OneSavings Bank plc

Interim report for the six months ended 30 June 2020

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OneSavings Bank plc
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OneSavings Bank plc ('OSB' or 'the Group'), the specialist lending and retail savings group, announces today its results for the six months ended 30 June 2020.

Following the Combination with Charter Court Financial Services Group plc ('CCFS') on 4 October 2019 this press release includes results on an underlying and pro forma underlying basis in addition to a statutory basis, to provide a clear basis for comparison with the previous period.[1]

Highlights

- Underlying profit before tax[2] decreased 14% to £156.3m (H1 2019: pro forma underlying £182.8m) and statutory profit before tax increased 10% to £99.3m (H1 2019: restated £90.5m[3])
- Underlying net loan book grew by 2% to £18.5bn in the period, or 7% excluding structured asset sales, and statutory net loan book grew by 2% to £18.8bn. Organic originations were £2.1bn (H1 2019: pro forma underlying £3.1bn)
- Continued focus on cost discipline and efficiency delivered an improved underlying cost to income ratio[4] of 26% (H1 2019: pro forma underlying 29%) and statutory cost to income ratio of 31% (H1 2019: restated 29%[3])
- Underlying net interest margin ('NIM')[5] of 250bps (H1 2019: pro forma underlying 270bps) includes the impact of the delay in passing on the base rate cuts in full to savers and the prudently higher liquidity levels that the Group was holding. Statutory NIM of 217bps (H1 2019: 278bps) also impacted by the amortisation of the fair value uplift on acquisition of CCFS' net assets
- Underlying loan loss ratio[6] increased to 60bps (H1 2019: pro forma underlying 11bps) and statutory loan loss ratio increased to 59bps (H1 2019: 12bps) due primarily to the impact of adopting more adverse COVID-19 related macroeconomic scenarios in our IFRS 9 models
- To support its customers, the Group had granted payment holidays to c. 26k accounts as at 30 June 2020. The majority of these customers have resumed payment with only 18% of these maturing payment holidays by value being extended
- Fully-loaded Common Equity Tier 1 capital ratio strengthened to 17.4% (31 December 2019: 16.0%)
- As expected, the Group has been informed that it will be subject to a full bail-in requirement for MREL from July 2025 with an expected interim requirement of 18% of risk weighted assets by July 2023
- Underlying basic earnings per share[7] of 26.1p (H1 2019: pro forma underlying 30.3p) and statutory basic earnings per share of 15.5p (H1 2019: 25.5p)
- Underlying return on equity[8] of 18% (H1 2019: pro forma underlying 24%) and statutory return on equity of 9% (H1 2019: 20%)
- Underlying gain on structured asset sales of £33.0m (H1 2019: pro forma underlying £29.8m), as the Group disposed of its remaining notes under the Canterbury No.1 securitisation and PMF 2020-1B, statutory gain of £19.9m
- The Board will continue to assess the appropriateness of dividend payments at year end 2020

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

"I am extremely proud of the way that OSB has performed during the COVID-19 pandemic. Our business model and systems have proved to be very resilient and our colleagues have all demonstrated dedication and flexibility, as they worked hard responding to the needs of our savers and borrowers.

We remain focused on supporting our customers who may be experiencing financial difficulty and as at the end of June had provided payment holidays to c. 26k accounts representing 28% of the loan book by value. I am however pleased to report that the majority of these customers have resumed payment after the end of their holiday term, with only 18% of these maturing payment holidays by value being extended.

We entered 2020 with a robust pipeline and continued to attract strong application levels in our core businesses prior to the COVID-19 lockdown restrictions, which then significantly impacted application and completion volumes in the second quarter. Underlying NIM in the first quarter was broadly flat to full year 2019, however it was diluted in the second quarter by delays in passing on the base rate cuts in full to our savers. The lower NIM also reflects the impact of prudently drawing down excess liquidity.

I am encouraged by the recovery in application volumes for our products since the housing market reopened, which are currently approaching 60% of pre-COVID-19 lockdown levels on tighter lending criteria and higher pricing. We expect to deliver double digit underlying net loan book growth for the full year, excluding the impact of the structured asset sales in January. Based on current pricing we expect underlying NIM for the full year to be broadly flat to the first half with the base rate cuts passed on to retail depositors in full by the end of the third quarter. We also expect the underlying cost to income ratio for the full year to be marginally higher versus the first half due to higher other income in the first half from the gain on structured asset sales.

It remains too early to say what the full impact of COVID-19 will be on the UK economy, nevertheless we will continue to be there for our customers, supporting them in the best way that we can. The foundations of our business remain extremely strong, with a very strong capital position and a prudent business model, all of which position us well to respond to the challenges and opportunities ahead and to continue to support our colleagues, customers and communities and deliver value to our shareholders over the long-term.''

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Results presentation

A webcast presentation for analysts will be held at 9:30am on Thursday 27 August.
The presentation will be webcast or call only and will be available on the OneSavings Bank website at www.osb.co.uk/investors/results-reports-presentations.

The UK dial in number is 020 3936 2999 and the password is 234706. Registration is open immediately.

About OneSavings Bank 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. OSB is a specialist lending and retail savings Group authorised by the

Prudential Regulation Authority, part of the Bank of England, and regulated by the Financial Conduct Authority and Prudential Regulation Authority.

OneSavings Bank

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, InterBay Commercial and Prestige Finance. It is differentiated through its use of highly skilled, bespoke underwriting and an 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, the Term Funding Schemes and the Bank of England Indexed Long-Term Repo operation.

Charter Court Financial Services Group

CCFS focuses on providing Buy-to-Let and specialist residential mortgages, mortgage servicing, administration and credit consultancy and retail savings products. It operates through its three brands – Precise Mortgages, Exact Mortgage Experts 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, the Term Funding Schemes and the Bank of England Indexed Long-Term Repo operation.

Notes

[1] Statutory basis reflects results for the six months to 30 June 2020 for the combined Group and results for the six months to 30 June 2019 for OSB only as presented in the OSB 2019 Interim Report.
Underlying results for the six months to 30 June 2020 reflect results for the combined Group, excluding exceptional items, integration costs and other acquisition-related items.
Pro forma underlying results for the six months to 30 June 2019 assume that the Combination occurred on 1 January 2019 and include six months of results from OSB and CCFS, excluding exceptional items, integration costs and other acquisition-related items.

[2] Before exceptional items, integration costs and other acquisition-related items of £57.0m (H1 2019: £9.7m)

[3] The Group restated prior year comparatives to recognise £0.5m of interest expense on the £22m Perpetual Subordinated Bonds previously classified as equity, see note 1 to the financial statements

[4] Administrative expenses as a percentage of total income

[5] Net interest income as a percentage of a 7 point average of interest earning assets, annualised on an actual days basis

[6] Impairment losses as a percentage of a 7 point average of gross loans and advances, annualised

[7] 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

[8] 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 shareholders' equity (excluding £60m of AT1 securities), annualised

Non-IFRS performance measures

OneSavings Bank believes that the non-IFRS performance measures included in this document provide valuable information to the readers as they enable the reader to identify 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 OneSavings Bank's 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. Refer to Alternative performance measures in the Financial review for further details, reconciliations and calculations of non-IFRS performance measures included throughout this document, and the most directly comparable IFRS measures.

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

Accordingly, no reliance may be placed on any forward-looking statement and no representation, warranty or assurance is made that any of these statements or forecasts will come to pass or that any forecast results will be achieved. Any forward-looking statements made in this document speak only as of the date they are made and it should not be assumed that they have been revised or updated in the light of new information of future events. Except as required by the Prudential Regulation Authority, the Financial Conduct Authority, the London Stock Exchange PLC or applicable law, OSB expressly disclaims any obligation or undertaking to release publicly any updates or revisions to any forward-looking statements contained in this document to reflect any change in OSB's expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based. For additional information on possible risks to OSB's business, please see Risk review section in the OSB 2019 Annual Report and Accounts. Copies of this are available at www.osb.co.uk and on request from OSB.

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

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

Key Performance Indicators - statutory

Statutory key performance indicators reflect the results for the combined Group for the six months ended 30 June 2020 and results for OSB only for the six months to 30 June 2019 as presented in the OSB 2019 Interim Report.

£2.1bn **Gross new organic lending up 29%**
H1 2019: £1.6bn

£18.8bn **Net loan book up 2%**
FY 2019: £18.4bn

£99.3m **Profit before tax up 10%**
H1 2019: restated £90.5m[1]

15.5p[2] **Basic EPS down 39%**
H1 2019: 25.5p

217bps[3] **Net interest margin down 61bps**
H1 2019: 278bps

31%[4] **Cost to income ratio up 2pps**
H1 2019: restated 29%[1]

59bps[5] **Loan loss ratio up 47bps**
H1 2019: 12bps

70bps[6] **Management expense ratio improved 4bps**
H1 2019: 74bps

9%[7] **Return on equity reduced by 11pps**
H1 2019: 20%

17.4% **Fully-loaded CET1 ratio strengthened**
FY 2019: 16.0%

3 months + in arrears stable[8]
OSB 1.3%, CCFS 0.5%
FY 2019: OSB 1.3%, CCFS 0.3%

Customer NPS improved[9]
OSB +67, CCFS +83
H1 2019: OSB +64, CCFS +72

1. The Group restated prior year comparatives to recognise £0.5m of interest expense on the £22m Perpetual Subordinated Bonds previously classified as equity, see note 1 to the financial statements
2. 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
3. Net interest income as a percentage of a 7 point average of interest earning assets, annualised on an actual days basis
4. Administrative expenses as a percentage of total income
5. Impairment losses as a percentage of a 7 point average of gross loans and advances, annualised
6. Administrative expenses as a percentage of 7 point average total assets, annualised
7. 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 shareholders' equity (excluding £60m of AT1 securities), annualised
8. Portfolio arrears rate of accounts for which there are missing or overdue payments by more than three months as a percentage of gross loans
9. OSB customer Net Promoter Score relates to Kent Reliance savings customers and CCFS customer NPS relates to Charter Savings Bank customers. It is calculated based on customer responses to the question of whether they would recommend the Group's products to a friend. The responses provide a score between -100 and +100

Key Performance Indicators - underlying

Underlying key performance indicators for the six months to 30 June 2020 reflect results for the combined Group, excluding exceptional items, integration costs and other acquisition-related items. Pro forma underlying KPIs for the six months to 30 June 2019 assume that the Combination occurred on 1 January 2019 and include six months of results from OSB and CCFS, excluding exceptional items, integration costs and other acquisition-related items.

£2.1bn **Gross new organic lending down 32%**
H1 2019: pro forma underlying £3.1bn

£18.5bn **Net loan book up 2%**
FY 2019: underlying £18.2bn

£156.3m **Profit before tax down 14%**
H1 2019: pro forma underlying £182.8m

26.1p[2] **Basic EPS down 14%**
H1 2019: pro forma underlying 30.3p

250bps[3] **Net interest margin down 20bps**
H1 2019: pro forma underlying 270bps

26%[4] **Cost to income ratio improved by 3pps**
H1 2019: pro forma underlying 29%

60bps[5] **Loan loss ratio up by 49bps**
H1 2019: pro forma underlying 11bps

68bps[6] **Management expense ratio improved by 13bps**
H1 2019: pro forma underlying 81bps

18%[7] **Return on equity reduced by 6pps**
H1 2019: pro forma underlying 24%

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

OneSavings Bank plc

Interim report for the six months ended 30 June 2020

Chief Executive's Report

Progress in the first half of 2020 – resilient business

I am very proud of the resilience that OneSavings Bank demonstrated during the first half of 2020 in the face of challenges presented by the Coronavirus outbreak. Throughout this period, we rightly prioritised supporting our customers and partners, acting quickly and assertively to offer help to those who might have been experiencing financial difficulties as a result of the COVID-19 pandemic.

I am very pleased with our ability to generate profit despite taking significant impairment charges under IFRS 9 in the period. The Group recorded underlying pre-tax profit of £156.3m and underlying basic earnings per share of 26.1 pence per share in the first half, both down 14% on the prior period due to the increased impairment charges (H1 2019: pro forma underlying £182.8m and 30.3 pence per share, respectively). On a statutory basis, profit before tax increased 10% to £99.3m (H1 2019: restated £90.5m1) and basic earnings per share was 15.5p (H1 2019: 25.5p).

Impairment losses in the first half of 2020 were £54.4m on an underlying basis (H1 2019: £8.6m), representing an underlying loan loss ratio of 60bps (H1 2019: pro forma underlying 11bps), predominantly driven by a £42m charge due to the adoption of more severe COVID-19 related macroeconomic scenarios.

Underlying net interest margin ('NIM') was 250bps in the first half of 2020 (H1 2019: pro forma underlying 270bps). Underlying NIM in the first quarter of 2020 was broadly flat to full year 2019, albeit lower than the first half of 2019 due to the changing mix of the OSB loan book as the higher-yielding back book refinanced onto front book pricing. The impact of this mix effect had largely run its course by the end of the first half of 2019. In the second quarter of 2020, NIM was diluted by delays in passing on the base rate cuts in full to our retail savers, and the impact of the higher liquidity that the Group was prudently holding. Statutory NIM of 217bps (H1 2019: 278bps) was also impacted by the amortisation of the fair value uplift on acquisition of CCFS' net assets.

The underlying cost to income ratio improved to 26% (H1 2019: 29%) as the business retained its focus on cost efficiency and disciplined running of the combined Group, which was also demonstrated by the underlying management expense ratio improving by 13bps to 68bps for the first half of 2020 (H1 2019: 81bps).

We continue to generate excellent returns despite higher impairment losses, with underlying return on equity for the first half of 2020 at 18% (H1 2019: 24%).

Our colleagues supporting our customers

I am very grateful to each and every colleague, for the effort, perseverance and dedication that they have shown throughout this difficult time. To enable our colleagues to assist our customers to the best of their ability, it was important to ensure that they were supported and kept safe, which we managed whilst everyone did a fantastic job of keeping operations running effectively. I am particularly pleased with the operational performance and resilience shown by our wholly-owned subsidiary OSBIndia.

The majority of our colleagues, both in the UK and India, are currently working from home. Our small branch network remains open for those customers who prefer this channel, and we are responsibly helping those who work in offices, by operating under appropriate protocols. Throughout the pandemic, it has become especially clear how well OSB and CCFS employees are working together, and even though colleagues are not currently physically close, I feel we have truly become one team.

OSB responded rapidly to support customers who might have been facing financial difficulty by offering self-certified payment holidays of up to three months. We are proud that as at the end of June we had helped c. 26k accounts in this way, equivalent to 28% of the Group's mortgage book by value, even though it was apparent that many people who requested payment holidays were doing so to prudently safeguard their cash flow, rather than as a necessity.

Encouragingly, as at 14 August 2020 the majority of these customers were paying, with only 18% of accounts by value with a payment holiday, as at the end of June that have since matured, being extended. We are seeing low levels of requests for new payment holidays.

Towards the end of the period, the Group's application to participate in the Coronavirus Business Interruption Loan Scheme was approved, enabling us to offer financial support to certain smaller business customers, particularly in the area of asset finance.

Chief Executive's Report

Strong credit and risk management

The credit quality of the Group's mortgage books remains strong with three months in arrears balances stable at 1.3% for OSB and 0.5% for CCFS at the end of June (31 December 2019: 1.3% and 0.3%, respectively). The weighted average loan to value ('LTV') of the Group's mortgage book was 66% as at 30 June 2020 with a weighted average LTV of new business at 68%. Importantly, the Group continues to observe a tight clustering of LTVs around the weighted average.

Throughout the first six months of the year and particularly as mortgage lending began to recover, the Group exercised strong diligence over loan and customer assessment. On an underlying basis, impairment losses in the first half of 2020 were £54.4m (H1 2019: £8.6m), representing an underlying loan loss ratio of 60bps (H1 2019: pro forma underlying 11bps). The increase in impairment losses was predominantly driven by a £42m charge due to the adoption of more adverse macroeconomic scenarios used by the Group in modelling the expected credit losses under IFRS 9 as the onset of the Coronavirus pandemic changed the outlook for the UK economy. The Group receives updated macroeconomic scenarios from its advisors on a regular basis.

The Group, in line with the industry and guidance from regulators, does not consider payment holidays as an automatic transfer from stage 1 to stage 2 under IFRS 9. However, the Group considered whether there were other triggers to determine whether payment holiday accounts should be moved into stage 2, with a lifetime expected credit loss estimate held against the exposure. This has resulted in a proportion of higher risk payment holiday accounts being moved into stage 2 and higher provisions being held. As at 30 June, 26% of payment holiday accounts were in stage 2.

The Group continued to work on its Internal Ratings-Based project in the period. The progress is encouraging post Combination and the Group is planning to submit module 1 to the Prudential Regulation Authority during 2021.

A trusted lender with a strong franchise

The first half of 2020 was a period of contrasting quarters with the Group attracting strong applications and completions in the first quarter, in line with management expectations and at attractive margins, followed by a significant slowdown in the second quarter, through lockdown, mirroring the wider mortgage market and UK economy in general.

When market activity was subdued at the peak of lockdown, we concentrated on progressing existing applications for our customers where we had an existing physical valuation and flexed our operations ensuring that resources were deployed to support customers, including those who wished to take a payment holiday. We quickly adjusted lending criteria, including maximum loan sizes and LTVs, for new business to match our appetite for risk and lending volumes, given the uncertainty surrounding the outlook for house prices, employment levels and economic growth.

When lockdown restrictions began to ease and the mortgage market started to operate effectively once again, we took the opportunity to undertake a controlled increase of business volumes in our core Buy-to-Let and Residential market sub-segments. Our recently introduced product range continues to reflect the Group's prudent risk appetite. We are encouraged by the volumes and quality of new applications we are seeing for our core products, despite tighter lending criteria and have taken the opportunity to increase asset pricing for those products. We have reduced lending growth in our other market sub-segments; commercial business, bridging, development finance, funding lines and second charge, given the greater dependence these businesses have on the macroeconomic cycle. Overall, across all products, application levels are currently approaching 60% of their pre-COVID-19 levels.

Mortgage originations for the Group were £2.1bn for the first six months of 2020, down from £3.1bn on a pro forma underlying basis in the same period last year, reflecting the reduction in lending and applications during lockdown in all segments, following strong activity in the first quarter of 2020.

The Group's underlying net loan book increased by 2% in the first half of 2020 to £18.5bn, after removing the impact of acquisition-related adjustments. The underlying net loan book would have increased by 7%, excluding the impact of structured asset sales that took place at the beginning of the year. On a statutory basis, net loans grew by 2% to £18.8bn from £18.4bn at the end of 2019.

Chief Executive's Report

The Group continued to gain recognition from mortgage customers and intermediaries, and in the first six months of 2020, OSB was named Best Specialist Lender by Mortgage Force Awards and the Paradigm Lender Awards, and Precise Mortgages was recognised by SimplyBiz Mortgage Awards as Best Buy-to-Let Lender.

Sophisticated funding model

The Group remains highly liquid with retail deposits continuing as the major source of funding for the Group. Our competitive retail savings proposition allows the Group to raise significant funds. Through both Kent Reliance and Charter Savings Bank, retail deposits reached £16.7bn by the end of the first half on an underlying basis, up 3% from £16.2bn at the end of 2019. At the end of June, the Group reduced new rates offered to savers after the base rate cuts in March. The base rate cuts are also being passed on in full to the back book of easy access savings, with the last cuts effective in September.

Over 14,000 new savings customers joined Kent Reliance in the first six months of 2020 and Charter Savings Bank grew customer numbers by nearly 8,000. The retention rate for savers remained exceptionally high, reaching 95% amongst Kent Reliance customers with maturing fixed rate bonds and ISAs, together with a Net Promoter Score ('NPS') of +67 for the first half. Charter Savings Bank's NPS was exceptional at +83 with a retention rate of 86% at the end of June 2020. I am delighted that Charter Savings Bank won ISA Provider of the Year at the Consumer Moneyfacts awards and that Kent Reliance was highly commended in the same category.

We have complemented retail funding by further utilising our capital markets expertise, demonstrating an early success of the integration of the Group's capital markets teams following the Combination with CCFS. We securitised £725m of mortgages in two transactions under the CMF and PMF programmes in January, and in March we completed our largest deal to date, securitising £1bn of prime Buy-to-Let originated assets and retaining all of the notes through the Canterbury programme. This transaction provides a sizeable pool of collateral which significantly increases the contingent wholesale funding options available to us through commercial repo transactions. The bonds can also be used in place of whole loan mortgage collateral, against the Bank of England's ILTR, TFS and TFSME facilities at significantly reduced haircuts. In January 2020, the Group disposed of its remaining notes under the Canterbury No. 1 issue and PMF 2020-1B, generating a statutory gain of £20m (£33m on an underlying basis).

In the first half of 2020, the Group was accepted for the Bank of England's TFSME with a combined initial allowance of £2bn. As at the end of June 2020, the total borrowings under this scheme were £100m. The Group intends to use the TFSME funding to refinance and extend the duration of drawings under the previous TFS scheme and the Bank of England's ILTR scheme. TFSME funding may also be used to fund additional growth opportunities where appropriate and in line with our strategy. In the first six months of 2020, the Group repaid £60m of the Bank of England's Term Funding Scheme leaving a remaining balance of £2.6bn and had ILTR borrowings of £755m as at 30 June 2020.

Well-capitalised strong and sustainable business

The Group's capital position improved further, with a fully-loaded CET1 ratio of 17.4% as at 30 June 2020 (31 December 2019: 16.0%) and a total capital ratio of 18.6% (31 December 2019: 17.3%). These capital ratios include the beneficial impact of the cancelled final dividend payment for 2019 and the application of the Capital Requirements Regulation 'Quick Fix' package, including more generous IFRS 9 transitional relief, which relates to stage 1 and stage 2 increases and extension of the SME support factor.

In addition, liquidity remained significantly in excess of the 2020 regulatory minimum. As at 30 June 2020, OSB and CCFS had liquidity coverage ratios ('LCR') of 325% and 149%, respectively (31 December 2019: 199% and 145%, respectively). The Group's LCR was 245% as at 30 June, as we took early action to increase liquidity given the uncertain economic outlook by drawing an additional £465m through the Indexed Long-Term Repo in the first six months of the year. The Group also saw strong demand for its savings products during the ISA season and experienced high levels of retention amongst customers with maturing fixed rate products.

Chief Executive's Report

On 23 July 2020, the Group received its Annual Resolution Letter from the Bank of England setting out its preferred resolution strategy. As anticipated, the Group is subject to a single point of entry bail-in requirement which from July 2023 is expected to be equal to 18% of risk weighted assets, rising to a final requirement of two times Pillar 1 and Pillar 2a from July 2025. The Group intends to fulfil its MREL requirement through senior debt issued via a holding company, which we are in the process of setting up, with the first anticipated debt issue in late 2021 subject to market conditions.

The Group had a leverage ratio of 6.8% as at 30 June 2020 (31 December 2019: 6.5%).

The underlying cost to income ratio improved to 26% (H1 2019: 29%) as the business retained its focus on cost efficiency and discipline. Integrating OSB and CCFS continues to achieve cost efficiencies and we are on track to deliver the benefits expected in the first year following the Combination. This includes a streamlined Board, de-duplication of a significant proportion of senior management roles and efficiencies from combining some central and support functions. In light of the pandemic, the Board will take the opportunity to review whether we still want to fully consolidate locations and suppliers or maintain the additional operational resilience. This decision is not expected to have a material impact on the quantum of synergies previously presented at the time of the Combination. The combined Group's efficiency in its business as usual activities is demonstrated by the underlying management expense ratio improving by 13bps to 68bps for the first half of 2020 (H1 2019: 81bps).

Looking forward

There is still significant uncertainty as the Coronavirus pandemic continues to evolve and its impact on the economy begins to be felt. However, we see opportunities in our market segments, demonstrated by strong current demand and expect to achieve double digit underlying net loan book growth for the full year, excluding the impact of the structured assets sales in January. Based on current pricing we expect underlying NIM for the full year to be broadly flat to the first half with the base rate cuts passed on to retail depositors in full by the end of the third quarter. We also expect the underlying cost to income ratio for the full year to be marginally higher versus the first half due to higher other income in the first half from the gain on structured asset sales.

