OSB GROUP PLC

Interim report for the six months ended 30 June 2022

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OSB GROUP PLC (OSBG or the Group), the specialist lending and retail savings group, announces today its results for the six months ended 30 June 2022.

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

Highlights

- Underlying profit before tax[1] increased 16% to a record £294.1m (H1 2021: £252.8m) and statutory profit before tax was £268.1m (H1 2021: £221.9m) reflecting the benefit of base rate rises
- Underlying and statutory net loan book grew by 3% to £21.6bn and £21.8bn, respectively in the period (FY 2021: £20.9bn and £21.1bn) in line with management expectations. Organic originations in the first six months of 2022 were £2.3bn (H1 2021: £2.5bn)
- Underlying net interest margin (NIM)[2] of 302bps (H1 2021: 268bps) and statutory NIM of 280bps (H1 2021: 236bps) improved, primarily benefitting from base rate rises
- Growth in income delivered an improved underlying cost to income ratio[3] of 23% (H1 2021: 25%) and 25% on a statutory basis (H1 2021: 28%)
- Underlying and statutory loan loss ratios[4] were 2bps and 1bp, respectively (H1 2021: -15bps underlying and statutory). Arrears remained stable with balances greater than three months at 1.1% (31 December 2021: 1.1%)
- The Common Equity Tier 1 capital ratio, which included the full impact of the £100m share repurchase programme, remained strong at 18.9% (31 December 2021: 19.6%). As at 10 August, the Group had repurchased £48.8m worth of shares under the programme
- Underlying return on equity[5] remained strong at 24% (H1 2021: 24%) despite the prior period benefitting from an impairment provision release of £15.1m. Statutory return on equity increased to 22% (H1 2021: 19%)
- Underlying basic earnings per share[6] of 48.9p (H1 2021: 41.8p) and statutory basic earnings per share of 45.7p (H1 2021: 35.5p)
- Interim dividend[7] of 8.7 pence per share (H1 2021: 4.9 pence per share) representing one-third of the total 2021 dividend, in line with the Group's stated policy

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

"I am delighted with the strong financial and operational performance of the Group in the first half of 2022. We delivered a record underlying profit with consistent and class-leading returns for our shareholders. Demand in our core lending segments remains robust and we have a record pipeline of applications. We have entered the final quarter of our three year integration programme having successfully delivered our pledged savings at lower cost than originally expected. The next phase of technology investment will focus on improving efficiency in our business operations, an enhanced user experience for our customers and further streamlining the interaction with our broker community.

The Group recognises the somewhat uncertain outlook for the UK economy and the impact of inflation and increasing cost of living on us all. We continue to monitor our lending book closely for any early signs of stress, however the credit performance of our portfolio to date remains strong.

Our people are a key asset to the Group and have been central to its success. They too have been affected by the current macroeconomic conditions and we have recognised this by providing an additional cost of living support payment of £1,200 to more than 80% of our UK-based colleagues.

We have improved our full year underlying net interest margin guidance and now expect it to be broadly flat to the first half. We remain confident in delivering underlying net loan book growth of c. 10% for 2022 based on current pipeline and applications. We continue to expect the underlying cost to income ratio for full year 2022 to increase marginally from 2021.

The strong foundations of our business with its secured balance sheet, strong capital position and proven operational resilience position us well to respond to opportunities and challenges as they arise."

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Results presentation

A webcast presentation for analysts will be held at 9:30am on Thursday 11 August.
The presentation will be webcast or call only and will be available on the OSB Group website at www.osb.co.uk/investors/results-reports-presentations.

The UK dial in number is 020 3936 2999 and the password is 950717. 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.

Notes

1. Before integration costs and other acquisition-related items of £26.0m (H1 2021: £30.9m)
2. Net interest income as a percentage of a 7 point average of interest earning assets, annualised on an actual days basis
3. Administrative expenses as a percentage of total income
4. Impairment losses as a percentage of a 7 point average of gross loans and advances, annualised
5. Profit attributable to ordinary shareholders, which is profit after tax and after deducting coupons on AT1 securities, gross of tax, as a percentage of a 7 point average of shareholders' equity (excluding £60m of non-controlling interest securities for the first half of 2021 and £150m of AT1 securities for the first half of 2022), annualised
6. 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
7. The declared interim dividend of 8.7 pence per share is based on one-third of the total 2021 dividend of 26.0 pence per share (H1 2021: 4.9 pence per share)

Important disclaimer

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 2021 Annual Report and Accounts. Copies of this are available at www.osb.co.uk and on request from OSBG.

Nothing in this document and any subsequent discussion constitutes or forms part of a public offer under any applicable law or an offer 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 the non-IFRS performance measures included in this document provide a more consistent basis for comparing the business' performance between financial periods, and provide more detail concerning the elements of performance which the Group is most directly able to influence or are relevant for an assessment of the Group. They also reflect an important aspect of the way in which operating targets are defined and performance is monitored by the Board. However, any non-IFRS performance measures in this document are not a substitute for IFRS measures and readers should consider the IFRS measures as well. For further details, refer to Alternative performance measures section in the OSBG 2021 Annual Report and Accounts. Copies of this are available at www.osb.co.uk and on request from OSBG.

Key Performance Indicators - statutory

£2.3bn Gross new organic lending down 7%
H1 2021: £2.5bn

£21.8bn Net loan book up 3%
FY 2021: £21.1bn

£268.1m Profit before tax up 21%
H1 2021: £221.9m

45.7p Basic EPS[1] up 29%
H1 2021: 35.5p

280bps Net interest margin[2] up 44bps
H1 2021: 236bps

25% Cost to income ratio[3] improved 3pps
H1 2021: 28%

1bp Loan loss ratio[4] up 16bps
H1 2021: -15bps

73bps Management expense ratio[5] up 3bps
H1 2021: 70bps

22% Return on equity[6] improved 3pps
H1 2021: 19%

18.9% CET1 remained strong
FY 2021: 19.6%

3 months + in arrears[7] stable
OSB 1.3%, CCFS 0.8%
FY 2021: OSB 1.4%, CCFS 0.7%

Customer NPS[8] strong
OSB +69, CCFS +70
H1 2021: OSB +68, CCFS +70

1. 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
2. Net interest income as a percentage of a 7 point average of interest earning assets, annualised on an actual days basis
3. Administrative expenses as a percentage of total income
4. Impairment losses as a percentage of a 7 point average of gross loans and advances, annualised
5. Administrative expenses as a percentage of 7 point average of total assets, annualised
6. Profit attributable to ordinary shareholders, which is profit after tax and after deducting coupons on AT1 securities, gross of tax, as a percentage of a 7 point average of shareholders' equity (excluding £60m of non-controlling interest securities for the first half of 2021 and £150m of AT1 securities for the first half of 2022), annualised
7. Portfolio arrears rate of accounts for which there are missing or overdue payments by more than three months as a percentage of gross loans
8. OSB customer Net Promoter Score relates to Kent Reliance savings customers and CCFS customer NPS relates to Charter Savings Bank customers. It is calculated based on customer responses to the question of whether they would recommend the Group's products to a friend. The responses provide a score between -100 and +100

Key Performance Indicators - underlying

Underlying key performance indicators for the six months to 30 June 2022 and 30 June 2021 reflect results for the combined Group, excluding exceptional items, integration costs and other acquisition-related items (see Reconciliation of statutory to underlying results in Financial review).

£21.6bn **Net loan book up 3%**
FY 2021: £20.9bn

£294.1m **Profit before tax up 16%**
H1 2021: £252.8m

48.9p **Basic EPS[1] up 17%**
H1 2021: 41.8p

302bps **Net interest margin[2] up 34bps**
H1 2021: 268bps

23% **Cost to income ratio[3] improved 2pps**
H1 2021: 25%

2bps **Loan loss ratio[4] up 17bps**
H1 2021: -15bps

72bps **Management expense ratio[5] up 3bps**
H1 2021: 69bps

24% **Return on equity[6] unchanged**
H1 2021: 24%

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

OSB GROUP PLC

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CEO Report

I am delighted with the excellent results delivered by OSB Group in the first six months of 2022, demonstrating the strength of our strategy and our business model. We grew our lending at attractive margins and the strong credit performance of our borrowers was evidence of our underwriting expertise and rigorous application of our lending criteria.

Excellent results in the first half

The Group delivered a record underlying pre-tax profit of £294.1m for the first six months of 2022, up 16% from £252.8m in the prior period, representing an underlying basic earnings per share of 48.9 pence (H1 2021: 41.8 pence). On a statutory basis, profit before tax increased to £268.1m and basic earnings per share was 45.7 pence (H1 2021: £221.9m and 35.5 pence, respectively).

The underlying and statutory net interest margins improved to 302bps and 280bps respectively, benefitting from base rate rises (H1 2021: 268bps and 236bps, respectively).

The underlying management expense ratio increased to 72bps reflecting the expected gradual return to pre-pandemic spending levels (H1 2021: 69bps), the statutory management expense ratio was 73bps (30 June 2021: 70bps). However, the particularly strong income had a favourable impact on the cost to income ratio which improved to 23% and 25% on an underlying and statutory basis respectively for the first six months of 2022 (H1 2021: 25% and 28%, respectively).

The credit performance of the Group's loan book remained strong in the first six months of 2022, reflecting our underwriting expertise and a robust rental market. We are cognisant of the impact that the rising cost of living and increasing interest rates may have on some of our borrowers. However, a large majority of our customers have chosen fixed rate mortgages and are therefore entering the uncertain economic environment with clarity over their mortgage repayments.

Finally, I am particularly proud of the consistent and class-leading returns we deliver with an underlying return on equity of 24% for the first half, unchanged from the prior period which benefitted from a £15.1m provision release. Statutory return on equity was 22% (H1 2021: 19%). In line with our stated dividend policy the Board has declared an interim dividend of 8.7 pence per share, representing one-third of the total 2021 dividend.

Our lending franchise

Strong demand for the Group's lending products supported underlying and statutory net loan book growth of 3% in the first six months of the year to £21.6bn and £21.8bn, respectively (31 December 2021: £20.9bn and £21.1bn). Organic originations of £2.3bn were down 7% from £2.5bn in the first half of 2021, however the prior period benefitted from higher purchase activity due to the stamp duty holiday.

Applications grew strongly during the first half as the Group concentrated on its core business sub-segments: Buy-to-Let, Residential, Commercial and semi-Commercial, and we have a record pipeline of new business. Applications for our Buy-to-Let mortgages increased throughout the period as landlords reported improving levels of tenant demand in the private rented sector which supported rising rents.[1] In addition, we have seen good demand for our Commercial and semi-Commercial products and we relaunched our Residential mortgage proposition in the first half of 2022, building on the popularity of our complex prime and shared ownership mortgages.

The Group continues its planning to achieve goals consistent with its membership of the Net Zero Banking Alliance. I am delighted that we have recently introduced the first of a range of mortgage products targeting landlords wishing to improve the energy efficiency and EPC rating of their properties. The new product includes funding for refurbishment where landlords wish to optimise the capital value, desirability and rental yields of their estate.

Credit and risk management
Our loan book continued to demonstrate consistently strong credit performance with balances over three months in arrears remaining broadly stable at just 1.3% and 0.8% of the loan book at the end of June for OSB and CCFS, respectively (31 December 2021: 1.4% and 0.7%). The weighted average LTV of the Group's loan book reduced to 61% as at 30 June 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 marginally to 71% from 69% in the prior period.

The Group recorded an impairment charge of £2.0m on an underlying basis which represented an underlying loan loss ratio of 2bps for the first six months of 2022 (H1 2021: credit of £15.1m and -15bps, respectively). The impairment charge reflects an improved outlook as pandemic related concerns reduced and house prices outperformed, offset by a 10% increase in the downside weighting to address growing cost of living concerns. The statutory impairment was £1.6m, equivalent to a loan loss ratio of 1bp (H1 2021: -15bps).

Our Internal Ratings-Based (IRB) models continued to be integrated into key risk and capital management processes and are already informing our strategic decision making and business planning activities. The anticipated delay in Basel 3.1 implementation and extension to the Group's MREL[2] deadlines provided us with the opportunity to enhance our level of end state compliance prior to submitting our module 1 application. We continue to engage with the PRA to agree a submission date.

We have entered the final quarter of our three-year integration programme and we are progressing the closing phase of the remaining projects. We delivered annualised run rate savings of £24.6m by 30 June 2022, marginally in excess of our run-rate pledge of £22m by the end of the third anniversary of the Combination. Integration costs to date are also lower than originally expected at £23.3m. The next phase of technology investment will focus on improving efficiency in our business operations, an enhanced user experience for our customers and further streamlining the interaction with our broker community.

Multi-channel funding model
Our savings propositions continued to be popular, and in the first six months of 2022, we opened over 72,000 new savings accounts and grew the retail deposit book to £17.9bn (31 December 2021: £17.5bn).

Under our two savings brands, Kent Reliance and Charter Savings Bank, our focus is on combining excellent customer service with transparent and fair savings products. This was reflected in the strong Net Promoter Scores for the first half of the year of +69 for Kent Reliance and +70 for Charter Savings Bank, as well as high retention rates; 95% for maturing fixed rate bonds and ISAs at Kent Reliance and 89% for Charter Savings Bank.

We complement the funding that comes from retail deposits with our expertise in the wholesale funding markets and in August 2022 we completed a fully retained c. £1.3bn securitisation of buy-to-let mortgages under our Canterbury programme. Securitisations provide optionality of funding and the opportunity to increase efficiency in our drawings from the Bank of England funding schemes through the use of retained AAA bonds. As at 30 June 2022, the drawings under the Term Funding Scheme for SMEs remained at £4.2bn (31 December 2021: £4.2bn).

Capital management
The Group's capital position, which fully reflects the £100m share repurchase programme announced in March, remained strong with a CET1 ratio of 18.9% as at 30 June 2022 (31 December 2021: 19.6%).

The £100m share repurchase programme has been progressing well and as at 10 August 2022, the Group had repurchased £48.8m worth of shares. The Group intends to target a CET1 ratio of 14% once the capital stack has been optimised fully through Tier 2 and MREL issuance. We expect to operate above this target in the meantime and as we wait for clarity on the impact of Basel 3.1 and its timing versus IRB accreditation.

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

The Board intends to provide a further update to the market on its capital management framework once greater clarity is obtained on the impact of Basel 3.1 and its timing versus the Group attaining IRB accreditation. The Board remains committed to returning any excess capital to shareholders.

Looking forward
Our high quality secured lending book continues to perform well and we have not seen any systemic signs of distress or early indicators of future concerns amongst our borrowers. However, we are cognisant that the macroeconomic outlook for the UK economy remains uncertain. The pandemic related issues and the benefit of house price appreciation have been replaced by growing cost of living concerns, rising interest rates and geopolitical uncertainty. The strong foundations of our business with its secured balance sheet, strong capital position and proven operational resilience position us well to respond to opportunities and challenges as they arise.

We have a record pipeline of new business and we are seeing robust demand for our mortgages. Tenant demand in the private rented sector remains positive, especially amongst our target multi-property portfolio landlords and we continue to see strong interest in our other core business sub-segments.

We have improved our full year underlying net interest margin guidance and now expect it to be broadly flat to the first half. We remain confident in delivering underlying net loan book growth of c. 10% for 2022 based on current pipeline and applications. We continue to expect the underlying cost to income ratio for full year 2022 to increase marginally from 2021.

