including the evolution of our target capital ratios and distribution policy to supplement dividends, as greater clarity is obtained on our future capital requirements under Basel 3.1 and the timing of becoming an Internal Ratings Based bank.

We remain cognisant of ongoing uncertainty over the true impact of the pandemic once Government support ends. However, our resilient business model, strong capital position, secured loan book and strong risk management capabilities, continue to position us well to respond to the opportunities and challenges ahead and to deliver attractive and sustainable returns for our shareholders across the cycle."

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Results presentation

A webcast presentation for analysts will be held at 9:30am on Thursday 19 August.
The presentation will be webcast or call only and will be available on the OSB Group website at www.osb.co.uk/investors/results-reports-presentations.

The UK dial in number is 020 3936 2999 and the password is 518429. Registration is open immediately.

About OSB GROUP PLC

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

OneSavings Bank (OSB)

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

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

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

Charter Court Financial Services Group (CCFS)

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

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

CCFS is predominantly funded by retail savings originated through its Charter Savings Bank brand. Diversification of funding is provided by securitisation programmes and the Bank of England funding schemes, including the Term Funding Scheme and the Term Funding Scheme for SMEs.

Notes

1. Before exceptional items, integration costs and other acquisition-related items of £30.9m (H1 2020: £57.0m)
2. Net interest income as a percentage of a 7 point average of interest earning assets, annualised on an actual days basis
3. Administrative expenses as a percentage of total income
4. Impairment losses as a percentage of a 7 point average of gross loans and advances, annualised
5. Profit attributable to ordinary shareholders, which is profit after tax and after deducting coupons on non-controlling interest securities, gross of tax, as a percentage of a 7 point average of shareholders' equity (excluding £60m of non-controlling interest securities), annualised
6. Profit attributable to ordinary shareholders, which is profit after tax and after deducting coupons on non-controlling interest securities, gross of tax, divided by the weighted average number of ordinary shares in issue
7. The declared interim dividend of 4.9 pence per share is based on one-third of the total 2020 dividend of 14.5 pence per share (H1 2020: nil)

Important disclaimer

This document should be read in conjunction with the documents distributed by OSB GROUP PLC (OSBG) through the Regulatory News Service (RNS). This document is not audited and contains certain forward-looking statements with respect to the business, strategy and plans of OSBG, its current goals, beliefs, intentions, strategies and expectations relating to its future financial condition, performance and results. Such forward-looking statements include, without limitation, those preceded by, followed by or that include the words 'targets', 'believes', 'estimates', 'expects', 'aims', 'intends', 'will', 'may', 'anticipates', 'projects', 'plans', 'forecasts', 'outlook', 'likely', 'guidance', 'trends', 'future', 'would', 'could', 'should' or similar expressions or negatives thereof but are not the exclusive means of identifying such statements. Statements that are not historical or current facts, including statements about OSBG's, its directors' and/or management's beliefs and expectations, are forward-looking statements. By their nature, forward-looking statements involve risk and uncertainty because they relate to events and depend upon circumstances that may or may not occur in the future that could cause actual results or events to differ materially from those expressed or implied by the forward-looking statements. Factors that could cause actual business, strategy, plans and/or results (including but not limited to the payment of dividends) to differ materially from the plans, objectives, expectations, estimates and intentions expressed in such forward-looking statements made by OSBG or on its behalf include, but are not limited to: general economic and business conditions in the UK and internationally; market related trends and developments; fluctuations in exchange rates, stock markets, inflation, deflation, interest rates and currencies; policies of the Bank of England, the European Central Bank and other G8 central banks; the ability to access sufficient sources of capital, liquidity and funding when required; changes to OSBG's credit ratings; the ability to derive cost savings; changing demographic developments, and changing customer behaviour, including consumer spending, saving and borrowing habits; changes in customer preferences; changes to borrower or counterparty credit quality; instability in the global financial markets, including Eurozone instability, the potential for countries to exit the European Union (the EU) or the Eurozone, and the impact of any sovereign credit rating downgrade or other sovereign financial issues; technological changes and risks to cyber security; natural and other disasters, adverse weather and similar contingencies outside OSBG's control; inadequate or failed internal or external processes, people and systems; terrorist acts and other acts of war or hostility and responses to those acts; geopolitical factors, the impact of outbreaks, epidemics and pandemics, such as the Covid-19 pandemic and ongoing challenges and uncertainties posed by the Covid-19 pandemic for businesses and governments around the world; changes in laws, regulations, taxation, accounting standards or practices, including as a result of the UK's exit from the EU; regulatory capital or liquidity requirements and similar contingencies outside OSBG's control; the policies and actions of governmental or regulatory authorities in the UK, the EU or elsewhere including the implementation and interpretation of key legislation and regulation; the ability to attract and retain senior management and other employees; the extent of any future impairment charges or write-downs caused by, but not limited to, depressed asset valuations, market disruptions and illiquid markets; market relating trends and developments; exposure to regulatory scrutiny, legal proceedings, regulatory investigations or complaints; changes in competition and pricing environments; the inability to hedge certain risks economically; the adequacy of loss reserves; the actions of competitors, including non-bank financial services and lending companies; the success of OSBG in managing the risks of the foregoing; and other risks inherent to the industries in which OSBG operates.

Accordingly, no reliance may be placed on any forward-looking statement. Neither OSBG, nor any of its directors, officers or employees, provides any representation, warranty or assurance that any of these statements or forecasts will come to pass or that any forecast results will be achieved. Any forward-looking statements made in this document speak only as of the date they are made and it should not be assumed that they have been revised or updated in the light of new information of future events. Except as required by the Prudential Regulation Authority, the Financial Conduct Authority, the London Stock Exchange PLC or applicable law, OSBG expressly disclaims any obligation or undertaking to release publicly any updates or revisions to any forward-looking statements contained in this document to reflect any change in OSBG's expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based. For additional information on possible risks to OSBG's business, please see the Risk review section in the OSBG 2020 Annual Report and Accounts. Copies of this are available at www.osb.co.uk and on request from OSBG.

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

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

Non-IFRS performance measures
OSB GROUP PLC believes that the non-IFRS performance measures included in this document provide a more consistent basis for comparing the business' performance between financial periods, and provide more detail concerning the elements of performance which the Group is most directly able to influence or are relevant for an assessment of the Group. They also reflect an important aspect of the way in which operating targets are defined and performance is monitored by the Board. However, any non-IFRS performance measures in this document are not a substitute for IFRS measures and readers should consider the IFRS measures as well. For further details, refer to Alternative performance measures section in the OSBG 2020 Annual Report and Accounts. Copies of this are available at www.osb.co.uk and on request from OSBG.

Key Performance Indicators - statutory

£2.5bn **Gross new organic lending up 16%**
H1 2020: £2.1bn

£20.4bn **Net loan book up 6%**
FY 2020: £19.2bn

£221.9m **Profit before tax up 123%**
H1 2020: £99.3m

35.5p **Basic EPS[1] up 129%**
H1 2020: 15.5p

236bps **Net interest margin[2] up 19bps**
H1 2020: 217bps

28% **Cost to income ratio[3] improved 3pps**
H1 2020: 31%

-15bps **Loan loss ratio[4] improved 74bps**
H1 2020: 59bps

70bps **Management expense ratio[5] unchanged**
H1 2020: 70bps

19% **Return on equity[6] improved 10pps**
H1 2020: 9%

18.7% **Fully-loaded[7] CET1 ratio strengthened**
FY 2020: 18.3%

3 months + in arrears[8] stable
OSB 1.3%, CCFS 0.5%
FY 2020: OSB 1.3%, CCFS 0.5%

Customer NPS[9] strong
OSB +68, CCFS +70
H1 2020: OSB +67, CCFS +83

1. Profit attributable to ordinary shareholders, which is profit after tax and after deducting coupons on non-controlling interest securities, gross of tax, divided by the weighted average number of ordinary shares in issue
2. Net interest income as a percentage of a 7 point average of interest earning assets, annualised on an actual days basis
3. Administrative expenses as a percentage of total income
4. Impairment losses as a percentage of a 7 point average of gross loans and advances, annualised
5. Administrative expenses as a percentage of 7 point average of total assets, annualised
6. Profit attributable to ordinary shareholders, which is profit after tax and after deducting coupons on non-controlling interest securities, gross of tax, as a percentage of a 7 point average of shareholders' equity (excluding £60m of non-controlling interest securities), annualised
7. Fully loaded is calculated without applying the transitional provisions set out in Part Ten of the CRD IV Regulation
8. Portfolio arrears rate of accounts for which there are missing or overdue payments by more than three months as a percentage of gross loans
9. OSB customer Net Promoter Score relates to Kent Reliance savings customers and CCFS customer NPS relates to Charter Savings Bank customers. It is calculated based on customer responses to the question of whether they would recommend the Group's products to a friend. The responses provide a score between -100 and +100

Key Performance Indicators - underlying

Underlying key performance indicators for the six months to 30 June 2021 and 30 June 2020 reflect results for the combined Group, excluding exceptional items, integration costs and other acquisition-related items.

£2.5bn	**Gross new organic lending up 16%**	H1 2020: £2.1bn
£20.3bn	**Net loan book up 6%**	FY 2020: £19.0bn
£252.8m	**Profit before tax up 62%**	H1 2020: £156.3m
41.8p	**Basic EPS[1] up 60%**	H1 2020: 26.1p
268bps	**Net interest margin[2] up 18bps**	H1 2020: 250bps
25%	**Cost to income ratio[3] improved 1pp**	H1 2020: 26%
-15bps	**Loan loss ratio[4] improved 75bps**	H1 2020: 60bps
69bps	**Management expense ratio[5] up 1bp**	H1 2020: 68bps
24%	**Return on equity[6] improved 6pps**	H1 2020: 18%

For definitions of key ratios please see footnotes in statutory KPIs above.

OSB GROUP PLC

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CEO Report

OSB Group continued to demonstrate the strength of its strategy and business model in the first six months of 2021. We achieved underlying and statutory net loan book growth of 6%, supported by £2.5bn of new lending at attractive margins, and the quality of our underwriting standards and lending criteria was evidenced by the strong credit performance of our borrowers. I am extremely grateful for the unwavering dedication of my colleagues, both in the UK and in India, who delivered the quality of service our customers have come to expect, as the Group adapted to successfully meet the continuing challenges of the global pandemic.

Financial performance

I am delighted that the Group continued to generate a high level of profitability in the first half of 2021, with record half-yearly underlying pre-tax profit of £252.8m, up 62% on the prior period, and underlying basic earnings per share of 41.8 pence, up 60% (H1 2020: £156.3m and 26.1 pence, respectively). On a statutory basis, profit before tax increased to £221.9m (H1 2020: £99.3m) and basic earnings per share was 35.5 pence (H1 2020: 15.5 pence).

Underlying net interest income increased to £299.0m from £266.8m in the first half of 2020, and both underlying and statutory net interest margins improved to 268bps and 236bps respectively in the first half of 2021 (H1 2020: 250bps and 217bps, respectively), due primarily to a lower cost of retail funds, as well as lower average liquidity levels as the Group utilised excess liquidity prudently built up at the start of the pandemic.

The business continued to benefit from Combination synergies and other cost efficiencies, offset by lower average liquidity levels compared to the prior period, which were reflected in a broadly stable underlying management expense ratio of 69bps (H1 2020: 68bps). The underlying cost to income ratio which benefited from higher income, further improved to 25% (H1 2020: 26%). The statutory management expense ratio and cost to income ratio were 70bps and 28% respectively (H1 2020: 70bps and 31%).

The economy performed better than anticipated over the first half of 2021 and the outlook has improved, which is reflected in the forward-looking macroeconomic scenarios used in our IFRS 9 models. This led to a release of provisions and an impairment credit of £15.1m on an underlying basis, representing an underlying loan loss ratio of -15bps, compared with 60bps in the first half of 2020. The statutory loan loss ratio was also -15bps (H1 2020: 59bps).

I am particularly proud of the excellent returns the Group has achieved in the period, with an underlying return on equity of 24% (H1 2020:18%). The statutory return on equity was 19% (H1 2020: 9%) and the Board has declared an interim dividend of 4.9 pence per share, representing one-third of the total 2020 dividend, in line with our stated policy.

Our strong lending franchise

We entered 2021 with a strong pipeline of new business and demand remained strong in our Buy-to-Let and Residential sub-segments, at attractive margins and on tighter criteria than pre-COVID. The property purchase market proved resilient in the first six months of 2021, despite the pandemic, with strong demand stimulated in particular by the temporary reduction in stamp duty, which also brought forward completions from July, as borrowers rushed to meet the end of June deadline.

Throughout the first half of 2021, the Group remained a lender of choice in our core market sub-segments with organic originations of £2.5bn, up 16% on the same period last year (H1 2020 £2.1bn). This momentum supported an increase of 6% in the underlying net loan book which reached £20.3bn at the end of June 2021 (31 December 2020: £19.0bn). The statutory net loan book increased to £20.4bn (31 December 2020: £19.2bn).

Landlords are demonstrating higher confidence levels and we continue to support them as they decide to add to their portfolios, remortgage properties within their existing portfolios or incorporate their business, selecting to do so with the Group's expertise under its brands and mortgage propositions.

We continued to protect the quality of the Group's loan book throughout the first half, controlling application volumes in our core Residential and Buy-to-Let segments, by maintaining the tighter risk appetite which we adopted during the pandemic, in particular limiting maximum loan to values (LTVs) and loan sizes. We also continued to control lending in our more cyclical market sub-segments given the greater dependence these businesses have on the wider economy, and we are pleased with the quality and performance of these sub-segments.

In the third quarter, as a result of positive economic data and an improved outlook, we have relaunched Buy-to-Let and Residential products at higher LTVs, similar to pre-pandemic criteria, which will help drive new business and build a strong pipeline of new business, principally for early 2022 completions.

The Group continues to gain recognition from mortgage customers and intermediaries, and in the first six months of 2021, Precise Mortgages was recognised by Financial Reporter Awards as Best Buy-to-Let Lender and by SFI Awards as Specialist Finance Lender of the Year.

Proven strong credit and risk management

Throughout the first six months of 2021, the credit performance of the Group's loan book remained stable, with balances over three months in arrears at just 1.3% and 0.5% of the loan book at the end of June for OSB and CCFS respectively (31 December 2020: 1.3% and 0.5%). In addition, credit quality remained strong, with the weighted average LTV of the book reducing to 64% as at 30 June 2021, supported by house price appreciation (31 December 2020: 65%) and the weighted average LTV of new business falling to 69% (H1 2020: restated 71%[1]).

The improving economy and outlook led to a release of impairment provisions of £24.4m for the first six months of 2021, as we updated the forward-looking macroeconomic scenarios in our IFRS 9 models and rising house prices outperformed our modelled assumptions. The underlying impairment credit of £15.1m, represented an underlying loan loss ratio of -15bps, an improvement from 60bps in the same period last year.

The Group commissioned an external review of processes and controls in its funding lines business in the first half, following the discovery of potential fraudulent activity by a third party on a funding line provided by the Group, and secured against lease receivables and the underlying hard assets. The review confirmed that it was an isolated incident and the majority of recommended enhancements to processes and controls have now been implemented and the remainder will be made before the end of the year. There was no change in the first half to the £20m impairment provision taken in 2020 against the potential fraud. The funding lines business remains primarily property-related and the Group does not intend to add any new non-property related funding lines in the future.

Multi-channel funding model

Retail deposits provided the primary source of funding for the Group in the first half, reaching £17.1bn as at 30 June 2021. Our competitive retail savings propositions, through the Kent Reliance and Charter Savings Bank brands, allowed the Group to raise the funds needed to support loan growth at attractive rates.

Over nine thousand new savings customers joined Kent Reliance in the first six months of 2021 and Charter Savings Bank grew customer numbers by nearly 17 thousand. The retention rate for savers remained high, achieving 89% amongst Kent Reliance savers with maturing fixed rate bonds and ISAs, and 86% for Charter Savings Bank savers. Our efforts to provide excellent customer service and transparent and fair savings products continue to be reflected in the strong savers Net Promoter Scores of +68 for Kent Reliance and +70 for Charter Savings Bank. I am delighted that Charter Savings Bank won ISA Provider of the Year and Online Savings Provider of the Year from Moneyfacts Consumer awards.

We continue to complement our retail savings franchises by utilising our capabilities in the wholesale funding market. In early July 2021, we completed the largest securitisation to date under the Canterbury programme, with a value of £1.7bn. This transaction created £1.4bn of AAA rated senior bonds and significantly increased the contingent wholesale funding options available to the Group. It also provided an opportunity to increase efficiency in our drawings from the Bank of England under the TFS and TFSME schemes which at the end of June 2021 totalled £2.3bn and £1.4bn respectively (31 December 2020: £2.6bn and £1.0bn).

Well-capitalised and sustainable business

The Group's capital position improved further in the period, with a fully-loaded CET1 ratio of 18.7% as at 30 June 2021 (31 December 2020: 18.3%).

We continue to make good progress towards Internal Ratings Based (IRB) accreditation and we are aiming to be ready to submit our module 1 application by the end of the year. We are already seeing the benefits from the enhanced risk models and assessment in our day-to-day credit decision-making, which contribute to the strong credit performance of our lending.

The integration of OSB and CCFS has continued to progress well during the first half of 2021 and we remain ahead of schedule. As at 30 June 2021, we had delivered run rate savings of c. £22m and we expect to marginally exceed our run-rate pledge by the end of the final year. Integration costs to date are also lower than originally expected.

The development of our sustainability strategy is progressing well and we will be presenting an integrated summary Environmental, Social and Governance report in our 2021 annual report, including the opportunities we have identified and the risks the Group faces.

Our people are our key asset and we continue to work hard to keep them safe and supported, in the UK and India. The majority of our employees continue to work from home, and we have begun a gradual transition to our offices in line with government guidelines. Our customers continue to receive the support that they are accustomed to, delivered by our resilient and effective operations. The Group undertook a range of community and fundraising initiatives in the first half, donating over £220k to charitable causes.

Looking forward

The UK economy showed signs of recovery in the first half, including house price appreciation, and the outlook improved, although we remain cognisant of ongoing uncertainty over the true impact of the pandemic once Government support ends.

Whilst we continue to control lending in our more cyclical businesses, demand remains strong in our Buy-to-Let and Residential businesses, where we have recently reintroduced pre-pandemic criteria due to the improving economic backdrop and outlook. The new products will help build our pipeline for completions in the first quarter of 2022.

Based on our current pipeline and application levels, we remain confident to deliver underlying net loan book growth of c.10% for 2021. We now expect underlying NIM for the full year to be c.270bps and the underlying cost to income ratio to be marginally higher than in the first half.

The Board remains focused on establishing an optimal capital structure which supports both the strategy of the Group and shareholder distributions, including one-off returns of capital. The Board will also update the market on our capital management framework, including the evolution of our target capital ratios and distribution policy to supplement dividends as greater clarity is obtained on the final approach that the UK will take to the implementation of Basel 3.1 and the timing of becoming an IRB bank.

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CEO Report

Our resilient business model, strong capital position, secured loan book and strong risk management capabilities, continue to position us well to respond to opportunities and challenges ahead and deliver attractive and sustainable returns for our shareholders across the cycle.

Andy Golding

Chief Executive Officer

1. The Group restated the prior period LTV due to change in calculation methodology.

Mortgage market

Strong demand in the UK housing market continued in the first half of 2021, despite the country entering a third national lockdown at the beginning of the year. The demand can be attributed to a combination of the desire to upgrade to larger properties with outside space, the gradual expansion of lender appetites and the extension of the stamp duty holiday, which will now be phased out before returning to the standard rate in October 2021, and which brought forward completions from July as borrowers rushed to meet the end of June deadline. Overall, UK gross mortgage lending in the first six months of 2021 reached £170bn, up 58% compared with the same period in 2020.[1]

This strong momentum, along with greater confidence in house prices and more optimistic market prospects, has led many lenders to progressively relax underwriting criteria and expand the variety of products offered, including an increase in the number of products available to customers with small deposits at higher loan to value ratios. The number of mortgage products available at 95% loan to value grew to 253 in June 2021, according to Moneyfacts, representing a month-on-month increase of 61 products, while the total number of mortgage products available reached a 16-month high of 4,512 in June 2021.[2] In addition, borrowers have benefited from attractive mortgage rates as price competition continued amongst the high street lenders, which has seen 2-year fixed rate products reach record lows below 1% in May 2021.[3]

The average house price reached £254,624 in May 2021, against a backdrop of strong demand, further fueled by the persistent shortage of housing in the UK, with the ONS reporting UK average house price inflation of 10% in the 12 months to May 2021, the highest growth rate recorded since September 2007.[4]

The above dynamics were also present to a lesser extent in the UK Buy-to-Let mortgage market, due in part to the additional stamp duty surcharge for second homes continuing to apply despite the ongoing stamp duty holiday. Buy-to-Let gross advances reached £18.8bn in the first five months of 2021, an increase of 14% compared with the same period of 2020, representing the highest lending for this period since 2016.[5]

Similar to the dynamics in the owner occupier segment, the first six months of 2021 saw particularly strong activity in the Buy-to-Let segment with lenders progressively increasing the number of products available, loosening underwriting criteria and reducing mortgage rates. According to research by BVA BDRC, this reopening, coupled with strong rental yields and high tenant demand, has resulted in a consistent rise in landlord confidence from the lows seen in the first quarter of 2020, with landlords now significantly more optimistic about business prospects than they were last year.[6]

1. UK Finance, UK gross mortgage lending, MM23
2. Moneyfacts; https://moneyfacts.co.uk/news/mortgages/rock-bottom-mortgage-rates-make-now-the-best-time-to-remortgage/
3. TSB launches new 0.99% remortgaging deal – Which? News
4. ONS, UK House price index summary, May 2021
5. UK Finance, New and outstanding Buy-to-Let mortgages, Aug 2021
6. BVA BDRC Landlords Panel, Q1 2021

Review of Group's lending segments

The Group reports its lending business under two segments: OSB and CCFS.

