OSB GROUP PLC
Preliminary results
for the year ended 31 December 2022

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16 March 2023

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

OSB GROUP PLC (OSBG or the Group), the specialist lending and retail savings group, announces today its results for the year ended 31 December 2022.

Financial and operational highlights

- Underlying profit before tax increased by 13% to a record £591.1m (2021: £522.2m) and statutory profit before tax increased by 14% to £531.5m (2021: £464.6m) primarily due to growth in the loan book, an improved net interest margin and net fair value gains on financial instruments
- Underlying and statutory net loan book increased by 12% to £23.5bn and £23.6bn, respectively (2021: £20.9bn and £21.1bn) supported by organic originations of £5.8bn, up 29% from £4.5bn in 2021
- Underlying net interest margin (NIM) of 303bps (2021: 282bps) and statutory NIM of 278bps (2021: 253bps) increased, benefitting from base rate rises
- Underlying cost to income ratio increased to 25% (2021: 24%) and 27% on a statutory basis (2021: 26%) with the benefit of higher fair value gains partially offsetting the impact of higher administrative expenses
- Underlying loan loss ratio of 14bps and statutory loan loss ratios of 13bps (2021: -2bps) reflected the worsening economic outlook, including the potential impact of higher cost of living and borrowing on affordability. Arrears remained stable with balances greater than three months at 1.1% (31 December 2021: 1.1%)
- Underlying return on equity was unchanged from prior year at 24% and statutory return on equity increased to 21% (2021: 20%) due to strong profitability
- Underlying basic earnings per share (EPS) of 99.6 pence (2021: 86.7 pence) and statutory basic EPS of 90.8 pence (2021: 76.0 pence)
- Capital remained strong with Common Equity Tier 1 ratio at 18.3% (2021: 19.6%) and total capital ratio at 19.7% (2021: 21.2%)
- Share repurchase programme of £150m to commence on 17 March 2023
- Recommended final dividend of 21.8 pence per share, which together with the 2022 interim dividend of 8.7 pence per share, represents a payout ratio of 30% of underlying earnings attributable to ordinary shareholders. In addition, the Board has announced a special dividend of £50m, 11.7 pence per share

Andy Golding, Group CEO, said:

"I am delighted with the outstanding results that OSB Group delivered in 2022. The business has remained resilient in a difficult macroeconomic environment, continuing to support and provide valuable solutions for our customers.

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Our lending franchise remained strong with net loan book growth of 12% in the year and underlying pre-tax profit up 13% to £591m. We achieved this while maintaining cost discipline, low credit losses and a sector leading underlying return on equity of 24%.

The Group has a proven capital generation capability through profitability and this enabled us to deliver the strong growth and shareholder distributions in the form of both dividends and share buybacks. We have increased our full year ordinary dividend per share to 30.5 pence (2021: 26.0 pence per share), and are announcing a special dividend of £50m (11.7 pence per share), representing a total dividend for 2022 of 42.2 pence per share, and a new £150m share buyback. The Group has a very strong capital position, with a CET1 ratio of 18.3% as at 31 December 2022.

We remain cognisant of the uncertain macroeconomic outlook and the potential impact of the higher cost of living and borrowing on the mortgage market and affordability. We are building a healthy pipeline of new business and have a proven track record of retaining customers, attracting new business and working with high quality borrowers. Based on current application volumes, we are targeting underlying net loan book growth of c. 5% for 2023. The underlying NIM for 2023 is expected to be broadly flat to 2022, after the expected impact of planned Tier 2 and MREL qualifying debt issuance, subject to market conditions. We expect our underlying cost to income ratio to increase to c. 29% in 2023, due to the significant fair value gains from hedging activities in 2022, continuing inflationary headwinds and the full-year impact of hiring last year and further planned investment in the business.

Our business model and strategy continue to deliver strong outcomes. We are capitalising on continued demand for our specialist lending products and are identifying opportunities to further digitise our business operations to deliver additional efficiencies. We will continue to invest in the Group to ensure it remains well-positioned to meet the changing needs of our customers, brokers and wider stakeholders. I remain confident in the outlook for the Group and our ability to deliver sustainable and attractive returns for our shareholders."

This announcement contains inside information as stipulated under the Market Abuse Regulation no 596/2014, as it forms part of the domestic law of the United Kingdom by virtue of the European (withdrawal) Act 2018, as amended. on publication of this announcement via a regulatory information service, this information is considered to be in the public domain.
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Results presentation
A webcast presentation for analysts will be held at 9:30am on Thursday 16 March.

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 479434. 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's Term Funding Scheme with additional incentives 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 and best-of-breed automated technology and systems, ensuring efficient processing, strong credit and collateral risk control and speed of product development and innovation. These factors have enabled strong balance sheet growth whilst maintaining high credit quality mortgage assets.

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

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 events; the impact of outbreaks, epidemics and pandemics or other such events; 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 2022 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 or the solicitation of 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. Statements about historical performance must not be construed to indicate that future performance, share price or results in any future period will necessarily match or exceed those of any prior period. 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 any 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 2022 Annual Report and Accounts. Copies of this are available at www.osb.co.uk and on request from OSBG.

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Chief Executive's Statement

I am extremely proud of the outstanding results that OSB Group delivered in 2022. The Group's strategy, business model and high quality customer franchises continued to prove resilient in a difficult macroeconomic environment, as pandemic-related risks eased, but were replaced by risks arising from political instability, the war in Ukraine, as well as the increasing cost of living and borrowing. Throughout this period of volatility we have maintained close dialogue with our customers and intermediaries to ensure we remain a trusted partner in the market segments we serve.

Outstanding results in 2022
We delivered on the guidance set out at the start of 2022 and further consolidated our position as a leading specialist lender in the UK. Strong demand for the Group's lending products delivered underlying and statutory net loan book growth of 12% in the year to £23.5bn and £23.6bn, respectively (31 December 2021: £20.9bn and £21.1bn).

I am particularly proud of our consistent and sector-leading returns, with an underlying return on equity of 24% for 2022, unchanged from the prior year. Statutory return on equity improved to 21% (2021: 20%).

I am delighted that the Group delivered a record underlying pre-tax profit of £591.1m in 2022, up 13% from £522.2m in 2021, representing an underlying basic earnings per share of 99.6 pence (2021: 86.7 pence). On a statutory basis, profit before tax increased to £531.5m and basic earnings per share was 90.8 pence (2021: £464.6m and 76.0 pence, respectively).

The underlying and statutory net interest margins improved to 303bps and 278bps respectively, benefitting from base rate rises during the year (2021: 282bps and 253bps, respectively).

The Group maintained its focus on cost discipline and efficiency. Underlying and statutory cost to income ratios increased marginally, as previously guided, to 25% and 27% respectively (2021: 24% and 26%), although benefitted from higher fair value gains on financial instruments. The underlying management expense ratio increased to 80bps (2021: 70bps) and the statutory management expense ratio was 81bps (2021: 71bps). This reflected the anticipated return to a more normalised level of post-pandemic expenditure, inflationary headwinds and planned investment in the business, which we expect to continue in 2023, including refreshing and upgrading our technology infrastructure following the successful integration of OSB with CCFS.

The credit performance of the Group's loan book remained strong in 2022, reflecting our underwriting expertise and a robust rental market.

The Group maintains a very strong capital position and proven capital generation capability through profitability, with a CET1 ratio of 18.3% as at 31 December 2022 (31 December 2021: 19.6%). This enabled the Group to deliver strong growth and shareholder distributions in the form of both dividends and share buybacks. The Board has recommended a full year ordinary dividend of 30.5 pence per share representing a payout ratio of 30% of underlying earnings attributable to ordinary shareholders. The Board has also announced a special dividend of £50m, 11.7 pence per share, and a new £150m share repurchase programme to commence on 17 March 2023.

These results were only delivered with the support of my talented colleagues and I thank them all for their efforts.

The lending franchise performed strongly
Strong demand for the Group's mortgages across our core Buy-to-Let and Residential sub-segments helped organic originations reach £5.8bn in the year, an increase of 29% from £4.5bn in 2021. I am pleased that our renewed focus on commercial lending saw originations more than triple in that sub-segment to £279m.

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We entered the second half of 2022 with a very strong pipeline and elevated levels of completions, as borrowers sought to lock in attractive mortgage rates ahead of anticipated future rate rises. We also experienced an increase in retention levels as we took action to retain high quality mortgage customers.

The Group supported its customers in navigating the disruption caused by September's mini-budget, which led to a spike in mortgage interest rates and the withdrawal of products from the market fuelled by swap spread volatility. Throughout that time, we were honouring not only the offered pipeline, but also the pre-offer pipeline, as we focused on maintaining our stable presence in the market. This response was recognised particularly by professional Buy-to-Let landlords and mortgage intermediaries.

I am pleased that the volatility in swap spreads reduced by the end of the year, leading to product price reductions which improved affordability for borrowers, especially in light of house price appreciation and rent increases over the last few years.

We continued to demonstrate our leadership and commitment to the Buy-to-Let sector through the publication of the Landlord Leaders report in November. This research highlighted the continuing trend towards professionalisation of the sector, with 45% of professional landlords committed to growing their businesses and investing in their properties, a trend that OSB Group is well placed to serve.

Credit and risk management demonstrated underlying resilience
The high quality of the Group's loan book was demonstrated by a consistently strong credit performance, with balances over three months in arrears remaining stable at just 1.1% of the loan book at the end of December (31 December 2021: 1.1%). However, we recognise the potential for the higher cost of living and interest rate environment to have an impact on affordability for some of our borrowers or their tenants, and we conducted detailed analysis to understand which customers may be most affected. This analysis was an important input into our 2022 IFRS 9 loan loss provision post-model adjustments and sizing our operational resources should some borrowers require additional assistance.

The Group recorded an impairment charge of £30.7m on an underlying basis, which represented an underlying loan loss ratio of 14bps for the year (2021: credit of £4.9m and -2bps, respectively). The impairment charge reflected the worsening economic outlook at the end of 2022, including the potential impact of higher cost of living and borrowing on affordability. The statutory impairment charge was £29.8m, equivalent to a loan loss ratio of 13bps (2021: credit of £4.4m and -2bps, respectively).

The weighted average loan to value (LTV) of the Group's loan book decreased to 60% as at 31 December 2022 from 62% at the end of 2021, supported by house price appreciation. The weighted average LTV of new business written by the Group increased to 71% from 69% in 2021 and interest coverage ratios remained strong at 207% for OSB and 191% for CCFS.

Multi-channel funding model
Retail deposits remained the primary source of funding for the Group and the deposit book grew by 13% to £19.8bn in 2022 (31 December 2021: £17.5bn) as we priced our savings products competitively following the base rate rises.

We opened over 191,000 new savings accounts in the year, more than four times the prior year level, and retention rates remained very high; 94% for maturing fixed rate bonds and ISAs at Kent Reliance and 88% for Charter Savings Bank. We maintained a very strong focus on customer service combined with transparent and fair savings products. The very strong demand we saw in the year had some temporary impact on our service response times and performance levels which was reflected in the strong but slightly lower Net Promoter Scores for the year of +64 for Kent Reliance and +61 for Charter Savings Bank. I am pleased that process enhancements we implemented during the year have had a positive effect and are being reflected in current scores.

In August 2022 we completed a fully retained c. £1.3bn securitisation of Buy-to-Let mortgages under our Canterbury programme to further optimise collateral placed with the Bank of England and market counterparties. Drawings under the Term Funding Scheme for SMEs remained at £4.2bn as at 31

December 2022 and the Group intends to commence the initial repayment of these funds in early 2024. We will continue to opportunistically access the wholesale markets when conditions are favourable as they offer the Group optionality and diversification of funding.

Capital management
The Group has a proven capital generation capability through profitability and this enabled the Group to deliver strong growth and shareholder distributions in the form of both dividends and share buybacks. The Group has a very strong capital position, with a CET1 ratio of 18.3% as at 31 December 2022 (31 December 2021: 19.6%), and is targeting a CET1 ratio of 14%, once the capital stack has been optimised fully over the next couple of years, subject to market conditions, through planned Tier 2 and MREL qualifying debt issuance.

The Board has recommended a final dividend of 21.8 pence per share, which together with the interim dividend of 8.7 pence per share, results in a total ordinary dividend for the year of 30.5 pence per share. The ordinary dividend payout ratio of 30% of underlying earnings is in line with our prior year payout ratio and our stated desire to deliver a progressive dividend per share. In addition, given the strong capital position of the Group, the Board has announced a special dividend of £50m, 11.7 pence per share. When combined with the recommended ordinary dividend this represents a total dividend for 2022 of 42.2 pence per share and a 41% payout ratio. The Board remains committed to returning excess capital to shareholders and has today announced a new £150m share buyback programme to commence on 17 March 2023. When combined with the ordinary and special dividends, this represents a total return to shareholders of £332m and demonstrates the Board's intention to use multiple levers to deliver shareholder returns.

We note the PRA's recently published consultation paper (CP) on the implementation of Basel 3.1. We will be responding to that paper and await confirmation of the final rules, which we expect to be available by the end of 2023. We have estimated the impact on the 31 December 2022 CET1 ratio to be a reduction of up to 2% points, should the proposed rules be implemented as drafted in the CP and prior to the Group receiving Internal Ratings-Based (IRB) accreditation.

The Group continues to advance towards Internal Ratings-Based (IRB) accreditation, with progress made throughout the year. The Group has undertaken a comprehensive self-assessment exercise to validate its level of compliance, in conjunction with drafting all required module 1 submission documentation, which has passed through internal governance. The Group has noted the PRA's industry level feedback to ensure effective adherence to regulatory expectation. Pre-application discussions have been held with the PRA to outline the Group's approach to integrating IRB capabilities and compliance. The Group is now actively engaging with the PRA regarding a module 1 submission date. The programme continues to integrate IRB capabilities informing the Group's business, key risk and capital management disciplines.

The Board is confident that the Group's proven business strategy and capital generation capability will continue to support both strong net loan book growth and further capital returns to shareholders, including a progressive dividend per share. The Board remains committed to returning excess capital to shareholders.

ESG
We made good progress in continuing to embed our ESG framework across the Group during 2022, with regular meetings of the ESG segment of the Group Executive Committee and ESG reporting to the Board. I am proud that we reduced our own greenhouse gas emissions by 8.1% in the year, benefitting from a range of initiatives implemented throughout the Group.

I am also particularly pleased that this year we reached a milestone of 2,000 colleagues. We have been hiring talented individuals across the Group, demonstrating our commitment to customers, and ensuring the resilience of the business for the future, placing us in an advantageous position for when the market returns to healthy growth. We continue to develop OSB Group as a diverse and inclusive organisation and we renewed our commitment to having 33% of UK senior management positions filled by women by the end of 2023. We are making progress to achieve this target.

Looking forward

Over the course of the last three years, we have successfully delivered on our integration plans and our teams are now benefitting from working on a number of common technology platforms. We have now turned our attention towards identifying opportunities to further digitise our business operations, to deliver additional efficiencies and invest in the Group to ensure it remains well-positioned to meet the evolving needs of our customers, brokers and wider stakeholders.

The Group remains well capitalised, with strong liquidity and a high quality loan book and customer franchises. We have supported our customers and colleagues who all face the realities of the increasing cost of living and rising interest rates, and we will continue to focus on those who require most assistance.

The Group has a proven track record of delivering strong results with a clear strategy and risk management framework. We have consistently demonstrated our resilience, which allows us to look to the future with optimism.

UK Finance is forecasting that the overall mortgage market will be subdued in 2023, with an overall 15% year-on-year reduction in gross mortgage lending and a particular reduction in expected purchase activity. However, remortgaging is expected to outperform purchasing activity, supported by an increased level of fixed rate mortgages due to end during the year. The Buy-to-Let segment is also predicted to see a reduction in lending following a strong 2022. Whilst part-time landlords may be more sellers than buyers in the year ahead, professional landlords, who comprise the majority of the Group’s lending, remain active buyers and are looking favourably at opportunities supported by continued strong tenant demand and rental growth. Affordability challenges will be evident in all lending segments resulting from the combined effects of inflation and higher interest rates. This is particularly the case for first time buyers in the residential segment and also for amateur landlords. However, professional multi-property landlords have benefitted from increases in rental yields and strong tenant demand, and the Group’s interest coverage ratios at origination remained very high during the year at 207% for OSB and 191% for CCFS.

We remain cognisant of the uncertain macroeconomic outlook and the potential impact of the higher cost of living and borrowing on the mortgage market and affordability, however we are building a healthy pipeline of new business and have a proven track record of retaining customers, attracting new business and working with high quality borrowers. Based on current application volumes, we are targeting underlying net loan book growth of c. 5% for 2023. The underlying NIM for 2023 is expected to be broadly flat to 2022, after the expected impact of planned Tier 2 and MREL qualifying debt issuance, subject to market conditions. We expect our underlying cost to income ratio to increase to c. 29% in 2023, due to the significant fair value gains from hedging activities in 2022, continuing inflationary headwinds and the full-year impact of hiring last year and further planned investment in the business.

Andy Golding

Chief Executive Officer

16 March 2023

Segment review

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

OneSavings Bank (OSB) segment

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

Year ended 31-Dec-2022	BTL/SME £m	Residential £m	Total £m
Gross loans and advances to customers	**10,920.0**	**2,324.7**	**13,244.7**
Expected credit losses	**(95.2)**	**(8.0)**	**(103.2)**
Net loans and advances to customers	**10,824.8**	**2,316.7**	**13,141.5**
Risk-weighted assets	**5,258.8**	**1,033.7**	**6,292.5**
Profit or loss for the year			
Net interest income	**383.1**	**77.6**	**460.7**
Other income	**7.1**	**1.8**	**8.9**
Total income	**390.2**	**79.4**	**469.6**
Impairment of financial assets	**(23.5)**	**1.2**	**(22.3)**
Contribution to profit	**366.7**	**80.6**	**447.3**

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

OSB Buy-to-Let/SME sub-segment

	31-Dec-2022 £m	31-Dec-2021 £m
Buy-to-Let	**9,755.0**	8,867.7
Commercial	**881.3**	794.4
Residential development	**184.5**	120.7
Funding lines	**99.2**	153.3
Gross loans and advances to customers	**10,920.0**	9,936.1
Expected credit losses	**(95.2)**	(72.0)
Net loans and advances to customers	**10,824.8**	9,864.1

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

The Buy-to-Let/SME net loan book increased by 10% to £10,824.8m in 2022, supported by organic originations of £2,283.8m, which were 27% higher than £1,804.7m in 2021.

Buy-to-Let/SME net interest income increased by 13% to £383.1m from £340.5m in 2021, reflecting growth in the loan book and the beneficial impact of base rate rises, due primarily to delays in the market passing base rate rises on to savers in full. This sub-segment also benefitted from net effective interest rate (EIR) reset gain of £20.0m (2021: £24.9m). The gain was primarily due to higher than expected redemptions in the fixed period of Buy-to-Let mortgages, as borrowers sought to lock in rates early in a period of rapidly rising rates, as well as higher anticipated income in the reversion period for commercial mortgages.

This sub-segment also benefitted from £7.1m of other income from the Group's hedging activities (2021: £7.2m) and recorded an impairment charge of £23.5m (2021: £6.2m). The impairment charge was due to the more severe forward-looking macroeconomic scenarios adopted by the Group, post model adjustments to account for rising cost of living and borrowing concerns, partially offset by releases of pandemic-related provisions and the favourable effect of house price appreciation in the year. Overall, the Buy-to-Let/SME segment made a contribution to profit of £366.7m, up 7% compared with £341.5m in 2021.

The Group remained highly focused on the risk assessment of new lending, as demonstrated by the average loan to value (LTV) for Buy-to-Let/SME originations of 73%, unchanged from 2021.1 The average book LTV in the Buy-to-Let/SME segment reduced to 63% (31 December 2021: 65%)[1] benefitting from house price appreciation with only 3.2% of loans exceeding 90% LTV (31 December 2021: 2.5%).

Buy-to-Let
The Buy-to-Let gross loan book increased by 10% to £9,755.0m at the end of December 2022 (31 December 2021: £8,867.7m), benefitting from increased refinance activity. Originations in this segment were £1,804.6m in 2022, up 22% from £1,477.7m in the prior year.

The PRA implemented new underwriting standards for Buy-to-Let mortgages at the start of 2017, which introduced affordability stress testing for mortgages fixed for less than five years, triggering a shift towards five-year fixed rate products. The early wave of these five-year fixed rate mortgages reached the end of their initial term in 2022, leading to an increase in refinance activity. The proportion of Kent Reliance Buy-to-Let completions due to refinancing activity increased to 61% from 54% in 2021. The proportion due to purchases reduced as the prior year benefitted from a spike in purchase activity due to the stamp duty holiday. Five-year fixed rate mortgages continued to be popular in 2022 due to the expectation of further base rate rises and represented 70% of Kent Reliance completions (2021: 62%).

Professional, multi-property landlords continued to add to their portfolios and optimise their businesses from a tax perspective and represented 86% of completions by value for the Kent Reliance brand in 2022

(2021: 82%). Kent Reliance mortgage applications that came from landlords borrowing via a limited company represented 78% (2021: 73%).

Research conducted by BVA BDRC on behalf of the Group showed that the proportion of landlords planning to purchase new properties fell slightly during the year. However, of those planning to acquire more properties, the proportion planning to do so within a limited company ownership structure increased, especially amongst landlords with portfolios of six or more properties, signalling continued professionalisation of Buy-to-Let landlords.

OSB continued to focus on retention under its Choices retention programme, with 72% of existing borrowers choosing a new product with us within three months of their initial rate ending (2021: 71%).

The weighted average LTV of the Buy-to-Let book as at 31 December 2022 was 62% with an average loan size of £255k (31 December 2021: 64% and £250k). The weighted average interest coverage ratio for Buy-to-Let originations during 2022 was 207% (2021: 199%).

Commercial
Through its InterBay brand, the Group lends to borrowers investing in commercial and semi-commercial property, reported in the Commercial total, and more complex Buy-to-Let properties and portfolios, reported in the Buy-to-Let total.

Organic originations more than triple in 2022 to £278.7m supporting growth in the gross loan book of 11% to £881.3m as at 31 December 2022 from £794.4m in the prior year. InterBay experienced increased levels of interest and applications in 2022 as pandemic-related criteria restrictions were removed, and new refurbishment products were relaunched in April.

The weighted average LTV of the commercial book remained low at 69% and the average loan size was £375k in 2022 (31 December 2021: 69% and £380k).

InterBay Asset Finance, which predominantly targets UK SMEs and small corporates financing business critical assets, achieved a record year of lending volumes. Average deal size increased and customer credit covenants improved as businesses continued to recover from the pandemic. The gross carrying amount under finance leases increased by 40% to £163.2m as at 31 December 2022 (31 December 2021: £116.2m).

Residential development
Our Heritable residential development business provides development finance to small and medium-sized residential property developers. The preference is to fund house builders which operate outside of 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 represented repeat business from the team's extensive existing relationships.

The residential development finance gross loan book at the end of 2022 was £184.5m, with a further £162.2m committed (31 December 2021: £120.7m and £188.0m, respectively). Total approved limits were £502.6m, exceeding drawn and committed funds due to the revolving nature of the facility where construction is phased and facilities are redrawn as sales on the initially developed properties occur (31 December 2021: £500.3m). The rates of sale experienced by Heritable's developer customers increased during the year, leading to high levels of loan repayments.

At the end of 2022, Heritable had commitments to finance the development of 2,140 residential units, the majority of which are houses located outside of central London. Heritable continues to take an exacting approach to approving funding for new customers given the macroeconomic uncertainty.

Funding lines
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 the end of 2022 were £274.0m with total loans outstanding of £99.2m (31 December 2021: £450.0m and £153.3m, respectively).

During the year, a cautious risk approach was maintained. Five property-related funding lines were closed and no new facilities were extended, as the Group chose to focus on servicing existing borrowers.

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

OSB Residential sub-segment

	31-Dec-2022 £m	31-Dec-2021 £m
First charge	**2,152.9**	1,895.9
Second charge	**171.8**	224.7
Funding lines	**-**	0.6
Gross loans and advances to customers	**2,324.7**	2,121.2
Expected credit losses	**(8.0)**	(10.2)
Net loans and advances to customers	**2,316.7**	2,111.0

This sub-segment comprises lending to owner-occupiers, secured via first charge against a residential home and under shared ownership schemes.

The Residential sub-segment net loan book grew by 10% to £2,316.7m as at 31 December 2022 (31 December 2021: £2,111.0m) with organic originations of £575.9m during the year (2021: £558.6m).

Net interest income in the Residential sub-segment increased by 4% to £77.6m (2021: £74.3m) largely due to the growth in the loan book and the beneficial impact of base rate rises, due primarily to delays in the market passing base rate rises on to savers in full. This sub-segment recognised a £1.6m net EIR loss due to cash underperformance versus modelled assumptions on the second charge acquired books (2021: £7.5m gain).

Other income of £1.8m (2021: £1.5m) was recognised from the Group's hedging activities and an impairment credit of £1.2m (2021: £2.7m) due to strong house price performance in the year, partially offset by more severe forward-looking macroeconomic scenarios adopted by the Group and post model adjustments to account for rising cost of living and borrowing concerns. Overall, contribution to profit from this segment increased by 3% to £80.6m compared with £78.5m in 2021.

The average book LTV reduced to 45% (31 December 2021: 48%)[1] with only 0.8% of loans by value with LTVs exceeding 90% (31 December 2021: 0.8%). The average LTV of new residential origination during 2022 increased to 64% (2021: 50%)[1] as a result of a smaller proportion of shared ownership originations than in the prior year, (which complete at lower LTVs) and an increase in higher LTV owner-occupied originations.

First charge

First charge mortgages are provided under the Kent Reliance brand, which largely serves prime credit quality borrowers with more complex circumstances. This includes high net worth individuals 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 14% in the period to £2,152.9m from £1,895.9m at the end of 2021, as the Group relaunched its residential proposition under the Kent Reliance brand introducing a new range of products for complex prime borrowers in May.

Second charge
The OSB second charge mortgage book is in run-off and managed by Precise Mortgages. The total gross loans were £171.8m at the end of 2022 (31 December 2021: £224.7m).

Funding lines
As at the end of 2022, OSB provided no secured funding lines with the final exposure repaid in the year (31 December 2021: £0.6m).

Charter Court Financial Services (CCFS) segment

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

Year ended 31-Dec-2022	Buy-to-Let £m	Residential £m	Bridging £m	Second charge £m	Other[1,2] £m	Total underlying £m	Acquisition-related Items[3] £m	Total statutory £m
Gross loans and advances to customers	**7,468.8**	**2,671.3**	**149.7**	**111.9**	**14.6**	**10,416.3**	**81.7**	**10,498.0**
Expected credit losses	**(23.5)**	**(3.8)**	**(0.5)**	**(0.2)**	**-**	**(28.0)**	**1.2**	**(26.8)**
Loans and advances to customers	**7,445.3**	**2,667.5**	**149.2**	**111.7**	**14.6**	**10,388.3**	**82.9**	**10,471.2**
Risk-weighted assets	**2,927.1**	**1,107.3**	**70.9**	**45.4**	**5.5**	**4,156.2**	**46.0**	**4,202.2**
Profit or loss account								
Net interest income	**206.0**	**96.0**	**5.0**	**5.9**	**(4.5)**	**308.4**	**(59.2)**	**249.2**
Other income	**-**	**-**	**-**	**-**	**46.2**	**46.2**	**10.4**	**56.6**
Total income	**206.0**	**96.0**	**5.0**	**5.9**	**41.7**	**354.6**	**(48.8)**	**305.8**
Impairment of financial assets	**(9.5)**	**1.2**	**(0.2)**	**0.1**	**-**	**(8.4)**	**0.9**	**(7.5)**
Contribution to profit	**196.5**	**97.2**	**4.8**	**6.0**	**41.7**	**346.2**	**(47.9)**	**298.3**

1. For loans and advances to customers 'Other' relates to acquired loan portfolios.
2. For Profit or loss account, '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.
3. For more details on acquisition-related adjustments, see Reconciliation of statutory to underlying results in the Financial review.

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

1. For loans and advances to customers 'Other' relates to acquired loan portfolios.
2. For Profit or loss account, '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.
3. For more details on acquisition-related adjustments, see Reconciliation of statutory to underlying results in the Financial review.

	31-Dec-2022 £m	31-Dec-2021 £m
Buy-to-Let	**7,468.8**	6,301.9
Residential	**2,671.3**	2,451.8
Bridging	**149.7**	56.3
Second charge	**111.9**	153.7
Other[1]	**14.6**	17.7
Gross loans and advances to customers	**10,416.3**	8,981.4
Expected credit losses	**(28.0)**	(19.6)
Net loans and advances to customers	**10,388.3**	8,961.8

1. Other relates to acquired loan portfolios

CCFS targets specialist mortgage market sub-segments with a focus on specialist Buy-to-Let mortgages secured on residential property held for investment purposes by both non-professional and professional landlords. It also provides specialist residential mortgages to owner-occupiers, secured against residential properties, including those unsupported by the high street banks. In addition, it provides short-term bridging, secured against residential property in both the regulated and unregulated sectors.

The CCFS underlying net loan book grew by 16% to £10,388.3m at the end of 2022 (31 December 2021: £8,961.8m) supported by organic originations of £2,969.4m, which increased by 37% from £2,160.2m of new business written in 2021.

CCFS Buy-to-Let sub-segment
During 2022 CCFS' organic originations in the Buy-to-Let sub-segment through the Precise Mortgages brand increased by 35% to £1,998.7m (2021: £1,482.3m) supporting growth of 19% in the underlying gross Buy-to-Let loan book in the year to £7,468.8m from £6,301.9m at the end of 2021.

Underlying net interest income in this sub-segment increased by 36% to £206.0m compared with £151.0m in the prior year, reflecting growth in the loan book and an improved net interest margin due to the base rate rises. There were delays, especially in the first half of the year, in the market passing base rate rises on to savers in full. In addition, as rates rose, mortgage interest income benefitted from higher than expected reversionary income following the end of the fixed product term. This benefit was partially offset by an expectation that customers would spend less time on the higher reversionary rate before refinancing, leading to net underlying EIR reset loss of £37.5m (2021: £14.7m).

This sub-segment recorded an impairment charge of £9.5m (2021: £4.3m credit) largely due to more severe forward-looking macroeconomic scenarios adopted by Group and post model adjustments to account for rising cost of living and borrowing concerns, partially offset by the release of pandemic-related provisions and the favourable effect of house price appreciation in the year. On an underlying basis, Buy-to-Let made a contribution to profit of £196.5m in 2022, up 27% (2021: £155.3m).

The PRA implemented new underwriting standards for Buy-to-Let mortgages at the start of 2017, which introduced affordability stress testing for mortgages fixed for less than five years, triggering a shift towards five-year fixed rate products. The early wave of these five-year fixed rate mortgages reached the end of their initial term in 2022, leading to an increase in refinance activity in the market. Remortgages represented 50% of completions under the Precise Mortgages brand in 2022 (2021: 39%) with purchases reducing as a percentage of the total, as the prior year benefitted from a spike in purchase activity due to the stamp duty holiday. Longer term mortgages continued to be favoured by landlords and five-year fixed rate products accounted for 74% of completions, an increase from 64% recorded during 2021.

In addition, borrowing via a limited company made up 65% of Buy-to-Let completions for the Precise Mortgages brand in 2022 (2021: 69%) and loans for specialist property types, including houses of multiple occupation and multi-unit properties, represented 21% of completions in this sub-segment (2021: 26%).

Research conducted by BVA BDRC on behalf of the Group found that almost six in ten landlords that intended to acquire new properties planned to do so within a limited company structure, continuing an upward trend that has been observed over a number of years.

Precise Mortgages remained the highest ranked specialist lending brand for Buy-to-Let mortgages based on unprompted willingness to recommend in the BVA BDRC's Project Mercury survey in Q4 2022.

The weighted average LTV of the loan book in this segment decreased to 66% benefitting from house price appreciation (31 December 2021: 68%). The new lending average LTV was 73% with an average loan size of £191k (2021:74% and £192k, respectively). The weighted average interest coverage ratio for Buy-to-Let origination was 191% in 2022 (2021: 188%).

On a statutory basis, the Buy-to-Let sub-segment made a contribution to profit of £154.8m in 2022 (2021: £109.5m).

CCFS Residential sub-segment
The underlying gross loan book in CCFS' Residential sub-segment reached £2,671.3m in 2022, an increase of 9% from £2,451.8m as at 31 December 2021 and organic originations increased 34% to £749.4m in 2022 (2021: £558.0m).

Underlying net interest income increased to £96.0m (2021: £81.3m) and reflected growth in the loan book and an improved net interest margin, due to the base rate rises and delays in these being passed on to retail savers in full, partially offset by an underlying EIR reset loss of £4.0m (2021: £nil). The EIR reset loss was due to an expectation that borrowers would spend less time on the higher reversionary rate at the end of their fixed term.

The Residential sub-segment benefitted from an impairment credit of £1.2m (2021: £2.3m) due to strong house price appreciation in the year, partially offset by more severe forward-looking macroeconomic scenarios adopted by the Group and post model adjustments to account for rising cost of living and borrowing concerns.

Overall, on an underlying basis, the Residential sub-segment made a contribution to profit of £97.2m, up by 16% compared with £83.6m in 2021.

The Group continued to benefit from CCFS' expertise, with a strong focus on first time buyers, self-employed individuals and those with minor adverse credit records. The Help to Buy scheme closed to new applications in October 2022, with completions for new purchases required by 31 March 2023 and represented 19% of completions in this sub-segment in the year (2021: 44%).

The average loan size in this sub-segment was £147k (31 December 2021: £136k) with an average LTV for new lending unchanged from prior year at 66% and a book LTV of 57% which benefitted from house price appreciation in the year (31 December 2021: 59%).

On a statutory basis, the Residential sub-segment made a contribution to profit of £81.9m (2021: £67.1m).

CCFS Bridging sub-segment
The Group continued to improve its bridging offering and in April 2022 relaunched and rebranded its refurbishment product criteria. Short-term bridging originations nearly doubled in the year to £217.5m (2021: £109.1m) and as a result the gross loan book in this sub-segment increased to £149.7m as at 31 December 2022 (31 December 2021: £56.3m).

Underlying net interest income remained broadly flat at £5.0m (2021: £5.2m), and the impairment charge was £0.2m (2021: £1.4m credit) largely due to balance sheet growth. The bridging sub-segment made a contribution to profit of £4.8m in 2022 on an underlying basis compared with £6.6m in 2021.

On a statutory basis, the bridging sub-segment made a contribution to profit of £4.2m (2021: £6.4m).

CCFS Second charge sub-segment
The second charge gross loan book reduced to £111.9m compared with £153.7m as at 31 December 2021, as the second charge products under Precise Mortgages brand were withdrawn in August 2022.

Underlying net interest income in the second charge sub-segment reduced to £5.9m (2021: £6.7m) and the contribution to profit reduced to £6.0m (2021: £7.1m) after an impairment credit of £0.1m (2021: £0.4m) largely due to the reduction in the size of the loan book.

On a statutory basis, the contribution to profit from the second charge sub-segment was £5.2m (2021: £5.7m).