We are seeing the benefits of our combined lending and funding franchises, our secured loan book and strong risk management capabilities. Our capital and liquidity levels are stronger than ever and I am delighted in the way that our people have responded to the challenges so far. Whilst there will be headwinds in front of us, we are in good shape to weather the uncertainty going forward.

Andy Golding

Chief Executive Officer

1. The Group restated prior year comparatives to recognise £0.5m of interest expense on the £22m Perpetual Subordinated Bonds previously classified as equity, see note 1 to the financial statements

Segments review

Mortgage market

The first half of 2020 was a period of contrasting quarters. Prior to the Coronavirus pandemic, activity in the mortgage market was flat to the fourth quarter of 2019. From late March 2020, as the Coronavirus pandemic developed and the government's lockdown and social distancing measures were imposed, the overall mortgage market experienced a significant slowdown.

Government restrictions relating to moving home, together with social distancing measures, meant that large valuation firms suspended physical valuations, which negatively impacted the ability to progress mortgage applications. Lenders responded by tightening risk appetite and the number of residential mortgage products offered fell by more than a half, from 5,222 in early March to 2,566 in May[1], a reduction felt particularly by those who wished to borrow at a higher LTV. In addition, following the government's announcement that mortgage lenders would offer three-month mortgage payment holidays for borrowers in financial difficulties, many lenders chose to concentrate on servicing these requests and reduced new business flows.

For the UK Buy-to-Let market, total gross advances for the first six months of 2020 were £18.5bn compared with £20.8bn in the same period last year[2] reflecting the impact of the Coronavirus pandemic on the wider industry. Landlords' confidence continues to be impacted by macroeconomic uncertainty, although research indicates that confidence is gradually recovering.[3]

Restrictions in the property industry began to ease on 13 May, and estate agents, housebuilders and mortgage brokers started reporting increased levels of interest, although it is too early to predict the longer term trends. Reduced Stamp Duty Land Tax rates will apply for residential properties purchased from 8 July 2020 until 31 March 2021 inclusive. This is likely to have a positive impact on the housing market, encouraging purchases prior to the end of the period. There has been an increase in the number of mortgages available in the market, albeit still below the levels seen at the beginning of March. Lenders reported that overall spreads on new secured lending to households widened in the second half of 2020 and were expected to widen even more in the third quarter of the year.

1. Moneyfacts, 'Higher LTV mortgages buck rate trend', 11 May 2020
2. UK Finance, New and outstanding buy-to-let new mortgages, 19 August 2020
3. Bank of England, Credit Conditions Survey – 2020 Q2

Segments review

Review of Group's lending segments

Following the Combination, the Group reports its lending business under two segments: OSB and CCFS.

OneSavings Bank ('OSB') segment

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

Contribution to profit for the period

H1 2020	BTL/SME £m	Residential £m	Total £m
Net interest income	129.7	33.8	163.5
Other income	9.7	1.3	11.0
Total income	139.4	35.1	174.5
Impairment of financial assets	(28.2)	(7.7)	(35.9)
Contribution to profit	111.2	27.4	138.6
H1 2019, restated[1]			
Net interest income	119.6	30.9	150.5
Other expense	(5.2)	(2.0)	(7.2)
Total income	114.4	28.9	143.3
Impairment of financial assets	(5.2)	(0.7)	(5.9)
Contribution to profit	109.2	28.2	137.4

Loans and advances to customers

As at 30 June 2020	BTL/SME £m	Residential £m	Total £m
Gross loans to customers	8,986.4	1,950.8	10,937.2
Expected credit losses	(48.0)	(23.0)	(71.0)
Net loans to customers	8,938.4	1,927.8	10,866.2
Risk weighted assets	4,298.2	817.3	5,115.5
As at 31 December 2019			
Gross loans to customers	8,983.2	1,837.4	10,820.6
Expected credit losses	(21.6)	(14.0)	(35.6)
Net loans to customers	8,961.6	1,823.4	10,785.0
Risk weighted assets	4,244.0	846.0	5,090.0

[1] The Group restated prior year comparatives to recognise £0.5m of interest expense on the £22m Perpetual Subordinated Bonds previously classified as equity

Segments review

Buy-to-Let/SME

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

	30-Jun-2020 £m	31-Dec-2019 £m
Buy-to-Let	**7,762.8**	7,727.0
Commercial	**852.0**	888.0
Residential development	**150.0**	146.1
Funding lines	**221.6**	222.1
Total	**8,986.4**	8,983.2

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, bridge finance, residential development finance to small and medium-sized developers, secured funding lines to other lenders and asset finance.

Organic originations in the Buy-to-Let/SME sub-segment decreased by 38% versus the same period in 2019, to £858.3m (H1 2019: £1,374.5m). The volume of new business reflects the three-fold dynamic of lending in the first six months of 2020: strong activity for nearly all of the first quarter, based on previous applications, the reduction in lending and applications for purchase and remortgage during lockdown, followed by a controlled increase in activity as lockdown was eased.

At the end of June 2020, the Buy-to-Let/SME net loan book remained broadly flat at £8,950.0m compared with the year-end value of £8,961.6m and, excluding structured asset sales, it increased by 5% in the period.

The Buy-to-Let gross loan book remained broadly flat at the end of June 2020 at £7,762.8m (31 December 2019: £7,727.0m). The profile of borrowers in this sub-segment continues to reflect the professionalisation of the market, with lending increasingly dominated by professional, multi-property landlords, who represented 94% of completions by value for the Kent Reliance brand and 78% of mortgage applications for house purchases came from landlords borrowing via a limited company (H1 2019: 81% and 73%, respectively). The increase in both of these metrics confirms the continued professionalisation of Buy-to-Let. The Group's share of Buy-to Let originations was 7% in the period.

Refinancing continued to account for the majority of Buy-to-Let advances with 58% of Kent Reliance Buy-to-Let completions comprising remortgages in the first half, and five-year fixed rate mortgages continued to be in high demand at 46% (H1 2019: 61% and 51%, respectively). In addition, Choices, OSB's retention programme, remained popular, with around 69% (H1 2019: 76%) of existing borrowers choosing a new product with the Bank within three months of their original product ending.

Towards the beginning of May, Buy-to-Let lending recommenced at up to 75% LTV as borrowers and intermediaries welcomed the return of physical valuations. Headline prices were increased across the product range, including for certain specialist products such as Houses of Multiple Occupation in order to manage volumes, supporting operational capacity and service levels.

The weighted average loan to value ('LTV') of the Buy-to-Let book as at 30 June 2020 was 68% with an average loan size of £260,000 (31 December 2019: 68%[1] and £260,000). The weighted average interest coverage ratio for Buy-to-Let origination during the first six months of 2020 was 203% (H1 2019: restated 189%[2]).

Through its InterBay brand, OSB lends to borrowers investing in commercial and semi-commercial property, reported in the Commercial total, and more complex Buy-to-Let properties, reported in the Buy-to-Let total. The gross loan book in the commercial business reduced to £852.0m (31 December 2019: £888.0m), largely as OSB reviewed its risk appetite, as a result of the uncertain outlook, leading to tightened underwriting criteria for semi-commercial loans in light of the Coronavirus. The business also stopped taking new applications for its commercial products.

Segments review

The weighted average LTV of the commercial book remained low at 66% and the average loan size was £385,000 for the first six months of 2020 (31 December 2019: 67% and £375,000).

InterBay Asset Finance, which predominantly targets UK SMEs and small corporates financing business-critical assets, followed a similar pattern to our other commercial businesses, with a strong start to the year being halted by the onset of Coronavirus and the impact of lockdown on its customers which began in early March. The primary focus was to support our customers and help them protect their cash flows, although we began to see improvements in the demand for new lending towards the end of the period. The gross carrying amount under finance leases was £52.6m as at 30 June 2020 (31 December 2019: £47.7m).

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

The residential development funding gross loan book remained broadly flat at the end of June 2020 at £150.0m with a further £101.4m committed (31 December 2019: £146.1m and £115.1m, respectively). The construction pipeline was deferred and advances reduced as customers closed down development sites, in line with government guidance, in late March 2020. All of these sites have now reopened.

Since inception through to the end of June 2020, Heritable has written £1,191m of loans, of which £585m have been repaid to date. In addition, as at the end of June, the business had commitments to finance the development of 2,264 residential units, the majority of which are houses located outside central London. We continue to be cautious on approving new developments given current macroeconomic uncertainty.

In the first half of 2020, OSB continued to provide most of its secured funding lines to non-bank lenders which operate in certain high-yielding, specialist sub-segments, such as bridging finance and asset finance. Total credit approved limits as at 30 June 2020 were £510.0m with total loans outstanding of £221.6m (31 December 2019: £540.0m and £222.1m, respectively). During the period, lending was paused for the bridging business, reopening recently with stricter criteria. However, the Group continued to fund a small number of non-property borrowers. No new funding lines were added in the period and overall credit approved limits decreased by £30m across existing funding lines. New business opportunities were available but, given the macroeconomic uncertainties, OSB continued to adopt a prudent risk approach.

Buy-to-Let/SME made a contribution to profit of £111.2m, up 2% compared with the restated value of £109.2m[3] in the first six months of 2019, with the benefit of higher income partially offset by an increase in impairment losses to £28.2m (H1 2019: £5.2m) as the Group used more adverse macroeconomic scenarios in modelling the expected credit losses under IFRS 9.

The Group remains highly focused on the risk assessment of new lending, as demonstrated by the average LTV in the Buy-to-Let/SME segment of 68% (31 December 2019: restated 68%[2]) and with only 2.0% of loans exceeding 90% LTV (31 December 2019: 1.8%). The average LTV for new Buy-to-Let/SME origination was 71%.

1. The Group restated the comparative LTVs due to a change in aggregation methodology
2. Interest coverage ratio was restated for H1 2019 from 175% to 189% due to an improvement in the calculation methodology
3. Net interest income and contribution to profit were restated as a result of the recognition of interest expense on the £22m of Perpetual Subordinated Bonds previously classified as equity.

Segments review

Residential mortgages

Residential sub-segment: gross loans

	30-Jun-2020 £m	31-Dec-2019 £m
First charge	**1,602.0**	1,466.6
Second charge	**335.7**	358.6
Funding lines	**13.1**	12.2
Total	**1,950.8**	1,837.4

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

The Residential sub-segment gross loan book was £1,950.8m as at 30 June 2020, up 6% compared with £1,837.4m at the end of 2019, with organic originations of £184.7m during the period (H1 2019: £259.9m). As with the Buy-to-Let/SME sub-segment, the level of organic originations reflects strong activity for nearly all of the first quarter of 2020 based on previous applications, the reduction in lending and applications during lockdown and the controlled increase in activity as lockdown was eased. Residential lending was particularly impacted by the government's restrictions on moving home. Residential first charge lending recommenced towards the beginning of May at LTVs of up to 75%, supported by physical valuations, with stricter underwriting criteria in place and headline price increases.

OSB's first charge gross loan book increased 9% in the period to £1,602.0m from £1,466.6m at the end of 2019.

Our Kent Reliance brand provides bespoke first charge mortgages, typically to prime credit quality borrowers with more complex circumstances, for example, high net worth borrowers with multiple income sources and self-employed borrowers. These circumstances often preclude them from the mainstream lenders, as most favour automated decision-making over manual underwriting. The product range also includes near-prime residential products. Kent Reliance also operates in the shared ownership sector, where borrowers buy a property in conjunction with a housing association. A revised shared ownership product set was launched in June 2020, demonstrating commitment to this sub-segment.

The OSB second charge mortgage brand, Prestige Finance, no longer offers new mortgages to borrowers and its loan book is in run-off and managed by Precise Mortgages. Second charge mortgages are currently offered by the Group under the Precise Mortgages brand as a sub-segment of CCFS. The Prestige Finance second charge residential loan book had a gross value of £335.7m as at 30 June 2020 (31 December 2019: £358.6m).

OSB continued to provide secured funding lines to non-bank lenders which operate in certain high-yielding, specialist sub-segments, such as residential first and second charge finance. The Bank continued to adopt a cautious approach to these more cyclical businesses given macroeconomic uncertainty. Total credit approved limits as at 30 June 2020 were £29.8m with total loans outstanding of £13.1m (31 December 2019: £31.0m and £12.2m, respectively).

Residential mortgages made a contribution to profit of £27.4m, down 3% compared with the restated value of £28.2m[1] in the same period of 2019. Growth in income during the period was more than offset by higher impairment losses which increased to £7.7m from £0.7m in the prior period reflecting more adverse macroeconomic scenarios used in modelling expected credit losses under IFRS 9.

The average book LTV remained low at 58% (31 December 2019: restated 57%[2]) with 5.2% of loans by value with LTVs exceeding 90% (31 December 2019: 3.3%). The average LTV of new residential origination in the first six months of 2020 was 69%.

Segments review

1. Net interest income and contribution to profit were restated as a result of the recognition of interest expense on the £22m of Perpetual Subordinated Bonds previously classified as equity.
2. The Group restated the comparative LTVs due to a change in aggregation methodology.

Segments review

Charter Court Financial Services ('CCFS') segment

The CCFS segment review is presented on an underlying basis and excludes acquisition-related items and reconciliation to the statutory basis is presented in the table below.
Segment results for the six months to 30 June 2019 assume that the Combination occurred on 1 January 2019 and exclude acquisition-related items.

Contribution to profit for the period

H1 2020	Buy-to-Let £m	Residential £m	Bridging £m	Second charge £m	Other[1] £m	Total underlying £m	Acquisition-related items £m	Total statutory £m
Net interest income	**55.9**	**33.5**	**6.8**	**3.6**	**3.5**	**103.3**	**(33.0)**	**70.3**
Fees and commissions income	**-**	**0.1**	**-**	**-**	**2.8**	**2.9**	**-**	**2.9**
Fair value losses	**-**	**-**	**-**	**-**	**(10.9)**	**(10.9)**	**6.5**	**(4.4)**
Gain on sale of loans	**-**	**-**	**-**	**-**	**15.1**	**15.1**	**(13.1)**	**2.0**
Total income	**55.9**	**33.6**	**6.8**	**3.6**	**10.5**	**110.4**	**(39.6)**	**70.8**
Impairment of financial assets	**(5.7)**	**(10.7)**	**(0.9)**	**(1.2)**	**-**	**(18.5)**	**0.2**	**(18.3)**
Contribution to profit	**50.2**	**22.9**	**5.9**	**2.4**	**10.5**	**91.9**	**(39.4)**	**52.5**

H1 2019	Buy-to-Let £m	Residential £m	Bridging £m	Second charge £m	Other[1] £m	Total underlying £m
Net interest income	57.1	31.1	7.9	3.4	0.6	100.1
Fees and commissions income	0.1	0.1	-	-	2.1	2.3
Fair value losses	-	-	-	-	(7.2)	(7.2)
Gain on sale of loans	-	-	-	-	29.8	29.8
Total income	57.2	31.2	7.9	3.4	25.3	125.0
Impairment of financial assets	(1.0)	(1.3)	(0.3)	(0.1)	-	(2.7)
Contribution to profit	56.2	29.9	7.6	3.3	25.3	122.3

1. Other relates to the net interest income from acquired loan portfolios, fee income from third party mortgage servicing, fair value losses and gains on structured assets sales.

Segments review

Loans and advances to customers

As at 30 June 2020	Buy-to-Let £m	Residential £m	Bridging £m	Second charge £m	Other £m	Total underlying £m	Acquisition-related items[1] £m	Total statutory £m
Gross loans to customers	**4,986.3**	**2,248.5**	**199.4**	**220.2**	**19.9**	**7,674.3**	**242.1**	**7,916.4**
Expected credit losses	**(9.0)**	**(14.0)**	**(1.4)**	**(1.7)**	**-**	**(26.1)**	**0.7**	**(25.4)**
Net loans to customers	**4,977.3**	**2,234.5**	**198.0**	**218.5**	**19.9**	**7,648.2**	**242.8**	**7,891.0**
Risk-weighted assets	**2,075.8**	**964.3**	**116.5**	**95.0**	**7.6**	**3,259.2**	**101.9**	**3,361.1**
As at 31 December 2019								
Gross loans to customers	4,748.5	2,170.8	214.4	218.6	22.1	7,374.4	294.7	7,669.1
Expected credit losses	(3.5)	(3.6)	(0.5)	(0.4)	-	(8.0)	0.7	(7.3)
Net loans to customers	4,745.0	2,167.2	213.9	218.2	22.1	7,366.4	295.4	7,661.8
Risk-weighted assets	2,002.4	934.0	127.9	95.4	8.4	3,168.1	124.9	3,293.0

1. See reconciliation of statutory to underlying and pro forma underlying results in the Financial review.

CCFS gross loans

	30-Jun-2020 £m	31-Dec-2019 £m
Buy-to-Let	**4,986.3**	4,748.5
Residential	**2,248.5**	2,170.8
Bridging	**199.4**	214.4
Second charge	**220.2**	218.6
Other[1]	**19.9**	22.1
Total	**7,674.3**	7,374.4

1. Other relates to acquired loan portfolios

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

The CCFS underlying net loan book grew 4% to £7,648.2m to the end of June 2020 (31 December 2019: £7,366.4m) and, excluding the impact of structured asset sales, the underlying net loan book would have been 9% higher than at the end of 2019.

Organic originations were £1,070.8m in the first half of 2020, down from £1,490.0m of new business written in the same period last year. As with the OSB segment, the volume of new business reflects the three-fold dynamic of the first half of 2020: a strong first quarter, followed by a slowdown as the impact of the government's social distancing measures and UK lockdown took effect, and the measured rise in business as lockdown was eased. As a result of lockdown, physical property valuations became extremely limited and the decision was taken to pause new applications at the beginning of the second quarter of 2020, concentrating instead on managing the existing applications where possible. The subsequent return was gradual, initially with a limited suite of products with tighter lending criteria. Additional products were introduced as the UK mortgage market began to operate more effectively.

Segments review

Buy-to-Let sub-segment

In the first half of 2020, CCFS' organic originations in the Buy-to-Let sub-segment through Precise Mortgages were £697.2m (H1 2019: £909.1m), in line with reduced activity in the overall UK mortgage market during the second quarter of 2020. The net Buy-to-Let loan book increased 5% in the period to £4,977.3m after structured asset sales. The Group's share of Buy-to Let originations was 7% in the period.

The gradual re-entry into the mortgage market accelerated towards the end of May with a return to lending with products of up to 75% LTV as physical valuations became possible again. Despite tightened underwriting criteria and an increase in headline interest rates introduced in the second quarter of 2020, CCFS' Buy-to-Let products were in demand with intermediaries and borrowers, and application levels increased. Of the Buy-to-Let completions in the first half of 2020, 52% represented lending to limited companies, loans for specialist property types including houses of multiple occupation, multi-unit properties and holiday lets represented 33% and five-year fixed rate products were 57% (H1 2019: 49%, 30% and 74%, respectively).

Precise Mortgages maintained its top position in the BVA BDRC's Project Mercury rankings for effectiveness of its marketing efforts for the first quarter of 2020 reflecting its strong brand image amongst the intermediaries.

The weighted average LTV of the book in this segment was 74% with an average loan size of £180,000 (31 December 2019: 71% and £183,000). New lending average LTV was 73% and the weighted average interest coverage ratio for Buy-to-Let origination was 205% in the first half of 2020 (H1 2019: 71% and 204%, respectively).

On an underlying basis, Buy-to-Let made a contribution to profit of £50.2m in the first half of 2020, down 11% (H1 2019: £56.2m) as net interest income decreased 2% to £55.9m and the Group recognised higher impairment losses of £5.7m versus £1.0m in the prior period reflecting the impact of more adverse macroeconomic scenarios used in modelling expected credit losses under IFRS 9.

On a statutory basis, the Buy-to-Let sub-segment made a contribution to profit of £31.6m.

Residential sub-segment

CCFS' specialist residential lending decreased in the first half of 2020 compared with the same period in 2019 with new originations down 37% to £237.2m (H1 2019: £376.3m). As a result of the Coronavirus pandemic, prudent additional underwriting checks were applied to lending in the second quarter of 2020 and interest rates were increased marginally, to manage application levels to operational capacity in light of additional demands including managing customers requesting payment holidays. However, CCFS' expertise and strong customer propositions, especially in areas such as Help-to-Buy, allowed it to continue to pursue lending with stronger risk-adjusted returns versus mainstream markets.

The average loan size for the residential sub-segment was £159,000 (31 December 2019: £159,000) with an average LTV for new lending of 71% (H1 2019: 72%) and book LTV of 70% as at 30 June 2020 (31 December 2019: 67%).

The residential sub-segment made a contribution to profit of £22.9m on an underlying basis, down 23% compared with £29.9m in the same period in 2019 as impairment losses increased to £10.7m from £1.3m in the same period of 2019 reflecting more adverse macroeconomic scenarios used in modelling expected credit losses under IFRS 9.

On a statutory basis, the Residential sub-segment made a contribution to profit of £11.6m.

Segments review

Bridging sub-segment

The Group maintained its focus on high-quality regulated and unregulated bridging lending, rather than reacting to increased competition in short-term lending during the first quarter of 2020. Short-term bridging originations through CCFS reduced to £108.7m in the first half of 2020 compared with £168.0m in the first half of 2019. This led to a reduction in the gross loan book in this sub-segment to £199.4m (31 December 2019: £214.4m).

The business withdrew its bridging products during lockdown and returned later than with residential and Buy-to-Let lending with a much reduced suite of products, significantly tighter underwriting criteria and stronger pricing.

On an underlying basis, the bridging sub-segment made a contribution to profit of £5.9m in the first half of 2020, down 22% compared with £7.6m in the same period of 2019, reflecting a decrease in net interest income and higher impairment losses of £0.9m (H1 2019: £0.3m).

On a statutory basis, the bridging sub-segment made a contribution to the Group's profit of £5.0m.

Second charge sub-segment

The second charge gross loan book remained largely flat at £220.2m compared with £218.6m as at 31 December 2019. The organic originations in this sub-segment were £27.7m down 24% on £36.6m in the first half of 2019.

The business withdrew its products during lockdown and a revised and more limited product set has been introduced for second charge mortgage, late in the period with a maximum LTV of 50% and loan size of £250k.

The second charge sub-segment made a contribution to profit of £2.4m on an underlying basis, down 27% compared with £3.3m in the first half of 2019 as impairment losses increased from £0.1m to £1.2m in the first half of 2020.

On a statutory basis, the contribution to profit from the second charge sub-segment was £1.8m.

Financial review - statutory

Summary statutory results

Review of the Group's performance on a statutory basis reflecting results for the six months to 30 June 2020 for the combined Group and results for the six months to 30 June 2019 for OSB only as presented in the OSB 2019 Interim Report.

Summary Profit or Loss	H1 2020 £m	Restated[1] H1 2019 £m
Net interest income	**233.8**	150.5
Fair value losses on financial instruments	**(12.1)**	(7.4)
Gain on sale of financial instruments	**19.9**	-
Net fees and commissions	**3.7**	0.3
External servicing fees	**-**	(0.1)
Administrative expenses	**(76.7)**	(40.9)
Provisions	**(0.1)**	(0.1)
Impairment of financial assets	**(54.2)**	(5.9)
Impairment of intangible assets	**(7.0)**	-
Integration costs	**(6.3)**	-
Exceptional items	**(1.7)**	(5.9)
Profit before tax	**99.3**	90.5
Profit after tax	**72.0**	65.3

Key ratios	H1 2020	H1 2019
Net interest margin	**217bps**	278bps
Basic earnings per share, pence	**15.5**	25.5
Return on equity	**9%**	20%
Management expense ratio	**70bps**	74bps
Cost to income ratio	**31%**	29%[1]
Loan loss ratio	**59bps**	12bps

Extracts from the Statement of Financial Position	30-Jun-20 £m	31-Dec-19 £m
Loans and advances to customers	**18,757.2**	18,446.8
Retail deposits	**16,697.3**	16,255.0
Total assets	**22,404.0**	21,417.1
Key ratios		
Common equity tier 1 ratio	**17.4%**	16.0%
Total capital ratio	**18.6%**	17.3%
Leverage ratio	**6.8%**	6.5%

[1] The Group restated prior year comparatives to recognise £0.5m of interest expense on the £22m Perpetual Subordinated Bonds previously classified as equity, see note 1 to the financial statements

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

Financial review - statutory

Statutory profit

The Group reported statutory profit before tax of £99.3m for the first half of 2020, an increase of 10% compared with the restated value of £90.5m in the first half of 2019[1], as the period included six months of profit from Charter Court Financial Services Group plc ('CCFS') which more than offset the impact of acquisition-related items[2] (including the amortisation of the fair value uplift on acquisition of the net assets of CCFS) and higher impairment losses. Impairment losses included the impact of adopting more adverse COVID-19 economic scenarios.