Andy Golding

Chief Executive Officer

11 August 2022

1. BVA BDRC, Landlords Panel, Q2 2022
2. Minimum requirement for own funds and eligible liabilities

Mortgage market

The strong performance in the residential property market was sustained into 2022 and demand for purchase and remortgage finance remained high. Mortgage lenders continued to develop their product offerings to meet this demand, progressively expanding underwriting criteria, including the reintroduction of lending at higher LTVs and increasing the number of mortgage products available to borrowers. Data from the mortgage sourcing provider, Twenty7Tec, demonstrated that the number of mortgage products in the market peaked in March 2022, with product availability reaching over ninety percent of the pre-pandemic maximum.[1] New buyer enquiries grew for eight consecutive months to April 2022[2], despite the average UK house price increasing by 12.8% in the year to May, according to the ONS.[3]

The Bank of England implemented five successive increases in the base rate, from 0.1% in December 2021 to 1.25% in June 2022 in an effort to lower inflation towards its 2% target. As a result, mortgage rates were on an upward trajectory in the first six months of 2022 reflecting the base rate rises as well as volatile swap spreads. The Bank of England reported that quoted interest rates on new mortgage lending were up across all loan to value categories between January and April 2022[4] with the average two-year fixed rate on new mortgage lending increasing by 0.73 percentage points to 2.35% over this period.[5]

Overall, UK gross mortgage lending in the first six months of 2022 reduced by 10% to £151.4bn from £168.5bn in the same period of 2021.[6]

In the private rented sector, conditions were particularly buoyant, and research, conducted by BVA BDRC on behalf of the Group, reported consistently high levels of tenant demand throughout the first quarter of the year.[7] This strong demand was matched by increasing rents, with the annual rental growth at a 14-year high of 11% in the first quarter according to Zoopla.[8] Buy-to-Let gross advances reached £21.9bn to May 2022, an increase of 15% compared with £19.1bn in the same period in 2021 with purchases reducing to 31% of total lending from 40% in the prior period which benefitted from the stamp duty holiday.[9]

1. Twenty7Tec, Monthly Mortgage Market Report, May 2022
2. RICS, Residential Market Survey, May 2022
3. ONS, UK House Price Index, May 2022
4. Bank of England, Monetary Policy Report, May 2022
5. UK Finance, Quoted new lending interest rates, UK (BOE), May 2022
6. UK Finance, New mortgage lending by purpose of loan, UK (BOE), July 2022
7. BVA BDRC, Landlords Panel, Q1 2022
8. https://www.zoopla.co.uk/press/releases/average-uk-rents-reach-995-taking-rental-growth-to-highs-not-seen-since-the-global-financial-crisis/
9. UK Finance, BTL mortgages outstanding and gross lending, June 2022

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 contribution to profit and loans and advances to customers on a statutory basis:

Contribution to profit for the period

For the six months ended 30 June 2022	BTL/SME £m	Residential £m	Total £m
Net interest income	**175.7**	**42.9**	**218.6**
Other income	**3.4**	**0.7**	**4.1**
Total income	**179.1**	**43.6**	**222.7**
Impairment of financial assets	**(2.6)**	**0.7**	**(1.9)**
Contribution to profit	**176.5**	**44.3**	**220.8**
For the six months ended 30 June 2021			
Net interest income	148.0	40.6	188.6
Other income	4.0	1.0	5.0
Total income	152.0	41.6	193.6
Impairment of financial assets	2.7	2.4	5.1
Contribution to profit	154.7	44.0	198.7

Loans and advances to customers

As at 30 June 2022	BTL/SME £m	Residential £m	Total £m
Gross loans and advances to customers	**10,151.1**	**2,167.5**	**12,318.6**
Expected credit losses	**(74.4)**	**(8.7)**	**(83.1)**
Net loans and advances to customers	**10,076.7**	**2,158.8**	**12,235.5**
Risk-weighted assets	**4,732.1**	**958.6**	**5,690.7**
As at 31 December 2021			
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

OSB Buy-to-Let/SME sub-segment

Loans and advances to customers

	30-Jun-2022 £m	31-Dec-2021 £m
Buy-to-Let	**9,099.3**	8,867.7
Commercial	**789.5**	794.4
Residential development	**132.9**	120.7
Funding lines	**129.4**	153.3
Gross loans and advances to customers	**10,151.1**	9,936.1
Expected credit losses	**(74.4)**	(72.0)
Net loans and advances to customers	**10,076.7**	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 2% to £10,076.7m in the first six months of 2022 supported by organic originations of £832.3m (H1 2021: £963.5m).

Buy-to-Let/SME net interest income increased by 19% to £175.7m from £148.0m in the prior period, primarily due to growth in the loan book and the beneficial impact of base rate rises. The Group also recognised a £3.9m net EIR reset gain in the period (H1 2021: £nil) due to updated prepayment assumptions based on observed customer behaviour. This segment benefitted from £3.4m of other income relating to gains on the Group's hedging activities (H1 2021: £4.0m gain) and recorded an impairment charge of £2.6m (H1 2021: £2.7m credit). The impairment charge was largely due to provisions raised against two specific accounts, growth in Buy-to-Let lending and the updated forward-looking macroeconomic scenarios and weightings, partially offset by house price appreciation in the period. Overall, the Buy-to-Let/SME segment made a contribution to profit of £176.5m, up 14% compared with £154.7m in the first six months of 2021.

The Group remained highly focused on the risk assessment of new lending, as demonstrated by the average LTV for Buy-to-Let/SME originations of 74% (H1 2021: 73%). The average book LTV in the Buy-to-Let/SME segment reduced to 63% (31 December 2021: 65%) benefitting from house price appreciation with only 2.5% of loans exceeding 90% LTV (31 December 2021: 2.5%).

Buy-to-Let

The Buy-to-Let gross loan book increased by 3% to £9,099.3m at the end of June 2022 (31 December 2021: £8,867.7m) largely benefitting from strong refinance activity. Originations in this segment were £673.2m in the first half of 2022, down from £799.7m in the prior period.

This year marks the fifth anniversary of the introduction of the PRA underwriting standards for Buy-to-Let mortgages which triggered a shift towards five year fixed rate products. The early wave of mortgages taken post that introduction have been reaching the end of their initial term resulting in an increase in refinance activity. The proportion of Kent Reliance Buy-to-Let completions represented by remortgages increased to 60% from 50% in the first half of 2021 with purchases reducing as the prior period benefitted from a spike in purchase activity due to the stamp duty holiday. Five-year fixed rate mortgages represented 67% of Kent Reliance completions (H1 2021: 59%).

Professional, multi-property landlords continued to add to their portfolios and optimise their businesses from a tax perspective and represented 83% of completions by value for the Kent Reliance brand (H1 2021: 81%) and 76% of mortgage applications in Kent Reliance came from landlords borrowing via a limited company (H1 2021: 73%).

Research conducted by BVA BDRC on behalf of the Group showed that the proportion of landlords planning to purchase new properties has fallen slightly since last year. However, of those planning to acquire more properties, the proportion planning to do so within a limited company ownership structure has increased, especially amongst landlords with portfolios of six or more properties. This signals the continued professionalisation of the Buy-to-Let market sub-segment and the Group is well-positioned to serve this growing audience.

In addition, OSB continued to retain customers under its Choices retention programme, with 62% of existing borrowers choosing a new product with us within three months of their initial rate ending (H1 2021: 76%).

The weighted average loan to value (LTV) of the Buy-to-Let book as at 30 June 2022 was 63% with an average loan size of £250k (31 December 2021: 64% and £250k). The weighted average interest coverage ratio for Buy-to-Let originations during the first six months of 2022 was 211% (H1 2021: 197%).

Commercial
Through its InterBay brand, the Group lends to borrowers investing in commercial and semi-commercial property, reported in the Commercial total, and more complex Buy-to-Let properties, reported in the Buy-to-Let total. We have seen increased levels of interest and applications throughout the period as the Group launched a new product set under its InterBay brand. Organic originations increased to £72.0m in the period (H1 2021: £20.3m) supporting the gross loan book of £789.5m as at 30 June 2022 (31 December 2021: £794.4m).

The weighted average LTV of the commercial book remained low at 65% and the average loan size was £375k for the first six months of 2022 (31 December 2021: 69% and £380k).

InterBay Asset Finance, which predominantly targets UK SMEs and small corporates financing business-critical assets, performed strongly in the first half of 2022, with an increase in the average deal size and an improvement in customer credit covenants as businesses continued to recover from the pandemic. The gross carrying amount under finance leases was £141.3m as at 30 June 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 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 represent repeat business from the team’s extensive existing relationships.

The residential development finance gross loan book at the end of June 2022 was £132.9m, with a further £172.9m committed (31 December 2021: £120.7m and £188.0m, respectively). Total approved limits were £491.2m, which exceeds 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 increased rates of sale experienced by Heritable’s developer customers continued in 2022, leading to high levels of loan repayments in the first half of the year.

At the end of June 2022, the business had commitments to finance the development of 2,099 residential units, the majority of which are houses located outside central London. Heritable continue to take an exacting approach to approving funding for new customers given the macroeconomic uncertainty.

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 30 June 2022 were £380.0m with total loans outstanding of £129.4m (31 December 2021: £450.0m and £153.3m, respectively). During the period, the Group maintained a cautious risk approach and closed four property-related funding lines and did not extend any new facilities, choosing to focus on servicing existing borrowers.

OSB Residential sub-segment

Loans and advances to customers

	30-Jun-2022 £m	31-Dec-2021 £m
First charge	**1,971.2**	1,895.9
Second charge	**196.3**	224.7
Funding lines	**-**	0.6
Gross loans and advances to customers	**2,167.5**	2,121.2
Expected credit losses	**(8.7)**	(10.2)
Net loans and advances to customers	**2,158.8**	2,111.0

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

The Residential sub-segment net loan book grew by 2% to £2,158.8m as at 30 June 2022 (31 December 2021: £2,111.0m) with organic originations of £244.9m during the period (H1 2021: £299.4m).

Net interest income in the Residential sub-segment increased by 6% to £42.9m (H1 2021: £40.6m) due to growth in the loan book and the beneficial impact of base rate rises. The Group recognised a net EIR reset gain of £2.5m (H1 2021: £6.0m) due to updated prepayment assumptions based on observed customer behaviour. This segment also recorded other income of £0.7m (H1 2021: £1.0m) relating to hedging gains and an impairment credit of £0.7m (H1 2021: £2.4m credit), as the updated forward-looking macroeconomic scenarios and weightings were more than offset by a release of pandemic-related post model adjustments and strong house price appreciation. Overall, the contribution to profit from this segment was £44.3m broadly flat to £44.0m in the same period of 2021.

The average book LTV reduced to 46% (31 December 2021: 48%) benefitting from house price appreciation with only 0.6% of loans with LTVs exceeding 90% (31 December 2021: 0.8%). The average LTV of new residential origination in the first six months of 2022 increased to 61% (H1 2021: 48%) as a result of a smaller proportion of shared ownership originations than in the prior period 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 4% in the period to £1,971.2m 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 for complex prime borrowers.

Second charge
The OSB second charge loan book under Prestige Finance is in run-off with total gross loans of £196.3m as at 30 June 2022 (31 December 2021: £224.7m).

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

Charter Court Financial Services (CCFS) segment

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

Contribution to profit for the period

For the six months to 30 June 2022	**Buy-to-Let £m**	**Residential £m**	**Bridging £m**	**Second charge £m**	**Other[1] £m**	**Total underlying £m**	**Acquisition-related items[2] £m**	**Total statutory £m**
Net interest income	**102.4**	**45.6**	**2.1**	**3.0**	**(2.5)**	**150.6**	**(25.8)**	**124.8**
Other income	**-**	**-**	**-**	**-**	**10.7**	**10.7**	**5.3**	**16.0**
Total income	**102.4**	**45.6**	**2.1**	**3.0**	**8.2**	**161.3**	**(20.5)**	**140.8**
Impairment of financial assets	**(2.6)**	**2.5**	**(0.1)**	**0.1**	**-**	**(0.1)**	**0.4**	**0.3**
Contribution to profit	**99.8**	**48.1**	**2.0**	**3.1**	**8.2**	**161.2**	**(20.1)**	**141.1**

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

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

Loans and advances to customers

As at 30 June 2022	**Buy-to-Let £m**	**Residential £m**	**Bridging £m**	**Second charge £m**	**Other[1] £m**	**Total underlying £m**	**Acquisition-related items[2] £m**	**Total statutory £m**
Gross loans and advances to customers	**6,748.4**	**2,443.9**	**83.8**	**133.4**	**17.1**	**9,426.6**	**116.1**	**9,542.7**
Expected credit losses	**(16.5)**	**(2.6)**	**(0.4)**	**(0.2)**	**-**	**(19.7)**	**0.7**	**(19.0)**
Net loans and advances to customers	**6,731.9**	**2,441.3**	**83.4**	**133.2**	**17.1**	**9,406.9**	**116.8**	**9,523.7**
Risk-weighted assets	**2,708.0**	**1,026.6**	**41.4**	**54.8**	**6.3**	**3,837.1**	**112.5**	**3,949.6**

As at 31 December 2021	Buy-to-Let £m	Residential £m	Bridging £m	Second charge £m	Other[1] £m	Total underlying £m	Acquisition-related items[2] £m	Total statutory £m
Gross loans and advances to customers	6,301.9	2,451.8	56.3	153.7	17.7	8,981.4	143.1	9,124.5
Expected credit losses	(13.9)	(5.1)	(0.3)	(0.3)	-	(19.6)	0.3	(19.3)
Net 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

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

CCFS segment

Underlying loans and advances to customers

	30-Jun-2022 £m	31-Dec-2021 £m
Buy-to-Let	**6,748.4**	6,301.9
Residential	**2,443.9**	2,451.8
Bridging	**83.8**	56.3
Second charge	**133.4**	153.7
Other[1]	**17.1**	17.7
Gross loans and advances to customers	**9,426.6**	8,981.4
Expected credit losses	**(19.7)**	(19.6)
Net loans and advances to customers	**9,406.9**	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 and those borrowing under the Help to Buy scheme. 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 5% to £9,406.9m at the end of June 2022 (31 December 2021: £8,961.8m) supported by organic originations of £1,204.8m, which increased by 1% from £1,193.1m of new business written in the same period last year.

Buy-to-Let sub-segment
In the first half of 2022, CCFS' organic originations in the Buy-to-Let sub-segment through the Precise Mortgages brand increased by 7% to £867.5m (H1 2021: £808.5m) supporting a 7% growth in the underlying gross Buy-to-Let loan book in the period to £6,748.4m from £6,301.9m at the end of 2021.

Originations benefitted from strong refinance business as 2022 marked the fifth anniversary of the introduction of the PRA underwriting standards for Buy-to-Let mortgages which triggered a shift towards five year fixed rate products. Remortgages represented 50% of completions under the Precise Mortgages brand as at 30 June 2022 (H1 2021: 32%) with purchases reducing as the prior period 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 69% of completions, slightly below the 71% recorded during the same period of 2021.

In addition, borrowing via a limited company made up 66% of Buy-to-Let completions for the Precise Mortgages brand in the first half of 2022 (H1 2021: 72%) and loans for specialist property types, including houses of multiple occupation and multi-unit properties, represented 21% of completions in this sub-segment (H1 2021: 24%).

Research conducted by BVA BDRC on behalf of the Group found that over six in ten landlords that intended to acquire new properties planned to do so within a limited company structure, the highest proportion for three years. This proportion increased to almost eight in ten for portfolio landlords with six or more properties.

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 Q1 2022.

The weighted average LTV of the loan book in this segment remained broadly stable at 67% with an average loan size of £191k (31 December 2021: 68% and £192k). The new lending average LTV was 74% and the weighted average interest coverage ratio for Buy-to-Let origination was 197% in the first half of 2022 (H1 2021: 74% and 192%, respectively).

Underlying net interest income in this sub-segment increased 53% to £102.4m compared with £67.0m in the prior period, due primarily to growth in the loan book and the beneficial impact of base rate rises, partially offset by an underlying EIR reset loss of £6.2m (H1 2021: £6.0m) to reflect updated prepayment assumptions based on observed customer behaviour. This segment recorded an impairment of £2.6m (H1 2021: £6.7m credit) due to growth in Buy-to-Let lending and the updated forward-looking macroeconomic scenarios and weightings, partially offset by house price appreciation in the period. On an underlying basis, Buy-to-Let made a contribution to profit of £99.8m in the first half of 2022, up 35% (H1 2021: £73.7m).

On a statutory basis, the Buy-to-Let sub-segment made a contribution to profit of £81.8m (H1 2021: £49.5m).

Residential sub-segment
The underlying gross loan book in CCFS' Residential sub-segment remained broadly flat at £2,443.9m at the end of June 2022 (31 December 2021: £2,451.8m) and organic originations were £257.1m in the first half of 2022 (H1 2021: £312.5m).

The Group continued to benefit from CCFS' expertise, with a strong focus on first time buyers, including those purchasing through the popular Help-to-Buy scheme, self-employed individuals and those with minor adverse records. Despite the Help-to-Buy scheme nearing its closure to new applications in October 2022, the Group continued to see good but reducing activity, with 24% of completions in this sub-segment in the period (H1 2021: 52%).

The average loan size in this sub-segment was £139k (31 December 2021: £136k) with an average LTV for new lending of 66% (H1 2021: 65%) and book LTV of 58% as at 30 June 2022 (31 December 2021: 59%).

Underlying net interest income grew to £45.6m (H1 2021: £37.7m) primarily reflecting the beneficial impact of base rate rises, partially offset by an underlying EIR reset loss of £0.5m (H1 2021: £nil) to reflect updated prepayment assumptions based on observed customer behaviour. The Residential sub-segment recorded an impairment credit of £2.5m versus £1.8m in the first half of 2021 as the updated forward-looking macroeconomic scenarios and weightings were more than offset by a release of pandemic-related post model adjustments and strong house price appreciation. Overall, on an underlying basis, the Residential sub-segment made a contribution to profit of £48.1m, up 22% compared with £39.5m in the same period in 2021.

On a statutory basis, the Residential sub-segment made a contribution to profit of £41.3m (H1 2021: £30.2m).

Bridging sub-segment
The Group continued to improve its bridging products offering and in April 2022 relaunched and rebranded its refurbishment product criteria. Short-term bridging originations increased 14% to £77.0m in the first half of 2022 compared with £67.7m in the first half of 2021 and as a result the gross loan book in this sub-segment increased to £83.8m as at 30 June 2022 (31 December 2021: £56.3m).

Underlying net interest income reduced to £2.1m from £3.0m in the first half of 2021, primarily due to redemptions at the beginning of the year. The bridging sub-segment made a contribution to profit of £2.0m in the first half of 2022 on an underlying basis compared with £4.2m in the same period of 2021 and recorded an impairment of £0.1m (H1 2021: £1.2m credit). On a statutory basis, the bridging sub-segment made a contribution to profit of £1.8m (H1 2021: £4.1m).

Second charge sub-segment
The second charge gross loan book reduced to £133.4m compared with £153.7m as at 31 December 2021 as the second charge products under the Precise Mortgage brand have recently been withdrawn.

Underlying net interest income in the second charge sub-segment remained broadly stable in the period at £3.0m (H1 2021: £3.4m) and the contribution to profit reduced to £3.1m (H1 2021: £3.7m) after an impairment credit of £0.1m versus £0.3m in the first half of 2021. On a statutory basis, the contribution to profit from the second charge sub-segment was £2.7m (H1 2021: £2.9m).