OSB GROUP PLC
Preliminary results
for the year ended 31 December 2022

Financial review

Review of the Group's performance on a statutory basis for 2022 and 2021.

Summary Profit or Loss	FY 2022 £m	FY 2021 £m
Net interest income	**709.9**	587.6
Net fair value gain on financial instruments	**58.9**	29.5
Gain on sale of financial instruments	**-**	4.0
Other operating income	**6.6**	7.9
Administrative expenses	**(207.8)**	(166.5)
Provisions	**1.6**	(0.2)
Impairment of financial assets	**(29.8)**	4.4
Impairment of intangible assets	**-**	3.1
Integration costs	**(7.9)**	(5.0)
Exceptional items	**-**	(0.2)
Profit before tax	**531.5**	464.6
Profit after tax	**410.0**	345.3

Key ratios[1]	FY 2022	FY 2021
Net interest margin	**278bps**	253bps
Cost to income ratio	**27%**	26%
Management expense ratio	**81bps**	71bps
Loan loss ratio	**13bps**	-2bps
Return on equity	**21%**	20%
Basic earnings per share, pence	**90.8**	76.0
Ordinary dividend per share, pence	**30.5**	26.0
Special dividend per share, pence	**11.7**	-

Extracts from the Statement of Financial Position	31-Dec-22 £m	31-Dec-21 £m
Loans and advances to customers	**23,612.7**	21,080.3
Retail deposits	**19,755.8**	17,526.4
Total assets	**27,566.7**	24,531.9
Key ratios		
Common equity tier 1 ratio	**18.3%**	19.6%
Total capital ratio	**19.7%**	21.2%
Leverage ratio[2]	**8.4%**	7.9%

1. For more detail on the calculation of key ratios, see the Appendix.
2. In line with the latest UK Leverage Ratio Framework which came into effect on 1 January 2022, the leverage ratio now excludes claims on central banks. As at 31 December 2021, the ratio would have been 8.9% on a like for like basis.

Statutory profit
The Group's statutory profit before tax increased by 14% to £531.5m (2021: £464.6m) after exceptional items, integration costs and other acquisition-related items of £59.6m[1] (2021: £57.6m). The increase was primarily due to growth in the loan book, an improved net interest margin and net fair value gain on financial instruments resulting from rising swap rates, partially offset by higher administration costs and an impairment charge compared to an impairment credit in 2021.

Statutory profit after tax was £410.0m in 2022, an increase of 19% from £345.3m in the prior year, and included after-tax exceptional items, integration costs and other acquisition-related items of £38.7m1 (2021: £47.8m).

The Group's effective tax rate reduced to 23.1%[2] compared to 25.7% in the prior year, primarily due to a reduction in the deferred tax provision following the enactment of the expected decrease in the bank surcharge from 8% to 3% from April 2023.

Statutory return on equity for 2022 improved to 21% (2021: 20%) reflecting the increase in profitability in the year.

Statutory basic earnings per share increased to 90.8 pence (2021: 76.0 pence), in line with the increase in profit after taxation.

Net interest income
Statutory net interest income increased by 21% in 2022 to £709.9m (2021: £587.6m), largely reflecting growth in the loan book and an improved net interest margin.

Statutory net interest margin (NIM) was 278bps compared to 253bps in the prior year, up 25bps, primarily due to the benefit of base rate rises. There were delays, especially in the first half of the year, in the market passing base rate rises on to savers in full. In addition, as rates rose, mortgage interest income benefitted from higher expected reversionary income following the end of the fixed product term. This benefit was partially offset by an expectation that customers would on average spend less time on the higher reversionary rate before refinancing. The impact of this, together with other behavioural changes, resulted in a net effective interest rate (EIR) reset loss of £31.6m (2021: £11.5m gain).

Net fair value gain on financial instruments
Statutory net fair value gain on financial instruments of £58.9m in 2022 (2021: £29.5m) included a £57.1m net gain on unmatched swaps (2021: £10.3m) following the significant rise in swap prices in the fourth quarter and a loss of £8.1m (2021: £2.4m gain) in respect of the ineffective portion of hedges.

The Group also recorded a £10.2m net gain (2021: £13.4m gain) from the unwind of acquisition-related inception adjustments, a £1.2m gain (2021: £3.0m) from the amortisation of hedge accounting inception adjustments and a loss of £1.5m from other items (2021: £0.4m gain).

The net gain on unmatched swaps related primarily to fair value movements on mortgage pipeline swaps prior to them being matched against completed mortgages. This benefitted from a step up in interest rate outlook on the SONIA yield curve largely in response to the actions announced in the September mini budget. 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
There were no sales of financial instruments in 2022.

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

Other operating income
Statutory other operating income of £6.6m (2021: £7.9m) mainly comprised CCFS' commissions and servicing fees, including those from servicing securitised loans that have been derecognised from the Group's balance sheet.

Administrative expenses
Statutory administrative expenses increased by 25% to £207.8m in 2022 (2021: £166.5m), due primarily to spend returning to a more normalised level post pandemic, inflationary headwinds and planned investment in the business, including refreshing and upgrading our technology infrastructure post-integration.

The Group's statutory cost to income ratio increased to 27% (2021: 26%) as a result of the growth in administrative expenses, moderated by strong income generation in the year, including the net fair value gain on hedging activities.

The statutory management expense ratio increased to 81bps in 2022 (2021: 71bps) reflecting the higher administrative expenses.

Impairment of financial assets
The Group recorded a statutory impairment charge of £29.8m in 2022 (2021: £4.4m credit) representing a statutory loan loss ratio of 13bps (2021: -2bps).

The Group adopted more severe macroeconomic scenarios in its IFRS 9 models as the outlook deteriorated, which led to a charge of £11.6m. Post-model adjustments, primarily to account for rising cost of living and borrowing concerns, amounted to a charge of £13.3m and the strong loan book growth and changes in the risk profile in the year resulted in a charge of £15.2m. These were partially offset by a release of £10.3m due to house price appreciation in the year and a £8.3m release from a reduction in pandemic-related post-model adjustments and modelling enhancements. Other charges amounted to £8.3m.

In the prior year, the impairment credit was largely due to the Group's adoption of less severe forward-looking macroeconomic scenarios in its IFRS 9 models, reflecting an improved outlook together with the benefit of strong house price performance in the year.

Impairment of intangible assets
There were no intangible asset impairments in 2022.

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

Integration costs
The Group recorded £7.9m of integration costs in 2022 (2021: £5.0m), which largely related to redundancy costs and consultant fees for advice on the Group's future operating structure.

Exceptional items
There were no exceptional costs in 2022.

In the prior year, exceptional costs of £0.2m related to the insertion of OSB GROUP PLC as the new holding company and listed entity of the Group.

Dividend
The Board has recommended a final dividend of 21.8 pence per share for 2022, which together with the interim dividend of 8.7 pence per share, represents 30% of underlying profit attributable to ordinary shareholders. The Board has also announced a special dividend of £50.3m, 11.7 pence per share (2021: nil). See the Appendix for the calculation of the 2022 final dividend.

The recommended final dividend is subject to approval at the AGM on 11 May 2023. The final and special dividends will be paid on 17 May 2023, with an ex-dividend date of 23 March 2023 and a record date of 24 March 2023.

Balance sheet growth

On a statutory basis, net loans and advances to customers grew by 12% to £23,612.7m in 2022 (31 December 2021: £21,080.3m), supported by originations of £5.8bn in the year.

Total assets also grew by 12% to £27,566.7m (31 December 2021: £24,531.9m), largely due to the growth in loans and advances to customers and an increase in liquid assets.

On a statutory basis, retail deposits increased by 13% to £19,755.8m as at 31 December 2022 from £17,526.4m in the prior year, as the Group's attractively priced savings products proved popular with customers.

The Group complemented its retail deposits funding with drawings under the Bank of England's schemes. Drawings under the Term Funding Scheme for SMEs as at 31 December 2022 remained unchanged from £4.2bn at the end of 2021 and drawings under the Indexed Long-Term Repo scheme were £300.9m.

Liquidity

OSB and CCFS operate under the Prudential Regulation Authority's liquidity regime and are managed separately for liquidity risk. Each Bank holds its own significant liquidity buffer of liquidity coverage ratio (LCR) eligible high-quality liquid assets (HQLA).

Each Bank operates within a target liquidity runway in excess of the minimum LCR regulatory requirement, which is based on internal stress testing. Each Bank has a range of contingent liquidity and funding options available for possible stress periods.

As at 31 December 2022, OSB had £1,494.1m and CCFS had £1,522.8m of HQLA (31 December 2021: £1,322.8m and £1,318.0m, respectively).

OSB and CCFS also held portfolios of unencumbered prepositioned Bank of England level B and C eligible collateral in the Bank of England Single Collateral Pool.

As at 31 December 2022, OSB had an LCR of 229% and CCFS 148% (31 December 2021: 240% and 158%, respectively) and the Group LCR was 185% (31 December 2021: 196%), all significantly in excess of the regulatory minimum of 100% plus Individual Liquidity Guidance.

Capital

The Group's capital position remained strong, with a CET1 ratio of 18.3% and a total capital ratio of 19.7% as at the end of 2022 (31 December 2021: 19.6% and 21.2%, respectively). Both ratios reflected strong capital generation from profitability in the year offset by loan book growth, foreseeable and paid dividends and the impact of the £100m share repurchase programme completed in 2022.

The Group had a leverage ratio of 8.4%[3] as at 31 December 2022 (31 December 2021: 7.9%). The combined Group had a Pillar 2a requirement of 1.27% (2021: 1.27%) of risk-weighted assets (excluding a static integration add-on of £19.5m) as at 31 December 2022.

1. See the reconciliation of statutory to underlying results
2. Effective tax rate excludes £1.2m of adjustments relating to earlier years
3. In line with the latest UK Leverage Ratio Framework which came into effect on 1 January 2022, the leverage ratio now excludes claims on central banks. As at 31 December 2021, the ratio would have been 8.9% on a like for like basis.

Summary cash flow statement

	Group 31-Dec-2022 £m	Restated[1] Group 31-Dec-2021 £m
Profit before tax	**531.5**	464.6
Net cash generated/(used in):		
Operating activities	**428.5**	(346.3)
Investing activities	**63.2**	80.6
Financing activities	**(184.3)**	631.8
Net increase in cash and cash equivalents	**307.4**	366.1
Cash and cash equivalents at the beginning of the period	**2,736.7**	2,370.6
Cash and cash equivalents at the end of the period	**3,044.1**	2,736.7

1. 2021 figures were restated, see note 1 b) in the Group's Consolidated Financial Statements for further information

Cash flow statement
The Group's cash and cash equivalents increased by £307.4m during the year to £3,044.1m as at 31 December 2022.

In 2022, loans and advances to customers increased by £2,563.1m, primarily funded by £2,229.4m of deposits from retail customers. The Group received £434.3m of cash collateral on derivative exposures and paid £137.5m of initial margin, reflecting new derivatives during the year. Cash used from financing activities of £184.3m included £300.9m drawings under the ILTR scheme offset by £193.6m repayment of debt securities, £102.0m share repurchases, £133.1m dividend payments and £45.3m interest on financing liabilities. Total drawings under the Bank of England's TFSME scheme remained unchanged at £4.2bn. Cash generated from investing activities was £63.2m.

In 2021, loans and advances to customers increased by £1,844.0m during the year, partially funded by £923.3m of deposits from retail customers and a decrease in loans and advances to credit institutions (primarily the Bank of England call account) of £167.4m. Additional funding was provided by cash generated from financing activities of £631.8m[1] and included £634.4m of net drawings under the Bank of England's TFS and TFSME schemes and £36.1m of net proceeds from securitisation of mortgages during the year. Cash generated from investing activities was £80.6m.

1. Restated, see note 1 b) in the Group's Consolidated Financial Statements for further information

OSB GROUP PLC
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for the year ended 31 December 2022

Review of the Group's performance on an underlying statutory basis for 2022 and 2021

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

Underlying results for 2022 and 2021 exclude exceptional items, integration costs and other acquisition-related items.

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

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

Summary Profit or Loss	FY 2022 £m	FY 2021 £m
Net interest income	**769.1**	650.5
Net fair value gains on financial instruments	**48.5**	18.5
Gain on sale of financial instruments	**-**	2.3
Other operating income	**6.6**	7.9
Administrative expenses	**(204.0)**	(161.7)
Provisions	**1.6**	(0.2)
Impairment of financial assets	**(30.7)**	4.9
Profit before tax	**591.1**	522.2
Profit after tax	**448.7**	393.1

Key ratios[1]	FY 2022	FY 2021
Net interest margin	**303bps**	282bps
Cost to income ratio	**25%**	24%
Management expense ratio	**80bps**	70bps
Loan loss ratio	**14bps**	-2bps
Return on equity	**24%**	24%
Basic earnings per share, pence	**99.6**	86.7

Extracts from the Statement of Financial Position	31-Dec-22 £m	31-Dec-21 £m
Loans and advances to customers	**23,529.8**	20,936.9
Retail deposits	**19,755.2**	17,524.8
Total assets	**27,487.6**	24,403.6

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

Underlying profit
The Group's underlying profit before tax increased by 13% to £591.1m from £522.2m in 2021. The increase was primarily due to growth in the loan book, an improved net interest margin and net fair value gain on financial instruments resulting from rising swap rates, partially offset by higher administration costs and an impairment charge compared to an impairment credit in 2021.

Underlying profit after tax was £448.7m, up 14% (2021: £393.1m), broadly in line with the increase in profit before tax. The Group's effective tax rate on an underlying basis reduced to 24.3%[1] for 2022 (2021: 24.7%).

On an underlying basis, return on equity for 2022 was 24%, unchanged from the prior year.

The underlying basic earnings per share increased to 99.6 pence (2021: 86.7 pence), due to the increase in profit after tax.

Net interest income
Underlying net interest income increased by 18% to £769.1m in 2022 (2021: £650.5m), largely reflecting growth in the loan book and an improved net interest margin.

The underlying net interest margin increased to 303bps from 282bps in 2021, primarily due to the benefit of base rate rises. There were delays, especially in the first half of the year, in the market passing base rate rises on to savers in full. In addition, as rates rose, mortgage interest income benefitted from higher expected reversionary income following the end of the fixed product term. This benefit was partially offset by an expectation that customers would on average spend less time on the higher reversionary rate before refinancing. The impact of this, together with other behavioural changes, resulted in a net effective interest rate (EIR) reset loss of £23.1m (2021: £18.6m gain).

Net fair value gain on financial instruments
Underlying net fair value gain on financial instruments was £48.5m in 2022 (2021: £18.5m) and included a gain on unmatched swaps of £57.1m (2021: £10.3m) following the significant rise in swap prices in the fourth quarter and a loss of £8.1m (2021: £2.4m gain) from hedge ineffectiveness.

The Group also recorded a £1.2m gain (2021: £5.4m) from the amortisation of hedge accounting inception adjustments and a loss of £1.7m (2021: £0.4m gain) from other items.

The net gain on unmatched swaps related primarily to fair value movements on mortgage pipeline swaps prior to them being matched against completed mortgages. This benefitted from a step up in interest rate outlook on the SONIA yield curve largely in response to the actions announced in the September mini budget. 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
There were no sales of financial instruments in 2022.

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

Other operating income
On an underlying basis, other operating income was £6.6m in 2022 (2021: £7.9m) and mainly comprised CCFS' commissions and servicing fees, including those from servicing securitised loans that have been derecognised from the Group's balance sheet.

Administrative expenses
Underlying administrative expenses were up 26% to £204.0m in 2022 (2021: £161.7m), due primarily to spend returning to a more normalised level post pandemic, inflationary headwinds and planned investment in the business, including refreshing and upgrading our technology infrastructure post-integration.

The Group's underlying cost to income ratio increased to 25% (2021: 24%) as a result of the growth in administrative expenses, moderated by strong income generation in the year, including the fair value gain on hedging activities.

The underlying management expense ratio increased to 80bps in 2022 (2021: 70bps) reflecting the higher administrative expenses.

Impairment of financial assets
The Group recorded an underlying impairment charge of £30.7m in 2022 (2021: £4.9m credit) representing an underlying loan loss ratio of 14bps (2021: -2bps).

The Group adopted more severe macroeconomic scenarios in its IFRS 9 models as the outlook deteriorated, which led to a charge of £11.6m. Post-model adjustments, primarily to account for rising cost of living and borrowing concerns, amounted to a charge of £13.3m and the strong loan book growth and changes in the risk profile in the year resulted in a charge of £15.2m. These were partially offset by a release of £10.3m due to house price appreciation in the year and a £8.3m release from a reduction in pandemic-related post-model adjustments and modelling enhancements. Other charges amounted to £9.2m.

In the prior year, the impairment credit was largely due to the Group's adoption of less severe forward-looking macroeconomic scenarios in its IFRS 9 models, reflecting an improved outlook together with the benefit of strong house price performance in the year.

Balance sheet growth
On an underlying basis, net loans and advances to customers were £23,529.8m (31 December 2021: £20,936.9m) an increase of 12%, supported by gross originations of £5.8bn in the year.

Total underlying assets grew by 13% to £27,487.6m (31 December 2021: £24,403.6m), largely due to the growth in loans and advances to customers and an increase in liquid assets.

On an underlying basis, retail deposits increased by 13% to £19,755.2m (31 December 2021: £17,524.8m) as the Group's attractively priced savings products proved popular with customers.

The Group complemented its retail deposits funding with drawings under the Bank of England's schemes. Drawings under the Term Funding Scheme for SMEs as at 31 December 2022 remained unchanged from £4.2bn at the end of 2021 and drawings under the Indexed Long-Term Repo scheme were £300.9m.

1. Effective tax rate excludes £1.2m of adjustments relating to earlier years

OSB GROUP PLC
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Reconciliation of statutory to underlying results

	FY 2022			FY 2021		
	Statutory results £m	Reverse acquisition-related items £m	**Underlying results £m**	Statutory results £m	Reverse acquisition-related and exceptional items £m	**Underlying results £m**
Net interest income	**709.9**	**59.2**[1]	**769.1**	587.6	62.9	650.5
Net fair value gains on financial instruments	**58.9**	**(10.4)**[2]	**48.5**	29.5	(11.0)	18.5
Gain on sale of financial instruments	**–**	**–**	**–**	4.0	(1.7)[3]	2.3
Other operating income	**6.6**	**–**	**6.6**	7.9	–	7.9
Total income	**775.4**	**48.8**	**824.2**	629.0	50.2	679.2
Administrative expenses	**(207.8)**	**3.8**[4]	**(204.0)**	(166.5)	4.8	(161.7)
Provisions	**1.6**	**–**	**1.6**	(0.2)	–	(0.2)
Impairment of financial assets	**(29.8)**	**(0.9)**[5]	**(30.7)**	4.4	0.5	4.9
Impairment of intangible assets	–	–	–	3.1	(3.1)[6]	–
Integration costs	**(7.9)**	**7.9**[7]	–	(5.0)	5.0	–
Exceptional items	–	–	–	(0.2)	0.2[8]	–
Profit before tax	**531.5**	**59.6**	**591.1**	464.6	57.6	522.2
Profit after tax	**410.0**	**38.7**	**448.7**	345.3	47.8	393.1
Summary Balance Sheet						
Loans and advances to customers	**23,612.7**	**(82.9)**[9]	**23,529.8**	21,080.3	(143.4)	20,936.9
Other financial assets	**3,878.1**	**9.1**[10]	**3,887.2**	3,382.3	22.0	3,404.3
Other non-financial assets	**75.9**	**(5.3)**[11]	**70.6**	69.3	(6.9)	62.4
Total assets	**27,566.7**	**(79.1)**	**27,487.6**	24,531.9	(128.3)	24,403.6
Amounts owed to retail depositors	**19,755.8**	**(0.6)**[12]	**19,755.2**	17,526.4	(1.6)	17,524.8
Other financial liabilities	**5,548.5**	**0.8**[13]	**5,549.3**	4,908.7	2.3	4,911.0
Other non-financial liabilities	**61.4**	**(30.2)**[14]	**31.2**	72.4	(45.0)	27.4
Total liabilities	**25,365.7**	**(30.0)**	**25,335.7**	22,507.5	(44.3)	22,463.2
Net assets	**2,201.0**	**(49.1)**	**2,151.9**	2,024.4	(84.0)	1,940.4

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

Risk review

Progress was made in 2022 against the Group's strategic risk management objectives for the year, including the priority areas set out in the Annual Report and Accounts for the year ended 31 December 2021.

Executive summary

The Group delivered strong financial performance against the backdrop of the United Kingdom's uncertain macroeconomic outlook resulting from the high levels of inflation and the ongoing conflict in Ukraine. The strong performance was delivered within the confines of a prudent risk appetite. The Group operated within the boundaries of its risk appetite limits during 2022.

The impact of the rising cost of living, the rising cost of borrowing and the prospect of further increases in the Bank of England base rate were key areas of focus for the Group in 2022. The Group conducted additional analysis and made adjustments to the macroeconomic scenarios used in its modelling and provisioning to ensure that the impacts on customer affordability were covered.

The Group remained alert to the heightened cyber risk environment driven by the situation in Ukraine and the embedding of the hybrid working model for colleagues across the Group. Our cyber security capabilities were maintained through continued investment and frequent penetration testing.

The Group's overall asset quality remained stable with respect to customer behaviour and affordability levels, whilst collateral values improved during the year. Arrears levels remained broadly stable. The Group has a negligible exposure to Ukrainian, Russian and Belarusian customers and closely monitored and managed these customers as required.

The Group's risk management framework ensures that risks continued to be identified, monitored and managed effectively, which in turn supported the strong operational and financial performance in the year. A full review of the risk appetite statements and limits across all principal risk types was undertaken in 2022, which informed the management of the Group's lending and retail savings businesses in an uncertain and competitive operating environment. Group risk appetite statements and limits were designed and implemented, based on aligned approaches calibrated for anticipated financial forecasts and stress test analysis. Risk appetite is monitored and managed at the Group and at the individual Bank levels.

The Group also maintained strong levels of capital and funding throughout 2022, being mindful of the heightened levels of future uncertainty. Capital and funding levels were assessed against the impacts of extreme but plausible economic, business and operational shocks and reflected in the Group's solvency and liquidity risk appetites. A number of reverse stress tests were performed to identify what severity of macroeconomic scenario could result in the Group and its entities breaching minimum regulatory requirements, which were utilised in the going concern and viability assessments.

The Group experienced some operational challenges during 2022. The number of base rate rises was responsible for strong demand for savings accounts and the number of product rate changes required was operationally challenging. In the second half, the market saw an increasing level of borrowers looking to refinance with their existing lender and in some cases refinance early to avoid anticipated future interest rate rises. This caused a spike in enquiries and application timelines which also resulted in elongated call wait times.

The Group continues to focus on enhancing forecasting and stress testing capabilities, with a particular focus on Internal Ratings Based (IRB) stress testing and stress testing using Basel 3.1 scenarios.

The Group continues to advance towards IRB accreditation, with progress made throughout the year. The Group has undertaken a comprehensive self-assessment exercise to validate its level of compliance, in conjunction with drafting all required module 1 submission documentation, which has passed through internal governance. The Group has noted the PRA's industry level feedback to ensure effective adherence to regulatory expectation. Pre-application discussions have been held with the PRA to outline the Group's approach to integrating IRB capabilities and compliance. The Group is now actively engaging with the PRA regarding a module 1 submission date. The programme continues to integrate IRB capabilities informing the Group's business, key risk and capital management disciplines.

Active monitoring and assessment of the Group's credit risk portfolio drivers is a critical risk management discipline. This was achieved through the active monitoring of credit portfolio performance indicators, sensitivity and stress test analysis and thematic deep dives.

Cross-functional expertise was leveraged to review emerging trends and take pre-emptive actions in accordance with the defined risk appetite and governance standards. The Group's investment in advanced credit analytics greatly enhanced monitoring capabilities, improved forward-looking assessments and supported stress testing and capacity planning analysis. This in turn allowed the Board to make more informed decisions in the uncertain macroeconomic and political environment.

Ensuring that the Group continued to maintain appropriate expected credit loss provisions was an important consideration of the Board and senior management. The Group undertook detailed analysis to assess portfolio risks and consider if these were adequately accounted for in IFRS 9 models and frameworks. The Group identified a number of areas requiring post-model adjustments, most notably to account for the increased credit risk from the heightened cost of living and cost of borrowing, resulting in an increase in provisions and a more pronounced increase in the balances of accounts in stage 2, which was expected given the mechanics of the IFRS 9 framework. In addition, a new suite of IFRS 9 models were implemented, which further increased alignment across the Group. Expected credit loss provisions were assessed using the Group's revised IFRS 9 methodologies, individually assessed provisioning approaches and portfolio segment based stress and sensitivity analysis. Benchmarking analysis was provided to the Board and senior management, enabling review and challenge of provision coverage levels and underlying macroeconomic scenarios.

Significant investment continues to be made across the Group's risk management capabilities and resources, to ensure that all categories of risk continue to be managed effectively. An independent third-party review was undertaken during the year which indicated that the Group's risk management framework was well-designed and embedded to support the Group's current and future strategic plans. The review's recommended actions confirmed management's existing plans and will drive further enhancements ensuring that the Group continues to meet emerging regulatory expectations, whilst supporting shareholder returns via the management of financial risks.

A number of deep dive thematic reviews across all core loan portfolios were conducted to ensure that credit risk strategies and operational capabilities remained appropriate. As a secured lender, the Group has prudent credit risk appetite limits in place which, together with well-established management capabilities, position the Group well to manage the impact of any potential affordability stress from the ongoing rising cost of living or further increases in interest rates. The Group continues to conduct sensitivity and stress testing analysis to understand the financial and operational impact of differing scenarios on arrears levels, financial performance metrics and prudential requirements. These scenarios also support operational capacity planning to help ensure that the correct level of resourcing is in place within the Servicing and Collections function. During the pandemic, the Group demonstrated the effectiveness of its capabilities in managing and supporting customers during a period of stress.

The ongoing delivery of planned enhancements to the Group's operational resilience capabilities remains a key area of focus. The Group's programme of work to ensure appropriate capabilities and processes are in place to facilitate an orderly resolution of the Group completed as planned, including the successful completion of a resolution scenario fire drill which walked selected Board members and senior management through the core steps of the resolution timeline. The Group has put in place arrangements designed to ensure that it is able to continue to serve customers through resolution and any post-stabilisation restructuring.

The Group continues to implement a programme of work to further embed the operational risk management framework across the Group, including the completion of an enhanced risk and controls self-assessment process and delivery of a more aligned approach to the setting of operational risk appetite. The Group's Risk and Control Self-Assessment (RCSA) process was integrated into a Group-wide risk system which will ensure more dynamic and continuous assessment, adherence to common standards, an improved user interface and increased review and challenge.

The Group views fair customer outcomes and provision of timely and effective support to customers in distress as a central pillar supporting its Purpose, Vision and Values. The Group has customer-centric policies and procedures in place which are subject to ongoing reviews and benchmarking. The Group was also appropriately attuned to the emerging industry and regulatory focus on customer vulnerability recognising that Consumer Duty regulations set higher expectations for the Group in terms of demonstrating that good outcomes for its customers is at the heart of the Group's strategy and business objectives.

The Group continued to embed its approach to managing climate risk through the further development of its climate risk management framework. A dedicated ESG Technical Committee ensures that enhancements are delivered as required.

Priority areas for 2023
A significant level of uncertainty remains around the UK economic outlook and the operating environment for 2023 and beyond. Therefore, continued close monitoring of the Group's risk profile and operating effectiveness remains a key priority for the Risk and Compliance function. Other priorities include:

- Continue to leverage the Group's Enterprise Risk Management Framework and existing capabilities to actively identify, assess and manage risks in line with approved risk appetite.
- Leverage enhancements made across the Group's portfolio analytical capabilities, including the implementation of an enhanced stress testing capability to improve risk-based pricing, balance sheet management, capital planning and stress testing.
- Make continued progress in obtaining IRB accreditation and further leverage capabilities within wider risk management disciplines such as IFRS 9 Expected Credit Loss (ECL) calculations, underwriting, existing customer management and collections to drive portfolio performance benefits and improvements in shareholder returns.
- Implement and embed the FCA's Consumer Duty rules and requirements, via 5 key pillars of activity, to ensure that the Group complies with the new Consumer Principle, cross-cutting rules and the four Consumer Duty outcomes by 31 July 2023 for new and existing products and 31 July 2024 for closed products.
- Continue to strengthen engagement and support with the first line of defence to enhance conduct, regulatory and financial crime risk awareness and key preventative and detective controls.
- Further enhance and embed the Group's resolution framework, including testing valuation and funding in resolution capabilities and testing interactions between other resolution barriers.
- Maintain oversight of capital management including the impact of MREL, Basel 3.1 and IRB.
- Continue the optimisation of funding strategy and enhancement of sensitivity analysis around key liquidity drivers.

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

The ERMF is the overarching framework that enables the Board and senior management to actively manage and optimise the risk profile within the constraints of its risk appetite. The ERMF also enables informed risk-based decisions to be taken in a timely manner, ensuring that the interests and expectations of key stakeholders can be met.

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

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

1. Risk principles and culture - the Group established a set of risk management and oversight principles that inform and guide all underlying risk management and assessment activities. These principles are informed by the Group's Purpose, Vision and Values.

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

3. Risk assessment and control - the Group is committed to building a safe and secure banking operation via an integrated and effective enterprise strategic risk management framework.

4. Risk definitions and categorisation - the Group sets out its principal risks that represent the primary risks to which the Group is exposed.

5. Risk analytics - the Group uses quantitative analysis and statistical modelling to help improve its business decisions.

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

7. Risk data and information technology - the maintenance of high-quality risk information, along with the Group's data enrichment and aggregation capabilities, are central to the Risk function's objectives being achieved.

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

9. Risk management information and reporting - the Group established a comprehensive suite of risk Management Information (MI) and reports covering all principal risk types.

10. Risk governance and function organisation - risk governance refers to the processes and structures established by the Board to ensure that risks are assumed and managed within the Board-approved risk appetite, with clear delineation between risk taking, oversight and assurance responsibilities. The Group's risk governance framework is structured to adhere to the 'three lines of defence' model.

11. Use and embedding - dissemination of key framework components across the Group to ensure that business activities and decision-making are undertaken in line with the Board expectations.

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

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

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

The risk appetite is calibrated to reflect the Group's strategic objectives, business operating plans, as well as external economic, business and regulatory constraints. In particular, the risk appetite is calibrated to ensure that the Group continues to deliver against its strategic objectives and operates with sufficient financial buffers even when subjected to plausible but extreme stress scenarios. The objective of the Board's risk appetite is to ensure that the strategy and business operating model is sufficiently resilient.

The Group's risk appetite is calibrated using statistical analysis and stress testing to inform the process for setting management triggers and limits against key risk indicators. The calibration process is designed to ensure that timely and appropriate actions are taken to maintain the risk profile within approved thresholds. The Board and senior management actively monitor actual performance against approved management triggers and limits. Currently, there are two regulated banking entities within the Group. Risk appetite metrics and thresholds are set at both individual entity and Group levels.

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

Management of climate change risk
There was further embedding of the Group's approach to climate risk during 2022, with the Climate Risk Management Framework and ESG governance structures now established.

The Group is exposed to the following climate related risks:

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

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

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

Emissions scenario

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

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

b) Climate risk perils considered

The following three physical perils of climate change were assessed:

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

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

For flood and subsidence, the likelihood took the form of a probability that a flood or subsidence event would occur over the next 10 years. For coastal erosion the distance of the property to the coast line is provided by scenario and decade.

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

In addition to the physical perils, the current Energy Performance Certificate (EPC) of each property was considered to allow for an assessment of transitional risk due to policy change. EPC ratings are based on a Standard Energy Procedure (SAP) calculation which uses a government methodology to determine the energy performance of properties by considering factors such as construction materials, heating systems, insulation and air leakage.

Both the OSB and CCFS portfolios were profiled against each of the perils detailed under the best (RCP 2.6) and worst (RCP 8.5) climate scenarios.

- Flood risk
  By the 2030s, at the Group level, the percentage of properties predicted to experience a flood is expected to increase from 0.49% in the least severe scenario to 0.51% in the most severe scenario. Both scenarios represent a low proportion of the Group's loan portfolios.

- Subsidence
  In the 2030s, at the Group level, the percentage of properties predicted to experience subsidence is expected to increase from 0.42% in the least severe scenario to 0.45% in the most severe scenario. The outcome of both scenarios represents a low proportion of the Group's loan portfolios.

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

Both Banks have over 93% of their portfolios more than 1,000 metres from the coastline, indicating a very low coastal erosion risk across the Group.

The CCFS bank entity has 32 properties within 100 metres of the coastline, whilst the OSB bank entity has 34.

c) Energy Performance Certificate profile
The EPC profile of both Bank entities follows a similar trend to the national average. At the Group level 40% of properties have an EPC of C or better, 45% have an EPC of D, 13% with an EPC of E and negligible percentages in F or G. Over 90% of the properties supporting the Group's loan portfolios have the potential to have at least an EPC rating of C.

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

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

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

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

Methodology – physical risks
For the physical risks, updated valuations are produced to reflect the impact of a flood, subsidence and coastal erosion risk.

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

d) Analysis outcome
The physical risks currently present an immaterial ECL or capital risk to the Group. The sensitivity to transitional risk is larger than that of physical risk, although still very small, particularly when considering the aggressive time frames on government policy relating to minimum EPC requirements

e) Planned enhancements during 2023
In the future, the Group's climate risk data and scenario analysis capabilities will continue to be enhanced.

Principal risks and uncertainties

1. Strategic and business risk
The risk to the Group's earnings and profitability arising from its strategic decisions, change in business conditions, improper implementation of decisions or lack of responsiveness to industry changes.

Risk appetite statement: the Group's strategic and business risk appetite states that the Group does not intend to undertake any medium- to long-term strategic actions that would put at risk its vision of being a leading specialist lender, backed by strong and dependable savings franchises. The Group adopts a long-term sustainable business model which, while focused on niche sub-sectors, is capable of adapting to growth objectives and external developments.

1.1 Performance against targets
Performance against strategic and business targets does not meet stakeholder expectations. This has the potential to damage the Group's franchise value and reputation.

Mitigation
Regular monitoring by the Board and the Group Executive Committee of business and financial performance against the strategic agenda and risk appetite. The financial plan is subject to regular reforecasts. The Balanced Business Scorecard is the primary mechanism to support how the Board assesses management performance against key targets. Use of stress testing to flex core business planning assumptions to assess potential performance under stressed operating conditions.

Direction: increased
The Group delivered strong performance against targets during 2022 despite the continued impact of inflation, increasing interest rates and the conflict in Ukraine. The ongoing macroeconomic uncertainty and its potential impact on net interest margin, affordability levels and house prices present an increased risk to the Group's performance in 2023.

1.2 Economic environment
The economic environment in the UK is an important factor impacting the strategic and business risk profile. A macroeconomic downturn may impact the credit quality of the Group's existing loan portfolios and may influence future business strategy as the Group's new business proposition becomes less attractive due to lower returns.

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

Direction: increased
The increase in macroeconomic environment risk in 2022 related to inflation and increasing interest rates creating a squeeze on borrowers' affordability levels. The ongoing macroeconomic uncertainty will continue into 2023 with an increased risk to the Group's credit risk profile, including the possibility of a fall in house prices.