Statutory profit after tax of £72.0m for the first half of 2020 increased by 10% from £65.3m in the first half of 2019 in line with the increase in profit before tax.

The Group's effective tax rate increased to 27.5% for the first half of 2020 (H1 2019: restated[1] 24.9%[3]) due to the impact of the cancellation of the planned corporation tax rate reductions on 19 March 2020 on the deferred tax liability in relation to the Combination.

Statutory return on equity for the first half of 2020 fell to 9% (H1 2019: 20%) as the profit for the period was reduced by the acquisition-related items[4] (including amortisation of the fair value uplift on acquisition of the net assets of CCFS) and higher impairment losses. Statutory basic earnings per share fell to 15.5 pence per share (H1 2019: 25.5 pence per share), due to the increase in profit after taxation being more than offset by the impact of the additional shares issued for the all-share Combination with CCFS.

Net interest income

Statutory net interest income increased by 55% in the period to £233.8m (H1 2019: restated £150.5m[1]), reflecting growth in the loan book and the inclusion of six months of CCFS' net interest income. Statutory net interest margin ('NIM') was 217bps compared to 278bps for OSB only for the six months 30 June 2019.

The reduction in NIM was primarily due to the dilutive impact of including CCFS' results and the impact of the changing mix of the OSB loan book in 2019, as well as the dilutive impact in the second quarter of 2020 of a delay in passing on the base rate cuts in full to retail savers and the increased levels of liquidity being prudently held by the Group.

The CCFS business has a lower NIM than the OSB business and statutory NIM in the first half of 2020 was also negatively impacted by the amortisation of the fair value uplift on acquisition of the CCFS net assets.

The mix of the OSB loan book continued to change in 2019 as the higher-yielding back book refinanced onto front book pricing. The impact of this mix effect had largely run its course by the end of the first half of 2019.

Fair value losses on financial instruments

Fair value losses on financial instruments increased to £12.1m in the first half of 2020 (H1 2019: £7.4m). This included a £13.8m net loss on unmatched swaps (H1 2019: £4.6m loss), due primarily to fair value movements on mortgage pipeline swaps, prior to them being matched against completed mortgages, caused by a fall in outlook on the LIBOR and SONIA curves. The Group economically hedges its committed pipeline of mortgages and this unrealised loss will unwind over the life of the swaps.

The Group also made a loss of £6.4m (H1 2019: £0.9m loss) in respect of the ineffective portion of hedges and recognised a gain of £10.9m on inception adjustments due to the unwind of acquisition-related inception items and fair value movements of the hedged item at the start of hedge accounting (H1 2019: nil).

Gain on sale of financial instruments

In January 2020, the Group disposed of its remaining notes under the Canterbury No.1 securitisation and PMF 2020-1B generating a gain of £19.9m on a statutory basis.

Financial review - statutory

Net fees and commissions
Net fees and commissions income of £3.7m in the first half of 2020 (H1 2019: £0.3m) comprised fees and commissions receivable of £4.3m (H1 2019: £0.9m) partially offset by fees and commissions payable of £0.6m (H1 2019: £0.6m).

Fees and commissions receivable increased in the period due to the inclusion of £2.9m of fees and commissions from CCFS as well as servicing fees on securitised loans which have been deconsolidated from the Group's balance sheet.

Fees and commissions payable remained flat and include branch agency fees and commissions paid to Kent Reliance Provident Society Limited for conducting member engagement activities for OSB.

Administrative expenses
Administrative expenses nearly doubled to £76.7m in the first half of 2020 (H1 2019: £40.9m), largely as a result of the inclusion of administrative costs of CCFS.

The Group's statutory cost to income ratio of 31% (H1 2019: restated 29%[1]) was impacted by the acquisition related adjustments (including the amortisation of the fair value uplift on CCFS net assets) which reduced total income on a statutory basis and the inclusion of CCFS' income and administrative expenses.

The Group continued to focus on integration activities and other cost efficiencies as demonstrated in the statutory management expense ratio improving to 70bps in the first half of 2020 (H1 2019: 74bps).

Impairment of financial assets
Impairment losses in the first half of 2020 were £54.2m (H1 2019: £5.9m) and the statutory loan loss ratio increased to 59bps compared to 12bps in the first half of 2019.

The impairment losses in the first half of 2020 included a £42.0m impact of adopting more adverse macroeconomic scenarios as the onset of the Coronavirus pandemic changed the outlook for the UK economy and £5.0m from enhancements to the Group's staging criteria in line with PRA guidance, which moved certain higher risk accounts with payment holidays to stage 2. On a business as usual basis, the loan loss ratio would have been c. 6bps reflecting the stable arrears profile of the loan book.

Impairment of intangible assets
The impairment of intangible assets of £7.0m related to the intangible assets recognised on the acquisition of CCFS and the impact of lower actual and expected lending volumes in CCFS post COVID-19 on the recoverable amount of the broker relationship intangible.

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

Exceptional items
Exceptional items of £1.7m related to consultant, legal and professional fees in respect of the Combination with CCFS (H1 2019: £5.9m).

Dividend
As a result of the Coronavirus pandemic, on 3 April 2020, the Group took the decision to cancel payment of its final 2019 dividend. The Board is not proposing to pay an interim dividend and will consider dividend payments at the year end, taking into account the performance of the Group and the macroeconomic conditions at that time.

Financial review - statutory

Balance sheet growth
On a statutory basis, net loans and advances to customers grew by 2% to £18,757.2m as at 30 June 2020, or 6% excluding the impact of structured asset sales in January 2020 (31 December 2019: £18,446.8m).

Retail deposits increased by 3% to £16,697.3m as at 30 June 2020 (31 December 2019: £16,255.0m) and the Group increased its borrowing under the Bank of England schemes to prudently increase liquidity going into the pandemic. Drawings under the Indexed Long-Term Repo scheme were increased to £755m as at 30 June 2020 (31 December 2019: £290m) and the Group drew an initial £100m under the Bank of England's Term Funding Scheme for SMEs ('TFSME') while repaying £60m of the original Term Funding Scheme to leave a balance of £2.6bn as at 30 June 2020 (31 December 2019: £2.6bn).

In the first half of 2020, the Group was accepted for the TFSME with a combined initial allowance of £2.0bn.

At the end of June 2020, the Group had up to £350m (31 December 2019: £600m) of contingent wholesale funding capacity available to it through the CCFS warehouse facilities, none of which was utilised at the end of the period (31 December 2019: £94m).

The Group also utilises sophisticated securitisation platforms to complement its funding requirements and in January 2020, the Group disposed of its remaining notes under the Canterbury No.1 securitisation and the notes in PMF 2020-1B generating a gain of £19.9m on a statutory basis.

In addition to the placement of £847m of RMBS bonds into the market during the period, the Group also securitised £1bn of organically-originated mortgage assets under Canterbury No.2, which closed in March 2020. The £1.036bn transaction, which was fully retained, provided the Group with an £860m portfolio of AAA rated senior bonds which are eligible as collateral for commercial and central bank funding repo facilities at significantly reduced haircuts.

Total assets grew by 5% to £22,404.0m (31 December 2019: £21,417.1m) reflecting growth in loans and advances and increased liquidity.

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

As at 30 June 2020, OSB had £1,639.3m and CCFS had £892.0m of HQLA LCR eligible assets (31 December 2019: £1,231.8m and £1,077.3m, respectively). CCFS also held a portfolio of £303.5m of unencumbered RMBS qualifying securities as Bank of England level 3 collateral included in the internal liquidity buffer (31 December 2019: £186.2m).

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

As at 30 June 2020, OSB had a liquidity coverage ratio of 325% and CCFS 149% (31 December 2019: 199% and 145%, respectively) and the Group LCR was 245%, all significantly in excess of the 2020 regulatory minimum of 100%. The Group took early action to increase liquidity given the uncertain economic outlook by drawing an additional £465m through the Indexed Long-Term Repo scheme in the first six months of 2020. The Group also attracted strong retail inflows during the ISA season and maintained a high level of retention amongst savings customers with maturing fixed rate bonds.

Capital
The Group's capital position remained exceptionally strong, with a fully-loaded CET1 ratio of 17.4% as at 30 June 2020 (31 December 2019: 16.0%[5]) and a total capital ratio of 18.6% (31 December 2019: 17.3%).

Financial review - statutory

The CET1 ratio as at 30 June 2020 benefitted from the following items: 0.6% from the cancelled final dividend for 2019, and 0.5% from the application of the Capital Requirements Regulation 'Quick Fix' package (0.4% from changes to the IFRS 9 transitional relief increases, which relates to stage 1 and stage 2 and 0.1% from the extension of the SME support factor).

The Group had a leverage ratio of 6.8% as at 30 June 2020 (31 December 2019: 6.5%) and a Pillar 2a requirement of 1.67% of risk weighted assets, excluding a static integration add-on (31 December 2019: 1.67%).

1. The Group restated prior year comparatives to recognise £0.5m of interest expense on the £22m Perpetual Subordinated Bonds previously classified as equity, see note 1 to the financial statements
2. Acquisition-related items of £57.0m, for more details see Reconciliation of statutory to pro forma underlying results on page 29
3. Effective tax rate excludes £2.7m of adjustments relating to prior year.
4. Acquisition-related items of £47.2m, for more details see Reconciliation of statutory to pro forma underlying results on page 29
5. CET1 ratio of 16.0% includes declared 2019 final dividend which was subsequently cancelled. Excluding the 2019 dividend, the ratio would have been 16.6% as at 31 December 2019.

Financial review - underlying

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 2020 reflect results for the combined Group, excluding exceptional items, integration costs and other acquisition-related items.

Pro forma underlying results for the six months to 30 June 2019 assume that the Combination occurred on 1 January 2019 and include six months of results from OSB and CCFS, excluding 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 on page 21.

For the reconciliation between APMs and the statutory equivalents, see page 29 and for calculation methods of key performance indicators, see page 91 in the Appendix.

Summary Profit or Loss	Underlying H1 2020 £m	Pro forma underlying H1 2019 £m
Net interest income	**266.8**	250.5
Gain on sale of financial instruments	**33.0**	29.8
Fair value losses on financial instruments	**(18.6)**	(14.3)
Net fees and commissions	**3.7**	2.4
External servicing fees	**-**	(0.1)
Administrative expenses	**(74.1)**	(76.8)
Provisions	**(0.1)**	(0.1)
Impairment of financial assets	**(54.4)**	(8.6)
Profit before tax	**156.3**	182.8
Profit after tax	**119.2**	137.3

Key ratios	H1 2020	H1 2019
Net interest margin	**250bps**	270bps
Basic earnings per share, pence	**26.1**	30.3
Return on equity	**18%**	24%
Management expense ratio	**68bps**	81bps
Cost to income ratio	**26%**	29%
Loan loss ratio	**60bps**	11bps

Extracts from the Statement of Financial Position	30-Jun-20 £m	31-Dec-19 £m
Loans and advances to customers	**18,514.4**	18,151.4
Retail deposits	**16,692.8**	16,248.6
Total assets	**22,201.5**	21,166.5

Financial review - underlying

Underlying profit

The Group's underlying profit before tax was £156.3m in the first half of 2020, a decrease of 14% compared with £182.8m in the first half of 2019, due primarily to higher impairment losses as the Group adopted more adverse COVID-19 related macroeconomic scenarios.

Underlying profit after tax was £119.2m, down 13% (H1 2019: £137.3m) in line with the decrease in profit before tax.

The Group's effective tax rate on an underlying basis remained broadly flat at 23.7% for the first half of 2020 (H1 2019: 24.9%).

On an underlying basis, return on equity for the first half of 2020 decreased to 18% (H1 2019: 24%) and basic earnings per share decreased to 26.1 pence per share (H1 2019: 30.3 pence per share), due to the decrease in profit after tax.

Net interest income

Underlying net interest income increased by 7% to £266.8m in the first half of 2020 (H1 2019: £250.5m) due primarily to growth in the loan book and the underlying net interest margin ('NIM') was 250bps (H1 2019: 270bps).

The reduction in NIM was primarily due to the changing mix of the OSB loan book in 2019, as well as the dilutive impact in the second quarter of 2020 of a delay in passing on the base rate cuts in full to retail savers and the increased levels of liquidity being prudently held by the Group. The mix of the OSB loan book continued to change in 2019 as the higher-yielding back book refinanced onto front book pricing. The impact of this mix effect had largely run its course by the end of the first half of 2019.

Fair value losses on financial instruments

Underlying net fair value losses on financial instruments increased to £18.6m in the first half of 2020 (H1 2019: £14.3m). This included a £13.8m net loss on unmatched swaps (H1 2019: £11.8m loss), due primarily to fair value movements on mortgage pipeline swaps, prior to them being matched against completed mortgages, due to a fall in outlook on the LIBOR and SONIA curves. The Group economically hedges its committed pipeline of mortgages and this unrealised loss will unwind over the life of the swaps.

The Group made a loss of £6.4m (H1 2019: £0.9m loss) due to the ineffective portion of hedges and a £5.8m gain on inception adjustments due to fair value movements of hedged assets and liabilities prior to new hedge accounting relationships commencing and also recognised £3.1m of amortisation of fair value adjustments on hedged assets relating to cancelled swaps (H1 2019: £1.9m).

Gain on sale of financial instruments

Gains on structured asset sales were £33.0m on an underlying basis in the first half of 2020 (H1 2019: 29.8m) as the Group disposed of its remaining notes under the Canterbury No.1 securitisation and PMF 2020-1B in January 2020.

Net fees and commissions

Underlying net fees and commissions income of £3.7m in the first half of 2020 (H1 2019: £2.4m) comprised fees and commissions receivable of £4.3m (H1 2019: £3.0m) which related to CCFS' fees for servicing third party mortgage portfolios and servicing fees for securitised mortgages where the Group continued to service the loans, partially offset by fees and commissions payable of £0.6m (H1 2019: £0.6m) which include branch agency fees and commissions paid to Kent Reliance Provident Society for conducting member engagement activities for OSB.

Administrative expenses

Underlying administrative expenses were down 4% to £74.1m in the first half of 2020 (H1 2019: £76.8m). This includes the benefit of synergies from integration realised to date, mainly from de-duplication of senior roles and other efficiencies.

The underlying cost to income ratio improved to 26% (H1 2019: 29%) and the underlying management expense ratio improved by 13bps to 68bps for the first half of 2020 (H1 2019: 81bps) as the business delivered integration synergies and retained its focus on cost efficiency and discipline through the Coronavirus pandemic.

Impairment of financial assets
Underlying impairment losses in the first half of 2020 were £54.4m (H1 2019: £8.6m) representing an underlying loan loss ratio of 60bps (H1 2019: pro forma underlying 11bps).

The underlying impairment losses in the first half of 2020 included a £42.0m impact of adopting more adverse macroeconomic scenarios as the onset of the Coronavirus pandemic changed the outlook for the UK economy, and £5.0m from enhancements to the Group's staging criteria in line with PRA guidance, which moved certain higher risk accounts with payment holidays to stage 2. On a business as usual basis, the loan loss ratio would have been c. 6bps reflecting the stable arrears profile of the loan book.

Balance sheet growth
On an underlying basis, after adjusting for the fair value uplift on the CCFS loan book, net loans and advances to customers were £18,514.4m (31 December 2019: £18,151.4m) an increase of 2%, or 7% excluding the impact of structured asset sales in January 2020.

Retail deposits increased by 3% to £16,692.8m, after adjusting for the fair value uplift on the CCFS deposits (31 December 2019: £16,248.6m) and the Group increased its borrowing under the Bank of England's schemes to prudently increase liquidity going into the pandemic. Drawings under the Indexed Long-Term Repo scheme were increased to £755m as at 30 June 2020 (31 December 2019: £290m) and the Group drew an initial £100m under the Bank of England's Term Funding Scheme for SMEs ('TFSME') while repaying £60m of the original Term Funding Scheme to leave a balance of £2.6bn as at 30 June 2020 (31 December 2019: £2.6bn).

In the first half of 2020, the Group was accepted for the TFSME with a combined initial allowance of £2.0bn.

The Group also utilises sophisticated securitisation platforms to complement its funding requirements and in January 2020, the Group disposed of its remaining notes under the Canterbury No.1 securitisation and the notes in PMF 2020-1B generating a gain of £33.0m on an underlying basis.

In addition to the placement of £847m of RMBS bonds into the market during the period, the Group also securitised £1bn of organically-originated mortgage assets under Canterbury No.2, which closed in March 2020. The £1.036bn transaction, which was fully retained, provided the Group with an £860m portfolio of AAA rated senior bonds which are eligible as collateral for commercial and central bank funding repo facilities at significantly reduced haircuts.

At the end of June 2020, the Group had up to £350m (31 December 2019: £600m) of contingent wholesale funding capacity available to it through the CCFS warehouse facilities, none of which was utilised at the end of the period (31 December 2019: £94m).

Total assets grew by 5% to £22,201.5m (31 December 2019: £21,166.5m) due to the growth in loans and advances and increased liquidity.

OneSavings Bank plc

Interim report for the six months ended 30 June 2020

Financial review

Reconciliation of statutory to underlying and pro forma underlying results

	HY 2020			HY 2019			
	Statutory results £m	Reverse acquisition-related items £m	**Underlying results £m**	Restated[15] OSB statutory results £m	CCFS statutory results £m	Reverse exceptional item and adjust presentation £m	**Pro forma underlying results £m**
Net interest income	233.8	33.0[1]	**266.8**	150.5	100.1	(0.1)	**250.5**
Gain on sale of loans	19.9	13.1[2]	**33.0**	–	29.8	–	**29.8**
Net fair value losses on financial instruments	(12.1)	(6.5)[3]	**(18.6)**	(7.4)	(7.2)	0.3	**(14.3)**
Net fees and commissions	3.7	–	**3.7**	0.3	2.3	(0.2)	**2.4**
External servicing fees	–	–	–	(0.1)	–	–	**(0.1)**
Total income	245.3	39.6	**284.9**	143.3	125.0	–	**268.3**
Administrative expenses	(76.7)	2.6[4]	**(74.1)**	(40.9)	(35.9)	–	**(76.8)**
Provisions	(0.1)	–	**(0.1)**	(0.1)	–	–	**(0.1)**
Impairment of financial assets	(54.2)	(0.2)[5]	**(54.4)**	(5.9)	(2.7)	–	**(8.6)**
Impairment of intangible assets	(7.0)	7.0[6]	–				
Integration costs	(6.3)	6.3[7]	–	–	–	–	**–**
Exceptional items	(1.7)	1.7[8]	–	(5.9)	(3.8)	9.7	**–**
Profit before tax	99.3	57.0	**156.3**	90.5	82.6	9.7	**182.8**
Profit after tax	72.0	47.2	**119.2**	65.3	62.3	9.7	**137.3**
Summary Balance Sheet							
Loans and advances to customers	18,757.2	(242.8)[9]	**18,514.4**	9,862.0	7,046.9	–	**16,908.9**
Other financial assets	3,570.1	48.6[10]	**3,618.7**	1,724.5	1,162.9	–	**2,887.4**
Other non-financial assets	76.7	(8.3)[11]	**68.4**	51.3	59.6	–	**110.9**
Total assets	22,404.0	(202.5)	**22,201.5**	11,637.8	8,269.4		**19,907.2**
Amounts owed to retail depositors	16,697.3	(4.5)[12]	**16,692.8**	9,175.0	5,976.5		**15,151.5**
Other financial liabilities	4,078.9	6.7[13]	**4,085.6**	1,724.4	1,768.5		**3,492.9**
Other non-financial liabilities	80.0	(54.7)[14]	**25.3**	41.2	33.9	(9.7)	**65.4**
Total liabilities	20,856.2	(52.5)	**20,803.7**	10,940.6	7,778.9	(9.7)	**18,709.8**
Net assets	1,547.8	(150.0)	**1,397.8**	697.2	490.5	9.7	**1,197.4**

Financial review

Notes to the reconciliation of statutory to underlying and pro forma underlying results table:

1. Amortisation of the net fair value uplift to CCFS' mortgage loans and retail deposits on Combination.
2. Recognition of additional gain on sale of securitisation notes.
3. Inception adjustment on CCFS' derivative assets and liabilities on Combination.
4. Amortisation of intangible assets recognised on Combination.
5. Adjustment to expected credit losses on CCFS loans on Combination.
6. Impairment of intangible asset post Combination
7. Costs of integration of the two Banks post Combination, see note 9 to the accounts
8. Reversal of exceptional items, see note 10 to the accounts
9. Recognition of a fair value uplift to CCFS' loan book of £317.0m less reversal of fair value movement for securitised loans of £17.4m less accumulated amortisation of the fair value uplift of £57.5m and a movement on credit provisions of £0.8m.
10. Fair value adjustment to hedged assets
11. Adjustment of £1.0m to deferred tax asset, £0.2m to other assets and £9.5m relating to recognition of acquired intangibles on Combination.
12. Fair value adjustment to CCFS' retail deposits of £7.4m at Combination less accumulated amortisation of £2.9m.
13. Fair value adjustment to hedged liabilities
14. Adjustment to deferred tax liability.
15. The Group restated the prior year comparatives to recognise interest expense and taxation on the £22m Perpetual Subordinated Bonds previously classified as equity

Risk review

Key areas of focus during the six months to 30 June 2020

The six months to 30 June 2020 has been a challenging period for the Group due to the COVID-19 pandemic, but progress continued to be made against strategic risk management objectives for the year.

The Group proactively managed its risk profile by leveraging the well-established Risk Management Framework (‘RMF’) in accordance with the Board approved risk appetite. Continuous and close monitoring and assessment of underlying risk drivers, allowed the Board and management to take timely actions in response to the changing business, regulatory, political and economic environment.

Progress was made in implementing Group level credit and model risk frameworks and policies, to ensure that, where appropriate, common approaches and practices are exercised across both OSB and CCFS.

The COVID-19 pandemic had a material impact on the Group’s business and operational activities, with a significant volume of customers requesting payment holidays, whilst new business volumes were reduced when physical valuations were not possible. The Group’s operational arrangements were also impacted as the UK and Indian governments took measures to control the spread of the virus.

Extensive oversight and advisory support was provided by the Risk and Compliance function, to ensure that the Group’s response to COVID-19 was in accordance with regulatory expectations and the Board’s risk appetite. The Group ensured that customers had and continue to have their account performance reported to credit reference agencies as per issued guidance, in conjunction with IFRS 9 accounting and regulatory capital guidance being adopted as recommended.

The Group continues to actively monitor the behaviour of accounts issued with a payment holiday, whilst conducting scenario analysis and stress testing to understand the range of possible outcomes which could arise, to enable appropriate business planning activity to take place.

The Risk function conducted detailed stress tests over a range of scenarios to allow the Board to understand how the Group’s assets and liabilities could perform in extreme but plausible scenarios and to assess the adequacy of contingent financial resources (capital and funding), as well as the robustness of the Group’s systems and controls.

Due to the potential impact which COVID-19 could have on the UK economy, the Board requested additional analysis to be conducted to support the assessment of whether there was a material uncertainty leading to a significant going concern risk in respect of the 2019 subsidiary accounts and the Group 2020 interim accounts.

A capital adequacy assessment was conducted, underpinned by reverse stress testing analysis, to identify a scenario in which the Group would breach minimum regulatory capital thresholds. This analysis demonstrated that the Group could withstand extreme macroeconomic stresses. The scenarios identified were more severe than the stress scenarios used within the internal capital adequacy assessment process (‘ICAAP’) and the macroeconomic stresses observed in prior recessions, and materially more adverse than the forecasted impact of COVID-19.

The Board also reviewed detailed liquidity, funding and operational resilience assessments as part of the wider going concern assessment. The Board concluded that the probability of the scenarios occurring over the next 12 months was sufficiently remote to conclude that there was no material uncertainty leading to a significant going concern risk.

The Group leveraged its operational resilience and contingency planning frameworks to effectively respond to the onset of the pandemic, with the majority of staff working from home during the lock down period, in both the UK and our Indian operations. Business as usual activities were maintained successfully across the lending and savings franchises.

