Preliminary results
for the year ended 31 December 2020

8 April 2021

OSB GROUP PLC
Preliminary results for the year ended 31 December 2020

This press release includes results on a statutory and an underlying basis for 2020, and a statutory and pro forma underlying basis for 2019. Underlying results for 2020 exclude exceptional items, integration costs and other acquisition-related items. Pro forma underlying results for 2019 assume that the combination with CCFS occurred on 1 January 2019 and include 12 months of results from CCFS. They also exclude exceptional items, integration costs and other acquisition-related items.

Financial and operational highlights

- Statutory profit before tax increased by 25% to £260.4m (2019: £209.1m). Underlying profit before tax decreased by 9% to £346.2m (2019: pro forma underlying £381.1m)

- Net loan book grew 4% to £19.2bn (2019: £18.4bn) on a statutory basis and 5% to £19.0bn on an underlying basis (2019: pro forma underlying £18.2bn), or 9% excluding the impact of structured asset sales. Statutory gross originations fell by 9% to £3.8bn (2019: £4.1bn) and by 42% on an underlying basis to £3.8bn (2019: £6.5bn) reflecting the impact of COVID-19

- On a statutory basis, the cost to income ratio improved to 31% from 32% in 2019 and on an underlying basis, it improved to 27% (2019: pro forma underlying 29%) benefitting from delivery of synergies, lower discretionary spend during lockdowns and continued focus on cost discipline and efficiency

- Net interest margin was 216bps on a statutory basis (2019: 243bps) and 247bps on an underlying basis (2019: pro forma underlying 266bps) due primarily to a delay in passing on the base rate cuts in full to retail savers, which was completed by the end of the third quarter

- Statutory and underlying loan loss ratios increased to 38bps (2019: 13bps statutory and 10bps pro forma underlying) due primarily to the impact of adopting COVID-19 forward-looking assumptions in our IFRS 9 models and an impairment provision of £20m (11bps of the loan loss ratio) in relation to potential fraudulent activity by a third party on a secured funding line provided by the Group

- Strong credit performance, with balances greater than three months in arrears stable at 0.9% at the end of 2020 (2019: 0.9%) and the majority of customers granted COVID-19 payment deferrals having resumed payment. Active deferrals only 1.3% of the Group's loan book by value at 31 December 2020

- Statutory return on equity (RoE) of 13% and underlying RoE of 19% were delivered despite significantly higher expected credit losses under IFRS 9 and a strengthened equity position (2019: 18% statutory and 25% pro forma underlying)

- Statutory basic earnings per share (EPS) fell 19% to 42.8 pence (2019: 52.6 pence) and underlying basic EPS decreased by 10% to 58.1 pence (2019: pro forma underlying 64.9 pence)

- Statutory Common Equity Tier 1 capital ratio strengthened to 18.3% (2019: 16.0%)

- Integration progressing well, with run rate savings of £15m delivered by the first anniversary of the Combination, significantly ahead of schedule

- Recommended final dividend of 14.5 pence per share, representing 25% of full year underlying earnings attributable to ordinary shareholders, in line with our stated dividend policy

Andy Golding, CEO of OSB Group, said:

"I am extremely proud of the Group's performance in a very challenging year. Our business model proved its resilience in 2020 and we produced another year of strong returns despite the impact of the pandemic. We have a positive culture and our customers, clients, colleagues and communities were always at the forefront of mind as we supported all stakeholders to the best of our ability, whether that was by providing mortgage payment deferrals, supporting colleagues' well-being or continuing to allow our customers to access financial services in the easiest and safest way. I commend all my colleagues for their excellent response to the challenges that the pandemic has presented.

We entered 2020 in a position of strength, with an attractive pipeline, growing opportunities and robust capital position. Lockdowns inevitably impacted our business and we reacted by tightening our risk appetite to protect margin and credit quality over growth. I am pleased that applications have now recovered to near pre-COVID levels in our core Buy-to-Let and Residential sub-segments on tighter criteria and we have a strong pipeline of new business. We continue to control volumes in our more cyclical product lines, reflecting the economic outlook and our prudent approach to risk management.

We celebrated the milestone of being a combined Group for a year in October 2020, and the progress in aligning OneSavings Bank (OSB) and Charter Court Financial Services Group (CCFS) continued at pace. We have delivered synergies earlier than anticipated, and by the end of the first year we had achieved more than 65% of our end of year three synergy target and expect to marginally exceed our run-rate pledge for the third anniversary of the Combination.

Further to our trading update on 17 March, the Group has recognised an impairment provision of £20m in 2020 in relation to potential fraudulent activity by a third party on a funding line of £28.6m provided by the Group, secured against lease receivables and the underlying hard assets. We believe that this is an isolated incident.

Based on our pipeline and current application levels and risk appetite, we currently expect to deliver underlying net loan book growth for 2021 of c.10%, although we remain cognisant of continued uncertainty in the economic outlook. Based on current pricing and cost of funds, we expect underlying NIM for 2021 to return to 2019 levels. We expect the underlying cost to income ratio to be marginally higher in 2021, as the ratio in 2020 benefitted from higher income from gains on structured asset sales and lower discretionary spending in lockdowns.

After a year of unprecedented uncertainty, it seems there is finally reason for some cautious optimism and we hope the country will begin to return to some sense of normality. However, many businesses, families and individuals are currently receiving support from government initiatives and there is ongoing uncertainty over the true impact of the pandemic on the economy, our customers and the Group's business when that support ends.

In 2020, we have proven the resilience and flexibility of our business model and looking forward 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 robust, with a very strong capital position and a resilient business model, all of which position us well to respond to the challenges and opportunities ahead and to deploy our resources to deliver attractive, sustainable returns to our shareholders over the long-term. Our confidence in the strength of OSB Group is reflected in the Board's decision to recommend a dividend of 14.5 pence per share for 2020, representing 25% of full year underlying earnings attributable to ordinary shareholders, in line with our stated dividend policy.''

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Enquiries:

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Analyst presentation

A webcast presentation for analysts will be held at 9:30am on Thursday 8 April.
The presentation will be webcast or call only and available on the OSB Group website at www.osb.co.uk/investors/results-reports-presentations.
The UK dial in number is 020 3936 2999 and the password is 810296. Registration is open immediately.

About OSB GROUP PLC

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

OneSavings Bank

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

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

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

Charter Court Financial Services Group

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

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

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

Important disclaimer

This document should be read in conjunction with the documents distributed by OSB GROUP PLC (OSBG) through the Regulatory News Service (RNS). This document is not audited and contains certain forward-looking statements, beliefs or opinions, including statements with respect to the business, strategy and plans of OSBG 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 OSBG’s, its directors’ and/or management’s beliefs and expectations, are forward-looking statements. By their nature, forward-looking statements involve risk and uncertainty because they relate to events and depend upon circumstances that may or may not occur in the future. Factors that could cause actual business, strategy, plans and/or results (including but not limited to the payment of dividends) to differ materially from the plans, objectives, expectations, estimates and intentions expressed in such forward-looking statements made by OSBG or on its behalf include, but are not limited to: general economic and business conditions in the UK and internationally; market related trends and developments; fluctuations in exchange rates, stock markets, inflation, deflation, interest rates and currencies; policies of the Bank of England, the European Central Bank and other G8 central banks; the ability to access sufficient sources of capital, liquidity and funding when required; changes to OSBG’s credit ratings; the ability to derive cost savings; changing demographic developments, and changing customer behaviour, including consumer spending, saving and borrowing habits; changes in customer preferences; changes to borrower or counterparty credit quality; instability in the global financial markets, including Eurozone instability, the potential for countries to exit the European Union (the EU) or the Eurozone, and the impact of any sovereign credit rating downgrade or other sovereign financial issues; technological changes and risks to cyber security; natural and other disasters, adverse weather and similar contingencies outside OSBG’s control; inadequate or failed internal or external processes, people and systems; terrorist acts and other acts of war or hostility and responses to those acts; geopolitical, 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 OSBG’s control; the policies and actions of governmental or regulatory authorities in the UK, the EU or elsewhere including the implementation and interpretation of key legislation and regulation; the ability to attract and retain senior management and other employees; the extent of any future impairment charges or write-downs caused by, but not limited to, depressed asset valuations, market disruptions and illiquid markets; market relating trends and developments; exposure to regulatory scrutiny, legal proceedings, regulatory investigations or complaints; changes in competition and pricing environments; the inability to hedge certain risks economically; the adequacy of loss reserves; the actions of competitors, including non-bank financial services and lending companies; and the success of OSBG 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, OSBG expressly disclaims any obligation or undertaking to release publicly any updates or revisions to any forward-looking statements contained in this document to reflect any change in OSBG’s expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based. For additional information on possible risks to OSBG’s business, please see the Risk review in the OSBG 2020 Annual Report and Accounts. Copies of this are available at www.osb.co.uk and on request from OSBG.

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

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

Non-IFRS performance measures

OSB GROUP PLC believes that the non-IFRS performance measures included in this document provide 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 the Board. However, any non-IFRS performance measures in this document are not a substitute for IFRS measures and readers should consider the IFRS measures as well. 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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Chief Executive's Statement

2020 was an extremely challenging year, with the impact of COVID-19 felt by all businesses, the wider economy and society as a whole. I am incredibly proud of how the Group responded to this unprecedented event and the proven operational and financial resilience of our business. Our track record in generating attractive and sustainable returns continued and we delivered strong financial results amidst the turmoil, whilst ensuring we protected our colleagues, customers and other stakeholders. We achieved this whilst positioning the Group well for further challenges or new opportunities in the future, with a strong balance sheet, prudent underwriting and a tested, resilient business model.

As the year evolved, we continued to adapt all areas of the business, to ensure our colleagues could safely and confidently deliver the service our customers have come to expect. Quick and clear decision making at the start of the pandemic positioned us well to manage subsequent lockdowns. I am particularly pleased that we continue to deliver a class-leading return on equity despite taking significant impairment charges in the year under IFRS 9, with an underlying return on equity of 19% and 13% on a statutory basis (2019: 25% and 18% respectively).