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

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

Direction: unchanged
The current economic outlook may limit the number of competitors shifting their focus to the Group's key market sub-segments.

2. Reputational risk
The potential risk of the Group's reputation being affected due to factors such as unethical practices, adverse regulatory actions, customer or broker dissatisfaction and complaints or negative/adverse publicity. Reputational risk can arise from a variety of sources and is a second order risk – the crystallisation of any principal risk can lead to a reputational risk impact.

Risk appetite statement: the Group has a very low appetite for reputational risks. The Group will not conduct its business or engage with stakeholders in a manner that could adversely impact its reputation or franchise value. The Group recognises that reputational risk is a consequence of other risks materialising and in turn seeks to actively manage all risks within Board-approved risk appetite levels. The Group strives to protect and enhance its reputation at all times.

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

Mitigation
Culture and commitment to treating customers fairly and being open and transparent in communication with key stakeholders. Established processes in place to proactively identify and manage potential sources of reputational risk. Review of relevant Management Information (MI) including complaint volumes, Net Promoter Scores, Customer Satisfaction results, Social Media and Trustpilot feedback.

Direction: increased
The challenging macroeconomic environment in 2022 resulted in significant shifts within both the UK's lending and savings markets. This has brought about the need for all banks to become increasingly agile with products offered in order to ensure that all core targets continued to be met. Operational scalability and efficiency challenges have impacted the Group's reputational risk profile.

3. Credit risk
Potential for loss due to the failure of a counterparty to meet its contractual obligation to repay a debt in accordance with the agreed terms.

Risk appetite statement: the Group seeks to maintain a high-quality lending portfolio that generates adequate returns under normal and stressed conditions. The portfolio is actively managed to operate within set criteria and limits based on profit volatility focusing on key sectors, recoverable values and affordability and exposure levels.
The Group aims to continue to generate sufficient income and control credit losses to a level such that it remains profitable even when subjected to a credit portfolio stress of a 1 in 20 intensity stress scenario.

3.1 Individual borrower defaults
Borrowers may encounter idiosyncratic problems in repaying their loans, for example loss of a job or execution problems with a development project. While in most cases of default the Group's lending is secured, some borrowers may fail to maintain the value of the security, which may result in a loss being incurred.

Mitigation
Across both OSB and CCFS, a robust underwriting assessment is undertaken to ensure that a customer has the ability and propensity to repay and sufficient security is available to support the new loan requested. At CCFS, an automated scorecard approach is taken, whilst OSB utilises a bespoke manual underwriting approach, supplemented by bespoke application scorecards to inform the lending decision.

Should there be problems with a loan, the Collections and Recoveries team works with customers who are unable to meet their loan service obligations to reach a satisfactory conclusion while adhering to the principle of treating customers fairly.

Our strategic focus on lending to professional landlords means that properties are likely to be well-managed, with income from a diversified portfolio mitigating the impact of rental voids or maintenance costs. Lending to owner-occupiers is subject to a detailed affordability assessment, including the borrower's ability to continue payments if interest rates increase. Lending on commercial property is based more on security, and is scrutinised by the Group's independent Real Estate team as well as by external valuers.

Development finance lending is extended only after a deep investigation of the borrower's track record and stress testing the economics of the specific project.

Direction: increased
The drivers of borrower default risk have shifted to rising inflation and the consequential increases in interest rates which impact affordability for accounts which revert onto higher interest rates and increase the risk of borrower default.

<u>3.2 Macroeconomic downturn</u>
A broad deterioration in the UK economy would adversely impact both the ability of borrowers to repay loans and the value of the Group's security. Credit losses would impact the Group's lending portfolios, even if individual impacts were to be small, the aggregate impact on the Group could be significant.

Mitigation
The Group works within portfolio limits on LTV, affordability, name, sector and geographic concentration that are approved by the Group Risk Committee and the Board. These are reviewed on a semi-annual basis. In addition, stress testing is performed to ensure that the Group maintains sufficient capital to absorb losses in an economic downturn and continues to meet its regulatory requirements.

Direction: increased
The uncertain economic outlook and the ongoing geopolitical risk due to the conflict in Ukraine resulted in high inflation and increases in interest rates could drive higher levels of customer defaults, rising impairment levels and falling residential and commercial collateral values.

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

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

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

<u>4. Market risk</u>
Potential loss due to changes in market prices or values.

Risk appetite statement: The Group actively manages market risk arising from structural interest rate positions. The Group does not seek to take a significant interest rate position or a directional view on interest rates and it limits its mismatched and basis risk exposures.

<u>4.1 Interest rate risk</u>
The risk of loss from adverse movement in the overall level of interest rates. It arises from mismatches in the timing of repricing of assets and liabilities, both on and off balance sheet. It includes the risks arising

from imperfect hedging of exposures and the risk of customer behaviour driven by interest rates, e.g. early redemption.

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

Direction: unchanged
Interest rate risk remained unchanged in 2022 due to the Group's simple asset and liability structure and ongoing careful management.

4.2 Basis risk
The risk of loss from an adverse divergence in interest rates. It arises where assets and liabilities reprice from different variable rate indices. These indices may be market, administered, other discretionary variable rates, or that received on call accounts with other banks.

Mitigation
The Group did not require active management of basis risk in 2022 due to its balance sheet structure.

Direction: decreased
Basis risk exposures reduced year on year as a result of the LIBOR Transition at the end of 2021.

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

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

5.1 Retail funding stress
As the Group is primarily funded by retail deposits, a retail run could put it in a position where it could not meet its financial obligations. Increased competition for retail savings driving up funding costs, adversely impacting retention levels and profitability.

Mitigation
The Group's funding strategy is focused on a highly stable retail deposit franchise. The Group's large number of depositors provides diversification, where a high proportion of balances are covered by the FSCS protection scheme, largely mitigating the risk of a retail run.
In addition, the Group performs in-depth liquidity stress testing and maintains a liquid asset portfolio sufficient to meet obligations under stress. The Group holds prudential liquidity buffers to manage funding requirements under normal and stressed conditions.
The Group has further diversified its retail channels by expanding the range of pooled deposit providers used.
The Group proactively manages its savings proposition through both the Liquidity Working Group and the Group Assets and Liabilities Committee. Finally, the Group has prepositioned mortgage collateral and securitised notes with the Bank of England, which allows it to consider alternative funding sources to ensure that it is not solely reliant on retail savings. The Group also has a mature Retail Mortgage Backed Security (RMBS) programme.

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

In 2022, OSB and CCFS were able to attract significant flows of new deposits and depositors, despite the volatile interest rate environment and competitive savings market. During periods of exceptionally high volatility, funding was drawn from the Bank of England using the Indexed Long-term Repo scheme to support retail funding and customer operations.

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

Mitigation
The Group continuously monitors wholesale funding markets and is experienced in taking proactive management actions where required.
The Group issued one securitisation in 2022 and has a range of wholesale funding options available outside retained securitisation, including Bank of England facilities, for which collateral has been prepositioned.

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

<u>5.3 Refinancing of TFSME</u>
Current Term Funding Scheme for Small and Medium-sized Enterprises (TFSME) borrowing by the Group remained at £4.2bn at the end of 2022, with a refinancing concentration scheduled for October 2025.

Mitigation
The Group has other wholesale options available to it, including securitisation programmes and repo or sale of held notes, as well as retail funding via its strong franchises, to replace the TFSME borrowing gradually over the next few years ahead of the maturity of this funding.

Direction: unchanged
TFSME borrowing remained unchanged during the year; however, the current funding plan to refinance TFSME requires significant securitisation issuance. These markets have seen increased volatility during 2022, which could continue into 2023 so additional refinancing options are being considered.

<u>6. Solvency risk</u>
The potential inability of the Group to ensure that it maintains sufficient capital levels for its business strategy and risk profile under both the base and stress case financial forecasts.

Risk appetite statement: the Group seeks to ensure that it is able to meet its Board-level capital buffer requirements under a severe but plausible stress scenario. The solvency risk appetite is informed by the Group's prudential requirements and strategic and financial objectives.
We manage our capital resources in a manner which avoids excessive leverage and allows us flexibility in raising capital.

<u>6.1 Deterioration of capital ratios</u>
Key risks to solvency arise from balance sheet growth and unexpected losses which can result in the Group's capital requirements increasing, or capital resources being depleted, such that it no longer meets the solvency ratios as mandated by the PRA and Board risk appetite.
The regulatory capital regime is subject to change and could lead to increases in the level and quality of capital that the Group needs to hold to meet regulatory requirements. In particular, we note the PRA's recently published consultation paper (CP) on the implementation of Basel 3.1.

Mitigation
The Group operates from a strong capital position and has a consistent record of strong profitability.
The Group actively monitors its capital requirements and resources against financial forecasts and plans and undertakes stress testing analysis to subject its solvency ratios to extreme but plausible scenarios.

The Group also holds prudent levels of capital buffers based on CRD IV requirements and expected balance sheet growth.
The Group engages actively with regulators, industry bodies and advisers to keep abreast of potential changes and provides feedback through the consultation process.

Direction: increased
The stable credit profile and ongoing profitability mean that the Group's capital resources remain strong. Risks remain around adverse credit profile performance resulting from rising inflation and interest rates. We have estimated the impact of Basel 3.1 on our 31 December 2022 CET1 ratio to be a reduction of up to 2% points, should the proposed rules be implemented as drafted in the CP and prior to the Group receiving Internal Ratings Based (IRB) accreditation.

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

Risk appetite statement: the Group's operational processes, systems and controls are designed to minimise disruption to customers, damage to the Group's reputation and any detrimental impact on financial performance. The Group actively promotes the continuous evolution of its operating environment through the identification, evaluation and mitigation of risks, whilst recognising that the complete elimination of operational risk is not possible.

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

Mitigation
The Group programme of IT and cyber improvements continued with the aim of enhancing its protection against IT security threats, deploying a series of tools designed to identify and prevent network/system intrusions. This is further supported by documented and tested procedures intended to ensure the effective response to a security breach.

Direction: unchanged
The Group has processes in place to allow it to operate effectively when employees work from home and manage the cyber risks related to working remotely.
Whilst IT security risks continue to evolve, work continues to enhance the level of maturity of the Group's controls and defences, supported by dedicated IT security experts.
The Group's has an ongoing programme of penetration testing in place to drive enhancements by identifying potential areas of risk.

7.2 Data quality and completeness
The risks resulting from data being either inaccurate or incomplete.

Mitigation
The Group previously established a dedicated Data Strategy Programme, involving the recruitment of a Chief Data Officer and a Data Governance Director, designed to ensure a consistent approach to the maintenance and use of data. This includes both documented procedures and frameworks and also tools intended to improve the consistency of data use.

Direction: unchanged
Progress was made in 2022 to embed Group-wide governance frameworks in part driven by the Group's IRB project. Further work is planned for 2023, to move closer to the Group's target end state.

7.3 Change management
The risks resulting from unsuccessful change management implementations, including the failure to respond effectively to release-related incidents.

Mitigation
The Group recognises that implementing change introduces significant operational risk and has therefore implemented a series of control gateways designed to ensure that each stage of the change management process has the necessary level of oversight.

Direction: increased
The Group continued to adopt an ambitious change agenda, which was monitored and managed well in 2022. We are now turning our attention towards identifying opportunities to further digitise our business operations, to deliver additional efficiencies and invest in the Group to ensure it remains well-positioned to meet the changing needs of our customers, brokers and wider stakeholders.

7.4 IT failure
The risks resulting from a major IT application or infrastructure failure impacting access to the Group's IT systems.

Mitigation
The Group continues to invest in improving the resilience of its core infrastructure. It has identified its prioritised business services and the infrastructure that is required to support them. Tests are performed regularly to validate its ability to recover from an incident.
The Group has established a site in Hyderabad to ensure that, in the event of an operational incident in Bangalore, services can be maintained.

Direction: unchanged
Whilst progress was made in reducing both the likelihood and impact of an IT failure, the risks remain, in particular due to the new hybrid working arrangement. Further work is planned during 2023.

8. Conduct risk
The risk that the Group's culture, organisation, behaviours and actions result in poor outcomes and detriment for customers and/or damage to consumer trust and integrity of the markets in which it operates.

Risk appetite statement: the Group has a very low appetite to assume risks which may result in either poor or unfair customer outcomes and/or cause disruptions in the market segments in which it operates. The Group aims to avoid causing detriment or harm to its customers and operates to the highest standards of conduct. The Group will treat its customers, third-party partners, investors and regulators with respect, fairness and transparency. The Group will proactively look to identify where its products and services could lead to poor outcomes or harm to its customers, and will take appropriate action to mitigate this. Where customer harm occurs, the Group will ensure that effective solutions are implemented to address the root cause and a fair outcome is achieved.

8.1 Conduct risk
The risk that the Group fails to meet its expectations with respect to conduct risk.

Mitigation
The Group's culture is clearly defined and monitored via its Purpose, Vision and Values driven behaviours.
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.
The Group has an embedded Conduct Risk Management Framework which clearly define roles and responsibilities for conduct risk management and oversight across the Group's three lines of defence.

Direction: increased
The conduct risk level increased due to macroeconomic uncertainty. Some customers, particularly those who are vulnerable, may experience financial difficulty as a result of the rising cost of living and cost of borrowing. Volatile lending and savings markets led to unprecedented high volumes of new business

adversely impacting customer service level agreements and leading to increased complaints and reputational risk.
Conduct losses have remained stable with no breaches of risk appetite reported during the last 12 months.

9. Regulatory risk
The risk of failure to effectively identify, interpret, implement and adhere to all regulatory or legislative change that impacts the Group.

Risk appetite statement: the Group views ongoing conformance with regulatory rules and standards across all the jurisdictions in which it operates as a critical facet of its risk culture. The Group has a very low appetite to assume regulatory risk, which could result in poor customer outcomes, customer detriment, regulatory sanctions, financial loss or damage to its reputation. The Group will proactively monitor for and will not tolerate any systemic failure to comply with applicable laws, regulations or codes of conduct relevant to its business.
The Group acknowledges that regulatory rules and standards are subject to interpretation and subsequent translation into internal policies and procedures. The Group interprets requirements to ensure adherence with the intended purpose and spirit of the regulation whilst being cognisant of commercial considerations and good customer outcomes. To minimise regulatory risk, the Group proactively engages with its regulators in a transparent manner, participates in industry forums and seeks external advice to validate its interpretations, where appropriate.

9.1 Prudential regulatory changes
The Group continues to see a high volume of key compliance regulatory changes that impact its business activities. These include the implementation of Basel 3.1 capital rules and increased Resolvability Assessment Framework requirements, including updated minimum requirements for own funds and eligible liabilities (MREL).

Mitigation
The Group has an effective horizon scanning process to identify regulatory change.
All significant regulatory initiatives are managed by structured programmes overseen by the Project Management team and sponsored at Executive level.
The Group has proactively sought external expert opinions to support interpretation of the requirements and validation of its response, where required.

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

9.2 Conduct regulation
Regulatory changes focused on the conduct of business could force changes in the way the Group carries out business and impose substantial compliance costs.
This includes the risk that product design, pricing, underwriting, arrears and forbearance and vulnerable customer policies are misaligned to regulatory expectations which result in customers not being treated fairly, particularly those experiencing financial hardship or vulnerable customers, with the potential for reputational damage, redress and other regulatory actions.

Mitigation
The Group has a programme of regulatory horizon scanning linking into a formal regulatory change management programme. In addition, the focus on simple products and customer-oriented culture means that current practice may not have to change significantly to meet new conduct regulations.
All Group entities utilise underwriting, arrears and forbearance and vulnerable customer policies, which are designed to comply with regulatory principles, rules and expectations. These policies articulate the Group’s commitment to ensuring that all customers, including those who are vulnerable or experiencing financial hardship, are treated fairly, consistently and in a way that considers their individual needs and circumstances.

The Group does not tolerate any systematic failure to deliver fair customer outcomes. On an isolated basis, incidents can result in detriment due to human and/or operational failures. Where such incidents occur, they are thoroughly investigated, and the appropriate remedial actions are taken to address any customer detriment and prevent recurrence.

Direction: increased
The level of regulatory change continued to be high but the Group has sufficient resources and capabilities to respond to any changes in an effective and efficient manner.
The Group continues to proactively interact with regulatory bodies to take part in thematic reviews and information requests, as required.
Identifying, monitoring and supporting vulnerable customers continues to be a key area of focus.
Ongoing reviews of long term arrears and forbearance customers, continues to ensure that payment terms still remain appropriate.
The Group has instigated a formal project to implement the FCA's new Consumer Duty requirements within the required timelines.

10. Financial crime risk
The risk of financial or reputational loss resulting from inadequate systems and controls to mitigate the risks from financial crime.

Risk appetite statement: to minimise financial crime risk the Group will design and maintain robust systems and controls to identify, assess, manage and report any activity (internal or external in nature) which exposes the Group to financial crime risk in the form of money laundering, human trafficking, terrorist financing, sanctions breaches, bribery, corruption and fraud. The Group recognises the need to continuously review its systems and controls to ensure that they are aligned to the nature and scale of financial crime risk it is exposed to on a current and forward looking basis.

10.1 Financial crime risk
The risk of financial or reputational loss resulting from a failure to implement systems and controls to manage the risk from money laundering, terrorist financing, sanctions, bribery, corruption and cyber-crime.

Mitigation
The Group operates in a low-risk environment providing relatively simple products to UK domiciled customers serviced through a UK registered bank account. The Group has an established screening programme that is deployed at the point of origination and on a regular basis throughout the customer lifecycle. Where applicable, enhanced due diligence is applied to ensure that any increase in risk is appropriately managed and any activity remains within risk appetite.
The Group has a horizon scanning programme that identifies changes to money laundering regulations and any other financial crime related legislation to ensure that we comply with all regulatory obligations.
The Group reacted swiftly to the events in Ukraine and the regular updates released in relation to the Russia and Belarus financial sanctions regimes. The Group has negligible exposure to the affected jurisdictions and no exposure to any specific individual or entity contained within the revised sanctions listings.
The Group's programme of cyber improvements continued with the aim of enhancing its protection against IT security threats, deploying a series of tools designed to identify and prevent network/system intrusions. The Group's Financial Crime team will support the Information Security Team, where appropriate, to ensure that there are robust and effective controls in place and sufficient training and awareness for all colleagues.

Direction: unchanged
The Group continues to focus primarily on the UK market with accounts serviced from UK bank accounts.
The Group has processes in place to allow it to operate effectively when employees work from home and manage the cyber risks related to working remotely. Whilst IT security risks continue to evolve, the level of maturity of the Group's controls and defences has significantly increased, supported by dedicated IT security experts.

10.2 Fraud risk
The risk of financial loss resulting from fraudulent action by a person either internal or external.

Mitigation
The Group continues to invest in a range of systems and controls that are deployed across its product range in order to detect and prevent the exposure to fraud through the customer lifecycle. All new business applications are subject to a range of controls to identify and mitigate fraud. Customer activity is monitored in order to detect suspicious activity or behaviour that may be indicative of fraud.
These controls are further supported by documented policies and procedures that are managed by experienced employees in a dedicated Financial Crime function.
The Group continually monitors its detection capability with periodic reviews of the parameters within its systems and control framework to ensure that these remain fit for purpose and aligned to mitigate any emerging risks.

Direction: increased
The Group remains aware that any potential downturn in the wider economic environment may increase the risk of fraud activity across its product range and will closely monitor changes in trends that may be indicative of any new or emerging risks.

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

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

Mitigation
The Group has mature and robust monitoring processes and via various stress testing activities (i.e. ad hoc, risk appetite and Internal Capital Adequacy Assessment Process (ICAAP)) understands how the Group performs over a variety of macroeconomic stress scenarios and has developed a suite of early warning indicators, which are closely monitored to identify changes in the economic environment. The Board and management review detailed portfolio reports to identify any changes in the Group's risk profile.

<u>Climate change</u>
As the focus on climate change intensifies, both the physical risks and the transitional risks associated with climate change continue to grow. Climate change risks include:

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

Mitigation
During 2022, the Group further embedded its approach to climate risk management, which included the development of a climate risk appetite, and making enhancements to its Task Force on Climate-Related Financial Disclosures (TCFD).

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

<u>Model risk</u>
The risk of financial loss, adverse regulatory outcomes, reputational damage or customer detriment resulting from deficiencies in the development, application or ongoing operation of models and ratings systems.
The Group also notes changes in industry best practice with respect to model risk management including a PRA consultation paper containing proposed expectations regarding banks' management of model risk.

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

<u>Regulatory change</u>
The Group remains subject to high levels of regulatory oversight and an extensive and broad ranging regulatory change agenda, including meeting the requirements of the Resolvability Assessment

Framework and Operational Continuity in Resolution. The Group is therefore required to respond to prudential and conduct-related regulatory changes, taking part in thematic reviews, as required. There is also residual uncertainty in relation to the regulatory landscape post the United Kingdom's exit from the European Union.

Mitigation
The Group has established horizon scanning capabilities, coupled with dedicated prudential and conduct regulatory experts in place to ensure the Group manages future regulatory changes effectively. The Group also has strong relationships with regulatory bodies, and via membership of UK Finance, inputs into upcoming regulatory consultations.

Risk profile performance overview

Credit risk
The Group's loan portfolios performed robustly during 2022. Prudent criteria for new originations delivered strong new business quality, whilst the back book also outperformed forecast expectations. In particular, the Group saw lower arrears levels than forecast and better than expected house price inflation.

The Group's prudent credit risk appetite ensures that loan portfolios are positioned to perform well in both benign and stressed macroeconomic environments.

The Group delivered 12% net loan book growth in 2022 with strong originations in the Group's core Buy-to-Let and residential owner-occupier sub-segments, which more than offset reductions in the second charge and funding lines sub-segments. New lending also improved in semi-commercial and commercial as well as in the Group's development finance sub-segments.

Favourable property price indexing resulted in a reduction in the weighted average stock LTV for OSB and CCFS to 58% and 63% respectively as at 31 December 2022 (31 December 2021: OSB 60% and CCFS 65%), and a prudent weighted average LTV profile of 60% for the Group, down from 62% at the end of 2021.

A low and stable level of arrears continued to be observed, with just 1.1% of the Group's net loan balances being greater than three months in arrears as at 31 December 2022, unchanged from the prior year. Increasing arrears levels were observed across a small number of portfolios as payment deferrals expired; however, these increases were partially offset by improving performance across other loan portfolios.

Solo bank interest coverage ratios for Buy-to-Let loans remained strong during 2022 at 207% for OSB and 191% for CCFS (2021: 199% OSB and 188% CCFS).

During 2022, forward-looking external credit bureau probability of default and customer indebtedness scores remained strong, with some reversion back to pre-pandemic levels as customers returned to spending, once lockdown restrictions were relaxed.

Expected Credit Losses (ECL)
Balance sheet expected credit losses increased from £101.5m to £130.0m as at 31 December 2022. Other non-material items further contributed to the increase and resulted in a full year statutory impairment charge of £29.8m representing a loan loss ratio of 13bps (2021: £4.4m release, -2bps, respectively), with the provision charge primarily driven by post-model adjustments to account for rising cost of living and cost of borrowing concerns, as well as the strong growth in the loan book in the year.

A summary of the key impairment charge drivers for 2022 included:

- Macroeconomic outlook – positive House Price Index (HPI) movements and continued low unemployment were observed throughout 2022, however, the outlook deteriorated throughout the year due to the war between Russia and Ukraine and the fallout from the mini budget. The economic outlook at the end of 2022 was driven by rising interest rates, higher than target inflation and most notably a decrease in house prices. The change in economic outlook contributed £11.6m of impairment charge in 2022, whilst the improvement in house prices drove a release of £10.3m.
- Model and staging enhancements – enhancements were made to the Group's underlying models to ensure that estimates continued to reflect actual credit profile performance. Most notably, the Group's enhancements to models, as part of the IRB programme, were incorporated into the Group's IFRS 9 framework. In addition, the Group enhanced its Significant Increase in Credit Risk (SICR) framework to adopt a default risk trigger, sensitive to the economic outlook. The cumulative impact of these modelling and staging enhancements was an £8.3m release for 2022.
- Post-model adjustments – the Group adopted a number of post-model adjustments to account for external risks that were not sufficiently addressed in the model and staging framework. The most significant were adjustments made to the stage 2 approach to account for rising cost of living and borrowing concerns due to the sharp increase in interest rates and the historically high inflation. In total, the post-model adjustments contributed £13.3m of impairment charge in 2022.
- Credit profile provision charges - impairment charges driven by changes in the credit profile such as portfolio growth, portfolio product mix and changes in staging mix totalled £15.2m. Other charges, including changes to individually assessed provisions and write offs, totalled £8.3m.

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

Impairment coverage levels were strengthened due to both the observed cost of living and cost of borrowing drivers, and the renewed uncertainty surrounding the macroeconomic outlook, with coverage levels approaching those held at the peak of the pandemic. The Group's Risk function conducted top-down analysis, assessing portfolio-specific risks, which confirmed the appropriateness of provision levels after taking into account the post-model adjustments.

Coverage ratios table

As at 31 December 2022	**Gross carrying amount £m**	**Expected credit losses £m**	**Coverage ratio £m**
Stage 1	**18,722.3**	**7.2**	**0.04%**
Stage 2	**4,417.1**	**50.9**	**1.15%**
Stage 3 (+ POCI)	**588.7**	**71.9**	**12.21%**
Total	**23,728.1**	**130.0**	**0.55%**

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

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

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

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

The Group adopted an approach which utilises four macroeconomic scenarios. These scenarios are provided by an industry-leading economics advisory firm that provides management and the Board with advice.

A base case forecast is provided, together with a plausible upside scenario. Two downside scenarios are also provided (downside and a severe downside).

ii. How macroeconomic scenarios are utilised within ECL calculations
Probability of default estimates are either scaled up or down based on the macroeconomic scenarios utilised.

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

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

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

iii. Macroeconomic scenario governance
The Group has a robust governance process to oversee macroeconomic scenarios and probability weightings used within ECL calculations.

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

iv. Changes made during 2022
Throughout 2022, the scenario suite was monitored and updated as UK political and geopolitical developments occurred.

The Group's Risk and Audit Committees focused on assessing whether specific risks had been captured within externally provided forward-looking forecasts. Of particular focus were the risks relating to rising costs of living and subsequent rising interest rates to control inflation levels. The Group undertook a detailed analysis to assess the portfolio risks and consider whether these were adequately accounted for in the IFRS 9 models and frameworks, and identified a number of areas requiring post-model adjustments, most notably to account for the increased credit risk from the heightened cost of living and cost of borrowing resulting in an increase in the balance of accounts in stage 2.

The Board reflected on the ongoing appropriateness of probabilities attached to the suite of IFRS 9 scenarios as the macroeconomic outlook evolved throughout the year. Scenarios were adjusted to a symmetrical probability, where the upside and downside scenarios carry equal weightings, as a result of separate post-model adjustments being raised to ensure that the current IFRS 9 framework adequately provisioned the underlying portfolio risk.

Details relating to the scenarios utilised to set the 31 December 2022 IFRS 9 provision levels are provided in the table below.

Forecast macroeconomic variables over a five-year period

Scenario	Probability weighting (%)	Economic measure	Scenario % Year end 2022	Year end 2023	Year end 2024	Year end 2025	Year end 2026
Base case	40	GDP	4.3	(0.7)	1.8	2.7	2.1
		Unemployment	3.7	4.7	4.2	3.9	3.8
		House price growth	9.0	(9.0)	(3.4)	2.8	5.8
		CPI	10.7	3.4	2.0	1.6	1.2
		Bank Base Rate	2.8	4.0	3.6	2.6	1.8
Upside	30	GDP	4.6	1.9	2.9	3.4	2.2
		Unemployment	3.6	4.2	4.0	3.7	3.7
		House price growth	10.6	(6.7)	(1.3)	4.4	5.6
		CPI	11.0	4.7	2.9	1.4	1.1
		Bank Base Rate	3.0	5.3	4.8	3.4	2.3
Downside	20	GDP	3.7	(4.4)	1.0	2.4	2.1
		Unemployment	4.2	6.3	7.0	7.0	6.7
		House price growth	6.8	(14.4)	(8.0)	(1.2)	6.1
		CPI	10.2	1.6	1.5	1.8	0.8
		Bank Base Rate	2.9	3.8	3.1	1.9	1.3
Severe downside	10	GDP	3.2	(7.5)	0.1	1.9	2.1
		Unemployment	4.3	6.8	7.6	7.6	7.2
		House price growth	5.0	(18.6)	(12.1)	(5.0)	6.5
		CPI	9.5	0.7	0.9	2.1	0.5
		Bank Base Rate	2.6	2.8	2.0	0.6	0.5

Forbearance

Where a borrower experiences financial difficulty, which impacts their ability to service their financial commitments under the loan agreement, forbearance may be used to achieve an outcome which is mutually beneficial to both the borrower and the Group.

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

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

- Temporary switch to interest only: a temporary account change to assist customers through periods of financial difficulty where the contractual monthly payment is reduced to the amount of interest owed in the month for the duration of the account change. Any arrears existing at the commencement of the arrangement are retained.
- Interest rate reduction: the Group may, in certain circumstances, where the borrower meets the required eligibility criteria, transfer the mortgage to a lower contractual rate. Where this is a formal contractual change, the borrower will be requested to obtain independent financial advice as part of the process.
- Loan term extension: a permanent account change for customers in financial distress where the overall term of the mortgage is extended, resulting in a lower contractual monthly payment.
- Payment holiday: a temporary account change to assist customers through periods of financial difficulty where capital and interest accruals during the payment holiday period are repaid from the end of the payment holiday over the remaining term. Any arrears existing at the commencement of the arrangement are retained.
- Voluntary-assisted sale: a period of time is given to allow borrowers to sell the property and arrears accrue based on the contractual monthly payment.
- Reduced monthly payments: a temporary arrangement for customers in financial distress. For example, a short-term arrangement to pay less than the contractual monthly payment. Arrears continue to accrue based on the contractual monthly payment.
- Capitalisation of interest: arrears are added to the loan balance and are repaid over the remaining term of the facility or at maturity for interest only products. A new payment is calculated, which will be higher than the previous payment.
- Full or partial debt forgiveness: where appropriate, the Group will consider writing-off part of the debt. This may occur where the borrower has an agreed sale and there will be a shortfall in the amount required to redeem the Group's charge, in which case repayment of the shortfall may be agreed over a period of time, subject to an affordability assessment; or where possession has been taken by the Group, and on the subsequent sale where there has been a shortfall loss.
- Arrangement to pay: where an arrangement is made with the borrower to repay an amount above the contractual monthly payment, which will repay arrears over a period of time.
- Promise to pay: where an arrangement is made with the borrower to defer payment or pay a lump sum at a later date.
- Bridging loans which are more than 30 days past their maturity date. Repayment is rescheduled to receive a balloon or bullet payment at the end of the term extension, where the institution can duly demonstrate future cash-flow availability.

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

Fair value of collateral methodology
The Group ensures that security valuations are reviewed on an ongoing basis for accuracy and appropriateness. Commercial properties are subject to quarterly indexing using Commercial Real Estate (CRE) data. Residential properties are indexed at least quarterly, using House Price Index data.

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

Solvency risk is a function of balance sheet growth, profitability, access to capital markets and regulatory changes. The Group actively monitors all key drivers of solvency risk and takes prompt action to maintain its solvency ratios at acceptable levels. The Board and management also assess solvency when reviewing the Group's business plans and inorganic growth opportunities. The Group's fully-loaded CET1 and total capital ratios under CRD IV reduced to 18.3% and 19.7%, respectively as at 31 December 2022 (31 December 2021: 19.6% and 21.2%, respectively). The Group's leverage ratio was 8.4% as at 31 December 2022 (31 December 2021: 7.9%).

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

The Group continues to attract new retail savers and has high retention levels with existing customers. In addition, the Group is able to access a wide range of wholesale funding options, including securitisation issuances and the use of retained notes from both Banks as collateral for Bank of England facilities and repurchase agreements with third parties.

In 2022, both Banks actively managed their respective liquidity and funding profiles within the confines of their risk appetites as set out in the Group's ILAAP.

Retail funding rates increased throughout the year due to the significant increase in the Bank of England Base Rate. However, swap rate increases during the year allowed both Banks to retain more margin on savings rates offered to customers. There was a short period towards the end of the first quarter where retail funding was volatile as the first of the larger Base Rate increases pushed competitor savings rates higher and increased competition; however, both Banks were able to attract new depositors with competitive rates.

Swap rate increases in 2022 also led to the Group receiving a high level of variation margin collateral on the Group's interest rate swaps. The Group has increased internal buffers to ensure that sufficient funds are held at the Bank of England to meet any swap margin calls that may arise if swap rates reduce.

Each Bank's risk appetite is based on internal stress tests that cover a range of scenarios and time periods and therefore are a more severe measure of resilience to a liquidity event than the standalone liquidity coverage ratio (LCR). As at 31 December 2022, OSB had a liquidity coverage ratio of 229% (2021: 240%) and CCFS 148% (2021: 158%), and the Group LCR was 185%, all significantly above regulatory requirements.

Market risk
The Group proactively manages its risk profile in respect of adverse movements in interest rates, foreign exchange rates and counterparty exposures.

The Group accepts interest rate risk and basis risk as a consequence of structural mismatches between fixed rate mortgage lending, sight and fixed-term savings and the maintenance of a portfolio of high-quality liquid assets. Interest rate exposure is mitigated on a continuous basis through portfolio diversification, reserve allocation and the use of financial derivatives, within limits set by the Group ALCO, and approved by the Board.

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

Operational risk
The Group continues to adopt a proactive approach to the management of operational risks. The operational risk management framework has been designed to ensure a robust approach to the

identification, measurement and mitigation of operational risks, utilising a combination of both qualitative and quantitative evaluations. The Group's operational processes, systems and controls are designed to minimise disruption to customers, damage to the Group's reputation and any detrimental impact on financial performance. The Group actively promotes the continual evolution of its operating environment.

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

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

A hybrid working model has been adopted across the Group, with the exception being front-line customer-facing colleagues, following the return to the office after the COVID-19 pandemic. With a high number of employees working and accessing systems from home, the risk of a cyber-attack has heightened. Whilst IT security risks continue to evolve, work continues to enhance the level of maturity of the Group's controls and defences, supported by dedicated IT security experts. The Group's ongoing penetration testing continues to drive enhancements by identifying potential areas of risk.

The Group has established a site in Hyderabad to ensure that, in the event of an operational incident in Bangalore, services can be maintained.

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

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

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

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

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

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

Financial crime risk
The Group operates in a low risk environment providing relatively simple products to UK domiciled customers serviced through a UK-registered bank account. The Group has an established screening

programme that is deployed at the point of origination and on a regular basis throughout the customer lifecycle.

The Group continues to invest in a range of systems and controls that are deployed across its product range in order to detect and prevent the exposure to fraud through the customer lifecycle. All new-to-business applications are subject to a range of controls to identify and mitigate fraud. Customer activity is monitored in order to detect suspicious activity or behaviour that may be indicative of fraud.