OneSavings Bank (OSB) segment

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

Contribution to profit for the period

For the six months ended 30 June 2021	BTL/SME £m	Residential £m	Total £m
Net interest income	**148.0**	**40.6**	**188.6**
Other income	**4.0**	**1.0**	**5.0**
Total income	**152.0**	**41.6**	**193.6**
Impairment of financial assets	**2.7**	**2.4**	**5.1**
Contribution to profit	**154.7**	**44.0**	**198.7**
For the six months ended 30 June 2020			
Net interest income	129.7	33.8	163.5
Gain on sale of loans	18.0	-	18.0
Other (loss)/income	(8.3)	1.3	(7.0)
Total income	139.4	35.1	174.5
Impairment of financial assets	(28.2)	(7.7)	(35.9)
Contribution to profit	111.2	27.4	138.6

Loans and advances to customers

As at 30 June 2021	BTL/SME £m	Residential £m	Total £m
Gross loans and advances to customers	**9,657.4**	**2,076.7**	**11,734.1**
Expected credit losses	**(64.4)**	**(12.3)**	**(76.7)**
Net loans and advances to customers	**9,593.0**	**2,064.4**	**11,657.4**
Risk-weighted assets	**4,474.1**	**903.2**	**5,377.3**
As at 31 December 2020			
Gross loans and advances to customers	9,164.6	1,966.8	11,131.4
Expected credit losses	(67.0)	(16.6)	(83.6)
Net loans and advances to customers	9,097.6	1,950.2	11,047.8
Risk-weighted assets	4,282.9	874.4	5,157.3

Buy-to-Let/SME sub-segment

Loans and advances to customers

	30-Jun-2021 £m	31-Dec-2020 £m
Buy-to-Let	**8,583.3**	8,044.6
Commercial	**801.7**	821.9
Residential development	**120.9**	133.1
Funding lines	**151.5**	165.0
Gross loans and advances to customers	**9,657.4**	9,164.6
Expected credit losses	**(64.4)**	(67.0)
Net loans and advances to customers	**9,593.0**	9,097.6

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

The Buy-to-Let/SME net loan book increased 5% to £9,593.0m in the first six months of 2021 supported by organic originations of £963.5m, which were 12% higher than in the same period of 2020 (H1 2020: £858.3m) and at tighter criteria than pre-COVID.

The Buy-to-Let gross loan book increased 7% to £8,583.3m at the end of June 2021 (31 December 2020: £8,044.6m) as professional, multi-property landlords, who represented 81% of completions by value for the Kent Reliance brand (H1 2020: 94%) continued to be active.

Many landlords chose to incorporate their businesses to optimise their tax position, and 73% of mortgage applications in Kent Reliance came from landlords borrowing via a limited company (H1 2020: 78%). Research by BVA BDRC in its Landlords Panel survey shows that this segment of the market continues to expand, with more landlords planning to grow their portfolios than reduce them for the first time in over four years, with limited company ownership remaining the most popular option for those looking to purchase new properties.

As at 30 June 2021, the proportion of Kent Reliance Buy-to-Let completions represented by refinancing reduced to 50% (H1 2020: 58%). Landlords continued to favour mortgages with longer initial terms as mortgage rates became more attractive during the first half of 2021, and five-year fixed rate mortgages represented 59% of Kent Reliance completions (H1 2020: 46%). In addition, OSB's retention programme, Choices, was successful in retaining customers, with 76% of existing borrowers choosing a new product with us within three months of their original product ending (H1 2020: 69%).

The weighted average loan to value (LTV) of the Buy-to-Let book as at 30 June 2021 was 66% with an average loan size of £255k (31 December 2020: 67% and £260k). The weighted average interest coverage ratio for Buy-to-Let originations during the first six months of 2021 was 197% (H1 2020: restated[1] 208%).

Through its InterBay brand, the Group lends to borrowers investing in commercial and semi-commercial property, reported in the Commercial total, and more complex Buy-to-Let properties, reported in the Buy-to-Let total. The gross loan book in the commercial business reduced 2% to £801.7m (31 December 2020: £821.9m) as the Group retained its prudent lending criteria introduced as a response to the pandemic.

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

InterBay Asset Finance, which predominantly targets UK SMEs and small corporates financing business-critical assets, had a very successful first half of 2021, with record volumes in the period as demand increased and the CBILs scheme proved popular. The gross carrying amount under finance leases was £98.2m as at 30 June 2021 (31 December 2020: £65.5m).

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

The residential development funding gross loan book at the end of June 2021 was £120.9m, with a further £188.0m committed (31 December 2020: £133.1m and £145.6m, respectively). The increased rates of sale experienced by Heritable's developer customers continued through the first half of 2021, leading to high levels of loan repayments in the period.

Heritable has written £1,323m of loans since inception through to the end of June 2021, of which £790m have been repaid. At the end of June 2021, the business had commitments to finance the development of 2,004 residential units, the majority of which are houses located outside central London. Heritable continue to take an exacting approach to approving funding for new customers given the macroeconomic uncertainty.

OSB continued to provide secured funding lines to non-bank lenders which operate in certain high-yielding, specialist sub-segments, primarily secured against property-related mortgages. Total credit approved limits as at 30 June 2021 were £515.0m with total loans outstanding of £151.5m (31 December 2020: £520.0m and £165.0m, respectively). During the period, the Group adopted a cautious risk approach and did not consider any new secured funding line facilities, choosing to focus on servicing the existing borrowers and continuing to apply restricted lending criteria.

Buy-to-Let/SME net interest income increased 14% to £148.0m from £129.7m in the prior period, primarily due to growth in the loan book and a lower cost of retail funding. This segment also benefited from £4.0m of other income relating to gains on the Group's hedging activities (H1 2020: £8.3m loss) and an impairment credit of £2.7m (H1 2020: £28.2m loss) due to less severe forward-looking macroeconomic scenarios used in the Group's IFRS 9 models to reflect the improved outlook partially offset by growth in Buy-to-Let lending and decreases in commercial property values. Overall, the Buy-to-Let/SME segment made a contribution to profit of £154.7m, up 39% compared with £111.2m in the first six months of 2020.

The Group remains highly focused on the risk assessment of new lending, as demonstrated by the average book LTV in the Buy-to-Let/SME segment of 67% (31 December 2020: 67%) with only 3.4% of loans exceeding 90% LTV (31 December 2020: 2.9%). The average LTV for new Buy-to-Let/SME origination was 73% (H1 2020: 71%).

1. Interest coverage ratio for H1 2020 was restated due to alignment of the calculation across both Banks.

Financial review

Residential sub-segment

Loans and advances to customers

	30-Jun-2021 £m	31-Dec-2020 £m
First charge	**1,807.0**	1,660.7
Second charge	**260.9**	295.4
Funding lines	**8.8**	10.7
Gross loans and advances to customers	**2,076.7**	1,966.8
Expected credit losses	**(12.3)**	(16.6)
Net loans and advances to customers	**2,064.4**	1,950.2

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

The Residential sub-segment net loan book grew 6% to £2,064.4m as at 30 June 2021 (31 December 2020: £1,950.2m) with organic originations of £299.4m during the period (H1 2020: £184.7m).

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

The first charge gross loan book increased 9% in the period to £1,807.0m from £1,660.7m at the end of 2020, as the Group retained its strong presence in shared ownership, achieving record levels of originations in this sub-segment. Lending to high net worth individuals or borrowers with more complex income circumstances remained limited due to tighter lending criteria introduced by the Group as a response to the pandemic.

The OSB second charge mortgage brand, Prestige Finance, no longer offers new mortgages to borrowers, with its loan book in run-off and managed by Precise Mortgages. Second charge mortgages are currently offered under the Precise Mortgages brand as part of the CCFS segment. The Prestige Finance second charge residential loan book had a gross value of £260.9m as at 30 June 2021 (31 December 2020: £295.4m).

OSB continued to provide secured funding lines to non-bank lenders which operate in certain high-yielding, specialist sub-segments, such as residential first and second charge finance. The Group continued to adopt a cautious approach to these more cyclical businesses given macroeconomic uncertainty. Total credit approved limits as at 30 June 2021 reduced to £28.2m with total loans outstanding of £8.8m secured against property-related mortgages (31 December 2020: £29.2m and £10.7m, respectively).

Net interest income in the Residential sub-segment increased 20% to £40.6m (H1 2020: £33.8m) due to growth in the loan book, the benefit of a lower cost of retail funds and a £6.0m effective interest rate gain due to cash outperformance versus modelled assumptions on the second charge acquired books. This segment also benefited from an impairment credit of £2.4m (H1 2020: £7.7m loss), as the Group updated the forward-looking macroeconomic scenarios used in its IFRS 9 models to reflect the improved outlook, partially offset by post model adjustments. Overall, contribution to profit from this segment increased 61% to £44.0m compared with £27.4m in the same period of 2020.

The average book LTV reduced to 51% (31 December 2020: 54%) with only 0.9% of loans by value with LTVs exceeding 90% (31 December 2020: 1.6%). The average LTV of new residential origination in the first six months of 2021 reduced to 48% (H1 2020: 69%) as a result of growth in shared ownership originations, which complete at much lower LTVs.

Charter Court Financial Services (CCFS) segment

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

Contribution to profit for the period

For the six months to 30 June 2021	**Buy-to-Let £m**	**Residential £m**	**Bridging £m**	**Second charge £m**	**Other[1] £m**	**Total underlying £m**	**Acquisition-related items[2] £m**	**Total statutory £m**
Net interest income	**67.0**	**37.7**	**3.0**	**3.4**	**(0.7)**	**110.4**	**(33.7)**	**76.7**
Other income	**-**	**-**	**-**	**-**	**12.4**	**12.4**	**7.3**	**19.7**
Total income	**67.0**	**37.7**	**3.0**	**3.4**	**11.7**	**122.8**	**(26.4)**	**96.4**
Impairment of financial assets	**6.7**	**1.8**	**1.2**	**0.3**	**-**	**10.0**	**(0.5)**	**9.5**
Contribution to profit	**73.7**	**39.5**	**4.2**	**3.7**	**11.7**	**132.8**	**(26.9)**	**105.9**

For the six months to 30 June 2020	Buy-to-Let £m	Residential £m	Bridging £m	Second charge £m	Other[1] £m	Total underlying £m	Acquisition-related items[2] £m	Total statutory £m
Net interest income	55.9	33.5	6.8	3.6	3.5	103.3	(33.0)	70.3
Gain on sale of loans	-	-	-	-	15.1	15.1	(13.1)	2.0
Other income	-	0.1	-	-	(8.1)	(8.0)	6.5	(1.5)
Total income	55.9	33.6	6.8	3.6	10.5	110.4	(39.6)	70.8
Impairment of financial assets	(5.7)	(10.7)	(0.9)	(1.2)	-	(18.5)	0.2	(18.3)
Contribution to profit	50.2	22.9	5.9	2.4	10.5	91.9	(39.4)	52.5

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

OSB GROUP PLC

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Financial review

Loans and advances to customers

As at 30 June 2021	Buy-to-Let £m	Residential £m	Bridging £m	Second charge £m	Other[1] £m	Total underlying £m	Acquisition-related items[2] £m	Total statutory £m
Gross loans and advances to customers	**5,877.9**	**2,472.0**	**75.4**	**171.3**	**18.1**	**8,614.7**	**173.8**	**8,788.5**
Expected credit losses	**(11.4)**	**(5.6)**	**(0.5)**	**(0.4)**	**-**	**(17.9)**	**0.2**	**(17.7)**
Net loans and advances to customers	**5,866.5**	**2,466.4**	**74.9**	**170.9**	**18.1**	**8,596.8**	**174.0**	**8,770.8**
Risk-weighted assets	**2,333.7**	**1,009.3**	**38.7**	**69.2**	**6.5**	**3,457.4**	**78.3**	**3,535.7**

As at 31 December 2020	Buy-to-Let £m	Residential £m	Bridging £m	Second charge £m	Other[1] £m	Total underlying £m	Acquisition-related items[2] £m	Total statutory £m
Gross loans and advances to customers	5,292.0	2,386.1	106.1	197.9	19.1	8,001.2	209.1	8,210.3
Expected credit losses	(18.1)	(7.5)	(1.9)	(0.7)	-	(28.2)	0.8	(27.4)
Net loans and advances to customers	5,273.9	2,378.6	104.2	197.2	19.1	7,973.0	209.9	8,182.9
Risk-weighted assets	2,163.8	1,001.5	59.6	82.9	7.0	3,314.8	93.6	3,408.4

1. Other relates to acquired loan portfolios.
2. For more details on acquisition-related adjustments, see Reconciliation of statutory to underlying results in the Financial review.

Financial review

CCFS segment

Underlying loans and advances to customers

	30-Jun-2021 £m	31-Dec-2020 £m
Buy-to-Let	**5,877.9**	5,292.0
Residential	**2,472.0**	2,386.1
Bridging	**75.4**	106.1
Second charge	**171.3**	197.9
Other[1]	**18.1**	19.1
Gross loans and advances to customers	**8,614.7**	8,001.2
Expected credit losses	**(17.9)**	(28.2)
Net loans and advances to customers	**8,596.8**	7,973.0

1. Other relates to acquired loan portfolios

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

The CCFS underlying net loan book grew 8% to £8,596.8m at the end of June 2021 (31 December 2020: £7,973.0m) supported by organic originations of £1,193.1m, which increased 11% from £1,070.8m of new business written in the same period last year.

Buy-to-Let sub-segment
In the first half of 2021, CCFS' organic originations in the Buy-to-Let sub-segment through the Precise Mortgages brand increased 16% to £808.5m (H1 2020: £697.2m) as the Group benefited from strong demand at tighter criteria than pre-COVID. The new business supported an 11% increase in the underlying gross Buy-to-Let loan book in the period to £5,877.9m from £5,292.0m at the end of 2020.

The demand for CCFS' Buy-to-Let products was particularly strong amongst landlords borrowing via a limited company, which represented 72% of Buy-to-Let completions for the Precise Mortgages brand in the first half of 2021 (H1 2020: 52%) and loans for specialist property types, including houses of multiple occupation and multi-unit properties represented 24% of completions in this sub-segment (H1 2020: 33%).

Precise Mortgages remained the highest ranked specialist lending brand for Buy-to-Let based on unprompted willingness to recommend in BVA BDRC's Project Mercury survey in Q1 2021.

The weighted average LTV of the loan book in this segment remained at 69% with an average loan size of £191k (31 December 2020: 69% and restated[1] £195k). The new lending average LTV was 74% and the weighted average interest coverage ratio for Buy-to-Let origination was 192% in the first half of 2021 (H1 2020: 73% and 205%, respectively).

Underlying net interest income in this sub-segment increased 20% to £67.0m compared with £55.9m in the prior period, due primarily to growth in the loan book and a lower cost of retail funding, partially offset by an underlying EIR reset loss of £6m to reflect customers spending less time on the higher revert rate before taking a new product than expected. This segment also benefited from an impairment credit of £6.7m (H1 2020: £5.7m loss) as the Group updated the forward-looking macroeconomic scenarios used in its IFRS 9 models to reflect the improved outlook partially offset by growth in Buy-to-Let lending. On an underlying basis, Buy-to-Let made a contribution to profit of £73.7m in the first half of 2021, up 47% (H1 2020: £50.2m). On a statutory basis, the Buy-to-Let sub-segment made a contribution to profit of £49.5m (H1 2020: £31.6m).

Residential sub-segment

The underlying gross loan book in CCFS' Residential sub-segment reached £2,472.0m at the end of June 2021, an increase of 4% from £2,386.1m as at 31 December 2020. Organic originations, at tighter underwriting criteria, were £312.5m in the first half of 2021, up 32% compared with £237.2m in the first half of 2020.

The Group continued to benefit from CCFS' expertise, with a particularly strong focus on first time buyers and those purchasing new build properties via the popular Help-to-Buy scheme. As new restrictions to the Help-to-Buy scheme were introduced at the end of March 2021, there was a spike in completions as borrowers sought to finalise their purchases ahead of new rules coming into force. Strong activity via the Help-to-Buy scheme was further boosted by the stamp duty holiday and purchases represented 89% of completions in this sub-segment in the period (H1 2020: 72%).

The average loan size in this sub-segment was £134k (31 December 2020: restated[1] £131k) with an average LTV for new lending of 65% (H1 2020: 71%) and book LTV of 61% as at 30 June 2021 (31 December 2020: 62%).

Underlying net interest income grew to £37.7m (H1 2020: £33.5m) reflecting a lower cost of retail funding and growth in the loan book. The Residential sub-segment recorded an impairment credit of £1.8m versus a £10.7m impairment loss in the first half of 2020 as the Group updated the forward-looking macroeconomic scenarios used in its IFRS 9 models to reflect the improved outlook, partially offset by post model adjustments. Overall, on an underlying basis, the Residential sub-segment made a contribution to profit of £39.5m, up 72% compared with £22.9m in the same period in 2020. On a statutory basis, the Residential sub-segment made a contribution to profit of £30.2m (H1 2020: £11.6m).

Bridging sub-segment

The Group continued to control volumes in its high-quality regulated bridging sub-segment, by continuing to limit the number of products available and applying restricted lending criteria and higher pricing than pre-pandemic. Short-term bridging originations were lower at £67.7m in the first half of 2021 compared with £108.7m in the first half of 2020, and as a result the gross loan book in this sub-segment reduced to £75.4m as at 30 June 2021 (31 December 2020: £106.1m).

Underlying net interest income reduced to £3.0m from £6.8m in the first half of 2020. The bridging sub-segment made a contribution to profit of £4.2m in the first half of 2021 on an underlying basis, down 29% compared with £5.9m in the same period of 2020, reflecting the reduction in the loan book. The bridging sub-segment recorded an impairment credit of £1.2m (H1 2020: £0.9m loss). On a statutory basis, the bridging sub-segment made a contribution to profit of £4.1m (H1 2020: £5.0m).

Second charge sub-segment

The second charge gross loan book reduced to £171.3m compared with £197.9m as at 31 December 2020. The organic originations in this sub-segment were £4.4m in the first half (H1 2020: £27.7m) as significant lending policy restrictions remained in place as a result of the pandemic. However, in the first six months of 2021, the Group initiated a controlled relaxation of the lending criteria by increasing the maximum LTV from 50% to 65% in March 2021, with a continued focus on prime borrowers.

Underlying net interest income in the second charge sub-segment remained broadly flat in the period at £3.4m (H1 2020: £3.6m) and the contribution to profit increased to £3.7m (H1 2020: £2.4m) due to an impairment credit of £0.3m versus an impairment loss of £1.2m in the first half of 2020. On a statutory basis, the contribution to profit from the second charge sub-segment was £2.9m (H1 2020: £1.8m).

1. The Group restated prior period average loan size due to change in calculation methodology.

Financial review

Summary statutory results

Review of the Group's performance on a statutory basis for the six months to 30 June 2021 and 2020.

Summary Profit or Loss	H1 2021 £m	H1 2020 £m
Net interest income	**265.3**	233.8
Net fair value gain/(loss) on financial instruments	**16.1**	(12.1)
Gain on sale of financial instruments	**4.0**	19.9
Other operating income	**4.6**	3.7
Administrative expenses	**(80.5)**	(76.7)
Provisions	**(0.1)**	(0.1)
Impairment of financial assets	**14.6**	(54.2)
Impairment of intangible assets	**-**	(7.0)
Integration costs	**(1.9)**	(6.3)
Exceptional items	**(0.2)**	(1.7)
Profit before tax	**221.9**	99.3
Profit after tax	**161.5**	72.0

Key ratios	H1 2021	H1 2020
Net interest margin	**236bps**	217bps
Cost to income ratio	**28%**	31%
Management expense ratio	**70bps**	70bps
Loan loss ratio	**-15bps**	59bps
Return on equity	**19%**	9%
Basic earnings per share, pence	**35.5**	15.5
Dividend per share, pence	**4.9**	-

	30-Jun-21 £m	31-Dec-20 £m
Extracts from the Statement of Financial Position		
Loans and advances to customers	**20,428.2**	19,230.7
Retail deposits	**17,097.2**	16,603.1
Total assets	**23,234.2**	22,654.5
Key ratios		
Common equity tier 1 ratio	**18.7%**	18.3%
Total capital ratio	**18.7%**	18.3%
Leverage ratio	**7.0%**	6.9%

For definitions of key ratios please see the Appendix.

Financial review

Statutory profit

The Group's statutory profit before tax more than doubled for the first half of 2021 to £221.9m (H1 2020: £99.3m), after exceptional items, integration costs and other acquisition-related items of £30.9m[1] (H1 2020: £57.0m) primarily due to an impairment credit for the period, growth in the loan book, a reduction in the cost of retail funds, and fair value gains on the Group's hedging activities, partially offset by lower gains on sale of financial instruments.

Statutory profit after tax was £161.5m for the first half of 2021, in line with the increase in profit before tax (H1 2020: £72.0m) and included after-tax exceptional items, integration costs and other acquisition-related items of £28.3m[1] (H1 2020: £47.2m). The Group's effective tax rate remained broadly flat to the prior period at 27.1%[2] (H1 2020: 27.5%).

Statutory return on equity for the first half of 2021 improved to 19% (H1 2020: 9%) reflecting the increase in profitability, partially offset by higher average equity in the period. Statutory basic earnings per share increased to 35.5 pence (H1 2020: 15.5 pence), in line with the increase in profit after taxation.

Net interest income

Statutory net interest income increased by 13% in the period to £265.3m (H1 2020: £233.8m), largely reflecting growth in the loan book and a lower cost of retail funds.

Statutory net interest margin (NIM) was 236bps compared to 217bps in the prior period. The improvement in NIM of 19bps was primarily due to a lower cost of retail funds as well as lower levels of liquidity as the Group utilised excess liquidity prudently built up at the start of the pandemic.

Net fair value gains/(losses) on financial instruments

Net fair value gains on financial instruments of £16.1m in the first half of 2021 (H1 2020: £12.1m loss) included a £6.1m net gain on unmatched swaps (H1 2020: £13.8m net loss) and a net gain of £0.6m (H1 2020: £6.4m loss) in respect of the ineffective portion of hedges. The Group also recorded a £0.2m gain (H1 2020: £5.8m gain) from the amortisation of hedge accounting inception adjustments, a £6.7m gain from the unwind of acquisition-related inception adjustments (H1 2020: £5.1m gain) and a £2.5m gain (H1 2020: £2.8m loss) from other items, including the amortisation of the fair value relating to de-designated hedge relationships.

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

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

Gain on sale of financial instruments

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

In the prior period, the Group made a gain of £19.9m on a statutory basis which related to the disposal of the remaining notes under the Canterbury No.1 and PMF 2020-1B securitisations in January 2020.

Other operating income

Statutory other operating income of £4.6m (H1 2020: £3.7m) comprised CCFS' commissions and servicing fees, including those relating to securitised loans which have been derecognised from the Group's balance sheet.