Risk review

The Group intensified its focus on supporting customers during the period, with resources diverted from other areas of the business to facilitate exceptionally high levels of inbound customer calls, related to payment holiday requests or queries from the Group's savings customer base, which were actioned in a timely manner. The Group complied with all new regulatory guidelines which emerged during the period.

Integration activities continued as planned with synergies being realised as department level target operating models were rolled out across the Group. The Group continues to apply a low risk approach to integration.

During the period, further progress was made by the Group's Internal Ratings Based ('IRB') project, with a combined project management office established to oversee both OSB and CCFS banks' IRB projects in an efficient and optimised manner. Group level model governance arrangements were implemented, whilst further progress was made in the development of the end state IRB models, ensuring compliance with emerging regulatory requirements. The Group is planning to submit module 1 to the PRA during 2021.

The Group successfully managed its funding and liquidity profile throughout the first half of the year, ensuring that it supported new or existing customer requests, while maintaining appropriate buffers as the COVID-19 pandemic developed.

Principal risks and uncertainties

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

The table below details the principal risks which the Board believes are the most material with respect to potential adverse movements impacting the business model, future financial performance, solvency and liquidity. A more detailed review of the Group's principal risks and uncertainties can be found within the Risk review in the 2019 Annual Report and Accounts on pages 58 to 65, which can be accessed via our website at www.osb.co.uk.

Principal risks	Key mitigating actions
Strategic and business risk	• Regular monitoring of the Group's strategic and business performance against market commitments, the balanced business scorecard and risk appetite by the Board and the Executive Committees. • A structured approach to change management and fully leveraging internal and external expertise allows the Group to respond effectively to regulatory change.
Reputational risk	• Established processes are in place to proactively identify and manage potential sources of reputational risk including monitoring of media coverage. • A commitment to treating customers fairly and being open and transparent in communication with key stakeholders.
Credit risk	Individual borrower defaults: • Across both OSB and CCFS a robust underwriting assessment is undertaken to ensure a customer has the ability and propensity to repay, and sufficient security is available to support the new loan requested. At CCFS an automated scorecard approach is taken, whilst OSB utilises a bespoke manual underwriting approach. • Should there be problems with a loan, the Collections and Recoveries team works with customers to reach a satisfactory conclusion while adhering to the principle of treating customers fairly. • Our strategic focus on lending to professional landlords means that properties are likely to be well-managed, with income from a diversified portfolio mitigating the impact of rental voids or maintenance costs. • Lending to owner-occupiers is subject to a detailed affordability assessment, including the borrower's ability to continue payments if interest rates increase. Lending on commercial property focuses on property security, and is scrutinised by the Group's independent Real Estate team as well as by external valuers.

Risk review

Principal risks	Key mitigating actions
	• Development finance lending is extended only after a deep investigation of the borrower's track record and stress testing the economics of the specific project. • The risk of defaults emanating from the payment holiday population is managed via pro-active, careful monitoring and management of accounts which fall into arrears by the risk and collections functions. Macroeconomic downturn • The Group works within clearly defined portfolio limits approved by the Risk Committee and the Board covering loan to value ('LTV'), affordability metrics, sector and geographic concentrations. The Group's limits were reviewed within the period and adjusted as required. In addition, stress testing is performed to ensure the Group maintains sufficient capital to absorb losses in an economic downturn and will continue to meet its regulatory requirements. Wholesale credit risk • The Group transacts only with high quality wholesale counterparties. Derivative exposures include collateral agreements to mitigate credit exposures.

Principal risks	Key mitigating actions
Market risk	• Due to the Group's balance sheet structure no active management of basis risk has been required by OSB in 2020. CCFS actively replaced back book LIBOR asset swaps with SONIA swaps to balance basis risk across assets and liabilities and reduce possible exposure to dislocation of market rates from the Bank of England base rate.
Liquidity and funding risk	• The Group's funding strategy is focused on highly stable retail deposits which benefit from the Financial Services Compensation Scheme which in turn mitigates the risk of elevated levels of retail deposit outflows. • The Group performs in-depth liquidity stress testing and maintains a liquid asset portfolio sufficient to meet obligations under stress. • The Group has prepositioned mortgage collateral with the Bank of England which allows it to consider other alternative funding sources to ensure it is not solely reliant on retail savings. The Group also has a mature RMBS programme and access to warehouse facilities. • The Group continuously monitors wholesale funding markets for securitisation opportunities, and has in the past executed funding transactions or sold additional residual positions in securitisations when market conditions were advantageous.
Solvency risk	• 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 holds prudent levels of capital buffers based on CRD IV requirements, its own risk appetite and expected balance sheet growth. • The Group engages actively with regulators, industry bodies and advisers to keep abreast of potential changes, providing feedback through the consultation process. • The Group has also incorporated MREL based bail-in capital requirements within its capital planning and forecasting procedures.
Operational risk	Cyber / IT security risk • The Group has invested significantly in enhancing its protection against IT security threats, deploying a series of tools designed to identify and prevent network/system intrusions. This is further supported by documented and tested procedures intended to ensure the effective response to a security breach. • As a result of the pandemic a high proportion of employees are working from home, which may increase the risk of cyber-crime and IT security failures, as well as an increased vulnerability to fraud risk. This aspect of the pandemic is being managed through increased awareness and

	active monitoring of incidents and trends. Data-management • The Group established a dedicated Data Strategy Programme, designed to ensure a consistent approach to the maintenance and use of data. This includes both documented procedures and frameworks and also tools intended to improve the consistency of data use. The Group has continued its efforts to enhance its compliance with the requirements under GDPR. Organisational change and integration • There is a low risk integration project plan (e.g. no large scale integration related IT change projects planned) and an experienced and capable project management office, with close oversight and direction provided by the Group Executive and Board Integration Committees with active monitoring against integration based objectives and cost and synergies targets. IT failure • The Group continues to invest in improving the resilience of its core infrastructure. It has identified its prioritised business services and the infrastructure that is required to support them. Tests are performed regularly to validate its ability to recover from an incident. Change management • The Group recognises that implementing change introduces significant operational risk and has therefore implemented a series of control gateways designed to ensure that each stage of the change management process has the necessary level of oversight.
Conduct risk	Product suitability • The Group has a strategic commitment to provide customers with simple and transparent products. In addition, a Product Governance framework is established to oversee both the origination of new products and to revisit the on-going suitability of the existing product suite. Customer journey reviews are undertaken to identify enhancements to customer outcomes, services and communications. • The Group has a dedicated Product Governance team and an independent Conduct Risk team to effectively manage this risk. Vulnerable Customers • The Group continues to be focused on customers who, due to their personal circumstances, are susceptible to detriment, particularly so with the onset of the pandemic. The Group has established policies and processes to identify and respond to individual customers deemed as vulnerable in accordance with the Group's conduct risk appetite, policies and procedures and regulatory expectations. Data protection • In addition to a series of network/system controls, the Group performs extensive root cause analysis of any data leaks in order to ensure that the appropriate mitigating actions are taken and the potential for customer detriment is identified and appropriately addressed. 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 our customers. The Group has conducted and will continue to undertake detailed analysis of potential customer harm associated with the integration process.
Compliance and regulatory risk	• The Group has an effective horizon scanning process to identify regulatory change. • All significant regulatory initiatives are managed by structured programmes overseen by the change management team and sponsored at executive management level.

	• The Group proactively seeks external expert opinions to support its interpretation of the requirements and validation of its response. • The Group maintains an open and proactive relationship with the prudential and conduct based supervisory authorities. • The Group has actively participated in a number of thematic reviews and responded positively to both industry and firm specific feedback. Resulting feedback and areas of enhancements are subject to Board and executive oversight with clearly defined closure timelines.

Emerging risks

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

Emerging risks	Key mitigating actions
COVID-19 The outbreak of the Coronavirus (COVID-19) pandemic has had a disruptive impact on the global and UK economies. The length and severity of the pandemic and its impact remains uncertain. The risk of further waves in the UK and India remains a possibility.	• The Group's response strategy covers key aspects of an effective pandemic response approach, including prevention, continuity, impact assessment and stress testing. Supporting the Group's response strategy are established underlying capabilities to facilitate operational and financial resilience testing and planning, active monitoring and reporting procedures, and active communications with all staff (UK and India) and supervisory authorities. • The COVID-19 pandemic has introduced a number of incremental potential credit risks, including the credit profile impact of the payment holiday population. This and other higher risk cohorts of borrowers are subject to active monitoring and reporting. • Uncertainties remain around the economic impact of future national or localised lock downs and the impact of furlough schemes coming to an end. The longer term implications of the various other governmental support measures and the outcome of the ongoing Brexit negotiations result in heightened economic risks, which in turn may result in adverse movements in operational and financial performance. Careful monitoring continues to mitigate this risk. • The Group continues to closely monitor the performance of its loan book and its borrower credit profiles. Additionally the Group has actively engaged with its economic advisors to ensure business and financial planning is based on the most accurate and current economic outlook.
Brexit based political and macroeconomic uncertainty As the outcome of trade negotiations following Brexit continues to be unclear, there remains a level of associated uncertainty around the performance of the UK economy. The Group's activity is solely based in the United Kingdom and therefore the strategic and financial prospects of the Group are related to the outcome of these on-going negotiations.	• The Group's on-going monitoring and assessment processes, business planning, risk appetite and stress testing capabilities ensure that the Group is well placed to understand and respond to the macroeconomic implications of various Brexit outcomes.
Integration risk The risks resulting from the Group's on-going integration activities, including systems, people and infrastructure.	• The Board is maintaining oversight of the integration process through the Board Integration Committee. • A dedicated Integration Management Office has been established to drive the integration process forward. Independent second and third line assessments,

Risk review

Emerging risks	Key mitigating actions
	monitoring and reporting is being undertaken by the Risk and Internal Audit functions respectively.
Climate change As the worldwide focus on climate change intensifies, both the physical risks and the transitional risks continue to grow, albeit from a UK perspective these are seen as longer term horizon risks. Physical risks can relate to specific weather events, such as storms and flooding, or to longer-term shifts in the climate, such as rising sea levels. Transitional risks may arise from the adjustment towards a 'low-carbon' economy, such as tightening energy efficiency standards for domestic and commercial buildings.	• The Group continues to develop its approach to assessing and managing the impact of increasing climate change risks by leveraging its Risk Management Framework. This includes scenario analysis, development of key risk indicators and inclusion of climate risks within operational resilience assessment and strategies. A cross-functional working group has been established to design and deliver the Group's climate change risk assessment capabilities with Board oversight to ensure appropriate alignment with strategic and business planning. • To assess portfolio collateral sensitivities to climate change, the Group is engaging with a third party to assist with modelling physical risks (flood, subsidence and coastal erosion) and transitional risks (Government policy) against a series of scenarios relating to global temperature change. • The Group's approach to developing its climate change risk assessment, governance and disclosures requirements have been informed by supervisory guidelines.
Model risk The risk of financial loss, adverse regulatory outcomes, reputational damage or customer detriment resulting from deficiencies in the development, application or on-going operation of models and ratings systems. COVID-19 may result in an adverse impact in the performance of existing credit risk models.	• The Group has well-defined model governance frameworks and processes in place, including Committees, frameworks, policies, model inventories and independent validation processes. • In light of this emerging risk the Group implemented a Group Models and Ratings Committee to ensure an appropriate level of oversight is provided by the Board, in conjunction with the Models and Ratings Management Committee.
LIBOR reform The London Interbank Offered Rate ('LIBOR') benchmark may cease to be set after the end of 2021. The Group has exposure to the LIBOR benchmark within some of its customer lending products and wholesale derivative hedging transactions. If the benchmark were to cease or become unreliable these loans and derivatives may reflect rates that do not accurately represent short-term funding costs, therefore having an adverse effect on returns.	• The Group Asset and Liability Committee ('ALCO') has set up a dedicated working group to focus on this risk and transition away from the LIBOR benchmark. The priority is to remove the LIBOR component from all new loan products and new swap hedges. With regard to existing loans and derivative hedges it is planned that they are transitioned onto alternative benchmarks before LIBOR ceases.
Treating customers fairly The risk that industry wide and firm specific practices in relation to arrears; collections and forbearance procedures result in poor customer outcomes and financial distress, continue to be an important area of regulatory focus. The practices within the regulated residential mortgage market, both first and second charge mortgages, have in particular been subject to active supervisory monitoring through market data analysis, complaints to firms, notifications from firms and multi-firm thematic reviews. If the Group's arrears, repossession, forbearance and vulnerable customer policies and procedures are assessed to be misaligned to the individual needs of the customers and regulatory expectations, the Group runs the risk of causing harm to its customers,	• All Group entities operate under arrears, repossession, forbearance and vulnerable customer policies which are designed to comply with regulatory rules and expectations. These policies articulate the Group's commitment to ensuring that all customers, including those that are vulnerable or experiencing financial hardship, are treated fairly, consistently and in a way that considers their individual needs and circumstances. • The Group does not tolerate any systemic failure to deliver fair customer outcomes. On an isolated basis, incidents can result in detriment owing to human and/or operational failures. Where such incidents occur they are thoroughly investigated, and the appropriate remedial actions are taken to address any customer detriment and to prevent recurrence.

Risk review

Emerging risks	Key mitigating actions
particularly those experiencing financial hardship or vulnerable customers, with the potential for reputational damage, redress and other regulatory actions.	• The impact of COVID-19 has increased the risk associated with treating customers fairly. Proactive conversations with the regulator, making sure policies are aligned to supervisory guidelines, on-going monitoring and deep dive reviews as required, support mitigation of this heightened risk.

Credit risk portfolio performance
The loan book continued to exhibit resilient performance despite the unprecedented operating environment. Close monitoring and proactive management of the Group's credit profile continues, as the impact of COVID-19 evolves.

The Group initially observed a strong take-up of mortgage payment holidays as customers sought to limit their financial outgoings during the early phase of the nationwide lockdown. However, as the lockdown has been progressively relaxed and customers have had time to assess and organise their financial arrangements, the Group has observed a progressive decline in the number of customers with a payment holiday. The Group has actively monitored this and the wider cohort of higher risk customers to identify accounts which have or could experience financial difficulties and increased provisions based on enhanced IFRS 9 staging criteria.

The Group has updated its IFRS 9 macroeconomic scenarios and weightings to reflect the economic uncertainties caused by the pandemic. These changes have resulted in a material increase in the Group's forward looking expected credit loss ('ECL') estimates whilst the underlying credit metrics have remained broadly stable during the period.

The Group remains fully cognisant of the potential risk of future loan portfolio performance issues linked to the payment holiday and furlough schemes coming to an end. The Group has assessed and quantified the potential range of outcomes via stress testing and scenario analysis, and has raised IFRS 9 impairment provisions on a forward looking basis.

Statutory Group loans and advances to customers increased to £18.8bn as at 30 June 2020 from £18.4bn at the year end. This loan book growth was achieved post the impact of structured asset sales in the first quarter of 2020 and a marked reduction in new lending volumes due to the impact of the COVID-19 lockdown period and tightening of lending criteria.

In accordance with the Group's strategy, lending concentrations in core markets such as Buy-to-Let, first charge residential and semi commercial and commercial mortgages continued to increase. Lending growth across these segments more than offset falling lending balances across second charge and bridging lending. The Group's acquired loan portfolios continued to run off as expected.

During the period, forward looking internal and external scoring metrics remained stable, indicating the underlying credit quality of the loan portfolios.

Lending growth across the Group's funding lines and development finance businesses remained broadly stable, with modest and carefully selected growth in Asset Finance exposures to £52.6m as at 30 June 2020.

Exposure to the Group's residential development finance brand Heritable remained low at £150.0m with a weighted average LTV of 52%, which ensures a high level of protection remains in place should property prices deteriorate markedly.

The Group continues to have a low exposure to high LTV loans against properties worth more than £2m. As at 30 June 2020 6.9% of OSB and 0.02% of CCFS exposures had a weighted average loan to value greater than 65%, where the property has a value greater than £2m.

Average weighted interest coverage ratios in our Buy-to-Let origination remained strong at 203% for OSB and 205% for CCFS (31 December 2019: 187% and 202%, respectively).

Risk review

Given the uncertain macroeconomic backdrop the Group tightened new lending LTV criteria during the six months to 30 June 2020, where weighted average loan to value ratios for new lending remained stable across both OSB 70% and CCFS 71% (31 December 2019: 70% and 71% respectively).

The total average LTV ratio for existing loans remained stable at 65% for OSB as at 30 June 2020 (31 December 2019: 65%). The Group continues to observe a clustering of exposures around the average LTV, which will support impairment and risk weighted asset performance under stress, with higher LTV lending as a proportion of total balances continuing to fall over time. Across the CCFS business weighted average stock LTV levels across the core business lines remained broadly stable at 74% for Buy-to-Let lending and 70% for first charge residential owner occupier lending.

For CCFS arrears balances remained low and in line with expectations, where the ratio of balances greater than three months in arrears was 0.5% as at 30 June 2020 (31 December 2019: 0.3%). The small increase in this ratio was driven by the continued seasoning of the CCFS mortgage portfolios which continue to perform in line with expectations. The OSB greater than three months in arrears ratio remained stable at 1.3% as at 30 June 2020 (31 December 2019: 1.3%). These stable metrics are in part supported by accounts being offered payment holidays, which will have stopped accounts missing payments during the eligible period.

Expected Credit Losses

Following the rapid onset of the COVID-19 pandemic and the lockdown period the outlook for the UK economy changed markedly. The Group received regular macroeconomic scenario updates from its economic advisers, which were reviewed and discussed by management and the Board, along with the probability weightings applied to each scenario.

Under the IFRS 9 approach, macroeconomic forward looking forecasts are utilised within the impairment modelling process. Macroeconomic variables such as unemployment rates, gross domestic product and base rate trends impact the probability of accounts rolling into arrears and default (stage 3), whilst house price movements impact potential loss given default levels. These factors in turn impact expected credit loss estimates.

Following the industry best practice and guidance from regulators, the Group did not consider payment holidays as an automatic transfer trigger for accounts from stage 1 to stage 2.

In accordance with the principles outlined in the PRA letter submitted to UK banks on the 4 June 2020 in relation to "COVID-19: IFRS 9 and capital requirements – further guidance on initial and further payment deferrals", management and the Board considered all available information to determine whether payment holiday accounts should be moved into stage 2 and a lifetime expected credit loss estimate held against the exposure.

The first iteration enhanced rule set developed resulted in a portion of higher risk payment holiday accounts being moved into stage 2 and higher provisions being held, which had an impact on provision levels and loan loss performance during the period. If the Group reclassified all customers on a COVID-19 payment holiday at 30 June 2020 as stage 2, regardless of whether they have shown a significant increase in credit risk, the Group's ECL would have increased by £15.4m.

On an underlying basis, impairment losses in the first half of 2020 totalled £54.4m (H1 2019: £8.6m), which represented a loan loss ratio of 60bps (H1 2019: 11bps). The increase in impairment losses was predominantly driven by the impact of COVID-19 and the introduction of more adverse macroeconomic scenarios and enhancements made to the Group's staging logic, which resulted in a proportion of payment holiday accounts being transferred into stage 2 and higher provisions being held. As described above the Group's credit profile remained resilient throughout the reporting period; on an underlying basis removing these two significant impacts, and less material modelling enhancements, the loan loss ratio would have been 6bps. The statutory loan loss ratio increased to 59bps (H1 2019: 12 bps) as described above driven by the impact of COVID-19.

Risk review

During the period to 30 June 2020, the Group's economic scenarios were materially revised due to the potential impact of the COVID-19 pandemic on the UK economy.

The Group's economic advisers estimated the potential impact of the lockdown period on productivity, the offsetting impacts of government interventions, and in the downside scenarios the potential compounding impact of an adverse outcome with respect to the UK transitioning to new trading arrangements with the European Union.

Since the lockdown restrictions have been lifted, economic activity has resumed, however the forecasts assume a certain level of scarring to the long term economic outlook. The table below discloses the forecasted year end economic performance during 2020, 2021 and 2022, when the adverse impact of COVID-19 on the economy will be at its highest.

Macroeconomic scenarios utilised within IFRS 9 impairment calculations 30 June 2020:

				Scenario (%)[1]		
Scenario	**Probability weighting (%)**		**Economic measure**	**Year end 2020**	**Year end 2021**	**Year end 2022**
Base case	40		GDP	(5.9)	3.8	3.6
			Unemployment	7.7	7.1	6.6
			House price growth	(14.3)	(0.3)	7.0
Upside	30		GDP	(2.6)	3.7	3.6
			Unemployment	7.0	5.5	5.2
			House price growth	(11.9)	6.5	9.0
Downside	23		GDP	(8.9)	3.4	3.9
			Unemployment	9.3	9.5	9.2
			House price growth	(19.4)	(10.1)	3.0
Severe Downside	7		GDP	(10.0)	3.5	3.9
			Unemployment	9.8	10.4	10.3
			House price growth	(21.0)	(14.8)	(1.3)
			Commercial Real Estate	(13.4)	(30.5)	5.0

1. Scenarios show annual movement for economic measures.

The material increase in provision levels during the first half of 2020 was driven by the forecasted stress during 2020 and 2021, but also the forecasted longer term impact of COVID-19 which is forecasted to result in more subdued long term economic performance. For example, the five year average house price performance across all scenarios has been materially downgraded from the forecast used within 31 December 2019 impairment calculations. The future base rate environment and unemployment rates have also been materially adjusted.

During the period to the 30 June 2020 the Board reflected on the probability weightings associated with each scenario, taking into account the changes in the severity of each scenario. A more symmetrical probability distribution was adopted with 40% assigned to the base case, 30% assigned to the upside and 30% assigned to the downside scenarios. This includes 23% assigned to the downside scenario and 7% to the severe downside scenario. As at 31 December 2019, due to the relative severity of the scenarios, a higher probability was associated to the downside scenarios, with 35% assigned to the downside, and 15% assigned to the severe downside. 40% was assigned to the base case with 10% assigned to the upside scenario.

The table below indicates the increase in provision coverage levels as at 30 June 2020. The prudent measures taken have materially enhanced provision coverage against future impairment losses.

Risk review

As at 30 June 2020	Gross carrying amount (£m)	Expected Credit Loss (ECL) (£m)	Coverage Ratio (%)[1]
Stage 1	16,427.9	28.1	0.17%
Stage 2	1,941.7	26.7	1.38%
Stage 3 + POCI	464.1	41.6	8.96%
Total	**18,833.7**	**96.4**	**0.51%**

As at 31 December 2019	Gross carrying amount (£m)	Expected Credit Loss (ECL) (£m)	Coverage Ratio (%)
Stage 1	17,286.9	5.6	0.03%
Stage 2	749.5	5.6	0.75%
Stage 3 + POCI	431.2	31.7	7.35%
Total	**18,467.6**	**42.9**	**0.23%**

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

Liquidity and funding risk management overview

The Group's lending strategy is supported by a strong retail savings franchise, which provides the Bank with a sustainable funding platform to support long-term balance sheet growth. This strength is reflected in a high retention level on maturing fixed term products of 95% for Kent Reliance and 86% for Charter Savings Bank in the first half of 2020 and strong customer satisfaction scores. As at 30 June 2020, 6.1% of the Bank's retail deposits were above the FSCS protection level of £85k. Diversification of funding is also provided by borrowing from the Bank of England under the Term Funding Scheme ('TFS') and by Indexed Long-Term Repo ('ILTR'). As at 30 June 2020, the Group's drawings under TFS remained unchanged at £2.6bn and ILTR drawings were £755m. In the first half of 2020, the Group was accepted for the Bank of England's Term Funding Scheme for SMEs with a combined initial allowance of £2bn. As at the end of June 2020, the total borrowings under this scheme were £100m.

The Group liquidity coverage ratio remained strong at 245% as at 30 June 2020.

Market risk

The key market risk the Group is exposed to is interest rate risk. Gap and basis risk are managed by defined limits for each Bank. The Group's Treasury department actively hedges risk to match the timing of cash flows from assets and liabilities for each Bank. The Group is actively transitioning from LIBOR to SONIA swaps to reduce possible exposure to a dislocation of market rates from base rate. The Group has a small amount of foreign exchange exposure, due to the Rupee denominated running costs of its OSBIndia office. Rupee denominated running costs during the period to 30 June 2020 were £4.2m (H1 2019: £3.1m).