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

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

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

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

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

Viability statement

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

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

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

In making the assessment, the Board has considered all principal and emerging risks, including climate risk, where the risk is likely to emerge outside of the viability assessment horizon. The impacts of climate risk have been assessed as part of the Internal Capital Adequacy Assessment Process (ICAAP), which concluded that at present the associated financial risks are not material for the Group.

The Group prepares financial forecasts over a five year time horizon, with the Board and management focusing on the projections over the first three years, with years four and five being extrapolations of the earlier years. Key events which will impact the Group's capital adequacy such as the introduction of Basel 3.1, the impact of the implementation of the Group's Minimum Requirements for Own Funds and Eligible Liabilities (MREL) and the impact of the peak stress point of macroeconomic forecasts all fall within a three year time horizon. Post consideration of these factors, the Board considers a viability assessment horizon of three years to remain appropriate.

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

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

The viability of the Group is assessed at both the Group and the underlying regulated bank levels, through leveraging the risk management frameworks and stress testing capabilities of both regulated banks.

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

A broad range of stress scenarios are analysed considering the potential impacts to changes in HPI, unemployment, inflation and interest rates over a range of severity scenarios. Stresses are applied to lending volumes, capital requirements, liquidity and funding mix, interest margins and credit and operational losses. Stress testing also supports key regulatory submissions such as the ICAAP, ILAAP and the Recovery Plan. ICAAP stress testing assesses capital resources and requirements over a five-year period.

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

In assessing the Group's long term viability, the Directors have assumed that the Group will be able to issue MREL instruments to meet its MREL requirements or, if required, obtain a 'flexible add-on' extension to the MREL requirements of up to two years. The Board assessed the uncertainty around the quantum and phasing of MREL issuance resulting from the ongoing Basel 3.1 consultation and the timing of the Group's IRB accreditation, whilst being cognisant of the outlined criteria which must be met to apply for the 'flexible add-on' relating to (i) where a market dislocation impacts capital markets issuance conditions, or (ii) whether the institution's business model faces idiosyncratic challenges which justify an extension. Obtaining a 'flexible add on' would be subject to review and approval by the Bank of England.

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

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

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

The Group has maintained strong capital and funding profiles with a view to ensuring continued financial resilience. However, the Group remains fully cognisant of the uncertain macroeconomic environment and ensures that stress testing activities consider a range of potential scenarios.

The Board has also considered the potential implications of the current macroeconomic uncertainty in its assessment of the financial and operational viability of the Group and has a reasonable belief that the Group retains adequate levels of financial resources (capital and liquidity) and operational contingency.

In line with prior years, in the viability assessment process the Board considered the latest macroeconomic forward-looking scenarios utilised for business planning and the Group's IFRS 9 calculations which consider macroeconomic risks such as rising levels of unemployment, inflation, interest rate rises and movements in house prices. Utilising analysis which identifies scenarios which would result in the Group becoming unviable, the Board considered the plausibility of these scenarios materialising. Forecasts and capital stress tests considered the impact of the countercyclical buffer being progressively phased back in, IFRS 9 transitional arrangements unwinding, the Group's go-forward MREL phasing in, whilst incorporating the Group's simulation of the impact of Basel 3.1 implementation.

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

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

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

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

Statement of Directors’ Responsibilities

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

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

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

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

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent Company’s transactions and disclose with reasonable accuracy at any time the financial position of the parent Company and the Group enabling them to ensure that the financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the Directors are also responsible for preparing a Strategic Report, Directors’ Report, Directors’ Remuneration Report and Corporate Governance Statement that complies with that law and those regulations.

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

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

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

- the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole; and
- the Strategic Report/Directors’ Report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

OSB GROUP PLC
Preliminary results
for the year ended 31 December 2022

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

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

Approved by the Board and signed on its behalf by:

Jason Elphick
Group General Counsel and Company Secretary
16 March 2023

OSB GROUP PLC

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2022

	Note	**2022 £m**	2021 £m
Interest receivable and similar income	3	**1,069.3**	746.8
Interest payable and similar charges	4	**(359.4)**	(159.2)
Net interest income		**709.9**	587.6
Fair value gains on financial instruments	5	**58.9**	29.5
Gain on sale of financial instruments	6	**-**	4.0
Other operating income	7	**6.6**	7.9
Total income		**775.4**	629.0
Administrative expenses	8	**(207.8)**	(166.5)
Provisions	37	**1.6**	(0.2)
Impairment of financial assets	24	**(29.8)**	4.4
Impairment of intangible assets	9	**-**	3.1
Integration costs	12	**(7.9)**	(5.0)
Exceptional items	13	**-**	(0.2)
Profit before taxation		**531.5**	464.6
Taxation	14	**(121.5)**	(119.3)
Profit for the year		**410.0**	345.3
Other comprehensive expense			
Items which may be reclassified to profit or loss:			
Fair value changes on financial instruments measured at fair value through other comprehensive income (FVOCI):			
Arising in the year	19	**0.3**	1.1
Amounts reclassified to profit or loss for investment securities at FVOCI		**(0.7)**	(2.0)
Tax on items in other comprehensive expense		**0.1**	0.5
Revaluation of foreign operations		**(0.2)**	(0.1)
Other comprehensive expense		**(0.5)**	(0.5)
Total comprehensive income for the year		**409.5**	344.8
Attributable to:			
Equity shareholders of the Company		**409.5**	340.1
Non-controlling interest		**-**	4.7
		409.5	344.8
Dividend, pence per share	16	**42.2**	26.0
Earnings per share, pence per share			
Basic	15	**90.8**	76.0
Diluted	15	**89.8**	75.2

The above results are derived wholly from continuing operations.

The notes below form part of these accounts.

The financial statements were approved by the Board of Directors on 16 March 2023.

OSB GROUP PLC
Consolidated Statement of Financial Position
As at 31 December 2022

	Note	2022 £m	2021 £m
Assets			
Cash in hand		**0.4**	0.5
Loans and advances to credit institutions	18	**3,365.7**	2,843.6
Investment securities	19	**412.9**	491.4
Loans and advances to customers	20	**23,612.7**	21,080.3
Fair value adjustments on hedged assets	26	**(789.0)**	(138.9)
Derivative assets	25	**888.1**	185.7
Other assets	27	**15.0**	10.2
Current taxation asset		**1.7**	-
Deferred taxation asset	28	**6.3**	5.6
Property, plant and equipment	29	**40.9**	35.1
Intangible assets	30	**12.0**	18.4
Total assets		**27,566.7**	24,531.9
Liabilities			
Amounts owed to credit institutions	31	**5,092.9**	4,319.6
Amounts owed to retail depositors	32	**19,755.8**	17,526.4
Fair value adjustments on hedged liabilities	26	**(55.1)**	(19.7)
Amounts owed to other customers	33	**113.1**	92.6
Debt securities in issue	34	**265.9**	460.3
Derivative liabilities	25	**106.6**	19.7
Lease liabilities	35	**9.9**	10.7
Other liabilities	36	**38.7**	29.6
Provisions	37	**0.4**	2.0
Current taxation liability		**-**	1.0
Deferred taxation liability	38	**22.3**	39.8
Subordinated liabilities	39	**-**	10.3
Perpetual Subordinated Bonds	40	**15.2**	15.2
		25,365.7	22,507.5
Equity			
Share capital	42	**4.3**	4.5
Share premium	42	**2.4**	0.7
Retained earnings		**3,389.4**	3,215.1
Other reserves	43	**(1,195.1)**	(1,195.9)
Shareholders' funds		**2,201.0**	2,024.4
Total equity and liabilities		**27,566.7**	24,531.9

The notes below form part of these accounts. The financial statements were approved by the Board of Directors on 16 March 2023 and signed on its behalf by

Andy Golding
Chief Executive Officer

April Talintyre
Chief Financial Officer

Company number: 11976839

OSB GROUP PLC

Consolidated Statement of Changes in Equity

For the year ended 31 December 2022

	Share capital[1] £m	Share premium £m	Capital redemption and transfer reserve[2] £m	Own shares[3] £m	Foreign exchange reserve £m	FVOCI reserve £m	Share-based payment reserve £m	Retained earnings £m	Additional Tier 1 (AT1) securities £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 year	-	-	-	-	-	-	-	345.3	-	-	345.3
Other comprehensive expense	-	-	-	-	(0.1)	(0.9)	-	-	-	-	(1.0)
Tax on items in other comprehensive expense	-	-	-	-	-	0.5	-	-	-	-	0.5
Total comprehensive (expense)/income	-	-	-	-	(0.1)	(0.4)	-	345.3	-	-	344.8
Coupon paid on non-controlling interest securities	-	-	-	-	-	-	-	(4.7)	-	-	(4.7)
Dividends paid	-	-	-	-	-	-	-	(86.7)	-	-	(86.7)
Share-based payments	-	0.7	-	-	-	-	4.0	2.9	-	-	7.6
Own shares[3]	-	-	-	0.5	-	-	-	(0.5)	-	-	-
Capital reduction of OSB GROUP PLC (OSBG) share capital[1]	(1,355.3)	-	-	-	-	-	-	1,355.3	-	-	-
Redemption of non-controlling interest securities	-	-	-	-	-	-	-	-	-	(60.0)	(60.0)
Transactions costs on redemption of non-controlling interest securities	-	-	-	-	-	-	-	(3.5)	-	-	(3.5)
Issuance of AT1 securities	-	-	-	-	-	-	-	-	150.0	-	150.0
Transactions costs on issuance of AT1 securities	-	-	-	-	-	-	-	(1.6)	-	-	(1.6)
Tax recognised in equity	-	-	-	-	-	-	1.6	-	-	-	1.6
At 31 December 2021	4.5	0.7	(1,355.3)	(3.5)	(1.1)	0.6	13.4	3,215.1	150.0	-	2,024.4
Profit for the year	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**410.0**	**-**	**-**	**410.0**
Other comprehensive expense	**-**	**-**	**-**	**-**	**(0.2)**	**(0.4)**	**-**	**-**	**-**	**-**	**(0.6)**
Tax on items in other comprehensive expense	**-**	**-**	**-**	**-**	**-**	**0.1**	**-**	**-**	**-**	**-**	**0.1**
Total comprehensive (expense)/income	**-**	**-**	**-**	**-**	**(0.2)**	**(0.3)**	**-**	**410.0**	**-**	**-**	**409.5**
Coupon paid on AT1 securities	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(9.0)**	**-**	**-**	**(9.0)**
Dividends paid	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(133.1)**	**-**	**-**	**(133.1)**
Share-based payments	**-**	**1.7**	**-**	**-**	**-**	**-**	**(0.2)**	**8.4**	**-**	**-**	**9.9**
Own shares[3]	**-**	**-**	**-**	**1.3**	**-**	**-**	**-**	**(1.3)**	**-**	**-**	**-**
Share repurchase	**(0.2)**	**-**	**0.2**	**-**	**-**	**-**	**-**	**(100.7)**	**-**	**-**	**(100.7)**
At 31 December 2022	**4.3**	**2.4**	**(1,355.1)**	**(2.2)**	**(1.3)**	**0.3**	**13.2**	**3,389.4**	**150.0**	**-**	**2,201.0**

1. On 26 February 2021, OSBG reduced the nominal value of 447,312,780 shares from three hundred and four (304) pence each to one (1) penny each, see note 42 for further details.
2. Includes Capital redemption reserve of £0.2m (2021: nil) and Transfer reserve of £(1,355.3)m (2021: £(1,355.3)m).
3. The Group has adopted look-through accounting (see note 1 d)) and recognised the Employee Benefit Trust (EBT) within OSBG.

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

OSB GROUP PLC

Consolidated Statement of Cash Flows

For the year ended 31 December 2022

	Note	**2022 £m**	2021 £m (Restated)[1]
Cash flows from operating activities			
Profit before taxation		**531.5**	464.6
Adjustments for non-cash items	50	**63.7**	(10.0)
Changes in operating assets and liabilities[1]	50	**(24.2)**	(683.6)
Cash generated/(used) in operating activities		**571.0**	(229.0)
Net tax paid		**(142.5)**	(117.3)
Net cash generated/(used) in operating activities[1]		**428.5**	(346.3)
Cash flows from investing activities			
Maturity and sales of investment securities		**663.7**	547.7
Purchases of investment securities		**(596.5)**	(468.2)
Interest received on investment securities		**7.7**	1.9
Sales of financial instruments	6	**-**	4.0
Proceeds from sale of property, plant and equipment	29	**-**	2.0
Purchases of property, plant and equipment and intangible assets	29,30	**(11.7)**	(6.8)
Cash generated from investing activities		**63.2**	80.6
Cash flows from financing activities			
Financing received[1]	41	**429.5**	4,943.2
Financing repaid	41	**(324.2)**	(4,295.4)
Interest paid on financing	41	**(45.3)**	(8.4)
Share repurchase[2]		**(102.0)**	-
Coupon paid on non-controlling interest securities		**-**	(4.7)
Coupon paid on AT1 securities		**(9.0)**	-
Dividends paid	16	**(133.1)**	(86.7)
Redemption of non-controlling interest securities		**-**	(63.5)
Issuance of AT1 securities		**-**	148.4
Proceeds from issuance of shares under employee Save As You Earn (SAYE) schemes		**1.7**	0.8
Cash payments on lease liabilities	35	**(1.9)**	(1.9)
Cash (used)/generated from financing activities		**(184.3)**	631.8
Net increase in cash and cash equivalents		**307.4**	366.1
Cash and cash equivalents at the beginning of the year	17	**2,736.7**	2,370.6
Cash and cash equivalents at the end of the year	17	**3,044.1**	2,736.7
Movement in cash and cash equivalents		**307.4**	366.1

1. 2021 figures restated see note 1 b) for further details.
2. Includes £100.0m for shares repurchased, £0.7m transaction costs and £1.3m incentive fee.

1. Accounting policies

a) Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the United Kingdom (UK) and interpretations issued by the IFRS Interpretations Committee (IFRS IC).

The financial statements have been prepared on a historical cost basis, as modified by the revaluation of investment securities held at FVOCI and derivative contracts and other financial assets held at fair value through profit or loss (FVTPL) (see note 1 p) vi.).

The financial statements are presented in Pounds Sterling. All amounts in the financial statements have been rounded to the nearest £0.1m (£m). Foreign operations are included in accordance with the policies set out in this note.

The figures shown for the year ended 31 December 2022 are not statutory accounts within the meaning of section 435 of the Companies Act 2006. The statutory accounts for the year ended 31 December 2022 on which the auditors have given an unqualified audit report and did not contain an adverse statement under section 498(2) or 498(3) of the Companies Act 2006 will be delivered to the Registrar of Companies after the Annual General Meeting. The figures shown for the year ended 31 December 2021 are not statutory accounts. A copy of the statutory accounts has been delivered to the Registrar of Companies, contained an unqualified audit report and did not contain an adverse statement under section 498(2) or 498(3) of the Companies Act 2006. This announcement has been agreed with the Company's auditors for release.

b) Restatement

In the prior year, cash collateral and margin received on interest rate swaps of £115.4m was included in financing cash flows in the Consolidated Statement of Cash Flows. As the cash flows arise on hedging activities related to items classified as operating assets and liabilities within the Consolidated Statement of Cash Flows, the cash flows should be included within operating cash flows. In the current year, cash collateral and margin received on interest rate swaps has been classified as an operating cash flow in 2022 and the 2021 Consolidated Statement of Cash Flows restated to reclassify a cash inflow of £115.4m from financing activities to operating activities.

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 financial statements. These forecasts have been subject to sensitivity tests, including stress scenarios, which have been compared to the latest economic scenarios provided by the Group's external economic advisors, as well as reverse stress tests.

The assessments include the following:

• Financial and capital forecasts were prepared under stress scenarios which were assessed against the latest economic forecasts provided by the Group's external economic advisors. Reverse stress tests were also run, to assess what combinations of House Price Index (HPI), unemployment, default rates and consumer price index 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.

1. Accounting policies (continued)

• The latest liquidity and contingent liquidity positions and forecasts were assessed against the Internal Liquidity Adequacy Assessment Process (ILAAP) stress scenarios with the Group maintaining sufficient liquidity throughout the going concern assessment period.

• 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 continues to be on the provision of the Group's Important Business Services, minimising the impact of any service disruptions on the Group's customers or the wider financial services industry. The Group's response to the COVID-19 pandemic demonstrated the inherent resilience of its critical processes and infrastructure and its agility in responding to changing operational demands. The Group recognises the need to continually invest in the resilience of its services, with specific focus in 2023 on ensuring that the third parties on which it depends have the appropriate levels of resilience and in further automating those processes that are sensitive to increases in volume.

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 financial statements on a going concern basis.

d) Basis of consolidation

The Group accounts include the results of the Company and its subsidiary undertakings. Subsidiaries are fully consolidated from the date on which control is transferred to the Group and are deconsolidated from the date that control ceases. Upon consolidation, intercompany transactions, balances and unrealised gains on transactions are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency, so far as is possible, with the policies adopted by the Group.

Subsidiaries are those entities, including structured entities, over which the Group has control. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the investee. The Group has power over an entity when it has existing rights that give it the current ability to direct the activities that most significantly affect the entity's returns. Power may be determined on the basis of voting rights or, in the case of structured entities, other contractual arrangements.

Where the Group does not retain a direct ownership interest in a securitisation entity, but the Directors have determined that the Group controls those entities, they are treated as subsidiaries and are consolidated. Control is determined to exist if the Group has the power to direct the activities of each entity (for example, managing the performance of the underlying mortgage assets and raising debt on those mortgage assets which is used to fund the Group) and, in addition to this, control is exposed to a variable return (for example, retaining the residual risk on the mortgage assets). Securitisation structures that do not meet these criteria are not treated as subsidiaries and are excluded from the consolidated accounts. The Company applies the net approach in accounting for securitisation structures where it retains an interest in the securitisation, netting the loan notes held against the deemed loan balance.

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

The Group is not deemed to control an entity when it exercises power over an entity in an agency capacity. In determining whether the Group is acting as an agent, the Directors consider the overall relationship between the Group, the investee and other parties to the arrangement with respect to the following factors:

1. Accounting policies (continued)

(i) the scope of the Group’s decision-making power; (ii) the rights held by other parties; (iii) the remuneration to which the Group is entitled; and (iv) the Group’s exposure to variability of returns. The determination of control is based on the current facts and circumstances and is continuously assessed.

In some circumstances, different factors and conditions may indicate that different parties control an entity depending on whether those factors and conditions are assessed in isolation or in totality. Judgement is applied in assessing the relevant factors and conditions in totality when determining whether the Group controls an entity. Specifically, judgement is applied in assessing whether the Group has substantive decision-making rights over the relevant activities and whether it is exercising power as a principal or an agent.

e) Foreign currency translation

The consolidated financial statements are presented in Pounds Sterling which is the presentation currency of the Group. The financial statements of each of the Company's subsidiaries are measured using the currency of the primary economic environment in which the subsidiary operates (the functional currency). Foreign currency transactions are translated into the functional currencies using the exchange rates prevailing at the date of the transactions. Monetary items denominated in foreign currencies are retranslated at the rate prevailing at the period end.

Foreign exchange gains and losses resulting from the retranslation and settlement of these items are recognised in profit or loss. Non-monetary items measured at cost in the foreign currency are translated using the spot foreign exchange rate at the date of the transaction.

The assets and liabilities of foreign operations with functional currencies other than Pounds Sterling are translated into the presentation currency at the exchange rate on the reporting date. The income and expenses of foreign operations are translated at the rates on the dates of transactions. Exchange differences on foreign operations are recognised in other comprehensive income (OCI) and accumulated in the foreign exchange reserve within equity.

f) Segmental reporting

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

The Group provides loans and asset finance within the UK and the Channel Islands only.

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

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

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

1. Accounting policies (continued)

g) Interest income and expense

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

Interest income on financial assets categorised as stage 1 or 2 are recognised on a gross basis, with interest income on stage 3 assets recognised net of expected credit losses (ECL). For purchased or credit-impaired assets (see note 1 p) vii.), interest income is calculated by applying the credit-adjusted EIR to the amortised cost of the asset. The calculation of interest income does not revert to a gross basis even if the credit risk of the asset improves. See note 1 p) ii. for further information on IFRS 9 stage classifications.

When calculating the EIR, the Group estimates cash flows considering all contractual terms of the instrument and behavioural aspects (for example, prepayment options) but not considering future credit losses. The calculation of the EIR includes transaction costs and fees paid or received that are an integral part of the interest rate, together with the discounts or premiums arising on the acquisition of loan portfolios. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial instrument.

The Group monitors the actual cash flows for each book and resets cash flows on a monthly basis, discounted at the EIR to derive a new carrying value, with changes taken to profit or loss as interest income.

The EIR is adjusted where there is a movement in the reference interest rate (SONIA, synthetic LIBOR or base rate) affecting portfolios with a variable interest rate which will impact future cash flows. The revised EIR is the rate which exactly discounts the revised cash flows to the net carrying value of the loan portfolio.

When the contractual terms of non-derivative financial instruments have been amended as a direct consequence of IBOR reform during 2021 and the new basis for determining the contractual cash flows is economically equivalent to the previous basis, the Group changes the basis for determining the contractual cash flows prospectively by revising the EIR.

Interest income on investment securities is included in interest receivable and similar income. Interest on derivatives is included in interest receivable and similar income or interest expense and similar charges following the underlying instrument it is hedging.

Coupons paid on non-controlling interest securities and AT1 securities are recognised directly in equity in the period in which they are paid.

h) Fees and commissions

Fees and commissions which are an integral part of the EIR of a financial instrument are recognised as an adjustment to the EIR and recorded in interest income. The Group includes early redemption charges within the EIR.

Fees received on mortgage administration services and mortgage origination activities, which are not an integral part of the EIR, are recorded in other operating income and accounted for in accordance with IFRS 15 Revenue from Contracts with Customers, with income recognised when the services are delivered and the benefits are transferred to clients and customers.

Other fees and commissions are recognised on the accruals basis as services are provided or on the performance of a significant act, net of VAT and similar taxes.

1. Accounting policies (continued)

i) Integration costs and exceptional items

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

j) Taxation

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

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

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

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

Deferred tax liabilities are recognised for all taxable temporary differences.

The Company and its tax-paying UK subsidiaries are in a group payment arrangement for corporation tax and show a net corporation tax liability and deferred tax liability accordingly, with the exception of WSE Bourton Road Limited which is applying to join the arrangement.

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

k) Dividends

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

l) Cash and cash equivalents

For the purposes of the Consolidated Statement of Cash Flows, cash and cash equivalents comprise cash, non-restricted balances with credit institutions and highly liquid financial assets with maturities of less than three months from date of acquisition, subject to an insignificant risk of changes in their fair value and are used by the Group in the management of its short-term commitments.

1. Accounting policies (continued)

m) Intangible assets

Purchased software and costs directly associated with the development of computer software are capitalised as intangible assets where the software is a unique and identifiable asset controlled by the Group and will generate future economic benefits. Costs to establish technological feasibility or to maintain existing levels of performance are recognised as an expense. The Group only recognises internally generated intangible assets if all of the following conditions are met:

- an asset is being created that can be identified after establishing the technical and commercial feasibility of the resulting product;
- it is probable that the asset created will generate future economic benefits; and
- the development cost of the asset can be measured reliably.

Subsequent expenditure on an internally generated intangible asset, after its purchase or completion, is recognised as an expense in the period in which it is incurred. Where no internally generated intangible asset can be recognised, development expenditure is recognised as an expense in the period in which it is incurred.

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

An intangible asset is only recognised if:

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

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

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

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

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

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

The Group reviews the amortisation period on an annual basis. If the expected useful life of assets is different from previous assessments, the amortisation period is changed accordingly.

1. Accounting policies (continued)

n) Property, plant and equipment

Property, plant and equipment comprise freehold land and buildings, major alterations to office premises, computer equipment and fixtures measured at cost less accumulated depreciation. These assets are reviewed for impairment annually, and if they are considered to be impaired, are written down immediately to their recoverable amounts.

Items of property, plant and equipment are depreciated on a straight-line basis over their estimated useful economic lives as follows:

Buildings	50 years
Leasehold improvements	10 years
Equipment and fixtures	5 years

Land, deemed to be 25% of purchase price of buildings, is not depreciated.

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

o) Investment in subsidiaries

In the Company's financial statements, investments in subsidiary undertakings are stated at cost less provision for any impairment. A full list of the Company's subsidiaries which are included in the Group's consolidated financial statements can be found in note 2 to the Company's financial statements.

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

1. Accounting policies (continued)

p) Financial instruments

i. Recognition

The Group initially recognises loans and advances, deposits, debt securities issued and subordinated liabilities on the date on which they are originated or acquired. All other financial instruments are accounted for on the trade date which is when the Group becomes a party to the contractual provisions of the instrument.

For financial instruments classified as amortised cost or FVOCI, the Group initially recognises financial assets and financial liabilities at fair value plus transaction income or costs that are directly attributable to its origination, acquisition or issue. Financial instruments classified as amortised cost are subsequently measured using the EIR method.

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

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

ii. Classification

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

- **Amortised cost** – assets in a business model to hold financial assets in order to collect contractual cash flows, where the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.
- **FVOCI** – assets held in a business model which collects contractual cash flows and sells financial assets where the contractual terms of the financial assets give rise on specified dates to cash flows that are SPPI on the principal amount outstanding.
- **FVTPL** – assets not measured at amortised cost or FVOCI. The Group measures derivatives, an acquired mortgage portfolio and an investment security under this category.

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

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

The Group reassesses its business models each reporting period.

The Group classifies certain financial instruments as equity where they meet the following conditions:

- the financial instrument includes no contractual obligation to deliver cash or another financial asset on potentially unfavourable conditions;
- the financial instrument is a non-derivative that includes no contractual obligation for the issuer to deliver a variable number of its own equity instruments; or
- the financial instrument is a derivative that will be settled only by the issuer exchanging a fixed amount of cash or another financial asset for a fixed number of its own equity instruments.

During the year equity financial instruments comprised own shares, and AT1 securities (2021: and non-controlling interest securities). Accordingly, the coupons paid on the non-controlling interest securities and AT1 securities are recognised directly in retained earnings when paid.

1. Accounting policies (continued)

iii. Derecognition

The Group derecognises financial assets when the contractual rights to the cash flows expire or the Group transfers substantially all risks and rewards of ownership of the financial asset.

The Group offers refinancing options to customers which have been assessed within the principles of IFRS 9 and relevant guidance. The assessment concludes the original mortgage asset is derecognised at the refinancing point with a new financial asset recognised.

The forbearance measures offered by the Group are considered a modification event as the contractual cash flows are renegotiated or otherwise modified. The Group considers the renegotiated or modified cash flows are not a substantial modification from the contractual cash flows and does not consider that forbearance measures give rise to a derecognition event.

Financial liabilities are derecognised only when the obligation is discharged, cancelled or has expired.

iv. Offsetting

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

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

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

v. Amortised cost measurement

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition, less principal payments or receipts, plus or minus the cumulative amortisation using the EIR method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment of assets.

vi. Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Group has access at that date.

When available, the Group measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. The Group

1. Accounting policies (continued)

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

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

The Group uses SONIA curves to value its derivatives, previously a combination of LIBOR and SONIA curves. The fair value of the Group's derivative financial instruments incorporates credit valuation adjustments (CVA) and debit valuation adjustments (DVA). The DVA and CVA take into account the respective credit ratings of the Group's two banking entities and counterparty and whether the derivative is collateralised or not. Derivatives are valued using discounted cash flow models and observable market data and are sensitive to benchmark interest and basis rate curves.

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

vii. Identification and measurement of impairment of financial assets

The Group assesses all financial assets for impairment.

Loans and advances to customers

The Group uses the IFRS 9 three-stage ECL approach for measuring impairment. The three impairment stages are as follows:

- **Stage 1** – a 12 month ECL allowance is recognised where there is no significant increase in credit risk (SICR) since initial recognition.
- **Stage 2** – a lifetime ECL allowance is recognised for assets where a SICR is identified since initial recognition. The assessment of whether credit risk has increased significantly since initial recognition is performed for each reporting period for the life of the loan.
- **Stage 3** – requires objective evidence that an asset is credit impaired, at which point a lifetime ECL allowance is recognised.

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

Individual assessment

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

The Group estimates cash flows from these loans, including expected interest and principal payments, rental or sale proceeds, selling and other costs. The Group obtains up-to-date independent valuations for properties put up for sale.

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

The Group applies a modelled assessment to all loans with no individually assessed provision.

1. Accounting policies (continued)

IFRS 9 modelled impairment

Measurement of ECL

The assessment of credit risk and the estimation of ECL are unbiased and probability weighted. The ECL calculation is a product of an individual loan's probability of default (PD), exposure at default (EAD) and loss given default (LGD) discounted at the EIR. The ECL drivers of PD, EAD and LGD are modelled at an account level. The assessment of whether a SICR has occurred is based on quantitative relative PD thresholds and a suite of qualitative triggers.

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

Significant increase in credit risk (movement to stage 2)

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

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

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

Definition of default (movement to stage 3)

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

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

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

1. Accounting policies (continued)

Forward-looking macroeconomic scenarios

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

The Group conducts analysis to determine the most significant factors which may influence the likelihood of an exposure defaulting in the future. The macroeconomic factors relate to the HPI, unemployment rate (UR), Consumer Price Index (CPI), Gross domestic product (GDP), Commercial Real Estate Index (CRE) and the Bank of England Base Rate (BBR).

The Group has developed an approach for factoring probability-weighted macroeconomic forecasts into ECL calculations, adjusting PD and LGD estimates. The macroeconomic scenarios feed directly into the ECL calculation, as the adjusted PD, lifetime PD and LGD estimates are used within the individual account ECL allowance calculations.

The Group sources economic forecast information from an appropriately qualified third party when determining scenarios. The Group considers four probability-weighted scenarios, base, upside, downside and severe downside scenarios.

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

Period over which ECL is measured

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

Purchased or originated credit impaired (POCI)

Acquired loans that meet the Group's definition of default (90 days past due or an unlikely to pay position) at acquisition are treated as POCI assets. These assets attract a lifetime ECL allowance over the full term of the loan, even when these loans no longer meet the definition of default post acquisition. The Group does not originate credit-impaired loans.

Intercompany loans

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

Other financial assets

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

1. Accounting policies (continued)

Share repurchase

Upon Board authorisation of a share repurchase programme and signing an irrevocable agreement, a share repurchase liability is recognised in other liabilities with the offset in retained earnings. Each share repurchase reduces the provision. Upon share cancellation, share capital is debited with a credit to the capital redemption reserve equal to £0.01 for each share cancelled.

q) Loans and advances to customers

Loans and advances to customers are predominantly mortgage loans and advances to customers with fixed or determinable payments that are not quoted in an active market and that the Group does not intend to sell in the near term. They are initially recorded at fair value plus any directly attributable transaction costs and are subsequently measured at amortised cost using the EIR method, less impairment losses. Where exposures are hedged by derivatives, designated and qualifying as fair value hedges, the fair value adjustment for the hedged risk to the carrying value of the hedged loans and advances is reported in fair value adjustments for hedged assets.

Loans and the related provision are written off when there is a shortfall remaining after the underlying security is sold. Subsequent recoveries of amounts previously written off are taken through profit or loss.

Loans and advances to customers over which the Group transfers its rights to the collateral thereon to the BoE under the Term Funding Scheme with additional incentives for SMEs (TFSME) are not derecognised from the Consolidated Statement of Financial Position, as the Group retains substantially all the risks and rewards of ownership, including all cash flows arising from the loans and advances and exposure to credit risk. The Group classifies TFSME as amortised cost under IFRS 9 Financial Instruments.

Loans and advances to customers include a small acquired mortgage portfolio where the contractual cash flows include payments that are not SPPI and as such are measured at FVTPL.

Loans and advances to customers contain the Group’s asset finance lease lending. Finance leases are initially measured at an amount equal to the net investment in the lease, using the interest rate implicit in the finance lease. Direct costs are included in the initial measurement of the net investment in the lease and reduce the amount of income recognised over the lease term. Finance income is recognised over the lease term, based on a pattern reflecting a constant periodic rate of return on the net investment in the lease.

r) Investment securities

Investment securities include securities held for liquidity purposes (UK treasury bills, UK Gilts and Residential Mortgage-Backed Securities (RMBS)). These assets are non-derivatives that are designated on an individual basis as amortised cost, FVOCI or FVTPL.

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

1. Accounting policies (continued)

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

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

s) Deposits, debt securities in issue and subordinated liabilities

Deposits, debt securities in issue and subordinated liabilities are the Group's sources of debt funding. They comprise deposits from retail customers and credit institutions, including collateralised loan advances from the BoE under the TFSME, asset-backed loan notes issued through the Group's securitisation programmes and subordinated liabilities. Subordinated liabilities include the Sterling PSBs where the terms allow no absolute discretion over the payment of interest. These financial liabilities are initially measured at fair value less direct transaction costs, and subsequently held at amortised cost using the EIR method.

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

t) Sale and repurchase agreements

Financial assets sold subject to repurchase agreements (repo) are retained in the financial statements if they fail derecognition criteria of IFRS 9 described in paragraph p (iii) above. The financial assets that are retained in the financial statements are reflected as loans and advances to customers or investment securities and the counterparty liability is included in amounts owed to credit institutions or other customers. Financial assets purchased under agreements to resell at a predetermined price where the transaction is financing in nature (reverse repo) are accounted for as loans and advances to credit institutions. The difference between the sale and repurchase price is treated as interest and accrued over the life of the agreement using the EIR method.

u) Derivative financial instruments

The Group uses derivative financial instruments (interest rate swaps) to manage its exposure to interest rate risk. In accordance with the Group Market and Liquidity Risk Policy, the Group does not hold or issue derivative financial instruments for proprietary trading.

Derivative financial instruments are recognised at their fair value with changes in their fair value taken to profit or loss. Fair values are calculated by discounting cash flows at the prevailing interest rates. All derivatives are classified as assets when their fair value is positive and as liabilities when their fair value is negative. If a derivative is cancelled, it is derecognised from the Consolidated Statement of Financial Position.

The Group also uses derivatives to hedge the interest rate risk inherent in irrevocable offers to lend. This exposes the Group to movements in the fair value of derivatives until the loan is drawn. The changes to fair value are recognised in profit or loss in the period.

1. Accounting policies (continued)

v) Hedge accounting

The Group has chosen to continue to apply the hedge accounting requirements of IAS 39 instead of the requirements in Chapter 6 of IFRS 9. The Group uses fair value hedge accounting for a portfolio hedge of interest rate risk.

Portfolio hedge accounting allows for hedge effectiveness testing and accounting over an entire portfolio of financial assets or liabilities. To qualify for hedge accounting at inception, hedge relationships are clearly documented and derivatives must be expected to be highly effective in offsetting the hedged risks. In addition, effectiveness must be tested throughout the life of the hedge relationship. This applies to all derivatives including SONIA-linked derivatives entered into to replace LIBOR-linked derivatives, as a result of IBOR reforms during 2021.

The Group applies fair value portfolio hedge accounting to its fixed rate portfolio of mortgages and saving accounts. The hedged portfolio is analysed into repricing time periods based on expected repricing dates, utilising the Group Assets and Liabilities Committee (ALCO) approved prepayment curve. Interest rate swaps are designated against the repricing time periods to establish the hedge relationship. Hedge effectiveness is calculated as a percentage of the fair value movement of the interest rate swap against the fair value movement of the hedged item over the period tested.