I am delighted that we continued to successfully deliver against our integration plans, with colleagues across the Group pulling together under a common purpose and culture.

The Board considered it prudent to preserve the Group's capital when we made the difficult and cautious decision, at the start of the pandemic, not to pay the 2019 final dividend given the unprecedented level of economic uncertainty at that time. However, the income needs of our shareholders are important to us and given our strong performance in 2020 and record CET1 ratio, I am pleased that the Board is recommending the payment of a dividend of 14.5 pence per share for 2020, representing 25% of full year underlying earnings attributable to ordinary shareholders, in line with our stated dividend policy.

Financial performance

Our financial performance in 2020 was resilient, but clearly impacted by the pandemic and the ensuing deterioration in the outlook for the economy, which led to a significant increase in expected credit losses despite broadly stable arrears. Expected credit losses also included an impairment provision of £20m in relation to potential fraudulent activity by a third party on a secured funding line provided by the Group. However, I am very pleased that we demonstrated our ability to continue to generate strong profit and, on an underlying basis, pre-tax profit was £346.2m, equating to underlying basic earnings per share of 58.1 pence (2019: £381.1m and 64.9 pence respectively). Statutory pre-tax profit was £260.4m and statutory basic earnings per share decreased by 19% to 42.8 pence (2019: £209.1m and 52.6 pence respectively).

We continued to grow our business and the underlying net loan book increased in line with management expectations by 9%, excluding the impact of structured asset sales in January. This growth was achieved despite the second lockdown towards the end of the last quarter of 2020. The statutory net loan book increased by 4%.

The underlying net interest margin for the year of 247bps (2019: 266bps) was broadly flat to the first half. The NIM run rate in the fourth quarter improved significantly as the base rate cuts were passed on to retail savers in full by the end of the third quarter and we maintained our discipline and control over mortgage pricing. The statutory NIM was 216bps for 2020 (2019: 243bps).

The Group maintained its strong focus on cost discipline and efficiency and benefitted from the delivery of synergies and lower discretionary spending such as reduced travel, entertainment and marketing expense during lockdowns. This resulted in an underlying cost to income ratio of 27% and 31% on a statutory basis for the year (2019: 29% and 32% respectively).

We have not yet seen any significant deterioration in customers' credit performance or arrears; however, we retain our conservative view on the macroeconomic outlook whilst UK Government support remains in place, with the full impact of the pandemic yet to be felt.

Adapting to COVID-19
More than in any other year in our history, it was essential that we were there for our stakeholders throughout 2020.

I continue to be very grateful to each and every colleague for the effort, perseverance and dedication that they have shown throughout this difficult time, displaying excellent adaptability as government rules changed in line with fluctuating infection rates. 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 OSB India. The majority of our colleagues, both in the UK and India, are currently working from home and we are responsibly helping those who are unable to work from home by operating under appropriate protocols in our offices. We recognise the additional strains that the changed circumstances can cause and made emotional well-being support available for all our colleagues. The Group did not participate in any of the government COVID-related business support schemes nor did we place any of our employees on the furlough scheme.

Across the Group, resources were redeployed quickly to assist borrowers who may have been in financial difficulty. Payment deferrals peaked in the second quarter at 26,000 accounts, representing 28% of the loan book by value. However, active deferral requests reduced to only 1.3% of the Group's loan book by value by year end and we experienced low levels of new arrears on accounts exiting payment deferrals. At the same time, we continued processing existing mortgage applications.

Mortgage intermediaries continued to be supported and our frequent interactions were maintained, as video and telephone calls became the norm. We were proactive in understanding the communication channels that brokers would prefer us to use and communicated clearly and effectively the changes we had to make as the impact of the pandemic unfolded. I am delighted that, for the first time, both Kent Reliance and Precise Mortgages were awarded a five star rating at the Financial Adviser Services Awards 2020, highlighting the Group's unwavering dedication to serving our clients through the pandemic.

We supported our savings customers by enhancing our online services and our small branch network remained open and was quickly adapted to be a safe environment for our customers and colleagues. Our strong savings proposition also helped the Group maintain strengthened levels of liquidity.

The Group maintained a prudent appetite to risk in light of the unprecedented macroeconomic uncertainty and continues to control growth through pricing and lending criteria, especially in our more cyclical sub-segments. The strong demand for our core Buy-to-Let and Residential mortgages still enabled us to grow our overall net loan book in a controlled manner and we continued to concentrate on our high underwriting standards and protecting the credit quality of our book. These deliberate actions demonstrate our approach to maintaining profitability, protecting our balance sheet and generating strong returns for shareholders.

Lending through the pandemic
We entered 2020 with a robust pipeline of new mortgages and originated £3.8bn of new business in the year (2019: £4.1bn statutory, £6.5bn pro forma underlying). Application levels in our core businesses were strong prior to COVID-19, but the initial lockdown inevitably impacted application and completion volumes in the second and third quarters, mirroring the overall mortgage market. As restrictions eased in the middle of the year, we chose to increase lending in our core Buy-to-Let and Residential businesses at higher pricing, albeit with reduced maximum LTVs and loan size. We remained vigilant regarding market uncertainty and managed our risk appetite accordingly to maintain strong credit quality. However, I am pleased that new business volumes have now recovered to near pre-COVID levels in these sub-segments, with a strong pipeline of new business.

Net loan book growth was impacted by our sensible, clear decisions to reduce lending in our more cyclical market sub-segments. We continue to control new lending in our commercial, bridging, development finance, funding lines and second charge residential businesses. In addition, we have seen strong early repayments from our residential development finance customers, demonstrating the strength of this proposition.

The Group recognised an impairment provision of £20m in 2020 in relation to potential fraudulent activity by a third party on a funding line of £28.6m provided by the Group, secured against lease receivables and the underlying hard assets. The Group's funding line business is primarily secured against property-related mortgages[1] and the Board believes that this is an isolated incident. The Board has commissioned an external review of processes and controls in relation to the funding lines business and will make enhancements based on recommendations received.

InterBay Asset Finance saw increased levels of new business as we entered the fourth quarter of the year and in October launched products under the Coronavirus Business Interruption Loan Scheme. This enabled us to finance new deals for SME customers who had been affected by COVID-19.

Sophisticated funding model
The Group remained predominantly retail funded in 2020 and our strong savings propositions, through Kent Reliance and Charter Savings Bank, continued to attract increased customer numbers. This allowed us to fund the business at an increasingly favourable cost as base rate cuts were passed on to retail savers in full by the end of the third quarter. The Group had £16.6bn of statutory retail deposits as at 31 December, up 2% on the prior year (2019: £16.3bn).

Customer satisfaction, measured through the Net Promoter Score, remained high at +67 and +72 for Kent Reliance and Charter Savings Bank, respectively. I am very pleased that retention rates for savers continued to be exceptionally high, reaching 93% amongst Kent Reliance customers and 77% for Charter Savings Bank. I am also delighted that our savings brands received recognition with Charter Savings Bank awarded Best Bank Savings Provider in the Moneyfacts Awards and Best Savings Provider in the Savings Champion Awards. Kent Reliance won Best Easy Access Savings provider in the Moneynet awards. These awards demonstrate our dedication to delivering excellent customer service, supported by the outstanding skills and adaptability of the dedicated people in our operations in India and the UK.

We continued to complement our retail savings franchises by utilising our capabilities in the wholesale funding market, demonstrating one of the strengths of our successful Combination with CCFS. In 2020, the Group completed three securitisation transactions with a combined value of £2.8bn across the Canterbury Finance and Precise Mortgage Funding programmes. We were also successful in generating gains through the sale of residual positions and in 2020 we recorded a gain of £33m on an underlying basis, or £20m on a statutory basis, while derecognising £0.8bn of securitised mortgages from the Group's balance sheet.

We were also accepted to the Term Funding Scheme with additional incentives for SMEs (TFSME) in 2020 with borrowings of £1bn at the end of the year. We intend to use the TFSME funding to refinance and extend the duration of the remaining £2.6bn of drawings under the TFS scheme. TFSME drawings may also be used to fund additional growth opportunities subject to our encumbrance policy.

Building our business
The integration of OSB and CCFS has progressed very well, with the synergies set out for the first year of the Combination achieved earlier than anticipated, and by the end of the first year we had achieved more than 65% of our end of year three synergy target. We are currently ahead of schedule towards delivering our year two synergy target and expect to marginally exceed our run-rate pledge by the end of the final year. We streamlined the Board and de-duplicated a significant proportion of senior management roles early and also achieved efficiencies from combining various central and support functions. Our costs to date are lower than originally expected. Operational resilience has had an increased focus in light of the

pandemic and the Board is taking the opportunity to review whether some planned consolidation of locations and suppliers is still the best way forward. Any decision is not expected to have a material impact on the quantum of synergies.

I am delighted that colleagues across the Group worked well together, ensuring that we offered excellent service to customers across our franchises. We have taken two great cultures and combined them as one under a common purpose, to help our customers, colleagues and communities prosper. Our values are also combined and we have added more emphasis on stewardship. This will ensure we act positively with conscience and have environmental, social and governance factors front of mind when making decisions.

Sustainability is important to us and the Group operates under the highest governance and ethical standards. We are focused on reducing our impact on the environment and are cognisant of the impact of social and environmental change on our business and stakeholders. We regularly review our policies, activities and outcomes and I am looking forward to reporting further on ESG matters as we progress.

In 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 minimum requirement for own funds and eligible liabilities through senior debt issued by OSB GROUP PLC, which became the Group's holding company in November 2020, with the first anticipated debt issue during the first half of 2022, subject to market conditions.

We continued to make good progress towards IRB during the year, albeit some elements of the project were inevitably delayed by the impact of COVID-19, which created the need to deploy significant resources to support additional stress testing and expected credit loss modelling and also restricted the ability of external advisers to access our premises and systems. Nevertheless, we are still aiming to submit our module 1 application by the end of the year. In the meantime the Group continues to benefit from the enhanced risk models and assessment in its decision-making.