Solvency risk management overview

The Group continued to maintain an appropriate level of capital to support its strategic objectives and to meet its prudential requirements. The Group maintained a strong capital position in the first half of 2020 with a CET1 ratio of 17.4% (31 December 2019: 16.0%), which remains comfortably in excess of the regulatory requirements and Board risk appetite.

The Group's capital buffers are subject to active monitoring by the Board and senior management in the context of the Bank's strategic objectives, performance commitments, economic and market conditions, regulatory changes and other risks to which the Bank is exposed.

Statement of Directors' Responsibilities

We confirm that to the best of our knowledge:

• the condensed set of financial statements has been prepared in accordance with IAS 34, Interim Financial Reporting, as adopted by the EU;

• 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 set of financial statements; and a description of the principal risks and uncertainties for the remaining six months of the 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 current financial year and that have materially affected the financial position or performance of the entity during that period; and any changes in the related party transactions described in the last Annual Report and Accounts that could do so.

The Board of Directors, as listed below, represents those individuals responsible for this interim management report:

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

By order of the Board

Date: 27 August 2020

Independent Review Report to OneSavings Bank plc

We have been engaged by the company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2020 which comprises the Condensed Consolidated Statement of Comprehensive Income, the Condensed Consolidated Statement of Financial Position, the Condensed Consolidated Statement of Changes in Equity, the Condensed Consolidated Statement of Cash Flows and related notes 1 to 36. We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

Directors' responsibilities

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

As disclosed in note 2, the annual financial statements of the group are prepared in accordance with IFRSs as adopted by the European Union. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting" as adopted by the European Union.

Our responsibility

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

Scope of review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2020 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

Use of our report

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

Deloitte LLP
Statutory Auditor
London, United Kingdom
27 August 2020

OneSavings Bank plc

Interim Report for the six months ended 30 June 2020

Condensed Consolidated Statement of Comprehensive Income

	Note	**Six months ended 30-Jun-20 (Unaudited) £m**	Restated[1] Six months ended 30-Jun-19 (Unaudited) £m
Interest receivable and similar income	4	**371.5**	227.9
Interest payable and similar charges	5	**(137.7)**	(77.4)
Net interest income		**233.8**	150.5
Fair value losses on financial instruments	6	**(12.1)**	(7.4)
Gain on sale of financial instruments	7	**19.9**	-
Fees and commissions receivable		**4.3**	0.9
Fees and commissions payable		**(0.6)**	(0.6)
External servicing fees		**-**	(0.1)
Total income		**245.3**	143.3
Administrative expenses	8	**(76.7)**	(40.9)
Provisions	28	**(0.1)**	(0.1)
Impairment of financial assets	22	**(54.2)**	(5.9)
Impairment of intangible assets	9	**(7.0)**	-
Integration costs	10	**(6.3)**	-
Exceptional items	11	**(1.7)**	(5.9)
Profit before taxation		**99.3**	90.5
Taxation	12	**(27.3)**	(25.2)
Profit for the period		**72.0**	65.3
Other comprehensive (expense)/income			
Items which may be reclassified to profit or loss:			
Fair value changes on financial instruments measured as FVOCI:			
Arising in the period		**(0.5)**	-
Revaluation of foreign operations		**0.1**	0.1
Tax on items in other comprehensive expense		**-**	-
Other comprehensive (expense)/income		**(0.4)**	0.1
Total comprehensive income for the period		**71.6**	65.4
Dividend, pence per share	14	**-**	4.9
Earnings per share, pence per share			
Basic	13	**15.5**	25.5
Diluted	13	**15.5**	25.3

[1]Consistent with the restatement in the 2019 Annual Report and Accounts, the Group has restated the prior period comparatives to recognise the interest expense on the £22.0m Perpetual Subordinated Bonds previously classified as equity (see note 1).

The above results are derived wholly from continuing operations.

The notes on pages 47 to 90 form an integral part of these condensed financial statements.

OneSavings Bank plc

Interim Report as at 30 June 2020

Condensed Consolidated Statement of Financial Position

	Note	**As at 30-Jun-20 (Unaudited) £m**	As at 31-Dec-19 (Audited) £m
Assets			
Cash in hand		**0.5**	0.4
Loans and advances to credit institutions	16	**2,597.6**	2,204.6
Investment securities	17	**755.1**	635.3
Loans and advances to customers	18	**18,757.2**	18,446.8
Fair value adjustments on hedged assets	23	**195.1**	16.8
Derivative assets		**21.8**	21.1
Other assets		**10.8**	14.3
Deferred taxation asset		**3.6**	4.8
Property, plant and equipment		**40.3**	41.6
Intangible assets		**22.0**	31.4
Total assets		**22,404.0**	21,417.1
Liabilities			
Amounts owed to credit institutions	24	**3,426.8**	3,068.8
Amounts owed to retail depositors	25	**16,697.3**	16,255.0
Fair value adjustments on hedged liabilities	23	**15.8**	(5.1)
Amounts owed to other customers		**28.4**	29.7
Debt securities in issue	26	**325.7**	296.3
Derivative liabilities		**221.5**	92.8
Lease liabilities	27	**12.5**	13.3
Other liabilities		**21.5**	34.9
Provisions	28	**2.0**	1.6
Current taxation liability		**1.7**	41.5
Deferred taxation liability		**54.8**	63.1
Subordinated liabilities		**10.6**	10.6
Perpetual subordinated bonds		**37.6**	37.6
		20,856.2	19,940.1
Equity			
Share capital		**4.5**	4.5
Share premium		**864.3**	864.2
Retained earnings		**625.1**	553.2
Other reserves		**53.9**	55.1
		1,547.8	1,477.0
Total equity and liabilities		**22,404.0**	21,417.1

The notes on pages 47 to 90 form an integral part of these condensed financial statements.

The financial statements on pages 43 to 46 were approved by the Board of Directors on 27 August 2020.

Andy Golding
Chief Executive Officer

April Talintyre
Chief Financial Officer

Company number: 07312896

Condensed Consolidated Statement of Changes in Equity

	Share capital £m	Share premium £m	Capital contribution £m	Transfer reserve £m	Own shares[1] £m	Foreign exchange reserve £m	FVOCI reserve £m	Share-based payment reserve £m	Retained earnings £m	Equity bonds[2] £m	Total £m
At 1 January 2020	4.5	864.2	6.5	(12.8)	(3.7)	(1.0)	0.5	5.6	553.2	60.0	1,477.0
Total comprehensive income	-	-	-	-	-	0.1	(0.5)	-	72.0	-	71.6
Own shares	-	-	-	-	0.3	-	-	(0.3)	-	-	-
Coupon paid on AT1 securities	-	-	-	-	-	-	-	-	(2.7)	-	(2.7)
Dividends paid	-	-	-	-	-	-	-	-	-	-	-
Share-based payments	-	0.1	-	-	-	-	-	0.3	2.6	-	3.0
Tax recognised in equity	-	-	-	-	-	-	-	(1.1)	-	-	(1.1)
At 30 June 2020 (Unaudited)	**4.5**	**864.3**	**6.5**	**(12.8)**	**(3.4)**	**(0.9)**	**-**	**4.5**	**625.1**	**60.0**	**1,547.8**
At 1 January 2019	2.4	158.8	6.5	(12.8)	-	(0.4)	(0.1)	4.7	439.6	82.0	680.7
PSB restatement[2]	-	-	-	-	-	-	-	-	(0.3)	(22.0)	(22.3)
Restated at 1 January 2019	2.4	158.8	6.5	(12.8)	-	(0.4)	(0.1)	4.7	439.3	60.0	658.4
Total comprehensive income	-	-	-	-	-	0.1	-	-	65.3	-	65.4
Coupon paid on AT1 securities	-	-	-	-	-	-	-	-	(2.8)	-	(2.8)
Dividends paid	-	-	-	-	-	-	-	-	(25.3)	-	(25.3)
Share-based payments	0.1	-	-	-	-	-	-	(1.1)	2.5	-	1.5
Exceptional items	-	-	-	-	-	-	-	-	(0.1)	-	(0.1)
Tax recognised in equity	-	-	-	-	-	-	-	0.1	-	-	0.1
Restated at 30 June 2019 (Unaudited)	2.5	158.8	6.5	(12.8)	-	(0.3)	(0.1)	3.7	478.9	60.0	697.2

[1] OSB has adopted look-through accounting and recognised the CCFS Employee Benefit Trust within the Group.
[2] Equity bonds comprise Additional Tier 1 securities. Consistent with the restatement in the 2019 Annual Report and Accounts, the Group has restated the prior period comparatives to classify the £22.0m Perpetual Subordinated Bonds previously classified as equity as a liability (see note 1).

OneSavings Bank plc

Interim Report for the six months ended 30 June 2020

Condensed Consolidated Statement of Cash Flows

	Note	**Six months ended 30-Jun-20 (Unaudited) £m**	Restated[1] Six months ended 30-Jun-19 (Unaudited) £m
Cash flows from operating activities			
Profit before taxation		**99.3**	90.5
Adjustments for non-cash items	33	**60.0**	19.1
Changes in operating assets and liabilities[2]	33	**(957.8)**	123.9
Cash generated from operating activities		**(798.5)**	233.5
Provisions refunded/(paid)		**0.3**	(0.2)
Net tax paid		**(74.8)**	(22.4)
Net cash (used)/generated from operating activities		**(873.0)**	210.9
Cash flows from investing activities			
Maturity and sales of investment securities		**121.7**	139.0
Purchases of investment securities		**(191.5)**	(239.9)
Sales of financial instruments		**539.8**	-
Purchases of equipment and intangible assets		**(3.8)**	(10.1)
Cash used in investing activities		**466.2**	(111.0)
Cash flows from financing activities			
Financing received[2]	29	**1,250.7**	102.9
Financing repaid[2]	29	**(602.4)**	(81.0)
Cash held in deconsolidated special purpose vehicles		**(23.0)**	-
Interest paid on bonds and subordinated debt		**(1.2)**	(1.3)
Coupon paid on equity bonds		**(2.7)**	(2.8)
Dividends paid		**-**	(25.3)
Proceeds from issuance of shares under employee SAYE schemes		**0.1**	-
Cash payments on lease liabilities		**(1.0)**	(0.3)
Cash generated/(used) from financing activities		**620.5**	(7.8)
Net increase in cash and cash equivalents		**213.7**	92.1
Cash and cash equivalents at the beginning of the period	15	**2,102.8**	1,324.2
Cash and cash equivalents at the end of the period	15	**2,316.5**	1,416.3
Movement in cash and cash equivalents		**213.7**	92.1

[1] Consistent with the restatement in the 2019 Annual Report and Accounts, the Group has restated the prior period comparatives for the interest expense on the £22.0m Perpetual Subordinated Bonds previously classified as equity (see note 1).

[2] The Group has reclassified the prior year comparatives to include all components of amounts owed to credit institutions as financing activities. Previously the Group classified the Bank or England Term Funding Scheme and Indexed Long-Term Repo scheme as financing activities and other components as changes in operating assets and liabilities.

The notes on pages 47 to 90 form an integral part of these condensed financial statements.

Notes to the Condensed Consolidated Financial Statements

1. Restatement of prior period

For the year ended 31 December 2019 the Group identified that a clause in the terms of the Group's £22.0m Perpetual Subordinated Bonds ('PSB') relating to the Board's discretion over the payment of coupons was conditional and hence the PSBs were incorrectly classified as equity. The Group has restated the 2019 interim comparatives accordingly to classify the £22.0m PSBs as a financial liability.

The impact of adjusting the prior period reported balances is shown in the table below:

30 June 2019	Group £m	Adjustment £m	Restated Group £m
Statement of Changes in Equity			
Retained earnings	479.2	(0.3)	478.9
Equity bonds	82.0	(22.0)	60.0
Statement of cash flows			
Profit before taxation	91.0	(0.5)	90.5
Adjustments for non-cash items	18.6	0.5	19.1
Interest paid on bonds and subordinated debt	(0.8)	(0.5)	(1.3)
Coupon paid on equity bonds	(3.3)	0.5	(2.8)
Statement of Comprehensive Income			
Interest payable and similar charges	(76.9)	(0.5)	(77.4)
Profit before taxation	91.0	(0.5)	90.5

2. Accounting policies

The principal accounting policies applied in the preparation of the accounts for the Group are set out below.

a) Basis of preparation

These Interim Group Financial Statements have been prepared in accordance with the Disclosure Guidance and Transparency Rules ('DTR') of the FCA and in accordance with International Accounting Standard 34 Interim Financial Reporting as adopted by the EU.

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 EU 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 Interim Report as at 30 June 2019 and last Annual Report and Accounts for the year ended 31 December 2019.

The comparative figures for the year ended 31 December 2019 are not the Group's statutory accounts for that financial year. The statutory accounts for the year ended 31 December 2019 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.

2. Accounting policies (continued)

These interim financial statements were authorised for issue by the Company's Board of Directors on 27 August 2020.

b) Accounting standards

All accounting policies applied are consistent with those set out on pages 166 to 178 of the 2019 Annual Report and Accounts.

c) Going concern

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

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

The COVID-19 assessment, which focused on the Group's capital, liquidity and operational resilience, included the following actions:

- Financial and capital forecasts were prepared under stress scenarios which were assessed against the latest COVID-19 related economic forecasts provided by the Group's external economic advisors. Reverse stress tests were also run, to assess what combinations of House Price Index and unemployment variables would utilise regulatory capital buffers in full and breach the Group's minimum prudential requirements. The Directors assessed the likelihood of those reverse stress scenarios occurring within the next 12 months and concluded that the likelihood is remote.

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

Future operational resilience was assessed, including the ability to achieve social distancing within offices and to continue to support significant levels of home working; adapt the IT technology and network to continue to support home working, establish and maintain internal and external communications; adapt how regulatory engagement is managed; and plan for a phased return to offices in line with government guidance. The assessment also covered the operational resilience of material outsourcing arrangements.

These projections show that the Group has sufficient capital and liquidity to continue to meet its regulatory capital requirements as set out by the PRA.

The Board has therefore concluded that the Group has sufficient resources to continue in operational existence for a period in excess of 12 months and as a result, after considering the impact of COVID-19, it is appropriate to prepare these Interim Group Financial Statements on a going concern basis.

d) Segmental reporting

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

The Group lends within the UK and the Channel Islands.

2. Accounting policies (continued)

Following the combination with Charter Court Financial Services Group plc ('CCFS') ('the Combination'), the Group segments its lending business and operates under two segments:

- OneSavings Bank plc ('OSB')
- CCFS

Prior to the Combination, the Group operated under two segments: Buy-to-Let/SME ('BTL/SME') and Residential mortgages. The Group separately discloses the impact of Combination accounting but does not consider this a business segment.

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

3. Judgements and estimates

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

The judgements and estimates made by the Group in the application of its accounting policies are set out on pages 179 to 181 of the 2019 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:

Loan book impairments – forward-looking macroeconomic scenarios

The following tables disclose the expected credit loss ('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. Non-modelled ECL comprises individually assessed provisions and post model adjustments:

	Weighted	**100% Base case scenario**	**100% Upside scenario**	**100% Downside scenario**	**100% Severe downside scenario**
At 30 June 2020 (Unaudited)					
Total loans before provisions, £m	**18,833.7**	**18,833.7**	**18,833.7**	**18,833.7**	**18,833.7**
Modelled ECL, £m	**83.3**	**65.4**	**37.8**	**141.4**	**190.5**
Non-modelled ECL, £m	**13.1**	**13.1**	**13.1**	**13.1**	**13.1**
Total ECL, £m	**96.4**	**78.5**	**50.9**	**154.5**	**203.6**
ECL coverage, %	**0.51**	**0.42**	**0.27**	**0.82**	**1.08**
At 31 December 2019 (Audited)					
Total loans before provisions, £m	18,467.6	18,467.6	18,467.6	18,467.6	18,467.6
Modelled ECL, £m	37.4	24.4	14.6	48.1	62.5
Non-modelled ECL, £m	5.5	5.5	5.5	5.5	5.5
Total ECL, £m	42.9	29.9	20.1	53.6	68.0
ECL coverage, %	0.23	0.16	0.11	0.29	0.37

3. Judgements and estimates (continued)

In accordance with PRA COVID-19 guidance, the Group does not automatically consider the take up of customer payment holidays to be an indication of a significant increase in credit risk ('SICR'), and in the absence of other indicators such as previous arrears, low credit score or high other indebtedness, the staging of these loans remains unchanged in its ECL calculations. If the Group reclassified all customers on a COVID-19 payment holiday who have shown no SICR from stage 1 to stage 2 the Group's ECL would increase by £15.4m as at 30 June 2020.

Loan book acquisition accounting and effective interest rate
There have been no significant changes in key judgements and assumptions for acquisition accounting and income recognition and effective interest rate ('EIR') calculations compared to those applied at 31 December 2019, as described on pages 179 to 181 of the 2019 Annual Report and Accounts.

Mortgage prepayments slowed in the second quarter of 2020, due to the pandemic and associated lock-down restrictions. However, the Group continues to use long term historical observed prepayment data in EIR accounting, as there remains too much uncertainty as to the longer term impacts of COVID-19 on the economy, mortgage market and consequent customer behaviour. The Group continues to monitor the impact of COVID-19 on the prepayment and attrition rates until consistent trends within the data can be observed and applied.

A slow-down in the property market and/or a reduced supply of customer credit, due to the impact of COVID-19 on the economic outlook, could lead to reduced levels of prepayments in the future, which would extend the expected weighted average life of the mortgage book and the period spent on a higher revert rate.

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. The potential duration of a change in customer behaviour as a result of COVID-19 remains uncertain, however a period of six month's variance in the weighted average lives of the loan books was selected for this sensitivity, given the initial quick recovery in the property and mortgage markets post lockdown. This recovery was due, in part, to government stimulus in the form of a temporary reduction in stamp duty and the provision of cheaper funding to banks, in the form of the Bank of England's Term Funding Scheme for SMEs.

Applying a six month extension in the expected weighted average life of the loan books, would result in a reset gain of c.£57.0m. This includes a £25.0m gain from adjusting the amortisation of the fair value uplift on the CCFS loan book, which was recognised on the Combination of OSB and CCFS on 4 October 2019. It also includes a £15.0m gain in relation to the Kent Reliance loan book, where the impact of the proactive Choices programme, which offers borrowers a new product as an alternative to paying the Bank's higher Standard Variable Rate ('SVR'), may significantly reduce the likelihood of borrowers extending the period of time paying SVR and reduce the amount of the potential reset gain.

Applying a six month reduction in the expected weighted average life of the loan books, would result in a reset loss of c.£46.0m. This includes a £28.0m loss from adjusting the amortisation of the fair value uplift on the CCFS loan book and a £1.0m loss in relation to the Kent Reliance loan book.

4. Interest receivable and similar income

	Six months ended 30-Jun-20 (Unaudited) £m	Six months ended 30-Jun-19 (Unaudited) £m
At amortised cost:		
On OSB mortgages	**248.6**	227.5
On CCFS mortgages	**166.3**	-
On investment securities	**1.5**	-
On other liquid assets	**4.0**	5.0
Amortisation of fair value adjustments on CCFS loan book at Combination	**(34.9)**	-
At fair value through profit or loss:		
Net expense on derivative financial instruments - lending activities	**(17.4)**	(5.1)
On CCFS mortgages	**0.3**	-
At FVOCI:		
On investment securities	**3.1**	0.5
	371.5	227.9

5. Interest payable and similar charges

	Six months ended 30-Jun-20 (Unaudited) £m	Restated[1] Six months ended 30-Jun-19 (Unaudited) £m
On retail deposits	**134.9**	70.2
On Bank of England borrowings	**4.7**	5.6
On Perpetual Subordinated Bonds[1]	**0.8**	0.9
On subordinated liabilities	**0.4**	0.4
On wholesale borrowings	**2.6**	0.6
On debt securities in issue	**1.4**	-
On lease liabilities	**0.2**	-
Amortisation of fair value adjustments on CCFS loan book at Combination	**(1.9)**	-
Net income on derivative financial instruments - savings activities	**(5.4)**	(0.3)
	137.7	77.4

[1] Consistent with the restatement in the 2019 Annual Report and Accounts, the Group has restated the prior period comparatives to include the interest expense on the £22.0m PSBs previously classified as equity (see note 1).

6. Fair value losses on financial instruments

	Six months ended 30-Jun-20 (Unaudited) £m	Restated[1] Six months ended 30-Jun-19 (Unaudited) £m
Fair value changes in hedged assets	**137.8**	(50.2)
Hedging of assets	**(145.4)**	50.1
Fair value changes in hedged liabilities	**(15.1)**	3.7
Hedging of liabilities	**16.3**	(4.5)
Ineffective portion of hedges	**(6.4)**	(0.9)
Net loss on unmatched swaps	**(13.8)**	(4.6)
Amortisation of inception adjustment	**10.9**	-
Amortisation of fair value adjustments on hedged assets	**(1.7)**	(2.0)
Fair value movements on loans held at FVTPL	**(1.2)**	-
Debit and credit valuation adjustment	**0.1**	0.1
	(12.1)	(7.4)

[1] The Group has reclassified the 2019 comparatives as the fair value changes in hedged assets/liabilities had been incorrectly disclosed as hedging of assets/liabilities and vice versa.

Amortisation of inception adjustment relates to the fair value of the hedged item at the start of hedge accounting and includes £5.1m of hedged assets and liabilities recognised on the Combination where pre-existing hedge relationships ceased on the date of Combination and fair value movements of hedged assets and liabilities prior to new hedge accounting relationships commencing. Inception adjustments are amortised over the life of the underlying derivative instruments.

Net loss on unmatched swaps is due primarily to fair value movements on mortgage pipeline swaps prior to them being matched against completed mortgages, following a significant flattening of the LIBOR and SONIA curves. This unrealised loss will unwind over the life of the swaps.

Amortisation of fair value adjustments on hedged assets relates to hedged assets and liabilities where the hedges were terminated before maturity and were effective at the point of termination.

7. Gain on sale of financial instruments

On 17 January 2020, the Group sold the Canterbury A2 note for proceeds of £225.4m. After incurring costs of £0.2m, the Group recognised a gain on sale of £1.9m.

On 23 January 2020, the Group sold the F note and residual certificates of the Canterbury securitisation for proceeds of £23.6m. The sale resulted in the Group having no remaining interest in the Canterbury securitisation, with consolidation of Canterbury into the OSB Group ceasing on disposal. The Group recognised a gain on sale of £16.0m upon deconsolidation.

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

Notes to the Condensed Consolidated Financial Statements (continued)

8. Administrative expenses

	Six months ended 30-Jun-20 (Unaudited) £m	Six months ended 30-Jun-19 (Unaudited) £m
Staff costs	**41.6**	22.5
Facilities costs	**3.0**	1.6
Marketing costs	**2.4**	1.6
Support costs	**9.2**	5.0
Professional fees	**10.7**	3.0
Other costs[1]	**2.3**	4.2
Depreciation	**2.9**	1.6
Amortisation	**4.6**	1.4
	76.7	40.9

[1] Other costs mainly comprise irrecoverable VAT. In 2020 the Group has included the irrecoverable VAT within the underlying expense apart from reverse recharge VAT on services provided by OSB India.

The average number of people employed by the Group (including executive Directors) during the first half of 2020 is analysed below:

	Six months ended 30-Jun-20 (Unaudited)	Reclassified[1] Six months ended 30-Jun-19 (Unaudited)
OSB		
Operations	**839**	802
Support functions	**301**	270
CCFS		
Operations	**585**	-
Support functions	**103**	-
	1,828	1,072

[1.] For the year ended 31 December 2019 the Group updated the definition of support and operations functions and has reclassified the 2019 interim comparatives accordingly.

9. Impairment of intangible assets

Assets arising on the Combination with CCFS in 2019 included a broker relationships intangible asset with a fair value of £17.1m on Combination. A key input to the calculation of the fair value was CCFSs anticipated lending volumes which have been impacted by COVID-19, indicating that the asset is impaired. The recoverable amount of the asset has been estimated and an impairment of £7.0m has been recognised. The remaining carrying value of the broker relationships intangible asset at 30 June 2020 is £7.0m (2019: £16.1m).