The Group considers the following as key sources of hedge ineffectiveness:

- the mismatch in maturity date of the swap and hedged item, as swaps with a given maturity date cover a portfolio of hedged items which may mature throughout the month;
- the actual behaviour of the hedged item differing from expectations, such as early repayments or withdrawals and arrears;
- minimal movements in the yield curve leading to ineffectiveness where hedge relationships are sensitive to small value changes; and
- the transition relating to LIBOR reforms during 2021 whereby some hedged instruments and hedged items are based on different benchmark rates.

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

The Group discontinues hedge accounting when the derivative ceases through expiry, when the derivative is cancelled or the underlying hedged item matures, is sold or is repaid.

If a derivative no longer meets the criteria for hedge accounting or is cancelled whilst still effective, including LIBOR-linked derivatives cancelled as a result of IBOR reforms during 2021, the fair value adjustment relating to the hedged assets or liabilities within the hedge relationship prior to the derivative becoming ineffective or being cancelled remains on the Consolidated Statement of Financial Position and is amortised over the remaining life of the hedged assets or liabilities. The rate of amortisation over the remaining life is in line with expected income or cost generated from the hedged assets or liabilities. Each reporting period, the expectation is compared to actual with an accelerated run-off applied where the two diverge by more than set parameters.

1. Accounting policies (continued)

w) Debit and credit valuation adjustments

The DVA and CVA are included in the fair value of derivative financial instruments. The DVA is based on the expected loss a counterparty faces due to the risk of the Group's two banking entities defaulting. The CVA reflects the Group's risk of the counterparty's default.

The methodology is based on a standard calculation, taking into account:
- the one-year PD;
- the expected EAD;
- the expected LGD; and
- the average maturity of the swaps.

x) Provisions and contingent liabilities

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

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

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

y) Employee benefits – defined contribution scheme

The Group contributes to defined contribution personal pension plans or defined contribution retirement benefit schemes for all qualifying employees who subscribe to the terms and conditions of the schemes' policies.

Obligations for contributions to defined contribution pension arrangements are recognised as an expense in profit or loss as incurred.

z) Share-based payments

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

The cost of the awards are charged on a straight-line basis to profit or loss (with a corresponding increase in the share-based payment reserve within equity) over the vesting period in which the employees become unconditionally entitled to the awards. The increase within the share-based payment reserve is reclassified to retained earnings upon exercise.

The amount recognised as an expense for non-market conditions and related service conditions is adjusted each reporting period to reflect the actual number of awards expected to be met. The amount recognised as an expense for awards subject to market conditions is based on the proportion that is expected to meet the condition as assessed at the grant date. No adjustment is made to the fair value of each award calculated at grant date.

Share-based payments that are not subject to further vesting conditions (i.e. the Deferred Share Bonus Plan (DSBP) for senior managers) are expensed in the year services are received with a corresponding increase in equity. Awards granted to Executive Directors in March 2020 are subject to service conditions

1. Accounting policies (continued)

through to vesting and are expensed over the vesting period. Awards granted to Executive Directors from 2021 are not subject to future service conditions and are expensed in the year where the service is deemed to have been provided.

Where the allowable cost of share-based options or awards for tax purposes is greater than the cost determined in accordance with IFRS 2, the tax effect of the excess is taken to the share-based payment reserve within equity. The tax effect is reclassified to retained earnings upon vesting.

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

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

aa) Leases

The Group's leases are predominantly for offices and Kent Reliance branches. The Group recognises right-of-use assets and lease liabilities for leases over 12 months long. Right-of-use assets and lease liabilities are initially recognised at the net present value of future lease payments, discounted at the rate implicit in the lease or, where not available, the Group's incremental borrowing cost. Subsequent to initial recognition, the right-of-use asset is depreciated on a straight-line basis over the term of the lease. Future rental payments are deducted from the lease liability, with interest charged on the lease liability using the incremental borrowing cost at the time of initial recognition. Lease liability payments are recognised within financing activities in the Consolidated Statement of Cash Flows.

The Group assesses the likely impact of early terminations in recognising the right-of-use asset and lease liability where an option to terminate early exists.

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

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

1. Accounting policies (continued)

bb) Adoption of new standards

International financial reporting standards issued and adopted for the first time in the year ended 31 December 2022

There were a number of minor amendments to financial reporting standards that are effective for the current year. There has been no material impact on the financial statements of the Group from the adoption of these financial reporting standard amendments and interpretations.

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

Certain amendments to accounting standards and interpretations that were not effective on 31 December 2022 have not been early adopted by the Group. The adoption of these amendments are not expected to have a material impact on the financial statements of the Group in future periods.

2. Judgements in applying accounting policies and critical accounting estimates

In preparing these financial statements, the Group has made judgements, estimates and assumptions which affect the reported amounts within the current and future financial years. Actual results may differ from these estimates.

As set out in the Task Force on Climate-related Financial Disclosures (TCFD) report, climate change is a global challenge and an emerging risk to businesses, people and the environment. Therefore, in preparing the financial statements, the Group has considered the impact of climate-related risks on its financial position and performance, including the impact on ECL and redemption profiles included in EIR. While the effects of climate change represent a source of uncertainty, the Group does not consider there to be a material impact on its judgements and estimates from the physical or transition risks in the short term. Accordingly there is no significant risk of material adjustment of the carrying amounts of assets and liabilities within the next financial year as a result of climate change. As set out in note 23, whilst not material we have recognised a post model adjustment (PMA) within the ECL provision of £4.4m in relation to climate change.

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

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

(i) Loan book impairments

Significant increase in credit risk for classification in stage 2
The Group's SICR rules considers changes in default risk, internal impairment measures, changes in customer credit bureau files, or whether forbearance measures had been applied. As the COVID-19 payment deferrals initiative has ceased, newly granted payment holidays are considered a SICR event.

Other SICR adjustments made during the pandemic to account for high risk accounts have since been removed with SICR adjustments updated as the Group identified increases in credit risk as a result of the Cost of Living and Cost of Borrowing stresses in the UK, caused by high inflation and increases in interest rates.

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

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

Management assess the intention for holding financial assets and the contractual terms of those assets, concluding that the Group's business model is a 'held to collect' business model. This conclusion was reached on the basis that the Group originates and purchases loans and advances in order with the intention to collect contractual cash flows over the life of the originated or purchased financial instrument.

The Group considers whether the contractual terms of a financial asset give rise on specified dates to cash flows that are SPPI on the principal amount outstanding when applying the classification criteria of IFRS 9. The majority of the Group's assets being loans and advances to customers which have been accounted for under amortised cost with the exception of one acquired mortgage book of £14.6m (2021: £17.7m) that is recognised at FVTPL.

Estimates
The Group has made the following estimates in the application of the accounting policies that have a significant risk of material adjustment to the carrying amount of assets and liabilities within the next financial year:

(i) Loan book impairments
Set out below are details of the critical accounting estimates which underpin loan impairment calculations. Less significant estimates are not discussed as they do not have a material effect. The Group has recognised total impairments of £130.0m (2021: £101.5m) at the reporting date as disclosed in note 23.

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

Loss given default model
The Group has a number of LGD models, which include estimates regarding propensity to go to possession given default (PPD), forced sale discount, time to sale and sale costs. The LGD is sensitive to the application of the HPI, with a 10% haircut seen to be a reasonable percentage change when reviewing historical and expected 12 month outcomes. The table below shows the resulting incremental provision required in a 10% house price haircut being directly applied to all exposures which not only adjust the sale discount but the propensity to go to PPD.

	OSB segment	CCFS segment	Group
31 December 2022	**£28.0m**	**£10.7m**	**£38.7m**
31 December 2021	£22.7m	£8.3m	£31.0m

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

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

Forward-looking macroeconomic scenarios
The forward-looking macroeconomic scenarios affect all model components of the ECL thus the calculation remains sensitive to both the scenarios utilised and their associated probability weightings.

The Company has adopted an approach which utilises four macroeconomic scenarios. These scenarios are provided by an industry leading economics advisory firm, that provide management and the Board with advice on which scenarios to utilise and the probability weightings to attach to each scenario. A base case forecast is provided, together with a plausible upside scenario. Two downside scenarios are also provided (downside and a severe downside).The Group's macroeconomic scenarios can be found in the Credit Risk section of the Risk profile performance overview.

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

As at 31-Dec-22	**Weighted (see note 23)**	**100% Base case scenario**	**100% Upside scenario**	**100% Downside scenario**	**100% Severe downside scenario**
Total loans before provisions, £m	**23,728.1**	**23,728.1**	**23,728.1**	**23,728.1**	**23,728.1**
Modelled ECL, £m	**54.4**	**41.7**	**32.8**	**79.3**	**120.0**
Non-modelled ECL, £m	**75.6**	**75.6**	**75.6**	**75.6**	**75.6**
Total ECL, £m	**130.0**	**117.3**	**108.4**	**154.9**	**195.6**
ECL coverage, %	**0.55**	**0.49**	**0.46**	**0.65**	**0.82**

As at 31-Dec-21					
Total loans before provisions, £m	21,164.1	21,164.1	21,164.1	21,164.1	21,164.1
Modelled ECL, £m	48.3	26.5	13.1	74.0	120.3
Non-modelled ECL, £m	53.2	53.2	53.2	53.2	53.2
Total ECL, £m	101.5	79.7	66.3	127.2	173.5
ECL coverage, %	0.48	0.38	0.31	0.60	0.82

(ii) Effective interest rate on lending

Estimates are made when calculating the EIR for newly-originated loan assets. These include the likely customer redemption profiles. Mortgage products offered by the Group include directly attributable net fee income and a period on reversion rates after the fixed/ discount period. Products revert to the standard variable rate (SVR) or Base rate plus a margin for the Kent Reliance brand or a SONIA/Base rate plus a margin for the Precise brand. Subsequent to origination, changes in actual and expected customer prepayment rates are reflected as increases or decreases in the carrying value of loan assets with a corresponding increase or decrease in interest income. The Group uses historical customer behaviours, expected take-up rate of retention products and macroeconomic forecasts in its assessment of expected prepayment rates. Customer prepayments in a fixed rate or incentive period can give rise to Early Repayment Charge (ERC) income.

Judgement is used in assessing whether and for how long mortgages that reach the end of the initial product term stay on reversion rates, and to the quantum and timing of prepayments that incur ERCs. The estimate of customer weighted average life determines the period over which net fee income and expected reversionary income is recognised. Estimates are reviewed regularly and, as a consequence of the reviews, adjustments with an adverse impact of £31.6m were made in 2022 predominantly due to reducing the time Precise customers are expected to spend on reversion rates (2021: £19.0m favourable), decreasing net interest income and loans and advances to customers.

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

There were a number of base rate rises in quick succession in 2022, increasing the sensitivity to changes in behavioural assumptions because higher reversion rates both increase the income earned on loans in the reversion period and can lead to higher repayment rates and therefore less time spent on reversion.

A three months' reduction in the weighted average lives of loans in the reversion period was considered to be a reasonably possible change in assumption based on observed changes in repayment rates in reversion periods over the last two years and what could happen to repayment rates in a high interest rate environment and an uncertain macroeconomic outlook.

The sensitivity has been applied to both the Kent Reliance and the Precise portfolios. In previous years the Precise portfolio sensitivity was split between loans originated pre and post the combination with CCFS on 4 October 2019. The combined sensitivity reflects how the Group now assesses customer behaviour in the portfolio.

Applying a three month reduction to the expected weighted average life of the loan book in the reversion period would result in a reset loss of c.£80.8m in 2023 (2021: c.£45.9m on a six month basis in 2022).

3. Interest receivable and similar income

	2022 £m	2021 £m
At amortised cost:		
On OSB mortgages	**591.6**	541.3
On CCFS mortgages	**411.2**	342.9
On finance leases	**9.4**	6.3
On investment securities	**4.7**	2.1
On other liquid assets	**39.3**	2.7
Amortisation of fair value adjustments on CCFS loan book at Combination	**(61.5)**	(66.1)
Amortisation of fair value adjustments on hedged assets[1]	**(34.1)**	(39.9)
	960.6	789.3
At FVTPL:		
Net income/(expense) on derivative financial instruments - lending activities	**106.6**	(42.9)
At FVOCI:		
On investment securities	**2.1**	0.4
	1,069.3	746.8

1. The amortisation relates to hedged assets where the hedges were terminated before maturity and were effective at the point of termination.

4. Interest payable and similar charges

	2022 £m	2021 £m
At amortised cost:		
On retail deposits	**257.7**	156.7
On BoE borrowings	**64.8**	4.5
On PSBs	**0.7**	1.2
On subordinated liabilities	**1.1**	0.8
On wholesale borrowings	**3.9**	0.8
On debt securities in issue	**7.7**	3.9
On lease liabilities	**0.2**	0.3
Amortisation of fair value adjustments on CCFS customer deposits at Combination	**(1.0)**	(1.5)
Amortisation of fair value adjustments on hedged liabilities[1]	**(0.8)**	(1.1)
	334.3	165.6
At FVTPL:		
Net expense/(income) on derivative financial instruments - savings activities	**25.1**	(6.4)
	359.4	159.2

1. The amortisation relates to hedged liabilities where the hedges were terminated before maturity and were effective at the point of termination.

5. Fair value gains on financial instruments

	2022 £m	2021 £m
Fair value changes in hedged assets	**(620.6)**	(297.8)
Hedging of assets	**621.9**	298.9
Fair value changes in hedged liabilities	**33.0**	27.4
Hedging of liabilities	**(42.4)**	(26.1)
Ineffective portion of hedges	**(8.1)**	2.4
Net gains on unmatched swaps	**57.1**	10.3
Amortisation of inception adjustments[1]	**1.2**	3.0
Amortisation of acquisition-related inception adjustments[2]	**10.2**	13.4
Amortisation of de-designated hedge relationships[3]	**(0.1)**	0.2
Fair value movements on mortgages at FVTPL	**(0.9)**	1.2
Debit and credit valuation adjustment	**(0.5)**	(1.0)
	58.9	29.5

1. The amortisation of inception adjustment relates to the amortisation of the hedging adjustments arising when hedge accounting commences, primarily on derivative instruments previously taken out against the mortgage pipeline and also on derivative instruments previously taken out against new retail deposits.
2. Relates to hedge accounting assets and liabilities recognised on the Combination. The inception adjustments are being amortised over the life of the derivative instruments acquired on Combination subsequently designated in hedging relationships.
3. Relates to the amortisation of hedged items where hedge accounting has been discontinued due to ineffectiveness.

6. Gain on sales of financial instruments

There were no sales of financial instruments during the year ended 31 December 2022.

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.

7. Other operating income

	2022 £m	2021 £m
Interest received on mortgages held at FVTPL	**0.6**	0.5
Fees and commissions receivable	**6.0**	7.4
	6.6	7.9

8. Administrative expenses

	2022 £m	2021 £m
Staff costs	**109.3**	92.5
Facilities costs	**6.4**	6.0
Marketing costs	**4.5**	4.0
Support costs	**31.2**	25.3
Professional fees	**30.2**	16.9
Other costs	**12.8**	7.3
Depreciation (see note 29)	**5.2**	5.0
Amortisation (see note 30)	**8.2**	9.5
	207.8	166.5

8. Administrative expenses (continued)

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

	2022 £'000	2021 £'000
Fees payable to the Company's auditor for the audit of the Company's annual accounts	**75**	68
Fees payable to the Company's auditor for the audit of the accounts of subsidiaries	**3,340**	2,330
Total audit fees	**3,415**	2,398
Audit-related assurance services[1]	**254**	258
Other assurance services[2]	**259**	121
Other non-audit services[3]	**33**	240
Total non-audit fees	**546**	619
Total fees payable to the Company's auditor	**3,961**	3,017

1. Includes review of interim financial information and profit verifications.
2. Costs comprise assurance reviews of Alternative Performance Measures (APMs), Environmental, social and governance (ESG) and European Single Electronic Format (ESEF) tagging (2021: assurance reviews of APMs, integration costs and ESEF tagging).
3. Costs primarily comprise work related to the European Medium Term Note (EMTN) programme (2021: work related to the AT1 securities issuance, a gap analysis in relation to TCFD and the EMTN programme).

Staff costs comprise the following:

	2022 £m	2021 £m
Salaries, incentive pay and other benefits	**87.3**	72.9
Share-based payments	**8.1**	6.7
Social security costs	**9.5**	7.7
Other pension costs	**4.4**	5.2
	109.3	92.5

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

	2022	2021
UK	**1,274**	1,220
India	**622**	535
	1,896	1,755

9. Impairment of intangible assets

Assets arising on the Combination with CCFS in 2019 included a broker relationships intangible asset with a fair value of £17.1m on Combination. During 2020 an impairment of £7.0m was recognised arising from changes to CCFS anticipated lending volumes over three years post combination, which are a key input to the calculation of the fair value, and which were revised due to COVID-19 impacts. During 2021 an impairment assessment was performed and as actual lending volumes were higher than anticipated the Group has recognised an impairment reversal of £3.1m. The remaining carrying value of the broker relationships intangible asset at 31 December 2022 is £2.0m (2021: £5.0m).

10. Directors' emoluments and transactions

	2022 £'000	2021 £'000
Short-term employee benefits[1]	**3,213**	2,825
Post-employment benefits	**109**	106
Share-based payments[2]	**2,291**	1,267
	5,613	4,198

1. Short-term employee benefits comprise Directors' salary costs, Non-Executive Directors' fees and other short-term incentive benefits, which are disclosed in the Annual Report on Remuneration.
2. Share-based payments represent the amounts received by Directors for schemes that vested during the year.

In addition to the total Directors' emoluments above, the Executive Directors were granted deferred bonuses of £642k (2021: £633k) in the form of shares. DSBP awards granted from April 2021 have a holding period of three to seven years with no further conditions attached other than standard clawback situations. In March 2020 and prior years, the DSBP awards were subject to either a three or five year vesting period with conditions attached, notably if the Director leaves prior to vesting, the award is forfeited unless a good leaver reason applies such as redundancy, retirement or ill-health.

The Executive Directors received a further share award under the Performance Share Plan (PSP) with a grant date fair value of £1,516k (2021: £1,458k) using a share price of £5.58 (2021: £4.94) (the mid-market quotation on the day preceding the date of grant). These shares vest annually from year three in tranches of 20 per cent, subject to performance conditions discussed in note 11 and the Annual Report on Remuneration.

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

No compensation was paid for loss of office during 2022 and 2021.

There were no outstanding loans granted in the ordinary course of business to Directors and their connected persons as at 31 December 2022 and 2021.

The Annual Report on Remuneration and note 11 Share-based payments provide further details on Directors' emoluments.

11. Share-based payments

The Group operates the following share-based schemes:

Sharesave Scheme
SAYE or Sharesave Scheme is a share option scheme which is available to all UK-based employees. The Sharesave Scheme allows employees to purchase options by saving a fixed amount of between £10 and £500 per month over a period of three years at the end of which the options, subject to leaver provisions, are usually exercisable. If not exercised, the amount saved is returned to the employee. The Sharesave Scheme has been in operation since 2014 and an invitation to join the scheme is usually extended annually, with the option price calculated using the mid-market price of an OSBG ordinary share over the three dealing days prior to the Invitation Date and applying a discount of 20%.

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

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

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

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

The share-based expense for the year includes a charge in respect of the Sharesave Scheme, DSBP and PSP. All charges are included in employee expenses within note 8 Administrative expenses.

11. Share-based payments (continued)

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

	2022	2021
	£m	£m
Sharesave Scheme	**0.6**	0.7
Deferred Share Bonus Plan	**4.2**	3.8
Performance Share Plan	**3.3**	2.2
	8.1	6.7

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

	Sharesave Scheme		**Deferred Share Bonus Plan**	**Performance Share Plan**
	Number	**Weighted average exercise price, £**	**Number**	**Number**
At 1 January 2022	**2,421,260**	**2.65**	**797,116**	**5,225,080**
Granted	**596,692**	**4.29**	**478,901**	**1,761,174**
Exercised/Vested	**(624,664)**	**2.67**	**(511,034)**	**(1,181,949)**
Forfeited	**(245,316)**	**2.82**	**(1,593)**	**(413,036)**
At 31 December 2022	**2,147,972**	**3.08**	**763,390**	**5,391,269**
Exercisable at:				
31 December 2022	**35,015**	**2.85**	**-**	**-**
At 1 January 2021	2,745,332	2.53	1,119,757	4,986,527
Granted	339,097	3.96	363,624	1,477,111
Exercised/Vested	(270,709)	3.10	(683,456)	(513,927)
Forfeited	(392,460)	2.63	(2,809)	(724,631)
At 31 December 2021	2,421,260	2.65	797,116	5,225,080
Exercisable at:				
31 December 2021	8,480	3.37	-	-

For the share-based awards granted during the year, the weighted average grant date fair value was 396 pence (2021: 286 pence).

11. Share-based payments (continued)

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

	2022		2021	
Exercise price	**Number**	**Weighted average remaining contractual life (years)**	Number	Weighted average remaining contractual life (years)
Sharesave Scheme				
229 - 429 pence (2021: 227 - 335 pence)	**2,147,972**	**1.8**	2,421,260	2.0
Deferred Share Bonus Plan				
Nil	**763,390**	**0.9**	797,116	0.7
Performance Share Plan				
Nil	**5,391,269**	**2.7**	5,225,080	2.4
	8,302,631	**2.3**	8,443,456	2.1

Sharesave Scheme

	2022	2021	2020		2019		2018		2017
Contractual life, years	**3**	3	3	5	3	5	3	5	5
Share price at issue, £	**4.20**	5.13	2.86	2.86	3.32	3.32	4.19	4.19	3.93
Exercise price, £	**4.29**	3.96	2.29	2.29	2.65	2.65	3.35	3.35	3.15
Expected volatility, %	**31.4**	37.9	57.6	57.6	31.9	31.9	16.1	16.5	17.3
Dividend yield, %	**7.3**	4.5	3.3	3.3	4.8	4.8	4.4	4.4	4.1
Grant date fair value, £	**0.68**	1.46	1.22	1.34	0.90	0.91	0.40	0.43	0.70

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

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

11. **Share-based payments** (continued)

Deferred Share Bonus Plan

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

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

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

Performance Share Plan

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

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

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

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

The inputs into the models are as follows:

	2022	2021	2020	2019	2018
Contractual life, years	**3-7**	3-7	3-7	3	3
Mid-market share price, £	**5.58**	4.94	2.58	3.96	4.11
Attrition rate, %	**6.9**	12.8	7.3	8.4	9.7
Expected volatility, %	**37.4**	59.5	43.9	26.8	29.1
Dividend yield, %	**4.7**	3.8	5.6	4.7	4.6
Vesting rate - TSR %	**32.3**	40.8	27.8	44.9	54.0
Grant date fair value, £	**4.64**	4.26	2.06	3.47	3.61

12. Integration costs

	2022 **£m**	2021 £m
Consultant fees	**4.9**	2.2
Staff costs	**3.0**	2.2
Impairment	**-**	0.6
	7.9	5.0

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

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

Impairment relates to a property sold during 2021.

13. Exceptional items

	2022 **£m**	2021 £m
Consultant fees	**-**	-
Legal and professional fees	**-**	0.2
	-	0.2

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

14. Taxation

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

	2022 £m	2021 £m
Corporation tax - current year	**141.4**	128.0
Corporation tax - prior year	**(0.9)**	-
Deferred tax - current year	**(1.2)**	(0.2)
Deferred tax - prior year	**(0.3)**	-
Release of deferred tax on CCFS Combination[1]	**(17.5)**	(8.5)
Total tax charge	**121.5**	119.3

1. Release of deferred tax 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 £(12.8)m (2021: £(14.1)m) and the impact of the bank surcharge decrease on these deferred tax liabilities £(4.7)m (2021: the impact of the corporation tax rate increase £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% (2021: 19%) as follows:

	2022 £m	2021 £m
Profit before taxation	**531.5**	464.6
Profit multiplied by the standard rate of UK Corporation Tax (19%)	**101.0**	88.3
Bank surcharge[1]	**30.2**	27.7
Taxation effects of:		
Expenses not deductible for taxation purposes	**0.5**	0.7
Securitisation profits not taxable	**(2.2)**	-
Impact of deferred tax rate change[2]	**(5.1)**	5.2
Adjustments in respect of earlier years	**(1.2)**	-
Tax adjustments in respect of share-based payments	**-**	1.2
Tax on coupon paid on AT1 securities	**(1.7)**	-
Tax on coupon paid on non-controlling interest securities	**-**	(2.5)
Timing differences on capital items	**-**	(1.3)
Total tax charge	**121.5**	119.3

1. Tax charge for the two banking entities of £34.3m (2021: £31.9m) offset by the tax impact of unwinding CCFS Combination items of £4.1m (2021: £4.2m).
2. Due to change in bank surcharge rate from 8% to 3% on 1 April 2023 (2021: due to change in corporation tax rate from 19% to 25% on 1 April 2023).

Factors affecting tax charge for the year

The effective tax rate for the year ended 31 December 2022, excluding the impact of adjustments in respect of earlier years and the deferred tax rate change, was 24.0% (2021: 24.6%).

14. Taxation (continued)

The £(5.1)m credit (2021: £5.2m charge) impact of the deferred tax rate change relates predominantly to the deferred tax liability from the CCFS combination (see note 28 and 38).

A tax charge of nil (comprising a deferred tax debit of £0.9m and current tax credit of £0.9m) (2021: credit of £1.6m) has been recognised directly within equity relating to the Group's share-based payment schemes.

A tax credit of £0.1m (2021: credit of £0.5m) has been recognised within OCI relating to investment securities classified as FVOCI.

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% from 1 April 2023. Further, on 24 February 2022, the government substantively enacted legislation to decrease the bank surcharge rate from 8% to 3% from 1 April 2023, together with an increase in the surcharge annual allowance (the level of taxable profits above which are subject to the surcharge) from £25m to £100m.

In September 2022, the government announced that the above changes would be cancelled, but then in October 2022 announced that the changes would go ahead as enacted.

Deferred tax expected to unwind after 1 April 2023 is recognised for entities that incur the bank surcharge at 28% (2021: 33%).

15. Earnings per share

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

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

	2022 £m	2021 £m
Statutory profit after tax	**410.0**	345.3
Less: Coupon on non-controlling interest securities classified as equity	**-**	(4.7)
Less: Coupon on AT1 securities classified as equity	**(9.0)**	-
Statutory profit attributable to ordinary shareholders	**401.0**	340.6

	2022	2021
Weighted average number of shares, millions		
Basic	**441.5**	448.1
Dilutive impact of share-based payment schemes	**5.1**	4.6
Diluted	**446.6**	452.7
Earnings per share, pence per share		
Basic	**90.8**	76.0
Diluted	**89.8**	75.2

16. Dividends

	2022 £m	2022 Pence per share	2021 £m	2021 Pence per share
Final dividend for the prior year	**94.8**	**21.1**	64.8	14.5
Interim dividend for the current year	**38.3**	**8.7**	21.9	4.9
	133.1		86.7	

The Directors recommend a final dividend of £93.7m, 21.8 pence per share (2021: £94.8m, 21.1 pence per share) payable on 17 May 2023 with an ex-dividend date of 23 March 2023 and a record date of 24 March 2023. This dividend is not reflected in these financial statements as subject to approval by shareholders at the AGM on 11 May 2023.

The Directors have also announced a special dividend of £50.3m, 11.7 pence per share (2021: nil) payable on 17 May 2023 with an ex-dividend date of 23 March 2023 and a record date of 24 March 2023.

If the final dividend is approved this will make up the total dividend for 2022 of £182.0m, 42.2 pence per share (2021: £116.6m, 26.0 pence per share).

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

	2022 £m	2021 £m
Retained earnings	**1,359.3**	1,358.4
Own shares[1]	**(2.2)**	(3.5)
Distributable reserves	**1,357.1**	1,354.9

1. Own Shares comprises own shares held in the Group's EBT of £2.2m (2021: £3.5m) which are recognised within OSBG under look-through accounting.

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

17. Cash and cash equivalents

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

	2022 £m	2021 £m
Cash in hand	**0.4**	0.5
Unencumbered loans and advances to credit institutions	**2,953.7**	2,636.2
Investment securities	**90.0**	100.0
	3,044.1	2,736.7

18. Loans and advances to credit institutions

	2022 £m	2021 £m
Unencumbered:		
BoE call account	**2,806.5**	2,496.4
Call accounts	**73.2**	43.3
Cash held in special purpose vehicles (SPVs)[1]	**63.8**	89.6
Term deposits	**10.2**	6.9
Encumbered:		
BoE cash ratio deposit	**62.8**	59.5
Cash held in SPVs[1]	**111.8**	48.0
Cash margin given	**237.4**	99.9
	3,365.7	2,843.6

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

19. Investment securities

	2022 £m	2021 £m
Held at amortised cost:		
UK Sovereign debt	**-**	100.0
RMBS loan notes	**262.6**	223.1
	262.6	323.1
Less: Expected credit losses	**-**	-
	262.6	323.1
Held at FVOCI:		
UK Sovereign debt[1]	**149.8**	152.1
RMBS loan notes	**-**	15.5
	149.8	167.6
Held at FVTPL:		
RMBS loan notes	**0.5**	0.7
	0.5	0.7
	412.9	491.4

1. Includes £90.0m of UK Treasury bills which had a maturity of less than three months from date of acquisition (2021: nil).

At 31 December 2022, the Group had no RMBS held at FVOCI or FVTPL (2021: nil) and £11.5m of RMBS held at amortised cost (2021: £119.5m) sold under repos.

19. Investment securities (continued)

The Directors consider that the primary purpose of holding investment securities is prudential. These securities are held as liquid assets with the intention of use on a continuing basis in the Group's activities and are classified as amortised cost, FVOCI and FVTPL in accordance with the Group's business model for each security.

The credit risk on investment securities held at amortised cost has not significantly increased since initial recognition and they are categorised as stage 1. The ECLs are less than £0.1m.

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

	2022 £m	2021 £m
At 1 January	**491.4**	471.2
Additions[1]	**686.5**	568.2
Disposals and maturities[2]	**(764.4)**	(549.7)
Movement in accrued interest	**(0.9)**	0.6
Changes in fair value	**0.3**	1.1
At 31 December	**412.9**	491.4

1. Additions includes £90.0m of UK Treasury bills which had a maturity of less than three months from date of acquisition (2021: £100.0m).
2. Disposals and maturities includes £100.0m of UK Treasury bills which had a maturity of less than three months from date of acquisition (2021: nil).

At 31 December 2022, investment securities included investments in unconsolidated structured entities (see note 45) of £100.7m notes in PMF 2020-1B (2021: £100.7m notes in PMF 2020-1B and £21.0m notes in PMF 2017-1B). The investments represent the maximum exposure to loss from unconsolidated structured entities.

20. Loans and advances to customers

	2022 £m	2021 £m
Held at amortised cost:		
Loans and advances (see note 21)	**23,564.9**	21,047.9
Finance leases (see note 22)	**163.2**	116.2
	23,728.1	21,164.1
Less: Expected credit losses (see note 23)	**(130.0)**	(101.5)
	23,598.1	21,062.6
Held at FVTPL:		
Residential mortgages	**14.6**	17.7
	23,612.7	21,080.3

21. Loans and advances

	2022			2021		
	OSB	**CCFS**	**Total**	OSB	CCFS	Total
	£m	**£m**	**£m**	£m	£m	£m
Gross carrying amount						
Stage 1	**10,188.4**	**8,375.5**	**18,563.9**	10,393.2	7,685.7	18,078.9
Stage 2[1]	**2,508.9**	**1,907.4**	**4,416.3**	1,142.3	1,269.8	2,412.1
Stage 3	**345.7**	**156.0**	**501.7**	360.4	99.1	459.5
Stage 3 (POCI)	**38.5**	**44.5**	**83.0**	45.2	52.2	97.4
	13,081.5	**10,483.4**	**23,564.9**	11,941.1	9,106.8	21,047.9

1. The increase in balance of accounts in Stage 2 is due to the increased credit risk from heightened cost of living and cost of borrowing. For further detail relating to movements by stage see the Risk review.

The mortgage loan balances pledged as collateral for liabilities are:

	2022	2021
	£m	£m
BoE under TFSME and Indexed Long-Term Repo (ILTR)	**6,439.7**	5,887.2
Securitisation	**265.4**	486.5
	6,705.1	6,373.7

The Group's securitisation programmes and use of TFSME and ILTR result in certain assets being encumbered as collateral against such funding. As at 31 December 2022, the percentage of the Group's gross loans and advances to customers that are encumbered was 28% (2021: 30%).

21. Loans and advances (continued)

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

	Stage 1 £m	Stage 2 £m	Stage 3 £m	Stage 3 (POCI) £m	Total £m
At 1 January 2021	16,060.3	2,689.6	392.6	114.6	19,257.1
Originations[1]	4,523.4	-	-	-	4,523.4
Acquisitions[2]	277.7	-	-	2.7	280.4
Disposals[2]	(214.4)	-	-	-	(214.4)
Repayments and write-offs[3]	(2,539.8)	(160.3)	(78.6)	(19.9)	(2,798.6)
Transfers:					
- To Stage 1	1,401.0	(1,370.2)	(30.8)	-	-
- To Stage 2	(1,339.7)	1,384.1	(44.4)	-	-
- To Stage 3	(89.6)	(131.1)	220.7	-	-
At 31 December 2021	18,078.9	2,412.1	459.5	97.4	21,047.9
Originations[1]	**5,829.6**	**-**	**-**	**-**	**5,829.6**
Repayments and write-offs[3]	**(2,855.3)**	**(353.6)**	**(89.3)**	**(14.4)**	**(3,312.6)**
Transfers:					
- To Stage 1	**1,121.6**	**(1,098.0)**	**(23.6)**	**-**	**-**
- To Stage 2[4]	**(3,524.0)**	**3,574.6**	**(50.6)**	**-**	**-**
- To Stage 3	**(86.9)**	**(118.8)**	**205.7**	**-**	**-**
At 31 December 2022	**18,563.9**	**4,416.3**	**501.7**	**83.0**	**23,564.9**

1. Originations include further advances and drawdowns on existing commitments.
2. 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 the then current balances.
3. Repayments and write-offs include customer redemptions and write-offs which are immaterial.
4. The increase in balance of accounts in Stage 2 is due to the increased credit risk from heightened cost of living and cost of borrowing. For further detail relating to movements by stage see the Risk review.

The contractual amount outstanding on loans and advances that were written off during the reporting period and are still subject to collections and recovery activity is £0.8m at 31 December 2022 (2021: £1.5m).

As at 31 December 2022 £110.0m of loans and advances (2021: £97.4m) are in a probation period before they can move out of Stage 3, see note 1 p) for further details.