Financial review

Summary statutory results

Review of the Group's performance on a statutory basis for the six months to 30 June 2022 and 2021.

Summary Profit or Loss	H1 2022 £m	H1 2021 £m
Net interest income	**343.4**	265.3
Net fair value gains on financial instruments	**16.4**	16.1
Gain on sale of financial instruments	**-**	4.0
Other operating income	**3.7**	4.6
Administrative expenses	**(91.3)**	(80.5)
Provisions	**1.2**	(0.1)
Impairment of financial assets	**(1.6)**	14.6
Integration costs	**(3.7)**	(1.9)
Exceptional items	**-**	(0.2)
Profit before tax	**268.1**	221.9
Profit after tax	**208.9**	161.5

Key ratios[1]	H1 2022	H1 2021
Net interest margin	**280bps**	236bps
Cost to income ratio	**25%**	28%
Management expense ratio	**73bps**	70bps
Loan loss ratio	**1bp**	-15bps
Return on equity	**22%**	19%
Basic earnings per share, pence	**45.7**	35.5
Dividend per share, pence	**8.7**	4.9

Extracts from the Statement of Financial Position	30-Jun-22 £m	31-Dec-21 £m
Loans and advances to customers	**21,759.2**	21,080.3
Retail deposits	**17,939.0**	17,526.4
Total assets	**25,465.2**	24,531.9
Key ratios		
Common equity tier 1 ratio	**18.9%**	19.6%
Total capital ratio	**20.4%**	21.2%
Leverage ratio	**8.8%**[2]	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 21% to £268.1m in the first half of 2022 (H1 2021: £221.9m), after integration costs and other acquisition-related items of £26.0m[1] (H1 2021: £30.9m), primarily due to growth in the loan book and a higher net interest margin, partially offset by higher administration costs and an impairment charge compared to a credit in the prior period.

Statutory profit after tax was £208.9m for the first half of 2022, an increase of 29% (H1 2021: £161.5m) and included after-tax integration costs and other acquisition-related items of £14.4m[1] (H1 2021: £28.3m). The Group's effective tax rate reduced to 22.2%[2] compared to 27.1% in the prior period 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 the first half of 2022 improved to 22% (H1 2021: 19%) reflecting the increase in profitability in the period. Statutory basic earnings per share increased to 45.7 pence (H1 2021: 35.5 pence), in line with the increase in profit after taxation.

Net interest income
Statutory net interest income increased by 29% in the period to £343.4m (H1 2021: £265.3m), largely reflecting growth in the loan book and a higher net interest margin. It also included a net effective interest rate (EIR) reset loss of £2.6m to reflect updated prepayment assumptions based on observed customer behaviour.

Statutory net interest margin (NIM) was 280bps compared to 236bps in the prior period, up 44bps, primarily due to the benefit of delays in the market passing on base rate rises to savers, partially offset by the net EIR reset loss which accounted for 2bps of margin.

Net fair value gains on financial instruments
Net fair value gains on financial instruments of £16.4m in the first half of 2022 (H1 2021: £16.1m) included a £14.0m net gain on unmatched swaps (H1 2021: £6.1m) and a net loss of £4.3m (H1 2021: £0.6m gain) in respect of the ineffective portion of hedges. The Group also recorded a £6.5m gain (H1 2021: £0.2m) from the amortisation of hedge accounting inception adjustments, a £5.0m loss from the amortisation of de-designated hedge relationships (H1 2021: £2.2m gain) and a £5.2m net gain from other items (H1 2021: £7.0m gain), including the unwind of acquisition-related inception adjustments.

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

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

Gain on sale of financial instruments
There were no gains on sale of financial instruments in the first half of 2022. The gain on sale of financial instruments of £4.0m in the first half of 2021 related to the disposal of class A2 notes in the PMF 2019-1B securitisation in February 2021.

Other operating income
Statutory other operating income of £3.7m (H1 2021: £4.6m) mainly comprised CCFS' commissions and servicing fees, including those relating to securitised loans which have been derecognised from the Group's balance sheet.

Administrative expenses
Statutory administrative expenses increased by 13% to £91.3m in the first half of 2022 (H1 2021: £80.5m) largely due to higher support and staff costs.

The Group's statutory management expense ratio increased to 73bps in the first half of 2022 (H1 2021: 70bps) reflecting the expected gradual return to pre-pandemic levels of spending, however the statutory cost to income ratio improved to 25% (H1 2021: 28%) as a result of strong income generation in the period.

The Group has now entered the final quarter of the three year integration programme and progress has been made in the closing phase of the remaining projects. By 30 June 2022, the Group had delivered annualised run rate savings of £24.6m marginally in excess of the run-rate pledge of £22m by the end of the third anniversary of the Combination in October 2022. Integration costs to date of £23.3m are also lower than originally expected.

Impairment of financial assets
The Group recorded an impairment charge of £1.6m for the first six months of 2022 (H1 2021: £14.6m credit) and the statutory loan loss ratio was 1bp compared to -15bps in the first half of 2021.

The updated macroeconomic scenarios led to a provision release of £5.9m offset by a charge of £6.8m as the Group increased the downside weighting in its forward-looking macroeconomic scenarios to account for the rising cost of living concerns. There was a further release of £4.9m as a result of a strong house price appreciation in the first half of 2022 and a £3.2m release from pandemic-related post model adjustments which were more than offset by £8.8m of other charges and write-offs.

Integration costs
The Group recorded £3.7m of integration costs in the first half of 2022 (H1 2021: £1.9m), largely related to advice on the Group's future operating structure and redundancy costs due to the transition to the new operating model.

Exceptional items
There were no exceptional costs in the first half of 2022. The prior period exceptional costs of £0.2m related to additional costs in respect of the insertion of OSB GROUP PLC as the new holding company and listed entity.

Dividend
The Group's dividend policy is to declare interim dividends equal to one-third of the prior year's total dividend. The Board has therefore declared an interim dividend of 8.7 pence per share for the first half of 2022, based on the 2021 total dividend of 26.0 pence per share.

The declared dividend will be paid on 21 September 2022, with an ex-dividend date of 25 August 2022 and a record date of 26 August 2022.

Balance sheet growth
On a statutory basis, net loans and advances to customers grew by 3% to £21,759.2m as at 30 June 2022 (31 December 2021: £21,080.3m) reflecting originations of £2.3bn in the first half.

Total assets grew by 4% to £25,465.2m (31 December 2021: £24,531.9m) largely due to the growth in loans and advances to customers and higher liquid assets.

On a statutory basis, retail deposits increased by 2% to £17,939.0 as at 30 June 2022 (31 December 2021: £17,526.4m) as the Group continued to attract new savers. The Group complemented its retail deposits funding with drawings under the Bank of England's schemes. During the first half, the Group drew down £220.3m of additional funding under the Indexed Long-Term Repo scheme. Drawings under the Term Funding Scheme for SMEs remained unchanged from £4.2bn at the end of 2021.

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 30 June 2022, OSB had £1,571.9m and CCFS had £1,541.9m 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. CCFS' portfolio of level C eligible collateral increased significantly from 31 December 2021 due to the reintroduction of previously LIBOR-linked mortgage assets following the Bank of England's approval of the Group's LIBOR transition plans in May 2022.

As at 30 June 2022, OSB had a liquidity coverage ratio of 269% and CCFS 171% (31 December 2021: 240% and 158%, respectively) and the Group LCR was 216% (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 exceptionally strong, with a CET1 ratio of 18.9% and a total capital ratio of 20.4% as at the end of June 2022 (31 December 2021: 19.6% and 21.2%, respectively). Both ratios reflect the impact of the share repurchase programme announced in March 2022.

The Group had a leverage ratio of 8.8%[3] as at 30 June 2022 (31 December 2021: 7.9%).

The combined Group had a Pillar 2a requirement of 1.27% of risk-weighted assets (excluding a static integration add-on of £19.5m) as at 30 June 2022, unchanged from the requirement as at 31 December 2021.

1. See the reconciliation of statutory to underlying results below.
2. Effective tax rate excludes £0.4m of adjustments relating to prior periods.
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 underlying results

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

Underlying results for the six months to 30 June 2022 and 30 June 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 which can be found above.

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

Summary Profit or Loss	**H1 2022 £m**	**H1 2021 £m**
Net interest income	**369.2**	299.0
Net fair value gains on financial instruments	**11.1**	10.5
Gain on sale of financial instruments	**-**	2.3
Other operating income	**3.7**	4.6
Administrative expenses	**(89.1)**	(78.6)
Provisions	**1.2**	(0.1)
Impairment of financial assets	**(2.0)**	15.1
Profit before tax	**294.1**	252.8
Profit after tax	**223.3**	189.8

Key ratios[1]	**H1 2022**	**H1 2021**
Net interest margin	**302bps**	268bps
Cost to income ratio	**23%**	25%
Management expense ratio	**72bps**	69bps
Loan loss ratio	**2bps**	-15bps
Return on equity	**24%**	24%
Basic earnings per share, pence	**48.9**	41.8

Extracts from the Statement of Financial Position	**30-Jun-22 £m**	**31-Dec-21 £m**
Loans and advances to customers	**21,642.4**	20,936.9
Retail deposits	**17,938.0**	17,524.8
Total assets	**25,360.3**	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 was £294.1m in the first half of 2022, an increase of 16% compared with £252.8m in the first half of 2021, primarily due to growth in the loan book and higher net interest margin, partially offset by higher administration costs and an impairment charge compared to a credit in the prior period.

Underlying profit after tax was £223.3m, up 18% (H1 2021: £189.8m) broadly in line with the increase in profit before tax. The Group's effective tax rate on an underlying basis reduced to 24.1% for the first half of 2022 (H1 2021: 24.9%).

On an underlying basis, return on equity for the first half of 2022 remained unchanged from 24% in the prior period which benefitted from a £15.1m provision release. Underlying basic earnings per share increased to 48.9 pence (H1 2021: 41.8 pence), broadly in line with profit after tax.

Net interest income
Underlying net interest income increased by 23% to £369.2m in the first half of 2022 (H1 2021: £299.0m) largely reflecting growth in the loan book and a higher net interest margin. It also included a net EIR reset loss of £0.3m to reflect updated prepayment assumptions based on observed customer behaviour.

Underlying net interest margin improved by 34bps to 302bps in the first half (H1 2021: 268bps) primarily due to the benefit of delays in the market passing on base rate rises to savers.

Net fair value gains on financial instruments
Underlying net fair value gains on financial instruments of £11.1m in the first half of 2022 (H1 2021: £10.5m) included a loss of £4.3m (H1 2021: £0.6m gain) from hedge ineffectiveness, a gain on unmatched swaps of £14.0m (H1 2021: £6.1m) and a £6.5m gain from the amortisation of hedge accounting inception adjustments (H1 2021: £1.3m). Other hedging and fair value movements amounted to a loss of £5.1m (H1 2021: £2.5m gain).

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

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

Gain on sale of financial instruments
There were no gains on sale of financial instruments in the first half of 2022. The gain on sale of financial instruments of £2.3m in the first half of 2021 related to the disposal of class A2 notes in the PMF 2019-1B securitisation in February 2021.

Other operating income
On an underlying basis, other operating income was £3.7m in the first half of 2022 (H1 2021: £4.6m) and mainly comprised CCFS' commissions and servicing fees, including those relating to securitised loans which have been deconsolidated from the Group's balance sheet.

Administrative expenses
Underlying administrative expenses increased by 13% to £89.1m in the first half of 2022 (H1 2021: £78.6m) largely due to higher support and staff costs.

The Group's underlying management expense ratio increased to 72bps for the first half of 2022 (H1 2021: 69bps) reflecting the expected gradual return to pre-pandemic levels of spending. The underlying cost to income ratio improved to 23% (H1 2021: 25%) as a result of strong income generation in the period.

Impairment of financial assets
The Group recorded an underlying impairment charge of £2.0m in the first half of 2022 (H1 2021: £15.1m credit) representing an underlying loan loss ratio of 2bps (H1 2021: -15bps).

The updated macroeconomic scenarios led to a provision release of £5.9m offset by a charge of £6.8m as the Group increased the downside weighting in its forward-looking macroeconomic scenarios to account for the rising cost of living concerns. There was a further release of £4.9m as a result of a strong house price appreciation in the first half of 2022 and a £3.2m release from pandemic-related post model adjustments which were more than offset by £9.2m of other charges including write-offs.

Balance sheet growth
On an underlying basis, net loans and advances to customers were £21,642.4m (31 December 2021: £20,936.9m) an increase of 3%, reflecting gross originations of £2.3bn in the first six months of 2022.

Total underlying assets grew by 4% to £25,360.3m (31 December 2021: £24,403.6m) largely due to the growth in loans and advances to customers and higher liquid assets.

On an underlying basis, retail deposits increased by 2% to £17,938.0 as at 30 June 2022 (31 December 2021: £17,524.8m) as the Group continued to attract new savers.

Reconciliation of statutory to underlying results

	HY 2022			HY 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	**343.4**	**25.8**[1]	**369.2**	265.3	33.7	299.0
Net fair value gains on financial instruments	**16.4**	**(5.3)**[2]	**11.1**	16.1	(5.6)	10.5
Gain on sale of financial instruments	**–**	**–**	**–**	4.0	(1.7)	2.3
Other operating income	**3.7**	**–**	**3.7**	4.6	–	4.6
Total income	**363.5**	**20.5**	**384.0**	290.0	26.4	316.4
Administrative expenses	**(91.3)**	**2.2**[3]	**(89.1)**	(80.5)	1.9	(78.6)
Provisions	**1.2**	**–**	**1.2**	(0.1)	–	(0.1)
Impairment of financial assets	**(1.6)**	**(0.4)**[4]	**(2.0)**	14.6	0.5	15.1
Integration costs	**(3.7)**	**3.7**[5]	–	(1.9)	1.9	–
Exceptional items	–	–	–	(0.2)	0.2	–
Profit before tax	**268.1**	**26.0**	**294.1**	221.9	30.9	252.8
Profit after tax	**208.9**	**14.4**	**223.3**	161.5	28.3	189.8
Summary Balance Sheet						
Loans and advances to customers	**21,759.2**	**(116.8)**[6]	**21,642.4**	20,428.2	(174.0)	20,254.2
Other financial assets	**3,639.3**	**15.3**[7]	**3,654.6**	2,732.9	29.1	2,762.0
Other non-financial assets	**66.7**	**(3.4)**[8]	**63.3**	73.1	(5.9)	67.2
Total assets	**25,465.2**	**(104.9)**	**25,360.3**	23,234.2	(150.8)	23,083.4
Amounts owed to retail depositors	**17,939.0**	**(1.0)**[9]	**17,938.0**	17,097.2	(2.3)	17,094.9
Other financial liabilities	**5,368.4**	**1.5**[10]	**5,369.9**	4,277.2	3.1	4,280.3
Other non-financial liabilities	**120.4**	**(31.9)**[11]	**88.5**	84.8	(48.4)	36.4
Total liabilities	**23,427.8**	**(31.4)**	**23,396.4**	21,459.2	(47.6)	21,411.6
Net assets	**2,037.4**	**(73.5)**	**1,963.9**	1,775.0	(103.2)	1,671.8

Notes to the reconciliation of statutory to underlying results table:

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

Risk review

Key areas of focus during the six months to 30 June 2022
The Group continued to deliver against all key strategic objectives during the first six months of 2022, including the priority areas set out in the 2021 Annual Report and Accounts.

The macroeconomic outlook for the United Kingdom remains uncertain, resulting from the current high levels of inflation impacting the cost of living, the ongoing conflict in Ukraine and the possible impact of new COVID-19 variants. The impact of the rising cost of living in the UK and the prospect of further increases in the Bank of England base rate continue to be a key area of focus for the Group. The Group has a negligible exposure to Ukrainian, Russian and Belorussian customers and continues to closely monitor and manage this group as required. The Group remains 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 remain appropriate through continued investment and frequent penetration testing.

The Group’s well-established risk management framework ensures risks continued to be identified, monitored and managed effectively, which in turn supported the strong operational and financial performance within the period. A full review of the risk appetite statements and limits across all principal risk types was undertaken during the six months to 30 June 2022, which informed the management of the Group’s lending and retail savings businesses in an uncertain and competitive operating environment.

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 period 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 the Group continues to meet emerging regulatory expectations, whilst supporting shareholder returns via the optimisation of financial risks.

A number of deep dive thematic reviews across all core loan portfolios were conducted to ensure credit risk strategies and operational capabilities remained appropriate. As a secured lender, the Group has in place prudent credit risk appetite limits 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 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 will also evidence compliance with the Bank of England’s resolvability assessment framework.

The Group continues to deliver a programme of work to further align the operational risk 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 monitors and manages sub pockets of risk in an effective manner through continued improvements in its management information, utilising both internal and external information. In particular, additional external information sourced from credit bureau has helped assess the potential affordability risks across the Group’s loan portfolios, which in turn continued to underpin sensitivity analysis to constantly assess the ongoing appropriateness of IFRS 9 provision levels and capital adequacy.

The Group's Internal Ratings Based (IRB) Programme made tangible progress against plan during the period. The Group developed a full suite of IRB models which are going through the final stages of governance. The IRB capabilities developed by the Group continue to be integrated into key risk and capital management processes, and are already informing strategic decision making and business planning activities. The Group is liaising with the Prudential Regulation Authority with respect to its IRB approach, including the timeline for submission and accreditation.