Financial review

Administrative expenses
Administrative expenses increased by 5% to £80.5m in the first half of 2021 (H1 2020: £76.7m).

The Group's statutory cost to income ratio improved to 28% (H1 2020: 31%) as a result of an increase in income in the period, due primarily to the improved net interest margin and fair value gain on financial instruments compared to losses in the prior period, partially offset by lower gains on sale of financial instruments.

The Group continued to make strong progress towards achieving target synergies from the Combination. As at 30 June 2021, the Group had delivered run rate savings of c. £22m. We continue to find additional synergies and now project an end of year three run rate marginally in excess of the original £22m target. Costs to date to achieve these synergies were c. £15m by the end of the first half of 2021, with some expected costs delayed into the second half. Final integration costs are expected to be below the target of £39m by the end of year three.

The statutory management expense ratio remained at 70bps in the first half of 2021 (H1 2020: 70bps) as the benefits of additional synergies and other cost efficiencies were offset by lower levels of liquidity as compared to the prior period.

Impairment of financial assets
The Group recorded an impairment credit of £14.6m for the first six months of 2021 (H1 2020: £54.2m loss) and the statutory loan loss ratio improved to -15bps compared to 59bps in the first half of 2020.

The Group reduced the severity of the forward-looking macroeconomic scenarios used in its IFRS 9 models as the outlook improved. This, together with a strong outperformance in house prices in the first half compared to modelled assumptions, resulted in a £24.4m release of impairment provisions in the period. This release was partially offset by the impact of model enhancements and post model adjustments to cover future model risks. Further detail is provided in the Risk review section.

Impairment of intangible assets
There was no impairment of intangible assets in the first half of 2021. The £7.0m recorded in the prior period related to the intangible assets recognised on the acquisition of CCFS and the impact of lower actual and expected lending volumes in CCFS on the recoverable amount of the broker relationship intangible post pandemic.

Integration costs
The Group recorded £1.9m of integration costs in the first half of 2021 (H1 2020: £6.3m), largely related to staff costs for key personnel retained to assist in the integration for a fixed period, redundancy costs and professional fees for external advice on the Group's future operating structure.

Exceptional items
Exceptional costs of £0.2m related to additional costs in respect of the insertion of OSB GROUP PLC as the new holding company and listed entity of the Group. Exceptional costs of £1.7m in the first half of 2020 related to consultant, legal and professional fees in respect of the Combination with CCFS.

Dividend
The Group's dividend policy is to declare interim dividends equal to one-third of the prior year's total dividend. The Board has therefore declared an interim dividend of 4.9 pence per share for the first half of 2021, based on the 2020 total dividend of 14.5 pence per share.

The declared dividend will be paid on 22 September 2021, with an ex-dividend date of 26 August 2021 and a record date of 27 August 2021.

Financial review

Balance sheet growth
On a statutory basis, net loans and advances to customers grew by 6% to £20,428.2m as at 30 June 2021 (31 December 2020: £19,230.7m), reflecting originations of £2.5bn in the first half.

Total assets grew by 3% to £23,234.2m (31 December 2020: £22,654.5m), reflecting the growth in loans and advances, partially offset by lower levels of liquidity.

Retail deposits increased by 3% to £17,097.2m as at 30 June 2021 (31 December 2020: £16,603.1m) as the Group utilised excess liquidity to help fund loan book growth in the first half. The Group continued to complement retail deposits with drawings under the Bank of England's funding schemes. Drawings under the Term Funding Scheme for SMEs stood at £1.4bn and drawings under the Term Funding Scheme reduced to £2.3bn as at 30 June 2021 (31 December 2020: £1.0bn and £2.6bn, respectively).

At the end of June 2021, the Group had up to £250m (31 December 2020: £350m) of contingent wholesale funding capacity available to it through the CCFS warehouse facilities, none of which were utilised at the end of the period (31 December 2020: £nil).

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

As at 30 June 2021, OSB had £945.8m and CCFS had £1,270.1m of HQLA LCR eligible assets (31 December 2020: £1,366.7m and £1,069.1m, respectively). Both Banks also held a significant portfolio of unencumbered prepositioned Bank of England level C eligible collateral in the Bank of England Single Collateral Pool.

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

As at 30 June 2021, OSB had a liquidity coverage ratio of 178% and CCFS 156% (31 December 2020: 254% and 146%, respectively) and the Group LCR was 171% (31 December 2020: 198%), all significantly in excess of the 2020 regulatory minimum of 100%. The Group had prudently built up additional liquidity at the start of the pandemic, which was utilised in part during the first half of 2021 to fund growth as the outlook improved.

Capital
The Group's capital position remained exceptionally strong, with fully-loaded CET1 and total capital ratios of 18.7% as at 30 June 2021 (31 December 2020: 18.3%), benefiting from capital generation from profitability in the period.

The Group had a leverage ratio of 7.0% as at 30 June 2021 (31 December 2020: 6.9%).

The combined Group had a Pillar 2a requirement of 1.18% of risk-weighted assets (excluding a static integration add-on of £19.5m) as at 30 June 2021, unchanged from the requirement as at 31 December 2020.

1. See the reconciliation of statutory to underlying results below.
2. Effective tax rate excludes £0.2m of adjustments relating to prior year.

OSB GROUP PLC

Interim report for the six months ended 30 June 2021
Financial review

Summary underlying results

Alternative performance measures
The Group presents alternative performance measures (APMs) below, as Management believe they provide a more consistent basis for comparing the Group's performance between financial periods.

Underlying results for the six months to 30 June 2021 and 30 June 2020 exclude exceptional items, integration costs and other acquisition-related items.

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

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

	H1 2021	H1 2020
Summary Profit or Loss	**£m**	**£m**
Net interest income	**299.0**	266.8
Net fair value gain/(loss) on financial instruments	**10.5**	(18.6)
Gain on sale of financial instruments	**2.3**	33.0
Other operating income	**4.6**	3.7
Administrative expenses	**(78.6)**	(74.1)
Provisions	**(0.1)**	(0.1)
Impairment of financial assets	**15.1**	(54.4)
Profit before tax	**252.8**	156.3
Profit after tax	**189.8**	119.2

	H1 2021	H1 2020
Key ratios		
Net interest margin	**268bps**	250bps
Cost to income ratio	**25%**	26%
Management expense ratio	**69bps**	68bps
Loan loss ratio	**-15bps**	60bps
Return on equity	**24%**	18%
Basic earnings per share, pence	**41.8**	26.1

	30-Jun-21	31-Dec-20
	£m	**£m**
Extracts from the Statement of Financial Position		
Loans and advances to customers	**20,254.2**	19,020.8
Retail deposits	**17,094.9**	16,600.0
Total assets	**23,083.4**	22,472.2

Financial review

Underlying profit
The Group's underlying profit before tax was £252.8m in the first half of 2021, an increase of 62% compared with £156.3m in the first half of 2020, primarily due to an impairment credit for the period, growth in the loan book, a reduction in the cost of retail funds and fair value gains on the Group's hedging activities, partially offset by lower gains on sale of financial instruments.

Underlying profit after tax was £189.8m, up 59% (H1 2020: £119.2m) broadly in line with the increase in profit before tax.

The Group's effective tax rate on an underlying basis increased to 24.9% for the first half of 2021 (H1 2020: 23.7%), due to a larger proportion of the profits being subject to the Bank Corporation Tax Surcharge.

On an underlying basis, return on equity for the first half of 2021 improved to 24% (H1 2020: 18%) reflecting the higher profitability, partially offset by higher average equity in the period, and underlying basic earnings per share increased to 41.8 pence (H1 2020: 26.1 pence), due to the increase in profit after tax.

Net interest income
Underlying net interest income increased 12% to £299.0m in the first half of 2021 (H1 2020: £266.8m) due primarily to growth in the loan book and a reduction in the cost of retail funds.

Underlying net interest margin was 268bps in the first half (H1 2020: 250bps) an improvement of 18bps due primarily to a lower cost of retail funds, as well as lower liquidity levels.

Net fair value gains/(losses) on financial instruments
Underlying net fair value gains on financial instruments of £10.5m in the first half of 2021 (H1 2020: £18.6m loss), included a gain of £0.6m (H1 2020: £6.4m loss) from hedge ineffectiveness, a gain on unmatched swaps of £6.1m (H1 2020: £13.8m loss) and a £1.3m gain from the amortisation of hedge accounting inception adjustments (H1 2020: £5.8m gain). Other hedging and fair value movements amounted to a gain of £2.5m (H1 2020: £4.2m loss).

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

Gain on sale of financial instruments
The underlying gain of £2.3m in the first six months of 2021 related to the disposal of A2 notes in the PMF 2019-1B securitisation in February 2021.

In 2020, the underlying gain of £33.0m related to the disposal of the remaining notes under the Canterbury No.1 and PMF 2020-1B securitisations in January 2020.

Other operating income
On an underlying basis, other operating income was £4.6m in the first half of 2021 (H1 2020: £3.7m) and comprised CCFS' commissions and servicing fees, including those relating to securitised loans which have been deconsolidated from the Group's balance sheet.

Administrative expenses
Underlying administrative expenses increased 6% to £78.6m in the first half of 2021 (H1 2020: £74.1m).

The underlying cost to income ratio improved to 25% (H1 2020: 26%) as a result of a higher income in the period, due primarily to the improved net interest margin.

The underlying management expense ratio remained broadly stable at 69bps for the first half of 2021 (H1 2020: 68bps) as the benefits of additional synergies and other cost efficiencies were offset by lower levels of liquidity compared to the prior period.

Impairment of financial assets
The Group recorded an underlying impairment credit of £15.1m in the first half of 2021 (H1 2020: £54.4m loss) representing an underlying loan loss ratio of -15bps (H1 2020: 60bps).

The Group reduced the severity of the forward-looking macroeconomic scenarios used in its IFRS 9 models, as the outlook improved. This, together with a strong outperformance in house prices in the first half compared to modelled assumptions, resulted in a £24.4m release of impairment provisions in the period. This release was partially offset by the impact of model enhancements and post model adjustments to cover future model risks. Further detail is provided in the Risk review section.

Balance sheet growth
On an underlying basis, net loans and advances to customers were £20,254.2m (31 December 2020: £19,020.8m) an increase of 6% reflecting gross originations of £2.5bn in the first six months of 2021.

Total underlying assets grew by 3% to £23,083.4m (31 December 2020: £22,472.2m) reflecting the growth in loans and advances, partially offset by lower levels of liquidity.

Retail deposits increased by 3% to £17,094.9m (31 December 2020: £16,600.0m) as both Banks continued to attract new savers by offering attractively priced savings products and outstanding customer service. The balance of the Group's funding requirement was provided by the Bank of England's funding schemes with combined drawings under TFS and TFSME of £3.7bn at the end of June 2021 (31 December 2020: £3.6bn).

OSB GROUP PLC

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Financial review

Reconciliation of statutory to underlying results

	HY 2021			HY 2020		
	Statutory results £m	Reverse acquisition-related and exceptional items £m	**Underlying results £m**	Statutory results £m	Reverse acquisition-related and exceptional items £m	**Underlying results £m**
Net interest income	**265.3**	**33.7**[1]	**299.0**	233.8	33.0	266.8
Net fair value gain/(loss) on financial instruments	**16.1**	**(5.6)**[2]	**10.5**	(12.1)	(6.5)	(18.6)
Gain on sale of financial instruments	**4.0**	**(1.7)**[3]	**2.3**	19.9	13.1	33.0
Other operating income	**4.6**	**–**	**4.6**	3.7	–	3.7
Total income	**290.0**	**26.4**	**316.4**	245.3	39.6	284.9
Administrative expenses	**(80.5)**	**1.9**[4]	**(78.6)**	(76.7)	2.6	(74.1)
Provisions	**(0.1)**	**–**	**(0.1)**	(0.1)	–	(0.1)
Impairment of financial assets	**14.6**	**0.5**[5]	**15.1**	(54.2)	(0.2)	(54.4)
Impairment of intangible assets	–	–	–	(7.0)	7.0	–
Integration costs	**(1.9)**	**1.9**[6]	–	(6.3)	6.3	–
Exceptional items	**(0.2)**	**0.2**[7]	–	(1.7)	1.7	–
Profit before tax	**221.9**	**30.9**	**252.8**	99.3	57.0	156.3
Profit after tax	**161.5**	**28.3**	**189.8**	72.0	47.2	119.2
Summary Balance Sheet						
Loans and advances to customers	**20,428.2**	**(174.0)**[8]	**20,254.2**	18,757.2	(242.8)	18,514.4
Other financial assets	**2,732.9**	**29.1**[9]	**2,762.0**	3,570.1	48.6	3,618.7
Other non-financial assets	**73.1**	**(5.9)**[10]	**67.2**	76.7	(8.3)	68.4
Total assets	**23,234.2**	**(150.8)**	**23,083.4**	22,404.0	(202.5)	22,201.5
Amounts owed to retail depositors	**17,097.2**	**(2.3)**[11]	**17,094.9**	16,697.3	(4.5)	16,692.8
Other financial liabilities	**4,277.2**	**3.1**[12]	**4,280.3**	4,078.9	6.7	4,085.6
Other non-financial liabilities	**84.8**	**(48.4)**[13]	**36.4**	80.0	(54.7)	25.3
Total liabilities	**21,459.2**	**(47.6)**	**21,411.6**	20,856.2	(52.5)	20,803.7
Net assets	**1,775.0**	**(103.2)**	**1,671.8**	1,547.8	(150.0)	1,397.8

Notes to the reconciliation of statutory to underlying results table:

1. Amortisation of the net fair value uplift to CCFS' mortgage loans and retail deposits on Combination.
2. Inception adjustment on CCFS' derivative assets and liabilities on Combination.
3. Recognition of additional gain on sale of securitisation notes, see note 7 to the accounts.
4. Amortisation of intangible assets recognised on Combination.
5. Adjustment to expected credit losses on CCFS loans on Combination.
6. Costs of integration of the two Banks post Combination, see note 10 to the accounts
7. Reversal of exceptional items, see note 11 to the accounts
8. Recognition of a fair value uplift to CCFS' loan book less accumulated amortisation of the fair value uplift and a movement on credit provisions.
9. Fair value adjustment to hedged assets
10. Adjustment to deferred tax asset and recognition of acquired intangibles on Combination.
11. Fair value adjustment to CCFS' retail deposits less accumulated amortisation.
12. Fair value adjustment to hedged liabilities
13. Adjustment to deferred tax liability and other acquisition-related adjustments.

Risk review

Key areas of focus during the six months to 30 June 2021

Strong progress was made in the first half of 2021 against the Group’s strategic risk management objectives for the year, including the priority areas set out in the Annual Report and Financial Statements for the year ended 31 December 2020.

Strong operating and financial performance was observed relative to key business, financial and risk performance targets, despite the challenges posed by the pandemic. The Group continued to actively monitor the risk profile, the level and quality of contingent financial resources available and ongoing operating effectiveness.

The Group remains fully cognisant of the continued uncertainties and risks associated with the pandemic and has considered them in framing its response against its risk appetite. The UK vaccination programme has supported the gradual easing of social and business restrictions. The easing of these restrictions is now starting to feed through into an improving macroeconomic outlook, however, uncertainties and risks still remain. The longer term success of the vaccine roll-out, in the context of any new variants, together with the withdrawal of the government’s economic support measures, are drivers of future uncertainties and risks.

Leveraging the Group’s well established risk management and appetite frameworks, facilitated timely actions being taken to maintain credit profile performance, controlling the risks of both new lending and existing loan portfolios. The Group continues to conduct frequent scenario analysis to understand how changes in the credit profile may impact IFRS 9 expected credit loss and capital performance.

The Group maintained its focus on capital resources and requirements by actively reflecting upon inherent risks and uncertainties. The Board continued to closely follow the evolving nature of the regulatory capital regime, particularly the proposed changes to the standardised risk weighting rules, the Group’s resolvability requirements and the implications of planned Internal Ratings Based (IRB) accreditation.

Liquidity and funding risk management remained a key area of focus ensuring that the Group continued to have a stable and diverse funding mix in consideration of prudential requirements, current and future competitive dynamics and customer behaviour.

The Group’s Risk function continued to provide oversight, review and challenge to the ongoing integration project and associated risks. In particular, integration risk has been assessed with respect to targeted synergies and costs, operational incidents and disruptions, as well as customer detriment. The Board and senior management’s belief that the integration strategy is inherently low risk remains unchanged as the Group continues to make good progress across key work streams. To date, the integration project has progressed as planned, with no material risks or incidents arising as a function of project activity.

Fair treatment and customer outcomes are strongly reflected in the Group’s purpose, vision and values. The Group’s customer centric culture has played an important role in shaping the Group’s response to the pandemic, supporting all customers as required with a particular focus on vulnerable customers.

Progress continues to be made across the Group’s IRB project, with end-state governance arrangements including the full suite of IRB policies and standards being implemented as designed. The Group’s end state IRB models continue to be delivered and are being integrated across a broad range of risk management disciplines. The Group continues to believe that IRB will deliver enhanced decision making across all phases of the credit lifecycle (i.e. pricing, underwriting of new loans, existing customer management strategies including remortgage underwriting, collections strategies and capital optimisation). The Group continues to liaise with the Prudential Regulation Authority with respect to its IRB approach and timeline for accreditation.

During the six months to 30 June 2021, the Risk and Compliance function made further progress against planned strategic goals, including further embedding Group level frameworks, policies and procedures. The Group’s second line functions are now operating on a shared service basis covering all the Group’s legal entities and brands. Appropriate governance, processes and controls continue to be maintained to ensure that both regulated banking entities continue to fully adhere to their individual regulatory requirements. The Group's risk frameworks have been developed to reflect the Group's unique risk characteristics and have also been benchmarked to industry best practice and regulatory expectations.

The Group's scenario analysis and stress testing capabilities have been improved progressively to factor in pandemic based risk drivers impacting individual lending business lines, by leveraging external and internal data to estimate sensitivities of loan loss provisions and capital requirements. Scenario analysis resulted in a new post model adjustment being raised and existing adjustments being updated if required to ensure provision levels and coverage ratios remained appropriate in the context of expected risks and uncertainties.

Reverse stress testing analysis represents an important analytical exercise to identify and assess extreme scenarios which would take the Group to the brink of failure. The Group assesses the stress test scenarios on a continuous spectrum of severity to inform business planning, assess stress based contingent financial buffers and to identify the extreme 'break the bank' scenarios with supporting recovery options. To support the Board of Directors' going concern assessment at key reporting periods the Risk and Compliance functions conduct regular reverse stress tests to identify scenarios which would result in the Group and solo bank minimum capital ratios being breached, assessing the probability of these scenarios occurring over the going concern assessment horizon. Due to the Group's ongoing profitability and strong capital resource levels and stable capital requirements, the identified scenarios required for the Group to breach its minimum capital requirements have become progressively more extreme.

The Group also continues to build capabilities to demonstrate compliance with its resolution strategy across key elements of the Bank of England's resolvability assessment framework, ensuring it has adequate financial resources in place in the context of resolution and is able to support critical functions through resolution and restructuring.

The Risk and Compliance function provided oversight and advisory support to the business, ensuring incremental controls and process enhancements are implemented across the funding lines business, addressing recommendations raised following the independent process and controls review conducted during the first half of the year.

Climate change risk management continues to be an area of focus, with further progress being made in enhancing the Group's understanding of how physical and transitional risks relating to climate change could impact the Group, and accordingly embedding a robust risk management approach to managing these risks.

Risk review

Principal risks and uncertainties

The Board is responsible for determining the nature and extent of the principal risks it is willing to take in order to achieve its strategic objectives.

The significant range of governmental, regulatory and central bank support measures in place as a result of the COVID-19 pandemic continues to result in significant uncertainty with respect to the macroeconomic outlook and operating environment of the Group.

During the six months to 30 June 2021, the Board did not identify any material change in the principal risks and uncertainties disclosed in the Risk review section of the 2020 Annual Report on pages 70 to 80, which can be accessed via our website at www.osb.co.uk.

The table below provides a high level overview of the principal risks which the Board believes are the most material with respect to potential adverse movements impacting the business model, future financial performance, solvency and liquidity.

Principal risks	Key mitigating actions
Strategic and business risk	• Regular monitoring by the Board and the Group Executive Committee of business and financial performance against strategic agenda and risk appetite. The financial plan is subject to regular reforecasts in the context of the business opportunities and threats facing the Group. The balanced business scorecard is the primary mechanism to support the Board and assesses management performance against key targets. Use of stress testing to flex core business planning assumptions to assess potential performance under stressed operating conditions. • The Group continued to utilise and enhance its stress testing capabilities to assess and minimise potential areas of macroeconomic vulnerability. • The Group continues to invest in its IT and data management capabilities to increase the ability to respond to regulatory change. A structured approach to change management and fully leveraging internal and external expertise allows the Group to respond effectively to regulatory change. • The Group continues to develop products and services which meet the requirements of the markets in which it operates. Post the Combination, the Group has an enlarged suite of products and capabilities to utilise, along with increased scale and financial resources to support a response to changes in competition.
Reputational risk	• The Group actively monitors customer and broker feedback to assess service levels. The Group has established processes to review, assess and remediate complaints in a timely manner. Culture and commitment to treating customers fairly and being open and transparent in communication with key stakeholders. Established processes to proactively identify and manage potential sources of reputational risk.
Credit risk	Individual borrower defaults: • Across both OSB and CCFS a robust underwriting assessment is undertaken to ensure a customer has the ability and propensity to repay, and sufficient security is available to support the new loan requested. At CCFS an automated scorecard approach is taken, whilst OSB utilises a bespoke manual underwriting approach. • Should there be problems with a loan, the Collections and Recoveries team works with customers to reach a satisfactory conclusion while adhering to the principle of treating customers fairly. • Our strategic focus on lending to professional landlords means that properties are likely to be well-managed, with income from a diversified portfolio mitigating the impact of rental voids or maintenance costs.

Risk review

Principal risks	Key mitigating actions
	• Lending to owner-occupiers is subject to a detailed affordability assessment, including the borrower's ability to continue payments if interest rates increase. Lending on commercial property focuses on property security, and is scrutinised by the Group's independent Real Estate team as well as by external valuers. • Development finance lending is extended only after a deep investigation of the borrower's track record and stress testing the economics of the specific project. Macroeconomic downturn • The Group works within portfolio limits on LTV, affordability, sector and geographic concentration that are approved by the Group Risk Committee and the Board. These are reviewed on a semi-annual basis. In addition, stress testing is performed to ensure that the Group maintains sufficient capital to absorb losses in an economic downturn and continues to meet its regulatory requirements. Wholesale credit risk • The Group transacts only with high quality wholesale counterparties. Derivative exposures include collateral agreements to mitigate credit exposures.