22. Finance leases

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

	2022 **£m**	2021 £m
Gross investment in finance leases, receivable		
Less than one year	**60.7**	39.7
Between one and two years	**49.5**	27.7
Between two and three years	**36.0**	27.5
Between three and four years	**23.4**	17.2
Between four and five years	**9.9**	14.6
More than five years	**1.3**	0.9
	180.8	127.6
Unearned finance income	**(17.6)**	(11.4)
Net investment in finance leases	**163.2**	116.2
Net investment in finance leases, receivable		
Less than one year	**52.4**	34.7
Between one and two years	**44.4**	26.0
Between two and three years	**33.2**	25.5
Between three and four years	**22.3**	15.8
Between four and five years	**9.6**	13.3
More than five years	**1.3**	0.9
	163.2	116.2

The Group has recognised £4.8m of ECLs on finance leases as at 31 December 2022 (2021: £4.3m).

23. Expected credit losses

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

	2022			2021		
	ECL provision £m	**Weighting %**	**Weighted ECL provision £m**	ECL provision £m	Weighting %	Weighted ECL provision £m
Scenarios						
Upside	**32.8**	**30**	**9.8**	13.1	20	2.6
Base case	**41.7**	**40**	**16.7**	26.5	40	10.6
Downside scenario	**79.3**	**20**	**15.9**	74.0	28	20.7
Severe downside scenario	**120.0**	**10**	**12.0**	120.3	12	14.4
Total weighted provisions			**54.4**			48.3
Non-modelled provisions:						
Individually assessed provisions			**45.8**			40.4
Post model adjustments			**29.8**			12.8
Total provision			**130.0**			101.5

The Group reflected on the ongoing appropriateness of probabilities attached to the suite of IFRS 9 scenarios as the macroeconomic outlook evolved throughout the year. Scenarios were adjusted to a symmetrical probability, where the upside and downside scenarios carry equal weightings, as a result of separate post-model adjustments being raised to ensure that the current IFRS 9 framework adequately provisioned for the underlying portfolio risk.

As at 31 December 2022, the Group identified increases in credit risk as a result of the cost of living and cost of borrowing stresses caused by high inflation and increases in interest rates. As a result, the Group held an additional £16.0m of ECL in PMA for risks not sufficiently accounted for in the IFRS 9 framework (£7.3m for cost of living and £8.7m for cost of borrowing) as at 31 December 2022. The approach to identify the PMA for the cost of living is an increase in PD through analysing the effect of the increases in living costs, such as house hold bills and groceries, on affordability, which is used to increase the default risk to all customers, with those on lower income more impacted. The cost of borrowing PMA specifically identified those that are more at risk of default due to reverting onto variable rate in the near future, causing a payment increase and higher affordability risk, which is used both to apply an additional significant increase in credit risk SICR and stage 2 criteria and in some cases a higher default risk.

The Group continued to observe an elongated time to sale, which was in excess of modelled expectations and observations prior to the pandemic which accounted for an additional £8.7m as a PMA as at 31 December 2022. Whilst the Group expects the process delays to reduce in time, a PMA was held to reflect an extended time to sale in line with most recent observations for those in default.

As part of the Group's appreciation of climate risk and overall ESG agenda, the Group recognises that properties with lower energy efficiency are likely to require investment to reach minimum energy efficiency standards in the future. As a result, to reflect the expected transition risk and physical risks of climate change, the Group held £4.4m of PMA as at 31 December 2022.

23. Expected credit losses (continued)

To reflect the ongoing cladding concerns, the Group identified a valuation risk to a small number of properties and accounted for a further sale discount for these properties by a PMA of £0.7m as at 31 December 2022.

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

	2022			2021		
	OSB £m	**CCFS £m**	**Total £m**	OSB £m	CCFS £m	Total £m
Stage 1	**5.9**	**1.3**	**7.2**	9.3	2.8	12.1
Stage 2	**35.3**	**15.6**	**50.9**	14.2	10.8	25.0
Stage 3	**60.5**	**7.8**	**68.3**	56.6	3.8	60.4
Stage 3 (POCI)	**1.5**	**2.1**	**3.6**	2.1	1.9	4.0
	103.2	**26.8**	**130.0**	82.2	19.3	101.5

The tables below show the movement in the ECL by IFRS 9 stage during the year. ECLs on originations and acquisitions reflect the IFRS 9 stage of loans originated or acquired during the year as at 31 December and not the date of origination. Re-measurement of loss allowance relates to existing loans which did not redeem during the year and includes the impact of loans moving between IFRS 9 stages.

	Stage 1 £m	**Stage 2 £m**	**Stage 3 £m**	**Stage 3 (POCI) £m**	**Total £m**
At 1 January 2021	21.2	31.0	51.7	7.1	111.0
Originations	5.7	-	-	-	5.7
Acquisitions	0.1	-	-	0.1	0.2
Repayments and write-offs	(2.8)	(3.3)	(7.4)	(1.1)	(14.6)
Re-measurement of loss allowance	(21.8)	(0.8)	12.8	(2.1)	(11.9)
Transfers:					
- To Stage 1	11.3	(10.5)	(0.8)	-	-
- To Stage 2	(2.3)	5.1	(2.8)	-	-
- To Stage 3	(0.3)	(3.1)	3.4	-	-
Changes in assumptions and model parameters	1.0	6.6	3.5	-	11.1
At 31 December 2021	12.1	25.0	60.4	4.0	101.5
Originations	**6.9**	**-**	**-**	**-**	**6.9**
Repayments and write-offs	**(1.3)**	**(3.0)**	**(6.9)**	**(0.3)**	**(11.5)**
Re-measurement of loss allowance	**(15.1)**	**26.4**	**17.5**	**(0.7)**	**28.1**
Transfers:					
- To Stage 1	**10.0**	**(9.2)**	**(0.8)**	**-**	**-**
- To Stage 2	**(2.0)**	**3.9**	**(1.9)**	**-**	**-**
- To Stage 3	**(0.1)**	**(2.1)**	**2.2**	**-**	**-**
Changes in assumptions and model parameters	**(3.3)**	**9.9**	**(2.2)**	**0.6**	**5.0**
At 31 December 2022	**7.2**	**50.9**	**68.3**	**3.6**	**130.0**

23. Expected credit losses (continued)

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

	2022			2021		
	Carrying value £m	**ECL £m**	**Coverage %**	Carrying value £m	ECL £m	Coverage %
Criteria:						
Relative PD movement	**3,090.2**	**42.9**	**1.39**	1,251.6	17.1	1.37
Qualitative measures	**1,277.6**	**7.5**	**0.59**	1,125.0	7.4	0.66
30 days past due backstop	**49.3**	**0.5**	**1.01**	37.0	0.5	1.35
Total	**4,417.1**	**50.9**	**1.15**	2,413.6	25.0	1.04

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

24. Impairment of financial assets

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

	2022 £m	2021 £m
Write-offs in year	**2.1**	6.7
Increase/(decrease) in ECL provision	**27.7**	(11.1)
	29.8	(4.4)

25. Derivatives

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

	Gross amount of recognised financial assets / (liabilities) £m	Net amount of financial assets / (liabilities) presented in the Consolidated Statement of Financial Position £m	Contracts subject to master netting agreements not offset in the Consolidated Statement of Financial Position £m	Cash collateral paid / (received) not offset in the Consolidated Statement of Financial Position £m	Net amount £m
At 31 December 2022					
Derivative assets:					
Interest rate risk hedging	**888.1**	**888.1**	**(104.9)**	**(545.7)**	**237.5**
Derivative liabilities:					
Interest rate risk hedging	**(106.6)**	**(106.6)**	**104.9**	**206.9**	**205.2**
At 31 December 2021					
Derivative assets:					
Interest rate risk hedging	185.7	185.7	(16.9)	(115.3)	53.5
Derivative liabilities:					
Interest rate risk hedging	(19.7)	(19.7)	16.9	98.3	95.5

Derivative assets and liabilities include an initial margin of £198.6m with swap counterparties.

Included within the Group's derivative assets is £203.4m (2021: £48.7m) relating to derivative contracts not covered by master netting agreements on which no cash collateral has been paid.

25. Derivatives (continued)

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

	Total nominal £m	Less than 3 months £m	3 - 12 months £m	1 - 5 years £m	More than 5 years £m
At 31 December 2022					
Derivative assets	**15,662.6**	**464.8**	**3,400.3**	**11,590.5**	**207.0**
Derivative liabilities	**9,518.0**	**1,503.0**	**6,001.0**	**1,789.0**	**225.0**
	25,180.6	**1,967.8**	**9,401.3**	**13,379.5**	**432.0**
At 31 December 2021					
Derivative assets	12,968.3	245.2	2,345.4	10,235.7	142.0
Derivative liabilities	7,378.0	1,361.0	4,747.0	1,150.0	120.0
	20,346.3	1,606.2	7,092.4	11,385.7	262.0

The Group has 916 (2021: 841) derivative contracts with an average fixed rate of 1.34% (2021: 0.34%).

26. Hedge accounting

	2022 £m	2021 £m
Hedged assets		
Current hedge relationships	**(827.9)**	(190.9)
Swap inception adjustment	**44.1**	(26.2)
Cancelled hedge relationships	**(5.2)**	78.2
Fair value adjustments on hedged assets	**(789.0)**	(138.9)
Hedged liabilities		
Current hedge relationships	**58.0**	19.6
Swap inception adjustment	**(2.3)**	3.3
Cancelled hedge relationships	**(0.6)**	(1.4)
De-designated hedge relationships	**-**	(1.8)
Fair value adjustments on hedged liabilities	**55.1**	19.7

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

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

Cancelled hedge relationships predominantly represent the unamortised fair value adjustment for interest rate risk hedges that have been cancelled and replaced due to securitisation activities, legacy long-term fixed rate mortgages (c. 25 years at origination) and during 2021 IBOR transition.

26. Hedge accounting (continued)

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

	2022		2021	
Loans and advances to customers	**Hedged item £m**	**Hedging instrument £m**	Hedged item £m	Hedging instrument £m
Carrying amount of hedged item/nominal value of hedging instrument	**14,493.8**	**14,667.7**	12,364.3	12,550.2
Cumulative fair value adjustments of hedged item/fair value of hedging instrument	**(827.9)**	**833.2**	(190.9)	187.4
Changes in the fair value adjustment of hedged item/hedging instrument used for recognising the hedge ineffectiveness for the period	**(620.6)**	**621.9**	(297.8)	298.9
Cumulative fair value on cancelled hedge relationships	**(5.2)**	**-**	78.2	-

In the Consolidated Statement of Financial Position, £854.3m (2021: £187.7m) of hedging instruments were recognised within derivative assets; and £21.1m (2021: £0.3m) within derivative liabilities.

The movement in cancelled hedge relationships is as follows:

Hedged assets	**2022 £m**	2021 £m
At 1 January	**78.2**	84.6
New cancellations[1]	**(49.3)**	33.5
Amortisation	**(34.1)**	(39.9)
At 31 December	**(5.2)**	78.2

1. Following the securitisation of mortgages during the year and LIBOR swaps transferred to SONIA swaps through the IBOR transition during 2021, the Group cancelled swaps which were effective prior to the event, with the designated hedge moved to cancelled hedge relationships to be amortised over the original life of the swap.

26. Hedge accounting (continued)

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

	2022		2021	
Customer deposits	**Hedged item £m**	**Hedging instrument £m**	Hedged item £m	Hedging instrument £m
Carrying amount of hedged item/nominal value of hedging instrument	**9,167.3**	**9,180.0**	6,386.0	6,390.0
Cumulative fair value adjustments of hedged item/fair value of hedging instrument	**58.0**	**(67.9)**	19.6	(18.5)
Changes in the fair value adjustment of hedged item/hedging instrument used for recognising the hedge ineffectiveness for the period	**33.0**	**(42.4)**	27.4	(26.1)

In the Consolidated Statement of Financial Position, £2.4m (2021: £0.3m) of hedging instruments were recognised within derivative assets; and £70.3m (2021: £18.8m) within derivative liabilities.

27. Other assets

	2022 £m	2021 £m
Falling due within one year:		
Prepayments	**7.8**	7.1
Other assets	**1.8**	0.9
Falling due more than one year:		
Prepayments	**5.4**	2.2
	15.0	10.2

28. Deferred taxation asset

	Losses carried forward £m	Accelerated depreciation £m	Share-based payments £m	IFRS 9 transitional adjustments £m	Others[1] £m	Total £m
At 1 January 2021	0.9	0.4	3.1	0.7	(0.4)	4.7
Profit or loss (charge)/credit	(0.4)	0.1	1.7	-	(1.2)	0.2
Transferred to corporation tax liability	-	-	(1.4)	-	-	(1.4)
Tax taken directly to OCI	-	-	-	-	0.5	0.5
Tax taken directly to equity	-	-	1.6	-	-	1.6
At 31 December 2021	0.5	0.5	5.0	0.7	(1.1)	5.6
Profit or loss (charge)/credit[2]	**-**	**(0.5)**	**0.5**	**(0.1)**	**1.6**	**1.5**
Tax taken directly to OCI	**-**	**-**	**-**	**-**	**0.1**	**0.1**
Tax taken directly to equity	**-**	**-**	**(0.9)**	**-**	**-**	**(0.9)**
At 31 December 2022	**0.5**	**-**	**4.6**	**0.6**	**0.6**	**6.3**

1. Others includes deferred taxation assets recognised on financial assets classified as FVOCI, derivatives and short-term timing differences.
2. Includes £0.3m in respect of prior year deferred tax.

In 2022, the profit or loss credit for deferred tax includes a credit of £0.2m from the corporation tax rate change (2021: credit of £0.4m).

As at 31 December 2022, the Group had £3.5m (2021: £3.5m) of losses for which a deferred tax asset has not been recognised as the Group does not expect sufficient future profits to be available to utilise the losses.

As at 31 December 2022 deferred tax assets of £2.3m (2021: £3.0m) of are expected to be utilised within 12 months and £4.0m (2021: £2.6m) utilised after 12 months.

29. Property, plant and equipment

	Freehold land and buildings £m	Leasehold improvements £m	Equipment and fixtures £m	Right of use assets: Property leases £m	Right of use assets: Other leases £m	Total £m
Cost						
At 1 January 2021	19.2	3.0	13.8	13.1	1.3	50.4
Additions[1]	-	-	2.6	0.6	0.1	3.3
Disposals and write-offs[2]	(2.8)	(0.1)	(1.3)	(0.5)	(0.2)	(4.9)
Foreign exchange difference	0.1	-	0.1	-	-	0.2
At 31 December 2021	16.5	2.9	15.2	13.2	1.2	49.0
Additions[1]	**3.5**	**0.1**	**2.9**	**0.9**	**3.5**	**10.9**
Disposals and write-offs[2]	**-**	**-**	**(1.7)**	**(0.3)**	**(0.1)**	**(2.1)**
Foreign exchange difference	**-**	**-**	**0.1**	**-**	**-**	**0.1**
At 31 December 2022	**20.0**	**3.0**	**16.5**	**13.8**	**4.6**	**57.9**
Depreciation						
At 1 January 2021	1.4	0.9	6.0	2.6	0.3	11.2
Charged in year[3]	0.9	0.2	2.9	1.5	0.1	5.6
Disposals and write-offs[2]	(0.8)	(0.1)	(1.3)	(0.5)	(0.2)	(2.9)
At 31 December 2021	1.5	1.0	7.6	3.6	0.2	13.9
Charged in year	**0.2**	**0.2**	**3.0**	**1.6**	**0.2**	**5.2**
Disposals and write-offs[2]	**-**	**-**	**(1.7)**	**(0.3)**	**(0.1)**	**(2.1)**
At 31 December 2022	**1.7**	**1.2**	**8.9**	**4.9**	**0.3**	**17.0**
Net book value						
At 31 December 2022	**18.3**	**1.8**	**7.6**	**8.9**	**4.3**	**40.9**
At 31 December 2021	15.0	1.9	7.6	9.6	1.0	35.1

1. Additions include property leases modifications of £0.5m (2021: £0.4m) of right of use assets.
2. In 2022, the Group wrote off fully depreciated assets of £2.1m. During 2021 the Group disposed of a property for proceeds of £2.0m and wrote off fully depreciated assets of £2.9m.
3. 2021 includes £0.6m of impairment on property sold during the year which is included in note 12 Integration costs.

30. Intangible assets

	Development costs £m	Computer software and licences £m	Assets arising on Combination[2] £m	Total £m
Cost				
At 1 January 2021	2.3	16.7	23.6	42.6
Additions	1.4	2.8	-	4.2
Disposals and write-offs[1]	-	(3.5)	(0.2)	(3.7)
At 31 December 2021	3.7	16.0	23.4	43.1
Additions	**0.1**	**1.7**	**-**	**1.8**
Disposals and write-offs[1]	**-**	**(3.6)**	**(1.9)**	**(5.5)**
At 31 December 2022	**3.8**	**14.1**	**21.5**	**39.4**
Amortisation				
At 1 January 2021	0.1	9.1	12.8	22.0
Charged in year	0.5	3.2	5.8	9.5
Impairment in the year	-	-	(3.1)	(3.1)
Disposals and write-offs[1]	-	(3.5)	(0.2)	(3.7)
At 31 December 2021	0.6	8.8	15.3	24.7
Charged in year	**0.7**	**3.2**	**4.3**	**8.2**
Disposals and write-offs[1]	**-**	**(3.6)**	**(1.9)**	**(5.5)**
At 31 December 2022	**1.3**	**8.4**	**17.7**	**27.4**
Net book value				
At 31 December 2022	**2.5**	**5.7**	**3.8**	**12.0**
At 31 December 2021	3.1	7.2	8.1	18.4

1. During the year the Group wrote off fully amortised assets.
2. Assets arising on Combination comprise broker relationships of £2.0m (2021: £5.0m), technology of £0.4m (2021: £1.9m), brand name of £0.3m (2021: £0.8m) and banking licence of nil (2021: £0.4m). The carrying value of the intangible assets are reviewed each reporting period, no impairment reversal (2021: £3.1m impairment reversal) was recognised in relation to broker relationships due to less severe impacts of the COVID-19 pandemic than originally estimated.

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

31. Amounts owed to credit institutions

	2022	2021
	£m	£m
BoE TFSME	**4,232.0**	4,203.1
BoE ILTR	**300.9**	-
Commercial repo	**10.2**	0.5
Loans from credit institutions	**0.1**	0.6
	4,543.2	4,204.2
Cash collateral and margin received	**549.7**	115.4
	5,092.9	4,319.6

32. Amounts owed to retail depositors

	2022			2021		
	OSB	**CCFS**	**Total**	OSB	CCFS	Total
	£m	**£m**	**£m**	£m	£m	£m
Fixed rate deposits	**8,085.9**	**5,899.6**	**13,985.5**	6,221.7	4,703.4	10,925.1
Variable rate deposits	**3,046.3**	**2,724.0**	**5,770.3**	3,517.7	3,083.6	6,601.3
	11,132.2	**8,623.6**	**19,755.8**	9,739.4	7,787.0	17,526.4

33. Amounts owed to other customers

	2022	2021
	£m	£m
Fixed rate deposits	**100.9**	50.3
Variable rate deposits	**12.2**	42.3
	113.1	92.6

34. Debt securities in issue

	2022 £m	2021 £m
Asset-backed loan notes at amortised cost	**265.9**	460.3
Amount due for settlement after 12 months	**265.9**	460.3
	265.9	460.3

The asset-backed loan notes are secured on fixed and variable rate mortgages and are redeemable in part from time to time, but such redemptions are mainly from 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.

Where the Group owns the call rights for a transaction, it may repurchase the asset-backed loan notes on any interest payment date on or after the call dates, or on any interest payment date when the current balance of the mortgages outstanding is less than or equal to 10% of the principal amount outstanding on the loan notes on the date they were issued.

Interest is payable at fixed margins above SONIA.

As at 31 December 2022, notes were issued through the following funding vehicles:

	2022 £m	2021 £m
CMF 2020-1 plc	**141.8**	199.8
Canterbury Finance No.3 plc	**21.0**	76.9
Canterbury Finance No.4 plc	**103.1**	183.6
	265.9	460.3

35. Lease liabilities

	2022 £m	2021 £m
At 1 January	**10.7**	11.7
New leases	**0.9**	0.7
Lease termination	**-**	(0.1)
Lease repayments	**(1.9)**	(1.9)
Interest accruals	**0.2**	0.3
At 31 December	**9.9**	10.7

During the year, the Group incurred expenses of £0.3m (2021: £0.2m) in relation to short-term leases.

36. Other liabilities

	2022 £m	2021 £m
Falling due within one year:		
Accruals	**28.0**	23.2
Deferred income	**0.6**	0.9
Other creditors	**10.1**	5.5
	38.7	29.6

37. Provisions and contingent liabilities

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

The compensation paid out to consumers is initially funded through loans from the BoE and HM Treasury. In order to repay the loans and cover its costs, the FSCS charges levies on firms regulated by the PRA and the Financial Conduct Authority (FCA). The Group is among those firms and pays the FSCS a levy based on its share of total UK deposits.

The Group has reviewed its current exposure to Payment Protection Insurance (PPI) claims, following the FCA deadline for PPI claims on 29 August 2019 and has reduced its provision to less than £0.1m as at 31 December 2022 (2021: £0.3m).

The Group has released its provision for conduct related exposures of £1.2m following completion of an internal review.

An analysis of the Group's FSCS and other provisions is presented below:

	2022				2021			
	FSCS £m	**Other regulatory provisions £m**	**ECL on undrawn loan facilities £m**	**Total £m**	FSCS £m	Other regulatory provisions £m	ECL on undrawn loan facilities £m	Total £m
At 1 January	**0.1**	**1.5**	**0.4**	**2.0**	0.1	1.5	0.2	1.8
(Credit)/charge	**(0.1)**	**(1.5)**	**-**	**(1.6)**	-	-	0.2	0.2
At 31 December	**-**	**-**	**0.4**	**0.4**	0.1	1.5	0.4	2.0

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

38. Deferred taxation liability

The deferred tax liability recognised on the Combination relates to the timing differences of the recognition of assets and liabilities at fair value, where the fair values will unwind in future periods in line with the underlying asset or liability. The deferred tax liability has been measured using the relevant rates for the expected periods of utilisation.

	CCFS Combination £m
At 1 January 2021	48.3
Profit or loss credit	(8.5)
At 31 December 2021	39.8
Profit or loss credit	**(17.5)**
At 31 December 2022	**22.3**

In 2022, the profit or loss credit includes £4.7m impact of the corporation tax rate change (2021: a debit of £5.6m).

As at 31 December 2022 deferred tax liabilities of £5.6m (2021: £17.5m) are expected to be due within 12 months and £16.7m (2021: £22.3m) due after 12 months.

39. Subordinated liabilities

The Group's outstanding subordinated liabilities are summarised below:

	2022 £m	2021 £m
Linked to LIBOR:		
Floating rate subordinated loans 2022 (LIBOR +2%)	**-**	0.1
Fixed rate:		
Subordinated liabilities 2024 (7.45%)	**-**	10.2
	-	10.3

The table below shows a reconciliation of the Group's subordinated liabilities during the year:

	2022 £m	2021 £m
At 1 January	**10.3**	10.5
Repayment of debt	**(10.3)**	(0.2)
At 31 December	**-**	10.3

During the year the fixed rate subordinated liabilities were fully repaid at a premium of £0.7m, which is recognised in interest payable and similar charges.

The LIBOR linked subordinated liabilities were redeemed in September 2022.

40. Perpetual Subordinated Bonds

	2022 £m	2021 £m
Sterling PSBs (4.6007%)	**15.2**	15.2

The bonds are listed on the London Stock Exchange.

The 4.6007% bonds were issued with no discretion over the payment of interest and may not be settled in the Group's own equity. They are therefore classified as financial liabilities. The coupon rate is 4.6007% until the next reset date on 27 August 2024.

41. Reconciliation of cash flows for financing activities

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

	Amounts owed to credit institutions (see note 31) £m (Restated)[1]	Debt securities in issue (see note 34) £m	Subordinated liabilities (see note 39) £m	PSBs (see note 40) £m	Total £m
At 1 January 2021	3,570.2	421.9	10.5	37.6	4,040.2
Cash movements:					
Principal drawdowns[1]	4,747.6	195.6	-	-	4,943.2
Principal repayments	(4,113.7)	(159.5)	(0.2)	(22.0)	(4,295.4)
Interest paid	(4.4)	(1.6)	(0.8)	(1.6)	(8.4)
Non-cash movements:					
Interest charged	4.5	3.9	0.8	1.2	10.4
At 31 December 2021[1]	4,204.2	460.3	10.3	15.2	4,690.0
Cash movements:					
Principal drawdowns	**429.5**	**-**	**-**	**-**	**429.5**
Principal repayments	**(120.5)**	**(193.6)**	**(10.1)**	**-**	**(324.2)**
Interest paid	**(34.8)**	**(8.5)**	**(1.3)**	**(0.7)**	**(45.3)**
Non-cash movements:					
Interest charged	**64.8**	**7.7**	**1.1**	**0.7**	**74.3**
At 31 December 2022	**4,543.2**	**265.9**	**-**	**15.2**	**4,824.3**

1. 2021 figures restated see note 1 b) for further details.

42. Share capital

Ordinary shares	Number of shares issued and fully paid	Nominal value £m	Premium £m
At 1 January 2021	447,312,780	1,359.8	-
Capital reduction of £3.04 nominal value shares to £0.01 nominal value shares	-	(1,355.3)	-
Shares issued under OSBG employee share plans	1,315,075	-	0.7
At 31 December 2021	448,627,855	4.5	0.7
Shares cancelled under repurchase programme	**(20,671,224)**	**(0.2)**	**-**
Shares issued under OSBG employee share plans	**1,911,994**	**-**	**1.7**
At 31 December 2022	**429,868,625**	**4.3**	**2.4**

The Group's share repurchase programme commenced on 18 March 2022, and allowed the Group to repurchase a maximum of 44,799,505 shares, restricted by a total cost of £100m. The programme completed during the year and 20,671,224 shares, representing 4.6% of the issued share capital, have been repurchased and cancelled at an average price of £4.84 per share and a total cost of £100m excluding transaction costs.

The holders of ordinary shares are entitled to receive dividends as declared from time to time, and are entitled to one vote per share at meetings of the Company. All ordinary shares rank equally with regard to the Company's residual assets.

All ordinary shares issued in the current and prior year were fully paid.

43. Other reserves

The Group's other reserves are as follows:

	2022 £m	2021 £m
Share-based payment	**13.2**	13.4
Capital redemption & transfer	**(1,355.1)**	(1,355.3)
Own shares	**(2.2)**	(3.5)
FVOCI	**0.3**	0.6
Foreign exchange	**(1.3)**	(1.1)
AT1 securities	**150.0**	150.0
	(1,195.1)	(1,195.9)

43. Other reserves (continued)

Capital redemption and transfer reserve
The capital redemption reserve represents the shares cancelled through the Group's share repurchase programme.

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

Own shares
The Company has adopted the look-through approach for the EBT, including the EBT within the Company. As at 31 December 2022, the EBT held 442,568 OSBG shares of nominal value £0.4m (2021: 848,221 OSBG shares of nominal value £0.8m). The Group and Company show these shares as a deduction from equity, being the cost at which the shares were acquired of £2.2m (2021: £3.5m).

FVOCI reserve
The FVOCI reserve represents the cumulative net change in the fair value of investment securities measured at FVOCI.

Foreign exchange reserve
The foreign exchange reserve relates to the revaluation of the Group's Indian subsidiary, OSB India Private Limited.

AT1 Securities
On 5 October 2021, OSBG issued AT1 securities. AT1 securities comprise £150.0m of Fixed Rate Resetting Perpetual Subordinated Contingent Convertible Securities that qualify as AT1 capital under CRD IV. The securities will be subject to full conversion into ordinary shares of OSBG in the event that the Group's Common Equity Tier 1 (CET1) capital ratio falls below 7%. The securities will pay interest at a rate of 6% per annum until the first reset date of 7 April 2027, with the reset interest rate equal to 539.3 basis points over the 5-year Gilt Rate (benchmark gilt) for such a period. Interest is paid semi-annually in April and October. OSBG may, at any time, cancel any interest payment at its full discretion and must cancel interest payments in certain circumstances specified in the terms and conditions of the securities. The securities are perpetual with no fixed redemption date. OSBG may, in its discretion and subject to satisfying certain conditions, redeem all (but not some) of the AT1 securities at the principal amount outstanding plus any accrued but unpaid interest from the first reset date and on any interest payment date thereafter.

44. Financial commitments and guarantees

a) The Group did not have any contracted or anticipated capital expenditure commitments not provided for as at 31 December 2022 (2021: nil).

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

	2022 £m	2021 £m
Land and buildings: due within:		
One year	**0.3**	-
Two to five years	**0.3**	-
	0.6	-

c) Undrawn loan facilities:

	2022 £m	2021 £m
OSB mortgages	**741.6**	706.4
CCFS mortgages	**455.1**	434.5
Asset finance	**15.5**	14.4
	1,212.2	1,155.3

Undrawn loan facilities are approved loan applications which have not yet been exercised. They are payable on demand and are usually drawn down or expire within three months.

d) The Group did not have any issued financial guarantees as at 31 December 2022 (2021: nil).

45. Risk management

Overview

Financial instruments form the vast majority of the Group's assets and liabilities. The Group manages risk on a consolidated basis and risk disclosures that follow are provided on this basis.

Types of financial instrument

Financial instruments are a broad definition which includes financial assets, financial liabilities and equity instruments. The main financial assets of the Group are loans to customers and liquid assets, which in turn consist of cash in the BoE call accounts, call accounts with other credit institutions, RMBS and UK sovereign debt. These are funded by a combination of financial liabilities and equity instruments. Financial liability funding comes predominantly from retail deposits and drawdowns under the BoE TFSME and ILTR, supported by debt securities, wholesale and other funding. Equity instruments include own shares and AT1 securities meeting the equity classification criteria. The Group's main activity is mortgage lending; it raises funds or invests in particular types of financial assets to meet customer demand and manage the risks arising from its operations. The Group does not trade in financial instruments for speculative purposes.

45. Risk management (continued)

The Group uses derivative instruments to manage its financial risks. Derivative financial instruments (derivatives) are financial instruments whose value changes in response to changes in underlying variables such as interest rates. The most common derivatives are futures, forwards and swaps. Of these, the Group only uses swaps.

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

Types of derivatives and uses

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

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

The Group uses swaps to convert its instruments, such as mortgages, deposits and liquid assets, from fixed or base rate-linked rates to reference linked variable rates. This ensures a guaranteed margin between the interest income and interest expense, regardless of changes in the market rates.

Types of risk

The principal financial risks to which the Group is exposed are credit, liquidity and market risks, the latter comprising interest and exchange rate risk. In addition to financial risks, the Group is exposed to various other risks, most notably operational, conduct and compliance/regulatory, which are covered in the Risk review.

Credit risk

Credit risk is the risk that losses may arise as a result of the Group’s borrowers or market counterparties failing to meet their obligations to repay.

The Group has adopted the Standardised Approach for assessment of credit risk regulatory capital requirements. This approach considers risk weightings as defined under Basel II and Basel III principles.

The classes of financial instruments to which the Group is most exposed are loans and advances to customers, loans and advances to credit institutions, cash in the BoE call account, call and current accounts with other credit institutions and investment securities. The maximum credit risk exposure equals the total carrying amount of the above categories plus off-balance sheet undrawn committed mortgage facilities.

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

45.Risk management (continued)

Credit risk – loans and advances to customers

Credit risk associated with mortgage lending is largely driven by the housing market and level of unemployment. A recession and/or high interest rates could cause pressure within the market, resulting in rising levels of arrears and repossessions.

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

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

The following tables show the Group’s 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. The collateral value is determined by indexing against House Price Index data.

	2022					
	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	**10,346.8**	**10,320.4**	**8,375.5**	**8,374.4**	**18,722.3**	**18,694.8**
Stage 2[1]	**2,509.7**	**2,508.5**	**1,907.4**	**1,907.1**	**4,417.1**	**4,415.6**
Stage 3	**349.7**	**319.2**	**156.0**	**156.0**	**505.7**	**475.2**
Stage 3 (POCI)	**38.5**	**37.5**	**44.5**	**44.4**	**83.0**	**81.9**
	13,244.7	**13,185.6**	**10,483.4**	**10,481.9**	**23,728.1**	**23,667.5**

1. The increase in balance of accounts in Stage 2 is due to the increased credit risk from heightened cost of living and cost of borrowing. For further detail relating to movements by stage see the Risk review.

	2021					
	OSB		CCFS		Total	
	Gross carrying amount £m	Capped collateral held £m	Gross carrying amount £m	Capped collateral held £m	Gross carrying amount £m	Capped collateral held £m
Stage 1	10,502.7	10,478.1	7,685.7	7,684.6	18,188.4	18,162.7
Stage 2	1,143.8	1,141.9	1,269.8	1,269.7	2,413.6	2,411.6
Stage 3	365.6	337.9	99.1	99.1	464.7	437.0
Stage 3 (POCI)	45.2	43.6	52.2	52.2	97.4	95.8
	12,057.3	12,001.5	9,106.8	9,105.6	21,164.1	21,107.1

The Group’s main form of collateral held is property, based in the UK and the Channel Islands.