Looking forward to 2021

After a year of unprecedented uncertainty, it seems there is finally reason for some cautious optimism. Vaccinations are being rolled out at an impressive pace and we hope the country will begin to return to some sense of normality. There is positive news in the fact that a Brexit deal was agreed, reducing some uncertainty, although there may be further twists and turns as the UK builds its relationships with the EU and other trading partners. However, we remain cognisant of the many businesses, families and individuals currently receiving support from government initiatives and the ongoing uncertainty about the true impact of the pandemic on the economy, our customers and the Group's business when the support ends.

We have demonstrated that OSB Group is a strong and resilient business in the face of economic slowdown and uncertainty and that we do not seek growth at the expense of quality. We have continued to generate very attractive returns, despite taking significant impairment charges under COVID-19 forward-looking assumptions. Whilst we continue to control lending in our more cyclical businesses, applications remain strong in our Buy-to-Let and Residential sub-segments, at higher pricing and lower LTVs than pre-COVID and we have a strong pipeline. The Group is well-placed to accelerate lending when the macroeconomic outlook becomes clearer, with a very strong capital position, secured loan book and strong risk management capabilities.

Based on our pipeline and current application levels and risk appetite, we currently expect to deliver underlying net loan book growth for 2021 of c. 10%, although we remain cognisant of continued uncertainty in the economic outlook. Based on current pricing and cost of funds, we expect underlying NIM for 2021 to return to 2019 levels. We expect the underlying cost to income ratio to be marginally higher in 2021, as the ratio in 2020 benefitted from higher income from gains on structured asset sales and lower discretionary spending in lockdowns.

Andy Golding

Chief Executive Officer

8 April 2021

1. The Group's gross loans to customers include £175.7m in relation to funding lines of which 66% is secured on property-related mortgages.

Segment review

Coronavirus impact on the Group's lending segments

The Group's segment results reflect the impact of the pandemic on its lending activities throughout 2020. The reduction in new business volumes reflects multiple dynamics which developed over the course of the year as the pandemic evolved.

The Group attracted strong levels of applications and completions for nearly all of the first quarter of 2020 across all of its lending brands. In late March, as the lockdown and social distancing measures were imposed by the government, the Group took the decision to temporarily suspend new business activity across its lending sub-segments. This decision was largely due to the ban on home visits making physical property valuations, a critical component of the Group's bespoke underwriting process, all but impossible. As a result, the Group concentrated on progressing the pipeline of applications with existing physical valuations, whilst ensuring resources were deployed to prioritise the needs of customers, including those who wished to request a mortgage payment deferral.

Self-certified mortgage payment deferrals were announced by the government in March 2020. Payment deferrals peaked in the second quarter at 26,000 accounts, representing 28% of the Group's mortgage book by value. Anecdotal evidence suggested that many people who requested a payment deferral were doing so to prudently safeguard their cash flow, rather than as a necessity, and the underlying performance of the Group's loan book seemed to confirm it: arrears remained broadly stable throughout the year and as at 31 December 2020 the percentage of loans and advances in three months plus arrears remained broadly stable at 1.3% for OSB (2019: 1.3%) and 0.5% for CCFS (2019: 0.3%). Volumes of mortgage payment deferrals reduced significantly and as at 31 December 2020 active payment deferrals represented only 1.3% of the Group's loan book by value.

As the restrictions on physical valuations began to ease in the middle of May, the Group took the opportunity to undertake a controlled increase of business volumes in its core Buy-to-Let and residential sub-segments, although with a limited suite of products, tighter lending criteria and higher headline rates. Gradually, additional products were introduced and criteria expanded, however certain products in more cyclical business lines including commercial, residential development finance, funding lines and second charge residential were greatly reduced with tightly controlled and limited product sets introduced later in the year.

The second national lockdown, imposed in early November, did not significantly impact lending volumes since new processes, policies and procedures agreed during the first lockdown were already in place and market disruption was limited as physical valuations continued to be carried out. The Group maintained its prudent risk assessment and a controlled approach to its lending proposition for the remainder of the year.

Segment review

Following the Combination, the Group segmented its lending business into two segments: OSB and CCFS.

OneSavings Bank segment

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

Year ended 31-Dec-2020	BTL/SME £m	Residential £m	Total £m
Gross loans and advances to customers	**9,164.6**	**1,966.8**	**11,131.4**
Expected credit losses	**(67.0)**	**(16.6)**	**(83.6)**
Net loans and advances to customers	**9,097.6**	**1,950.2**	**11,047.8**
Risk-weighted assets	**4,282.9**	**874.4**	**5,157.3**
Profit or loss for the year			
Net interest income	**264.7**	**68.1**	**332.8**
Gain on sale of loans	**18.0**	**-**	**18.0**
Other income	**0.2**	**0.6**	**0.8**
Total income	**282.9**	**68.7**	**351.6**
Impairment of financial assets	**(47.0)**	**(3.7)**	**(50.7)**
Contribution to profit	**235.9**	**65.0**	**300.9**

Year ended 31-Dec-2019	BTL/SME £m	Residential £m	Total £m
Gross loans and advances to customers	8,983.2	1,837.4	10,820.6
Expected credit losses	(21.6)	(14.0)	(35.6)
Net loans and advances to customers	8,961.6	1,823.4	10,785.0
Risk-weighted assets	4,244.0	846.0	5,090.0
Profit or loss for the year			
Net interest income	253.5	62.7	316.2
Other expense	(8.0)	(4.9)	(12.9)
Total income	245.5	57.8	303.3
Impairment of financial assets	(13.8)	1.9	(11.9)
Contribution to profit	231.7	59.7	291.4

OSB - Buy-to-Let/SME

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

	Group 31-Dec-2020 £m	Group 31-Dec-2019 £m
Buy-to-Let	**8,044.6**	7,727.0
Commercial	**821.9**	888.0
Residential development	**133.1**	146.1
Funding lines	**165.0**	222.1
Gross loans to customers	**9,164.6**	8,983.2
Expected credit losses	**(67.0)**	(21.6)
Net loans to customers	**9,097.6**	8,961.6

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

The Buy-to-Let/SME net loan book was £9,097.6m, up 2% from £8,961.6m in 2019, or 7% excluding structured assets sales in the year. Organic originations in this sub-segment decreased 46% versus 2019 to £1,542.5m (2019: £2,847.2m), reflecting reduced activity from late March, before a controlled return to the market in the second half of the year.

The gross loan book in the Buy-to-Let sub-segment increased 4% to £8,044.6m (2019: £7,727.0m) or 10% excluding structured asset sales in the year. The Group restricted its product range and tightened criteria, including property types, customer credit history and reduced maximum loan to values (LTVs) upon market re-entry, when physical valuations resumed. At the same time, the Group took the opportunity to increase interest rates marginally. A controlled increase in lending activity commenced in the second half of the year and was mostly dominated by professional, multi-property landlords who represented 84% of completions by value for the Kent Reliance brand, whilst the proportion of mortgage applications from landlords borrowing via a limited company remained unchanged at 75% (2019: 81% and 75%, respectively).

Refinancing levels were broadly stable and represented 58% of Kent Reliance Buy-to-Let completions and the percentage of completions for five-year fixed rate products was flat to the prior year at 52% (2019: 60% and 52%, respectively). OSB's retention programme, Choices, continued to be popular with borrowers, with 75% (2019: 69%) of existing borrowers choosing a new product with the Bank within three months of their original product term ending.

The weighted average LTV of the Buy-to-Let book as at 31 December 2020 was 67% with an average loan size of £260,000 (2019: restated 68%[1] and £260,000). The weighted average interest coverage ratio for Buy-to-Let origination during 2020 was 201% (2019: restated 199%[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 commercial sub-segment gross loan book reduced by 7% to £821.9m (2019: £888.0m) as the Group paused new lending activity in late March and returned to the market with a much reduced product suite in May, offering semi-commercial loans only to a maximum LTV of 60%. As the commercial market is traditionally more sensitive to economic downturns, the Group reduced its appetite for lending and new loans were underwritten with tightened criteria. The InterBay proposition began to be extended in November when the maximum LTV limit for semi-commercial loans was lifted to 70% and standard commercial lending was relaunched to a maximum LTV of 65%. The weighted average LTV of the commercial book was 71% and the average loan size was £385,000 in 2020 (2019: 67% and £375,000, respectively).

InterBay Asset Finance, which predominantly targets UK SMEs and small corporates financing business-critical assets, had a good start to the year. As the pandemic progressed, there was a significant reduction in new business volumes from April and the primary focus was on supporting customers with payment deferral requests. The launch of the Group's products under the Coronavirus Business Interruption Loan Scheme in October coincided with a general recovery in business activity in the asset finance market in the final quarter of the year. The gross carrying amount under finance leases increased to £65.5m as at 31 December 2020 (31 December 2019: £47.7m).

The Heritable residential development business provides development finance to small and medium-sized residential developers. Our 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 at the end of 2020 was £133.1m, with a further £145.6m committed (31 December 2019: £146.1m and £115.1m, respectively). In late March 2020, government guidance on closing development sites meant that construction projects were deferred and advances reduced. When restrictions were relaxed in May, our developer customers experienced rapidly increasing rates of sale which continued to the year end. Consequently, loan repayments were higher than in any previous year.

Since inception in 2014, Heritable has written £1,231m of loans, of which £703m had been repaid by the end of 2020. The Group continues to be cautious on approving new developments given current macroeconomic uncertainty and remains focused on the cash flow requirements of our developer customers. As at the end of December 2020, the business had commitments to finance the development of 1,882 residential units, the majority of which are houses located outside central London.

In 2020, the Group continued to provide secured funding lines to non-bank lenders which operate in certain high-yielding, specialist sub-segments, primarily secured against property-related mortgages. Total credit approved limits as at 31 December 2020 were £520.0m, with 85% in respect of property-related funding lines and gross loans outstanding were £165.0m, with 64% secured against property-related mortgages (31 December 2019: £540.0m and £222.1m, respectively). Given macroeconomic uncertainties, a cautious risk approach was adopted and no new secured funding line facilities were added during the year, as the Group chose to focus on servicing existing borrowers and applying amended, restricted lending criteria. The Group recognised an impairment provision of £20.0m in relation to potential fraudulent activity by a third party on a funding line provided by the Group, secured against lease receivables and the underlying hard assets. The Group had an outstanding receivable on this funding line of £28.6m as at 31 December 2020.