The Group continued to embed its approach to managing climate risk. Key areas of priority for the second half of 2022 involve the setting of climate risk appetite limits, whilst delivering further enhancements to the 2022 ICAAP climate risk assessment to ensure the Group remains appropriately capitalised against both physical and transitional climate related risks.

Principal risks and uncertainties

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

During the six months to 30 June 2022, the Board did not identify any material change in the principal risks and uncertainties disclosed in the Risk review section of the 2021 Annual Report on pages 58 to 68, which can be accessed via our website at www.osb.co.uk.

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

Principal risks	Key mitigating actions
Strategic and business risk	• Regular monitoring by the Board and the Group Executive Committee of business and financial performance against the Group's strategic agenda and risk appetite. • The financial plan is subject to regular reforecasts in the context of the business opportunities and threats facing the Group. • The Group continued to utilise and enhance its stress testing capabilities to assess and minimise potential areas of macroeconomic vulnerability. • The Group has a mature and structured approach to change management leveraging internal and external expertise which allows the Group to respond effectively to strategic and regulatory required change. • The Group has sufficient scale and a diverse product suite to respond effectively to any changes in market competition.
Reputational risk	• The Group actively monitors customer and broker feedback to assess the ongoing appropriateness of service levels. • Established processes are in place to review, assess and remediate complaints in a timely manner. • The Group has a culture and commitment to treating customers fairly and being open and transparent in communication with all key stakeholders and has established processes to proactively identify and manage potential sources of reputational risk.
Credit risk	Individual borrower defaults: • Across both OSB and CCFS a robust underwriting assessment is undertaken to ensure a customer has the ability and propensity to repay, and sufficient security is available to support the new loan requested. • Should there be problems with a loan, the Servicing and Collections function works with customers to reach a satisfactory conclusion while adhering to the principle of treating customers fairly. Macroeconomic downturn • The Group works within portfolio limits on LTV, affordability, sector and geographic concentration that are approved by the Group Risk Committee and the Board. These are reviewed on a semi-annual basis. In addition, stress testing is performed to ensure that the Group maintains sufficient capital to absorb losses in an economic downturn and continues to meet its regulatory requirements.

Principal risks	Key mitigating actions
	Wholesale credit risk • The Group transacts only with high quality wholesale counterparties. Derivative exposures include collateral agreements to mitigate credit exposures.
Market risk	• The Group's Treasury function actively hedges to match the timing of cash flows from assets and liabilities. • Due to the Group balance sheet structure, no active management of basis risk was required during 2022.
Liquidity and funding risk	• The Group's funding strategy is focused on two highly stable retail deposit franchises. The Group's large number of depositors provides diversification and a high proportion of balances are covered by the FSCS lowering the risk of a retail run. • The Group performs in-depth liquidity stress testing and maintains a liquid asset portfolio sufficient to meet obligations under stress. • The Group proactively manages its savings proposition through both the Liquidity Working Group and the Group Assets and Liabilities Committee. • The Group continuously monitors wholesale funding markets, and is experienced in taking proactive management actions where required. The Group has a mature residential mortgage backed securitisation programme (RMBS) to ensure it is not solely reliant on retail savings. • The Group has pre-positioned mortgage and RMBS collateral with the Bank of England which allows it to consider other funding sources such as term funding schemes and indexed long term repo.
Solvency risk	• 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 stress 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.
Operational risk	IT security (including cyber risk) • The Group continues to make enhancements 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. • The Group's ongoing penetration testing continues to drive enhancements by identifying potential areas of risk. IT failure • The Group continues to invest in improving the resilience of its core infrastructure. It has identified its prioritised business services and the infrastructure that is required to support them. Tests are performed regularly to validate the Group's ability to recover from an incident. Data quality and completeness • The Group continues to deliver against a programme of work to ensure a consistent approach to the maintenance and use of data. This includes both documented procedures and frameworks and tools intended to improve the consistency of data use across the Group. Change management • The Group recognises that implementing change introduces operational risk and has therefore implemented a series of control gateways designed to ensure that each stage of the change management process has the necessary level of oversight. Organisational change and integration • Organisation change and integration activity continues to be facilitated by an experienced and capable project management office, with close oversight and

Principal risks	Key mitigating actions
	direction provided by the Group Executive Committee and Board. Fraud • The Group has dedicated systems and resources to monitor fraud risk.
Conduct risk	Product suitability • The Group has a strategic commitment to provide simple, customer-focused products. In addition, a Product Governance framework is established to oversee both the origination of new products and to revisit the ongoing suitability of the existing product suite. Data protection • In addition to a series of network/system controls the Group performs extensive root cause analysis of any incidents in order to ensure that the appropriate mitigating actions are taken. Integration risk • During the integration process, the Group is committed to adopting a low-risk approach with a view to taking reasonable steps to avoid causing poor outcomes for its customers and the market. Significant progress has been made across all integration work streams with no material customer detriment identified to date.
Compliance and regulatory risk	Prudential regulatory changes • The Group has an effective horizon scanning process to identify regulatory change. • All significant regulatory initiatives are managed by structured programmes overseen by the Project Management team and sponsored at Executive level. • The Group has proactively sought external expert opinion to support interpretation of the requirements and validation of its response, where required. Conduct regulation • The Group has a programme of regulatory horizon scanning linking into a formal regulatory change management programme. In addition, the focus on simple products and a customer oriented culture means that current practice may not have to change significantly to meet new conduct regulations. • All Group entities utilise underwriting, arrears, repossession, forbearance and vulnerable customer policies which are designed to comply with regulatory rules and expectations. These policies articulate the Group's commitment to ensuring that all customers, especially those who are vulnerable or experiencing financial hardship, are treated fairly, consistently and in a way that considers their individual needs and circumstances. • The Group does not tolerate any systematic failure to deliver fair customer outcomes. On an isolated basis, incidents can result in detriment due to human and/ or operational failures. Where such incidents occur, they are thoroughly investigated, and the appropriate remedial actions are taken to address any customer detriment and prevent recurrence.
Integration risk	• The Board continues to provide oversight of the integration process. A dedicated Integration Management Office is in place to manage integration activity. • Independent assessment, monitoring and reporting is being undertaken by the Risk and Internal Audit functions.

Emerging risks

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

Emerging risks	Key mitigating actions
Political and macroeconomic uncertainty • The Group's lending activity is focused in the United Kingdom and, as such, will be impacted by any risks emerging from changes in the macroeconomic environment.	• The Group has mature and robust monitoring processes and uses stress testing activity (i.e. ad hoc, risk appetite and ICAAP) to understand how it performs over a variety of macroeconomic stress scenarios. It has developed a suite of early

Emerging risks	Key mitigating actions
• Significant uncertainty remains around the long term effects of the conflict in Ukraine, increasing inflation impacting the cost of living and increasing interest rates, which may impact customer behaviour across both the Group's lending and savings businesses.	warning indicators, which are closely monitored to identify changes in the outlook. • The Board and management review detailed portfolio reports to identify any changes in the Group's risk profile.
Climate change 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.	• Progress continues to be made in developing and embedding the Group's climate risk management approach. • Updated financial impact analysis is conducted as part of the ICAAP. • The Group invested in developing its ESG and climate risk strategy and on development of its Task Force on Climate-Related Financial Disclosures. • The Group's Chief Risk Officers have designated senior management responsibility for the management of climate change risk.
Model risk The risk of financial loss, adverse regulatory outcomes, reputational damage or customer detriment resulting from deficiencies in the development, application or ongoing operation of models and ratings systems. The Group also notes changes in industry best practice with respect to model risk management	• The Group has well-established model risk governance arrangements in place, with Board and Executive Committees formed to ensure robust oversight of the Group's model risk profile. • Dedicated resources are in place to ensure model governance arrangements continue to meet any changes in industry and regulatory expectations.
Regulatory change The Group remains subject to high levels of regulatory oversight and an extensive and broad ranging regulatory change agenda, including meeting the requirements of the Resolvability Assessment Framework and Operational Continuity in Resolution. The Group is therefore required to respond to prudential and conduct related regulatory changes, taking part in thematic reviews as required. There is also uncertainty in relation to the regulatory landscape post the United Kingdom's exit from the European Union.	• The Group has established horizon scanning capabilities, together 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 contributes to upcoming regulatory consultations.
Evolving working practices The COVID-19 pandemic has resulted in new ways of working which are impacting employee collaboration and the embedding of the Group's Purpose, Vision and Values. The impact on labour market dynamics is making it more challenging to recruit and retain talent across certain positions.	• The Group operated effectively during the COVID-19 lockdown periods, with the majority of staff working from home. A hybrid working model has been established which continues to work well. • The Group has proactively benchmarked departmental salaries and established further mechanisms to support internal progression.

Risk Profile Performance Overview

Credit risk
The Group's credit risk profile across its loan portfolios remained strong during the six months to 30 June 2022.

Statutory net loans and advances to customers increased to £21.8bn as at 30 June 2022 from £21.1bn at the end of 2021. Loan book growth continues to be predominantly driven by new buy to let and residential first charge mortgage lending. Total loans and advances fell across the Group's second charge and funding lines segments as expected.

Average weighted interest coverage ratios across Buy-to-Let originations remained strong at 211% for OSB and 197% for CCFS (31 December 2021: 199% for OSB and 188% for CCFS). The proportion of the Group's residential first charge mortgage portfolios with higher loan to income multiples remained low, with the level remaining broadly stable during the reporting period.

Exposure to residential development finance lending remained low at £135.7m as at 30 June 2022 (31 December 2021: £120.7m). Weighted average gross development values remained prudent across the development finance business at 55.2% (31 December 2021: 56.1%).

The Group's ability to absorb any future economic shocks continued to improve as loan to value levels for existing lending fell, driven by rising house prices. As at 30 June 2022, the total weighted average loan to value ratio for the loan book reduced to 59% for OSB and 64% for CCFS (31 December 2021: 60% and 65%, respectively).

Forward-looking internal and external credit scoring metrics remained strong, taking into account internal performance and customers' wider credit obligation performance.

Group arrears balances greater than three months have remained unchanged since 2021 year end at 1.1%. As at 30 June 2022, there was a marginal reduction in the OSB entity arrears which fell to 1.3% (31 December 2021: 1.4%) and offset a slight increase in arrears for CCFS to 0.8% (31 December 2021: 0.7%) driven by customers who moved into arrears following the removal of the COVID-19 payment deferral scheme, in conjunction with ongoing portfolio seasoning. Late stage arrears levels continue to be elevated due to ongoing challenges with the courts' process of repossessing properties.

The Group continues to observe a normalisation of forbearance levels relative to the total number of customers and outstanding loan balances, post the closure of the payment deferral scheme introduced during the pandemic.

Expected credit losses
The Group recorded a statutory impairment charge of £1.6m for the six months to 30 June 2022, representing an annualised loan loss of 0.01% compared to an impairment credit of £14.6m and an annualised loan loss ratio of -0.15% during the six months to 30 June 2021.

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

a. Macroeconomic scenarios
The Board and management noted a more positive economic performance than forecast as the UK successfully removed restrictions implemented during the pandemic, observing lower than previously forecast unemployment levels and higher house price appreciation. During the six months to 30 June 2022, continued high market demand supported strong residential house prices and resulted in a £4.9m provision release.

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

The Board decided to shift a 10% weighting from the upside scenario to the downside scenario to acknowledge the increasing downside risks due to the uncertain economic outlook, particularly the rising cost of living.

The updated macroeconomic scenarios led to a provision release of £5.9m more than offset by a charge of £6.8m due to the adjustment in scenario weightings.

Macroeconomic scenarios utilised within IFRS 9 impairment calculations 30 June 2022:

			Scenario (%)[1]		
Scenario	**Probability weighting (%)**	**Economic measure**	**Year end 2022**	**Year end 2023**	**Year end 2024**
Base case	40	GDP	3.7	1.8	2.1
		Unemployment	3.8	3.7	3.7
		House price growth	4.9	-0.8	-0.3
Upside	10	GDP	4.7	3.8	2.6
		Unemployment	3.6	3.5	3.6
		House price growth	9.1	1.9	2.1
Downside	38	GDP	0.7	0.2	1.7
		Unemployment	5.9	6.1	6.3
		House price growth	-2.3	-9.8	-10.7
Severe Downside	12	GDP	-0.7	-0.8	1.5
		Unemployment	6.2	6.4	6.6
		House price growth	-6.0	-14.6	-16.9

1. Scenarios show annual movement for GDP and house price growth and year end positions for unemployment. House price growth includes indexation up to and including 31 March 2022 and forecast estimates thereafter

b. Staging criteria enhancements
The Group continued to leverage the enhanced staging criteria introduced during 2020 utilising both internal and external credit bureau data to identify higher risk cohorts, including previous or current payment deferral accounts, moving eligible exposures to stage 2 where a lifetime loss allowance is held. As the rule set was unchanged since the year end and the credit profile remained stable there was a negligible loan loss impact during the six months to 30 June 2022.

c. Model enhancements
The Group's technical Model Governance Committee receives regular model performance reports prepared by the Group's Models and Ratings function. Where required, proposals were made to ensure that modelled estimates continued to mirror recently observed outcomes. During the period, a small number of updates were made across the suite of IFRS 9 models which resulted in a negligible loan loss charge during the six months to 30 June 2022.

d. Post model adjustments
During the first six months of 2022, the Group reviewed a number of post model adjustments to ensure that they remained appropriate, considering the continued impact of the pandemic on credit bureau files and the ongoing risks that the end of the furlough scheme had on loss given default and probability of default estimates. The Group's Risk function also conducted detailed scenario analysis, identifying specific risks relevant to each core lending line, to triangulate whether modelled provisions remained appropriate. The cumulative impact of changes to the Group's post model adjustments was a loan loss release of £3.2m during the period.

e. Other
Other charges largely related to standard provision movements due to loan book growth and credit profile changes and totalled £8.8m, against the backdrop of the stable credit profile performance of the loan book.

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

The table below indicates the provision coverage levels as at 30 June 2022.

As at 30 June 2022	Gross carrying amount £m	Expected credit loss £m	Coverage ratio %[1]
Stage 1	**18,702.0**	**8.8**	**0.05%**
Stage 2	**2,561.6**	**27.3**	**1.07%**
Stage 3 + POCI[2]	**580.6**	**66.0**	**11.37%**
Total	**21,844.2**	**102.1**	**0.47%**

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

1. Coverage ratios versus loans and advances is the total IFRS 9 provision versus gross loans and advances.
2. POCI assets are purchased or originated credit impaired. These are acquired loans that meet the Group's definition of default (90 days past due or an unlikely to pay) at acquisition.

Provision levels remained strong with a coverage ratio of 0.47% as at 30 June 2022 (31 December 2021: 0.48%). Coverage levels remained broadly stable in the first half of 2022, driven predominantly by positive residential property indexing within the period being offset by increased caution over the rising cost of living.

Liquidity and funding risk
Liquidity and funding performance became more challenging within the reporting period, against a rising interest rate environment and competitive retail savings market. The Group's Liquidity Working Group continued to monitor daily liquidity reporting and forecasting to ensure liquidity levels remained at target levels.

The Group continued to be predominantly funded by retail savings. Only 6.9% of deposits remain above the FSCS protection limit as at 30 June 2022 (31 December 2021: 6.8%). Diversification of funding was provided by borrowing from the Bank of England under its funding schemes. As at 30 June 2022, the Group's borrowing under the Term Funding Scheme for SMEs totalled £4.2bn and the Group drew an additional £220.3m under the Indexed Long-Term Repo scheme (31 December 2021: £4.2bn, nil, respectively). Securitisation remains central to the Group's liability management strategy, as well as being a key funding source.

Liquidity coverage ratios remained strong at 269% for OSB and 171% for CCFS (31 December 2021: OSB 240% and CCFS 158%) versus the regulatory minimum of 100%.

Market risk
Interest rate risk is the key market risk the Group is exposed to. Gap and basis risk are managed within defined risk appetite limits for each bank. The Group's Treasury function actively hedges risk to match the timing of cash flows from assets and liabilities for each bank.

The Group has a small amount of foreign exchange exposure, due to the rupee denominated running costs of the OSB India operation. Rupee denominated running costs during the period to 30 June 2022 totalled £5.1m (30 June 2021: £3.8m).

Solvency risk
Solvency risk is a function of balance sheet growth, profitability, access to capital markets and regulatory changes.

During the six months to 30 June 2022, the Group's balance sheet grew, however the asset mix continued to trend towards less capital intensive products. The Group's arrears profile remained broadly stable, whilst loan to value levels improved due to rising property prices. The Group remained profitable within the period and the Group's capital requirements remained strong with the CET1 ratio at 18.9% including the impact of the £100m share repurchase programme announced in March 2022 (31 December 2021: 19.6%). The Group's minimum total capital requirement at 30 June 2022 was 9.47% consisting of Pillar 1 of 8.0% and Pillar 2a of 1.47%[1] and the Group was subject to a UK Capital Conservation Buffer of 2.5%.

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

1. The Pillar 2A requirement of 1.47% of RWAs includes a static integration add-on of £19.5 million (0.20% of RWAs at 30 June 2022).

Statement of Directors' Responsibilities

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

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

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

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

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

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

By order of the Board

Date: 11 August 2022

Independent Review Report to OSB GROUP PLC

Conclusion

We have been engaged by the company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2022 which comprises Condensed Consolidated Statement of Comprehensive Income, the Condensed Consolidated Statement of Financial Position, the Condensed Consolidated Statement of Changes in Equity, the Condensed Consolidated Statement of Cash Flows and related notes 1 to 35.