45. 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:

	2022				2021			
	OSB £m	CCFS £m	Total £m	%	OSB £m	CCFS £m	Total £m	%
Band								
0% - 50%	**2,768.8**	**914.7**	**3,683.5**	**16**	2,293.3	428.2	2,721.5	13
50% - 60%	**2,770.7**	**1,361.1**	**4,131.8**	**17**	1,935.3	490.1	2,425.4	11
60% - 70%	**4,647.5**	**3,561.7**	**8,209.2**	**35**	4,179.0	1,241.9	5,420.9	26
70% - 80%	**2,150.7**	**4,277.3**	**6,428.0**	**26**	2,887.7	6,100.7	8,988.4	43
80% - 90%	**548.3**	**365.5**	**913.8**	**4**	513.2	844.4	1,357.6	6
90% - 100%	**181.3**	**2.5**	**183.8**	**1**	77.8	1.5	79.3	-
>100%	**177.4**	**0.6**	**178.0**	**1**	171.0	-	171.0	1
Total loans before provisions	**13,244.7**	**10,483.4**	**23,728.1**	**100**	12,057.3	9,106.8	21,164.1	100

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

	2022				2021			
OSB	BTL/SME £m	Residential £m	Total £m	%	BTL/SME £m	Residential £m	Total £m	%
Band								
0% - 50%	**1,301.4**	**1,467.4**	**2,768.8**	**21**	1,007.6	1,285.7	2,293.3	19
50% - 60%	**2,497.2**	**273.5**	**2,770.7**	**21**	1,693.7	241.6	1,935.3	16
60% - 70%	**4,386.0**	**261.5**	**4,647.5**	**36**	3,903.0	276.0	4,179.0	35
70% - 80%	**1,977.1**	**173.6**	**2,150.7**	**16**	2,647.7	240.0	2,887.7	24
80% - 90%	**418.1**	**130.2**	**548.3**	**4**	452.8	60.4	513.2	4
90% - 100%	**167.3**	**14.0**	**181.3**	**1**	66.2	11.6	77.8	1
>100%	**172.9**	**4.5**	**177.4**	**1**	165.1	5.9	171.0	1
Total loans before provisions	**10,920.0**	**2,324.7**	**13,244.7**	**100**	9,936.1	2,121.2	12,057.3	100

45. Risk management (continued)

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

	2022				
OSB	**Buy-to-Let £m**	**Commercial £m**	**Residential development £m**	**Funding lines £m**	**Total £m**
Band					
0% - 50%	**1,137.6**	**114.7**	**16.1**	**33.0**	**1,301.4**
50% - 60%	**2,324.1**	**112.8**	**57.2**	**3.1**	**2,497.2**
60% - 70%	**4,111.4**	**164.4**	**110.2**	**-**	**4,386.0**
70% - 80%	**1,741.5**	**235.6**	**-**	**-**	**1,977.1**
80% - 90%	**232.8**	**151.6**	**-**	**33.7**	**418.1**
90% - 100%	**77.1**	**63.8**	**-**	**26.4**	**167.3**
>100%	**130.5**	**38.4**	**1.0**	**3.0**	**172.9**
Total loans before provisions	**9,755.0**	**881.3**	**184.5**	**99.2**	**10,920.0**

	2021				
OSB	Buy-to-Let £m	Commercial £m	Residential development £m	Funding lines £m	Total £m
Band					
0% - 50%	804.0	118.9	19.0	65.7	1,007.6
50% - 60%	1,532.0	105.1	40.1	16.5	1,693.7
60% - 70%	3,708.1	130.1	61.6	3.2	3,903.0
70% - 80%	2,423.7	224.0	-	-	2,647.7
80% - 90%	249.5	165.9	-	37.4	452.8
90% - 100%	46.4	19.8	-	-	66.2
>100%	104.0	30.6	-	30.5	165.1
Total loans before provisions	8,867.7	794.4	120.7	153.3	9,936.1

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

	2022				2021			
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%	**1,357.6**	**109.8**	**-**	**1,467.4**	1,173.3	111.8	0.6	1,285.7
50% - 60%	**238.1**	**35.4**	**-**	**273.5**	189.8	51.8	-	241.6
60% - 70%	**242.9**	**18.6**	**-**	**261.5**	240.2	35.8	-	276.0
70% - 80%	**168.3**	**5.3**	**-**	**173.6**	221.3	18.7	-	240.0
80% - 90%	**128.8**	**1.4**	**-**	**130.2**	56.5	3.9	-	60.4
90% - 100%	**13.4**	**0.6**	**-**	**14.0**	10.3	1.3	-	11.6
>100%	**3.8**	**0.7**	**-**	**4.5**	4.5	1.4	-	5.9
Total loans before provisions	**2,152.9**	**171.8**	**-**	**2,324.7**	1,895.9	224.7	0.6	2,121.2

45. Risk management (continued)

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

CCFS	**2022** Buy-to-Let £m	Residential £m	Bridging £m	Second charge lending £m	Total £m	%
Band						
0% - 50%	**308.6**	**498.3**	**62.9**	**44.9**	**914.7**	**9**
50% - 60%	**799.5**	**501.8**	**29.9**	**29.9**	**1,361.1**	**13**
60% - 70%	**2,587.6**	**924.2**	**25.6**	**24.3**	**3,561.7**	**34**
70% - 80%	**3,613.8**	**622.9**	**26.9**	**13.7**	**4,277.3**	**41**
80% - 90%	**215.1**	**146.8**	**2.4**	**1.2**	**365.5**	**3**
90% - 100%	**0.2**	**0.8**	**1.5**	**-**	**2.5**	**-**
>100%	**-**	**0.1**	**0.5**	**-**	**0.6**	**-**
Total loans before provisions	**7,524.8**	**2,694.9**	**149.7**	**114.0**	**10,483.4**	**100**

CCFS	2021 Buy-to-Let £m	Residential £m	Bridging £m	Second charge lending £m	Total £m	%
Band						
0% - 50%	104.8	261.0	30.2	32.2	428.2	5
50% - 60%	205.4	246.8	9.3	28.6	490.1	5
60% - 70%	702.4	480.1	14.9	44.5	1,241.9	14
70% - 80%	4,827.7	1,234.5	1.4	37.1	6,100.7	67
80% - 90%	560.5	268.9	0.5	14.5	844.4	9
90% - 100%	0.1	1.4	-	-	1.5	-
Total loans before provisions	6,400.9	2,492.7	56.3	156.9	9,106.8	100

45. Risk management (continued)

Forbearance measures undertaken

The Group has a range of options available where borrowers experience financial difficulties that impact their ability to service their financial commitments under the loan agreement. These options are explained in the Risk review.

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

Forbearance type	**Number of accounts 2022**	**At 31 December 2022 £m**	Number of accounts 2021	At 31 December 2021 £m
Interest-only switch	**70**	**12.2**	159	18.6
Interest rate reduction	**91**	**7.5**	437	8.1
Term extension	**53**	**2.9**	271	16.6
Payment deferral	**194**	**34.0**	499	43.0
Voluntary-assisted sale	**5**	**1.2**	7	0.8
Payment concession (reduced monthly payments)	**55**	**12.0**	51	12.1
Capitalisation of interest	**27**	**9.0**	65	1.1
Full or partial debt forgiveness	**359**	**9.6**	1,078	22.6
Total	**854**	**88.4**	2,567	122.9
Loan type				
First charge owner-occupier	**217**	**27.8**	424	34.8
Second charge owner-occupier[1]	**460**	**8.9**	1,931	38.7
Buy-to-Let	**107**	**37.1**	160	34.6
Commercial	**70**	**14.6**	52	14.8
Total	**854**	**88.4**	2,567	122.9

1. Through 2021 and the first quarter of 2022, the Group undertook an exercise and provided a series of forbearance solutions and options to long-term arrears customers on our Second charge portfolio to support and remedy the accrued delinquency.

45. Risk management (continued)

Geographical analysis by region

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

	2022				2021			
	OSB	CCFS	Total		OSB	CCFS	Total	
Region	£m	£m	£m	%	£m	£m	£m	%
East Anglia	453.5	1,136.4	1,589.9	7	361.8	967.1	1,328.9	6
East Midlands	609.9	691.6	1,301.5	6	543.8	555.8	1,099.6	5
Greater London	5,559.3	3,293.0	8,852.3	38	4,983.7	3,052.6	8,036.3	39
Guernsey	21.5	-	21.5	-	26.3	-	26.3	-
Jersey	75.6	-	75.6	-	99.3	-	99.3	-
North East	169.8	274.5	444.3	2	153.9	244.4	398.3	2
North West	906.6	921.8	1,828.4	7	762.3	755.0	1,517.3	7
Northern Ireland	10.0	-	10.0	-	10.9	-	10.9	-
Scotland	36.9	261.3	298.2	1	35.2	226.0	261.2	1
South East	2,802.8	1,681.5	4,484.3	19	2,792.6	1,452.4	4,245.0	20
South West	893.7	659.6	1,553.3	7	825.5	544.3	1,369.8	7
Wales	297.5	284.7	582.2	2	272.1	240.6	512.7	2
West Midlands	908.9	761.3	1,670.2	7	706.9	629.8	1,336.7	7
Yorks and Humberside	335.5	517.7	853.2	4	366.8	438.8	805.6	4
Total loans before provisions	13,081.5	10,483.4	23,564.9	100	11,941.1	9,106.8	21,047.9	100

Approach to measurement of credit quality

The Group categorises the credit quality of loans and advances to customers into internal risk grades based on the 12 month PD calculated at the reporting date. The PDs include a combination of internal behavioural and credit bureau characteristics and are aligned with Capital models to generate the risk grades which are then 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 following tables disclose the credit risk quality ratings of loans and advances to customers by IFRS 9 stage. The assessment of whether credit risk has increased significantly since initial recognition is performed for each reporting period for the life of the loan. Loans and advances to customers initially booked on very low PDs and graded as excellent quality loans can experience a SICR and therefore be moved to Stage 2. Such loans may still be graded as excellent quality, if they meet the overall criteria.

45. Risk management (continued)

During 2022, the Group developed Capital models as part of the IRB programme. As a result, the disclosures provided below are now aligned to internal Capital models and Rating systems. The 2021 figures have been updated to reflect the revised alignment with Capital models which, compared to 2021 annual report disclosures, has resulted in a reduction of 11% from OSB segment's Excellent quality, a 6% increase in Good, a 3% increase in Satisfactory and a 2% increase in Lower. CCFS segment figures remain largely aligned with minor movements across segments.

2022	**Stage 1 £m**	**Stage 2 £m**	**Stage 3 £m**	**Stage 3 (POCI) £m**	**Total £m**	**PD lower range %**	**PD upper range %**
OSB							
Excellent	**4,136.6**	**470.6**	**-**	**-**	**4,607.2**	**-**	**0.3**
Good	**5,848.5**	**1,248.4**	**-**	**-**	**7,096.9**	**0.3**	**2.0**
Satisfactory	**331.8**	**374.2**	**-**	**-**	**706.0**	**2.0**	**7.4**
Lower	**29.9**	**416.5**	**-**	**-**	**446.4**	**7.4**	**100.0**
Impaired	**-**	**-**	**349.7**	**-**	**349.7**	**100.0**	**100.0**
POCI	**-**	**-**	**-**	**38.5**	**38.5**	**100.0**	**100.0**
CCFS							
Excellent	**5,800.2**	**910.1**	**-**	**-**	**6,710.3**	**-**	**0.3**
Good	**2,394.2**	**668.2**	**-**	**-**	**3,062.4**	**0.3**	**2.0**
Satisfactory	**151.4**	**143.9**	**-**	**-**	**295.3**	**2.0**	**7.4**
Lower	**29.7**	**185.2**	**-**	**-**	**214.9**	**7.4**	**100.0**
Impaired	**-**	**-**	**156.0**	**-**	**156.0**	**100.0**	**100.0**
POCI	**-**	**-**	**-**	**44.5**	**44.5**	**100.0**	**100.0**
	18,722.3	**4,417.1**	**505.7**	**83.0**	**23,728.1**		

2021	Stage 1 £m	Stage 2 £m	Stage 3 £m	Stage 3 (POCI) £m	Total £m	PD lower range %	PD upper range %
OSB							
Excellent	3,949.2	159.6	-	-	4,108.8	-	0.3
Good	6,045.0	486.8	-	-	6,531.8	0.3	2.0
Satisfactory	435.9	237.2	-	-	673.1	2.0	7.4
Lower	72.6	260.2	-	-	332.8	7.4	100.0
Impaired	-	-	365.6	-	365.6	100.0	100.0
POCI	-	-	-	45.2	45.2	100.0	100.0
CCFS							
Excellent	5,102.2	443.2	-	-	5,545.4	-	0.3
Good	2,468.5	487.5	-	-	2,956.0	0.3	2.0
Satisfactory	96.2	171.5	-	-	267.7	2.0	7.4
Lower	18.8	167.6	-	-	186.4	7.4	100.0
Impaired	-	-	99.1	-	99.1	100.0	100.0
POCI	-	-	-	52.2	52.2	100.0	100.0
	18,188.4	2,413.6	464.7	97.4	21,164.1		

45. Risk management (continued)

The tables below show the Group's other financial assets and derivatives by credit risk rating grade. The credit grade is based on the external credit rating of the counterparty; AAA to AA- are rated Excellent; A+ to A- are rated Good; and BBB+ to BBB- are rated Satisfactory.

2022	**Excellent £m**	**Good £m**	**Satisfactory £m**	**Total £m**
Investment securities	**412.9**	**-**	**-**	**412.9**
Loans and advances to credit institutions	**2,923.2**	**435.4**	**7.1**	**3,365.7**
Derivative assets	**400.1**	**488.0**	**-**	**888.1**
	3,736.2	**923.4**	**7.1**	**4,666.7**

2021	Excellent £m	Good £m	Satisfactory £m	Total £m
Investment securities	491.4	-	-	491.4
Loans and advances to credit institutions	2,688.9	151.8	2.9	2,843.6
Derivative assets	43.0	142.7	-	185.7
	3,223.3	294.5	2.9	3,520.7

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

The Group holds treasury instruments in order to meet liquidity requirements and for general business purposes. The credit risk arising from these investments is closely monitored and managed by the Group's Treasury function. In managing these assets, Group Treasury operates within guidelines laid down in the Group Market and Liquidity Risk Policy approved by ALCO and performance is monitored and reported to ALCO monthly, including through the use of an internally developed rating model based on counterparty credit default swap spreads.

The Group has limited exposure to emerging markets (Indian operations) and non-investment grade debt. ALCO is responsible for approving treasury counterparties.

During the year, the average balance of cash in hand, loans and advances to credit institutions and investment securities on a monthly basis was £3,496.9m (2021: £2,926.0m).

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

	2022		2021	
	£m	**%**	£m	%
BoE[1]	**2,869.3**	**76**	2,555.9	76
Other banks	**496.4**	**13**	287.7	9
Central government	**149.8**	**4**	252.1	8
Securitisation	**263.1**	**7**	239.3	7
Total	**3,778.6**	**100**	3,335.0	100

1. Balances with the BoE include £62.8m (2021: £59.5m) held in the cash ratio deposit.

45. Risk management (continued)

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

	2022		2021	
	£m	**%**	£m	%
United Kingdom	**3,765.7**	**100**	3,328.0	100
India	**12.9**	**-**	7.0	-
Total	**3,778.6**	**100**	3,335.0	100

The Group monitors exposure concentrations against a variety of criteria, including asset class, sector and geography. To avoid refinancing risks associated with any one counterparty, sector or geographical region, the Board has set appropriate limits.

For further information on credit risk, see Risk review.

Liquidity risk
Liquidity risk is the risk of having insufficient liquid assets to fulfil obligations as they become due or the cost of raising liquid funds becoming too expensive.

The Group's approach to managing liquidity risk is to maintain sufficient liquid resources to cover cash flow imbalances and fluctuations in funding in order to retain full public confidence in the solvency of the Group and to enable the Group to meet its financial obligations as they fall due. This is achieved through maintaining a prudent level of liquid assets and control of the growth of the business. The Group has established call accounts with the BoE and has access to its contingent liquidity facilities.

The Board has delegated the responsibility for liquidity management to the Chief Executive Officer, assisted by ALCO, with day-to-day management delegated to Treasury as detailed in the Group Market and Liquidity Risk Policy. The Board is responsible for setting risk appetite limits over the level and maturity profile of funding and for monitoring the composition of the Group financial position. The tables below analyse the financial assets and liabilities of the Group based on the contractual maturity on the remaining period at balance sheet date. .

The Group also monitors a range of triggers, defined in the recovery plan, which are designed to capture liquidity stresses in advance in order to allow sufficient time for management action to take effect. These are monitored daily by the Risk team, with breaches immediately reported to the Group Chief Risk Officer, Chief Executive Officer, Chief Financial Officer and the Group Treasurer.

45. Risk management (continued)

The tables below show the maturity profile for the Group's financial assets and liabilities based on contractual maturities at the reporting date:

2022	Carrying amount £m	On demand £m	Less than 3 months £m	3 - 12 months £m	1 - 5 years £m	More than 5 years £m
Financial liability by type						
Amounts owed to retail depositors	19,755.8	6,770.7	2,632.4	7,807.7	2,545.0	-
Amounts owed to credit institutions	5,092.9	-	191.4	310.3	4,218.9	372.3
Amounts owed to other customers	113.1	-	29.7	76.5	6.9	-
Derivative liabilities	106.6	-	7.5	46.3	43.8	9.0
Debt securities in issue	265.9	-	0.3	-	265.6	-
Lease liabilities	9.9	-	0.4	1.3	7.6	0.6
Subordinated liabilities	-	-	-	-	-	-
PSBs	15.2	-	-	-	15.2	-
Total liabilities	25,359.4	6,770.7	2,861.7	8,242.1	7,103.0	381.9
Financial asset by type						
Cash in hand	0.4	0.4	-	-	-	-
Loans and advances to credit institutions	3,365.7	3,104.0	71.4	-	-	190.3
Investment securities	412.9	0.5	144.8	22.1	245.5	-
Loans and advances to customers	23,612.7	2.3	223.8	421.8	1,341.6	21,623.2
Derivative assets	888.1	-	2.7	55.5	828.2	1.7
Total assets	28,279.8	3,107.2	442.7	499.4	2,415.3	21,815.2
Cumulative liquidity gap		(3,663.5)	(6,082.5)	(13,825.2)	(18,512.9)	2,920.4

45. Risk management (continued)

2021	Carrying amount £m	On demand £m	Less than 3 months £m	3 - 12 months £m	1 - 5 years £m	More than 5 years £m
Financial liability by type						
Amounts owed to retail depositors	17,526.4	5,004.6	2,350.3	7,458.5	2,713.0	-
Amounts owed to credit institutions	4,319.6	42.1	1.0	-	4,203.2	73.3
Amounts owed to other customers	92.6	14.8	8.1	45.0	24.7	-
Derivative liabilities	19.7	-	0.7	10.4	8.6	-
Debt securities in issue	460.3	-	-	-	460.3	-
Lease liabilities	10.7	-	0.3	0.6	3.7	6.1
Subordinated liabilities	10.3	-	-	0.1	10.2	-
PSBs	15.2	-	-	-	15.2	-
Total liabilities	22,454.8	5,061.5	2,360.4	7,514.6	7,438.9	79.4
Financial asset by type						
Cash in hand	0.5	0.5	-	-	-	-
Loans and advances to credit institutions	2,843.6	2,667.8	52.0	10.1	-	113.7
Investment securities	491.4	-	172.7	6.1	312.6	-
Loans and advances to customers	21,080.3	3.3	163.8	383.5	1,327.4	19,202.3
Derivative assets	185.7	-	0.1	5.4	179.9	0.3
Total assets	24,601.5	2,671.6	388.6	405.1	1,819.9	19,316.3
Cumulative liquidity gap		(2,389.9)	(4,361.7)	(11,471.2)	(17,090.2)	2,146.7

45. Risk management (continued)

Liquidity risk – undiscounted contractual cash flows

The following tables provide an analysis of the Group's gross contractual undiscounted cash flows, derived using interest rates and contractual maturities at the reporting date and excluding impacts of early payments or non-payments:

2022	Carrying amount £m	Gross inflow/ outflow £m	Up to 3 months £m	3 - 12 months £m	1 - 5 years £m	More than 5 years £m
Financial liability by type						
Amounts owed to retail depositors	**19,755.8**	**20,083.0**	**9,566.2**	**7,911.0**	**2,605.8**	**-**
Amounts owed to credit institutions	**5,092.9**	**5,459.8**	**227.1**	**410.9**	**4,449.5**	**372.3**
Amounts owed to other customers	**113.1**	**113.1**	**29.7**	**76.5**	**6.9**	**-**
Derivative liabilities	**106.6**	**103.9**	**16.2**	**39.1**	**46.7**	**1.9**
Debt securities in issue	**265.9**	**277.3**	**34.4**	**64.5**	**178.4**	**-**
Lease liabilities	**9.9**	**11.4**	**0.5**	**1.5**	**8.8**	**0.6**
Subordinated liabilities	**-**	**-**	**-**	**-**	**-**	**-**
PSBs	**15.2**	**16.1**	**0.3**	**0.3**	**15.5**	**-**
Total liabilities	**25,359.4**	**26,064.6**	**9,874.4**	**8,503.8**	**7,311.6**	**374.8**
Off-balance sheet loan commitments	**1,212.2**	**1,212.2**	**1,212.2**	**-**	**-**	**-**
Financial asset by type						
Cash in hand	**0.4**	**0.4**	**0.4**	**-**	**-**	**-**
Loans and advances to credit institutions	**3,365.7**	**3,365.7**	**3,175.4**	**-**	**-**	**190.3**
Investment securities	**412.9**	**444.3**	**148.2**	**30.2**	**265.9**	**-**
Loans and advances to customers	**23,612.7**	**57,940.1**	**430.7**	**1,657.2**	**8,028.9**	**47,823.3**
Derivative assets	**888.1**	**820.5**	**76.9**	**259.4**	**484.6**	**(0.4)**
Total assets	**28,279.8**	**62,571.0**	**3,831.6**	**1,946.8**	**8,779.4**	**48,013.2**

45. Risk management (continued)

2021	Carrying amount £m	Gross inflow/ outflow £m	Up to 3 months £m	3 - 12 months £m	1 - 5 years £m	More than 5 years £m
Financial liability by type						
Amounts owed to retail depositors	17,526.4	17,554.7	9,305.7	5,883.7	2,365.3	-
Amounts owed to credit institutions	4,319.6	4,359.8	45.2	5.2	4,236.1	73.3
Amounts owed to other customers	92.6	92.6	22.9	45.0	24.7	-
Derivative liabilities	19.7	6.0	(0.4)	5.1	1.2	0.1
Debt securities in issue	460.3	473.2	25.1	75.0	373.1	-
Lease liabilities	10.7	13.1	0.6	1.6	7.7	3.2
Subordinated liabilities	10.3	12.2	0.2	0.7	11.3	-
PSBs	15.2	16.8	0.2	0.5	16.1	-
Total liabilities	22,454.8	22,528.4	9,399.5	6,016.8	7,035.5	76.6
Off-balance sheet loan commitments	1,155.3	1,155.3	1,155.3	-	-	-
Financial asset by type						
Cash in hand	0.5	0.5	0.5	-	-	-
Loans and advances to credit institutions	2,843.6	2,843.6	2,756.3	10.1	-	77.2
Investment securities	491.4	497.0	172.6	108.8	215.6	-
Loans and advances to customers	21,080.3	41,290.2	374.4	1,331.0	5,711.9	33,872.9
Derivative assets	185.7	75.8	(1.4)	11.2	66.0	-
Total assets	24,601.5	44,707.1	3,302.4	1,461.1	5,993.5	33,950.1

The actual repayment profile of retail deposits may differ from the analysis above due to the option of early withdrawal with a penalty.

Cash flows on PSBs are disclosed up to the next interest rate reset date.

The actual repayment profile of loans and advances to customers may differ from the analysis above since many mortgage loans are repaid prior to the contractual end date.

45. Risk management (continued)

Liquidity risk – asset encumbrance

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

	2022				
	Encumbered		**Unencumbered**		
	Pledged as collateral £m	**Other[1] £m**	**Available as collateral £m**	**Other £m**	**Total £m**
Cash in hand	**-**	**-**	**0.4**	**-**	**0.4**
Loans and advances to credit institutions	**237.4**	**174.6**	**2,806.5**	**147.2**	**3,365.7**
Investment securities	**46.4**	**-**	**366.5**	**-**	**412.9**
Loans and advances to customers[2]	**6,705.1**	**-**	**16,424.5**	**483.1**	**23,612.7**
Derivative assets	**-**	**-**	**-**	**888.1**	**888.1**
Non-financial assets	**-**	**-**	**-**	**(713.1)**	**(713.1)**
	6,988.9	**174.6**	**19,597.9**	**805.3**	**27,566.7**

	2021				
	Encumbered		Unencumbered		
	Pledged as collateral £m	Other[1] £m	Available as collateral £m	Other £m	Total £m
Cash in hand	-	-	0.5	-	0.5
Loans and advances to credit institutions	99.9	107.5	2,496.4	139.8	2,843.6
Investment securities	121.8	-	369.6	-	491.4
Loans and advances to customers[2]	6,373.7	-	2,746.3	11,960.3	21,080.3
Derivative assets	-	-	-	185.7	185.7
Non-financial assets	-	-	-	(69.6)	(69.6)
	6,595.4	107.5	5,612.8	12,216.2	24,531.9

1. Represents assets that are not pledged but that the Group believes it is restricted from using to secure funding for legal or other reasons.
2. Unencumbered loans and advances to customers classified as other are restricted for use as collateral as they are; registered outside of UK (Jersey and Guernsey), not secured by immovable property or are non-performing.

45. Risk management (continued)

Liquidity risk – liquidity reserves

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

	2022 **£m**	2021 £m
Unencumbered balances with central banks	**2,806.5**	2,496.4
Unencumbered cash and balances with other banks	**147.2**	139.8
Other cash and cash equivalents	**0.4**	0.5
Unencumbered investment securities	**366.5**	369.6
	3,320.6	3,006.3

Market risk

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

Interest rate risk

The primary market risk faced by the Group is interest rate risk. Interest rate risk is the risk of loss from adverse movement in the overall level of interest rates. It arises from mismatches in the timing of repricing of assets and liabilities, both on and off-balance sheet. The Group does not run a trading book or take speculative interest rate positions and therefore all interest rate risk resides in the banking book (interest rate risk in the banking book (IRRBB)). IRRBB is most prevalent in mortgage lending and in fixed rate retail deposits. Exposure is mitigated on a continuous basis through the use of natural offsets between mortgages and savings with a similar tenor, interest rate derivatives and reserve allocations.

Currently interest rate risk is managed separately for OSB and CCFS due to the use of different treasury management and asset and liability management (ALM) systems. However, the methodology applied to the setting of risk appetites was aligned across the Group in 2020. Both Banks apply an economic value at risk approach as well as an earnings at risk approach for interest rate risk and basis risk. The interest rate sensitivity is impacted by behavioural assumptions used by the Group; the most significant of which are prepayments and pipeline take up. Expected prepayments are monitored and modelled on a regular basis based upon historical analysis. The reserve allocation strategy is approved by ALCO and set to reflect the current balance sheet and future plans.

Economic value at risk is measured using the impact of six different internally derived interest rate scenarios. The internal scenarios are defined by ALCO and are based on three 'shapes' of curve movement (shift, twist and flex). Historical data is used to calibrate the severity of the scenarios to the Group's risk appetite. The Board has set limits on interest rate risk exposure of 2.25% and 1% of CET1 for OSB and CCFS, respectively. The table below shows the maximum decreases to net interest income under these scenarios after taking into account the derivatives:

45. Risk management (continued)

	2022 £m	2021 £m
OSB	**13.5**	9.9
CCFS	**1.9**	1.1
	15.4	11.0

Exposure for earnings at risk as at 31 December 2022 is measured by the impact of a +/-100bps parallel shift in interest rates on the expected profitability of the Group in the next 12 months. The risk appetite limit is 4% of full year net interest income. The table below shows the maximum decreases after taking into account the derivatives:

	2022 £m	2021 £m
OSB[1]	**7.5**	0.5
CCFS[1,2]	**8.8**	(0.4)
	16.3	0.1

1. Exposure for earnings at risk as at 31 December 2021 was measured by the impact of a +/-50bps parallel shift in interest rates on the expected profitability of the Group in the next 12 months. The risk appetite limit was 2% of full year net interest income.
2. Increases for CCFS 2021 due to product floors earnings increases in both the +50bps and -50bps scenarios.

Exposure for earnings at risk measured by the impact of a +/-100bps parallel shift in interest rates on the expected profitability of the Group in the next 3 years. The risk appetite limit is 4% of full year net interest income.

	2022 £m	2021[1] £m
OSB	**26.2**	-
CCFS	**24.1**	-
	50.3	-

1. Not measured during 2021.

The Group is also exposed to basis risk. Basis risk is the risk of loss from an adverse divergence in interest rates. It arises where assets and liabilities reprice from different variable rate indices. These indices may be market rates (e.g. bank base rate or SONIA) or administered (e.g. the Group’s SVR, other discretionary variable rates, or that received on call accounts with other banks).

45. Risk management (continued)

The Group measures basis risk using the impact of four scenarios on net interest income over a one-year period including movements such as diverging base, overnight and term SONIA rates. Historical data is used to calibrate the severity of the scenarios to the Group's risk appetite. The Board has set a limit on basis risk exposure of 2.5% of full year net interest income. The table below shows the maximum decreases to net interest income at 31 December 2022 and 2021:

	2022 **£m**	2021 £m
OSB	**5.8**	3.2
CCFS	**4.5**	3.8
	10.3	7.0

Foreign exchange rate risk

The Group has limited exposure to foreign exchange risk in respect of its Indian operations. A 5% increase in exchange rates would result in a £0.7m (2021: £0.4m) effect in profit or loss and £0.5m (2021: £0.5m) in equity.

Structured entities

The structured entities consolidated within the Group at 31 December 2022 were Canterbury Finance No.2 plc, Canterbury Finance No.3 plc, Canterbury Finance No.4 plc, Canterbury Finance No.5 plc and CMF 2020-1 plc. These entities hold legal title to a pool of mortgages which are used as a security for issued debt. The transfer of mortgages fails derecognition criteria because the Group retained the subordinated notes and residual certificates issued and as such did not transfer substantially the risks and rewards of ownership of the securitised mortgages. Therefore, the Group is exposed to credit, interest rate and other risks on the securitised mortgages.

Cash flows generated from the structured entities are ring-fenced and are used to pay interest and principal of the issued debt securities in a waterfall order according to the seniority of the bonds. The structured entities are self-funded and the Group is not contractually or constructively obliged to provide further liquidity or financial support.

The structured entities consolidated within the Group at 31 December 2021 were Canterbury Finance No.2 plc, Canterbury Finance No.3 plc, Canterbury Finance No.4 plc and CMF 2020-1 plc.

Unconsolidated structured entities

Structured entities, which were sponsored by the Group include Precise Mortgage Funding 2017-1B plc, Charter Mortgage Funding 2017-1 plc, Precise Mortgage Funding 2018-1B plc, Charter Mortgage Funding 2018-1 plc, Precise Mortgage Funding 2019-1B plc, Canterbury Finance No.1 plc and Precise Mortgage Funding 2020-1B plc.

These structured entities are not consolidated by the Group, as the Group does not control the entities and is not exposed to the risks and rewards of ownership from the securitised mortgages. The Group has no contractual arrangements with the unconsolidated structured entities other than the investments disclosed in note 19 and servicing the structured entities' mortgage portfolios.

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

45. Risk management (continued)

During 2022 the Group received £2.6m interest income (2021: £1.8m) and £4.3m servicing income (2021: £4.4m) from unconsolidated structured entities.

46. Financial instruments and fair values

i. Financial assets and financial liabilities

The following table sets out the classification of financial instruments in the Consolidated Statement of Financial Position:

		2022				
	Note	Designated FVTPL £m	Mandatorily FVTPL £m	FVOCI £m	Amortised cost £m	Total carrying amount £m
Assets						
Cash in hand		-	-	-	0.4	0.4
Loans and advances to credit institutions	18	-	-	-	3,365.7	3,365.7
Investment securities	19	0.5	-	149.8	262.6	412.9
Loans and advances to customers	20	14.6	-	-	23,598.1	23,612.7
Derivative assets	25	-	888.1	-	-	888.1
Other assets[1]	27	-	-	-	1.8	1.8
		15.1	888.1	149.8	27,228.6	28,281.6
Liabilities						
Amounts owed to retail depositors	32	-	-	-	19,755.8	19,755.8
Amounts owed to credit institutions	31	-	-	-	5,092.9	5,092.9
Amounts owed to other customers	33	-	-	-	113.1	113.1
Debt securities in issue	34	-	-	-	265.9	265.9
Derivative liabilities	25	-	106.6	-	-	106.6
Other liabilities[2]	36	-	-	-	38.1	38.1
Subordinated liabilities	39	-	-	-	-	-
PSBs	40	-	-	-	15.2	15.2
		-	106.6	-	25,281.0	25,387.6

1. Balance excludes prepayments.
2. Balance excludes deferred income.

46. Financial instruments and fair values (continued)

		2021				
	Note	Designated FVTPL £m	Mandatorily FVTPL £m	FVOCI £m	Amortised cost £m	Total carrying amount £m
Assets						
Cash in hand		-	-	-	0.5	0.5
Loans and advances to credit institutions	18	-	-	-	2,843.6	2,843.6
Investment securities	19	0.7	-	167.6	323.1	491.4
Loans and advances to customers	20	17.7	-	-	21,062.6	21,080.3
Derivative assets	25	-	185.7	-	-	185.7
Other assets[1]	27	-	-	-	0.9	0.9
		18.4	185.7	167.6	24,230.7	24,602.4
Liabilities						
Amounts owed to retail depositors	32	-	-	-	17,526.4	17,526.4
Amounts owed to credit institutions	31	-	-	-	4,319.6	4,319.6
Amounts owed to other customers	33	-	-	-	92.6	92.6
Debt securities in issue	34	-	-	-	460.3	460.3
Derivative liabilities	25	-	19.7	-	-	19.7
Other liabilities[2]	36	-	-	-	28.8	28.8
Subordinated liabilities	39	-	-	-	10.3	10.3
PSBs	40	-	-	-	15.2	15.2
		-	19.7	-	22,453.2	22,472.9

1. Balance excludes prepayments.
2. Balance excludes deferred income.

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

46. Financial instruments and fair values (continued)

ii. Fair values

The following tables summarise the carrying value and estimated fair value of financial instruments not measured at fair value in the Consolidated Statement of Financial Position:

	2022		2021	
	Carrying value £m	**Estimated fair value £m**	Carrying value £m	Estimated fair value £m
Assets				
Cash in hand	**0.4**	**0.4**	0.5	0.5
Loans and advances to credit institutions	**3,365.7**	**3,365.7**	2,843.6	2,843.6
Investment securities	**262.6**	**260.5**	323.1	323.8
Loans and advances to customers	**23,598.1**	**22,746.0**	21,062.6	21,079.5
Other assets[1]	**1.8**	**1.8**	0.9	0.9
	27,228.6	**26,374.4**	24,230.7	24,248.3
Liabilities				
Amounts owed to retail depositors	**19,755.8**	**19,693.0**	17,526.4	17,524.9
Amounts owed to credit institutions	**5,092.9**	**5,092.9**	4,319.6	4,319.6
Amounts owed to other customers	**113.1**	**113.1**	92.6	92.6
Debt securities in issue	**265.9**	**265.9**	460.3	460.3
Other liabilities[2]	**38.1**	**38.1**	28.8	28.8
Subordinated liabilities	**-**	**-**	10.3	10.6
PSBs	**15.2**	**14.0**	15.2	14.7
	25,281.0	**25,217.0**	22,453.2	22,451.5

1. Balance excludes prepayments.
2. Balance excludes deferred income.

The fair values in these tables are estimated using the valuation techniques below. The estimated fair value is stated as at 31 December and may be significantly different from the amounts which will actually be paid on the maturity or settlement dates of each financial instrument.

Cash in hand
This represents physical cash across the Group's branch network where fair value is considered to be equal to carrying value.

Loans and advances to credit institutions
This mainly represents the Group's working capital current accounts and call accounts with central governments and other banks with an original maturity of less than three months. Fair value is not considered to be materially different to carrying value.

Investment securities
Investment securities' fair values are provided by a third party and are based on the market values of similar financial instruments. The fair value of investment securities held at FVTPL is measured using a discounted cash flow model.

46. Financial instruments and fair values (continued)

Loans and advances to customers
This mainly represents secured mortgage lending to customers. The fair value of fixed rate mortgages has been estimated by discounting future cash flows at current market rates of interest. Future cash flows include the impact of ECL. The interest rate on variable rate mortgages is considered to be equal to current market product rates and as such fair value is estimated to be equal to carrying value.

Other assets
Other assets disclosed in the table above exclude prepayments and the fair value is considered to be equal to carrying value.

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

Amounts owed to credit institutions
This mainly represents amounts drawn down under the BoE TFSME and commercial repos. Fair value is considered to be equal to carrying value.

Amounts owed to other customers
This represents saving products to corporations and local authorities. The fair value of fixed rate deposits is estimated by discounting future cash flows at current market rates of interest. Deposits at variable rates are considered to be at current market rates and the fair value is estimated to be equal to carrying value.