Principal risks	Key mitigating actions
Market risk	• The Group's Treasury function actively hedges to match the timing of cash flows from assets and liabilities. • Due to the Group balance sheet structure, no active management of basis risk was required during 2021. • Key mitigants include new swaps being linked to SONIA and existing LIBOR linked swaps being transitioned to SONIA. LIBOR linked mortgages continue to be migrated to reference Bank of England base rates or SONIA indices.
Liquidity and funding risk	• The Group's funding strategy is focused on a highly stable retail deposit franchise. The large number of depositors provides diversification and a high proportion of balances are covered by the FSCS so there is no material risk of a retail run. • The Group performs in-depth liquidity stress testing and maintains a liquid asset portfolio sufficient to meet obligations under stress. The Group holds prudential liquidity buffers to manage funding requirements under normal and stressed conditions. • The Group proactively manages its savings proposition through both the Liquidity Working Group and the Group Assets and Liabilities Committee, and the Group has further diversified its retail channels by expanding the range of pooled deposit providers. • The Group continuously monitors wholesale funding markets, and is experienced in taking proactive management actions where required. The Group has a mature residential mortgage backed securitisation programme (RMBS) and access to warehouse facilities, to ensure it is not solely reliant on retail savings. • The Group has pre-positioned mortgage and RMBS collateral with the Bank of England which allows it to consider other relative funding sources such as term funding schemes and indexed long term repo.
Solvency risk	• Currently the Group operates from a strong capital position and has a consistent record of strong profitability. • The Group actively monitors its capital requirements and resources against financial forecasts and plans and undertakes stress testing analysis to subject its solvency ratios to extreme but plausible scenarios. • The Group also holds prudent levels of capital buffers based on CRD IV requirements and expected balance sheet growth. • The Group engages actively with regulators, industry bodies and advisers to keep abreast of potential changes and provides feedback through the consultation process.

	• Proactive management of the Group's balance sheet and support measures provided by the PRA via the CRR 'Quick Fix' package which included a reset of the IFRS 9 capital transitional relief and the extension of the SME support factor, together with ongoing profitability, resulted in the Group's capital ratios strengthening.
Operational risk	IT security (including cyber risk) • The Group has invested significantly in enhancing its protection against IT security threats, deploying a series of tools designed to identify and prevent network/system intrusions. This is further supported by documented and tested procedures intended to ensure the effective response to a security breach. • Due to the COVID-19 pandemic and the resulting high number of employees working and accessing systems from home, the risk of a cyber-attack has remained heightened versus pre pandemic levels. Whilst IT security risks continue to evolve, the level of maturity of the Group's controls and defences has significantly increased, supported by dedicated IT security experts. The Group's ongoing penetration testing continues to drive enhancements by identifying potential areas of risk. IT failure • The Group continues to invest in improving the resilience of its core infrastructure. It has identified its prioritised business services and the infrastructure that is required to support them. Tests are performed regularly to validate its ability to recover from an incident. Data quality and completeness • The Group established a dedicated Data Strategy Programme, designed to ensure a consistent approach to the maintenance and use of data. This includes both documented procedures and frameworks and also tools intended to improve the consistency of data use. Change management • The Group recognises that implementing change introduces significant operational risk and has therefore implemented a series of control gateways designed to ensure that each stage of the change management process has the necessary level of oversight. Organisational change and integration • There is a low risk integration project plan (e.g. no large-scale integration-related IT project change planned). Experienced and capable project management office, with close oversight and direction provided by the Group Executive Committee and Board. Fraud • The Group has dedicated systems and resources to monitor and manage fraud risk. The Group did experience a fraud with respect to a single funding line and our processes and controls have now been independently reviewed. We remain confident the incident was of an isolated nature and the majority of recommended enhancements have been implemented and the remainder will be implemented by the end of the year.
Conduct risk	Product suitability • The Group has a strategic commitment to provide simple, customer-focused products. In addition, a Product Governance framework is established to oversee both the origination of new products and to revisit the ongoing suitability of the existing product suite. Data protection • In addition to a series of network/system controls the Group performs

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extensive root cause analysis of any data leaks in order to ensure that the appropriate mitigating actions are taken.

Integration risk

During the integration process, the Group is committed to adopting a low-risk approach with a view to taking reasonable steps to avoid causing poor outcomes for its customers and the market. Significant progress has been made across all integration work streams with no material customer detriment identified to date.

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<tr><td>Compliance and regulatory risk</td><td>
Prudential regulatory changes

The Group has an effective horizon scanning process to identify regulatory change.
All significant regulatory initiatives are managed by structured programmes overseen by the Project Management team and sponsored at Executive level.
The Group has proactively sought external expert opinions to support interpretation of the requirements and validation of its response, where required.
The Group has initiated a study into external wall cladding and is reviewing its own property portfolio along with the collateral supporting lending portfolios.
The Group also notes the recent support measures announced by the government to help individuals to ensure compliance with building safety standards, including the removal of defective cladding.

Conduct regulation

The Group has a programme of regulatory horizon scanning linking into a formal regulatory change management programme. In addition, the focus on simple products and customer oriented culture means that current practice may not have to change significantly to meet new conduct regulations.
All Group entities utilise underwriting, arrears, repossession, forbearance and vulnerable customer policies which are designed to comply with regulatory rules and expectations. These policies articulate the Group’s commitment to ensuring that all customers, especially those who are vulnerable or experiencing financial hardship, are treated fairly, consistently and in a way that considers their individual needs and circumstances.
The Group does not tolerate any systematic failure to deliver fair customer outcomes. On an isolated basis, incidents can result in detriment due to human and/ or operational failures. Where such incidents occur, they are thoroughly investigated, and the appropriate remedial actions are taken to address any customer detriment and prevent recurrence.

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<tr><td>Integration risk</td><td>

The Board is maintaining oversight of the integration process. A dedicated Integration Management Office has been established to drive the integration process forward.
Independent assessment, monitoring and reporting is being undertaken by the Risk and Internal Audit functions.

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Risk review

Emerging risks

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

Emerging risks	Key mitigating actions
Political and macroeconomic uncertainty Significant macroeconomic uncertainty remains due to the COVID-19 pandemic, the potential for new variants to emerge and further lockdown measures being required, as well as the impact post removal of government support measures. The Group's lending activity is predominantly focused in the United Kingdom (with a legacy back book of mortgages in the Channel Islands) and, as such, will be impacted by any risks emerging from changes in the macroeconomic environment.	• The Group implemented robust monitoring processes and via stress testing activity (i.e. ad hoc, risk appetite and ICAAP) it understands how the Group performs over a variety of macroeconomic stress scenarios and has developed a suite of early warning indicators, which are closely monitored to identify changes in the economic environment. • The Board and management review detailed portfolio reports to identify any changes in the Group's risk profile.
Climate change As the worldwide focus on climate change intensifies, both the physical risks and the transitional risks associated with climate change continue to grow. Physical risks can relate to specific weather events, such as storms and flooding, or to longer-term shifts in the climate, such as rising sea levels. These risks could include adverse movements in the value of certain properties that are in coastal and low lying areas, or located in areas prone to increased subsidence and heave. Transitional risks may arise from the adjustment towards a low-carbon economy, such as tightening energy efficiency standards for domestic and commercial buildings. These risks could include a potential adverse movement in the value of properties requiring substantial updates to meet future energy performance requirements. Reputational risk arising from a failure to meet changing societal, investor or regulatory demands.	• The Group developed an approach to assessing and managing the risks relating to climate change within its Risk Management Framework. This includes scenario analysis, development of key risk indicators and inclusion of climate risks within operational resilience activities. • A cross-functional working group is overseeing the Group's response to climate change, in line with industry best practice and regulatory guidelines. • As part of the Group's ICAAP, a detailed analysis was conducted using third party data to perform an initial assessment of the financial risk that climate change could pose to the Group. This analysis will be developed further during 2021. • The Group's Chief Risk Officer has designated senior management responsibility for the management of climate change risk; during 2021 a Board member was identified to ensure that the Group meets regulatory and wider stakeholder expectations.
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. Following the Combination with CCFS, the Group has seen the increasing use of models to conduct financial assessments and informing business decisions. The Group also tracks changes in industry best practice with respect to managing model risk.	• During 2020, Board and Executive level model oversight Committees and a suite of Group level policies were introduced. • Further enhancements are planned during 2021 to ensure that model governance arrangements meet regulatory expectations and model risk is managed effectively.
LIBOR reform The FCA has announced that the sterling LIBOR benchmark will cease to be set by panel banks from the start of 2022 due to the low level of supporting unsecured loans in the wholesale interbank loan market. As a result the FCA requires all market participants to remove dependencies on LIBOR where possible before the end of 2021. The Group has exposure to the LIBOR benchmark within some of its customer lending products	• The Group ALCO has set up a dedicated working group to focus on this risk across the Group and transition away from the LIBOR benchmark by the end of the year. Key mitigating actions include all new swaps being linked to SONIA, which is in place, and the transition of all existing LIBOR linked swaps to SONIA, which is nearing completion. A dedicated change control project covering all

Risk review

Emerging risks	Key mitigating actions
and wholesale derivative hedging transactions.	LIBOR linked mortgages is in an advanced stage to transition these loans to either the Bank of England base rate or SONIA benchmark.
Coronavirus The COVID-19 pandemic has had a material impact on individuals and businesses where the Group has operations, including the UK and India. The lockdown measures introduced to stem the spread of the virus have had a profound effect on how businesses operate and individuals work, which may have a materially adverse impact on the Group's profitability, capital and liquidity positions. It is unclear how the pandemic will evolve during 2021 and the impact that the roll-out of vaccines will have and whether any new strains will emerge. A further risk relates to the withdrawal of government's support measures during 2021 and the resultant impact on business failures, unemployment levels and house prices.	• The Group has taken a considered approach to minimising and managing the impact of the pandemic. The Group's approach represents a comprehensive response strategy covering both severity and consequences of the pandemic, including prevention, continuity, impact assessment and stress testing. Supporting the Group's response strategy are established underlying capabilities to facilitate operational and financial resilience testing and planning, active monitoring and reporting procedures, and active communications with all employees (UK and India) and supervisory authorities.
Negative interest rates To support economic performance, resulting from the impact of the pandemic, the Bank of England may consider reducing the Bank of England base rate below 0%. The Group 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 Group's loan book growth plans and liquidity coverage levels.	• The Group has reviewed readiness for negative interest rates and presented findings to the Board. The review covered the terms and conditions of the Group'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 Group's margins, negative interest rates are not expected to cause an issue until the Bank of England base rate reaches a rate of -75bps or below. A working group is currently examining further system development to manage significant negative rates.

Credit risk portfolio performance

The Group's lending portfolios performed strongly during the six months to 30 June 2021.

Statutory Group loans and advances to customers increased to £20.4bn as at 30 June 2021 from £19.2bn at the end of 2020. This loan book growth, driven by new Buy-to-Let and residential first charge owner occupier lending, was achieved with tightened lending criteria remaining in place, restricting loan to value levels and other credit criteria.

Average weighted interest coverage ratios across Buy-to-Let originations remained strong at 197% for OSB and 192% for CCFS (31 December 2020: 201% for OSB and 193% for CCFS). The proportion of the Group's residential first charge mortgage portfolios with higher loan to income multiples remained low as a percentage of the mortgage book and reduced further within the reporting period.

Total loans and advances fell across the Group's second charge, bridging and semi-commercial and commercial mortgage lending sub-segments. No new funding lines were added during the period and existing funding lines performance remained in line with expectations.

Exposure to residential development finance lending remained low at £120.9m as at 30 June 2021. Weighted average gross development values remained prudent across the development finance business at 56%.

Risk review

The Group saw opportunities to grow the asset finance business in the first half in a controlled and considered manner, supported by the Government's Coronavirus Business Interruption Loan Scheme (CBILS). The gross carrying amount under finance leases reached £98.2m after the strong growth in the period and accounted for 0.5% of the Group's total loans and advances to customers as at 30 June 2021.

The Group's ability to absorb future economic shocks improved during the period as loan to value levels for existing lending continued to reduce, resulting from (i) the impact of positive residential property price movements due to the supply and demand dynamics of the market and government support measures such as the stamp duty holiday, and (ii) the restricted loan to value criteria in place for new lending. The total weighted average loan to value ratio for the loan book reduced to 63% for OSB and 66% for CCFS as at 30 June 2021 (31 December 2020: OSB 64% and CCFS 67%). The Group did however see a continued fall in commercial property prices, with slow rises expected going forward with the return to pre-pandemic levels not forecast until 2023.

Forward-looking internal and external credit scoring metrics improved in the first half, taking into account internal performance and the customers wider credit obligation performance.

The numbers of customers with payment holidays continued to fall and as at 30 June 2021 only 0.1% of total loans and advances balance had a payment holiday in place. The Group continues to observe a low proportion of customers at the end of the payment holiday falling into arrears.

Arrears performance remained stable across both OSB and CCFS with balances greater than three months in arrears at 1.3% for OSB and 0.5% for CCFS, unchanged from 31 December 2020.

The Group continues to observe low levels of forbearance relative to the total number of customers and outstanding loan balances. During the six months to 30 June 2021, the Group observed an increase in new forbearance measures granted, relative to the number issued during 2020 and pre-pandemic levels (for forbearance measures undertaken in the period see note 30 to the financial statements). This trend was driven by ongoing assistance being provided to customers as they came to the end of COVID-19 payment holiday arrangements, transitioning onto standard forbearance options where required. The Group continued to undertake a review of the appropriateness of existing payment arrangements in particular across the second charge lending segment, which resulted in a number of customers migrating onto forbearance arrangements. We expect this review to be completed during 2021 and to not materially impact the overall balance of forbearance arrangements across the Group.

Expected credit losses

The Group recorded a statutory impairment credit of £14.6m for the six months to 30 June 2021, representing an annualised loan loss of -0.15% compared to an impairment charge of £54.2m and an annualised loan loss ratio of 0.59% during the six months to 30 June 2020.

The primary drivers of the impairment trends observed in the period were as follows:

a. Macroeconomic scenarios

During the six months to 30 June 2021, macroeconomic performance was stronger than previously forecast, whilst the outlook also improved. The combined impact of both of these trends drove a total cumulative provision release of £24.4m.

Strong residential house price growth throughout the period, in part supported by stamp duty rule changes resulted in £10.4m of the provision release, where actual house price increases outperformed forecast estimates.

The Group continued to receive regular macroeconomic scenario updates from its advisers, which were reviewed and discussed by management and the Board, along with the probability weightings applied to each scenario.

The Board and management noted the more positive outlook relating to economic growth (GDP), lower than previously forecast unemployment levels as the vaccine roll-out progressed at pace, and the easing of lockdown restrictions continued. House price outcomes also moderated, except in downside forecasts, in part due to the success of the stamp duty rule changes introduced and the supply and demand dynamics of the UK housing market. Downside house price forecasts are now more severe, reflecting the position of the housing market after the recent price surge being more susceptible to an extreme correction.

There still remains significant uncertainty around how the easing of lockdown measures and economic support measures will unfold in the near to medium term; where scenarios show a wide range of outcomes, therefore the management and the Board deemed it prudent to maintain the same scenario probability weightings as at 31 December 2020.

To ensure that provision coverage levels remained appropriate, the Group continued to hold a number of post model adjustments to reflect any specific risks not captured within the economic forecasts or modelled estimates. The Group undertakes supporting top-down analysis of expected credit losses, across higher risk lending segments, to validate and assess the adequacy of model based provisions. The top-down lending segment analysis and COVID-19 post model adjustments introduced in 2020 remain relevant until the full impact of the relaxing of lockdown and economic support measures is observed (see section d. Post model adjustments for more information).

The introduction of new forward-looking macroeconomic scenarios during the first half of 2021 drove a cumulative provision release of £14.0m. Details of the scenarios utilised are provided below.

Macroeconomic scenarios utilised within IFRS 9 impairment calculations 30 June 2021:

			Scenario (%)[1]		
Scenario	**Probability weighting (%)**	**Economic measure**	**Year end 2021**	**Year end 2022**	**Year end 2023**
Base case	40	GDP	6.8	5.6	2.0
		Unemployment	5.8	4.9	4.5
		House price growth	0.2	-4.9	0.2
Upside	30	GDP	8.4	7.3	2.4
		Unemployment	4.8	4.3	4.0
		House price growth	4.0	-2.7	5.5
Downside	23	GDP	3.9	3.9	1.7
		Unemployment	7.2	6.9	6.7
		House price growth	-6.9	-14.0	-6.6
Severe Downside	7	GDP	2.4	2.8	1.5
		Unemployment	7.7	7.3	7.0
		House price growth	-10.4	-18.7	-11.6

1. Scenarios show annual movement for GDP and house price growth and year end positions for unemployment. House price growth includes indexation up to and including 31 March 2021 and forecast estimates thereafter.

b. Staging criteria enhancements
The Group continued to leverage the enhanced staging criteria introduced during 2020 utilising both internal and external credit bureau data to identify higher risk cohorts, including previous or current payment deferral accounts, moving eligible exposures to stage 2 where a lifetime loss allowance is held. As the rule set was unchanged since the year end and the credit profile remained stable there was a negligible loan loss impact during the six months to 30 June 2021.

c. Model enhancements
The Group's technical model governance committee receives regular model performance reports prepared by the Group's Models and Ratings function. Where required, proposals were made to ensure that modelled estimates continued to mirror recently observed outcomes. During the period, a small number of

updates were made across the suite of IFRS 9 models which resulted in £1.2m of the loan loss charge during the six months to 30 June 2021.

d. Post model adjustments
During the first six months of 2021, the Group reviewed 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 the impact payment deferrals had on credit bureau files, coupled with the ongoing risks post the end of the furlough scheme had on loss given default and probability of default estimates. The Group's Risk function also conducted detailed scenario analysis, identifying specific risks relevant to each core lending line, to triangulate whether modelled provisions remained appropriate. The cumulative impact of changes to the Group's post model adjustments was a loan loss charge of £3.2m during the period, removing the impact of macroeconomic scenario changes.

e. Other
Other charges, largely relating to write-offs, standard provision movements due to loan book growth and credit profile changes, totalled £5.4m, representing c. 5bps of annualised loan loss charge, against the backdrop of the stable credit profile performance of the loan book.

The Group continues to focus on provision adequacy and the Risk and Compliance function conducts regular provision adequacy assessments, benchmarking the ongoing appropriateness of key judgements and estimates made within the IFRS 9 provisioning process with industry benchmarks and independent analysis to ensure provision levels remain appropriate with respect to the wide range of macroeconomic outcomes which could materialise over the near to medium term.

The table below indicates the provision coverage levels as at 30 June 2021.

As at 30 June 2021	Gross carrying amount £m	Expected Credit Loss £m	Coverage ratio %[1]
Stage 1	17,355.4	11.4	0.07%
Stage 2	2,620.5	23.9	0.91%
Stage 3 + POCI	528.6	59.1	11.18%
Total	**20,504.5**	**94.4**	**0.46%**

As at 31 December 2020	Gross carrying amount £m	Expected Credit Loss £m	Coverage ratio %
Stage 1	16,116.3	21.2	0.13%
Stage 2	2,691.0	31.0	1.15%
Stage 3 + POCI	515.3	58.8	11.41%
Total	**19,322.6**	**111.0**	**0.57%**

1. Coverage ratios versus loans and advances is the total IFRS 9 provision versus gross loans and advances.

Provision levels remained strong with a coverage ratio of 0.46% as at 30 June 2021, which is double the coverage held pre-pandemic. Coverage levels within the period reduced from 0.57% as at 31 December 2020 to 0.46% driven predominantly by positive residential property indexing within the period and the more positive forward-looking macroeconomic scenarios utilised within the IFRS 9 provisioning process.

Liquidity and funding risk
Liquidity and funding performance remained strong within the reporting period. The Group continued to be predominantly funded by retail savings. Only 7.0% of deposits remain above the FSCS protection limit. Diversification of funding continues to be provided by borrowing from the Bank of England under its funding schemes. As at 30 June 2021, the Group's borrowing under the Term Funding Scheme for SMEs totalled £1.4bn and £2.3bn under the Term Funding Scheme. Securitisation remains central to the Group's liability management strategy, as well as being a key funding source.

Liquidity coverage ratios remained strong at 178% for OSB and 156% for CCFS (31 December 2020: OSB 254% and CCFS 146%) versus the regulatory minimum of 100%. Strong lending within the period reduced the Group's liquidity coverage ratios in line with expectations.

Market risk

Interest rate risk is the key market risk the Group is exposed to. Gap and basis risk are managed within defined risk appetite limits for each bank. The Group's Treasury function actively hedges risk to match the timing of cash flows from assets and liabilities for each bank. The Group is actively transitioning from LIBOR to SONIA swaps to reduce possible exposure to a dislocation of market rates from base rate.

The Group has a small amount of foreign exchange exposure, due to the rupee denominated running costs of the OSB India operation. Rupee denominated running costs during the period to 30 June 2021 totalled £3.8m (30 June 2020: £4.2m).

Solvency risk

Solvency risk is a function of changes in balance sheet size, risk profile, profitability and capital rules.

During the six months to 30 June 2021, the Group's balance sheet grew, however the asset mix moved towards lower capital intensive products. The Group's risk profile remained broadly stable during the reporting period. Profitability was boosted by impairment provision write backs, strong net interest income performance and controlled operating expenses. The Group's capital requirements remained largely consistent with the 31 December 2020 position, with positive property price indexing also supporting falling risk weighted asset levels and consequently lower capital requirements. The net impact of these positive trends was a further strengthening of the Group's capital ratios. As at 30 June 2021, the CET1 ratio improved to 18.7% from 18.3% as at 31 December 2020.

The Group remains cognisant of the ongoing macroeconomic uncertainty, which could result in a range of risk profile outcomes impacting capital levels, in conjunction with future changes to the Group's capital requirements including the reversal of the 'CRR quick fix' measures, the reintroduction of the countercyclical buffer and a broad range of potential outcomes with respect to how Basel 3.1 reforms are adopted in the UK.