Net interest income in the Buy-to-Let/SME sub-segment increased 4% to £264.7m from £253.5m as a result of the loan book growth, partially offset by a delay in passing on the base rate cuts to depositors in full. The Buy-to-Let/SME sub-segment also benefitted from the gain on structured asset sales of £18.0m which was offset by impairment losses of £47.0m (2019: £13.8m). Impairment losses increased due primarily to the impact of adopting COVID-19 forward-looking assumptions in the Group's IFRS 9 models and an impairment provision of £20m in relation to potential fraudulent activity by a third-party on a secured funding line provided by the Group. Overall, the Buy-to-Let/SME sub-segment made a contribution to profit of £235.9m in 2020, up 2% compared with £231.7m in 2019.

The Group remains highly focused on the risk assessment of new lending, as demonstrated by the average book LTV in the Buy-to-Let/SME sub-segment[3] as at 31 December 2020 of 67% (31 December 2019: restated 68%[1]) with only 2.9% of loans exceeding 90% LTV (31 December 2019: 1.8%). The average LTV for new Buy-to-Let/SME origination[3] remained stable at 71% (2019: restated 71%[1]).

1. The Group restated the comparative LTVs due to a change in aggregation methodology.
2. Interest coverage ratio for 2019 was restated due to an improvement in calculation methodology.
3. Buy-to-Let/SME sub-segment average weighted LTVs include KR and Interbay Buy-to-Let, semi-commercial and commercial lending.

OSB - Residential mortgages

Residential sub-segment: gross loans

	Group 31-Dec-2020 £m	Group 31-Dec-2019 £m
First charge	**1,660.7**	1,466.6
Second charge	**295.4**	358.6
Funding lines	**10.7**	12.2
Gross loans to customers	**1,966.8**	1,837.4
Expected credit losses	**(16.6)**	(14.0)
Net loans to customers	**1,950.2**	1,823.4

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

The residential net loan book was £1,950.2m as at 31 December 2020, up 7% compared with £1,823.4m in 2019 with organic originations of £354.2m during the year (2019: £540.5m).

OSB's first charge residential gross loan book grew in the year to £1,660.7m, 13% up from £1,466.6m in 2019 with the strong performance largely due to the success of the Group's shared ownership proposition, which has proven extremely popular since it was relaunched in June. First charge lending to high net worth individuals or borrowers in more complex income circumstances was restricted following the March lockdown, in line with the Group's controlled approach to market re-entry in light of the uncertain macroeconomic outlook.

Prestige Finance, OSB's second charge mortgage brand, 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 OSB second charge residential loan book had a gross value of £295.4m at the end of 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 31 December 2020 were £29.2m with total loans outstanding of £10.7m (2019: £31.0m and £12.2m, respectively).

Residential mortgages made a contribution to profit of £65.0m in 2020, up 9% compared with £59.7m in 2019 and in line with the growth in net interest income to £68.1m from £62.7m in 2019. The growth in net interest income was due primarily to growth in the first charge loan book, partially offset by a delay in passing on the base rate cuts in full to savers. Impairment losses increased due primarily to the impact of adopting COVID-19 forward-looking assumptions in the Group's IFRS 9 models.

The average book LTV[1] remained low at 54% (2019: restated 57%[2]) with only 1.6% of loans by value with LTVs exceeding 90% (2019: 3.3%). The average LTV of new residential origination[1] during 2020 reduced to 61% (2019: restated 70%[2]) primarily as a result of growth in shared ownership originations which complete at much lower LTVs.

1. Residential sub-segment average weighted LTVs include first and second charge lending.
2. The Group restated the comparative LTVs due to a change in aggregation methodology.

Segment review – Charter Court Financial Services

The tables below present underlying results for the CCFS segment for 2020 and 2019 and a reconciliation to the statutory results.

The 2020 table is presented on an underlying basis, which excludes acquisition-related items. The 2019 table is presented on a pro forma underlying basis, which assumes that the Combination with CCFS occurred on 1 January 2019 and includes 12 months of results from CCFS. It also excludes acquisition-related items

Year ended 31-Dec-2020	Buy-to-Let £m	Residential £m	Bridging £m	Second charge £m	Other[1] £m	Total underlying £m	Acquisition-related Items[2] £m	Total statutory £m
Gross loans and advances to customers	**5,292.0**	**2,386.1**	**106.1**	**197.9**	**19.1**	**8,001.2**	**209.1**	**8,210.3**
Expected credit losses	**(18.1)**	**(7.5)**	**(1.9)**	**(0.7)**	**-**	**(28.2)**	**0.8**	**(27.4)**
Loans and advances to customers	**5,273.9**	**2,378.6**	**104.2**	**197.2**	**19.1**	**7,973.0**	**209.9**	**8,182.9**
Risk-weighted assets	**2,163.8**	**1,001.5**	**59.6**	**82.9**	**7.0**	**3,314.8**	**93.6**	**3,408.4**
Profit or loss account								
Net interest income	**114.8**	**67.8**	**11.8**	**7.4**	**(0.6)**	**201.2**	**(61.8)**	**139.4**
Gain on sale of loans	**-**	**-**	**-**	**-**	**15.1**	**15.1**	**(13.1)**	**2.0**
Other income	**0.3**	**0.3**	**-**	**-**	**1.7**	**2.3**	**13.3**	**15.6**
Total income	**115.1**	**68.1**	**11.8**	**7.4**	**16.2**	**218.6**	**(61.6)**	**157.0**
Impairment of financial assets	**(14.9)**	**(4.0)**	**(1.3)**	**(0.3)**	**-**	**(20.5)**	**0.2**	**(20.3)**
Contribution to profit	**100.2**	**64.1**	**10.5**	**7.1**	**16.2**	**198.1**	**(61.4)**	**136.7**

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

Year ended 31-Dec-2019	Buy-to-Let £m	Residential £m	Bridging £m	Second charge £m	Other[1] £m	Total pro forma underlying £m	Pre-acquisition profits £m	Acquisition-related Items[2] £m	Total statutory £m
Gross loans and advances 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)
Loans and advances 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
Profit or loss account									
Net interest income	114.3	63.6	15.5	7.1	1.7	202.2	(152.1)	(21.6)	28.5
Gain on sale of loans	-	-	-	-	58.7	58.7	(58.7)	-	-
Other income	0.1	0.2	0.1	-	(2.1)	(1.7)	10.0	3.3	11.6
Total income	114.4	63.8	15.6	7.1	58.3	259.2	(200.8)	(18.3)	40.1
Impairment of financial assets	(2.1)	(1.7)	(0.5)	(0.1)	-	(4.4)	4.3	(3.6)	(3.7)
Contribution to profit	112.3	62.1	15.1	7.0	58.3	254.8	(196.5)	(21.9)	36.4

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

Charter Court Financial Services segment

CCFS gross loans

	Group 31-Dec-2020 £m	Group 31-Dec-2019 £m
Buy-to-Let	**5,292.0**	4,748.5
Residential	**2,386.1**	2,170.8
Bridging	**106.1**	214.4
Second charge	**197.9**	218.6
Other[1]	**19.1**	22.1
Gross loans to customers	**8,001.2**	7,374.4
Expected credit losses	**(28.2)**	(8.0)
Net loans to customers	**7,973.0**	7,366.4

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 8% to £7,973.0m at the end of 2020 (2019: £7,366.4m) supported by organic originations of £1,870.2m at attractive margins (2019: £3,108.2m). Excluding structured asset sales in the year, the net loan book grew 13%.

Buy-to-Let sub-segment

During 2020, CCFS' organic originations in the Buy-to-Let sub-segment were £1,122.6m (2019: £1,895.2m), a decrease of 41% directly attributable to the impact of the coronavirus pandemic. As at 31 December 2020, the underlying gross loan book in this sub-segment increased 11% to £5,292.0m (2019: £4,748.5m), or 19% excluding structured asset sales.

CCFS' Buy-to-Let products saw increasing application levels in the second half of the year, despite the introduction of tighter underwriting criteria and increased headline interest rates after the March lockdown. Demand was especially strong from those borrowing via a limited company structure, which represented 56% of Buy-to-Let completions for the Precise brand in 2020, up from 50% in 2019. The remortgage levels remained largely unchanged at 57% of completions for Precise Mortgages Buy-to-Let (2019: 60%). Loans for specialist property types remained relatively resilient, despite the Group choosing to limit its risk appetite, achieved in part through earlier policy restrictions on the maximum number of bedrooms and units for houses in multiple occupation and multi-unit properties respectively, while lending on holiday lets was suspended. These property types made up 30% of Buy-to-Let completions for Precise Mortgages in 2020 and in 2019.

Precise mortgages continued to rank highly, according to research by BVA BDRC, as the specialist lender mortgage intermediaries are most likely to recommend to portfolio landlords.

Net interest income in this sub-segment remained broadly flat compared with the prior year at £114.8m (2019: £114.3m) as it was impacted by index repricing and a delay in passing on the base rate cuts to savers in full. On an underlying basis, Buy-to-Let made a contribution to profit of £100.2m in 2020, down 11% compared with £112.3m in 2019 as £14.9m of impairment losses were recognised in the year (2019: £2.1m) reflecting primarily the impact of adopting COVID-19 forward-looking assumptions in the Group's IFRS 9 models. On a statutory basis, the Buy-to-Let sub-segment made a contribution to profit of £71.5m.

Average loan to value for new lending in this segment was 74% with an average loan size of £170,000 (2019: 73% and £183,000). The book loan to value was 69% as at 31 December 2020 (2019: 71%). The weighted average interest coverage ratio for Buy-to-Let origination during 2020 was 193% (2019: restated 187%[1]).

Residential sub-segment
The underlying gross loan book in CCFS' residential sub-segment was 10% up in the year to £2,386.1m (2019: £2,170.8).