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2022 is not prepared, in all material respects, in accordance with United Kingdom adopted International Accounting Standard 34 and the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

Basis for Conclusion

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

As disclosed in note 1, the annual financial statements of the group will be prepared in accordance with United Kingdom adopted international accounting standards. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with United Kingdom adopted International Accounting Standard 34, "Interim Financial Reporting".

Conclusion Relating to Going Concern

Based on our review procedures, which are less extensive than those performed in an audit as described in the Basis for Conclusion section of this report, nothing has come to our attention to suggest that the directors have inappropriately adopted the going concern basis of accounting or that the directors have identified material uncertainties relating to going concern that are not appropriately disclosed.

This conclusion is based on the review procedures performed in accordance with ISRE (UK), however future events or conditions may cause the entity to cease to continue as a going concern.

Responsibilities of the directors

The directors are responsible for preparing the half-yearly financial report in accordance with the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

In preparing the half-yearly financial report, the directors are responsible for assessing the group's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the review of the financial information

In reviewing the half-yearly financial report, we are responsible for expressing to the group a conclusion on the condensed set of financial statement in the half-yearly financial report. Our conclusion, including our Conclusions Relating to Going Concern, are based on procedures that are less extensive than audit procedures, as described in the Basis for Conclusion paragraph of this report.

Use of our report

This report is made solely to the company in accordance with International Standard on Review Engagements (UK) 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the Financial Reporting Council. Our work has been undertaken so that we might state to the company those matters we are required to state to it in an independent review report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company, for our review work, for this report, or for the conclusions we have formed.

Deloitte LLP
Statutory Auditor
London, United Kingdom
11 August 2022

OSB GROUP PLC
Interim report for the six months ended 30 June 2022
Condensed Consolidated Statement of Comprehensive Income

	Note	**Six months ended 30-Jun-22 (Unaudited) £m**	Six months ended 30-Jun-21 (Unaudited) £m
Interest receivable and similar income	3	**452.2**	349.2
Interest payable and similar charges	4	**(108.8)**	(83.9)
Net interest income		**343.4**	265.3
Fair value gains on financial instruments	5	**16.4**	16.1
Gain on sale of financial instruments	6	**-**	4.0
Other operating income		**3.7**	4.6
Total income		**363.5**	290.0
Administrative expenses	7	**(91.3)**	(80.5)
Provisions	26	**1.2**	(0.1)
Impairment of financial assets	19	**(1.6)**	14.6
Integration costs	8	**(3.7)**	(1.9)
Exceptional items		**-**	(0.2)
Profit before taxation		**268.1**	221.9
Taxation	9	**(59.2)**	(60.4)
Profit for the period		**208.9**	161.5
Other comprehensive expense			
Items which may be reclassified to profit or loss:			
Fair value changes on financial instruments measured as fair value through other comprehensive income (FVOCI):			
Arising in the period		**(0.7)**	0.3
Amounts reclassified to profit or loss for investment securities at FVOCI		**-**	(2.0)
Tax on items in other comprehensive expense		**0.1**	0.7
Revaluation of foreign operations		**0.1**	(0.3)
Other comprehensive expense		**(0.5)**	(1.3)
Total comprehensive income for the period		**208.4**	160.2
Attributable to:			
Equity shareholders of the Company		**208.4**	157.5
Non-controlling interests		**-**	2.7
		208.4	160.2
Dividend declared for the period, pence per share	11	**8.7**	4.9
Earnings per share, pence per share			
Basic	10	**45.7**	35.5
Diluted	10	**45.2**	35.2

The above results are derived wholly from continuing operations.

Notes 1 to 35 form part of these condensed consolidated financial statements.

OSB GROUP PLC

Interim report as at 30 June 2022

Condensed Consolidated Statement of Financial Position

	Note	**As at 30-Jun-22 (Unaudited) £m**	As at 31-Dec-21 (Audited) £m
Assets			
Cash in hand		**0.4**	0.5
Loans and advances to credit institutions	13	**3,223.4**	2,843.6
Investment securities	14	**361.8**	491.4
Loans and advances to customers	15	**21,759.2**	21,080.3
Fair value adjustments on hedged assets	20	**(491.0)**	(138.9)
Derivative assets		**544.7**	185.7
Other assets		**13.1**	10.2
Deferred taxation asset		**3.9**	5.6
Property, plant and equipment		**34.3**	35.1
Intangible assets		**15.4**	18.4
Total assets		**25,465.2**	24,531.9
Liabilities			
Amounts owed to credit institutions	21	**4,840.5**	4,319.6
Amounts owed to retail depositors	22	**17,939.0**	17,526.4
Fair value adjustments on hedged liabilities	20	**(52.4)**	(19.7)
Amounts owed to other customers		**119.3**	92.6
Debt securities in issue	23	**367.3**	460.3
Derivative liabilities		**58.1**	19.7
Lease liabilities	24	**10.1**	10.7
Other liabilities	25	**87.8**	29.6
Provisions	26	**0.6**	2.0
Current taxation liability		**2.9**	1.0
Deferred taxation liability		**29.1**	39.8
Subordinated liabilities		**10.3**	10.3
Perpetual Subordinated Bonds		**15.2**	15.2
		23,427.8	22,507.5
Equity			
Share capital	28	**4.4**	4.5
Share premium		**0.8**	0.7
Retained earnings		**3,230.8**	3,215.1
Other reserves		**(1,198.6)**	(1,195.9)
Shareholders' funds		**2,037.4**	2,024.4
Total equity and liabilities		**25,465.2**	24,531.9

Notes 1 to 35 form part of these condensed consolidated financial statements.

The condensed consolidated financial statements on pages 39 to 81 were approved by the Board of Directors on 11 August 2022 and signed on its behalf by

Andy Golding
Chief Executive Officer

April Talintyre
Chief Financial Officer

Company number: 11976839

OSB GROUP PLC

Interim report for the six months ended 30 June 2022

Condensed Consolidated Statement of Changes in Equity

	Share capital[3]	Share premium	Capital redemption and Transfer reserve[2]	Own shares[1]	Foreign exchange reserve	FVOCI reserve	Share-based payment reserve	Retained earnings	Additional Tier 1 securities	Non-controlling interest securities	Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
At 1 January 2022	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 period	-	-	-	-	-	-	-	208.9	-	-	208.9
Other comprehensive expense	-	-	-	-	0.1	(0.7)	-	-	-	-	(0.6)
Tax on items in other comprehensive expense	-	-	-	-	-	0.1	-	-	-	-	0.1
Total comprehensive income	-	-	-	-	0.1	(0.6)	-	208.9	-	-	208.4
Coupon paid on Additional Tier 1 securities	-	-	-	-	-	-	-	(4.5)	-	-	(4.5)
Dividends paid	-	-	-	-	-	-	-	(94.8)	-	-	(94.8)
Share-based payments	-	0.1	-	-	-	-	(3.4)	7.8	-	-	4.5
Tax recognised in equity	-	-	-	-	-	-	(0.2)	-	-	-	(0.2)
Own shares[1]	-	-	-	1.3	-	-	-	(1.3)	-	-	-
Share repurchase	(0.1)	-	0.1	-	-	-	-	(100.4)	-	-	(100.4)
At 30 June 2022 (Unaudited)	**4.4**	**0.8**	**(1,355.2)**	**(2.2)**	**(1.0)**	**-**	**9.8**	**3,230.8**	**150.0**	**-**	**2,037.4**
At 1 January 2021	1,359.8	-	(1,355.3)	(4.0)	(1.0)	1.0	7.8	1,608.6	-	60.0	1,676.9
Profit for the period	-	-	-	-	-	-	-	161.5	-	-	161.5
Other comprehensive expense	-	-	-	-	(0.3)	(1.7)	-	-	-	-	(2.0)
Tax on items in other comprehensive expense	-	-	-	-	-	0.7	-	-	-	-	0.7
Total comprehensive income	-	-	-	-	(0.3)	(1.0)	-	161.5	-	-	160.2
Coupon paid on non-controlling interest securities	-	-	-	-	-	-	-	(2.7)	-	-	(2.7)
Dividends paid	-	-	-	-	-	-	-	(64.8)	-	-	(64.8)
Share-based payments	-	0.1	-	-	-	-	0.7	4.2	-	-	5.0
Tax recognised in equity	-	-	-	-	-	-	0.6	(0.2)	-	-	0.4
Own shares[1]	-	-	-	0.1	-	-	-	(0.1)	-	-	-
Capital reduction of OSB GROUP PLC share capital[3]	(1,355.3)	-	-	-	-	-	-	1,355.3	-	-	-
At 30 June 2021 (Unaudited)	4.5	0.1	(1,355.3)	(3.9)	(1.3)	-	9.1	3,061.8	-	60.0	1,775.0

1. The Group has adopted look-through accounting (see note 1) and recognised the Employee Benefit Trusts within OSB GROUP PLC.
2. Includes Capital redemption reserve of £0.1m (2021: nil) and Transfer reserve of £(1,355.3)m (2021: £(1,355.3)m).
3. On 26 February 2021, OSB GROUP PLC reduced the nominal value of 447,312,780 shares from three hundred and four (304) pence each to one (1) penny each.

OSB GROUP PLC

Interim report for the six months ended 30 June 2022

Condensed Consolidated Statement of Cash Flows

	Note	**Six months ended 30-Jun-22 (Unaudited) £m**	Six months ended 30-Jun-21 (Unaudited) £m
Cash flows from operating activities			
Profit before taxation		**268.1**	221.9
Adjustments for non-cash items	32	**13.1**	(18.8)
Changes in operating assets and liabilities	32	**(285.3)**	(616.6)
Cash used in operating activities		**(4.1)**	(413.5)
Net tax paid		**(66.5)**	(44.1)
Net cash used in operating activities		**(70.6)**	(457.6)
Cash flows from investing activities			
Maturity and sales of investment securities		**85.5**	302.0
Purchases of investment securities		**(7.3)**	(53.3)
Interest received on investment securities		**2.2**	1.6
Purchases of property, plant and equipment and intangible assets		**(3.0)**	(4.0)
Cash generated from investing activities		**77.4**	246.3
Cash flows from financing activities			
Financing received	27	**512.5**	469.7
Financing repaid	27	**(94.2)**	(351.8)
Share repurchase[1]		**(39.6)**	-
Interest paid on financing		**(9.0)**	(5.0)
Coupon paid on non-controlling interest securities		**-**	(2.7)
Coupon paid on Additional Tier 1 securities		**(4.5)**	-
Dividends paid	11	**(94.8)**	(64.8)
Proceeds from issuance of shares under employee SAYE schemes		**0.1**	0.1
Cash payments on lease liabilities	24	**(1.1)**	(0.9)
Cash generated from financing activities		**269.4**	44.6
Net increase/(decrease) in cash and cash equivalents		**276.2**	(166.7)
Cash and cash equivalents at the beginning of the period	12	**2,736.7**	2,370.6
Cash and cash equivalents at the end of the period	12	**3,012.9**	2,203.9
Movement in cash and cash equivalents		**276.2**	(166.7)

1. Includes £39.2m for shares repurchased and £0.4m transaction costs.

Notes to the Condensed Consolidated Financial Statements

1. Accounting policies

a) Basis of preparation

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

The accounting policies, presentation and methods of computation are consistent with those applied by the Group in its latest audited financial statements, which were prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the UK and interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC). They do not include all the information required for a complete set of IFRS financial statements. However, selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in the Group's financial position and performance since the last Annual Report and Accounts for the year ended 31 December 2021.

The comparative figures for the year ended 31 December 2021 are not the Group's statutory accounts for that financial year. The statutory accounts for the year ended 31 December 2021 have been delivered to the Registrar of Companies in England and Wales in accordance with section 447 of the Companies Act 2006. The auditor has reported on those accounts. Their report was unqualified; did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying their report, and did not contain a statement under section 498(2) or (3) of the Companies Act 2006.

These interim condensed consolidated financial statements were authorised for issue by the Company's Board of Directors on 11 August 2022.

b) Accounting standards

There were a number of minor amendments to financial reporting standards that were in issue and effective from 1 January 2022. The adoption of these amendments has not had a material impact on the Group.

Share repurchase
In accordance with IAS 32 Financial Instruments: Presentation, a share repurchase provision has been recognised following the Board authorising a share repurchase of up to £100m of shares in the market from 18 March 2022. The provision 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.

All other accounting policies applied are consistent with those set out on pages 184 to 193 of the 2021 Annual Report and Accounts.

1. Accounting policies (continued)

c) Going concern

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

In assessing whether the going concern basis is appropriate, projections for the Group have been prepared, covering its future performance, capital and liquidity for a period in excess of 12 months from the date of approval of these interim condensed consolidated financial statements. These forecasts have been subject to sensitivity tests, including stress scenarios, which have been compared to the latest economic scenarios provided by the Group's external economic advisors, as well as reverse stress tests. In making the assessment the Board has considered all principal and emerging risks including climate risk where the risk is likely to emerge outside of the going concern assessment horizon.

The assessments included the following:

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

- The latest liquidity and contingent liquidity positions and forecasts were assessed against the Internal Liquidity Adequacy Assessment Process (ILAAP) stress scenarios.

- The Group continues to assess the resilience of its business operating model and supporting infrastructure in the context of the emerging economic, business and regulatory environment. The key areas of focus continue to be on the provision of critical services to customers, employee health and safety and evolving governmental policies and guidelines. The Group continues to invest in its information technology platforms to support its employees with flexible working from office or homeworking across all locations within a hybrid working model. The Group's response to the COVID-19 pandemic demonstrated the inherent resilience of the Group's critical processes and infrastructure. It also demonstrated the necessary agility in responding to changing operational demands. The operational dependencies on third party vendors and outsourcing arrangements continue to be an important area of focus.

The Group's financial projections demonstrate that the Group has sufficient capital and liquidity to continue to meet its regulatory 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 from the date of approval of these interim condensed consolidated financial statements and, as a result, it is appropriate to prepare these interim condensed consolidated financial statements on a going concern basis.

1. Accounting policies (continued)

d) Segmental reporting

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

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

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

The Group has disclosed relevant risk management tables in note 29 at a sub-segment level to provide detailed analysis of the Group's core lending business.

2. Judgements in applying accounting policies and critical accounting estimates

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

As set out in the Task Force on Climate-related Financial Disclosures (TCFD) report on page 86 of the 2021 Annual Report and Accounts, climate change is a global challenge and an emerging risk to businesses, people and the environment. Therefore, in preparing the financial statements, the Group has considered the impact of climate-related risks on its financial position and performance, including the impact on expected credit losses and redemption profiles included in effective interest rate (EIR). While the effects of climate change represent a source of uncertainty, the Group does not consider there to be a material impact on its judgements and estimates from the physical or transition risks in the short to medium term.

The judgements made by the Group in the application of its accounting policies are consistent with those set out on pages 194 to 196 of the 2021 Annual Report and Accounts.

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

(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 £102.1m (31 December 2021: £101.5m) at the reporting date as disclosed in note 18.

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 loss given default (LGD) and forward-looking macroeconomic scenarios.

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

Loss given default model

The Group has a number of LGD models, which include a number of estimated inputs including propensity to go to possession given default (PPD), forced sale discount (FSD), time to sale (TTS) and sale cost estimates.

The LGD is sensitive to the application of the HPI. For the OSB segment at 30 June 2022 a 10% fall in house prices would result in an incremental £23.4m (31 December 2021: £22.7m) of provision being required. For the CCFS segment at 30 June 2022 a 10% fall in house prices would result in an incremental £9.2m (31 December 2021: £8.3m) of provision being required. The combined impact across both OSB and CCFS businesses of a 10% fall in house prices would result in an increase in total provisions of £32.6m (31 December 2021: £31.0m) as at 30 June 2022.

Loan book impairments – forward-looking macroeconomic scenarios

The Group's macroeconomic scenarios can be found in the Risk review section. The following tables detail the expected credit losses (ECL) scenario sensitivity analysis with each scenario weighted at 100% probability. The purpose of using multiple economic scenarios is to model the non-linear impact of assumptions surrounding macroeconomic factors and ECL calculated:

As at 30 June 2022 (Unaudited)	**Weighted (see note 18)**	**100% Base case scenario**	**100% Upside scenario**	**100% Downside scenario**	**100% Severe downside scenario**
Total loans before provisions, £m	**21,844.2**	**21,844.2**	**21,844.2**	**21,844.2**	**21,844.2**
Modelled ECL, £m	**45.3**	**16.6**	**11.4**	**63.0**	**112.7**
Non-modelled ECL, £m	**56.8**	**56.8**	**56.8**	**56.8**	**56.8**
Total ECL, £m	**102.1**	**73.4**	**68.2**	**119.8**	**169.5**
ECL coverage, %	**0.47**	**0.34**	**0.31**	**0.55**	**0.78**

As at 31 December 2021 (Audited)					
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

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

(ii) Loan book acquisition accounting and effective interest rate

There have been no significant changes in key judgements and assumptions for acquisition accounting and income recognition and EIR calculations compared to those applied at 31 December 2021, as described on page 195 of the 2021 Annual Report and Accounts.

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

There are a number of drivers influencing customer behaviour that can impact the expected weighted average lives of the loan book, including the pandemic, changes in lifestyle such as working patterns, the higher cost of living, increases in the base rate and the macroeconomic outlook. A period of six months' variance in the weighted average lives of the loan books was selected to show this sensitivity. This sensitivity represents a realistic potential change to the portfolio weighted average behavioural lives driven by changing customer behaviour.