Statement of Directors' Responsibilities

We, the Directors listed below, confirm that to the best of our knowledge:

• the condensed financial statements have been prepared in accordance with IAS 34, Interim Financial Reporting, as adopted by the United Kingdom (UK);

• the interim management report includes a fair review of the information required by:

(a) DTR 4.2.7R of the Disclosure Guidance and Transparency Rules, being an indication of important events that have occurred during the first six months of the financial year and their impact on the condensed financial statements; and a description of the principal risks and uncertainties for the remaining six months of the financial year; and

(b) DTR 4.2.8R of the Disclosure Guidance and Transparency Rules, being related party transactions that have taken place in the first six months of the financial year and that have materially affected the financial position or performance of the Group during that period; and any changes in the related party transactions described in the last Annual Report and Accounts that could do so.

Graham Allatt
Andy Golding
Noël Harwerth
Sarah Hedger
Rajan Kapoor
Mary McNamara
April Talintyre
David Weymouth

By order of the Board

Date: 19 August 2021

OSB GROUP PLC

Interim Report for the six months ended 30 June 2021

Independent Review Report to OSB GROUP PLC

We have been engaged by the company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2021 which comprises the Condensed Consolidated Statement of Comprehensive Income, the Condensed Consolidated Statement of Financial Position, the Condensed Consolidated Statement of Changes in Equity, the Condensed Consolidated Statement of Cash Flows and related notes 1 to 36. We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

Directors' responsibilities

The half-yearly financial report is the responsibility of, and has been approved by, the Directors. The Directors are responsible for preparing the half-yearly financial report in accordance with the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

As disclosed in note 2, the annual financial statements of the Group will be prepared in accordance with United Kingdom adopted International Financial Reporting Standards. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with United Kingdom adopted International Accounting Standard 34, Interim Financial Reporting.

Our responsibility

Our responsibility is to express to the Company a conclusion on the condensed set of financial statements in the half-yearly financial report based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410 Review of Interim Financial Information Performed by the Independent Auditor of the Entity issued by the Financial Reporting Council for use in the United Kingdom. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2021 is not prepared, in all material respects, in accordance with United Kingdom adopted International Accounting Standard 34 and the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

Use of our report

This report is made solely to the Company in accordance with International Standard on Review Engagements (UK and Ireland) 2410 Review of Interim Financial Information Performed by the Independent Auditor of the Entity issued by the Financial Reporting Council. Our work has been undertaken so that we might state to the Company those matters we are required to state to it in an independent review 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, for our review work, for this report, or for the conclusions we have formed.

Deloitte LLP
Statutory Auditor
London, United Kingdom
19 August 2021

OSB GROUP PLC

Interim Report for the six months ended 30 June 2021

Condensed Consolidated Statement of Comprehensive Income

	Note	**Six months ended 30-Jun-21 (Unaudited) £m**	Six months ended 30-Jun-20 (Unaudited) £m
Interest receivable and similar income	4	**349.2**	371.5
Interest payable and similar charges	5	**(83.9)**	(137.7)
Net interest income		**265.3**	233.8
Fair value gains/(losses) on financial instruments	6	**16.1**	(12.1)
Gain on sale of financial instruments	7	**4.0**	19.9
Other operating income		**4.6**	3.7
Total income		**290.0**	245.3
Administrative expenses	8	**(80.5)**	(76.7)
Provisions	28	**(0.1)**	(0.1)
Impairment of financial assets	22	**14.6**	(54.2)
Impairment of intangible assets	9	**-**	(7.0)
Integration costs	10	**(1.9)**	(6.3)
Exceptional items	11	**(0.2)**	(1.7)
Profit before taxation		**221.9**	99.3
Taxation	12	**(60.4)**	(27.3)
Profit for the period		**161.5**	72.0
Other comprehensive expense			
Items which may be reclassified to profit or loss:			
Fair value changes on financial instruments measured as Fair Value through Other Comprehensive income (FVOCI):			
Arising in the period		**0.3**	(0.5)
Amounts reclassified to profit or loss for investment securities at FVOCI		**(2.0)**	-
Tax on items in other comprehensive expense		**0.7**	-
Revaluation of foreign operations		**(0.3)**	0.1
Other comprehensive expense		**(1.3)**	(0.4)
Total comprehensive income for the period		**160.2**	71.6
Attributable to:			
Equity shareholders of the Company		**157.5**	68.9
Non-controlling interests		**2.7**	2.7
		160.2	71.6
Dividend declared for the period, pence per share	14	**4.9**	-
Earnings per share, pence per share			
Basic	13	**35.5**	15.5
Diluted	13	**35.2**	15.5

The above results are derived wholly from continuing operations.

Notes 1 to 36 form part of these Condensed Consolidated Financial Statements.

OSB GROUP PLC

Interim Report as at 30 June 2021

Condensed Consolidated Statement of Financial Position

	Note	**As at 30-Jun-21 (Unaudited) £m**	As at 31-Dec-20 (Audited) £m
Assets			
Cash in hand		**0.4**	0.5
Loans and advances to credit institutions	16	**2,408.0**	2,676.2
Investment securities	17	**224.6**	471.2
Loans and advances to customers	18	**20,428.2**	19,230.7
Fair value adjustments on hedged assets	23	**59.2**	181.6
Derivative assets		**40.7**	12.3
Other assets		**10.3**	9.1
Current taxation asset		**-**	8.4
Deferred taxation asset		**5.3**	4.7
Property, plant and equipment		**38.4**	39.2
Intangible assets		**19.1**	20.6
Total assets		**23,234.2**	22,654.5
Liabilities			
Amounts owed to credit institutions	24	**3,753.0**	3,570.2
Amounts owed to retail depositors	25	**17,097.2**	16,603.1
Fair value adjustments on hedged liabilities	23	**(1.1)**	8.2
Amounts owed to other customers		**63.5**	72.9
Debt securities in issue	26	**357.1**	421.9
Derivative liabilities		**45.2**	163.6
Lease liabilities	27	**11.5**	11.7
Other liabilities		**27.3**	27.8
Provisions	28	**1.9**	1.8
Current taxation liability		**8.5**	-
Deferred taxation liability		**47.1**	48.3
Subordinated liabilities		**10.5**	10.5
Perpetual subordinated bonds		**37.5**	37.6
		21,459.2	20,977.6
Equity			
Share capital		**4.5**	1,359.8
Share premium		**0.1**	-
Retained earnings		**3,061.8**	1,608.6
Other reserves		**(1,351.4)**	(1,351.5)
Shareholders' funds		**1,715.0**	1,616.9
Non-controlling interests		**60.0**	60.0
Total equity and liabilities		**23,234.2**	22,654.5

Notes 1 to 36 form part of these Condensed Consolidated Financial Statements.

The Condensed Consolidated Financial Statements were approved by the Board of Directors on 19 August 2021 and signed on its behalf by

Andy Golding
Chief Executive Officer

April Talintyre
Chief Financial Officer

Company number: 11976839

OSB GROUP PLC

Interim Report for the six months ended 30 June 2021

Condensed Consolidated Statement of Changes in Equity

	Share capital[1] £m	Share premium £m	Capital contribution £m	Transfer reserve £m	Own shares[2] £m	Foreign exchange reserve £m	FVOCI reserve £m	Share-based payment reserve £m	Retained earnings £m	Non-controlling interest securities £m	Total £m
At 1 January 2021	1,359.8	-	-	(1,355.3)	(4.0)	(1.0)	1.0	7.8	1,608.6	60.0	1,676.9
Profit for the period	-	-	-	-	-	-	-	-	**161.5**	-	**161.5**
Coupon paid on non-controlling interest securities	-	-	-	-	-	-	-	-	**(2.7)**	-	**(2.7)**
Dividends paid	-	-	-	-	-	-	-	-	**(64.8)**	-	**(64.8)**
Other comprehensive expense	-	-	-	-	-	**(0.3)**	**(1.7)**	-	-	-	**(2.0)**
Share-based payments	-	**0.1**	-	-	-	-	-	**0.7**	**4.2**	-	**5.0**
Tax recognised in equity	-	-	-	-	-	-	**0.7**	**0.6**	**(0.2)**	-	**1.1**
Own shares[2]	-	-	-	-	**0.1**	-	-	-	**(0.1)**	-	-
Capital reduction of OSB GROUP PLC share capital[1]	**(1,355.3)**	-	-	-	-	-	-	-	**1,355.3**	-	-
At 30 June 2021 (Unaudited)	**4.5**	**0.1**	-	**(1,355.3)**	**(3.9)**	**(1.3)**	-	**9.1**	**3,061.8**	**60.0**	**1,775.0**
At 1 January 2020	4.5	864.2	6.5	(12.8)	(3.7)	(1.0)	0.5	5.6	553.2	60.0	1,477.0
Profit for the period	-	-	-	-	-	-	-	-	72.0	-	72.0
Own shares[2]	-	-	-	-	0.3	-	-	(0.3)	-	-	-
Coupon paid on non-controlling interest securities	-	-	-	-	-	-	-	-	(2.7)	-	(2.7)
Dividends paid	-	-	-	-	-	-	-	-	-	-	-
Other comprehensive expense	-	-	-	-	-	0.1	(0.5)	-	-	-	(0.4)
Share-based payments	-	0.1	-	-	-	-	-	0.3	2.6	-	3.0
Tax recognised in equity	-	-	-	-	-	-	-	(1.1)	-	-	(1.1)
At 30 June 2020 (Unaudited)	4.5	864.3	6.5	(12.8)	(3.4)	(0.9)	-	4.5	625.1	60.0	1,547.8

[1] On 26 February 2021, OSB GROUP PLC reduced the nominal value of 447,312,780 shares from three hundred and four (304) pence each to one (1) penny each, see note 1 for further details.
[2] The Group has adopted look-through accounting (see note 2) and recognised the Employee Benefit Trusts within OSB GROUP PLC (HY 2020: OneSavings Bank plc).

OSB GROUP PLC

Interim Report for the six months ended 30 June 2021

Condensed Consolidated Statement of Changes in Equity (continued)

	Share capital £m	Share premium £m	Capital contribution £m	Transfer reserve £m	Own shares[1] £m	Foreign exchange reserve £m	FVOCI reserve £m	Share-based payment reserve £m	Retained earnings £m	Non-controlling interest securities £m	Total £m
At 1 January 2020	4.5	864.2	6.5	(12.8)	(3.7)	(1.0)	0.5	5.6	553.2	60.0	1,477.0
Profit for the year	-	-	-	-	-	-	-	-	196.3	-	196.3
Coupon paid on non-controlling interest securities	-	-	-	-	-	-	-	-	(5.5)	-	(5.5)
Dividends paid	-	-	-	-	-	-	-	-	-	-	-
Other comprehensive income	-	-	-	-	-	-	1.0	-	-	-	1.0
Share-based payments	-	2.6	-	-	-	-	-	2.4	3.2	-	8.2
Tax recognised in equity	-	-	-	-	-	-	(0.5)	(0.2)	0.5	-	(0.2)
Transfer between reserves	-	-	(6.5)	12.8	-	-	-	-	(6.3)	-	-
Own shares[1]	-	-	-	-	(0.3)	-	-	-	0.4	-	0.1
Cancellation of OneSavings Bank plc share capital and share premium	(4.5)	(866.8)	-	-	-	-	-	-	866.8	-	(4.5)
Issuance of OSB GROUP PLC share capital	1,359.8	-	-	(1,355.3)	-	-	-	-	-	-	4.5
At 31 December 2020 (audited)	1,359.8	-	-	(1,355.3)	(4.0)	(1.0)	1.0	7.8	1,608.6	60.0	1,676.9

[1] The Group has adopted look-through accounting (see note 2) and recognised the Employee Benefit Trusts within OSB GROUP PLC (HY 2020: OneSavings Bank plc).

Condensed Consolidated Statement of Cash Flows

	Note	**Six months ended 30-Jun-21 (Unaudited) £m**	Six months ended 30-Jun-20 (Unaudited) £m
Cash flows from operating activities			
Profit before taxation		**221.9**	99.3
Adjustments for non-cash items	33	**(18.8)**	60.0
Changes in operating assets and liabilities	33	**(616.6)**	(957.8)
Cash used in operating activities		**(413.5)**	(798.5)
Provisions refunded	28	**-**	0.3
Net tax paid		**(44.1)**	(74.8)
Net cash used in operating activities		**(457.6)**	(873.0)
Cash flows from investing activities			
Maturity and sales of investment securities		**302.0**	121.7
Purchases of investment securities	17	**(53.3)**	(191.5)
Interest received on investment securities		**1.6**	-
Sales of financial instruments		**-**	539.8
Purchases of equipment and intangible assets		**(4.0)**	(3.8)
Cash generated from investing activities		**246.3**	466.2
Cash flows from financing activities			
Financing received	29	**469.7**	1,250.7
Financing repaid	29	**(351.8)**	(602.4)
Cash held in deconsolidated special purpose vehicles		**-**	(23.0)
Interest paid on financing		**(5.0)**	(1.2)
Coupon paid on non-controlling interest securities		**(2.7)**	(2.7)
Dividends paid	14	**(64.8)**	-
Proceeds from issuance of shares under employee SAYE schemes		**0.1**	0.1
Cash payments on lease liabilities	27	**(0.9)**	(1.0)
Cash generated from financing activities		**44.6**	620.5
Net (decrease)/increase in cash and cash equivalents		**(166.7)**	213.7
Cash and cash equivalents at the beginning of the period	15	**2,370.6**	2,102.8
Cash and cash equivalents at the end of the period	15	**2,203.9**	2,316.5
Movement in cash and cash equivalents		**(166.7)**	213.7

1. Capital reduction

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

2. Accounting policies

a) Basis of preparation

These Interim Condensed Consolidated Financial Statements have been prepared in accordance with the Disclosure Guidance and Transparency Rules (DTR) of the Financial Conduct Authority (FCA) and in accordance with International Accounting Standard 34 Interim Financial Reporting as adopted by the UK.

The accounting policies, presentation and methods of computation are consistent with those applied by the Group in its latest audited financial statements, which were prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the UK and interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC). They do not include all the information required for a complete set of IFRS financial statements. However, selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in the Group's financial position and performance since the last Annual Report and Accounts for the year ended 31 December 2020.

The comparative figures for the year ended 31 December 2020 are not the Group's statutory accounts for that financial year. The statutory accounts for the year ended 31 December 2020 have been delivered to the Registrar of Companies in England and Wales in accordance with section 447 of the Companies Act 2006. The auditor has reported on those accounts. Their report was unqualified; did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying their report, and did not contain a statement under section 498(2) or (3) of the Companies Act 2006.

The comparative figures for the year ended 31 December 2020 have been presented to include OneSavings Bank plc's consolidated assets, liabilities, income and expenses prospectively from the date of insertion of the Company without restating pre-insertion information, as if the Company had been the parent company throughout the current and prior years.

These Interim Condensed Consolidated Financial Statements were authorised for issue by the Company's Board of Directors on 19 August 2021.

2. Accounting policies (continued)

b) Accounting standards

The Group has adopted 'Interest Rate Benchmark Reform – Phase 2 (Amendments to IFRS 9 Financial Instruments, IAS 39 Financial Instruments: Recognition and Measurement, IFRS 7 Financial Instruments: Disclosures, IFRS 4 Insurance Contracts and IFRS 16 Leases'), which was issued in August 2020 and became mandatory for annual reporting periods beginning on or after 1 January 2021. Adopting these amendments has enabled the Group to reflect the effects of transitioning from interbank offered rates (IBOR) to alternative benchmark interest rates (also referred to as 'risk free rates' or RFRs) without giving rise to accounting impacts that would not provide useful information to users of financial statements. See the IBOR transition section in note 30 Risk Management for further details. The Group continues to apply the Phase 1 amendments 'Interest Rate Benchmark reform: Amendments to IFRS 9/IAS 39 and IFRS 7' where relevant.

The IFRS Interpretations Committee published an agenda decision in April 2021 addressing how a customer should account for the costs of configuring or customising the supplier's application software in a Software-as-a-Service (SaaS) arrangement that is determined to be a service contract.

The adoption of the financial reporting standards listed above has not had a material impact on the Group.

All other accounting policies applied are consistent with those set out on pages 192 to 204 of the 2020 Annual Report and Accounts.

c) Going concern

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

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

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

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

- The latest liquidity and contingent liquidity positions and forecasts were assessed against the Internal Liquidity Adequacy Assessment Process (ILAAP) stress scenarios, which were reviewed for suitability in the context of COVID-19 related stresses.

2. Accounting policies (continued)

- The Group continues to assess the resilience of its business operating model and supporting infrastructure in the context of the emerging economic, business and regulatory environment. The key areas of focus continue to be on the provision of critical services to customers, employee health and safety and the evolving governmental policies and guidelines. The Group has assessed and enhanced its information technology platforms to support its employees with flexible working from office or homeworking across all locations, ensuring stable access to core systems, data and communication devices. Investment is scheduled for further flexibility on combinations of home and office working for staff within a hybrid go to model. 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 changing operational demands. The operational dependencies on third party vendors and outsourcing arrangements continue to be an important area of focus.

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

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

d) Segmental reporting

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

The Group provides loans and asset finance within the UK and the Channel Islands only. The Group segments its lending business and operates under two segments:

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

The Group has disclosed the risk management tables in note 30 at a sub-segment level to provide detailed analysis of the Group's core lending business.

3. Judgements in applying accounting policies and critical accounting estimates

The preparation of the Interim Condensed Consolidated Financial Statements requires management to make judgements, estimates and assumptions that affect the reported income and expense, assets and liabilities and disclosure of contingencies at the date of the Interim Condensed Consolidated Financial Statements. Although these estimates and assumptions are based on management's best judgement at that date, actual results may differ from these estimates. Estimates and assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised in the period in which the estimate is revised and in any future periods affected.

The judgements made by the Group in the application of its accounting policies are consistent with those set out on pages 204 to 206 of the 2020 Annual Report and Accounts.

The following estimates may have a significant risk of material adjustment to the carrying amount of assets within the next financial period.

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

(i) Loan book impairments

Set out below are details of the critical accounting estimates which underpin loan impairment calculations. Less significant estimates are not discussed as they do not have a material effect. The Group has recognised total impairments of £94.4m (31 December 2020: £111.0m) at the reporting date as disclosed in note 21.

Modelled impairment

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

Loss given default model

The Group has a number of LGD models, which include a number of estimated inputs including propensity to go to possession given default (PPD), forced sale discount (FSD), time to sale (TTS) and sale cost estimates. The LGD is sensitive to the application of the HPI. For the OSB segment at 30 June 2021 a 10% fall in house prices would result in an incremental £20.2m (31 December 2020: £25.6m) of provision being required. For the CCFS segment at 30 June 2021 a 10% fall in house prices would result in an incremental £8.3m (31 December 2020: £13.9m) of provision being required. The combined impact across both OSB and CCFS businesses of a 10% fall in house prices would result in an increase in total provisions of £28.5m (31 December 2020: £39.5m) as at 30 June 2021.

Loan book impairments − forward-looking macroeconomic scenarios

The Group's macroeconomic scenarios can be found in the Risk review section above. The following tables detail the expected credit losses (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 30 June 2021 (Unaudited)	**Weighted (see note 21)**	**100% Base case scenario**	**100% Upside scenario**	**100% Downside scenario**	**100% Severe downside scenario**
Total loans before provisions, £m	**20,504.5**	**20,504.5**	**20,504.5**	**20,504.5**	**20,504.5**
Modelled ECL, £m	**52.1**	**36.6**	**23.4**	**90.4**	**137.0**
Non-modelled ECL, £m	**42.3**	**42.3**	**42.3**	**42.3**	**42.3**
Total ECL, £m	**94.4**	**78.9**	**65.7**	**132.7**	**179.3**
ECL coverage, %	**0.46**	**0.39**	**0.32**	**0.65**	**0.87**
As at 31 December 2020 (Audited)					
Total loans before provisions, £m	19,322.6	19,322.6	19,322.6	19,322.6	19,322.6
Modelled ECL, £m	71.6	54.6	40.1	113.5	166.7
Non-modelled ECL, £m	39.4	39.4	39.4	39.4	39.4
Total ECL, £m	111.0	94.0	79.5	152.9	206.1
ECL coverage, %	0.57	0.49	0.41	0.79	1.07

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

(ii) Loan book acquisition accounting and effective interest rate

There have been no significant changes in key judgements and assumptions for acquisition accounting and income recognition and effective interest rate (EIR) calculations compared to those applied at 31 December 2020, as described on pages 204 to 206 of the 2020 Annual Report and Accounts.

Sensitivities have been applied to the Precise and Kent Reliance organically originated 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 early redemption charges (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, such as the Bank of England's Term Funding Scheme for SMEs.

Applying a six month extension in the expected weighted average life of the organic loan books, would result in a gain of c.£27.9m recognised in net interest income. It includes a c.£14.9m gain in relation to the Kent Reliance loan book, where the impact of the proactive Choices programme, which offers borrowers a new product as an alternative to paying the Bank's higher Standard Variable Rate (SVR), may significantly reduce the likelihood of borrowers extending the period of time paying SVR and reduce the amount of the potential reset gain.

Applying a six month reduction in the expected weighted average life of the organic loan books, would result in a reset loss of c.£10.1m recognised in net interest income. This includes c.£2.9m gain in relation to the Kent Reliance loan book.

The Group recognised a net £0.4m gain in the six months to 30 June 2021 as a result of resetting cash flows on acquired books. The largest acquired book is Precise with sensitivities completed on increasing/reducing the life of the book by six months which results in a reset gain/loss of c. £31m/£33m.