Debt securities in issue
While the Group's debt securities in issue are listed, the quoted prices for an individual note may not be indicative of the fair value of the issue as a whole, due to the specialised nature of the market in such instruments and the limited number of investors participating in it. Fair value is not considered to be materially different to carrying value.

Other liabilities
Other liabilities disclosed in the table above exclude deferred income and the fair value is considered to be equal to carrying value.

Subordinated liabilities and PSBs
The fair value of subordinated liabilities is estimated by using quoted market prices of similar instruments at the reporting date. The PSBs are listed on the London Stock Exchange with fair value being the quoted market price at the reporting date.

46. Financial instruments and fair values (continued)

iii. Fair value classification

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

2022	Carrying amount £m	Principal amount £m	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial assets						
Investment securities	**150.3**	**150.5**	**149.8**	**-**	**0.5**	**150.3**
Loans and advances to customers	**14.6**	**17.7**	**-**	**-**	**14.6**	**14.6**
Derivative assets	**888.1**	**15,662.6**	**-**	**888.1**	**-**	**888.1**
	1,053.0	**15,830.8**	**149.8**	**888.1**	**15.1**	**1,053.0**
Financial liabilities						
Derivative liabilities	**106.6**	**9,518.0**	**-**	**106.6**	**-**	**106.6**

2021	Carrying amount £m	Principal amount £m	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial assets						
Investment securities	168.3	166.2	152.1	15.5	0.7	168.3
Loans and advances to customers	17.7	19.7	-	-	17.7	17.7
Derivative assets	185.7	12,968.3	-	185.7	-	185.7
	371.7	13,154.2	152.1	201.2	18.4	371.7
Financial liabilities						
Derivative liabilities	19.7	7,378.0	-	19.7	-	19.7

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

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

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

46. Financial instruments and fair values (continued)

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

			Estimated fair value			
2022	**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	**3,365.7**	**3,360.9**	**-**	**3,365.7**	**-**	**3,365.7**
Investment securities	**262.6**	**262.1**	**-**	**260.5**	**-**	**260.5**
Loans and advances to customers	**23,598.1**	**23,646.2**	**-**	**2,515.0**	**20,231.0**	**22,746.0**
Other assets[1]	**1.8**	**1.8**	**-**	**1.8**	**-**	**1.8**
	27,228.6	**27,271.4**	**-**	**6,143.4**	**20,231.0**	**26,374.4**
Financial liabilities						
Amounts owed to retail depositors	**19,755.8**	**19,620.8**	**-**	**5,770.3**	**13,922.7**	**19,693.0**
Amounts owed to credit institutions	**5,092.9**	**5,057.8**	**-**	**5,092.9**	**-**	**5,092.9**
Amounts owed to other customers	**113.1**	**112.1**	**-**	**-**	**113.1**	**113.1**
Debt securities in issue	**265.9**	**265.4**	**-**	**265.9**	**-**	**265.9**
Other liabilities[2]	**38.1**	**38.1**	**-**	**38.1**	**-**	**38.1**
Subordinated liabilities	**-**	**-**	**-**	**-**	**-**	**-**
PSBs	**15.2**	**15.0**	**14.0**	**-**	**-**	**14.0**
	25,281.0	**25,109.2**	**14.0**	**11,167.2**	**14,035.8**	**25,217.0**

1. Balance excludes prepayments.
2. Balance excludes deferred income.

46. Financial instruments and fair values (continued)

2021	Carrying amount £m	Principal amount £m	Estimated fair value Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial assets						
Cash in hand	0.5	0.5	-	0.5	-	0.5
Loans and advances to credit institutions	2,843.6	2,843.6	-	2,843.6	-	2,843.6
Investment securities	323.1	322.9	-	323.8	-	323.8
Loans and advances to customers	21,062.6	21,076.7	-	3,323.0	17,756.5	21,079.5
Other assets[1]	0.9	0.9	-	0.9	-	0.9
	24,230.7	24,244.6	-	6,491.8	17,756.5	24,248.3
Financial liabilities						
Amounts owed to retail depositors	17,526.4	17,469.0	-	6,601.3	10,923.6	17,524.9
Amounts owed to credit institutions	4,319.6	4,318.5	-	4,319.6	-	4,319.6
Amounts owed to other customers	92.6	92.5	-	-	92.6	92.6
Debt securities in issue	460.3	460.2	-	460.3	-	460.3
Other liabilities[2]	28.8	28.8	-	28.8	-	28.8
Subordinated liabilities	10.3	10.1	-	-	10.6	10.6
PSBs	15.2	15.0	14.7	-	-	14.7
	22,453.2	22,394.1	14.7	11,410.0	11,026.8	22,451.5

1. Balance excludes prepayments.
2. Balance excludes deferred income.

47. Pension scheme

Defined contribution scheme
The amount charged to profit or loss in respect of contributions to the Group's defined contribution and stakeholder pension arrangements is the contribution payable in the period. The total pension cost in the year amounted to £4.4m (2021: £5.2m).

48. Operating segments

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

- OSB
- CCFS

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

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

2022	OSB £m	CCFS £m	Combination £m	Total £m
Balances at the reporting date				
Gross loans and advances to customers	**13,244.7**	**10,416.3**	**81.7**	**23,742.7**
Expected credit losses	**(103.2)**	**(28.0)**	**1.2**	**(130.0)**
Loans and advances to customers	**13,141.5**	**10,388.3**	**82.9**	**23,612.7**
Capital expenditure	**7.6**	**0.7**	**-**	**8.3**
Depreciation and amortisation	**6.2**	**3.4**	**3.8**	**13.4**
Profit or loss for the year				
Net interest income/(expense)	**460.7**	**308.4**	**(59.2)**	**709.9**
Other income	**8.9**	**46.2**	**10.4**	**65.5**
Total income/(expense)	**469.6**	**354.6**	**(48.8)**	**775.4**
Impairment of financial assets	**(22.3)**	**(8.4)**	**0.9**	**(29.8)**
Contribution to profit	**447.3**	**346.2**	**(47.9)**	**745.6**
Administrative expenses	**(130.9)**	**(73.1)**	**(3.8)**	**(207.8)**
Provisions	**1.6**	**-**	**-**	**1.6**
Integration costs	**(6.8)**	**(1.1)**	**-**	**(7.9)**
Profit/(loss) before taxation	**311.2**	**272.0**	**(51.7)**	**531.5**
Taxation[1]	**(70.1)**	**(70.2)**	**18.8**	**(121.5)**
Profit/(loss) for the year	**241.1**	**201.8**	**(32.9)**	**410.0**

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 £17.5m and the release of other deferred tax assets on Combination adjustments of £1.3m.

48. Operating segments (continued)

2021	OSB £m	CCFS £m	Combination £m	Total £m
Balances at the reporting date				
Gross loans and advances to customers	12,057.3	8,981.4	143.1	21,181.8
Expected credit losses	(82.2)	(19.6)	0.3	(101.5)
Loans and advances to customers	11,975.1	8,961.8	143.4	21,080.3
Capital expenditure	5.0	1.8	-	6.8
Depreciation and amortisation	6.5	3.2	4.8	14.5
Profit or loss for the year				
Net interest income/(expense)	414.8	235.7	(62.9)	587.6
Other income	8.7	20.0	12.7	41.4
Total income/(expense)	423.5	255.7	(50.2)	629.0
Impairment of financial assets	(3.5)	8.4	(0.5)	4.4
Contribution to profit	420.0	264.1	(50.7)	633.4
Administrative expenses	(97.9)	(63.8)	(4.8)	(166.5)
Provisions	(0.3)	0.1	-	(0.2)
Impairment of intangible assets	-	-	3.1	3.1
Integration costs	(4.0)	(1.0)	-	(5.0)
Exceptional items	(0.2)	-	-	(0.2)
Profit/(loss) before taxation	317.6	199.4	(52.4)	464.6
Taxation[1]	(76.0)	(51.8)	8.5	(119.3)
Profit/(loss) for the year	241.6	147.6	(43.9)	345.3

1. The tax on Combination credit includes a credit of £14.1m relating to the unwind of the deferred tax liabilities recognised on the fair value adjustments of the CCFS assets and liabilities at the acquisition date, offset by a £5.6m deferred tax charge due to the 6% increase in the main rate of the corporation tax liability from 1 April 2023.

49. Country by country reporting(CBCR)

CBCR was introduced through Article 89 of CRD IV, aimed at the banking and capital markets industry.

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

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

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

49. Country by country reporting (continued)

Other disclosures required by the CBCR directive are provided below:

2022	**UK**	**India**	**Consolidation[2]**	**Total**
Average number of employees	**1,274**	**622**	**-**	**1,896**
Turnover[1], £m	**775.1**	**13.6**	**(13.3)**	**775.4**
Profit/(loss) before tax, £m	**531.2**	**2.2**	**(1.9)**	**531.5**
Corporation tax paid, £m	**142.0**	**0.5**	**-**	**142.5**

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

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

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

2022	**UK £m**	**India £m**	**Total £m**
Tax charge	**121.0**	**0.5**	**121.5**
Effects of:			
Other timing differences	**18.7**	**-**	**18.7**
Tax outside of profit or loss	**(0.9)**	**-**	**(0.9)**
Prior year tax paid during the year	**1.0**	**-**	**1.0**
Prior year tax included within tax charge	**0.9**	**-**	**0.9**
Tax in relation to future periods prepaid	**1.3**	**-**	**1.3**
Tax paid	**142.0**	**0.5**	**142.5**

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

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

	2022 £m	2021 £m (Restated)[1]
Adjustments for non-cash items:		
Depreciation and amortisation	**13.4**	14.5
Interest on investment securities	**(6.8)**	(2.5)
Integration cost	**-**	0.6
Interest on subordinated liabilities	**1.1**	0.8
Interest on PSBs	**0.7**	1.2
Interest on securitised debt	**7.7**	3.9
Interest on financing debt	**68.7**	5.3
Impairment charge/(credit) on loans	**29.8**	(4.4)
Impairment credit on intangible assets acquired on Combination	**-**	(3.1)
Gain on sale of financial instruments	**-**	(4.0)
Administrative expenses	**1.3**	-
Provisions	**(1.6)**	0.2
Interest on lease liabilities	**0.2**	0.3
Fair value gains on financial instruments	**(58.9)**	(29.5)
Share-based payments	**8.1**	6.7
Total adjustments for non-cash items	**63.7**	(10.0)
Changes in operating assets and liabilities:		
(Increase)/decrease in loans and advances to credit institutions	**(204.6)**	98.7
Increase in loans and advances to customers	**(2,563.1)**	(1,844.0)
Increase in amounts owed to retail depositors	**2,229.4**	923.3
Increase in cash collateral and margin received[1]	**434.3**	115.4
Net increase in other assets	**(4.7)**	(1.1)
Net increase in derivatives and hedged items	**59.1**	3.6
Net increase in amounts owed to other customers	**16.6**	18.9
Net increase in other liabilities	**9.1**	1.7
Exchange differences on working capital	**(0.3)**	(0.1)
Total changes in operating assets and liabilities[1]	**(24.2)**	(683.6)

1. 2021 figures restated see note 1 b) for further details.

51. Events after the reporting date

The Board has authorised a share repurchase of up to £150.0m of shares in the market from 17 March 2023. The Company has authority to make such purchases under a resolution approved by shareholders at the AGM on 11 May 2023. Any purchases made under this programme will be announced to the market each day in line with regulatory requirements.

52. Controlling party

As at 31 December 2022 there was no controlling party of the ultimate parent company of the Group, OSB GROUP PLC.

53. Transactions with key management personnel

All related party transactions were made on terms equivalent to those that prevail in arm's length transactions. During the year, there were no related party transactions between the key management personnel and the Group other than as described below.

The Directors and Group Executive team are considered to be key management personnel.

Directors' remuneration is disclosed in note 10 and in the Directors' Remuneration Report. The Group Executive team are all employees of OSB, the table below shows their aggregate remuneration:

	2022	2021
	£'000	£'000
Short-term employee benefits	**4,000**	5,144
Post-employment benefits	**62**	44
Share-based payments	**2,667**	2,414
	6,729	7,602

Key management personnel and connected persons held deposits with the Group of £2.1m (2021: £0.9m).

54. Capital management

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

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

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

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

Under Pillar 2, the Group, and its regulated entities, complete an annual self-assessment of risks known as the ICAAP. The PRA applies additional requirements to this assessment amount to cover risks under Pillar 2 to generate a Total Capital Requirement. Further, the PRA sets capital buffers and the Group applies for imposition of the requirements and modification of rules incorporating the capital buffers and Pillar 2 pursuant to the Financial Services and Markets Act 2000.

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

Basel III came into force through CRD IV. Basel III complements and enhances Basel I and II with additional safety measures. Basel III changed definitions of regulatory capital, introduced new capital buffers, a non-risk adjusted leverage ratio, liquidity ratios and modified the way regulatory capital is calculated.

54. Capital management (continued)

The PRA issued, on 30th November 2022, a consultation paper on the implementing Basel 3.1 in the UK. The Group has taken account of this in planning for future capital requirements.

The ultimate responsibility for capital adequacy rests with the Board of Directors. The Group's ALCO is responsible for the management of the capital process within the risk appetite defined by the Board, including approving policy, overseeing internal controls and setting internal limits over capital ratios.

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

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

	(Unaudited) 2022 £m	(Unaudited) 2021 £m
CET1 capital		
Called up share capital	**4.3**	4.5
Share premium, capital contribution and share-based payment reserve	**15.6**	14.1
Retained earnings	**3,389.4**	3,215.1
Transfer reserve	**(1,355.1)**	(1,355.3)
Other reserves	**(3.2)**	(4.0)
Total equity attributable to ordinary shareholders	**2,051.0**	1,874.4
Foreseeable dividends[1]	**(144.0)**	(94.7)
IFRS 9 transitional adjustment[2]	**1.4**	2.9
COVID-19 ECL transitional adjustment[3]	**25.9**	19.0
Deductions from CET1 capital		
Prudent valuation adjustment[4]	**(1.0)**	(1.0)
Intangible assets	**(12.0)**	(18.4)
Deferred tax asset	**(0.6)**	(0.5)
CET1 capital	**1,920.7**	1,781.7
AT1 capital		
AT1 securities	**150.0**	150.0
Total Tier 1 capital	**2,070.7**	1,931.7
Total regulatory capital	**2,070.7**	1,931.7
Risk-weighted assets (unaudited)	**10,494.7**	9,101.6

1. 2022 includes special dividend of £50.3m (£50.0m announced by the Board rounded up on a pence per share basis totals £50.3m).
2. The regulatory capital includes a £1.4m add-back under IFRS 9 transitional arrangements. This represents 25.0% of the IFRS 9 transitional adjustment booked directly to retained earnings of £5.9m.
3. The COVID-19 ECL transitional adjustment relates to 75% of 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.
4. The Group has adopted the simplified approach under the Prudent Valuation rules, recognising a deduction equal to sum of absolute value equal to 0.1% of fair value assets and liabilities excluding offsetting fair-valued assets and liabilities.

54. Capital management (continued)

The movement in CET1 during the year was as follows:

	(Unaudited) 2022 £m	(Unaudited) 2021 £m
At 1 January	**1,781.7**	1,566.0
Movement in retained earnings	**174.3**	1,606.5
Share premium from Sharesave Scheme vesting	**1.7**	0.7
Movement in other reserves	**0.6**	(1,349.7)
Movement in foreseeable dividends	**(49.3)**	(29.8)
IFRS 9 transitional adjustment	**(1.5)**	(2.0)
COVID-19 ECL transitional adjustment	**6.9**	(12.0)
Movement in prudent valuation adjustment	**-**	(0.6)
Net decrease in intangible assets	**6.4**	2.2
Movement in deferred tax asset for carried forward losses	**(0.1)**	0.4
At 31 December	**1,920.7**	1,781.7

OSB GROUP PLC

Company Statement of Financial Position

As at 31 December 2022

	Note	**2022 £m**	2021 £m
Assets			
Investments in subsidiaries and intercompany loans	2	**1,590.7**	1,582.6
Current taxation asset		**-**	0.3
Total assets		**1,590.7**	1,582.9
Liabilities			
Intercompany loans	2	**0.8**	0.6
Other liabilities		**-**	0.2
		0.8	0.8
Equity			
Share capital	3	**4.3**	4.5
Share premium	3	**2.4**	0.7
Retained earnings		**1,359.3**	1,358.4
Other reserves	4	**223.9**	218.5
		1,589.9	1,582.1
Total equity and liabilities		**1,590.7**	1,582.9

The profit after tax for the year ended 31 December 2022 of OSBG was £240.8m (2021: £87.0m). As permitted by section 408 of the Companies Act 2006, no separate Statement of Comprehensive Income is presented in respect of the Company.

The notes below form an integral part of the Company financial statements.

The financial statements were approved by the Board of Directors on 16 March 2023 and were signed on its behalf by:

Andy Golding
Chief Executive Officer

April Talintyre
Chief Financial Officer

Company number: 11976839

OSB GROUP PLC
Company Statement of Changes in Equity
For the year ended 31 December 2022

	Share capital £m	Share premium £m	Capital redemption and transfer reserve[1] £m	Own shares[2] £m	Share-based payment reserve £m	AT1 securities £m	Retained earnings £m	Total £m
At 1 January 2021	1,359.8	-	65.7	(4.0)	0.4	-	4.0	1,425.9
Profit for the year	-	-	-	-	-	-	87.0	87.0
Dividend paid	-	-	-	-	-	-	(86.7)	(86.7)
Share-based payments	-	0.7	-	-	5.9	-	0.9	7.5
Issuance of AT1 securities	-	-	-	-	-	150.0	-	150.0
Transactions costs on issuance of AT1 securities	-	-	-	-	-	-	(1.6)	(1.6)
Own shares[2]	-	-	-	0.5	-	-	(0.5)	-
Capital reduction	(1,355.3)	-	-	-	-	-	1,355.3	-
At 31 December 2021	4.5	0.7	65.7	(3.5)	6.3	150.0	1,358.4	1,582.1
Profit for the year	**-**	**-**	**-**	**-**	**-**	**-**	**240.8**	**240.8**
Dividend paid	**-**	**-**	**-**	**-**	**-**	**-**	**(133.1)**	**(133.1)**
Share-based payments	**-**	**1.7**	**-**	**-**	**3.9**	**-**	**4.2**	**9.8**
Own shares[2]	**-**	**-**	**-**	**1.3**	**-**	**-**	**(1.3)**	**-**
Coupon paid on AT1 securities	**-**	**-**	**-**	**-**	**-**	**-**	**(9.0)**	**(9.0)**
Share repurchase	**(0.2)**	**-**	**0.2**	**-**	**-**	**-**	**(100.7)**	**(100.7)**
At 31 December 2022	**4.3**	**2.4**	**65.9**	**(2.2)**	**10.2**	**150.0**	**1,359.3**	**1,589.9**

1. Includes Capital redemption reserve of £0.2m (2021: nil) and Transfer reserve of £65.7m (2021: £65.7m).
2. The Company has adopted look-through accounting (see note 1 to the Group's consolidated financial statements) and recognised the EBT within OSBG.

OSB GROUP PLC
Company Statement of Cash Flows
For the year ended 31 December 2022

	2022 £m	2021 £m
Cash flows from operating activities		
Profit before taxation	**240.8**	86.7
Adjustments for non-cash items:		
Administrative expenses	**1.3**	-
Changes in operating assets and liabilities:		
Net (decrease)/increase in other liabilities	**(0.2)**	0.2
Change in intercompany loans[1]	**0.5**	0.6
Cash generated in operating activities	**242.4**	87.5
Cash flows from investing activities		
Change in investments in subsidiaries	**-**	(150.0)
Cash used in investing activities	**-**	(150.0)
Cash flows from financing activities		
Share repurchase[2]	**(102.0)**	-
Dividend paid	**(133.1)**	(86.7)
Coupon paid on AT1 securities	**(9.0)**	-
Issuance of AT1 securities	**-**	148.4
Proceeds from issuance of shares under employee SAYE scheme	**1.7**	0.8
Cash (used)/generated from financing activities	**(242.4)**	62.5
Net increase in cash and cash equivalents	**-**	**-**
Cash and cash equivalents at the beginning of the year	**-**	-
Cash and cash equivalents at the end of the year[3]	**-**	-
Movement in cash and cash equivalents	**-**	**-**

1. Includes £0.3m of current taxation asset surrendered to OSB.
2. Includes £100.0m for shares repurchased, £0.7m transaction costs and £1.3m success fee.
3. The Company's bank balance is swept to OneSavings Bank plc daily resulting in a nil balance.

OSB GROUP PLC
Notes to the Company Financial Statements
For the year ended 31 December 2022

1. Basis of preparation

The separate financial statements of the Company are presented as required by the Companies Act 2006. As permitted by that Act, the separate financial statements have been prepared in accordance with IFRSs as adopted by UK, and are presented in Pounds Sterling.

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

The principal accounting policies adopted are the same as those set out in note 1 to the Group's consolidated financial statements, aside from accounting policy 1 z), Share-based payments. For the Company, the cost of the awards are recognised on a straight-line basis to investment in subsidiaries (with a corresponding increase in the share-based payment reserve within equity) over the vesting period in which the employees become unconditionally entitled to the awards.

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

2. Investments in subsidiaries and intercompany loans

The Company holds an investment in ordinary shares of £1,440.7m (2021: £1,432.6m) and in AT1 securities of £90.0m (2021: £90.0m) in its direct subsidiary, OneSavings Bank plc (OSB). The Company also holds an investment in AT1 securities of £60.0m (2021: £60.0m) in an indirect subsidiary, Charter Court Financial Services Limited.

	Investment in subsidiaries £m	Intercompany loans payable £m
At 1 January 2021	1,425.9	-
Additions[1]	156.7	(1.4)
Repayments	-	0.8
At 31 December 2021	1,582.6	(0.6)
Additions[1]	**8.1**	**(2.1)**
Repayments	**-**	**1.9**
At 31 December 2022	**1,590.7**	**(0.8)**

1. Additions in investment in subsidiaries include £8.1m relating to share-based payments (2021: includes purchase of AT1 securities of £90.0m issued by OSB and £60.0m issued by Charter Court Financial Services Limited; and £6.7m relating to share-based payments).

The transactions with OSB during the year include £2.1m of additions in relation to costs on shares repurchased funded by OSB. Repayments of £1.9m comprise £1.6m of cash received from issuing shares under SAYE and £0.3m of tax losses surrendered to OSB (2021: additions comprised £1.4m transaction costs for the issuance of AT1 securities funded by OSB and repayments of £0.8m comprised cash received from issuing shares under SAYE).

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

2. Investments in subsidiaries and intercompany loans (continued)

A list of the Company's direct and indirect subsidiaries as at 31 December 2022 is shown below:

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

Indirect investments	Activity	Registered office	Ownership
5D Finance Limited	Mortgage servicer	Reliance House	**100%**
Broadlands Finance Limited	Mortgage administration services	Charter Court	**100%**
Canterbury Finance No.2 plc	Special purpose vehicle	Churchill Place	**-**
Canterbury Finance No.3 plc	Special purpose vehicle	Churchill Place	**-**
Canterbury Finance No.4 plc	Special purpose vehicle	Churchill Place	**-**
Canterbury Finance No.5 plc	Special purpose vehicle	Churchill Place	**-**
Charter Court Financial Services Group Plc	Holding company	Charter Court	**100%**
Charter Court Financial Services Limited	Mortgage lending and deposit taking	Charter Court	**100%**
Charter Mortgages Limited	Mortgage administration and analytical services	Charter Court	**100%**
CMF 2020-1 plc	Special purpose vehicle	Churchill Place	**-**
Easioption Limited	Holding company	Reliance House	**100%**
Exact Mortgage Experts Limited	Group service company	Charter Court	**100%**
Guernsey Home Loans Limited	Mortgage provider	Reliance House	**100%**
Guernsey Home Loans Limited (Guernsey)	Mortgage provider	Guernsey	**100%**
Heritable Development Finance Limited	Mortgage originator and servicer	Reliance House	**100%**
Inter Bay Financial I Limited	Holding company	Reliance House	**100%**
Inter Bay Financial II Limited	Holding company	Reliance House	**100%**
InterBay Asset Finance Limited	Asset finance and mortgage provider	Reliance House	**100%**
Interbay Funding, Ltd	Mortgage servicer	Reliance House	**100%**
Interbay Group Holdings Limited	Holding company	Reliance House	**100%**
Interbay Holdings Ltd	Holding company	Reliance House	**100%**
Interbay ML, Ltd	Mortgage provider	Reliance House	**100%**
Jersey Home Loans Limited	Mortgage provider	Reliance House	**100%**
Jersey Home Loans Limited (Jersey)	Mortgage provider	Jersey	**100%**
OSB India Private Limited	Back office processing	India	**100%**
Prestige Finance Limited	Mortgage originator and servicer	Reliance House	**100%**
Reliance Property Loans Limited	Mortgage provider	Reliance House	**100%**
WSE Bourton Road Limited	Land lease investment	OSB House	**100%**
Rochester Mortgages Limited	Mortgage provider	Reliance House	**100%**

2. Investments in subsidiaries and intercompany loans (continued)

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

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

Indirect investments	Activity	Registered office	Ownership
5D Finance Limited	Mortgage servicer	Reliance House	**100%**
Broadlands Finance Limited	Mortgage administration services	Charter Court	**100%**
Canterbury Finance No.2 plc	Special purpose vehicle	Churchill Place	**-**
Canterbury Finance No.3 plc	Special purpose vehicle	Churchill Place	**-**
Canterbury Finance No.4 plc	Special purpose vehicle	Churchill Place	**-**
Charter Court Financial Services Group Plc	Holding company	Charter Court	**100%**
Charter Court Financial Services Limited	Mortgage lending and deposit taking	Charter Court	**100%**
Charter Mortgages Limited	Mortgage administration and analytical services	Charter Court	**100%**
CMF 2020-1 plc	Special purpose vehicle	Churchill Place	**-**
CML Warehouse Number 2 Limited	Special purpose vehicle	Churchill Place	**-**
Easioption Limited	Holding company	Reliance House	**100%**
Exact Mortgage Experts Limited	Group service company	Charter Court	**100%**
Guernsey Home Loans Limited	Mortgage provider	Reliance House	**100%**
Guernsey Home Loans Limited (Guernsey)	Mortgage provider	Guernsey	**100%**
Heritable Development Finance Limited	Mortgage originator and servicer	Reliance House	**100%**
Inter Bay Financial I Limited	Holding company	Reliance House	**100%**
Inter Bay Financial II Limited	Holding company	Reliance House	**100%**
InterBay Asset Finance Limited	Asset finance and mortgage provider	Reliance House	**100%**
Interbay Funding, Ltd	Mortgage servicer	Reliance House	**100%**
Interbay Group Holdings Limited	Holding company	Reliance House	**100%**
Interbay Holdings Ltd	Holding company	Reliance House	**100%**
Interbay ML, Ltd	Mortgage provider	Reliance House	**100%**
Jersey Home Loans Limited	Mortgage provider	Reliance House	**100%**
Jersey Home Loans Limited (Jersey)	Mortgage provider	Jersey	**100%**
OSB India Private Limited	Back office processing	India	**100%**
Prestige Finance Limited	Mortgage originator and servicer	Reliance House	**100%**
Reliance Property Loans Limited	Mortgage provider	Reliance House	**100%**
Rochester Mortgages Limited	Mortgage provider	Reliance House	**100%**

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

2. Investments in subsidiaries and intercompany loans (continued)

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

SPVs which the Group controls are treated as subsidiaries for accounting purposes.

All of the entities listed above have been consolidated into the Group's consolidated financial statements. The location of the entities listed above are disclosed in note 49 to the Group's consolidated financial statements.

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

The following are the registered offices of the subsidiaries:

Charter Court – 2 Charter Court, Broadlands, Wolverhampton, WV10 6TD
Churchill Place – 5 Churchill Place, 10th Floor, London, E14 5HU
Guernsey – 1st Floor, Tudor House, Le Bordage, St Peter Port, Guernsey, GY1 1DB
India – Salarpuria Magnificia No. 78, 9th & 10th floor, Old Madras Road, Bangalore, India, 560016
Jersey – 26 New Street, St Helier, Jersey, JE2 3RA
OSB House – Quayside, Chatham Maritime, Chatham, England, ME4 4QZ
Reliance House – Reliance House, Sun Pier, Chatham, Kent, ME4 4ET

3. Share capital

	Number of shares issued and fully paid	**Nominal value £m**	**Premium £m**
At 1 January 2021	447,312,780	1,359.8	-
Capital reduction of £3.04 nominal value shares to £0.01 nominal value shares	-	(1,355.3)	-
Shares issued under employee share plans	1,315,075	-	0.7
At 31 December 2021	448,627,855	4.5	0.7
Share cancelled under repurchase programme	**(20,671,224)**	**(0.2)**	**-**
Shares issued under employee share plans	**1,911,994**	**-**	**1.7**
At 31 December 2022	**429,868,625**	**4.3**	**2.4**

The holders of ordinary shares are entitled to receive dividends as declared from time to time, and are entitled to one vote per share at meetings of the Company. All ordinary shares rank equally with regard to the Company's residual assets.

All ordinary shares issued in the current and prior year were fully paid.

4. Other reserves

The Company's distributable reserves are disclosed in note 43 of the Group's consolidated financial statements.

The Company's other reserves are as follows:

	2022 £m	2021 £m
Share-based payment	**10.2**	6.3
Capital redemption and transfer	**65.9**	65.7
Own shares	**(2.2)**	(3.5)
AT1 securities	**150.0**	150.0
	223.9	218.5

Capital redemption and transfer reserve

The capital redemption reserve represents the shares cancelled through the Group's share repurchase programme.

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

For own shares and AT1 securities see note 43 of the Group's consolidated financial statements.

5. Directors and employees

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

6. Controlling party

As at 31 December 2022 there was no controlling party of OSB GROUP PLC.

OSB GROUP PLC

Notes to the Company Financial Statements

For the year ended 31 December 2022

Appendix

Key performance indicators

Underlying results for the year to 31 December 2022 and 31 December 2021 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)

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

	2022 £m	2021 £m
Net interest income – statutory	709.9	587.6
Add back: acquisition-related items[2]	59.2	62.9
Net interest income – underlying	769.1	650.5
13 point average of interest earning assets – statutory C	25,518.8	23,207.7
13 point average of interest earning assets – underlying D	25,403.2	23,033.7
NIM statutory equals A/C	2.78%	2.53%
NIM underlying equals B/D	3.03%	2.82%

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.

	2022 £m	2021 £m
Administrative expenses – statutory A	207.8	166.5
Add back: acquisition-related items[2]	(3.8)	(4.8)
Administrative expenses – underlying B	204.0	161.7
Total income – statutory C	775.4	629.0
Add back: acquisition-related items[2]	48.8	50.2
Total income underlying D	824.2	679.2
Cost to income statutory equals A/C	27%	26%
Cost to income underlying equals B/D	25%	24%

Management expense ratio

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

	2022 £m	2021 £m
Administrative expenses – statutory (as in cost to income ratio above) A	207.8	166.5
Administrative expenses – underlying (as in cost to income ratio above) B	204.0	161.7
13 point average of total assets – statutory C	25,641.5	23,382.6
13 point average of total assets – underlying D	25,537.4	23,231.5
Management expense ratio statutory equals A/C on an annualised basis	0.81%	0.71%
Management expense ratio underlying equals B/D on an annualised basis	0.80%	0.70%

Loan loss ratio

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

	2022 £m	2021 £m
Impairment losses – statutory A	29.8	(4.4)
Add back: acquisition-related items[2]	0.9	(0.5)
Impairment losses – underlying B	30.7	(4.9)
13 point average of gross loans – statutory C	22,120.4	20,327.5
13 point average of gross loans – underlying D		20,164.3
	22,005.41	
Loan loss ratio statutory equals A/C on an annualised basis		(0.02)%
Loan loss ratio underlying equals B/D on an annualised basis	0.13%	(0.02)%
	0.14%	

OSB GROUP PLC
Notes to the Company Financial Statements

For the year ended 31 December 2022

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

	2022 £m	2021 £m
Profit after tax - statutory	410.0	345.3
Coupons on AT1 securities	-	(4.7)
Coupons on non-controlling interest securities	(9.0)	-
Profit attributable to ordinary shareholders – statutory A	401.0	340.6
Add back: acquisition related items[2]	38.7	47.8
Profit attributable to ordinary shareholders – underlying B	439.7	388.4
13 point average of shareholders' equity (excluding AT1 and non-controlling interest securities) – statutory C	1,943.4	1,741.1
13 point average of shareholders' equity (excluding AT1 and non-controlling interest securities) – underlying D	1,869.9	1,632.4
Return on equity statutory equals A/C on an annualised basis	21%	20%
Return on equity underlying equals B/D on an annualised basis	24%	24%

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

	2022 £m	2021 £m
Profit attributable to ordinary shareholders – statutory (as in RoE ratio above) A	401.0	340.6
Profit attributable to ordinary shareholders – underlying (as in RoE ratio above) B	439.7	388.4
Weighted average number of ordinary shares in issue – statutory C	441.5	448.1
Weighted average number of ordinary shares in issue – underlying D	441.5	448.1
Basic earnings per share statutory equals A/C	90.8	76.0
Basic earnings per share underlying equals B/D	99.6	86.7

1. 13 point average is calculated as an average of opening balance and closing balances for the year ended 31 December.
2. The acquisition-related items are detailed in the reconciliation of statutory to underlying results in the Financial review.

OSB GROUP PLC
Notes to the Company Financial Statements

For the year ended 31 December 2022

Calculation of 2022 final dividend

The table below shows the basis of calculation of the Company's recommended final dividend for 2022:

	2022 £m	2021 £m
Statutory profit after tax	**410.0**	345.3
Less: coupons on non-controlling interest securities classified as equity	**(9.0)**	(4.7)
Statutory profit attributable to ordinary shareholders	**401.0**	340.6
Add back: Group's integration costs	**7.9**	5.0
Tax on Group's integration costs	**(2.1)**	(1.3)
Add back: Group's exceptional items	**-**	0.2
Add back: amortisation of fair value adjustment	**60.4**	64.5
Add back: amortisation of inception adjustment	**(10.4)**	(11.0)
Add back: amortisation of cancelled swaps	**(1.2)**	(1.6)
Add back: amortisation of intangible assets acquired	**3.8**	4.8
Less: Impairment reversal of intangible assets recognised on Combination	**-**	(3.1)
Release of deferred taxation on the above amortisation adjustments	**(18.8)**	(8.5)
Gain on sale of financial assets	-	(1.7)
Add back: ECL on Combination	**(0.9)**	0.5
Underlying profit attributable to ordinary shareholders	**439.7**	388.4
Total dividend: 30% (2021: 30%) of underlying profit attributable to ordinary shareholders	**131.9**	116.6
Less: interim dividends paid	**(38.3)**	(21.9)
Recommended final dividend	**93.6**	94.7
Number of ordinary shares in issue	**429,868,625**	448,627,855
Recommended final dividend per share (pence)	**21.8**	21.1

Company information

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Quayside, Chatham Maritime
Chatham
Kent, ME4 4QZ

Registered in England, company number: 11976839

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