The Group recognised a net £3.2m loss in the six months to 30 June 2022 as a result of cash flows on organic books, made up of a £9.4m loss due to reduced expected future cash flows predominantly from post reversion income offset in part by a gain of £6.2m from recognition of net fee income over a shorter period from prepayments made in the period. Applying a six month extension in the expected weighted average life of the organic loan books would result in a gain of c. £76m recognised in net interest income. Applying a six month reduction in the expected weighted average life of the organic loan books, would result in a reset loss of c. £20m.

The Group recognised a net £0.6m gain in the six months to 30 June 2022 as a result of resetting cash flows on acquired books. The largest acquired book is Precise with sensitivities completed on increasing/reducing the life of the book by six months which results in a reset gain/loss of c. £31m/£35m.

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

3. Interest receivable and similar income

	Six months ended 30-Jun-22 (Unaudited) £m	Six months ended 30-Jun-21 (Unaudited) £m
At amortised cost:		
On OSB mortgages	**273.7**	256.2
On CCFS mortgages	**197.2**	166.5
On finance leases	**4.3**	2.7
On investment securities	**1.7**	1.0
On other liquid assets	**9.4**	1.2
Amortisation of fair value adjustments on CCFS Combination[1]	**(27.1)**	(35.3)
Amortisation of fair value adjustments on hedged assets[2]	**(21.9)**	(17.0)
	437.3	375.3
At fair value through profit or loss (FVTPL):		
Net expense on derivative financial instruments - lending activities	**14.9**	(26.5)
At FVOCI:		
On investment securities	**-**	0.4
	452.2	349.2

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

4. Interest payable and similar charges

	Six months ended 30-Jun-22 (Unaudited) £m	Six months ended 30-Jun-21 (Unaudited) £m
At amortised cost:		
On retail deposits	**86.4**	84.1
On BoE borrowings	**15.1**	2.0
On Perpetual Subordinated Bonds	**0.3**	0.8
On subordinated liabilities	**0.4**	0.4
On wholesale borrowings	**0.7**	0.4
On debt securities in issue	**2.9**	1.8
On lease liabilities	**0.1**	0.2
Amortisation of fair value adjustments on CCFS Combination[1]	**(0.6)**	(0.8)
Amortisation of fair value adjustments on hedged liabilities[2]	**(0.4)**	(0.5)
	104.9	88.4
At FVTPL:		
Net income on derivative financial instruments - savings activities	**3.9**	(4.5)
	108.8	83.9

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

5. Fair value gains on financial instruments

	Six months ended 30-Jun-22 (Unaudited) £m	Six months ended 30-Jun-21 (Unaudited) £m
Fair value changes in hedged assets	**(346.0)**	(114.5)
Hedging of assets	**341.1**	114.7
Fair value changes in hedged liabilities	**33.3**	8.8
Hedging of liabilities	**(32.7)**	(8.4)
Ineffective portion of hedges	**(4.3)**	0.6
Net gains on unmatched swaps	**14.0**	6.1
Amortisation of inception adjustments[1]	**6.5**	0.2
Amortisation of acquisition-related inception adjustments[2]	**5.3**	6.7
Amortisation of de-designated hedge relationships[3]	**(5.0)**	2.2
Fair value movements on mortgages at FVTPL	**0.4**	0.2
Debit and credit valuation adjustment	**(0.5)**	0.1
	16.4	16.1

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 sale of financial instruments

There were no sales of financial instruments during the six months ended 30 June 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. Administrative expenses

	Six months ended 30-Jun-22 (Unaudited) £m	Six months ended 30-Jun-21 (Unaudited) £m
Staff costs	**48.7**	46.7
Support costs[1]	**14.7**	8.7
Professional fees	**10.9**	10.3
Facilities costs	**3.4**	2.9
Marketing costs	**2.2**	1.8
Depreciation	**2.5**	2.6
Amortisation	**4.5**	4.2
Other costs	**4.4**	3.3
	91.3	80.5

1. External servicing costs of £3.0m are now categorised as support costs (2021: £3.0m categorised in professional fees).

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

	Six months ended 30-Jun-22 (Unaudited)	Six months ended 30-Jun-21 (Unaudited)
UK	**1,231**	1,218
India	**595**	509
	1,826	1,727

8. Integration costs

	Six months ended 30-Jun-22 (Unaudited) £m	Six months ended 30-Jun-21 (Unaudited) £m
Consultant fees	**2.3**	0.3
Staff costs	**1.4**	1.6
	3.7	1.9

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.

9. Taxation

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

	Six months ended 30-Jun-22 (Unaudited) £m	Six months ended 30-Jun-21 (Unaudited) £m
Corporation tax	**70.9**	63.3
Deferred tax	**(0.6)**	(0.9)
Adjustments in respect of earlier periods	**(0.4)**	0.2
Release of deferred tax on CCFS Combination[1]	**(10.7)**	(2.2)
Total tax charge	**59.2**	60.4

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 £(6.0)m (2021: £(7.8)m) and the impact of the bank surcharge decrease on these deferred tax liabilities £(4.7)m (2021: impact of 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:

	Six months ended 30-Jun-22 (Unaudited) £m	Six months ended 30-Jun-21 (Unaudited) £m
Profit before taxation	**268.1**	221.9
Profit multiplied by the standard rate of UK Corporation Tax (19%)	**51.0**	42.2
Bank surcharge[1]	**15.9**	13.2
Taxation effects of:		
Expenses not deductible for taxation purposes	**-**	0.2
Impact of deferred tax rate change[2]	**(4.7)**	5.4
Adjustments in respect of earlier periods	**(0.4)**	0.2
Income not taxable	**(1.8)**	-
Tax adjustments in respect of share-based payments	**0.8**	0.9
Impact of tax losses carried forward	**(0.1)**	(0.3)
Tax on coupon paid on non-controlling interest securities	**-**	(0.7)
Tax on coupon paid on Additional Tier 1 securities	**(1.2)**	-
Timing differences	**(0.4)**	(0.7)
Other	**0.1**	-
Total taxation charge	**59.2**	60.4

1. Tax charge for the two banking entities of £17.7m (2021: £15.5m) offset by the tax impact of unwinding CCFS Combination items of £1.8m (2021: £2.3m).
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).

9. Taxation (continued)

Factors that may affect future tax charges

On 24 May 2021, the government substantively enacted legislation to increase the corporation tax rate from 19% to 25% on 1 April 2023. Further, on 24 February 2022, the government substantively enacted legislation to decrease the bank surcharge rate from 8% to 3% on 1 April 2023. Deferred tax expected to unwind after 1 April 2023 is recognised at the new rates.

10. Earnings per share

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

	Six months ended 30-Jun-22 (Unaudited) £m	Six months ended 30-Jun-21 (Unaudited) £m
Statutory profit after tax	**208.9**	161.5
Less: Coupon on non-controlling interest securities classified as equity	**-**	(2.7)
Less: Coupon on Additional Tier 1 securities classified as equity	**(4.5)**	-
Statutory profit attributable to ordinary shareholders	**204.4**	158.8

	Six months ended 30-Jun-22 (Unaudited)	Six months ended 30-Jun-21 (Unaudited)
Weighted average number of shares, millions		
Basic	**447.4**	447.7
Dilutive impact of share-based payment schemes	**4.9**	3.8
Diluted	**452.3**	451.5
Earnings per share, pence per share		
Basic	**45.7**	35.5
Diluted	**45.2**	35.2

11. Dividends

Dividends paid during the period are detailed below:

	Six months ended 30-Jun-22 (Unaudited)		Six months ended 30-Jun-21 (Unaudited)	
	£m	**Pence per share**	£m	Pence per share
Final dividend for the prior year	**94.8**	**21.1**	64.8	14.5

The Group's dividend policy is to declare interim dividends equal to one-third of the prior year's total dividend. The Board continues to target a full year dividend payout ratio of at least 25 per cent of underlying profit after tax less the coupon on Additional Tier 1 securities.

The Directors have declared an interim dividend for the first half of 2022 of c. £38.5m, 8.7 pence per share (2021: £22.0m, 4.9 pence per share), equal to one-third of the total 2021 dividend of 26.0 pence per share, payable on 21 September 2022 with an ex-dividend date of 25 August 2022 and a record date of 26 August 2022. This dividend is not reflected in these financial statements as it was not declared at the reporting date.

A summary of the Company's distributable reserves is shown below, based on audited Company accounts prepared to 31 December 2021:

	As at 30-Jun-22 (Unaudited) £m	As at 31-Dec-21 (Audited) £m
Retained earnings	**1,358.4**	1,358.4
Other distributable reserves[1]	**(3.5)**	(3.5)
Dividend distributions[2]	**(99.3)**	-
Share repurchase	**(100.4)**	-
Distributable reserves	**1,155.2**	1,354.9

1. Other distributable reserves comprises own shares held in the Group's EBT of £3.5m (2021: £3.5m) which are recognised within OSBG under look-through accounting.
2. Distributions include the 2021 final dividend of £94.8m and a £4.5m coupon paid on Additional Tier 1 securities supported by distributions received from subsidiaries.

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

12. Cash and cash equivalents

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

	As at 30-Jun-22 (Unaudited) £m	As at 31-Dec-21 (Audited) £m	As at 30-Jun-21 (Unaudited) £m	As at 31-Dec-20 (Audited) £m
Cash in hand	**0.4**	0.5	0.4	0.5
Unencumbered loans and advances to credit institutions	**2,962.7**	2,636.2	2,203.5	2,370.1
Investment securities	**49.8**	100.0	-	-
	3,012.9	2,736.7	2,203.9	2,370.6

13. Loans and advances to credit institutions

	As at 30-Jun-22 (Unaudited) £m	As at 31-Dec-21 (Audited) £m
Unencumbered:		
BoE call account	**2,829.0**	2,496.4
Call accounts	**79.7**	43.3
Cash held in special purpose vehicles[1]	**51.6**	89.6
Term deposits	**2.4**	6.9
Encumbered:		
BoE cash ratio deposit	**61.2**	59.5
Cash held in special purpose vehicles[1]	**83.6**	48.0
Cash margin given	**115.9**	99.9
	3,223.4	2,843.6

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

14. Investment securities

	As at 30-Jun-22 (Unaudited) £m	As at 31-Dec-21 (Audited) £m
Held at FVTPL:		
RMBS[1] loan notes	**0.5**	0.7
	0.5	0.7
Held at FVOCI:		
UK Sovereign debt	**150.2**	152.1
RMBS loan notes	**14.7**	15.5
	164.9	167.6
Held at amortised cost:		
UK Sovereign debt	**-**	100.0
RMBS loan notes	**196.4**	223.1
	196.4	323.1
Less: Expected credit losses	**-**	-
	196.4	323.1
	361.8	491.4

1. Residential Mortgage-Backed Securities

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

	Six months ended 30-Jun-22 (Unaudited) £m	Year ended 31-Dec-21 (Audited) £m
At 1 January	**491.4**	471.2
Additions[1]	**57.1**	568.2
Disposals and maturities[2]	**(185.5)**	(549.7)
Movement in accrued interest	**(0.5)**	0.6
Changes in fair value	**(0.7)**	1.1
	361.8	491.4

1. Additions includes £49.8m 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).

15. Loans and advances to customers

	As at 30-Jun-22 (Unaudited) £m	As at 31-Dec-21 (Audited) £m
Held at amortised cost:		
Loans and advances (see note 16)	**21,702.9**	21,047.9
Finance leases (see note 17)	**141.3**	116.2
	21,844.2	21,164.1
Less: Expected credit losses (see note 18)	**(102.1)**	(101.5)
	21,742.1	21,062.6
Residential mortgages held at FVTPL	**17.1**	17.7
	21,759.2	21,080.3

16. Loans and advances

	As at 30-Jun-22 (Unaudited)			As at 31-Dec-21 (Audited)		
	OSB £m	**CCFS £m**	**Total £m**	OSB £m	CCFS £m	Total £m
Gross carrying amount						
Stage 1	**10,601.0**	**7,966.8**	**18,567.8**	10,393.2	7,685.7	18,078.9
Stage 2	**1,174.5**	**1,386.1**	**2,560.6**	1,142.3	1,269.8	2,412.1
Stage 3	**360.0**	**124.5**	**484.5**	360.4	99.1	459.5
Stage 3 (POCI)[1]	**41.8**	**48.2**	**90.0**	45.2	52.2	97.4
	12,177.3	**9,525.6**	**21,702.9**	11,941.1	9,106.8	21,047.9

1. Purchased or originated credit impaired

16. Loans and advances (continued)

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

	Stage 1 £m	Stage 2 £m	Stage 3 £m	Stage 3 (POCI) £m	Total £m
At 1 January 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 (Audited)	18,078.9	2,412.1	459.5	97.4	21,047.9
Originations[1]	**2,282.1**	**-**	**-**	**-**	**2,282.1**
Repayments and write-offs[3]	**(1,406.2)**	**(170.3)**	**(43.2)**	**(7.4)**	**(1,627.1)**
Transfers:					
- To Stage 1	**782.8**	**(774.2)**	**(8.6)**	**-**	**-**
- To Stage 2	**(1,130.8)**	**1,163.1**	**(32.3)**	**-**	**-**
- To Stage 3	**(39.0)**	**(70.1)**	**109.1**	**-**	**-**
At 30 June 2022 (Unaudited)	**18,567.8**	**2,560.6**	**484.5**	**90.0**	**21,702.9**

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.

17. Finance leases

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

	As at 30-Jun-22 (Unaudited) £m	As at 31-Dec-21 (Audited) £m
Gross investment in finance leases, receivable		
Less than one year	**50.4**	39.7
Between one and five years	**105.1**	87.0
More than five years	**0.8**	0.9
	156.3	127.6
Unearned finance income	**(15.0)**	(11.4)
Net investment in finance leases	**141.3**	116.2
Net investment in finance leases, receivable		
Less than one year	**43.9**	34.7
Between one and five years	**96.7**	80.6
More than five years	**0.7**	0.9
	141.3	116.2

The Group has recognised £4.7m of ECLs on finance leases as at 30 June 2022 (31 December 2021: £4.3m).

18. Expected credit losses

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

	As at 30-Jun-22 (Unaudited)			As at 31-Dec-21 (Audited)		
	ECL provision £m	**Weighting %**	**Weighted ECL provision £m**	ECL provision £m	Weighting %	Weighted ECL provision £m
Scenarios						
Upside	**11.4**	**10**	**1.1**	13.1	20	2.6
Base case	**16.6**	**40**	**6.6**	26.5	40	10.6
Downside scenario	**63.0**	**38**	**24.1**	74.0	28	20.7
Severe downside scenario	**112.7**	**12**	**13.5**	120.3	12	14.4
Total weighted provisions			**45.3**			48.3
Non-modelled provisions:						
Individually assessed provisions			**43.2**			40.4
Post model adjustments[1]			**13.6**			12.8
Total provision			**102.1**			101.5

1. To ensure that provision coverage levels remain appropriate, the Group holds a number of post model adjustments, to capture any specific risks not captured within the models and economic forecasts as highlighted by the Group's risk functions' top-down lending segment analysis or adjustments that still remain relevant from those introduced due to COVID-19 observations, restrictions and economic support measures. Additional information can be found in the Credit risk section of the Risk profile performance review on pages 69 to 73 of the 2021 Annual Report and Accounts.

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

	As at 30-Jun-22 (Unaudited)			As at 31-Dec-21 (Audited)		
	OSB £m	**CCFS £m**	**Total £m**	OSB £m	CCFS £m	Total £m
Stage 1	**6.9**	**1.9**	**8.8**	9.3	2.8	12.1
Stage 2	**15.8**	**11.5**	**27.3**	14.2	10.8	25.0
Stage 3	**58.8**	**4.1**	**62.9**	56.6	3.8	60.4
Stage 3 (POCI)	**1.6**	**1.5**	**3.1**	2.1	1.9	4.0
	83.1	**19.0**	**102.1**	82.2	19.3	101.5

18. Expected credit losses (continued)

The tables below show the movement in the ECL by IFRS 9 stage during the period. ECLs on originations and acquisitions reflect the IFRS 9 stage of loans originated or acquired during the period as at 30 June 2022 and not the date of origination. Re-measurement of loss allowance relates to existing loans which did not redeem during the period and includes the impact of loans moving between IFRS 9 stages.