Notes to the Condensed Consolidated Financial Statements (continued)

10. Integration costs

	Six months ended 30-Jun-20 (Unaudited) £m	Six months ended 30-Jun-19 (Unaudited) £m
Consultant fees	**1.6**	-
Staff costs	**4.7**	-
	6.3	-

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

Staff costs relate to key personnel who will leave the Group under the new operating model, but have been retained to assist in the integration for a fixed period, and redundancy costs in relation to transferring the Prestige Finance Limited activities to Precise Mortgages.

11. Exceptional items

	Six months ended 30-Jun-20 (Unaudited) £m	Six months ended 30-Jun-19 (Unaudited) £m
Consultant fees	**0.9**	3.9
Legal and professional fees	**0.8**	2.1
Heritable option	**-**	(0.1)
	1.7	5.9

Exceptional items comprise additional expenses in relation to the Combination with CCFS in 2019 and fees in relation to the Group's future operating structure.

12. Taxation

	Six months ended 30-Jun-20 (Unaudited) £m	Six months ended 30-Jun-19 (Unaudited) £m
Corporation taxation	**(35.8)**	(21.9)
Deferred taxation	**0.4**	(0.6)
Tax in respect of prior periods	**-**	(2.7)
Release of deferred taxation on CCFS Combination[1]	**8.1**	-
Total taxation	**(27.3)**	(25.2)

[1] Release of deferred taxation on CCFS Combination relates to the unwind of the deferred tax liability recognised on the fair value adjustment of the CCFS assets and liabilities at the Combination date and intangible assets recognised on Combination.

12. Taxation (continued)

The taxation on the Group's profit before taxation differs from the theoretical amount that would arise using the weighted average taxation rate applicable to profits of the Group as follows:

	Six months ended 30-Jun-20 (Unaudited) £m	Restated[1] Six months ended 30-Jun-19 (Unaudited) £m
Profit before taxation	**99.3**	90.5
Profit multiplied by the weighted average rate of corporation tax in the UK during 2020 of 19% (2019: 19%)	**(18.9)**	(17.2)
Bank surcharge[2]	**(3.5)**	(4.4)
Taxation effects of:		
Expenses not deductible for taxation purposes	**(1.8)**	(1.1)
Impact of deferred tax rate change	**(4.6)**	-
Adjustments in respect of earlier years	**-**	(2.7)
Income not taxable	**1.0**	-
Tax adjustments in respect of share-based payments	**(0.6)**	(0.1)
Impact of tax losses carried forward	**0.1**	-
Tax on AT1 securities	**0.7**	0.8
Timing differences on capital items	**0.4**	(0.5)
Other	**(0.1)**	-
Total taxation charge	**(27.3)**	(25.2)

[1] Consistent with the restatement in the 2019 Annual Report and Accounts, the Group has reclassified the prior period comparatives for the taxation on the interest expense on the £22.0m PSBs previously classified as equity with: profit before tax reducing by £0.5m, profit multiplied by the average rate of corporation tax increasing by £0.1m and tax on AT1 securities (previously tax on coupon on equity bonds) decreasing by £0.1m.
[2] Charge for the two banking entities of £7.1m offset by the tax impact of unwinding CCFS Combination items of £3.6m.

A reduction in the UK corporation tax rate from 19% to 18% (effective from 1 April 2020) was substantively enacted on 26 October 2015. An additional reduction to 17% (effective from 1 April 2020) was substantively enacted on 6 September 2016. The Government cancelled these rate reductions on 19 March 2020, with the UK corporation tax rate remaining at 19% from 1 April 2020.

Notes to the Condensed Consolidated Financial Statements (continued)

13. Earnings per share

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

For the purpose of calculating EPS, profit attributable to ordinary shareholders is arrived at by adjusting profit for the period for the coupons on AT1 Securities classified as equity. The tax on coupons is included within the profit for the period, in line with the requirements of IAS 12 Income Taxes.

	Six months ended 30-Jun-20 (Unaudited) £m	Restated[1] Six months ended 30-Jun-19 (Unaudited) £m
Profit before taxation	**99.3**	90.5
Taxation	**(27.3)**	(25.2)
Profit for the period	**72.0**	65.3
Adjustments:		
Coupons on AT1 securities classified as equity	**(2.7)**	(2.8)
Profit attributable to ordinary shareholders	**69.3**	62.5
Add-back integration costs:		
Add-back integration costs	**6.3**	-
Tax on integration costs	**(1.7)**	-
Add-back exceptional items:		
Exceptional items	**1.7**	5.9
Tax on Heritable option	**-**	2.6
Add-back other CCFS acquisition-related items:		
Amortisation of fair value adjustments	**33.0**	-
Amortisation of inception adjustment	**(5.1)**	-
Amortisation of fair value adjustments on hedged assets	**(1.4)**	-
Amortisation of intangible assets acquired	**2.6**	-
Gain on sale of financial instruments[2]	**13.1**	-
Impairment of financial assets	**(0.2)**	-
Impairment of intangible assets	**7.0**	-
Release of deferred taxation	**(8.1)**	-
Underlying profit attributable to ordinary shareholders	**116.5**	71.0

[1] Consistent with the restatement in the 2019 Annual Report and Accounts, the Group has reclassified the prior period comparatives for the interest expense and tax on the £22.0m PSBs previously classified as equity, decreasing profit before tax and increasing coupons on AT1 securities classified as equity (previously coupons on PSBs and AT1 securities classified as equity) by £0.5m (see note 1).
[2] The fair value uplift on Combination on CCFS assets that were subsequently sold (see note 7).

Notes to the Condensed Consolidated Financial Statements (continued)

13. Earnings per share (continued)

Earnings per share are summarised in the table below:

	Six months ended 30-Jun-20 (Unaudited)	Six months ended 30-Jun-19 (Unaudited)
Weighted average number of shares, millions		
Basic	**445.9**	244.9
Dilutive impact of share-based payment schemes	**2.2**	1.9
Diluted	**448.1**	246.8
Earnings per share, pence per share		
Basic	**15.5**	25.5
Diluted	**15.5**	25.3
Underlying earnings per share, pence per share		
Basic	**26.1**	29.0
Diluted	**26.0**	28.8

14. Dividends

During the period, the Bank paid the following dividends:

	Six months ended 30-Jun-20 (Unaudited)		Six months ended 30-Jun-19 (Unaudited)	
	£m	**Pence per share**	£m	Pence per share
Final dividend for the prior year	**-**	**-**	25.3	10.3

In order to help serve the needs of businesses and households through the extraordinary challenges presented by COVID-19, the Board cancelled the payment of the final 2019 dividend in relation to ordinary shares, which was due to be paid on 13 May 2020. The Board will continue to assess the appropriateness of dividend payments and decide on any dividend policy and amounts at year end 2020.

A summary of the Bank's distributable reserves from which dividends can be paid are shown below:

	Six months ended 30-Jun-20 (Unaudited) £m	Year ended 31-Dec-19 (Audited) £m
Retained earnings	**448.7**	407.0
Unrealised gains[1]	**(135.4)**	(52.8)
Other distributable reserves	**4.4**	5.3
Distributable reserves	**317.7**	359.5

[1] Unrealised gains relate to the Bank's fair value adjustments on hedged assets.

15. Cash and cash equivalents

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

	As at 30-Jun-20 (Unaudited) £m	As at 31-Dec-19 (Audited) £m	As at 30-Jun-19 (Unaudited) £m	As at 31-Dec-18 (Audited) £m
Cash in hand	**0.5**	0.4	0.3	0.4
Unencumbered loans and advances to credit institutions	**2,316.0**	2,052.5	1,416.0	1,323.8
Investment securities with an original maturity less than 3 months	**-**	49.9	-	-
	2,316.5	2,102.8	1,416.3	1,324.2

16. Loans and advances to credit institutions

	As at 30-Jun-20 (Unaudited) £m	As at 31-Dec-19 (Audited) £m
Unencumbered:		
Bank of England call account	**2,150.1**	1,916.2
Call accounts	**119.0**	81.7
Cash held in special purpose vehicles[1]	**40.5**	44.0
Term deposits	**6.4**	10.6
Encumbered:		
Bank of England cash ratio deposit	**47.4**	41.7
Swap margin given	**234.2**	110.4
	2,597.6	2,204.6

[1] Cash held in special purpose vehicle is ring-fenced for the use in managing the Group's securitised debt facilities under the terms of securitisation agreements.

17. Investment securities

	As at 30-Jun-20 (Unaudited) £m	As at 31-Dec-19 (Audited) £m
Held at FVOCI:		
UK and EU Sovereign debt	**191.0**	149.8
RMBS loan notes	**358.3**	358.9
	549.3	508.7
Held at amortised cost:		
RMBS loan notes	**205.8**	126.6
	205.8	126.6
	755.1	635.3

Notes to the Condensed Consolidated Financial Statements (continued)

17. Investment securities (continued)

Movements during the period of investment securities held by the Group are analysed as follows:

	As at 30-Jun-20 (Unaudited) £m	As at 31-Dec-19 (Audited) £m
At 1 January 2020	**635.3**	58.9
Additions	**291.9**	439.8
CCFS Combination	**-**	493.5
Disposals and maturities	**(171.6)**	(357.7)
Changes in fair value	**(0.5)**	0.8
At 31 June 2020	**755.1**	635.3

18. Loans and advances to customers

	As at 30-Jun-20 (Unaudited) £m	As at 31-Dec-19 (Audited) £m
Held at amortised cost:		
Loans and advances (see note 19)	**18,781.1**	18,419.9
Finance leases (see note 20)	**52.6**	47.7
	18,833.7	18,467.6
Less: Expected credit losses (see note 21)	**(96.4)**	(42.9)
	18,737.3	18,424.7
Residential mortgages held at fair value	**19.9**	22.1
	18,757.2	18,446.8

19. Loans and advances

	As at 30-Jun-20 (Unaudited)			As at 31-Dec-19 (Audited)		
	OSB £m	**CCFS £m**	**Total £m**	OSB £m	CCFS £m	Total £m
Gross carrying amount						
Stage 1	**9,507.3**	**6,879.9**	**16,387.2**	9,999.2	7,240.0	17,239.2
Stage 2	**1,037.2**	**898.6**	**1,935.8**	442.4	307.1	749.5
Stage 3	**286.6**	**45.2**	**331.8**	277.7	16.7	294.4
Stage 3 (POCI)	**53.5**	**72.8**	**126.3**	53.6	83.2	136.8
	10,884.6	**7,896.5**	**18,781.1**	10,772.9	7,647.0	18,419.9

During the period the Group acquired the £63.0m residual mortgage pool from Precise Mortgage Funding ('PMF') 2015-2 at par, recognising the loans at fair value which was equal to the carrying value.

Notes to the Condensed Consolidated Financial Statements (continued)

19. Loans and advances (continued)

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

	Stage 1 £m	Stage 2 £m	Stage 3 £m	Stage 3 (POCI) £m	Total £m
At 1 January 2019	8,279.6	436.8	225.4	56.2	8,998.0
Originations[1]	4,098.6	-	-	-	4,098.6
CCFS Combination	7,091.1	43.5	-	94.4	7,229.0
Repayments and write-offs[3]	(1,825.2)	(21.6)	(47.5)	(17.3)	(1,911.6)
Transfers:					
- To Stage 1	176.9	(162.7)	(14.2)	-	-
- To Stage 2	(495.9)	517.7	(21.8)	-	-
- To Stage 3	(86.1)	(64.5)	150.6	-	-
Incurred loss protection	0.2	0.3	1.9	3.5	5.9
At 1 January 2020	17,239.2	749.5	294.4	136.8	18,419.9
Originations[1]	**2,113.8**	**-**	**-**	**-**	**2,113.8**
Acquisition[2]	**60.8**	**-**	**-**	**1.5**	**62.3**
Disposals	**(386.0)**	**(7.8)**	**-**	**-**	**(393.8)**
Repayments and write-offs[3]	**(1,384.2)**	**(6.2)**	**(19.1)**	**(12.1)**	**(1,421.6)**
Transfers:					
- To Stage 1	**201.6**	**(185.3)**	**(16.3)**	**-**	**-**
- To Stage 2	**(1,415.5)**	**1,441.3**	**(25.8)**	**-**	**-**
- To Stage 3	**(42.3)**	**(56.2)**	**98.5**	**-**	**-**
Incurred loss protection	**(0.2)**	**0.5**	**0.1**	**0.1**	**0.5**
At 30 June 2020 (Unaudited)	**16,387.2**	**1,935.8**	**331.8**	**126.3**	**18,781.1**

[1] Originations include further advances and drawdowns on existing commitments.
[2] Mortgages acquired from Precise Mortgage Funding 2015-2.
[3] Repayments and write-offs include customer redemptions.

20. Finance leases

	As at 30-Jun-20 (Unaudited) £m	As at 31-Dec-19 (Audited) £m
Gross investment in finance leases receivable		
Less than one year	**16.9**	14.1
Between one and five years	**41.1**	38.5
More than five years	**1.3**	1.2
	59.3	53.8
Unearned finance income	**(6.7)**	(6.1)
Net investment in finance leases	**52.6**	47.7
Net investment in finance leases receivable		
Less than one year	**14.2**	11.5
Between one and five years	**37.2**	35.0
More than five years	**1.2**	1.2
	52.6	47.7

The Group has recognised £3.5m of ECLs on finance leases as at 30 June 2020 (31 December 2019: £0.3m).

21. Expected credit loss

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

	As at 30-Jun-20 (Unaudited)			As at 31-Dec-19 (Audited)		
Group	**ECL provision £m**	**Weighting %**	**Weighted ECL provision £m**	ECL provision £m	Weighting %	Weighted ECL provision £m
Scenarios						
Upside	**37.8**	**30**	**11.3**	14.6	10	1.5
Base case	**65.4**	**40**	**26.2**	24.4	40	9.8
Downside scenario	**141.4**	**23**	**32.5**	48.1	35	16.8
Severe downside scenario	**190.5**	**7**	**13.3**	62.5	15	9.4
Total weighted provisions			**83.3**			37.4
Non-modelled Provisions:						
Individually assessed provisions	-	-	**6.0**	-	-	4.2
Post model adjustments[1]	-	-	**7.1**	-	-	1.3
Total provision			**96.4**			42.9

[1]Post model adjustments have been made to a number of probabilities of default models for OSB to ensure predicted estimates are aligned to recently observed actual performance. Where model predictions more closely align with actual performance these post model adjustments will be reduced or removed over time. The Group is currently developing second generation models which will replace existing models, with a target implementation date before the end of the year 2020.

21. Expected credit loss (continued)

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

	As at 30-Jun-20 (Unaudited)			As at 31-Dec-19 (Audited)		
	OSB £m	**CCFS £m**	**Total £m**	OSB £m	CCFS £m	Total £m
Expected credit loss						
Stage 1	**17.4**	**10.7**	**28.1**	3.5	2.1	5.6
Stage 2	**17.6**	**9.1**	**26.7**	3.6	2.0	5.6
Stage 3	**30.4**	**2.0**	**32.4**	23.4	0.4	23.8
Stage 3 (POCI)	**5.6**	**3.6**	**9.2**	5.1	2.8	7.9
	71.0	**25.4**	**96.4**	35.6	7.3	42.9

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

	Stage 1 £m	**Stage 2 £m**	**Stage 3 £m**	**Stage 3 (POCI) £m**	**Total £m**
At 1 January 2019	4.5	5.6	10.2	1.6	21.9
Originations	1.9	-	-	-	1.9
CCFS Combination	-	-	-	3.6	3.6
Repayments and write-offs	(0.6)	(0.4)	(4.3)	(0.2)	(5.5)
Remeasurement of loss allowance	(3.4)	(0.5)	18.8	(0.6)	14.3
Transfers:					
- To Stage 1	1.9	(1.6)	(0.3)	-	-
- To Stage 2	(0.2)	0.6	(0.4)	-	-
- To Stage 3	(0.1)	(1.0)	1.1	-	-
Changes in assumptions and model parameters	1.4	2.6	(3.2)	-	0.8
Incurred loss protection	0.2	0.3	1.9	3.5	5.9
At 1 January 2020	5.6	5.6	23.8	7.9	42.9
Originations	**3.8**	**-**	**-**	**-**	**3.8**
Repayments and write-offs	**(0.5)**	**(0.3)**	**(2.1)**	**(0.8)**	**(3.7)**
Remeasurement of loss allowance	**18.9**	**20.9**	**11.1**	**2.0**	**52.9**
Transfers:					
- To Stage 1	**1.3**	**(1.0)**	**(0.3)**	**-**	**-**
- To Stage 2	**(0.7)**	**1.8**	**(1.1)**	**-**	**-**
- To Stage 3	**(0.1)**	**(0.8)**	**0.9**	**-**	**-**
Incurred loss protection	**(0.2)**	**0.5**	**0.1**	**0.1**	**0.5**
At 30 June 2020 (Unaudited)	**28.1**	**26.7**	**32.4**	**9.2**	**96.4**

Notes to the Condensed Consolidated Financial Statements (continued)

21. Expected credit loss (continued)

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

Group	**As at 30-Jun-20 (Unaudited)** Carrying value £m	ECL £m	Coverage %	As at 31-Dec-19 (Audited) Carrying value £m	ECL £m	Coverage %
Criteria:						
Relative probability of default movement	**897.8**	**16.1**	**1.79**	588.2	4.8	0.82
Qualitative measures	**897.0**	**9.0**	**1.00**	79.8	0.4	0.44
30 days past due backstop	**146.8**	**1.6**	**1.09**	81.5	0.4	0.54
Total	**1,941.6**	**26.7**	**1.38**	749.5	5.6	0.75

22. Impairment of financial assets

	Six months ended 30-Jun-20 (Unaudited) £m	Six months ended 30-Jun-19 (Unaudited) £m
Write-offs in period	**1.1**	1.5
Disposals	**(0.4)**	-
Increase in provision	**53.5**	4.4
	54.2	5.9

23. Fair value adjustments on hedged items

	As at 30-Jun-20 (Unaudited) £m	As at 31-Dec-19 (Audited) £m
Hedged assets		
Current hedge relationships	**224.8**	64.2
Swap inception adjustment	**(87.7)**	(67.8)
Cancelled hedge relationships	**58.0**	20.4
	195.1	16.8
Hedged liabilities		
Current hedge relationships	**(25.8)**	(2.9)
Swap inception adjustment	**10.0**	8.0
	(15.8)	5.1

The fair value adjustments on hedged assets in respect of cancelled hedge relationships represent the fair value adjustment for interest rate risk on legacy long-term fixed rate mortgages (c.25 years at origination) where the interest rate swap hedges were terminated before maturity and were effective at the point of termination.

23. Fair value adjustments on hedged items (continued)

Amortisation of inception adjustment relates to the fair value of the hedged item at the start of hedge accounting and includes hedged assets and liabilities recognised on the Combination where pre-existing hedge relationships ceased on the date of Combination and fair value movements of hedged assets and liabilities prior to new hedge accounting relationships commencing. The inception adjustments are being amortised over the life of the derivative instruments. The inception adjustment on Combination recognises an offsetting asset or liability to the fair value of the derivative instruments on the date of Combination.

24. Amounts owed to credit institutions

	As at 30-Jun-20 (Unaudited) £m	As at 31-Dec-19 (Audited) £m
Bank of England TFS	**2,568.4**	2,632.8
Bank of England TFSME	**100.0**	-
Bank of England ILTR	**756.1**	290.6
Warehouse funding	**-**	93.6
Commercial repo	**-**	41.4
Swap margin received	**-**	8.0
Loans from credit institutions	**2.3**	2.4
	3,426.8	3,068.8

25. Amounts owed to retail depositors

	As at 30-Jun-20 (Unaudited) £m	As at 31-Dec-19 (Audited) £m
Fixed rate deposits	**11,087.0**	10,525.5
Variable rate deposits	**5,610.3**	5,729.5
	16,697.3	16,255.0

26. Debt securities in issue

	As at 30-Jun-20 (Unaudited) £m	As at 31-Dec-19 (Audited) £m
Asset-backed loan notes at amortised cost	**325.7**	296.3
Amount due for settlement within 12 months	**-**	40.1
Amount due for settlement after 12 months	**325.7**	256.2
	325.7	296.3

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

Notes to the Condensed Consolidated Financial Statements (continued)

26. Debt securities in issue (continued)

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

Interest is payable at fixed margins above LIBOR or SONIA.

As at 30 June 2020, notes were issued through the following funding vehicles:

	As at 30-Jun-20 (Unaudited) £m	As at 31-Dec-19 (Audited) £m
Charter Mortgage Funding 2020-1 plc	**325.7**	-
Canterbury Finance No.1 plc	**-**	256.2
Precise Mortgage Funding 2015-1 plc	**-**	40.1
	325.7	296.3

27. Lease liabilities

	As at 30-Jun-20 (Unaudited) £m	As at 31-Dec-19 (Audited) **£m**
At 1 January	**13.3**	3.8
CCFS Combination	**-**	7.7
New leases	**-**	3.6
Lease terminated	**-**	(0.8)
Lease repayments	**(1.0)**	(1.1)
Interest accruals	**0.2**	0.1
	12.5	13.3

28. Provisions and contingent liabilities

An analysis of the Group's FSCS and other provisions is presented below:

	FSCS £m	**Other regulatory provisions £m**	**ECL on undrawn loan facilities £m**	**Total £m**
At 1 January 2019	0.1	1.7	-	1.8
Paid during the year	(0.1)	(0.1)	-	(0.2)
(Credit)/charge	(0.2)	-	0.2	-
At 1 January 2020	(0.2)	1.6	0.2	1.6
Refund during the period	**0.3**	**-**	**-**	**0.3**
Charge	**-**	**-**	**0.1**	**0.1**
At 30 June 2020 (Unaudited)	**0.1**	**1.6**	**0.3**	**2.0**

28. Provisions and contingent liabilities (continued)

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

29. Reconciliation of cash flows for financing activities

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

	Amounts owed to credit institutions (See note 24) £m	**Debt securities in issue (See note 26) £m**	**Subordinated liabilities £m**	**PSBs £m**	**Total £m**
At 1 January 2020	3,068.8	296.3	10.6	37.6	3,413.3
Cash movements:					
Principal drawdowns	**915.0**	**335.7**	**-**	**-**	**1,250.7**
Principal repayments	**(553.0)**	**(49.4)**	**-**	**-**	**(602.4)**
Deconsolidation of special purpose vehicles	**-**	**(256.2)**	**-**	**-**	**(256.2)**
Non-cash movements:					
Accrued interest movement	**(4.0)**	**(0.7)**	**-**	**-**	**(4.7)**
At 30 June 2020 (Unaudited)	**3,426.8**	**325.7**	**10.6**	**37.6**	**3,800.7**

	Amounts owed to credit institutions £m	Debt securities in issue £m	Subordinated liabilities £m	PSBs £m	Total £m
At 1 January 2019	1,584.0	-	10.8	37.6	1,632.4
Cash movements:					
Principal drawdowns	102.9	-	-	-	102.9
Principal repayments	(81.0)	-	-	-	(81.0)
Non-cash movement:					
Accrued interest movement	-	-	-	-	-
At 30 June 2019 (Unaudited)	1,605.9	-	10.8	37.6	1,654.3

30. Risk management

The tables below are a summary of the Group's risk management and financial instruments disclosures, of which a complete disclosure for the year ended 31 December 2019 is included in the Group's 2019 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 table shows the Group's maximum exposure to credit risk from loans and advances 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-20 (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	**9,548.1**	**9,497.6**	**6,879.9**	**6,877.7**	**16,428.0**	**16,375.3**
Stage 2	**1,043.0**	**1,036.4**	**898.6**	**898.6**	**1,941.6**	**1,935.0**
Stage 3	**292.6**	**285.9**	**45.2**	**45.2**	**337.8**	**331.1**
Stage 3 (POCI)	**53.5**	**53.4**	**72.8**	**72.8**	**126.3**	**126.2**
	10,937.2	**10,873.3**	**7,896.5**	**7,894.3**	**18,833.7**	**18,767.6**

	As at 31-Dec-19 (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	10,046.9	9,987.1	7,240.0	7,239.5	17,286.9	17,226.6
Stage 2	442.4	441.8	307.1	307.0	749.5	748.8
Stage 3	277.7	275.2	16.7	16.7	294.4	291.9
Stage 3 (POCI)	53.6	50.1	83.2	83.1	136.8	133.2
	10,820.6	10,754.2	7,647.0	7,646.3	18,467.6	18,400.5

The Group's main form of collateral held is property, based in the UK and the Channel Islands.