Even though organic originations reduced 28% in the year, they remained strong, reaching £573.9m in 2020 (2019: £797.2m). Throughout the year, the Group saw robust demand for Precise Mortgages' residential products despite a shift in focus towards prime borrowers. Lending under the government's Help to Buy scheme performed exceptionally well in the year as applications increased compared with 2019. The scheme helps first time buyers to take their first step onto the property ladder as the number of mortgage products available for borrowers with small deposits reduced significantly due to the effects of the coronavirus pandemic.

The CCFS residential sub-segment made a contribution to profit of £64.1m on an underlying basis, up 3% compared with £62.1m in 2019. The net interest income increased by 7% to £67.8m from £63.6m in 2019 due to the growth in the Residential loan book partially offset by a delay in passing on the base rate cuts to savers in full. Impairment losses increased to £4.0m from £1.7m in 2019 due to the impact of adopting COVID-19 forward-looking assumptions in the Group's IFRS 9 models. On a statutory basis, the residential sub-segment made a contribution to profit of £45.4m.

The average loan size for the residential sub-segment was £160,000 (2019: restated £150,000) with average LTV for new lending of 67% (2019: restated 68%[2]) and book LTV of 62% (2019: restated 65%[2]) as at 31 December 2020.

Bridging sub-segment
Short-term bridging originations decreased to £141.8m in 2020 and gross underlying loans in this sub-segment were £106.1m at the end of 2020. In late March, the Group paused lending in this sub-segment and returned with a much reduced suite of products and highly restricted underwriting criteria in the second half of the year, with a focus on high-quality lending in the regulated sector of the market.

On an underlying basis, the contribution to profit from the bridging sub-segment reduced to £10.5m in 2020 (2019: £15.1m) due to lower net interest income of £11.8m as the loan book reduced (2019: £15.5m) and higher impairment losses of £1.3m (2019: £0.5m). On a statutory basis, the bridging sub-segment made a contribution to profit of £9.7m.

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

The second charge sub-segment made a contribution to profit of £7.1m on an underlying basis, broadly flat compared with £7.0m in 2019 and £6.6m on a statutory basis. Net interest income in this sub-segment remained broadly flat at £7.4m versus £7.1m in 2019.

1. Interest coverage ratio for 2019 was restated due to alignment of the calculation across both Banks.
2. The Group restated the comparative LTVs due to a change in calculation methodology.

Wholesale funding overview

Securitisation is central to the Group's liability management strategy, as well as a key funding source, with c. £8bn of issuance since December 2013 across the CCFS and OSB trading entities. In addition to providing cost efficient funding, the Group utilises securitisations to accelerate organic capital generation through the sale of residual positions, as well as to provide efficient access to commercial and central bank repo facilities.

The Group's strategy is to be fleet-of-foot and dynamic rather than deterministic with its securitisation issuance plans, enabling it to maximise the opportunity of a strong market with repeat issuances and utilise other options when the market is poor.

2020 exemplified the strength of this approach. The Group was able to complete the majority of its intended capital markets transactions early in the year whilst markets were strong. It then utilised central bank repo facilities for its wholesale funding needs through the rest of the period at a time during which the capital markets were exceptionally volatile.

Included within this early activity were a number of strategically important transactions. In particular, the Group completed its first Simple, Transparent, and Standardised eligible prime residential mortgage-backed securities (RMBS) transaction, CMF 2020-1, which priced at SONIA +60 basis points (S+60bps) on the senior notes and S+66bps across the £330m of mortgage collateralised bonds placed into the market. The CMF series continues to provide the Group with a source of attractively priced funding: the near £1bn of mortgage collateralised bonds placed through the series to date have been sold at a combined day one spread over SONIA/LIBOR of 62bps.

Meanwhile, the first two months of the year also saw the Group structure and sell its economic interest in the Precise Mortgage Funding (PMF) 2020-1B transaction, as well as the A2 notes and residual certificates in the Canterbury No. 1 transaction.

The sale of the residual interest in these two deals was completed through an auction process and generated a statutory gain on sale of £19.9m (£33.0m on an underlying basis). As well as generating a significant gain on sale, the trade released £287m of risk-weighted assets, providing a substantial increase in Group and bank entity capital headroom ahead of a period of protracted market uncertainty.

In addition to the placement of around £1.1bn RMBS bonds into the market during the period, the Group also completed two significant retained RMBS transactions, Canterbury No.2, which closed in March and Canterbury No.3 which closed in September. These transactions, totalling more than £2bn in issuance, provide the Group with a substantial portfolio of AAA rated senior bonds which can be sold into the market at short notice for liquidity purposes, as well as being eligible for commercial and central bank funding repo facilities. The trade forms part of a broader strategy to increase the Group's wholesale funding options and, in particular, to increase its encumbrance efficiency; meaning that it can access more wholesale funding for each pound of assets encumbered and thus utilise wholesale funding to a greater degree than would otherwise be possible.

This is particularly pertinent given the Group's access to the Term Funding Scheme for SMEs, which provides four-year funding at an anticipated cost of Bank Base Rate flat. The Group's combined initial allowance through the scheme is £2.0bn, with a further £5.1bn of additional allowance due to subsequent net loan book growth through to 31 December 2020. The Group intends to utilise the scheme to repay all outstanding balances under the original TFS scheme. In addition, there should be an opportunity to utilise the scheme further to help fund net loan book growth through to 31 October 2021, when it closes to new drawdowns, subject to collateral availability and encumbrance constraints. By improving the encumbrance efficiency of the Group's collateral used for drawing down against the TFSME, it is likely that the Group will be able to take greater advantage of this allowance, in conjunction with other Bank of England repo facilities.

Retained RMBS deals also provide the Group with the flexibility to subsequently place bonds into the market at short notice, should an attractive economic opportunity present itself.

Preliminary results
for the year ended 31 December 2020

Financial review

Summary statutory results for 2020 and 2019

Summary Profit or Loss	Group 31 Dec 2020 £m	Group 31 Dec 2019 £m
Net interest income	**472.2**	344.7
Net fair value gain/(loss) on financial instruments	**7.4**	(3.3)
Gain/(loss) on sale of financial instruments	**20.0**	(0.1)
Other operating income	**9.0**	2.1
Administrative expenses	**(157.0)**	(108.7)
Provisions	**(0.1)**	-
Impairment of financial assets	**(71.0)**	(15.6)
Impairment of intangible assets	**(7.0)**	-
Gain on Combination with CCFS	**-**	10.8
Integration costs	**(9.8)**	(5.2)
Exceptional items	**(3.3)**	(15.6)
Profit before taxation	**260.4**	209.1
Profit after taxation	**196.3**	158.8
Key ratios[1]		
Net interest margin	**216bps**	243bps
Cost to income ratio	**31%**	32%
Management expense ratio	**71bps**	76bps
Loan loss ratio	**38bps**	13bps
Basic EPS, pence per share	**42.8**	52.6
Return on equity	**13%**	18%
Dividend per share, pence per share	**14.5**	4.9

Extracts from the Statement of Financial Position

	£m	£m
Loans and advances to customers	**19,230.7**	18,446.8
Retail deposits	**16,603.1**	16,255.0
Total assets	**22,654.5**	21,417.1
Key ratios		
Common equity tier 1 ratio	**18.3%**	16.0%
Total capital ratio	**18.3%**	17.3%
Leverage ratio	**6.9%**	6.5%

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

Insertion of a new ultimate holding company
A new ultimate holding company, OSB GROUP PLC (OSBG), was inserted in November 2020 as part of the Group's integration strategy following the Combination with Charter Court Financial Services Group (CCFS). OSBG became the new ultimate holding company and listed entity of the Group.

The new structure will allow the Group to fulfil its MREL requirements more efficiently through senior debt issuance via OSBG. The Bank of England has given the Group a transitional period of three years to 13 July 2023 to meet its new interim MREL requirement of 18% of risk-weighted assets and five years to 13 July 2025 to meet its new end-state MREL requirement of two times Pillar 1 and Pillar 2A.

Upon insertion of OSBG, each OSB share was cancelled and replaced with one OSBG share with no change to voting rights or ranking.

The insertion of OSBG is treated as a business combination under common control. OSBG has adopted the predecessor value method, with an investment in subsidiary in OSBG being the book value of the balance sheet of OSB at the date of insertion and the financial statements prepared predominantly as if OSBG had been inserted as the new ultimate parent company on 1 January 2019.

Statutory profit before and after tax
The Group reported 25% growth in statutory profit before taxation to £260.4m (2019: £209.1m) after exceptional items, integration costs and other acquisition-related items of £85.8m[1] (2019: £33.2m[2]) primarily due to the inclusion of a full year of profits from CCFS following the Combination in October 2019, which more than offset the impact of higher impairment charges as the Group adopted more adverse COVID-19 related forward-looking assumptions in its IFRS 9 models and recognised an impairment provision in relation to potential fraudulent activity by a third party on a secured funding line provided by the Group.

Statutory profit after taxation in 2020 increased by 24% to £196.3m (2019: £158.8m) including the after-tax exceptional items, integration costs and other acquisition-related items of £68.6m[1] (2019: £27.4m[2]), broadly in line with the increase in profit before tax.

The Group's effective tax rate increased to 23.1%[3] in 2020 (2019: 22.8%), primarily due to the impact of the government's cancellation of planned corporation tax rate reductions on 19 March 2020 on the deferred tax liability in relation to the Combination and a larger portion of the profit being subject to the Bank Corporation Tax Surcharge from the inclusion of a full year of profits from CCFS.

Statutory return on equity for 2020 fell to 13% (2019: 18%), primarily due to a full year of amortisation of the net fair value uplift to CCFS' net assets on Combination, higher impairment charges and a strengthened equity position, which benefitted from the cancellation of the 2019 final dividend and strong capital generation from profitability.

Statutory basic earnings per share fell by 19% to 42.8 pence per share (2019: 52.6 pence per share) as the increase in profit after taxation was more than offset by the impact of the additional shares issued for the all-share Combination with CCFS.

Net interest margin (NIM)
The Group reported an increase in statutory net interest income of 37% to £472.2m in 2020 (2019: £344.7m), reflecting the inclusion of a full year of net interest income from CCFS, which more than offset the impact of higher amortisation of the net fair value uplift to CCFS' net assets on Combination.