	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 (Audited)	12.1	25.0	60.4	4.0	101.5
Originations	**2.6**	**-**	**-**	**-**	**2.6**
Repayments and write-offs	**(0.5)**	**(1.3)**	**(3.3)**	**(0.3)**	**(5.4)**
Re-measurement of loss allowance	**(11.1)**	**12.8**	**5.5**	**(0.6)**	**6.6**
Transfers:					
- To Stage 1	**7.3**	**(7.0)**	**(0.3)**	**-**	**-**
- To Stage 2	**(1.1)**	**2.1**	**(1.0)**	**-**	**-**
- To Stage 3	**-**	**(1.6)**	**1.6**	**-**	**-**
Changes in assumptions and model parameters	**(0.5)**	**(2.7)**	**-**	**-**	**(3.2)**
At 30 June 2022 (Unaudited)	**8.8**	**27.3**	**62.9**	**3.1**	**102.1**

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

	As at 30-Jun-22 (Unaudited)			As at 31-Dec-21 (Audited)		
	Carrying value £m	**ECL £m**	**Coverage %**	Carrying value £m	ECL £m	Coverage %
Criteria:						
Relative PD movement	**1,451.5**	**20.0**	**1.38**	1,251.6	17.1	1.37
Qualitative measures	**1,074.7**	**6.9**	**0.64**	1,125.0	7.4	0.66
30 days past due backstop	**35.4**	**0.4**	**1.13**	37.0	0.5	1.35
Total	**2,561.6**	**27.3**	**1.07**	2,413.6	25.0	1.04

18. Expected credit losses (continued)

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

19. Impairment of financial assets

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

	Six months ended 30-Jun-22 (Unaudited) £m	Six months ended 30-Jun-21 (Unaudited) £m
Write-offs in period	**0.9**	2.0
Increase/(decrease) in ECL provision	**0.7**	(16.6)
	1.6	(14.6)

20. Hedge accounting

	As at 30-Jun-22 (Unaudited) £m	As at 31-Dec-21 (Audited) £m
Hedged assets		
Current hedge relationships	**(538.9)**	(190.9)
Swap inception adjustment	**(8.1)**	(26.2)
Cancelled hedge relationships	**56.0**	78.2
Fair value adjustments on hedged assets	**(491.0)**	(138.9)
Hedged liabilities		
Current hedge relationships	**53.4**	19.6
Swap inception adjustment	**(0.1)**	3.3
Cancelled hedge relationships	**(0.9)**	(1.4)
De-designated hedge relationships	**-**	(1.8)
Fair value adjustments on hedged liabilities	**52.4**	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 IBOR transition, securitisation activities and legacy long-term fixed rate mortgages (c. 25 years at origination).

21. Amounts owed to credit institutions

	As at 30-Jun-22 (Unaudited) £m	As at 31-Dec-21 (Audited) £m
BoE TFSME[1]	**4,211.9**	4,203.1
BoE ILTR[2]	**220.3**	-
Commercial repo	**11.7**	0.5
Loans from credit institutions	**0.5**	0.6
Cash collateral and margin received	**396.1**	115.4
	4,840.5	4,319.6

1. Term Funding Scheme for SMEs
2. Indexed Long-Term Repo

22. Amounts owed to retail depositors

	As at 30-Jun-22 (Unaudited)			As at 31-Dec-21 (Audited)		
	OSB £m	**CCFS £m**	**Total £m**	OSB £m	CCFS £m	Total £m
Fixed rate deposits	**6,972.2**	**5,302.2**	**12,274.4**	6,221.7	4,703.4	10,925.1
Variable rate deposits	**3,111.0**	**2,553.6**	**5,664.6**	3,517.7	3,083.6	6,601.3
	10,083.2	**7,855.8**	**17,939.0**	9,739.4	7,787.0	17,526.4

23. Debt securities in issue

	As at 30-Jun-22 (Unaudited) £m	As at 31-Dec-21 (Audited) £m
Asset backed loan notes at amortised cost	**367.3**	460.3
Amount due for settlement after 12 months	**367.3**	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 limited to the net principal received from customers in respect of underlying mortgage assets. The maturity date of the funds matches the contractual maturity date of the underlying mortgage assets. The Group expects that a large proportion of the underlying mortgage assets, and therefore these notes, will be repaid within five years.

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

Interest is payable at fixed margins above SONIA.

23. Debt securities in issue (continued)

As at 30 June 2022, notes were in issue through the following funding vehicles:

	As at 30-Jun-22 (Unaudited) £m	As at 31-Dec-21 (Audited) £m
CMF 2020-1 plc	**166.2**	199.8
Canterbury Finance No.3 plc	**42.2**	76.9
Canterbury Finance No.4 plc	**158.9**	183.6
	367.3	460.3

24. Lease liabilities

	As at 30-Jun-22 (Unaudited) £m	As at 31-Dec-21 (Audited) £m
At 1 January	**10.7**	11.7
New leases	**0.4**	0.7
Lease termination	**-**	(0.1)
Lease repayments	**(1.1)**	(1.9)
Interest accruals	**0.1**	0.3
	10.1	10.7

25. Other liabilities

	As at 30-Jun-22 (Unaudited) £m	As at 31-Dec-21 (Audited) £m
Falling due within one year:		
Accruals	**18.8**	23.2
Deferred income	**0.7**	0.9
Other creditors	**9.8**	5.5
Share repurchase liability	**58.5**	-
	87.8	29.6

On 18 March 2022, the Group authorised a share repurchase programme of up to £100m, recognising a £100m reduction in retained earnings and a share repurchase liability. As at 30 June 2022, 7,724,991 shares had been purchased by the Group's agent under the programme at a total cost of £41.5m, reducing the share repurchase liability to £58.5m. Other creditors includes £2.3m for 482,327 shares purchased by the agent prior to 30 June 2022 and which the Group purchased in July 2022. Any share repurchases made under this programme are announced to the market each day in line with regulatory requirements, see note 28 for further details.

26. Provisions and contingent liabilities

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 £0.1m as at 30 June 2022 (31 December 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 Financial Services Compensation Scheme (FSCS) and other provisions is presented below:

	FSCS £m	Other regulatory provisions £m	ECL on undrawn loan facilities £m	Total £m
At 1 January 2021	0.1	1.5	0.2	1.8
Charge	-	-	0.2	0.2
At 31 December 2021 (Audited)	0.1	1.5	0.4	2.0
(Credit)/charge	**(0.1)**	**(1.4)**	**0.1**	**(1.4)**
At 30 June 2022 (Unaudited)	**-**	**0.1**	**0.5**	**0.6**

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.

27. Reconciliation of cash flows for financing activities

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

	Amounts owed to credit institutions (see note 21) £m	**Debt securities in issue (see note 23) £m**	**Subordinated liabilities £m**	**Perpetual Subordinated Bonds £m**	**Total £m**
At 1 January 2022	**4,319.6**	**460.3**	**10.3**	**15.2**	**4,805.4**
Cash movements:					
Principal drawdowns	**512.5**	**-**	**-**	**-**	**512.5**
Principal repayments	**(1.2)**	**(93.0)**	**-**	**-**	**(94.2)**
Non-cash movements:					
Accrued interest movement	**9.6**	**-**	**-**	**-**	**9.6**
At 30 June 2022 (Unaudited)	**4,840.5**	**367.3**	**10.3**	**15.2**	**5,233.3**

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

28. 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 (Audited)	448,627,855	4.5	0.7
Share cancelled under repurchase scheme	**(7,242,664)**	**(0.1)**	**-**
Shares issued under OSBG employee share plans	**1,307,369**	**-**	**0.1**
At 30 June 2022 (Unaudited)	**442,692,560**	**4.4**	**0.8**

Since the inception of the Group's share repurchase programme on 18 March 2022, 7,724,991 shares have been repurchased as at 30 June 2022 at an average price of £5.38 per share and a total cost of £41.5m, of which 7,242,664 shares have been cancelled. The programme allows the Group to repurchase a maximum of 44,799,505 shares, restricted by a total cost of £100m. The Group has £58.5m remaining, which is included within other liabilities.

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.

29. Risk management

The tables below are a summary of the Group's risk management and financial instruments disclosures, of which a complete disclosure for the year ended 31 December 2021 is included in the 2021 Annual Report and Accounts. The tables do not represent all risks the Group is exposed to and should be read in conjunction with the Risk review above.

Credit risk

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

	As at 30-Jun-22 (Unaudited)					
	OSB		CCFS		Total	
	Gross carrying amount £m	Capped collateral held £m	Gross carrying amount £m	Capped collateral held £m	Gross carrying amount £m	Capped collateral held £m
Stage 1	**10,735.2**	**10,711.2**	**7,966.8**	**7,965.8**	**18,702.0**	**18,677.0**
Stage 2	**1,175.5**	**1,174.2**	**1,386.1**	**1,385.9**	**2,561.6**	**2,560.1**
Stage 3	**366.1**	**334.7**	**124.5**	**124.5**	**490.6**	**459.2**
Stage 3 (POCI)	**41.8**	**40.6**	**48.2**	**48.2**	**90.0**	**88.8**
	12,318.6	**12,260.7**	**9,525.6**	**9,524.4**	**21,844.2**	**21,785.1**

29. Risk management (continued)

	As at 31-Dec-21 (Audited)					
	OSB		CCFS		Total	
	Gross carrying amount £m	Capped collateral held £m	Gross carrying amount £m	Capped collateral held £m	Gross carrying amount £m	Capped collateral held £m
Stage 1	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.

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

	As at 30-Jun-22 (Unaudited)				As at 31-Dec-21 (Audited)			
	OSB £m	**CCFS £m**	**Total £m**	**%**	OSB £m	CCFS £m	Total £m	%
Band								
0% - 50%	**2,528.1**	**737.3**	**3,265.4**	**15**	2,293.3	428.2	2,721.5	13
50% - 60%	**2,248.1**	**1,021.9**	**3,270.0**	**15**	1,935.3	490.1	2,425.4	11
60% - 70%	**4,481.1**	**3,694.6**	**8,175.7**	**38**	4,179.0	1,241.9	5,420.9	26
70% - 80%	**2,442.6**	**3,748.9**	**6,191.5**	**28**	2,887.7	6,100.7	8,988.4	43
80% - 90%	**374.7**	**319.7**	**694.4**	**3**	513.2	844.4	1,357.6	6
90% - 100%	**62.1**	**3.2**	**65.3**	**-**	77.8	1.5	79.3	-
>100%	**181.9**	**-**	**181.9**	**1**	171.0	-	171.0	1
Total loans before provisions	**12,318.6**	**9,525.6**	**21,844.2**	**100**	12,057.3	9,106.8	21,164.1	100

29. Risk management (continued)

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

	As at 30-Jun-22 (Unaudited)				As at 31-Dec-21 (Audited)			
OSB	**BTL/SME £m**	**Residential £m**	**Total £m**	**%**	BTL/SME £m	Residential £m	Total £m	%
Band								
0% - 50%	**1,150.7**	**1,377.4**	**2,528.1**	**21**	1,007.6	1,285.7	2,293.3	19
50% - 60%	**2,005.4**	**242.7**	**2,248.1**	**18**	1,693.7	241.6	1,935.3	16
60% - 70%	**4,205.4**	**275.7**	**4,481.1**	**36**	3,903.0	276.0	4,179.0	35
70% - 80%	**2,262.5**	**180.1**	**2,442.6**	**20**	2,647.7	240.0	2,887.7	24
80% - 90%	**297.0**	**77.7**	**374.7**	**3**	452.8	60.4	513.2	4
90% - 100%	**54.0**	**8.1**	**62.1**	**1**	66.2	11.6	77.8	1
>100%	**176.1**	**5.8**	**181.9**	**1**	165.1	5.9	171.0	1
Total loans before provisions	**10,151.1**	**2,167.5**	**12,318.6**	**100**	9,936.1	2,121.2	12,057.3	100

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

	As at 30-Jun-22 (Unaudited)				
OSB	**Buy-to-Let £m**	**Commercial £m**	**Residential development £m**	**Funding lines £m**	**Total £m**
Band					
0% - 50%	**921.2**	**156.9**	**21.9**	**50.7**	**1,150.7**
50% - 60%	**1,844.6**	**97.4**	**54.3**	**9.1**	**2,005.4**
60% - 70%	**3,986.7**	**158.5**	**56.7**	**3.5**	**4,205.4**
70% - 80%	**2,037.1**	**225.4**	**-**	**-**	**2,262.5**
80% - 90%	**148.4**	**113.0**	**-**	**35.6**	**297.0**
90% - 100%	**36.1**	**17.9**	**-**	**-**	**54.0**
>100%	**125.2**	**20.4**	**-**	**30.5**	**176.1**
Total loans before provisions	**9,099.3**	**789.5**	**132.9**	**129.4**	**10,151.1**

	As at 31-Dec-21 (Audited)				
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

29. Risk management (continued)

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

	As at 30-Jun-22 (Unaudited)				As at 31-Dec-21 (Audited)			
OSB	**First charge £m**	**Second charge £m**	**Funding lines £m**	**Total £m**	First charge £m	Second charge £m	Funding lines £m	Total £m
Band								
0% - 50%	**1,267.7**	**109.7**	**-**	**1,377.4**	1,173.3	111.8	0.6	1,285.7
50% - 60%	**197.8**	**44.9**	**-**	**242.7**	189.8	51.8	-	241.6
60% - 70%	**249.9**	**25.8**	**-**	**275.7**	240.2	35.8	-	276.0
70% - 80%	**168.3**	**11.8**	**-**	**180.1**	221.3	18.7	-	240.0
80% - 90%	**75.7**	**2.0**	**-**	**77.7**	56.5	3.9	-	60.4
90% - 100%	**7.1**	**1.0**	**-**	**8.1**	10.3	1.3	-	11.6
>100%	**4.7**	**1.1**	**-**	**5.8**	4.5	1.4	-	5.9
Total loans before provisions	**1,971.2**	**196.3**	**-**	**2,167.5**	1,895.9	224.7	0.6	2,121.2

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

	As at 30-Jun-22 (Unaudited)					
CCFS	**Buy-to-Let £m**	**Residential £m**	**Bridging £m**	**Second charge lending £m**	**Total £m**	**%**
Band						
0% - 50%	**239.3**	**413.5**	**38.7**	**45.8**	**737.3**	**8**
50% - 60%	**544.2**	**425.5**	**14.2**	**38.0**	**1,021.9**	**11**
60% - 70%	**2,578.1**	**1,065.8**	**16.3**	**34.4**	**3,694.6**	**39**
70% - 80%	**3,243.1**	**475.0**	**14.2**	**16.6**	**3,748.9**	**39**
80% - 90%	**222.8**	**95.4**	**0.4**	**1.1**	**319.7**	**3**
90% - 100%	**1.6**	**1.6**	**-**	**-**	**3.2**	**-**
Total loans before provisions	**6,829.1**	**2,476.8**	**83.8**	**135.9**	**9,525.6**	**100**

	As at 31-Dec-21 (Audited)					
CCFS	Buy-to-Let £m	Residential £m	Bridging £m	Second charge lending £m	Total £m	%
Band						
0% - 50%	104.8	261.0	30.2	32.2	428.2	5
50% - 60%	205.4	246.8	9.3	28.6	490.1	5
60% - 70%	702.4	480.1	14.9	44.5	1,241.9	14
70% - 80%	4,827.7	1,234.5	1.4	37.1	6,100.7	67
80% - 90%	560.5	268.9	0.5	14.5	844.4	9
90% - 100%	0.1	1.4	-	-	1.5	-
Total loans before provisions	6,400.9	2,492.7	56.3	156.9	9,106.8	100

29. Risk management (continued)

Forbearance measures undertaken

The Group has a range of options available where borrowers experience financial difficulties that impact their ability to service their financial commitments under the loan agreement. These options are explained in the Principal risks and uncertainties Risk review on pages 71 and 72 of the 2021 Annual Report and Accounts.

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

	Six months ended 30-Jun-22 (Unaudited)		Year ended 31-Dec-21 (Audited)	
Forbearance type	**Number of accounts**	**£m**	Number of accounts	£m
Interest-only switch	**33**	**10.7**	159	18.6
Interest rate reduction	**49**	**1.4**	437	8.1
Term extension	**31**	**1.7**	271	16.6
Payment deferral	**58**	**6.6**	499	43.0
Voluntary-assisted sale	**2**	**0.1**	7	0.8
Payment concession (reduced monthly payments)	**45**	**13.6**	51	12.1
Capitalisation of interest	**11**	**7.7**	65	1.1
Full or partial debt forgiveness	**225**	**5.1**	1,078	22.6
Total	**454**	**46.9**	2,567	122.9
Loan type				
First charge owner-occupier	**88**	**11.4**	424	34.8
Second charge owner-occupier[1]	**294**	**5.9**	1,931	38.7
Buy-to-Let	**47**	**20.9**	160	34.6
Commercial	**25**	**8.7**	52	14.8
Total	**454**	**46.9**	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.