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

4. Interest receivable and similar income

	Six months ended 30-Jun-21 (Unaudited) £m	Six months ended 30-Jun-20 (Unaudited) £m
At amortised cost:		
On OSB mortgages	**258.9**	248.6
On CCFS mortgages	**166.5**	166.3
On investment securities	**1.0**	1.5
On other liquid assets	**1.2**	4.0
Amortisation of fair value adjustments on CCFS Combination[1]	**(35.3)**	(34.9)
Amortisation of fair value adjustments on hedged assets[2]	**(17.0)**	-
At fair value through profit or loss (FVTPL):		
Net expense on derivative financial instruments - lending activities	**(26.5)**	(17.4)
On CCFS mortgages	**-**	0.3
At FVOCI:		
On investment securities	**0.4**	3.1
	349.2	371.5

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

5. Interest payable and similar charges

	Six months ended 30-Jun-21 (Unaudited) £m	Six months ended 30-Jun-20 (Unaudited) £m
On retail deposits	**84.1**	134.9
On BoE borrowings	**2.0**	4.7
On perpetual subordinated bonds	**0.8**	0.8
On subordinated liabilities	**0.4**	0.4
On wholesale borrowings	**0.4**	2.6
On debt securities in issue	**1.8**	1.4
On lease liabilities	**0.2**	0.2
Amortisation of fair value adjustments on CCFS Combination[1]	**(0.8)**	(1.9)
Amortisation of fair value adjustments on hedged liabilities[2]	**(0.5)**	-
Net income on derivative financial instruments - savings activities	**(4.5)**	(5.4)
	83.9	137.7

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

6. Fair value gains/(losses) on financial instruments

	Six months ended 30-Jun-21 (Unaudited) £m	Six months ended 30-Jun-20 (Unaudited) £m
Fair value changes in hedged assets	**(114.5)**	137.8
Hedging of assets	**114.7**	(145.4)
Fair value changes in hedged liabilities	**8.8**	(15.1)
Hedging of liabilities	**(8.4)**	16.3
Ineffective portion of hedges	**0.6**	(6.4)
Net gains/(losses) on unmatched swaps	**6.1**	(13.8)
Amortisation of inception adjustments[1]	**0.2**	5.8
Amortisation of acquisition related inception adjustments[2]	**6.7**	5.1
Amortisation of de-designated hedge relationships[3]	**2.2**	-
Fair value movements on mortgages at FVTPL	**0.2**	(1.2)
Amortisation of fair value adjustments on hedged assets	**-**	(1.7)
Debit and credit valuation adjustment	**0.1**	0.1
	16.1	(12.1)

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

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

[3] The amortisation of de-designated hedge relationships of £2.2m (2020: £nil) relates to the amortisation of hedged items where hedge accounting has been discontinued due to ineffectiveness.

7. Gain on sales of financial instruments

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

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

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

7. Gain on sales of financial instruments (continued)

On 23 January 2020, the Group securitised mortgage loans with a par value of £375.5m through Precise Mortgage Funding 2020-1B plc (PMF 2020-1B), issuing £388.9m of Sterling floating rate notes. The Group retained the £100.7m class A2 notes, with all other note classes and the residual certificates being sold to the external market. As such, the Group has not consolidated PMF 2020-1B as the risks and rewards have been transferred. The Group recognised a gain on sale of £2.0m upon deconsolidation. Excluding the impact of the fair value adjustment on the mortgages on Combination with OSB of £13.1m, the underlying gain on sale was £15.1m.

8. Administrative expenses

	Six months ended 30-Jun-21 (Unaudited) £m	Six months ended 30-Jun-20 (Unaudited) £m
Staff costs	**46.7**	41.6
Facilities costs	**2.9**	3.0
Marketing costs	**1.8**	2.4
Support costs	**8.7**	9.2
Professional fees	**10.3**	10.7
Other costs	**3.3**	2.3
Depreciation	**2.6**	2.9
Amortisation	**4.2**	4.6
	80.5	76.7

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

	Six months ended 30-Jun-21 (Unaudited)	Six months ended 30-Jun-20 (Unaudited)
UK	**1,218**	1,343
India	**509**	485
	1,727	1,828

9. Impairment of intangible assets

Assets arising on the Combination with CCFS in 2019 included a broker relationships intangible asset with a fair value of £17.1m on Combination. During 2020 an impairment of £7.0m was recognised arising from changes to CCFS anticipated lending volumes over three years post combination, which are a key input to the calculation of the fair value, and which were revised due to COVID-19 impacts. An impairment assessment was performed during 2021 concluding that no additional impairment was required. The remaining carrying value of the broker relationships intangible asset at 30 June 2021 is £4.3m (2020: £5.8m).

10. Integration costs

	Six months ended 30-Jun-21 (Unaudited) £m	Six months ended 30-Jun-20 (Unaudited) £m
Consultant fees	**0.3**	1.6
Staff costs	**1.6**	4.7
	1.9	6.3

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

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

11. Exceptional items

	Six months ended 30-Jun-21 (Unaudited) £m	Six months ended 30-Jun-20 (Unaudited) £m
Consultant fees	**-**	0.9
Legal and professional fees	**0.2**	0.8
	0.2	1.7

Exceptional items relate to the insertion of OSB GROUP PLC as the new holding company and listed entity of the Group.

12. Taxation

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

	Six months ended 30-Jun-21 (Unaudited) £m	Six months ended 30-Jun-20 (Unaudited) £m
Corporation taxation	**(63.3)**	(35.8)
Deferred taxation	**0.9**	0.4
Adjustments in respect of earlier years	**(0.2)**	-
Release of deferred taxation on CCFS Combination[1]	**2.2**	8.1
Total taxation	**(60.4)**	(27.3)

[1]Release of deferred taxation on CCFS Combination relates to the unwind of the deferred tax liabilities recognised on the fair value adjustments of the CCFS assets and liabilities at the acquisition date (£7.8m) and the impact of the corporation tax rate increase on these deferred tax liabilities (£5.6m).

The charge for taxation on the Group's profit before taxation differs from the charge based on the standard rate of UK Corporation Tax of 19% (2020: 19%) as follows:

	Six months ended 30-Jun-21 (Unaudited) £m	Six months ended 30-Jun-20 (Unaudited) £m
Profit before taxation	**221.9**	99.3
Profit multiplied by the standard rate of UK Corporation Tax (19%)	**(42.2)**	(18.9)
Bank surcharge[1]	**(13.2)**	(3.5)
Taxation effects of:		
Expenses not deductible for taxation purposes	**(0.2)**	(1.8)
Impact of deferred tax rate change[2]	**(5.4)**	(4.6)
Adjustments in respect of earlier periods	**(0.2)**	-
Income not taxable	**-**	1.0
Tax adjustments in respect of share-based payments	**(0.9)**	(0.6)
Impact of tax losses carried forward	**0.3**	0.1
Tax on coupons paid on non-controlling interest securities	**0.7**	0.7
Timing differences	**0.7**	0.4
Other	**-**	(0.1)
Total taxation charge	**(60.4)**	(27.3)

[1] Tax charge for the two banking entities of £15.5m (2020: £7.1m) offset by the tax impact of unwinding CCFS Combination items of £2.3m (2020: £3.6m).
[2] Due to change in corporation tax rate from 19% to 25% on 1 April 2023. (2020: Due to cancelled rate reductions from 19% to 17% on 1 April 2020)

12. Taxation (continued)

Factors that may affect future tax charges

On 24 May 2021, the government substantively enacted legislation to increase the corporation tax rate from 19% to 25% on 1 April 2023. The government has also acknowledged that this increase will result in an uncompetitive position for UK banks, who are also subject to the 8% Bank Surcharge, and have commenced a review of the Bank Surcharge. This review is ongoing and as at 30 June 2021, no reduction in the Bank Surcharge had been announced or enacted into legislation, and so it is assumed for the purposes of deferred tax calculations that the surcharge will remain at 8%.

13. Earnings per share

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

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

	Six months ended 30-Jun-21 (Unaudited) £m	Six months ended 30-Jun-20 (Unaudited) £m
Statutory profit after tax	**161.5**	72.0
Less: Coupon on non-controlling interest securities classified as equity	**(2.7)**	(2.7)
Statutory profit attributable to ordinary shareholders	**158.8**	69.3

	Six months ended 30-Jun-21 (Unaudited) £m	Six months ended 30-Jun-20 (Unaudited) £m
Weighted average number of shares, millions		
Basic	**447.7**	445.9
Dilutive impact of share-based payment schemes	**3.8**	2.2
Diluted	**451.5**	448.1
Earnings per share, pence per share		
Basic	**35.5**	15.5
Diluted	**35.2**	15.5

14. Dividends

Dividends paid during the period are disclosed below:

	Six months ended 30-Jun-21 (Unaudited)		Six months ended 30-Jun-20 (Unaudited)	
	£m	**Pence per share**	£m	Pence per share
Final dividend for the prior year	**64.8**	**14.5**	-	-

The Group's dividend policy is to declare interim dividends based on one-third of the prior year's total dividend. The Board continues to target a full year dividend payout ratio of at least 25 per cent of underlying profit after tax less coupons on non-controlling interest securities.

The Directors have declared an interim dividend for the first half of 2021 of £22.0m, 4.9 pence per share (2020: nil), based on one-third of the total 2020 dividend of 14.5 pence per share, payable on 22 September 2021 with an ex-dividend date of 26 August 2021 and a record date of 27 August 2021. This dividend is not reflected in these financial statements as it was not declared at the reporting date.

A summary of the Company's distributable reserves is shown below, based on Company interim accounts prepared to 28 February 2021 following the capital reduction (see Note 1):

	As at 30-Jun-21 (Unaudited) £m	As at 31-Dec-20 (Audited) £m
Retained earnings	**1,359.4**	-
Other distributable reserves[1]	**(3.1)**	-
Dividend distributed[2]	**(64.8)**	-
Distributable reserves	**1,291.5**	-

[1] Other distributable reserves comprises the share-based payment reserve of £0.9m, offset by own shares held in the Group's employee benefit trust of £4.0m which are recognised within OSBG under look-through accounting.
[2] The company made a dividend distribution of £64.8m on 2 June 2021 supported by £64.8m of dividends received from subsidiaries.

15. Cash and cash equivalents

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

	As at 30-Jun-21 (Unaudited) £m	As at 31-Dec-20 (Audited) £m	As at 30-Jun-20 (Unaudited) £m	As at 31-Dec-19 (Audited) £m
Cash in hand	**0.4**	0.5	0.5	0.4
Unencumbered loans and advances to credit institutions	**2,203.5**	2,370.1	2,316.0	2,052.5
Investment securities with an original maturity less than 3 months	**-**	-	-	49.9
	2,203.9	2,370.6	2,316.5	2,102.8

16. Loans and advances to credit institutions

	As at 30-Jun-21 (Unaudited) £m	As at 31-Dec-20 (Audited) £m
Unencumbered:		
BoE call account	**2,062.2**	2,256.5
Call accounts	**73.6**	55.6
Cash held in special purpose vehicles[1]	**62.2**	51.0
Term deposits	**5.5**	7.0
Encumbered:		
BoE cash ratio deposit	**54.3**	52.3
Cash held in special purpose vehicles[1]	**32.6**	42.7
Cash margin given	**117.6**	211.1
	2,408.0	2,676.2

[1] Cash held in special purpose vehicles is ring-fenced for use in managing the Group's securitised debt facilities under the terms of securitisation agreements. Unencumbered cash held in special purpose vehicles becomes available on the respective interest payment date of the respective securitisation; whereas, the encumbered balance is retained in the securitisation special purpose vehicle for liquidity requirements.

17. Investment securities

	As at 30-Jun-21 (Unaudited) £m	As at 31-Dec-20 (Audited) £m
Held at FVTPL:		
RMBS loan notes	**0.8**	-
	0.8	-
Held at FVOCI:		
RMBS loan notes	**-**	285.0
	-	285.0
Held at amortised cost:		
RMBS loan notes	**223.8**	186.2
	223.8	186.2
Less: Expected credit losses	**-**	-
	223.8	186.2
	224.6	471.2

Residential Mortgage-Backed Securities (RMBS)

17. Investment securities (continued)

Movements during the period in investment securities held by the Group are analysed below:

	Six months ended 30-Jun-21 (Unaudited) £m	Year ended 31-Dec-20 (Audited) £m
At 1 January	**471.2**	635.3
Additions[1]	**53.3**	291.6
Disposals and maturities[2]	**(300.0)**	(457.2)
Movement in accrued interest	**(0.2)**	0.5
Changes in fair value	**0.3**	1.0
	224.6	471.2

[1] The prior year additions included £100.7m of retained RMBS loan notes following the deconsolidation of PMF 2020-1B.
[2] The prior year disposals and maturities included £49.9m of UK Sovereign debt which had an original maturity of less than three months.

18. Loans and advances to customers

	As at 30-Jun-21 (Unaudited) £m	As at 31-Dec-20 (Audited) £m
Held at amortised cost:		
Loans and advances (see note 19)	**20,406.3**	19,257.1
Finance leases (see note 20)	**98.2**	65.5
	20,504.5	19,322.6
Less: Expected credit losses (see note 21)	**(94.4)**	(111.0)
	20,410.1	19,211.6
Residential mortgages held at fair value	**18.1**	19.1
	20,428.2	19,230.7

19. Loans and advances

	As at 30-Jun-21 (Unaudited)			As at 31-Dec-20 (Audited)		
	OSB £m	**CCFS £m**	**Total £m**	OSB £m	CCFS £m	Total £m
Gross carrying amount						
Stage 1	**9,910.3**	**7,352.7**	**17,263.0**	9,310.8	6,749.5	16,060.3
Stage 2	**1,316.1**	**1,302.7**	**2,618.8**	1,362.0	1,327.6	2,689.6
Stage 3	**360.3**	**58.0**	**418.3**	344.5	48.1	392.6
Stage 3 (POCI)	**49.2**	**57.0**	**106.2**	48.6	66.0	114.6
	11,635.9	**8,770.4**	**20,406.3**	11,065.9	8,191.2	19,257.1

19. Loans and advances (continued)

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

	Stage 1 £m	Stage 2 £m	Stage 3 £m	Stage 3 (POCI) £m	Total £m
At 1 January 2020	17,239.2	749.5	294.4	136.8	18,419.9
Originations[1]	3,767.0	-	-	-	3,767.0
Acquisitions	60.8	-	-	1.5	62.3
Disposals	(787.3)	(16.1)	(1.0)	-	(804.4)
Repayments and write-offs[2]	(2,119.1)	(3.9)	(41.0)	(23.7)	(2,187.7)
Transfers:					
- To Stage 1	324.8	(293.5)	(31.3)	-	-
- To Stage 2[3]	(2,300.3)	2,344.5	(44.2)	-	-
- To Stage 3	(124.8)	(90.9)	215.7	-	-
At 1 January 2021	16,060.3	2,689.6	392.6	114.6	19,257.1
Originations[1]	**2,456.2**	**-**	**-**	**-**	**2,456.2**
Acquisitions[4]	**277.7**	**-**	**-**	**2.7**	**280.4**
Disposals[4]	**(214.4)**	**-**	**-**	**-**	**(214.4)**
Repayments and write-offs[2]	**(1,249.0)**	**(75.5)**	**(37.4)**	**(11.1)**	**(1,373.0)**
Transfers:					
- To Stage 1	**868.8**	**(850.0)**	**(18.8)**	**-**	**-**
- To Stage 2	**(907.1)**	**930.1**	**(23.0)**	**-**	**-**
- To Stage 3	**(29.5)**	**(75.4)**	**104.9**	**-**	**-**
At 30 June 2021 (Unaudited)	**17,263.0**	**2,618.8**	**418.3**	**106.2**	**20,406.3**

[1] Originations include further advances and drawdowns on existing commitments.

[2] Repayments and write-offs include customer redemptions.

[3] Transfers to stage 2 were higher in 2020 due to the additional qualitative and quantitative tests applied for loans with payment deferrals. Payment deferrals increased in 2020 notably through COVID-19 initiatives and impacts.

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

20. Finance leases

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

	As at 30-Jun-21 (Unaudited) £m	As at 31-Dec-20 (Audited) £m
Gross investment in finance leases, receivable		
Less than one year	**32.4**	21.9
Between one and five years	**75.8**	50.4
More than five years	**1.5**	1.3
	109.7	73.6
Unearned finance income	**(11.5)**	(8.1)
Net investment in finance leases	**98.2**	65.5
Net investment in finance leases, receivable		
Less than one year	**28.6**	18.6
Between one and five years	**68.1**	45.7
More than five years	**1.5**	1.2
	98.2	65.5

The Group has recognised £2.9m of ECLs on finance leases as at 30 June 2021 (31 December 2020: £2.6m).

21. Expected credit loss

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

	As at 30-Jun-21 (Unaudited)			As at 31-Dec-20 (Audited)		
	ECL provision £m	**Weighting %**	**Weighted ECL provision £m**	ECL provision £m	Weighting %	Weighted ECL provision £m
Scenarios						
Upside	**23.4**	**30**	**7.0**	40.1	30	12.0
Base case	**36.6**	**40**	**14.7**	54.6	40	21.8
Downside scenario	**90.4**	**23**	**20.8**	113.5	23	26.1
Severe downside scenario	**137.0**	**7**	**9.6**	166.7	7	11.7
Total weighted provisions			**52.1**			71.6
Non-modelled provisions:						
Individually-assessed provisions	**-**	**-**	**32.0**	-	-	29.0
Post model adjustments[1]	**-**	**-**	**10.3**	-	-	10.4
Total provision			**94.4**			111.0

[1]COVID-19 post model adjustments – the Group 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, furlough and the impact of payment deferrals on the credit bureau files, had on probability of default and loss given default 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 Risk profile performance overview on pages 81 to 87 of the 2020 Annual Report and Accounts.

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

	As at 30-Jun-21 (Unaudited)			As at 31-Dec-20 (Audited)		
	OSB £m	**CCFS £m**	**Total £m**	OSB £m	CCFS £m	Total £m
Stage 1	**7.0**	**4.4**	**11.4**	12.3	8.9	21.2
Stage 2	**14.6**	**9.3**	**23.9**	17.9	13.1	31.0
Stage 3	**51.5**	**2.1**	**53.6**	49.4	2.3	51.7
Stage 3 (POCI)	**3.6**	**1.9**	**5.5**	4.0	3.1	7.1
	76.7	**17.7**	**94.4**	83.6	27.4	111.0

The tables below show the movement in the ECL by IFRS 9 stage during the period. ECLs on originations and acquisitions reflect the IFRS 9 stage of loans originated or acquired during the period as at 30 June 2021 and not the date of origination. Remeasurement of loss allowance relates to existing loans which did not redeem during the period and includes the impact of loans moving between IFRS 9 stages.

21. Expected credit loss (continued)

	Stage 1 £m	Stage 2 £m	Stage 3 £m	Stage 3 (POCI) £m	Total £m
At 1 January 2020	5.6	5.6	23.8	7.9	42.9
Originations	6.3	-	-	-	6.3
Acquisitions	-	-	0.1	-	0.1
Disposals	(0.1)	(0.2)	(0.1)	-	(0.4)
Repayments and write-offs	(0.7)	(0.3)	(4.1)	(1.1)	(6.2)
Remeasurement of loss allowance	6.3	7.7	29.0	(0.2)	42.8
Transfers:					-
- To Stage 1	2.0	(1.4)	(0.6)	-	-
- To Stage 2	(1.0)	2.8	(1.8)	-	-
- To Stage 3	(0.1)	(1.2)	1.3	-	-
Changes in assumptions and model parameters	2.9	18.0	4.1	0.5	25.5
At 1 January 2021	21.2	31.0	51.7	7.1	111.0
Originations	**2.0**	**-**	**-**	**-**	**2.0**
Acquisitions	**0.1**	**-**	**-**	**0.1**	**0.2**
Repayments and write-offs	**(1.4)**	**(1.6)**	**(4.2)**	**(0.9)**	**(8.1)**
Remeasurement of loss allowance	**(17.2)**	**(0.8)**	**4.1**	**(1.3)**	**(15.2)**
Transfers:					
- To Stage 1	**7.4**	**(7.0)**	**(0.4)**	**-**	**-**
- To Stage 2	**(1.6)**	**2.6**	**(1.0)**	**-**	**-**
- To Stage 3	**(0.1)**	**(2.3)**	**2.4**	**-**	**-**
Changes in assumptions and model parameters	**1.0**	**2.0**	**1.0**	**0.5**	**4.5**
At 30 June 2021 (Unaudited)	**11.4**	**23.9**	**53.6**	**5.5**	**94.4**

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

	As at 30-Jun-21 (Unaudited)			As at 31-Dec-20 (Audited)		
	Carrying value £m	**ECL £m**	**Coverage %**	Carrying value £m	ECL £m	Coverage %
Criteria:						
Relative PD movement	**1,058.4**	**13.8**	**1.30**	946.9	17.0	1.80
Qualitative measures	**1,511.4**	**9.6**	**0.64**	1,680.7	12.7	0.76
30 days past due backstop	**50.7**	**0.5**	**0.99**	63.4	1.3	2.05
Total	**2,620.5**	**23.9**	**0.91**	2,691.0	31.0	1.15

The Group has a number of qualitative measures to determine whether a significant increase in credit risk (SICR) has taken place. These triggers utilise both internal performance information, to analyse whether an account is in distress but not yet in arrears, and external credit bureau information, to determine whether the customer is experiencing financial difficulty with an external credit obligation.

22. Impairment of financial assets

The charge for impairment of financial assets in the Condensed Consolidated Statement of Comprehensive Income comprises:

	Six months ended 30-Jun-21 (Unaudited) £m	Six months ended 30-Jun-20 (Unaudited) £m
Write-offs in period	**2.0**	1.1
Disposals	**-**	(0.4)
(Decrease)/increase in ECL provision	**(16.6)**	53.5
	(14.6)	54.2

23. Hedge accounting

	As at 30-Jun-21 (Unaudited) £m	As at 31-Dec-20 (Audited) £m
Hedged assets		
Current hedge relationships	**1.8**	197.5
Swap inception adjustment	**(36.3)**	(100.5)
Cancelled hedge relationships	**93.7**	84.6
Fair value adjustments on hedged assets	**59.2**	181.6
Hedged liabilities		
Current hedge relationships	**0.8**	(11.8)
Swap inception adjustment	**3.2**	6.2
Cancelled hedge relationships	**(2.1)**	-
De-designated hedge relationships	**(0.8)**	(2.6)
Fair value adjustments on hedged liabilities	**1.1**	(8.2)

Swap inception adjustment relates to hedge accounting adjustments arising when hedge accounting commences, primarily on derivative instruments previously taken out against the mortgage pipeline and on derivative instruments previously taken out against new retail deposits.

De-designated hedge relationships relates to hedge accounting adjustments on failed hedge accounting relationships. These adjustments are amortised over the remaining lives of the original hedged items.

Cancelled hedge relationships predominantly represent the unamortised fair value adjustment for interest rate risk hedges that have been cancelled and replaced due to IBOR transition, securitisation activities and legacy long-term fixed rate mortgages (c. 25 years at origination).