Statutory NIM for 2020 reduced to 216bps (2019: 243bps), primarily due to the dilutive impact of including CCFS' results post Combination as well as the dilutive impact of a delay in passing on the base rate cuts in full to retail savers.

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

Net fair value gain/(loss) on financial instruments
The statutory net fair value gain on financial instruments of £7.4m in 2020 (2019: £3.3m loss) included a £13.0m gain (2019: £nil) from the amortisation of hedge accounting inception adjustments, a £17.0m gain from the unwind of acquisition-related inception adjustments (2019: £3.3m) and a £2.2m gain (2019: £5.3m loss) from other items including the amortisation of the fair value relating to de-designated hedge relationships due to ineffectiveness, offset by a net loss of £6.8m (2019: £4.8m loss) in respect of the ineffective portion of hedges and an £18.0m net loss on unmatched swaps (2019: £3.5m net gain).

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

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

Gain on sale of financial instruments
The gain on sale of financial instruments of £20.0m in 2020 on a statutory basis, comprised a gain of £19.9m on disposal of the remaining notes under the Canterbury No.1 and PMF 2020-1B securitisations in January and a gain of £0.1m on the sale of £150.0m of AAA notes from the Canterbury No. 3 securitisation in September.

In 2019 the Group identified that an additional £0.1m of customer receipts was due to the purchaser of the personal loan portfolio, recognising an additional loss on sale of £0.1m.

Other operating income
Statutory other operating income of £9.0m (2019: £2.1m) largely related to fees and commissions receivable, and the increase was due to the inclusion of a full year of CCFS fees and commissions and servicing fees, including those relating to securitised loans which have been deconsolidated from the Group's balance sheet.

Administrative expenses
Statutory administrative expenses increased 44% to £157.0m in 2020 (2019: £108.7m) primarily due to the inclusion of CCFS' administrative expenses for the full year, which more than offset the impact of the delivery of synergies and lower discretionary spending during lockdowns.

The Group's statutory cost to income ratio of 31% (2019: 32%) improved with the delivery of synergies and the benefit of lower discretionary spend during lockdowns, which more than offset the impact of lower income due to a full year of acquisition-related adjustments (including the amortisation of the fair value uplift on CCFS' net assets), partially offset by gains on structured asset sales in the year.

The statutory management expense ratio improved to 71bps (2019: 76bps) reflecting the delivery of synergies and lower discretionary spend during lockdown.

Impairment of financial assets
Statutory impairment losses increased to £71.0m in 2020 (2019: £15.6m) representing 38bps of average gross loans and advances (2019: 13bps).

Impairment losses in 2020 increased primarily due to the impact of adopting more adverse forward-looking macroeconomic scenarios as the coronavirus pandemic changed the outlook for the UK economy, changes to the Group's staging criteria in line with PRA guidance, which moved certain higher risk accounts with payment deferrals to stage 2, and COVID-related enhancements to the Group's models. For more detail see the Risk review. The Group also recognised an impairment provision of £20.0m in relation to potential fraudulent activity by a third party on a funding line provided by the Group, secured against lease receivables and the underlying hard assets.

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 due to COVID-19 on the recoverable amount of the broker relationship intangible.

Integration
Progress towards achieving the synergies from the Combination has been strong. By the first anniversary of the Combination, we had delivered run rate savings of over £15m, well ahead of our £6.6m target and representing more than 65% of our end of year three target run rate. This was achieved primarily by streamlining the Board and senior management team earlier than planned and through efficiencies from combining various central and support functions. The synergies realised during 2020 from these efficiencies were equivalent to a c.2% points improvement in the Group's underlying cost to income ratio. We continue to find additional synergies and are ahead of schedule towards realising the planned run rate savings for the end of year two, with a projected end of year three run rate marginally in excess of the £22m target.

The Board is taking the opportunity to review whether some planned consolidation of locations and suppliers should take place, based on a heightened focus on operational resilience. In light of additional opportunities found, any decision is not expected to have a material impact on the overall quantum of run-rate synergies targeted by the end of year three. No material dis-synergies have been identified to date.

In the first year following the Combination, costs to achieve the synergies were £10m against an expectation of £13m. However, some costs were delayed into the second year meaning that we anticipate being closer to plan at the end of year two. Final costs are expected to be marginally below the target of £39m by the end of year three.

Integration costs
The Group recorded £9.8m (2019: £5.2m) of integration costs largely related to staff costs for key personnel retained to assist in the integration for a fixed period and fees incurred for external advice on the Group's future operating structure.

Exceptional items
Statutory exceptional items of £3.3m in 2020 related to the insertion of OSB GROUP PLC as the new holding company and listed entity of the Group.

The exceptional items of £15.6m in 2019 comprised transaction costs incurred by OSB in relation to the Combination with CCFS.

Dividend
The Board has recommended a final dividend for 2020 of 14.5 pence per share, representing 25% of full year underlying profit attributable to ordinary shareholders, as no interim dividend which is normally one third of the prior year total dividend, was paid in the year. See the Appendix for the calculation.

The recommended final dividend will be paid on 2 June 2021, subject to approval at the AGM on 27 May 2021, with an ex-dividend date of 15 April 2021 and a record date of 16 April 2021.

Balance sheet growth
Net loans and advances to customers increased by 4% in 2020 to £19,230.7m (31 December 2019: £18,446.8m) on a statutory basis, reflecting subdued originations due to the pandemic as well as structured asset sales in the year. Excluding the impact of structured asset sales, the statutory net loan book increased by 9%.

On a statutory basis, retail deposits increased by 2% to £16,603.1m from £16,255.0m, which the Group supplemented by participating in the Bank of England's funding schemes.

As at 31 December 2020, the Group's drawings under the Term Funding Scheme (TFS) remained at £2.6bn (2019: £2.6bn) with a repayment of £60.0m during the year. In the first half of 2020, the Group was accepted to participate in the Term Funding Scheme for SMEs (TFSME) with drawings of £1.0bn as at the end of 2020, which were used to replace Indexed Long-Term Repo (ILTR) funding and support net loan book growth. All of the Group's borrowings under the ILTR scheme were repaid during the year (2019: £290m).

The TFS drawdowns are offered in the form of collateralised cash loans. The scheme closed to new drawings at the end of February 2018 and the Group has four years from the date of drawing to repay the existing loans. TFSME drawdowns are also offered in the form of collateralised cash loans. The scheme commenced in March 2020 and offers four-year funding of at least 10% of participants' stock of real economy lending at interest rates at, or very close to, Bank base rate. Additional funding is available for banks that increase lending, especially to small and medium-sized enterprises. The TFSME is available for new funding until 31 October 2021.

The Group had up to £350m (2019: £600m) of contingent wholesale funding capacity available to it through the CCFS warehouse facilities, none of which was utilised at the year end.

The Group also utilises sophisticated securitisation platforms to complement its retail funding requirements and to optimise its collateral for commercial and central bank funding. For further details of securitisation activity in 2020, see the Wholesale funding overview.

Total assets grew by 6% to £22,654.5m (31 December 2019: £21,417.1m) primarily reflecting the growth in loans and advances and liquid assets.

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 31 December 2020, OSB had £1,366.7m (2019: £1,231.8m) and CCFS had £1,069.1m (2019: £1,077.3m) of HQLA LCR eligible assets. Both Banks also held a significant portfolio of unencumbered prepositioned Bank of England level C eligible collateral in the Bank of England Single Collateral Pool.

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

As at 31 December 2020, OSB had a liquidity coverage ratio of 254% (2019: 199%) and CCFS 146% (2019: 145%), and the Group LCR was 198%, all significantly in excess of the 2020 regulatory minimum of 100%.

The Group maintained prudent levels of liquidity as at 31 December 2020 in light of the continued uncertainty due to COVID-19.

Capital
The Group's capital position remained exceptionally strong with fully-loaded CET1 capital and total capital ratios of 18.3% as at 31 December 2020 (31 December 2019: 16.0% and 17.3%

respectively). The total capital ratio was the same as the CET1 ratio following the insertion of OSBG as the ultimate holding company, as non-controlling interest securities (previously AT1 securities), subordinated debt and PSBs issued by OSB no longer qualify as regulatory capital at the Group level.

The capital ratios as at 31 December 2020 benefitted from the cancelled final dividend for 2019, the application of the Capital Requirements Regulation 'Quick Fix' package and strong capital generation from profitability.

The Group had a leverage ratio of 6.9% as at 31 December 2020 (31 December 2019: 6.5%).

The combined Group had a Pillar 2a requirement of 1.18% of risk-weighted assets (excluding a static integration add-on of £19.5m) as at 31 December 2020 (31 December 2019: 1.67% excluding the static integration add-on). The reduction in the Pillar 2a requirement was notified by the PRA in anticipation of the Counter Cyclical Buffer (CCyB) being increased to 2%. Until such time as the CCyB is increased, it is offset by a PRA buffer such as to have a neutral effect on the Group's minimum CET1 requirement.

Summary cash flow statement

	Group 31-Dec-2020 £m	**Group 31-Dec-2019 £m**
Profit before tax	**260.4**	209.1
Net cash generated/(used in):		
Operating activities	**(1,326.3)**	(536.1)
Investing activities	**755.8**	826.6
Financing activities	**838.3**	488.1
Net increase in cash and cash equivalents	**267.8**	778.6
Cash and cash equivalents at the beginning of the period	**2,102.8**	1,324.2
Cash and cash equivalents at the end of the period	**2,370.6**	2,102.8

Cash flow statement
The Group's cash and cash equivalents increased by £267.8m during the year to £2,370.6m as at 31 December 2020.

Loans and advances to customers increased by £1,705.0m during the year, partially funded by £348.1m of deposits from retail customers offset by an increase in loans and advances to credit institutions (primarily the Bank of England call account) of £154.0m. Additional funding was provided by cash generated from financing activities of £838.3m and included £935.9m of net drawings under the Bank of England's TFS and TFSME schemes and £381.6m of net proceeds from securitisation of mortgages, partially offset by the repayment of warehouse funding, ILTR and commercial repos during the year. Cash generated from investing activities was £755.8m, mainly from the sale of RMBS securities and derecognition of securitisations.