30. Risk management (continued)

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

LTV analysis by band for all loans:

	As at 30-Jun-20 (Unaudited)				As at 31-Dec-19 (Audited)			
	OSB £m	**CCFS £m**	**Total £m**	**%**	OSB £m	CCFS £m	Total £m	%
Band								
0% - 50%	**1,667.5**	**440.7**	**2,108.2**	**11**	1,732.6	567.8	2,300.4	12
50% - 60%	**1,419.7**	**475.1**	**1,894.8**	**10**	1,301.8	612.3	1,914.1	10
60% - 70%	**2,426.1**	**1,106.4**	**3,532.5**	**19**	2,435.7	1,588.5	4,024.2	22
70% - 80%	**4,003.2**	**4,774.8**	**8,778.0**	**46**	4,182.1	4,236.3	8,418.4	46
80% - 90%	**1,134.8**	**1,098.4**	**2,233.2**	**12**	946.0	641.5	1,587.5	9
90% - 100%	**157.5**	**1.1**	**158.6**	**1**	91.1	0.6	91.7	-
>100%	**128.4**	**-**	**128.4**	**1**	131.3	-	131.3	1
Total loans before provisions	**10,937.2**	**7,896.5**	**18,833.7**	**100**	10,820.6	7,647.0	18,467.6	100

LTV analysis by band for OSB:

	As at 30-Jun-20 (Unaudited)				As at 31-Dec-19 (Audited)			
	BTL/SME £m	**Residential £m**	**Total £m**	**%**	BTL/SME £m	Residential £m	Total £m	%
Band								
0% - 50%	**838.6**	**828.9**	**1,667.5**	**15**	905.9	826.7	1,732.6	16
50% - 60%	**1,176.3**	**243.4**	**1,419.7**	**13**	1,062.8	239.0	1,301.8	12
60% - 70%	**2,216.3**	**209.8**	**2,426.1**	**22**	2,240.2	195.5	2,435.7	23
70% - 80%	**3,782.5**	**220.7**	**4,003.2**	**38**	3,993.5	188.6	4,182.1	38
80% - 90%	**790.1**	**344.7**	**1,134.8**	**10**	621.4	324.6	946.0	9
90% - 100%	**69.5**	**88.0**	**157.5**	**1**	45.1	46.0	91.1	1
>100%	**113.1**	**15.3**	**128.4**	**1**	114.3	17.0	131.3	1
Total loans before provisions	**8,986.4**	**1,950.8**	**10,937.2**	**100**	8,983.2	1,837.4	10,820.6	100

Notes to the Condensed Consolidated Financial Statements (continued)

30. Risk management (continued)

LTV analysis by band for OSB BTL/SME:

	As at 30-Jun-20 (Unaudited)				
OSB	**Buy-to-Let £m**	**Commercial £m**	**Residential development £m**	**Funding lines £m**	**Total £m**
Band					
0% - 50%	**632.8**	**100.0**	**10.2**	**95.6**	**838.6**
50% - 60%	**929.5**	**101.4**	**81.0**	**64.4**	**1,176.3**
60% - 70%	**1,955.8**	**197.7**	**55.4**	**7.4**	**2,216.3**
70% - 80%	**3,290.6**	**439.6**	**-**	**52.3**	**3,782.5**
80% - 90%	**778.2**	**8.5**	**3.4**	**-**	**790.1**
90% - 100%	**69.4**	**0.1**	**-**	**-**	**69.5**
>100%	**106.5**	**4.7**	**-**	**1.9**	**113.1**
Total loans before provisions	**7,762.8**	**852.0**	**150.0**	**221.6**	**8,986.4**

	As at 31-Dec-19 (Audited)				
OSB	Buy-to-Let £m	Commercial £m	Residential development £m	Funding lines £m	Total £m
Band					
0% - 50%	579.9	96.5	125.7	103.8	905.9
50% - 60%	894.3	119.8	5.0	43.7	1,062.8
60% - 70%	1,994.1	210.2	5.0	30.9	2,240.2
70% - 80%	3,514.5	445.7	-	33.3	3,993.5
80% - 90%	603.3	7.7	10.4	-	621.4
90% - 100%	38.9	1.4	-	4.8	45.1
>100%	102.0	6.7	-	5.6	114.3
Total loans before provisions	7,727.0	888.0	146.1	222.1	8,983.2

LTV analysis by band for OSB Residential:

	As at 30-Jun-20 (Unaudited)				As at 31-Dec-19 (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%	**721.5**	**102.7**	**4.7**	**828.9**	708.0	115.4	3.3	826.7
50% - 60%	**170.1**	**70.0**	**3.3**	**243.4**	158.1	77.5	3.4	239.0
60% - 70%	**140.1**	**67.6**	**2.1**	**209.8**	122.3	70.9	2.3	195.5
70% - 80%	**170.2**	**48.5**	**2.0**	**220.7**	137.0	49.5	2.1	188.6
80% - 90%	**311.6**	**32.5**	**0.6**	**344.7**	291.7	32.3	0.6	324.6
90% - 100%	**80.9**	**6.9**	**0.2**	**88.0**	40.0	5.7	0.3	46.0
>100%	**7.6**	**7.5**	**0.2**	**15.3**	9.5	7.3	0.2	17.0
Total loans before provisions	**1,602.0**	**335.7**	**13.1**	**1,950.8**	1,466.6	358.6	12.2	1,837.4

30. Risk management (continued)

LTV analysis by band for CCFS:

	As at 30-Jun-20 (Unaudited)					
CCFS	**Buy-to-let £m**	**Residential £m**	**Bridging £m**	**Second charge £m**	**Total £m**	**%**
Band						
0% - 50%	**93.7**	**227.5**	**85.2**	**34.3**	**440.7**	**6**
50% - 60%	**189.8**	**216.6**	**29.9**	**38.8**	**475.1**	**6**
60% - 70%	**623.5**	**375.1**	**40.5**	**67.3**	**1,106.4**	**14**
70% - 80%	**3,639.8**	**1,032.2**	**44.2**	**58.7**	**4,774.8**	**60**
80% - 90%	**605.9**	**466.5**	**0.1**	**25.9**	**1,098.4**	**14**
90% - 100%	**0.4**	**0.7**	**-**	**-**	**1.1**	**-**
Total loans before provisions	**5,153.1**	**2,318.6**	**199.9**	**225.0**	**7,896.5**	**100**

	As at 31-Dec-19 (Audited)					
CCFS	Buy-to-let £m	Residential £m	Bridging £m	Second charge £m	Total £m	%
Band						
0% - 50%	144.7	261.8	121.1	40.2	567.8	7
50% - 60%	283.9	253.1	29.4	45.9	612.3	8
60% - 70%	957.0	538.6	26.6	66.3	1,588.5	21
70% - 80%	3,246.6	897.7	37.5	54.5	4,236.3	56
80% - 90%	321.5	301.4	1.2	17.4	641.5	8
90% - 100%	0.2	0.4	-	-	0.6	-
Total loans before provisions	4,953.9	2,253.0	215.8	224.3	7,647.0	100

Notes to the Condensed Consolidated Financial Statements (continued)

30. Risk management (continued)

Analysis of loan portfolio by arrears and collateral held

The tables below provide further information on collateral, capped at the value of each individual mortgage, over the mortgage portfolio by payment due status and IFRS 9 stage:

	As at 30-Jun-20 (Unaudited)					
	OSB		CCFS		Total	
	Loan balance £m	Capped collateral £m	Loan balance £m	Capped collateral £m	Loan balance £m	Capped collateral £m
Stage 1						
Not past due	**9,452.9**	**9,402.8**	**6,865.2**	**6,863.0**	**16,318.1**	**16,265.8**
Past due < 1 month	**95.2**	**94.8**	**14.7**	**14.7**	**109.9**	**109.5**
	9,548.1	**9,497.6**	**6,879.9**	**6,877.7**	**16,428.0**	**16,375.3**
Stage 2						
Not past due	**698.3**	**691.9**	**616.7**	**616.7**	**1,315.0**	**1,308.6**
Past due < 1 month	**189.2**	**189.1**	**251.9**	**251.9**	**441.1**	**441.0**
Past due 1 to 3 months	**155.5**	**155.4**	**30.0**	**30.0**	**185.5**	**185.4**
	1,043.0	**1,036.4**	**898.6**	**898.6**	**1,941.6**	**1,935.0**
Stage 3						
Not past due	**69.1**	**62.9**	**15.1**	**15.1**	**84.2**	**78.0**
Past due < 1 month	**17.0**	**17.0**	**4.8**	**4.8**	**21.8**	**21.8**
Past due 1 to 3 months	**65.3**	**65.2**	**6.4**	**6.4**	**71.7**	**71.6**
Past due 3 to 6 months	**41.0**	**41.0**	**12.4**	**12.4**	**53.4**	**53.4**
Past due 6 to 12 months	**26.8**	**26.8**	**2.8**	**2.8**	**29.6**	**29.6**
Past due over 12 months	**24.4**	**24.0**	**-**	**-**	**24.4**	**24.0**
Possessions	**49.0**	**49.0**	**3.7**	**3.7**	**52.7**	**52.7**
	292.6	**285.9**	**45.2**	**45.2**	**337.8**	**331.1**
Stage 3 (POCI)						
Not past due	**24.4**	**24.3**	**28.8**	**28.8**	**53.2**	**53.1**
Past due < 1 month	**2.9**	**2.9**	**10.8**	**10.8**	**13.7**	**13.7**
Past due 1 to 3 months	**11.1**	**11.1**	**11.5**	**11.5**	**22.6**	**22.6**
Past due 3 to 6 months	**5.1**	**5.1**	**8.3**	**8.3**	**13.4**	**13.4**
Past due 6 to 12 months	**4.5**	**4.5**	**4.9**	**4.9**	**9.4**	**9.4**
Past due over 12 months	**5.5**	**5.5**	**2.5**	**2.5**	**8.0**	**8.0**
Possessions	**-**	**-**	**6.0**	**6.0**	**6.0**	**6.0**
	53.5	**53.4**	**72.8**	**72.8**	**126.3**	**126.2**
Total loans before provisions	**10,937.2**	**10,873.3**	**7,896.5**	**7,894.3**	**18,833.7**	**18,767.6**

30. Risk management (continued)

	As at 31-Dec-19 (Audited)					
	OSB		CCFS		Total	
	Loan balance £m	Capped collateral £m	Loan balance £m	Capped collateral £m	Loan balance £m	Capped collateral £m
Stage 1						
Not past due	9,964.3	9,904.5	7,236.2	7,235.7	17,200.5	17,140.2
Past due < 1 month	82.6	82.6	3.8	3.8	86.4	86.4
	10,046.9	9,987.1	7,240.0	7,239.5	17,286.9	17,226.6
Stage 2						
Not past due	261.0	260.7	239.1	239.0	500.1	499.7
Past due < 1 month	118.9	118.9	38.1	38.1	157.0	157.0
Past due 1 to 3 months	62.5	62.2	29.9	29.9	92.4	92.1
	442.4	441.8	307.1	307.0	749.5	748.8
Stage 3						
Not past due	71.3	71.0	4.8	4.8	76.1	75.8
Past due < 1 month	36.3	36.1	1.4	1.4	37.7	37.5
Past due 1 to 3 months	28.8	28.5	6.0	6.0	34.8	34.5
Past due 3 to 6 months	45.9	45.3	4.5	4.5	50.4	49.8
Past due 6 to 12 months	27.4	27.2	-	-	27.4	27.2
Past due over 12 months	25.3	24.7	-	-	25.3	24.7
Possessions	42.7	42.4	-	-	42.7	42.4
	277.7	275.2	16.7	16.7	294.4	291.9
Stage 3 (POCI)						
Not past due	20.8	20.2	30.6	30.5	51.4	50.7
Past due < 1 month	6.1	5.9	8.5	8.5	14.6	14.4
Past due 1 to 3 months	4.9	4.6	21.9	21.9	26.8	26.5
Past due 3 to 6 months	6.5	6.1	10.5	10.5	17.0	16.6
Past due 6 to 12 months	5.7	5.3	5.5	5.5	11.2	10.8
Past due over 12 months	8.3	7.2	1.2	1.2	9.5	8.4
Possessions	1.3	0.8	5.0	5.0	6.3	5.8
	53.6	50.1	83.2	83.1	136.8	133.2
Total loans before provisions	10,820.6	10,754.2	7,647.0	7,646.3	18,467.6	18,400.5

Notes to the Condensed Consolidated Financial Statements (continued)

30. Risk management (continued)

Arrears analysis for OSB:

	As at 30-Jun-20 (Unaudited)			As at 31-Dec-19 (Audited)		
OSB	**BTL/SME £m**	**Residential £m**	**Total £m**	BTL/SME £m	Residential £m	Total £m
Stage 1						
Not past due	**8,007.9**	**1,445.0**	**9,452.9**	8,514.9	1,449.4	9,964.3
Past due < 1 month	**65.3**	**29.9**	**95.2**	48.7	33.9	82.6
	8,073.2	**1,474.9**	**9,548.1**	8,563.6	1,483.3	10,046.9
Stage 2						
Not past due	**498.8**	**199.5**	**698.3**	156.9	104.1	261.0
Past due < 1 month	**145.4**	**43.8**	**189.2**	80.0	38.9	118.9
Past due 1 to 3 months	**105.4**	**50.1**	**155.5**	32.3	30.2	62.5
	749.6	**293.4**	**1,043.0**	269.2	173.2	442.4
Stage 3						
Not past due	**41.7**	**27.4**	**69.1**	39.6	31.7	71.3
Past due < 1 month	**10.4**	**6.6**	**17.0**	22.5	13.8	36.3
Past due 1 to 3 months	**27.9**	**37.4**	**65.3**	9.8	19.0	28.8
Past due 3 to 6 months	**18.9**	**22.1**	**41.0**	17.0	28.9	45.9
Past due 6 to 12 months	**12.4**	**14.4**	**26.8**	9.1	18.3	27.4
Past due over 12 months	**7.9**	**16.5**	**24.4**	13.5	11.8	25.3
Possessions	**44.4**	**4.6**	**49.0**	38.7	4.0	42.7
	163.6	**129.0**	**292.6**	150.2	127.5	277.7
Stage 3 (POCI)						
Not past due	**-**	**24.4**	**24.4**	0.2	20.6	20.8
Past due < 1 month	**-**	**2.9**	**2.9**	-	6.1	6.1
Past due 1 to 3 months	**-**	**11.1**	**11.1**	-	4.9	4.9
Past due 3 to 6 months	**-**	**5.1**	**5.1**	-	6.5	6.5
Past due 6 to 12 months	**-**	**4.5**	**4.5**	-	5.7	5.7
Past due over 12 months	**-**	**5.5**	**5.5**	-	8.3	8.3
Possessions	**-**	**-**	**-**	-	1.3	1.3
	-	**53.5**	**53.5**	0.2	53.4	53.6
Total loans before provisions	**8,986.4**	**1,950.8**	**10,937.2**	8,983.2	1,837.4	10,820.6

30. Risk management (continued)

Arrears analysis for OSB BTL/SME:

	As at 30-Jun-20 (Unaudited)				
OSB	**Buy-to-Let £m**	**Commercial £m**	**Residential development £m**	**Funding lines £m**	**Total £m**
Stage 1					
Not past due	**6,866.2**	**770.1**	**150.0**	**221.6**	**8,007.9**
Past due < 1 month	**51.4**	**13.9**	**-**	**-**	**65.3**
	6,917.6	**784.0**	**150.0**	**221.6**	**8,073.2**
Stage 2					
Not past due	**460.0**	**38.8**	**-**	**-**	**498.8**
Past due < 1 month	**137.9**	**7.5**	**-**	**-**	**145.4**
Past due 1 to 3 months	**97.4**	**8.0**	**-**	**-**	**105.4**
	695.3	**54.3**	**-**	**-**	**749.6**
Stage 3					
Not past due	**36.4**	**5.3**	**-**	**-**	**41.7**
Past due < 1 month	**10.0**	**0.4**	**-**	**-**	**10.4**
Past due 1 to 3 months	**26.9**	**1.0**	**-**	**-**	**27.9**
Past due 3 to 6 months	**15.6**	**3.3**	**-**	**-**	**18.9**
Past due 6 to 12 months	**11.3**	**1.1**	**-**	**-**	**12.4**
Past due over 12 months	**7.7**	**0.2**	**-**	**-**	**7.9**
Possessions	**42.0**	**2.4**	**-**	**-**	**44.4**
	149.9	**13.7**	**-**	**-**	**163.6**
Stage 3 (POCI)					
Not past due	**-**	**-**	**-**	**-**	**-**
	-	**-**	**-**	**-**	**-**
Total loans before provisions	**7,762.8**	**852.0**	**150.0**	**221.6**	**8,986.4**

30. Risk management (continued)

	As at 31-Dec-19 (Audited)				
OSB	Buy-to-Let £m	Commercial £m	Residential development £m	Funding lines £m	Total £m
Stage 1					
Not past due	7,317.3	829.4	146.1	222.1	8,514.9
Past due < 1 month	32.8	15.9	-	-	48.7
	7,350.1	845.3	146.1	222.1	8,563.6
Stage 2					
Not past due	128.6	28.3	-	-	156.9
Past due < 1 month	78.5	1.5	-	-	80.0
Past due 1 to 3 months	29.2	3.1	-	-	32.3
	236.3	32.9	-	-	269.2
Stage 3					
Not past due	37.1	2.5	-	-	39.6
Past due < 1 month	21.0	1.5	-	-	22.5
Past due 1 to 3 months	9.8	-	-	-	9.8
Past due 3 to 6 months	16.1	0.9	-	-	17.0
Past due 6 to 12 months	8.0	1.1	-	-	9.1
Past due over 12 months	13.1	0.4	-	-	13.5
Possessions	35.5	3.2	-	-	38.7
	140.6	9.6	-	-	150.2
Stage 3 (POCI)					
Not past due	-	0.2	-	-	0.2
	-	0.2	-	-	0.2
Total loans before provisions	7,727.0	888.0	146.1	222.1	8,983.2

Notes to the Condensed Consolidated Financial Statements (continued)

30. Risk management (continued)

Arrears analysis for OSB Residential:

	As at 30-Jun-20 (Unaudited)			
OSB	**First charge £m**	**Second charge £m**	**Funding lines £m**	**Total £m**
Stage 1				
Not past due	**1,192.3**	**242.4**	**10.3**	**1,445.0**
Past due < 1 month	**24.6**	**4.1**	**1.2**	**29.9**
	1,216.9	**246.5**	**11.5**	**1,474.9**
Stage 2				
Not past due	**169.5**	**30.0**	**-**	**199.5**
Past due < 1 month	**40.6**	**3.2**	**-**	**43.8**
Past due 1 to 3 months	**43.6**	**6.5**	**-**	**50.1**
	253.7	**39.7**	**-**	**293.4**
Stage 3				
Not past due	**22.1**	**5.3**	**-**	**27.4**
Past due < 1 month	**5.3**	**1.3**	**-**	**6.6**
Past due 1 to 3 months	**27.5**	**9.9**	**-**	**37.4**
Past due 3 to 6 months	**16.8**	**4.9**	**0.4**	**22.1**
Past due 6 to 12 months	**10.9**	**3.0**	**0.5**	**14.4**
Past due over 12 months	**13.8**	**2.0**	**0.7**	**16.5**
Possessions	**4.6**	**-**	**-**	**4.6**
	101.0	**26.4**	**1.6**	**129.0**
Stage 3 (POCI)				
Not past due	**16.1**	**8.3**	**-**	**24.4**
Past due < 1 month	**1.9**	**1.0**	**-**	**2.9**
Past due 1 to 3 months	**5.8**	**5.3**	**-**	**11.1**
Past due 3 to 6 months	**2.4**	**2.7**	**-**	**5.1**
Past due 6 to 12 months	**2.5**	**2.0**	**-**	**4.5**
Past due over 12 months	**1.7**	**3.8**	**-**	**5.5**
	30.4	**23.1**	**-**	**53.5**
Total loans before provisions	**1,602.0**	**335.7**	**13.1**	**1,950.8**

30. Risk management (continued)

	As at 31-Dec-19 (Audited)			
OSB	First charge £m	Second charge £m	Funding lines £m	Total £m
Stage 1				
Not past due	1,164.8	272.4	12.2	1,449.4
Past due < 1 month	27.7	6.2	-	33.9
	1,192.5	278.6	12.2	1,483.3
Stage 2				
Not past due	86.1	18.0	-	104.1
Past due < 1 month	34.4	4.5	-	38.9
Past due 1 to 3 months	24.4	5.8	-	30.2
	144.9	28.3	-	173.2
Stage 3				
Not past due	28.1	3.6	-	31.7
Past due < 1 month	11.2	2.6	-	13.8
Past due 1 to 3 months	13.8	5.2	-	19.0
Past due 3 to 6 months	20.7	8.2	-	28.9
Past due 6 to 12 months	14.5	3.8	-	18.3
Past due over 12 months	9.8	2.0	-	11.8
Possessions	3.3	0.7	-	4.0
	101.4	26.1	-	127.5
Stage 3 (POCI)				
Not past due	13.4	7.2	-	20.6
Past due < 1 month	4.2	1.9	-	6.1
Past due 1 to 3 months	2.0	2.9	-	4.9
Past due 3 to 6 months	3.2	3.3	-	6.5
Past due 6 to 12 months	2.6	3.1	-	5.7
Past due over 12 months	2.3	6.0	-	8.3
	27.8	25.6	-	53.4
Total loans before provisions	1,466.6	358.6	12.2	1,837.4

30. Risk management (continued)

Arrears analysis for CCFS:

	As at 30-Jun-20 (Unaudited)				
CCFS	**Buy-to-let £m**	**Residential £m**	**Bridging £m**	**Second charge £m**	**Total £m**
Stage 1					
Not past due	4,686.9	1,803.9	173.2	201.3	6,865.2
Past due < 1 month	5.4	8.3	-	1.0	14.7
	4,692.3	1,812.2	173.2	202.3	6,879.9
Stage 2					
Not past due	295.9	287.4	20.2	13.2	616.7
Past due < 1 month	119.6	124.8	3.8	3.7	251.9
Past due 1 to 3 months	9.7	18.9	0.2	1.2	30.0
	425.2	431.1	24.2	18.1	898.6
Stage 3					
Not past due	6.1	8.0	0.2	0.8	15.1
Past due < 1 month	0.8	3.9	-	0.1	4.8
Past due 1 to 3 months	1.1	4.9	-	0.4	6.4
Past due 3 to 6 months	3.2	8.8	0.3	0.1	12.4
Past due 6 to 12 months	1.1	1.5	-	0.2	2.8
Possessions	3.3	0.1	0.3	-	3.7
	15.6	27.2	0.8	1.6	45.2
Stage 3 (POCI)					
Not past due	9.5	17.5	0.3	1.5	28.8
Past due < 1 month	2.2	7.8	0.2	0.6	10.8
Past due 1 to 3 months	2.7	8.2	0.1	0.5	11.5
Past due 3 to 6 months	0.6	7.6	-	0.1	8.3
Past due 6 to 12 months	0.1	4.0	0.8	-	4.9
Past due over 12 months	1.1	1.2	-	0.2	2.5
Possessions	3.8	1.8	0.3	0.1	6.0
	20.0	48.1	1.7	3.0	72.8
Total loans before provisions	5,153.1	2,318.6	199.9	225.0	7,896.5

Notes to the Condensed Consolidated Financial Statements (continued)

30. Risk management (continued)

	As at 31-Dec-19 (Audited)				
CCFS	Buy-to-let £m	Residential £m	Bridging £m	Second charge £m	Total £m
Stage 1					
Not past due	4,767.9	2,056.4	195.5	216.4	7,236.2
Past due < 1 month	0.5	1.1	-	2.2	3.8
	4,768.4	2,057.5	195.5	218.6	7,240.0
Stage 2					
Not past due	139.6	83.6	14.6	1.3	239.1
Past due < 1 month	10.1	27.1	0.8	0.1	38.1
Past due 1 to 3 months	6.3	22.4	0.3	0.9	29.9
	156.0	133.1	15.7	2.3	307.1
Stage 3					
Not past due	1.1	3.2	0.2	0.3	4.8
Past due < 1 month	0.5	0.9	-	-	1.4
Past due 1 to 3 months	1.6	4.4	-	-	6.0
Past due 3 to 6 months	3.2	1.2	0.1	-	4.5
Past due 6 to 12 months	-	-	-	-	-
Possessions	-	-	-	-	-
	6.4	9.7	0.3	0.3	16.7
Stage 3 (POCI)					
Not past due	10.9	16.6	1.7	1.4	30.6
Past due < 1 month	2.5	5.4	0.4	0.2	8.5
Past due 1 to 3 months	2.6	16.8	1.8	0.7	21.9
Past due 3 to 6 months	1.3	8.8	-	0.4	10.5
Past due 6 to 12 months	1.0	3.9	0.2	0.4	5.5
Past due over 12 months	0.9	0.3	-	-	1.2
Possessions	3.9	0.9	0.2	-	5.0
	23.1	52.7	4.3	3.1	83.2
Total loans before provisions	4,953.9	2,253.0	215.8	224.3	7,647.0

30. Risk management (continued)

Forbearance measures undertaken

The Group has a range of options available where borrowers experience financial difficulties which impact their ability to service their financial commitments under the loan agreement. These are explained on page 70 of the 2019 Annual Report and Accounts.