24. Amounts owed to credit institutions

	As at 30-Jun-21 (Unaudited) £m	As at 31-Dec-20 (Audited) £m
BoE TFS	**2,298.6**	2,568.6
BoE TFSME	**1,445.1**	1,000.1
Commercial repo	**-**	0.1
Loans from credit institutions	**1.0**	1.4
Cash collateral received	**8.3**	-
	3,753.0	3,570.2

Term Funding Scheme (TFS)
Term Funding Scheme for SMEs (TFSME)

25. Amounts owed to retail depositors

	As at 30-Jun-21 (Unaudited)			As at 31-Dec-20 (Audited)		
	OSB £m	**CCFS £m**	**Total £m**	OSB £m	CCFS £m	Total £m
Fixed rate deposits	**5,842.8**	**4,473.7**	**10,316.5**	6,275.6	4,781.4	11,057.0
Variable rate deposits	**3,797.9**	**2,982.8**	**6,780.7**	3,429.7	2,116.4	5,546.1
	9,640.7	**7,456.5**	**17,097.2**	9,705.3	6,897.8	16,603.1

26. Debt securities in issue

	As at 30-Jun-21 (Unaudited) £m	As at 31-Dec-20 (Audited) £m
Asset backed loan notes at amortised cost	**357.1**	421.9
Amount due for settlement after 12 months	**357.1**	421.9
	357.1	421.9

The asset-backed loan notes are secured on fixed and variable rate mortgages and are redeemable in part from time to time, but such redemptions are limited to the net principal received from borrowers in respect of underlying mortgage assets. The maturity date of the funds matches the contractual maturity date of the underlying mortgage assets. The Group expects that a large proportion of the underlying mortgage assets, and therefore these notes, will be repaid within five years.

26. Debt securities in issue (continued)

Asset-backed loan notes may all be repurchased by the Group at any interest payment date on or after the call dates, or at any interest payment date when the current balance of the mortgages outstanding is less than or equal to 10% of the principal amount outstanding on the loan notes on the date they were issued.

Interest is payable at fixed margins above SONIA.

As at 30 June 2021, notes were in issue through the following funding vehicles:

	As at 30-Jun-21 (Unaudited) £m	As at 31-Dec-20 (Audited) £m
CMF 2020-1 plc	**251.7**	288.6
Canterbury Finance No.3 plc	**105.4**	133.3
	357.1	421.9

27. Lease liabilities

	As at 30-Jun-21 (Unaudited) £m	As at 31-Dec-20 (Audited) £m
At 1 January	**11.7**	13.3
New leases	**0.7**	0.1
Lease terminated	**(0.2)**	-
Lease repayments	**(0.9)**	(2.0)
Interest accruals	**0.2**	0.3
	11.5	11.7

28. Provisions and contingent liabilities

An analysis of the Group's Financial Services Compensation Scheme (FSCS) and other provisions is presented below:

	FSCS £m	**Other regulatory provisions £m**	**ECL on undrawn loan facilities £m**	**Total £m**
At 1 January 2020	(0.2)	1.6	0.2	1.6
Refund/(paid) during the period	0.3	(0.2)	-	0.1
Charge	-	0.1	-	0.1
At 1 January 2021	0.1	1.5	0.2	1.8
Refund/(paid) during the period	**-**	**-**	**-**	**-**
Charge	**-**	**-**	**0.1**	**0.1**
At 30 June 2021 (Unaudited)	**0.1**	**1.5**	**0.3**	**1.9**

In January 2020, the Group was contacted by the FCA in connection with a multi-firm thematic review into forbearance measures adopted by lenders in respect of a portion of the mortgage market. The Group has responded to information requests from the FCA. It is not possible to reliably predict or estimate the outcome of the review, if any, on the Group.

29. Reconciliation of cash flows for financing activities

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

	Amounts owed to credit institutions (see note 24) £m	**Debt securities in issue (see note 26) £m**	**Subordinated liabilities £m**	**Perpetual Subordinated Bonds £m**	**Total £m**
At 1 January 2021	**3,570.2**	**421.9**	**10.5**	**37.6**	**4,040.2**
Cash movements:					
Principal drawdowns	**469.7**	**-**	**-**	**-**	**469.7**
Principal repayments	**(286.8)**	**(65.0)**	**-**	**-**	**(351.8)**
Non-cash movements:					
Accrued interest movement	**(0.1)**	**0.2**	**-**	**(0.1)**	**-**
At 30 June 2021 (Unaudited)	**3,753.0**	**357.1**	**10.5**	**37.5**	**4,158.1**

	Amounts owed to credit institutions £m	Debt securities in issue £m	Subordinated liabilities £m	Perpetual Subordinated Bonds £m	Total £m
At 1 January 2020	3,068.8	296.3	10.6	37.6	3,413.3
Cash movements:					
Principal drawdowns	915.0	335.7	-	-	1,250.7
Principal repayments	(553.0)	(49.4)	-	-	(602.4)
Deconsolidation of special purpose vehicles	-	(256.2)	-	-	(256.2)
Non-cash movements:					
Accrued interest movement	(4.0)	(0.7)	-	-	(4.7)
At 30 June 2020 (Unaudited)	3,426.8	325.7	10.6	37.6	3,800.7

30. Risk management

The tables below are a summary of the Group's risk management and financial instruments disclosures, of which a complete disclosure for the year ended 31 December 2020 is included in the Group's 2020 Annual Report and Accounts. The tables do not represent all risks the Group is exposed to and should be read in conjunction with the Risk review above.

IBOR transition

The PRA and FCA have continued to encourage banks to transition away from using LIBOR as a benchmark in all operations before the end of 2021. 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. This is included as an emerging risk within the Risk review section above.

In 2018, the Group set up an internal working group, comprising all of the key business lines that are involved with this change, including workstreams covering risk management, contracts, systems and conduct risk considerations, with strong oversight from the Compliance and Risk functions. The programme is overseen by the LIBOR Transition Working Group which reports into the Group Assets and Liabilities Committee. Risk assessments have been completed to ensure this process is managed in a measured and controlled manner.

The Group no longer offers any LIBOR-linked loans and is transitioning new and back book swaps from a GBP LIBOR to a SONIA basis. The Group has no exposure to existing IBORs, other than to GBP LIBOR.
The Group has adopted on 1 January 2021 'Interest Rate Benchmark Reform – Phase 2: Amendments to IFRS 9 Financial Instruments, IAS 39 Financial Instruments: Recognition and Measurement, IFRS 7 Financial Instruments: Disclosures, IFRS 4 Insurance Contracts and IFRS 16 Leases' which was issued in August 2020 and became mandatory for annual reporting periods beginning on or after 1 January 2021 (see note 2), enabling the Group to reflect the effects of transitioning from IBOR to alternative benchmark interest rates (also referred to as 'risk free rates' or RFRs) without giving rise to accounting impacts that would not provide useful information to users of financial statements.

Mortgages
At 30 June 2021, the Group had £7,298.6m (31 December 2020: £8,001.7m) of LIBOR-linked lending, including funding lines and mortgages that will revert to LIBOR in the future out of total mortgages balances of £20,406.3m (31 December 2020: £19,257.1m). The Group continues to work through the back book transition for existing loans which is planned to be completed before the end of 2021.

Direct communication with impacted customers regarding the cessation of LIBOR and its implications commenced during the first half of 2021. The LIBOR Transition Working Group is monitoring industry developments including the FCA's initiatives with regard to 'tough legacy' loans and the UK Treasury 'safe harbour' legislation. In addition the internal working group maintains close contact with the UK Finance LIBOR Transition Steering Committee to ensure it is fully appraised of all developments affecting LIBOR transition.

Investment securities
At 30 June 2021, the Group had £142.4m (31 December 2020: £118.7m) of GBP LIBOR-linked investment securities, comprising RMBS loan notes and the Group is monitoring the issuers' intentions in respect of IBOR transition.

Retail savings
None of the OSB or CCFS current or back book retail savings products have a LIBOR component within the product.

30. Risk management (continued)

Non-controlling interest securities
The £60.0m non-controlling interest securities pay interest at a rate of 9.125% per annum until the first reset date on 25 May 2022 when it reverts to a LIBOR swap rate. In advance of the reset date, the Group will either refinance the security or agree the benchmark rate to be adopted.

Derivatives
As at 30 June 2021, the total nominal amount of the Group's derivatives was £18,985.9m (31 December 2020: £19,080.2m), of which the Group had LIBOR-linked swaps with a nominal value of £4,436.5m (31 December 2020: £8,020.0m) and a fair value of £(2.6)m (31 December 2020: £89.1m) hedging assets and liabilities. It is planned that existing derivatives will be actively transitioned onto alternative benchmarks before the end of 2021.

The remaining LIBOR-linked swaps that have a reset in 2022 will be actively transitioned onto SONIA-linked swaps before the end of Q3 2021.

Credit risk

The following tables show the Group's maximum exposure to credit risk and the impact of collateral held as security, capped at the gross exposure amount, by impairment stage. Capped collateral excludes the impact of forced sale discounts and costs to sell.

	As at 30-Jun-21 (Unaudited)					
	OSB		**CCFS**		**Total**	
	Gross carrying amount £m	**Capped collateral held £m**	**Gross carrying amount £m**	**Capped collateral held £m**	**Gross carrying amount £m**	**Capped collateral held £m**
Stage 1	**10,002.7**	**9,900.7**	**7,352.7**	**7,351.4**	**17,355.4**	**17,252.1**
Stage 2	**1,317.8**	**1,313.7**	**1,302.7**	**1,302.7**	**2,620.5**	**2,616.4**
Stage 3	**364.4**	**338.2**	**58.0**	**58.0**	**422.4**	**396.2**
Stage 3 (POCI)	**49.2**	**49.1**	**57.0**	**57.0**	**106.2**	**106.1**
	11,734.1	**11,601.7**	**8,770.4**	**8,769.1**	**20,504.5**	**20,370.8**

	As at 31-Dec-20 (Audited)					
	OSB		CCFS		Total	
	Gross carrying amount £m	Capped collateral held £m	Gross carrying amount £m	Capped collateral held £m	Gross carrying amount £m	Capped collateral held £m
Stage 1	9,366.8	9,303.4	6,749.5	6,747.9	16,116.3	16,051.3
Stage 2	1,363.4	1,359.8	1,327.6	1,327.6	2,691.0	2,687.4
Stage 3	352.6	323.3	48.1	48.1	400.7	371.4
Stage 3 (POCI)	48.6	48.4	66.0	66.0	114.6	114.4
	11,131.4	11,034.9	8,191.2	8,189.6	19,322.6	19,224.5

The Group's main form of collateral held is property, based in the UK and the Channel Islands. The collateral value of assets under the Group's asset finance leases are assumed to have zero value for the purposes of producing the above disclosures. As at 30 June 2021 asset finance outstanding loans totalled £98.2m (31 December 2020: £65.5m).

30. Risk management (continued)

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

	As at 30-Jun-21 (Unaudited)				As at 31-Dec-20 (Audited)			
	OSB	**CCFS**	**Total**		OSB	CCFS	Total	
	£m	**£m**	**£m**	**%**	£m	£m	£m	%
Band								
0% - 50%	**2,003.0**	**423.7**	**2,426.7**	**12**	1,740.3	419.3	2,159.6	11
50% - 60%	**1,588.6**	**490.4**	**2,079.0**	**10**	1,462.0	483.3	1,945.3	10
60% - 70%	**3,397.0**	**1,174.9**	**4,571.9**	**22**	2,813.4	1,109.3	3,922.7	20
70% - 80%	**3,671.2**	**5,765.8**	**9,437.0**	**46**	3,942.9	5,144.3	9,087.2	47
80% - 90%	**728.7**	**913.8**	**1,642.5**	**8**	879.1	1,033.7	1,912.8	10
90% - 100%	**104.8**	**1.8**	**106.6**	**1**	105.8	1.3	107.1	1
>100%	**240.8**	**-**	**240.8**	**1**	187.9	-	187.9	1
Total loans before provisions	**11,734.1**	**8,770.4**	**20,504.5**	**100**	11,131.4	8,191.2	19,322.6	100

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

	As at 30-Jun-21 (Unaudited)				As at 31-Dec-20 (Audited)			
	BTL/SME	**Residential**	**Total**		BTL/SME	Residential	Total	
OSB	**£m**	**£m**	**£m**	**%**	£m	£m	£m	%
Band								
0% - 50%	**857.4**	**1,145.6**	**2,003.0**	**17**	795.7	944.6	1,740.3	16
50% - 60%	**1,350.6**	**238.0**	**1,588.6**	**14**	1,228.1	233.9	1,462.0	13
60% - 70%	**3,160.3**	**236.7**	**3,397.0**	**29**	2,602.1	211.3	2,813.4	25
70% - 80%	**3,378.3**	**292.9**	**3,671.2**	**31**	3,693.4	249.5	3,942.9	35
80% - 90%	**583.9**	**144.8**	**728.7**	**6**	584.5	294.6	879.1	8
90% - 100%	**94.2**	**10.6**	**104.8**	**1**	89.4	16.4	105.8	1
>100%	**232.7**	**8.1**	**240.8**	**2**	171.4	16.5	187.9	2
Total loans before provisions	**9,657.4**	**2,076.7**	**11,734.1**	**100**	9,164.6	1,966.8	11,131.4	100

Asset finance exposures are included in the OSB BTL/SME sub-segment where collateral is considered to have zero value for the purposes of deriving these disclosures. Therefore, growth in balances with a LTV >100% is in part a result of the growth in asset finance balances during the six months to 30 June 2021 to £98.2m (31 December 2020: £65.5m), see the Risk review section for further commentary on LTVs.

30. Risk management (continued)

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

	As at 30-Jun-21 (Unaudited)				
OSB	**Buy-to-Let £m**	**Commercial £m**	**Residential development £m**	**Funding lines £m**	**Total £m**
Band					
0% - 50%	**678.6**	**97.0**	**16.1**	**65.7**	**857.4**
50% - 60%	**1,195.0**	**90.4**	**46.7**	**18.5**	**1,350.6**
60% - 70%	**2,964.6**	**136.6**	**58.1**	**1.0**	**3,160.3**
70% - 80%	**3,178.4**	**198.5**	**-**	**1.4**	**3,378.3**
80% - 90%	**340.2**	**208.4**	**-**	**35.3**	**583.9**
90% - 100%	**58.4**	**35.8**	**-**	**-**	**94.2**
>100%	**168.1**	**35.0**	**-**	**29.6**	**232.7**
Total loans before provisions	**8,583.3**	**801.7**	**120.9**	**151.5**	**9,657.4**

	As at 31-Dec-20 (Audited)				
OSB	Buy-to-Let £m	Commercial £m	Residential development £m	Funding lines £m	Total £m
Band					
0% - 50%	643.3	80.6	12.5	59.3	795.7
50% - 60%	1,040.1	84.3	64.2	39.5	1,228.1
60% - 70%	2,407.4	132.0	56.4	6.3	2,602.1
70% - 80%	3,411.7	251.3	-	30.4	3,693.4
80% - 90%	370.1	214.4	-	-	584.5
90% - 100%	54.1	35.3	-	-	89.4
>100%	117.9	24.0	-	29.5	171.4
Total loans before provisions	8,044.6	821.9	133.1	165.0	9,164.6

30. Risk management (continued)

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

	As at 30-Jun-21 (Unaudited)				As at 31-Dec-20 (Audited)			
OSB	**First charge £m**	**Second charge £m**	**Funding lines £m**	**Total £m**	First charge £m	Second charge £m	Funding lines £m	Total £m
Band								
0% - 50%	**1,029.3**	**110.3**	**6.0**	**1,145.6**	835.8	105.1	3.7	944.6
50% - 60%	**177.3**	**60.0**	**0.7**	**238.0**	167.2	64.5	2.2	233.9
60% - 70%	**189.6**	**46.3**	**0.8**	**236.7**	151.7	58.1	1.5	211.3
70% - 80%	**262.7**	**29.5**	**0.7**	**292.9**	208.1	39.9	1.5	249.5
80% - 90%	**134.3**	**10.1**	**0.4**	**144.8**	274.8	19.3	0.5	294.6
90% - 100%	**8.5**	**2.0**	**0.1**	**10.6**	12.4	3.6	0.4	16.4
>100%	**5.3**	**2.7**	**0.1**	**8.1**	10.7	4.9	0.9	16.5
Total loans before provisions	**1,807.0**	**260.9**	**8.8**	**2,076.7**	1,660.7	295.4	10.7	1,966.8

The table below shows the LTV analysis of the four CCFS sub-segments:

	As at 30-Jun-21 (Unaudited)					
CCFS	**Buy-to-Let £m**	**Residential £m**	**Bridging £m**	**Second charge lending £m**	**Total £m**	**%**
Band						
0% - 50%	**95.7**	**255.8**	**39.2**	**33.0**	**423.7**	**5**
50% - 60%	**200.9**	**246.0**	**11.9**	**31.6**	**490.4**	**6**
60% - 70%	**659.7**	**449.5**	**15.1**	**50.6**	**1,174.9**	**13**
70% - 80%	**4,471.2**	**1,243.8**	**8.8**	**42.0**	**5,765.8**	**66**
80% - 90%	**570.6**	**324.9**	**0.4**	**17.9**	**913.8**	**10**
90% - 100%	**0.4**	**1.4**	**-**	**-**	**1.8**	**-**
Total loans before provisions	**5,998.5**	**2,521.4**	**75.4**	**175.1**	**8,770.4**	**100**

	As at 31-Dec-20 (Audited)					
CCFS	Buy-to-Let £m	Residential £m	Bridging £m	Second charge lending £m	Total £m	%
Band						
0% - 50%	92.7	242.1	50.4	34.1	419.3	5
50% - 60%	196.0	233.9	17.9	35.5	483.3	6
60% - 70%	632.9	400.2	16.8	59.4	1,109.3	14
70% - 80%	3,916.2	1,155.7	21.1	51.3	5,144.3	62
80% - 90%	600.7	410.8	-	22.2	1,033.7	13
90% - 100%	0.5	0.8	-	-	1.3	-
Total loans before provisions	5,439.0	2,443.5	106.2	202.5	8,191.2	100

30. Risk management (continued)

Forbearance measures undertaken

The Group has a range of options available where borrowers experience financial difficulties that impact their ability to service their financial commitments under the loan agreement. These options are explained on page 84 of the 2020 Annual Report and Accounts.

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

	As at 30-Jun-21 (Unaudited)		As at 31-Dec-20 (Audited)	
Forbearance type	**Number of accounts**	**£m**	Number of accounts	£m
Interest-only switch	**120**	**15.2**	108	14.1
Interest rate reduction	**187**	**2.5**	22	2.2
Term extension	**116**	**17.4**	430	27.0
Payment deferral	**428**	**37.3**	447	38.7
Voluntary-assisted sale	**-**	**-**	2	0.1
Payment concession (reduced monthly payments)	**33**	**4.8**	34	1.7
Capitalisation of interest	**36**	**0.5**	2	0.1
Full or partial debt forgiveness	**176**	**2.0**	11	0.2
Total	**1,096**	**79.7**	1,056	84.1
Loan type				
First charge owner-occupier	**222**	**34.9**	570	54.0
Second charge owner-occupier	**749**	**13.3**	372	15.0
Buy-to-Let	**120**	**25.5**	113	14.9
Commercial	**5**	**6.0**	1	0.2
Total	**1,096**	**79.7**	1,056	84.1

As at 30 June 2021, active COVID-19 payment deferrals represented only 0.11% (31 December 2020, 1.3%) of the Group's loan book by value.

30. Risk management (continued)

Geographical analysis by region

An analysis of loans, excluding asset finance leases, by region is provided below:

	As at 30-Jun-21 (Unaudited)				As at 31-Dec-20[1] (Audited)			
	OSB	**CCFS**	**Total**		OSB	CCFS	Total	
Region	**£m**	**£m**	**£m**	**%**	£m	£m	£m	%
East Anglia	**363.5**	**928.9**	**1,292.4**	**6**	406.1	866.2	1,272.3	7
East Midlands	**525.7**	**511.6**	**1,037.3**	**5**	452.6	463.4	916.0	5
Greater London	**4,871.9**	**2,984.9**	**7,856.8**	**40**	4,842.0	2,837.4	7,679.4	40
Guernsey	**31.3**	**-**	**31.3**	**-**	35.8	-	35.8	-
Jersey	**110.0**	**-**	**110.0**	**1**	122.9	-	122.9	1
North East	**151.0**	**240.7**	**391.7**	**2**	139.0	208.4	347.4	2
North West	**685.7**	**729.5**	**1,415.2**	**7**	623.7	674.8	1,298.5	7
Northern Ireland	**12.5**	**-**	**12.5**	**-**	12.9	-	12.9	-
Scotland	**43.4**	**224.3**	**267.7**	**1**	41.3	214.2	255.5	1
South East	**2,757.7**	**1,405.3**	**4,163.0**	**20**	2,401.2	1,316.7	3,717.9	19
South West	**801.0**	**508.0**	**1,309.0**	**6**	752.7	478.5	1,231.2	6
Wales	**244.6**	**226.1**	**470.7**	**2**	246.8	209.9	456.7	2
West Midlands	**690.1**	**584.5**	**1,274.6**	**6**	738.5	529.2	1,267.7	7
Yorks and Humberside	**347.5**	**426.6**	**774.1**	**4**	250.4	392.5	642.9	3
Total loans before provisions	**11,635.9**	**8,770.4**	**20,406.3**	**100**	11,065.9	8,191.2	19,257.1	100

[1]The prior period comparative has been amended to exclude asset finance leases as geography is not a key risk for leased assets.