In 2019, the increase in the Group's loans and advances to customers of £2,230.8m was partially funded by £1,637.8m of deposits from retail customers. Additional funding was provided by cash generated from financing activities of £488.1m and included £170.0m of net drawings under the Indexed Long-Term Repo scheme, £220.4m of proceeds from securitisation of mortgages, warehouse funding of £93.5m and £41.3m from commercial repos offset by a dividend payment of £37.3m. Cash generated from investing activities was £826.6m, largely as a result of £870.4m of cash and cash equivalents acquired on the Combination with CCFS.

1. As shown in the reconciliation of statutory to underlying results in Financial review.

2. In 2019, this comprised £48.9m (£42.9m after tax) of acquisition-related items as shown in the reconciliation of statutory to pro forma underlying results in Financial review, less CCFS' pre-acquisition transaction costs of £15.7m (£15.5m after tax).
3. Effective tax rate excludes a £4.4m charge for the impact of the deferred tax rate change and a benefit of £0.4m in respect of earlier years.

Preliminary results
for the year ended 31 December 2020

Summary of underlying results for 2020 and results on a pro forma underlying basis for 2019

Summary Profit or Loss	Group 31 Dec 2020 £m	Group 31 Dec 2019 £m
Net interest income	**534.0**	518.4
Net fair value loss on financial instruments	**(5.9)**	(20.3)
Gain on sale of financial instruments	**33.1**	58.6
Other operating income	**9.0**	5.8
Administrative expenses	**(152.7)**	(165.1)
Provisions	**(0.1)**	-
Impairment of financial assets	**(71.2)**	(16.3)
Profit before taxation	**346.2**	381.1
Profit after taxation	**264.9**	294.2
Key ratios[1]		
Net interest margin	**247bps**	266bps
Cost to income ratio	**27%**	29%
Management expense ratio	**70bps**	84bps
Loan loss ratio	**38bps**	10bps
Basic EPS, pence per share	**58.1**	64.9
Return on equity	**19%**	25%

Extracts from the Statement of Financial Position

	£m	£m
Loans and advances	**19,020.8**	18,151.4
Retail deposits	**16,600.0**	16,248.6
Total assets	**22,472.2**	21,166.5

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

Alternative performance measures
The Group presents alternative performance measures (APMs) as management believe they provide a more consistent basis for comparing the Group's performance between financial periods. Underlying results for 2020 exclude exceptional items, integration costs and other acquisition-related items. Pro forma underlying results for 2019 assume that the Combination occurred on 1 January 2019 and include 12 months of results from CCFS. They also exclude exceptional items, integration costs and other acquisition-related items.

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

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

Underlying profit before and after tax
Underlying profit before taxation was £346.2m for the year, down 9% from pro forma underlying profit before taxation of £381.1m in 2019, primarily due to higher impairment losses as the Group adopted more adverse COVID-19 related forward-looking assumptions in its IFRS 9 models and recognised an impairment provision of £20.0m in relation to potential fraudulent activity by a third party on a funding line provided by the Group, secured against lease

receivables and the underlying hard assets, which more than offset the benefit from balance sheet growth.

Underlying profit after taxation was £264.9m in 2020, down 10% from pro forma underlying profit after taxation of £294.2m in 2019, in line with the decrease in profit before tax and a higher effective tax rate. On an underlying basis, the Group's effective tax rate was 23.5% in 2020 (2019: 22.8%) as a larger portion of the Group's profit was subject to the Bank Corporation Tax Surcharge.

Underlying return on equity for 2020 remained strong at 19%, although it was lower than 25% in 2019, due primarily to the higher impairment charges and a strengthened equity position, which benefitted from the cancellation of the 2019 final dividend and strong capital generation from profitability.

Underlying basic earnings per share decreased to 58.1 pence per share (2019: 64.9 pence per share) due to the reduction in profit after taxation.

Net interest margin
On an underlying basis, net interest income increased 3% in 2020 to £534.0m from £518.4m in 2019 and underlying net interest margin (NIM) was 247bps (2019: 266bps).

The reduction in underlying NIM to 247bps from 266bps in 2019, primarily reflects the dilutive impact of a delay in passing on the base rate cuts in full to retail savers. The full impact of the base rate cuts was passed on to savers by the end of the third quarter of 2020.

Net fair value loss on financial instruments
The underlying net fair value loss on financial instruments decreased to £5.9m from a pro forma underlying loss of £20.3m in 2019.

The loss for 2020 included a loss of £6.8m (2019: £4.8m loss) from hedge ineffectiveness, a loss on unmatched swaps of £18.0m (2019: £13.3m loss) and a £16.7m gain (2019: £1.7m) relating to the amortisation of hedging adjustments arising when hedge accounting commences on derivative instruments previously taken out against the mortgage pipeline and other hedge accounting inception adjustments. Other hedging and fair value movements amounted to a gain of £2.2m (2019: £3.9m loss).

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

Gain on sale of financial instruments
The underlying gain on structured asset sales of £33.1m in the year (2019: £58.6m) related to a gain of £33.0m on disposal of the remaining notes under the Canterbury No.1 and PMF 2020-1B securitisations in January 2020. In September, the Group sold £150.0m of notes from the Canterbury No. 3 securitisation generating a gain of £0.1m.

In 2019, the gain on sale of loans consisted of a gain of £58.7m from sales of residual interests in three CCFS securitisations to third party investors prior to the Combination and a £0.1m loss from customer receipts due to the purchaser of the personal loan portfolio.

Other operating income
Other operating income of £9.0m (2019: £5.8m) primarily related to CCFS' fees for servicing third party mortgage portfolios and servicing fees for derecognised securitised mortgages, where the Group continued to service the loans.

Administrative expenses
Underlying administrative expenses were £152.7m in 2020, a decrease of 8% from £165.1m in 2019, as the synergies from the integration of OSB and CCFS continued to be delivered and the Group benefitted from lower discretionary spend in lockdowns, including those relating to travel, accommodation and marketing, as employees continued to follow COVID-19 restrictions in the UK and India.

The underlying cost to income and underlying management expense ratios improved to 27% and 70bps respectively (2019: 29% and 84bps respectively) reflecting the delivery of synergies and lower discretionary spend during lockdowns.

Impairment of financial assets
Impairment losses on an underlying basis increased to £71.2m in 2020 (2019: £16.3m) representing 38bps of average gross loans and advances (2019: pro forma underlying 10bps).

Impairment losses in 2020 increased primarily due to the impact of adopting more adverse forward-looking macroeconomic scenarios as the onset of the coronavirus pandemic changed the outlook for the UK economy, changes to the Group's staging criteria in line with PRA guidance, which moved certain higher risk accounts with payment deferrals to stage 2, and COVID-related enhancements to the Group's models. For more detail, see the Risk review. The Group also recognised an impairment provision of £20.0m in relation to potential fraudulent activity by a third party on a funding line provided by the Group, secured against lease receivables and the underlying hard assets.

Balance sheet
On an underlying basis, the loan book increased 5% to £19,020.8m (2019: £18,151.4m) reflecting reduced originations due to the pandemic as well as structured asset sales at the start of the year. Excluding the impact of the structured asset sales, the underlying net loan book growth would have been 9%.

Underlying retail deposits increased by 2% during 2020 to £16,600.0m (2019: £16,248.6m) as both Banks continued to attract new savers by offering attractively priced savings products and outstanding customer service. The balance of the Group's funding requirement was provided by the Bank of England's funding schemes and RMBS which provided £935.9m and £381.6m of net new funding respectively. For further details of the Group's securitisation activity in 2020, see the Wholesale funding overview.

The Group's total underlying assets increased in the year by 6% to £22,472.2m from £21,166.5m in 2019, primarily reflecting the growth in loans and advances and liquid assets.

Reconciliation of statutory to underlying and pro forma underlying results

	2020			2019			
	Statutory results £m	Reverse acquisition-related and exceptional items £m	Underlying results £m	Statutory results £m	CCFS pre-acquisition results £m	Reverse acquisition-related items £m	Pro forma underlying results £m
Net interest income	**472.2**	**61.8[1]**	**534.0**	344.7	152.1	21.6	518.4
Net fair value gain/(loss) on financial instruments	**7.4**	**(13.3)[2]**	**(5.9)**	(3.3)	(13.7)	(3.3)	(20.3)
Gain/(loss) on sale of loans	**20.0**	**13.1[3]**	**33.1**	(0.1)	58.7	-	58.6
Other operating income	**9.0**	**-**	**9.0**	2.1	3.7	–	5.8
Total income	**508.6**	**61.6**	**570.2**	343.4	200.8	18.3	562.5
Administrative expenses	**(157.0)**	**4.3[4]**	**(152.7)**	(108.7)	(57.7)	1.3	(165.1)
Provisions	**(0.1)**	**-**	**(0.1)**	-	–	–	-
Impairment of financial assets	**(71.0)**	**(0.2)[5]**	**(71.2)**	(15.6)	(4.3)	3.6	(16.3)
Impairment of intangible assets	**(7.0)**	**7.0[6]**	**-**	-	-	-	-
Gain on Combination with CCFS	**-**	**-**	**-**	10.8	-	(10.8)	–
Integration costs	**(9.8)**	**9.8[7]**	**-**	(5.2)	–	5.2	–
Exceptional costs	**(3.3)**	**3.3[8]**	**-**	(15.6)	(15.7)	31.3	–
Profit before tax	**260.4**	**85.8**	**346.2**	209.1	123.1	48.9	381.1
Profit after tax	**196.3**	**68.6**	**264.9**	158.8	92.5	42.9	294.2
Summary Balance Sheet							
Loans and advances to customers	**19,230.7**	**(209.9)[9]**	**19,020.8**	18,446.8	-	(295.4)	18,151.4
Other financial assets	**3,341.8**	**36.8[10]**	**3,378.6**	2,878.2	-	63.2	2,941.4
Other non-financial assets	**82.0**	**(9.2)[11]**	**72.8**	92.1	-	(18.4)	73.7
Total assets	**22,654.5**	**(182.3)**	**22,472.2**	21,417.1	-	(250.6)	21,166.5
Amounts owed to retail depositors	**16,603.1**	**(3.1)[12]**	**16,600.0**	16,255.0	-	(6.4)	16,248.6
Other financial liabilities	**4,296.6**	**4.4[13]**	**4,301.0**	3,544.0	-	10.0	3,554.0
Other non-financial liabilities	**77.9**	**(61.4)[14]**	**16.5**	141.1	-	(63.1)	78.0
Total liabilities	**20,977.6**	**(60.1)**	**20,917.5**	19,940.1	-	(59.5)	19,880.6
Net assets	**1,676.9**	**(122.2)**	**1,554.7**	1,477.0		(191.1)	1,285.9