A summary of the forbearance measures undertaken (excluding COVID-19 related payment holidays) during the period under review is below:

	As at 30-Jun-20 (Unaudited)		As at 31-Dec-19 (Audited)	
	Number of accounts	**£m**	Number of accounts	£m
Forbearance type:				
Interest-only switch	**37**	**5.2**	59	8.4
Interest rate reduction	**20**	**1.0**	35	1.6
Term extension	**139**	**36.0**	30	6.6
Payment holiday	**39**	**3.6**	87	4.1
Voluntary assisted sale	**1**	**-**	26	1.0
Payment concession (reduced monthly payments)	**18**	**2.1**	73	3.6
Full or partial debt forgiveness	**1**	**-**	6	-
Total	**255**	**47.9**	316	25.3
Loan type:				
First charge owner-occupier	**49**	**5.9**	85	10.5
Second charge owner-occupier	**79**	**5.5**	198	7.4
Buy-to-Let	**18**	**4.7**	32	7.4
Commercial	**109**	**31.8**	1	-
Total	**255**	**47.9**	316	25.3

As at 30 June 2020, the Group granted payment holidays to c. 26k accounts, equivalent to 28% of the Group's loans and advances by value.

30. Risk management (continued)

Geographical analysis by region

An analysis of loans by region is provided below:

	As at 30-Jun-20 (Unaudited)			
	OSB	CCFS	Total	
Region	£m	£m	£m	%
East Anglia	402.8	835.8	1,238.6	7
East Midlands	432.2	431.2	863.4	5
Greater London	4,820.6	2,791.9	7,612.5	41
Guernsey	41.6	-	41.6	-
Jersey	135.9	-	135.9	1
North East	136.4	189.7	326.1	2
North West	598.9	630.6	1,229.5	7
Northern Ireland	13.5	-	13.5	-
Scotland	49.8	204.0	253.8	1
South East	2,360.0	1,278.9	3,638.9	19
South West	736.7	463.6	1,200.3	6
Wales	254.2	199.8	454.0	2
West Midlands	710.2	500.2	1,210.4	6
Yorks & Humberside	244.4	370.8	615.2	3
Total loans before provisions	**10,937.2**	**7,896.5**	**18,833.7**	**100**

	As at 31-Dec-19 (Audited)			
	OSB	CCFS	Total	
Region	£m	£m	£m	%
East Anglia	391.9	810.9	1,202.8	7
East Midlands	415.2	410.3	825.5	4
Greater London	4,738.7	2,713.7	7,452.4	41
Guernsey	45.3	-	45.3	-
Jersey	141.4	-	141.4	1
North East	136.7	179.5	316.2	2
North West	587.3	605.4	1,192.7	6
Northern Ireland	14.2	-	14.2	-
Scotland	48.5	190.9	239.4	1
South East	2,375.2	1,209.6	3,584.8	20
South West	747.5	466.0	1,213.5	7
Wales	239.3	202.6	441.9	2
West Midlands	702.2	496.0	1,198.2	6
Yorks & Humberside	237.2	362.1	599.3	3
Total loans before provisions	10,820.6	7,647.0	18,467.6	100

Notes to the Condensed Consolidated Financial Statements (continued)

30. Risk management (continued)

Approach to measurement of credit quality

The Group categorises the credit quality of loans and advances to customers into internal risk grades based on the 12-month probability of default ('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.

	As at 30-Jun-20 (Unaudited)				
Loans and advances to customers	**Stage 1 £m**	**Stage 2 £m**	**Stage 3 £m**	**Stage 3 (POCI) £m**	**Total £m**
OSB					
Excellent	**5,025.8**	**92.1**	**-**	**-**	**5,117.9**
Good	**4,329.2**	**559.0**	**-**	**-**	**4,888.2**
Satisfactory	**188.4**	**293.8**	**-**	**-**	**482.2**
Lower	**4.7**	**98.1**	**-**	**-**	**102.8**
Impaired	**-**	**-**	**292.6**	**-**	**292.6**
POCI	**-**	**-**	**-**	**53.5**	**53.5**
CCFS					
Excellent	**4,141.6**	**178.1**	**-**	**-**	**4,319.7**
Good	**2,638.0**	**461.0**	**-**	**-**	**3,099.0**
Satisfactory	**95.9**	**119.1**	**-**	**-**	**215.0**
Lower	**4.4**	**140.4**	**-**	**-**	**144.8**
Impaired	**-**	**-**	**45.2**	**-**	**45.2**
POCI	**-**	**-**	**-**	**72.8**	**72.8**
	16,428.0	**1,941.6**	**337.8**	**126.3**	**18,833.7**

Notes to the Condensed Consolidated Financial Statements (continued)

30. Risk management (continued)

	As at 31-Dec-19 (Audited)				
Loans and advances to customers	Stage 1 £m	Stage 2 £m	Stage 3 £m	Stage 3 (POCI) £m	Total £m
OSB[1]					
Excellent	5,033.6	11.0	-	-	5,044.6
Good	4,859.3	200.5	-	-	5,059.8
Satisfactory	147.3	154.8	-	-	302.1
Lower	6.7	76.1	-	-	82.8
Impaired	-	-	277.7	-	277.7
POCI	-	-	-	53.6	53.6
CCFS					
Excellent	3,632.7	20.5	-	-	3,653.2
Good	3,359.7	93.7	-	-	3,453.4
Satisfactory	222.8	39.1	-	-	261.9
Lower	24.8	153.8	-	-	178.6
Impaired	-	-	16.7	-	16.7
POCI	-	-	-	83.2	83.2
	17,286.9	749.5	294.4	136.8	18,467.6

[1] The Group has restated the prior year comparatives for OSB to include finance lease assets.

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

	As at 30-Jun-20 (Unaudited)			
	Excellent £m	**Good £m**	**Satisfactory £m**	**Total £m**
Investment securities	**755.1**	**-**	**-**	**755.1**
Loans and advances to credit institutions	**2,363.7**	**227.5**	**6.4**	**2,597.6**
	3,118.8	**227.5**	**6.4**	**3,352.7**

	As at 31-Dec-19 (Audited)			
	Excellent £m	Good £m	Satisfactory £m	Total £m
Investment securities	635.3	-	-	635.3
Loans and advances to credit institutions	2,047.8	146.1	10.7	2,204.6
	2,683.1	146.1	10.7	2,839.9

Notes to the Condensed Consolidated Financial Statements (continued)

31. Financial instruments and fair values

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

As at 30-Jun-20 (Unaudited)	**Carrying amount £m**	**Principal amount £m**	**Level 1 £m**	**Level 2 £m**	**Level 3 £m**	**Total £m**
Financial assets						
Investment securities	**549.3**	**550.5**	**191.0**	**358.3**	**-**	**549.3**
Loans and advances to customers[1]	**19.9**	**23.5**	**-**	**-**	**19.9**	**19.9**
Derivative assets	**21.8**	**7,116.0**	**-**	**21.8**	**-**	**21.8**
	591.0	**7,690.0**	**191.0**	**380.1**	**19.9**	**591.0**
Financial liabilities						
Derivative liabilities	**221.5**	**9,798.6**	**-**	**221.5**	**-**	**221.5**

As at 31-Dec-19 (Audited)	Carrying amount £m	Principal amount £m	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial assets						
Investment securities	508.7	509.5	149.8	358.9	-	508.7
Loans and advances to customers[1]	22.1	24.8	-	-	22.1	22.1
Derivative assets	21.1	7,795.4	-	21.0	0.1	21.1
	551.9	8,329.7	149.8	379.9	22.2	551.9
Financial liabilities						
Derivative liabilities	92.8	9,982.4	-	92.8	-	92.8

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

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

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

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

31. Financial instruments and fair values (continued)

The following tables provide an analysis of financial assets and financial liabilities not measured at fair value on the 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-Jun-20 (Unaudited)	**Carrying amount £m**	**Principal amount £m**	**Level 1 £m**	**Level 2 £m**	**Level 3 £m**	**Total £m**
Financial assets						
Cash in hand	**0.5**	**0.5**	**-**	**0.5**	**-**	**0.5**
Loans and advances to credit institutions	**2,597.6**	**2,597.6**	**-**	**2,597.6**	**-**	**2,597.6**
Investment securities	**205.8**	**205.7**	**205.3**	**-**	**-**	**205.3**
Loans and advances to customers	**18,757.2**	**18,685.1**	**-**	**3,242.1**	**15,585.5**	**18,827.6**
Other assets	**10.8**	**10.8**	**-**	**10.8**	**-**	**10.8**
	21,571.9	**21,499.7**	**205.3**	**5,851.0**	**15,585.5**	**21,641.8**
Financial liabilities						
Amounts owed to retail depositors	**16,697.3**	**16,617.3**	**-**	**3,743.1**	**13,015.2**	**16,758.3**
Amounts owed to credit institutions	**3,426.8**	**3,425.0**	**-**	**3,426.8**	**-**	**3,426.8**
Amounts owed to other customers	**28.4**	**28.3**	**-**	**-**	**28.4**	**28.4**
Debt securities in issue	**325.7**	**325.6**	**-**	**325.7**	**-**	**325.7**
Subordinated liabilities	**10.6**	**10.4**	**-**	**-**	**10.6**	**10.6**
Perpetual subordinated bonds	**37.6**	**37.0**	**31.8**	**-**	**-**	**31.8**
Other liabilities	**21.5**	**21.5**	**-**	**21.5**	**-**	**21.5**
	20,547.9	**20,465.1**	**31.8**	**7,517.1**	**13,054.2**	**20,603.1**

			Estimated fair value			
As at 31-Dec-19 (Audited)	Carrying amount £m	Principal amount £m	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial assets						
Cash in hand	0.4	0.4	-	0.4	-	0.4
Loans and advances to credit institutions	2,204.6	2,204.3	-	2,204.6	-	2,204.6
Investment securities	126.6	126.4	126.6	-	-	126.6
Loans and advances to customers	18,424.7	18,281.3	-	3,409.1	15,245.1	18,654.2
Other assets	14.3	14.3	-	14.3	-	14.3
	20,770.6	20,626.7	126.6	5,628.4	15,245.1	21,000.1
Financial liabilities						
Amounts owed to retail depositors	16,255.0	16,133.5	-	3,817.8	12,441.9	16,259.7
Amounts owed to credit institutions	3,068.8	3,063.3	-	3,068.8	-	3,068.8
Amounts owed to other customers	29.7	29.5	-	-	29.7	29.7
Debt securities in issue	296.3	295.5	-	296.3	-	296.3
Subordinated liabilities	10.6	10.4	-	-	10.7	10.7
Perpetual subordinated bonds	37.6	37.0	33.2	-	-	33.2
Other liabilities	34.9	34.9	-	34.9	-	34.9
	19,732.9	19,604.1	33.2	7,217.8	12,482.3	19,733.3

32. Operating segments

Following the Combination, the Group segments its lending business and operates under two segments in-line with internal reporting to the Board:

- OSB
- CCFS

Prior to the Combination, the Group operated under two segments: BTL/SME and Residential mortgages. 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 2020 (Unaudited)				
Gross loans and advances to customers	**10,937.2**	**7,674.3**	**242.1**	**18,853.6**
Expected credit losses	**(71.0)**	**(26.1)**	**0.7**	**(96.4)**
Loans and advances to customers	**10,866.2**	**7,648.2**	**242.8**	**18,757.2**
Capital expenditure	**2.7**	**1.1**	**-**	**3.8**
Depreciation and amortisation	**3.6**	**1.3**	**2.6**	**7.5**
Profit for six months ended 30 June 2020 (Unaudited)				
Interest receivable	**244.4**	**162.0**	**(34.9)**	**371.5**
Interest payable	**(80.9)**	**(58.7)**	**1.9**	**(137.7)**
Net interest income	**163.5**	**103.3**	**(33.0)**	**233.8**
Other income	**11.0**	**7.1**	**(6.6)**	**11.5**
Total income	**174.5**	**110.4**	**(39.6)**	**245.3**
Administrative expenses	**(44.9)**	**(29.2)**	**(2.6)**	**(76.7)**
Provisions	**-**	**(0.1)**	**-**	**(0.1)**
Impairment of financial assets	**(35.9)**	**(18.5)**	**0.2**	**(54.2)**
Impairment of intangible assets	**-**	**-**	**(7.0)**	**(7.0)**
Integration costs	**(4.9)**	**(1.4)**	**-**	**(6.3)**
Exceptional items	**(1.7)**	**-**	**-**	**(1.7)**
Profit before taxation	**87.2**	**61.2**	**(49.0)**	**99.3**
Taxation[1]	**(20.8)**	**(14.6)**	**8.1**	**(27.3)**
Profit for the period	**66.4**	**46.6**	**(40.9)**	**72.0**

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

Notes to the Condensed Consolidated Financial Statements
(continued)

32. Operating segments (continued)

	OSB £m	CCFS £m	Combination £m	Total £m
Balances as at 31 December 2019 (Audited)				
Gross loans and advances to customers	10,820.6	7,963.6	(294.5)	18,489.7
Expected credit losses	(35.6)	(6.5)	(0.8)	(42.9)
Loans and advances to customers	10,785.0	7,957.1	(295.3)	18,446.8
Capital expenditure	10.2	1.1	-	11.3
Depreciation and amortisation	6.3	1.3	0.6	8.2
Restated profit for six months ended 30 June 2019 (Unaudited)[1]				
Net interest income	150.5	-	-	150.5
Other expense	(7.2)	-	-	(7.2)
Total income	143.3	-	-	143.3
Administrative expenses	(40.9)	-	-	(40.9)
Provisions	(0.1)	-	-	(0.1)
Impairment of financial assets	(5.9)	-	-	(5.9)
Exceptional items	(5.9)	-	-	(5.9)
Profit before taxation	90.5	-		90.5
Taxation	(25.2)		-	(25.2)
Profit for the period	65.3	-	-	65.3

[1] Consistent with the restatement in the 2019 Annual Report and Accounts, the Group has restated the net interest income prior period comparatives for the interest expense on the £22.0m PSBs previously classified as equity (see note 1).

Notes to the Condensed Consolidated Financial Statements
(continued)

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

	Six months ended 30-Jun-20 (Unaudited) £m	Restated[1] Six months ended 30-Jun-19 (Unaudited) £m
Adjustments for non-cash items:		
Depreciation and amortisation	**7.5**	3.0
Interest on subordinated liabilities	**0.4**	0.4
Interest on perpetual subordinated bonds	**0.8**	0.9
Interest on financing debt	**(4.0)**	-
Impairment charge on loans	**54.2**	5.9
Impairment on intangible assets acquired on Combination	**7.0**	-
Gain on sale of financial instruments	**(19.9)**	-
Provisions	**0.1**	0.1
Interest on lease liabilities	**0.2**	-
Fair value losses on financial instruments	**12.1**	7.4
Share-based payments	**2.3**	1.4
Total adjustments for non-cash items	**60.0**	19.1
Changes in operating assets and liabilities:		
Increase in loans and advances to credit institutions	**(129.5)**	(54.3)
Increase in loans to customers	**(1,214.5)**	(884.6)
Increase in retail deposits	**442.3**	1,103.1
Net increase in other assets	**(0.4)**	(6.7)
Net decrease in derivatives and hedged items	**(41.5)**	(9.9)
Net decrease in other customers deposits[2]	**(1.3)**	(24.1)
Net (decrease)/increase in other liabilities	**(13.0)**	0.3
Exchange differences on working capital	**0.1**	0.1
Total changes in operating assets and liabilities	**(957.8)**	123.9

[1] Consistent with the restatement in the 2019 Annual Report and Accounts, the Group has restated the interest on perpetual subordinated bonds prior period comparatives for the interest expense on the £22.0m PSBs previously classified as equity (see note 1).

[2] The Group has reclassified the prior year comparatives to include all components of amounts owed to credit institutions as financing activities. Previously the Group only classified the Bank of England Term Funding Scheme and Indexed Long-Term Repo scheme as financing activities.

34. Capital management

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

The regulatory capital of the Group is presented below:

	As at 30-Jun-20 (Unaudited) £m	As at 31-Dec-19 (Unaudited) £m
Common equity tier 1 capital		
Called up share capital	**4.5**	4.5
Share premium, capital contribution and share-based payment reserve	**875.3**	876.3
Retained earnings	**625.1**	553.2
Transfer reserve	**(12.8)**	(12.8)
Other reserves	**(4.3)**	(4.2)
Total equity excluding equity bonds	**1,487.8**	1,417.0
Foreseeable dividends	**(29.1)**	(49.9)
IFRS 9 transitional adjustment[1]	**4.9**	5.3
COVID-19 ECL transitional adjustment[2]	**31.6**	-
Deductions from common equity tier 1 capital		
Prudent valuation adjustment[3]	**(0.6)**	(0.5)
Intangible assets	**(22.0)**	(31.4)
Deferred tax asset	**(0.9)**	(0.9)
Common equity tier 1 capital	**1,471.7**	1,339.6
Additional tier 1 capital		
AT1 Securities	**60.0**	60.0
Total tier 1 capital	**1,531.7**	1,399.6
Tier 2 capital		
Subordinated debt and PSBs	**47.4**	47.4
Deductions from tier 2 capital	**(1.7)**	(0.7)
Total tier 2 capital	**45.7**	46.7
Total regulatory capital	**1,577.4**	1,446.3
Risk weighted assets (unaudited)	**8,476.6**	8,383.0

[1] The regulatory capital includes a £4.9m add-back under IFRS 9 transitional arrangements. This represents 70.0% of the IFRS 9 transitional adjustment booked directly to retained earnings of £6.5m.
[2] The COVID-19 ECL transitional adjustment relates to the Group's increase in Stage 1 and Stage 2 ECL following the impacts of COVID-19 and for which transitional rules are being adopted for regulatory capital purposes.
[3] The Group has adopted the simplified approach under the Prudent Valuation rules, recognising a deduction equal to 1.0% of fair value assets and liabilities.

35. Related parties

The Group had no related party transactions during the six months to 30 June 2020 that would materially affect the position or performance of the Group. Details of transactions for the year ended 31 December 2019 can be found in the 2019 Annual Report and Accounts on pages 205 to 208.

Transactions with Key Management Personnel
During the period, the Group granted 467,408 (2019: 292,205) awards under the Deferred Share Bonus Plan and 1,601,990 (2019: 729,505) awards under the Performance Share Plan to 13 (2019: 9) key management personnel. The awards were granted on 19 March 2020 with a grant price of £2.5836. Details of these plans can be found in note 11 of the 2019 Annual Report and Accounts on pages 186 to 190.

36. Events after the reporting date

There have been no material events after the reporting date.

Appendix

Key performance indicators

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

Pro forma underlying results for the six months to 30 June 2019 assume that the Combination occurred on 1 January 2019 and include six months of results from OSB and CCFS, excluding exceptional items, integration costs and other acquisition-related items.

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 2020 £m	HY 2019 £m
Net interest income – statutory	233.8	150.5[2]
CCFS HY 2019 results	-	100.1
Adjust presentation	-	(0.1)
Add back: acquisition-related items[3]	33.0	-
Net interest income – underlying and pro forma underlying	266.8	250.5
Net interest income annualised on an actual days basis:		
Net interest income – statutory A	470.2	303.5
Net interest income – underlying and pro forma underlying B	536.5	505.2
7 point average of interest earning assets – statutory C	21,654.9	10,936.1
7 point average of interest earning assets – underlying and pro forma underlying D	21,434.4	18,706.6
NIM statutory equals A/C	2.17%	2.78%
NIM underlying and pro forma underlying equals B/D	2.50%	2.70%

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 2020 £m	HY 2019 £m
Administrative expenses – statutory A	76.7	40.9
CCFS HY 2019 results		35.9
Add back: acquisition-related items[3]	(2.6)	-
Administrative expenses – underlying and pro forma underlying B	74.1	76.8
Total income – statutory C	245.3	143.3
CCFS HY 2019 results	-	125.0
Add back: acquisition-related items[3]	39.6	-
Total income underlying and pro forma underlying D	284.9	268.3
Cost to income statutory equals A/C	31%	29%
Cost to incomes pro forma underlying equals B/D	26%	29%

Appendix

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 2020 £m	HY 2019 £m
Administrative expenses – statutory (as in cost to income ratio above) A	76.7	40.9
Administrative expenses – underlying and pro forma underlying (as in cost to income ratio above) B	74.1	76.8
7 point average of total assets – statutory C	21,924.8	11,024.2
7 point average of total assets – underlying and pro forma underlying D	21,697.4	18,857.7
Management expense ratio statutory equals A/C on an annualised basis	0.70%	0.74%
Management expense ratio underlying and pro forma underlying equals B/D on an annualised basis	0.68%	0.81%

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 2020 £m	HY 2019 £m
Impairment losses – statutory A	54.2	5.9
CCFS HY 2019 results	-	2.7
Add back: acquisition-related items[3]	0.2	-
Impairment losses – underlying and pro forma underlying B	54.4	8.6
7 point average of gross loans – statutory C	18,433.5	9,442.9
7 point average of gross loans – underlying and pro forma underlying D	18,202.5	16,078.3
Loan loss ratio statutory equals A/C on an annualised basis	0.59%	0.12%
Loan loss ratio underlying and pro forma underlying equals B/D on an annualised basis	0.60%	0.11%

Appendix

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 AT1 securities).

	HY 2020 £m	HY 2019 £m
Profit after tax - statutory	72.0	65.3[2]
Coupons on AT1 securities	(2.7)	(2.8)
Profit attributable to ordinary shareholders – statutory A	69.3	62.5
Add back: HY 2019 exceptional items	-	9.7
CCFS HY 2019 results	-	62.3
Add back: acquisition related items[3]	47.2	-
Profit attributable to ordinary shareholders – underlying and pro forma underlying B	116.5	134.5
7 point average of shareholders' equity (excluding AT1 securities) – statutory C	1,473.5	626.9
7 point average of shareholders' equity (excluding AT1 securities) – underlying and pro forma underlying D	1,297.6	1,111.7
Return on equity statutory equals A/C on an annualised basis	9%	20%
Return on equity underlying and pro forma underlying equals B/D on an annualised basis	18%	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 2020 £m	HY 2019 £m
Profit attributable to ordinary shareholders – statutory (as in RoE ratio above) A	69.3	62.5
Profit attributable to ordinary shareholders – underlying and pro forma underlying (as in RoE ratio above) B	116.5	134.5
Weighted average number of ordinary shares in issue – statutory C	445.9	244.9
Weighted average number of ordinary shares in issue – underlying and pro forma underlying D	445.9	444.4
Basic earnings per share statutory equals A/C	15.5	25.5
Basic earnings per share underlying and pro forma underlying equals B/D	26.1	30.3

1. 7 point average is calculated as an average of opening balance and closing balances for 6 months to 30 June.
2. In 2019, the Group restated the prior year comparatives to recognise interest expense on the £22m Perpetual Subordinated Bonds previously classified as equity, see note 1 to the financial statements.
3. The acquisition-related items are detailed in the reconciliation of statutory to pro forma underlying results in Financial review.

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