29. Risk management (continued)

Geographical analysis by region

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

	As at 30-Jun-22 (Unaudited)				As at 31-Dec-21 (Audited)			
	OSB	**CCFS**	**Total**		OSB	CCFS	Total	
Region	**£m**	**£m**	**£m**	**%**	£m	£m	£m	%
East Anglia	**375.1**	**1,019.0**	**1,394.1**	**6**	361.8	967.1	1,328.9	6
East Midlands	**552.7**	**606.1**	**1,158.8**	**5**	543.8	555.8	1,099.6	5
Greater London	**5,075.4**	**3,127.5**	**8,202.9**	**39**	4,983.7	3,052.6	8,036.3	39
Guernsey	**24.5**	**-**	**24.5**	**-**	26.3	-	26.3	-
Jersey	**87.3**	**-**	**87.3**	**-**	99.3	-	99.3	-
North East	**160.0**	**251.4**	**411.4**	**2**	153.9	244.4	398.3	2
North West	**814.6**	**812.1**	**1,626.7**	**7**	762.3	755.0	1,517.3	7
Northern Ireland	**10.6**	**-**	**10.6**	**-**	10.9	-	10.9	-
Scotland	**32.4**	**236.4**	**268.8**	**1**	35.2	226.0	261.2	1
South East	**2,848.8**	**1,502.9**	**4,351.7**	**21**	2,792.6	1,452.4	4,245.0	20
South West	**841.7**	**576.0**	**1,417.7**	**7**	825.5	544.3	1,369.8	7
Wales	**263.1**	**253.2**	**516.3**	**2**	272.1	240.6	512.7	2
West Midlands	**711.0**	**677.1**	**1,388.1**	**6**	706.9	629.8	1,336.7	7
Yorks and Humberside	**380.1**	**463.9**	**844.0**	**4**	366.8	438.8	805.6	4
Total loans before provisions	**12,177.3**	**9,525.6**	**21,702.9**	**100**	11,941.1	9,106.8	21,047.9	100

29. Risk management (continued)

Approach to measurement of credit quality

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

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

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

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

	As at 30-Jun-22 (Unaudited)				
	Stage 1 £m	**Stage 2 £m**	**Stage 3 £m**	**Stage 3 (POCI) £m**	**Total £m**
OSB					
Excellent	**5,200.8**	**122.3**	**-**	**-**	**5,323.1**
Good	**5,421.7**	**700.9**	**-**	**-**	**6,122.6**
Satisfactory	**110.2**	**265.4**	**-**	**-**	**375.6**
Lower	**2.5**	**86.9**	**-**	**-**	**89.4**
Impaired	**-**	**-**	**366.1**	**-**	**366.1**
POCI	**-**	**-**	**-**	**41.8**	**41.8**
CCFS					
Excellent	**5,316.7**	**343.0**	**-**	**-**	**5,659.7**
Good	**2,608.8**	**770.0**	**-**	**-**	**3,378.8**
Satisfactory	**38.2**	**152.4**	**-**	**-**	**190.6**
Lower	**3.1**	**120.7**	**-**	**-**	**123.8**
Impaired	**-**	**-**	**124.5**	**-**	**124.5**
POCI	**-**	**-**	**-**	**48.2**	**48.2**
	18,702.0	**2,561.6**	**490.6**	**90.0**	**21,844.2**

29. Risk management (continued)

	As at 31-Dec-21 (Audited)				
	Stage 1 £m	Stage 2 £m	Stage 3 £m	Stage 3 (POCI) £m	Total £m
OSB					
Excellent	5,305.7	148.4	-	-	5,454.1
Good	5,079.2	687.1	-	-	5,766.3
Satisfactory	113.5	232.4	-	-	345.9
Lower	4.3	75.9	-	-	80.2
Impaired	-	-	365.6	-	365.6
POCI	-	-	-	45.2	45.2
CCFS					
Excellent	5,126.6	319.1	-	-	5,445.7
Good	2,519.6	693.9	-	-	3,213.5
Satisfactory	35.0	147.7	-	-	182.7
Lower	4.5	109.1	-	-	113.6
Impaired	-	-	99.1	-	99.1
POCI	-	-	-	52.2	52.2
	18,188.4	2,413.6	464.7	97.4	21,164.1

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

	As at 30-Jun-22 (Unaudited)			
	Excellent £m	**Good £m**	**Satisfactory £m**	**Total £m**
Investment securities	**361.8**	**-**	**-**	**361.8**
Loans and advances to credit institutions	**3,025.4**	**196.1**	**1.9**	**3,223.4**
Derivative assets	**218.3**	**326.4**	**-**	**544.7**
	3,605.5	**522.5**	**1.9**	**4,129.9**

	As at 31-Dec-21 (Audited)			
	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

30. Financial instruments and fair values

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

As at 30 June 2022 (Unaudited)	Carrying amount £m	Principal amount £m	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial assets						
Investment securities	**165.4**	**165.3**	**150.2**	**14.7**	**0.5**	**165.4**
Loans and advances to customers	**17.1**	**18.8**	**-**	**-**	**17.1**	**17.1**
Derivative assets	**544.7**	**14,091.4**	**-**	**544.7**	**-**	**544.7**
	727.2	**14,275.5**	**150.2**	**559.4**	**17.6**	**727.2**
Financial liabilities						
Derivative liabilities	**58.1**	**8,063.0**	**-**	**58.1**	**-**	**58.1**

As at 31 December 2021 (Audited)	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.

30. Financial instruments and fair values (continued)

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

			Estimated fair value			
As at 30 June 2022 (Unaudited)	**Carrying amount £m**	**Principal amount £m**	**Level 1 £m**	**Level 2 £m**	**Level 3 £m**	**Total £m**
Financial assets						
Cash in hand	**0.4**	**0.4**	**-**	**0.4**	**-**	**0.4**
Loans and advances to credit institutions	**3,223.4**	**3,223.4**	**-**	**3,223.4**	**-**	**3,223.4**
Investment securities	**196.4**	**196.0**	**-**	**197.0**	**-**	**197.0**
Loans and advances to customers	**21,742.1**	**21,755.7**	**-**	**3,237.1**	**18,114.3**	**21,351.4**
Other assets[1]	**2.7**	**2.7**	**-**	**2.7**	**-**	**2.7**
	25,165.0	**25,178.2**	**-**	**6,660.6**	**18,114.3**	**24,774.9**
Financial liabilities						
Amounts owed to retail depositors	**17,939.0**	**17,881.5**	**-**	**5,664.6**	**12,189.1**	**17,853.7**
Amounts owed to credit institutions	**4,840.5**	**4,359.8**	**-**	**4,840.5**	**-**	**4,840.5**
Amounts owed to other customers	**119.3**	**118.8**	**-**	**-**	**119.3**	**119.3**
Debt securities in issue	**367.3**	**367.0**	**-**	**367.3**	**-**	**367.3**
Other liabilities[2]	**87.1**	**87.1**	**-**	**87.1**	**-**	**87.1**
Subordinated liabilities	**10.3**	**10.1**	**-**	**-**	**9.7**	**9.7**
Perpetual Subordinated Bonds	**15.2**	**15.0**	**14.2**	**-**	**-**	**14.2**
	23,378.7	**22,839.3**	**14.2**	**10,959.5**	**12,318.1**	**23,291.8**

1. Balance excludes prepayments.
2. Balance excludes deferred income.

30. Financial instruments and fair values (continued)

As at 31 December 2021 (Audited)	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
Perpetual Subordinated Bonds	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.

The valuation techniques for all the financial instruments are consistent with those set out on page 230 of the 2021 Annual Report and Accounts. For other assets and other liabilities fair value is considered to be equal to carrying value.

31. Operating segments

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

- OSB
- CCFS

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

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

	OSB £m	CCFS £m	Combination £m	Total £m
Balances as at 30 June 2022 (Unaudited)				
Gross loans and advances to customers	**12,318.6**	**9,426.6**	**116.1**	**21,861.3**
Expected credit losses	**(83.1)**	**(19.7)**	**0.7**	**(102.1)**
Loans and advances to customers	**12,235.5**	**9,406.9**	**116.8**	**21,759.2**
Capital expenditure	**2.4**	**0.6**	**-**	**3.0**
Depreciation and amortisation	**3.2**	**1.6**	**2.2**	**7.0**
Profit for six months ended 30 June 2022 (Unaudited)				
Net interest income/(expense)	**218.6**	**150.6**	**(25.8)**	**343.4**
Other income	**4.1**	**10.7**	**5.3**	**20.1**
Total income/(expense)	**222.7**	**161.3**	**(20.5)**	**363.5**
Administrative expenses	**(54.8)**	**(34.3)**	**(2.2)**	**(91.3)**
Provisions	**1.2**	**-**	**-**	**1.2**
Impairment of financial assets	**(1.9)**	**(0.1)**	**0.4**	**(1.6)**
Integration costs	**(3.1)**	**(0.6)**	**-**	**(3.7)**
Profit/(loss) before taxation	**164.1**	**126.3**	**(22.3)**	**268.1**
Taxation[1]	**(37.6)**	**(32.3)**	**10.7**	**(59.2)**
Profit/(loss) for the period	**126.5**	**94.0**	**(11.6)**	**208.9**

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 £6.0m and the impact of the bank surcharge decrease on these deferred tax liabilities of £4.7m.

31. Operating segments (continued)

	OSB £m	CCFS £m	Combination £m	Total £m
Balances as at 31 December 2021 (Audited)				
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 for six months ended 30 June 2021 (Unaudited)				
Net interest income/(expense)	188.6	110.4	(33.7)	265.3
Other income	5.0	12.4	7.3	24.7
Total income/(expense)	193.6	122.8	(26.4)	290.0
Administrative expenses	(48.9)	(29.7)	(1.9)	(80.5)
Provisions	(0.2)	0.1	-	(0.1)
Impairment of financial assets	5.1	10.0	(0.5)	14.6
Integration costs	(1.3)	(0.6)	-	(1.9)
Exceptional items	(0.2)	-	-	(0.2)
Profit/(loss) before taxation	148.1	102.6	(28.8)	221.9
Taxation[1]	(36.8)	(25.8)	2.2	(60.4)
Profit/(loss) for the period	111.3	76.8	(26.6)	161.5

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

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

	Six months ended 30-Jun-22 (Unaudited) £m	Six months ended 30-Jun-21 (Unaudited) £m
Adjustments for non-cash items:		
Depreciation and amortisation	**7.0**	6.8
Interest on investment securities	**(1.7)**	(1.4)
Interest on subordinated liabilities	**0.4**	0.4
Interest on Perpetual Subordinated Bonds	**0.3**	0.8
Interest on securitised debt	**2.9**	1.8
Interest on financing debt	**15.8**	2.4
Impairment charge/(credit) on loans	**1.6**	(14.6)
Gain on sale of financial instruments	**-**	(4.0)
Provisions	**(1.2)**	0.1
Interest on lease liabilities	**0.1**	0.2
Fair value gains on financial instruments	**(16.4)**	(16.1)
Share-based payments	**4.3**	4.8
Total adjustments for non-cash items	**13.1**	(18.8)
Changes in operating assets and liabilities:		
(Increase)/decrease in loans and advances to credit institutions	**(53.3)**	101.6
Increase in loans and advances to customers	**(680.1)**	(1,182.7)
Increase in amounts owed to retail depositors	**412.6**	494.1
Net increase in other assets	**(2.9)**	(1.2)
Net increase/(decrease) in derivatives and hedged items	**14.9**	(17.8)
Net increase/(decrease) in amounts owed to other customers	**26.0**	(9.8)
Net decrease in other liabilities	**(2.6)**	(0.5)
Exchange differences on working capital	**0.1**	(0.3)
Total changes in operating assets and liabilities	**(285.3)**	(616.6)

33. Capital management

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

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

	As at 30-Jun-22 (Unaudited) £m	As at 31-Dec-21 (Unaudited) £m
Common Equity Tier 1 capital		
Called up share capital	**4.4**	4.5
Share premium, capital contribution and share-based payment reserve	**10.6**	14.1
Retained earnings	**3,230.8**	3,215.1
Transfer reserve	**(1,355.2)**	(1,355.3)
Other reserves	**(3.2)**	(4.0)
Total equity attributable to ordinary shareholders	**1,887.4**	1,874.4
Foreseeable dividends	**(65.6)**	(94.7)
IFRS 9 transitional adjustment[1]	**1.4**	2.9
COVID-19 ECL transitional adjustment[2]	**13.9**	19.0
Deductions from Common Equity Tier 1 capital		
Prudent valuation adjustment[3]	**(1.1)**	(1.0)
Intangible assets[4]	**(15.4)**	(18.4)
Deferred tax asset	**(0.6)**	(0.5)
Common Equity Tier 1 capital	**1,820.0**	1,781.7
Additional Tier 1 capital		
Additional Tier 1 securities	**150.0**	150.0
Total Tier 1 capital	**1,970.0**	1,931.7
Total regulatory capital	**1,970.0**	1,931.7
Risk-weighted assets (unaudited)	**9,640.3**	9,101.6

1. 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.
2. The COVID-19 ECL transitional adjustment relates to the Group's increase in stage 1 and stage 2 ECL following the impacts of COVID-19 and for which transitional rules are being adopted for regulatory capital purposes.
3. The Group has adopted the simplified approach under the Prudent Valuation rules, recognising a deduction equal to 0.1% of fair value assets and liabilities after adjusting for hedge accounting.
4. All software assets continue to be fully deducted from capital in light of the pending intention of the PRA to consult on the Capital Requirements Regulation (CRR) 'Quick Fix' package in this area.

34. Related parties

The Group had no related party transactions during the six months to 30 June 2022 that materially affected the position or performance of the Group.

Transactions with key management personnel
During the period, the Group granted 282,447 (2021: 186,949) awards under the Deferred Share Bonus Plan and 737,825 (2021: 866,508) awards under the Performance Share Plan to 11 (2021: 12) key management personnel. The awards were granted on 23 March 2022 with a grant price of £5.5833. Details of these plans can be found in note 12 of the 2021 Annual Report and Accounts on pages 199 to 201.

35. Events after the reporting date

On 4 August 2022, the Group completed the Canterbury Finance No.5 securitisation, a fully retained transaction which securitised £1.3bn of organically originated prime Buy-to-Let mortgage assets.

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

Opinion
We have performed an independent limited assurance engagement on the Alternative Performance Measures (collectively, the APMs) set out below for the interim period for the six months ended 30 June 2022. The definition and the basis of preparation for each of the assured APMs is described in the Appendix to the Interim Report below (OSB Group's APM Definitions and Basis of Preparation).

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

Based on our work as described in this report, nothing has come to our attention that causes us to believe that the assured APMs have not been prepared, in all material respects, in accordance with OSB Group's APM Definitions and Basis of Preparation for the interim period for the six months ended 30 June 2022.

Directors' responsibilities

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

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

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

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

Our procedures consisted primarily of:

- Agreeing amounts used in the calculation of APMs which are derived or extracted from the interim financial statements of OSB Group for the six months ended 30 June 2022 to the interim financial statements.

- For amounts used in the calculation of APMs which were not derived or extracted from the interim financial statements of OSB Group for the six months ended 30 June 2022, testing, on a limited sample basis, the underlying data used in determining the assured APMs.
- Checking the mathematical accuracy of the calculations used to prepare the assured APMs and testing whether they were prepared in accordance with OSB Group's APM Definitions and Basis of Preparation.
- Reading the Interim Report for the six months ended 30 June 2022 and assessing whether the assured APMs were presented and described consistently.

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

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

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

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

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

Deloitte LLP, London
11 August 2022

Key performance indicators

Underlying results for the six months to 30 June 2022 and 30 June 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)

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

	HY 2022 £m	**HY 2021 £m**
Net interest income – statutory	343.4	265.3
Add back: acquisition-related items[2]	25.8	33.7
Net interest income – underlying	369.2	299.0
Net interest income annualised on an actual days basis:		
Net interest income – statutory A	692.5	535.0
Net interest income – underlying B	744.5	603.0
7 point average of interest earning assets – statutory C	24,743.0	22,650.2
7 point average of interest earning assets – underlying D	24,613.5	22,459.1
NIM statutory equals A/C	2.80%	2.36%
NIM underlying equals B/D	3.02%	2.68%

Cost to income ratio

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

	HY 2022 £m	**HY 2021 £m**
Administrative expenses – statutory A	91.3	80.5
Add back: acquisition-related items[2]	(2.2)	(1.9)
Administrative expenses – underlying B	89.1	78.6
Total income – statutory C	363.5	290.0
Add back: acquisition-related items[2]	20.5	26.4
Total income underlying D	384.0	316.4
Cost to income statutory equals A/C	25%	28%
Cost to income underlying equals B/D	23%	25%

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

	HY 2022 £m	HY 2021 £m
Administrative expenses – statutory (as in cost to income ratio above) A	91.3	80.5
Administrative expenses – underlying (as in cost to income ratio above) B	89.1	78.6
7 point average of total assets – statutory C	24,857.7	22,858.5
7 point average of total assets – underlying D	24,742.1	22,694.1
Management expense ratio statutory equals A/C on an annualised basis	0.73%	0.70%
Management expense ratio underlying equals B/D on an annualised basis	0.72%	0.69%

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

	HY 2022 £m	HY 2021 £m
Impairment losses – statutory A	1.6	(14.6)
Add back: acquisition-related items[2]	0.4	(0.5)
Impairment losses – underlying B	2.0	(15.1)
7 point average of gross loans – statutory C	21,487.1	19,854.1
7 point average of gross loans – underlying D	21,356.0	19,685.6
Loan loss ratio statutory equals A/C on an annualised basis	0.01%	(0.15)%
Loan loss ratio underlying equals B/D on an annualised basis	0.02%	(0.15)%

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, annualised on a simple basis, as a percentage of a 7 point average[1] of shareholders' equity (excluding £60m of non-controlling interest securities for the first half of 2021 and £150m of AT1 securities for the first half of 2022).

	HY 2022 £m	HY 2021 £m
Profit after tax - statutory	208.9	161.5
Coupons on AT1 securities	(4.5)	-
Coupons on non-controlling interest securities	-	(2.7)
Profit attributable to ordinary shareholders – statutory A	204.4	158.8
Add back: acquisition related items[2]	14.4	28.3
Profit attributable to ordinary shareholders – underlying B	218.8	187.1
7 point average of shareholders' equity (excluding AT1 and non-controlling interest securities) – statutory C	1,892.4	1,684.7
7 point average of shareholders' equity (excluding AT1 and non-controlling interest securities) – underlying D	1,811.2	1,564.2
Return on equity statutory equals A/C on an annualised basis	22%	19%
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.

	HY 2022 £m	HY 2021 £m
Profit attributable to ordinary shareholders – statutory (as in RoE ratio above) A	204.4	158.8
Profit attributable to ordinary shareholders – underlying (as in RoE ratio above) B	218.8	187.1
Weighted average number of ordinary shares in issue – statutory C	447.4	447.7
Weighted average number of ordinary shares in issue – underlying D	447.4	447.7
Basic earnings per share statutory equals A/C	45.7	35.5
Basic earnings per share underlying equals B/D	48.9	41.8

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

OSB GROUP PLC

Interim report for the six months ended 30 June 2022

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