30. Risk management (continued)

Approach to measurement of credit quality

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

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

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

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

	As at 30-Jun-21 (Unaudited)				
	Stage 1 £m	Stage 2 £m	Stage 3 £m	Stage 3 (POCI) £m	Total £m
OSB					
Excellent	**5,131.4**	**257.6**	**-**	**-**	**5,389.0**
Good	**4,763.4**	**756.1**	**-**	**-**	**5,519.5**
Satisfactory	**104.2**	**221.6**	**-**	**-**	**325.8**
Lower	**3.7**	**82.5**	**-**	**-**	**86.2**
Impaired	**-**	**-**	**364.4**	**-**	**364.4**
POCI	**-**	**-**	**-**	**49.2**	**49.2**
CCFS					
Excellent	**4,950.0**	**384.2**	**-**	**-**	**5,334.2**
Good	**2,359.4**	**669.3**	**-**	**-**	**3,028.7**
Satisfactory	**39.4**	**133.7**	**-**	**-**	**173.1**
Lower	**3.9**	**115.5**	**-**	**-**	**119.4**
Impaired	**-**	**-**	**58.0**	**-**	**58.0**
POCI	**-**	**-**	**-**	**57.0**	**57.0**
	17,355.4	**2,620.5**	**422.4**	**106.2**	**20,504.5**

30. Risk management (continued)

	As at 31-Dec-20 (Audited)				
	Stage 1	Stage 2	Stage 3	Stage 3 (POCI)	Total
	£m	£m	£m	£m	£m
OSB					
Excellent	4,689.6	295.4	-	-	4,985.0
Good	4,564.9	756.4	-	-	5,321.3
Satisfactory	106.7	242.8	-	-	349.5
Lower	5.6	68.8	-	-	74.4
Impaired	-	-	352.6	-	352.6
POCI	-	-	-	48.6	48.6
CCFS					
Excellent	4,352.8	398.8	-	-	4,751.6
Good	2,338.8	667.2	-	-	3,006.0
Satisfactory	55.3	140.2	-	-	195.5
Lower	2.6	121.4	-	-	124.0
Impaired	-	-	48.1	-	48.1
POCI	-	-	-	66.0	66.0
	16,116.3	2,691.0	400.7	114.6	19,322.6

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

	As at 30-Jun-21 (Unaudited)			
	Excellent	**Good**	**Satisfactory**	**Total**
	£m	**£m**	**£m**	**£m**
Investment securities	**224.6**	**-**	**-**	**224.6**
Loans and advances to credit institutions	**2,224.6**	**180.6**	**2.8**	**2,408.0**
Derivative assets	**8.6**	**32.1**	**-**	**40.7**
	2,457.8	**212.7**	**2.8**	**2,673.3**

	As at 31-Dec-20 (Audited)			
	Excellent	Good	Satisfactory	Total
	£m	£m	£m	£m
Investment securities	471.2	-	-	471.2
Loans and advances to credit institutions	2,432.9	233.4	9.9	2,676.2
Derivative assets	6.5	5.8	-	12.3
	2,910.6	239.2	9.9	3,159.7

31. Financial instruments and fair values

The following tables provide an analysis of financial assets and financial liabilities measured at fair value in the Condensed Consolidated Statement of Financial Position grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

As at 30 June 2021 (Unaudited)	Carrying amount £m	Principal amount £m	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial assets						
Investment securities	**0.8**	**-**	**-**	**-**	**0.8**	**0.8**
Loans and advances to customers	**18.1**	**20.6**	**-**	**-**	**18.1**	**18.1**
Derivative assets	**40.7**	**7,543.4**	**-**	**40.7**	**-**	**40.7**
	59.6	**7,564.0**	**-**	**40.7**	**18.9**	**59.6**
Financial liabilities						
Derivative liabilities	**45.2**	**11,392.5**	**-**	**45.2**	**-**	**45.2**

As at 31 December 2020 (Audited)	Carrying amount £m	Principal amount £m	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial assets						
Investment securities	285.0	284.7	-	285.0	-	285.0
Loans and advances to customers	19.1	21.8	-	-	19.1	19.1
Derivative assets	12.3	8,687.8	-	12.3	-	12.3
	316.4	8,994.3	-	297.3	19.1	316.4
Financial liabilities						
Derivative liabilities	163.6	10,392.4	-	163.6	-	163.6

Level 1: Fair values that are based entirely on quoted market prices (unadjusted) in an actively traded market for identical assets and liabilities that the Group has the ability to access. Valuation adjustments and block discounts are not applied to Level 1 instruments. Since valuations are based on readily available observable market prices, this makes them most reliable, reduces the need for management judgement and estimation and also reduces the uncertainty associated with determining fair values.

Level 2: Fair values that are based on one or more quoted prices in markets that are not active or for which all significant inputs are taken from directly or indirectly observable market data. These include valuation models used to calculate the present value of expected future cash flows and may be employed either when no active market exists or when there are no quoted prices available for similar instruments in active markets.

Level 3: Fair values for which any one or more significant input is not based on observable market data and the unobservable inputs have a significant effect on the instrument’s fair value. Valuation models that employ significant unobservable inputs require a higher degree of management judgement and estimation in determining the fair value. Management judgement and estimation are usually required for the selection of the appropriate valuation model to be used, determination of expected future cash flows on the financial instruments being valued, determination of the probability of counterparty default and prepayments, determination of expected volatilities and correlations and the selection of appropriate discount rates.

31. Financial instruments and fair values (continued)

The following tables provide an analysis of financial assets and financial liabilities not measured at fair value in the Condensed Consolidated Statement of Financial Position grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

			Estimated fair value			
As at 30 June 2021 (Unaudited)	**Carrying amount £m**	**Principal amount £m**	**Level 1 £m**	**Level 2 £m**	**Level 3 £m**	**Total £m**
Financial assets						
Cash in hand	**0.4**	**0.4**	**-**	**0.4**	**-**	**0.4**
Loans and advances to credit institutions	**2,408.0**	**2,407.9**	**-**	**2,408.0**	**-**	**2,408.0**
Investment securities	**223.8**	**223.5**	**-**	**223.8**	**-**	**223.8**
Loans and advances to customers	**20,410.1**	**20,418.3**	**-**	**3,175.0**	**17,361.7**	**20,536.7**
	23,042.3	**23,050.1**	**-**	**5,807.2**	**17,361.7**	**23,168.9**
Financial liabilities						
Amounts owed to retail depositors	**17,097.2**	**17,049.9**	**-**	**6,780.7**	**10,328.6**	**17,109.3**
Amounts owed to credit institutions	**3,753.0**	**3,752.1**	**-**	**3,753.0**	**-**	**3,753.0**
Amounts owed to other customers	**63.5**	**63.3**	**-**	**-**	**63.5**	**63.5**
Debt securities in issue	**357.1**	**356.9**	**-**	**357.1**	**-**	**357.1**
Subordinated liabilities	**10.5**	**10.3**	**-**	**-**	**10.9**	**10.9**
Perpetual subordinated bonds	**37.5**	**37.0**	**34.9**	**-**	**-**	**34.9**
	21,318.8	**21,269.5**	**34.9**	**10,890.8**	**10,403.0**	**21,328.7**

			Estimated fair value			
As at 31 December 2020 (Audited)	Carrying amount £m	Principal amount £m	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial assets						
Cash in hand	0.5	0.5	-	0.5	-	0.5
Loans and advances to credit institutions	2,676.2	2,676.1	-	2,676.2	-	2,676.2
Investment securities	186.2	186.2	-	186.6	-	186.6
Loans and advances to customers	19,211.6	19,200.1	-	3,314.5	16,037.5	19,352.0
	22,074.5	22,062.9	-	6,177.8	16,037.5	22,215.3
Financial liabilities						
Amounts owed to retail depositors	16,603.1	16,507.3	-	5,546.1	11,120.0	16,666.1
Amounts owed to credit institutions	3,570.2	3,569.3	-	3,570.2	-	3,570.2
Amounts owed to other customers	72.9	72.7	-	-	72.9	72.9
Debt securities in issue	421.9	421.8	-	421.9	-	421.9
Subordinated liabilities	10.5	10.3	-	-	10.7	10.7
Perpetual subordinated bonds	37.6	37.0	32.3	-	-	32.3
	20,716.2	20,618.4	32.3	9,538.2	11,203.6	20,774.1

32. Operating segments

The Group segments its lending business and operates under two segments in line with internal reporting to the Board:

- OSB
- CCFS

The Group separately discloses the impact of Combination accounting but does not consider this a business segment.

The financial position and results of operations of the above segments are summarised below:

	OSB £m	CCFS £m	Combination £m	Total £m
Balances as at 30 June 2021 (Unaudited)				
Gross loans and advances to customers	**11,734.1**	**8,614.7**	**173.8**	**20,522.6**
Expected credit losses	**(76.7)**	**(17.9)**	**0.2**	**(94.4)**
Loans and advances to customers	**11,657.4**	**8,596.8**	**174.0**	**20,428.2**
Capital expenditure	**3.0**	**0.8**	**-**	**3.8**
Depreciation and amortisation	**3.3**	**1.6**	**1.9**	**6.8**
Profit for six months ended 30 June 2021 (Unaudited)				
Net interest income/(expense)	**188.6**	**110.4**	**(33.7)**	**265.3**
Other income	**5.0**	**12.4**	**7.3**	**24.7**
Total income/(expense)	**193.6**	**122.8**	**(26.4)**	**290.0**
Administrative expenses	**(48.9)**	**(29.7)**	**(1.9)**	**(80.5)**
Provisions	**(0.2)**	**0.1**	**-**	**(0.1)**
Impairment of financial assets	**5.1**	**10.0**	**(0.5)**	**14.6**
Integration costs	**(1.3)**	**(0.6)**	**-**	**(1.9)**
Exceptional items	**(0.2)**	**-**	**-**	**(0.2)**
Profit/(loss) before taxation	**148.1**	**102.6**	**(28.8)**	**221.9**
Taxation	**(36.8)**	**(25.8)**	**2.2**	**(60.4)**
Profit/(loss) for the period	**111.3**	**76.8**	**(26.6)**	**161.5**

[1] The taxation on Combination credit includes release of deferred taxation on CCFS Combination relating to the unwind of the deferred tax liabilities recognised on the fair value adjustments of the CCFS assets and liabilities at the acquisition date of £7.8m offset by the impact of the corporation tax rate increase on these deferred tax liabilities of £5.6m.

32. Operating segments (continued)

	OSB £m	CCFS £m	Combination £m	Total £m
Balances as at 31 December 2020 (Audited)				
Gross loans and advances to customers	11,131.4	8,001.2	209.1	19,341.7
Expected credit losses	(83.6)	(28.2)	0.8	(111.0)
Loans and advances to customers	11,047.8	7,973.0	209.9	19,230.7
Capital expenditure	5.3	2.4	-	7.7
Depreciation and amortisation	7.1	2.4	4.3	13.8
Profit for six months ended 30 June 2020 (Unaudited)				-
Net interest income/(expense)	163.5	103.3	(33.0)	233.8
Other income	11.0	7.1	(6.6)	11.5
Total income/(expense)	174.5	110.4	(39.6)	245.3
Administrative expenses	(44.9)	(29.2)	(2.6)	(76.7)
Provisions	-	(0.1)	-	(0.1)
Impairment of financial assets	(35.9)	(18.5)	0.2	(54.2)
Impairment of intangible assets	-	-	(7.0)	(7.0)
Integration costs	(4.9)	(1.4)	-	(6.3)
Exceptional items	(1.7)	-	-	(1.7)
Profit/(loss) before taxation	87.1	61.2	(49.0)	99.3
Taxation[1]	(20.8)	(14.6)	8.1	(27.3)
Profit/loss for the period	66.3	46.6	(40.9)	72.0

[1] The taxation on Combination credit of £8.1m includes a £4.6m charge due to a 2% increase in the rate for the deferred tax liability following the Government cancellation of the corporation tax rate reduction on 19 March 2020.

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

	Six months ended 30-Jun-21 (Unaudited) £m	Six months ended 30-Jun-20 (Unaudited) £m
Adjustments for non-cash items:		
Depreciation and amortisation	**6.8**	7.5
Interest on investment securities	**(1.4)**	-
Interest on subordinated liabilities	**0.4**	0.4
Interest on perpetual subordinated bonds	**0.8**	0.8
Interest on securitised debt	**1.8**	(0.7)
Interest on financing debt	**2.4**	(4.0)
Impairment charge on loans	**(14.6)**	54.2
Impairment on intangible assets acquired on Combination	**-**	7.0
Gain on sale of financial instruments	**(4.0)**	(19.9)
Provisions	**0.1**	0.1
Interest on lease liabilities	**0.2**	0.2
Fair value (gains)/losses on financial instruments	**(16.1)**	12.1
Share-based payments	**4.8**	2.3
Total adjustments for non-cash items	**(18.8)**	60.0
Changes in operating assets and liabilities:		
Decrease/(increase) in loans and advances to credit institutions	**101.6**	(129.5)
Increase in loans to customers	**(1,182.7)**	(1,214.5)
Increase in retail deposits	**494.1**	442.3
Net increase in other assets	**(1.2)**	(0.4)
Net decrease in derivatives and hedged items	**(17.8)**	(41.5)
Net decrease in other customers deposits	**(9.8)**	(1.3)
Net decrease in other liabilities	**(0.5)**	(13.0)
Exchange differences on working capital	**(0.3)**	0.1
Total changes in operating assets and liabilities	**(616.6)**	(957.8)

34. Capital management

The Group's individual regulated entities and the Group as a whole complied with all of the capital requirements, which they were subject to, for the periods presented.

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

	As at 30-Jun-21 (Unaudited) £m	As at 31-Dec-20 (Unaudited) £m
Common Equity Tier 1 capital		
Called up share capital	**4.5**	1,359.8
Share premium, capital contribution and share-based payment reserve	**9.2**	7.8
Retained earnings	**3,061.8**	1,608.6
Transfer reserve	**(1,355.3)**	(1,355.3)
Other reserves	**(5.2)**	(4.0)
Total equity attributable to ordinary shareholders	**1,715.0**	1,616.9
Foreseeable dividends	**(46.8)**	(64.9)
IFRS 9 transitional adjustment[1]	**2.9**	4.9
COVID-19 ECL transitional adjustment[2]	**17.6**	31.0
Deductions from Common Equity Tier 1 capital		
Prudent valuation adjustment[3]	**(0.3)**	(0.4)
Intangible assets[4]	**(19.1)**	(20.6)
Deferred tax asset	**(0.6)**	(0.9)
Common Equity Tier 1 capital	**1,668.7**	1,566.0
Total Tier 1 capital	**1,668.7**	1,566.0
Total regulatory capital	**1,668.7**	1,566.0
Risk-weighted assets (unaudited)	**8,913.0**	8,565.7

[1] The regulatory capital includes a £2.9m add-back under IFRS 9 transitional arrangements, being 50.0% remaining of the IFRS 9 transitional adjustment.
[2] The COVID-19 ECL transitional adjustment relates to the Group's increase in Stage 1 and Stage 2 ECL following the impacts of COVID-19 and for which transitional rules are being adopted for regulatory capital purposes.
[3] The Group has adopted the simplified approach under the Prudent Valuation rules, recognising a deduction equal to 1.0% of fair value assets and liabilities.
[4] All software assets continue to be fully deducted from capital in light of the pending intention of the PRA to consult on the Capital Requirements Regulation (CRR) 'Quick Fix' package in this area.

35. Related parties

The Group had no related party transactions during the six months to 30 June 2021 that materially affected the position or performance of the Group.

Transactions with Key Management Personnel
During the period, the Group granted 186,949 (2020: 467,408) awards under the Deferred Share Bonus Plan and 866,508 (2020: 1,601,990) awards under the Performance Share Plan to 12 (2020: 13) key management personnel. The awards were granted on 15 April 2021 with a grant price of £4.9420. Details of these plans can be found in note 12 of the 2020 Annual Report and Accounts on pages 210 to 213.

36. Events after the reporting date

On 6 July 2021, the Group completed the Canterbury Finance No.4 securitisation, a fully retained transaction which securitised £1.7bn of organically originated prime Buy-to-Let mortgage assets. Subsequently, on 16 July 2021, the Group sold £100.0m AAA notes to the external market.

On 4 August 2021, OneSavings Bank plc published a notification to the holders of the £22.0m Perpetual Subordinated Bonds that the bonds will, having been approved by the PRA and the OneSavings Bank plc Board, be fully redeemed at par plus accrued interest on 7 September 2021.

Appendix

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

Opinion

We have performed an independent limited assurance engagement on the Alternative Performance Measures (collectively, the APMs) set out below for the interim period for the six months ended 30 June 2021. The definition and the basis of preparation for each of the assured APMs is described in the Appendix to the Interim Report below (OSB Group's APM Definitions and Basis of Preparation).

Statutory basis	*Underlying basis*
• Gross new lending • Net interest margin • Cost to income • Management expense ratio • Loan loss ratio • Dividend per share • Basic earnings per share • Return on equity	• Net interest margin • Cost to income • Management expense ratio • Loan loss ratio • Basic earnings per share • Return on equity

Based on our work as described in this report, nothing has come to our attention that causes us to believe that the assured APMs have not been prepared, in all material respects, in accordance with OSB Group's APM Definitions and Basis of Preparation for the interim period for the six months ended 30 June 2021.

Directors' responsibilities

The directors of OSB Group are responsible for

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

Our responsibilities

Our responsibility is to express an opinion on the assured APMs, based on our assurance work. We conducted our limited assurance engagement in accordance with International Standard on Assurance Engagements ISAE 3000 Assurance Engagements Other than Audits or Reviews of Historical Financial Information, issued by the International Auditing and Assurance Standards Board (IAASB).

We are required to plan and perform our procedures in order to state whether anything had come to our attention that causes us to believe that the assured APMs have not been prepared, in all material respects, in accordance with OSB Group's APM Definitions and Basis of Preparation.

The procedures performed in a limited assurance engagement vary in nature and timing from, and are less in extent than for, a reasonable assurance engagement and consequently, the level of assurance obtained in a limited assurance engagement is substantially lower than the assurance that would have been obtained had a reasonable assurance engagement been performed.

Our procedures consisted primarily of:

- Agreeing amounts used in the calculation of APMs which are derived or extracted from the interim financial statements of OSB Group for the six months ended 30 June 2021 to the interim financial statements.

- For amounts used in the calculation of APMs which were not derived or extracted from the interim financial statements of OSB Group for the six months ended 30 June 2021, testing, on a limited sample basis, the underlying data used in determining the assured APMs.
- Checking the mathematical accuracy of the calculations used to prepare the assured APMs and testing whether they were prepared in accordance with OSB Group's APM Definitions and Basis of Preparation.
- Reading the Interim Report for the six months ended 30 June 2021 and assessing whether the assured APMs were presented and described consistently.

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

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

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

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

Use of our report
This assurance report is made solely to OSB GROUP PLC in accordance with ISAE 3000. Our work has been undertaken so that we might state to OSB GROUP PLC those matters we are required to state to them in this report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than OSB GROUP PLC for our work, this report, or for the conclusions we have formed.

Deloitte LLP, London
19 August 2021

Key performance indicators

Underlying results for the six months to 30 June 2021 and 30 June 2020 exclude exceptional items, integration costs and other acquisition-related items. The underlying results provide a more consistent basis for comparing the Group's performance between financial periods.

Net interest margin (NIM)

For the period of six months NIM is calculated as net interest income annualised on an actual days basis, as a percentage of a 7 point average[1] of interest earning assets (cash, investment securities, loans and advances to customers and credit institutions). It represents the margin earned on loans and advances and liquid assets after swap expense/income and cost of funds.

	HY 2021 £m	HY 2020 £m
Net interest income – statutory	265.3	233.8
Add back: acquisition-related items[2]	33.7	33.0
Net interest income – underlying	299.0	266.8
Net interest income annualised on an actual days basis:		
Net interest income – statutory A	535.0	470.2
Net interest income – underlying B	603.0	536.5
7 point average of interest earning assets – statutory C	22,650.2	21,654.9
7 point average of interest earning assets – underlying D	22,459.1	21,434.4
NIM statutory equals A/C	2.36%	2.17%
NIM underlying equals B/D	2.68%	2.50%

Cost to income ratio

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

	HY 2021 £m	HY 2020 £m
Administrative expenses – statutory A	80.5	76.7
Add back: acquisition-related items[2]	(1.9)	(2.6)
Administrative expenses – underlying B	78.6	74.1
Total income – statutory C	290.0	245.3
Add back: acquisition-related items[2]	26.4	39.6
Total income underlying D	316.4	284.9
Cost to income statutory equals A/C	28%	31%
Cost to income underlying equals B/D	25%	26%

Management expense ratio

For the period of six months the management expense ratio is defined as administrative expenses annualised on a simple basis as a percentage of a 7 point average[1] of total assets.

	HY 2021 £m	HY 2020 £m
Administrative expenses – statutory (as in cost to income ratio above) A	80.5	76.7
Administrative expenses – underlying (as in cost to income ratio above) B	78.6	74.1
7 point average of total assets – statutory C	22,858.5	21,924.8
7 point average of total assets – underlying D	22,694.1	21,697.4
Management expense ratio statutory equals A/C on an annualised basis	0.70%	0.70%
Management expense ratio underlying equals B/D on an annualised basis	0.69%	0.68%

Loan loss ratio

For the period of six months, the loan loss ratio is defined as impairment losses annualised on a simple basis as a percentage of a 7 point average[1] of gross loans and advances. It is a measure of the credit performance of the loan book.

	HY 2021 £m	HY 2020 £m
Impairment losses – statutory A	(14.6)	54.2
Add back: acquisition-related items[2]	(0.5)	0.2
Impairment losses – underlying B	(15.1)	54.4
7 point average of gross loans – statutory C	19,854.1	18,433.5
7 point average of gross loans – underlying D	19,685.6	18,202.5
Loan loss ratio statutory equals A/C on an annualised basis	(0.15)%	0.59%
Loan loss ratio underlying equals B/D on an annualised basis	(0.15)%	0.60%

Return on equity (RoE)

RoE is defined as profit attributable to ordinary shareholders, which is profit after tax and after deducting coupons on non-controlling interest securities, annualised on a simple basis, as a percentage of a 7 point average[1] of shareholders' equity (excluding £60m of non-controlling interest securities).

	HY 2021 £m	HY 2020 £m
Profit after tax - statutory	161.5	72.0
Coupons on non-controlling interest securities	(2.7)	(2.7)
Profit attributable to ordinary shareholders – statutory A	158.8	69.3
Add back: acquisition related items[2]	28.3	47.2
Profit attributable to ordinary shareholders – underlying B	187.1	116.5
7 point average of shareholders' equity (excluding non-controlling interest securities) – statutory C	1,684.7	1,473.5
7 point average of shareholders' equity (excluding non-controlling interest securities) – underlying D	1,564.2	1,297.6
Return on equity statutory equals A/C on an annualised basis	19%	9%
Return on equity underlying equals B/D on an annualised basis	24%	18%

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

	HY 2021 £m	HY 2020 £m
Profit attributable to ordinary shareholders – statutory (as in RoE ratio above) A	158.8	69.3
Profit attributable to ordinary shareholders – underlying (as in RoE ratio above) B	187.1	116.5
Weighted average number of ordinary shares in issue – statutory C	447.7	445.9
Weighted average number of ordinary shares in issue – underlying D	447.7	445.9
Basic earnings per share statutory equals A/C	35.5	15.5
Basic earnings per share underlying equals B/D	41.8	26.1

1. 7 point average is calculated as an average of opening balance and closing balances for six months to 30 June.
2. The acquisition-related items are detailed in the reconciliation of statutory to underlying results in the Financial review.

OSB GROUP PLC

Interim report for the six months ended 30 June 2021

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