1. Amortisation of the net fair value uplift to CCFS' mortgage loans and retail deposits on Combination.
2. Reversal of £17m of acquisition-related inception adjustments and the recognition of £3.7m of inception adjustments under CCFS' entity level hedge accounting.
3. Recognition of additional gain on sale of securitised loans.
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.
8. Reversal of exceptional costs incurred during the year.
9. Recognition of a fair value uplift to CCFS' loan book less accumulated amortisation of the fair value uplift and a movement on credit provisions.
10. Fair value adjustment to hedged assets.
11. Adjustment to current tax asset and recognition of acquired intangibles on Combination.
12. Fair value adjustment to CCFS' retail deposits less accumulated amortisation.
13. Fair value adjustment to hedged liabilities.
14. Adjustment to deferred tax liability and other acquisition-related adjustments.

Risk review

Executive summary

During the year, the Group primarily focused on developing a considered and measured response to the global pandemic based on its strategic objectives, risk appetite and risk management capabilities. In particular, the Board and senior management ensured that the Group continued to operate with sufficient financial buffers and operational capacity to withstand any future extreme but plausible economic shocks.

The Group leveraged the underlying risk management frameworks to assess, monitor and respond to the emerging economic, business and operational challenges arising from the pandemic. The Group's response was subject to extensive planning, coordination and implementation oversight by the Board and senior management through both formal Committee meetings and ad hoc engagement sessions. The Group benefitted greatly from the extensive and diverse risk management experience of the Board and senior management during all phases of the pandemic.

The Group's response to the pandemic has been centrally coordinated whilst being cognisant of the specific business and operational characteristics of the individual banking entities. The Board and senior management responded quickly to assess the potential implications and impacts of the emerging pandemic across all identified principal risks, with a particular focus on credit, capital, liquidity and operational risks.

Well established stress testing and analytical capabilities were leveraged to identify the risks and vulnerabilities to the business, and economic and operational drivers which may be impacted by the pandemic. This analysis highlighted the potential implications of the pandemic on the Group's assets, liabilities, funding and solvency positions, operational capacity and customers. Continued and progressive enhancements were made to the risk assessment approaches to ensure that the Group's response was aligned to the evolving nature of the pandemic.

The Board and senior management maintained an open and active dialogue with primary stakeholders including employees, customers and regulatory authorities throughout 2020.

At the onset of the pandemic, the Group took appropriate actions to ensure full compliance with social distancing and lockdown guidelines, utilising its business continuity and operational resilience frameworks. As the majority of the Group's workforce transitioned to working from home, the Group took appropriate actions to ensure operational risks were subject to active identification, assessment and monitoring.

As payment deferral guidelines were introduced, the Group took timely actions to ensure effective compliance with the emerging regulatory guidelines, swiftly updating its risk modelling and provisioning approaches, whilst modifying its operational procedures to ensure an effective response to customers requesting payment deferrals.

The Group updated its IFRS 9 provisioning approach to reflect the emerging pandemic-based economic scenarios, including the varied permutations of how the UK economy may be impacted. Appropriate adjustments were also applied to the underlying model-based judgements and estimates. The Group continuously monitored and updated its credit provisioning approach. The Group remains mindful of the potential for future risks which may manifest themselves post the removal of the government support schemes, particularly the furlough scheme, and is confident that its provisioning approach is sufficiently agile and responsive to emerging trends and issues.

To ensure that the quantum of model-based provisions remained appropriate, a top-down triangulation exercise was commissioned by the Board. The top-down assessment benchmarked IFRS 9 provisions to historical stresses, peer assessment and look through assessments of Buy-to-Let (BTL), residential and commercial portfolios, to underlying borrower and tenant characteristics. The IFRS 9 based provisions were supported by the independent top-down triangulation exercise.

The Group also adjusted its risk appetite, primarily through tightening its lending criteria to effectively manage the risk of lending in a highly disrupted and economically uncertain market. The actions taken were framed to ensure that the Group maintained its asset quality profile whilst sustaining its core lending brands and delivering appropriate levels of balance sheet growth.

Following extensive review, the Board approved actions to strengthen the liquidity positions across both banking entities through drawdowns under the Bank of England Indexed Long-Term Repo facility, which were later replaced with drawings from the new Term Funding Scheme for SMEs (TFSME). Both bank entities continued to retain prudent levels of liquidity, considering the uncertain economic outlook. The Group's capital position strengthened throughout the year, supported by actions taken such as the cancellation of the 2019 final dividend, tightened lending criteria and the impact of regulatory capital preservation rule changes as outlined within the PRA's 'Quick Fix' package, which included revisions to the IFRS 9 transitional arrangements for the capital impact of IFRS 9 expected credit losses and revisions to the small and medium-sized enterprises support factor.

The Risk and Compliance function provided extensive oversight and advisory support to customer-facing functions enabling the Group to respond effectively to customer expectations, regulatory guidelines and the conduct and compliance-based risk appetite. The Group ensured that customers' account performance was reported to credit reference agencies, in accordance with regulatory guidance.

To enable the Board and senior management to remain fully abreast of the evolving impact of the pandemic, the level and frequency of risk-based analysis and management information were increased. Information provided was used to monitor customer behaviours and outcomes, whilst also detailing sensitivity and stress test analysis on capital, IFRS 9 provision levels and funding metrics. Reverse stress test and recovery option analysis was also performed to inform the going concern assessment of the Group and its banking entities. Operational capacity thresholds were actively monitored and reported to ensure timely action was taken to enable continuity of all key services.

Despite the highly disruptive and uncertain business, economic and operating environment, the Group continued to operate within the defined risk appetite levels. Some risk metrics have operated outside acceptable thresholds, such as expected credit losses, however, the underlying performance of the loan portfolios remained broadly stable with respect to borrower credit profiles, arrears and loan to value (LTV) levels, notwithstanding the potential fraud by a third-party on a funding line provided by the Group, secured against lease receivables and the underlying hard assets. The number of customers who requested payment deferrals reduced progressively throughout 2020 to only 1.3% of the Group's loan book by value as at year end.

We continued to make good progress towards IRB during the year, albeit some elements of the project were inevitably delayed by the impact of COVID-19, which created the need to deploy significant resources to support additional stress testing and expected credit loss modelling and also restricted the ability of external advisers to access our premises and systems. Nevertheless, we are still aiming to submit our module 1 application by the end of 2021. In the meantime, the Group continues to benefit from the enhanced risk models and assessment in its decision making.

The Group maintained prudent levels of contingent financial resources to sustain its business operations and to withstand an extreme but plausible stress. Operational resilience was also demonstrated by the fact that, during lockdowns, a fundamental change to the Group's operating model did not result in a material operational risk incident or an increase in realised operational risk losses.

The Board and senior management remain mindful of the continuously evolving nature of the pandemic and are fully engaged to ensure that appropriate and timely actions continue to be taken, such that the Group continues to operate within its specific risk appetite levels and delivers against its stated strategic objectives.

Key achievements in 2020
During the year, the Group sustained momentum on strategically important risk and compliance initiatives. In particular, the Board and senior management were mindful of ensuring that the pandemic did not impact continued progress and investment in the following initiatives:

- Design and implementation of a comprehensive framework to assess and report on pandemic-based risks, leveraging enhanced risk data and analytical capabilities.
- The development and implementation of key Group level frameworks and policies. In particular, a transitional overarching Group Risk Management Framework was developed, including Group risk appetite statements and limits.
- Though the Group continues to maintain two independently regulated banking entities, the Risk and Compliance functions have been transitioned to a shared service operating model, whereby the individual functions and teams are Group based, providing necessary supporting services to the entity specific Boards and wider business functions.
- Completion of Group and banking entity Internal Capital Adequacy Assessment Processes (ICAAPs), including risk and capital-based assessments which were consistent in approach but reflect the individual banking entity risk profiles. Climate change risks, including physical risks and transitional risks, associated with transitioning to a low carbon economy, were also assessed as part of the ICAAP development process.
- Delivery of aligned liquidity and funding risk assessment and monitoring capabilities, which will support the Group and solo banks Internal Liquidity Adequacy Assessment Processes (ILAAPs).
- Continued progress against the Group IRB programme agenda, including development of next generation models, enhanced model performance monitoring, governance and integration of IRB-based outputs within wider business and decision-making processes.
- Integration risk was also identified as a principal risk and is subject to the necessary disciplines as articulated in the Group Risk Management Framework. Integration risk is identified as a risk to and from the integration programme which is subject to review, monitoring and reporting against an integration risk appetite. Key integration activities are subject to second and third line oversight and assurance activity.
- Operational resilience assessment and management has progressively been aligned across the two banking entities, and was subject to a review against emerging regulatory expectations. The Group's operational resilience capabilities helped to guide the response to the operational disruptions resulting from the pandemic.
- Continued improvement and alignment of vulnerable customer identification and management procedures. During the period, the Group performed a number of internal thematic reviews to ensure that account management procedures resulted in fair customer outcomes and any learning from these reviews were used to further enhance customer management strategies.

Priority areas for 2021
The ongoing COVID-19 pandemic continues to contribute to significant uncertainty around the macroeconomic outlook and operating environment for 2021. Therefore, continued close monitoring of the Group's risk profile and operating effectiveness remains a key priority.

Further development and embedding of the overarching Group risk management framework also remains a key priority, including:

- Continued integration of the Risk and Compliance functions in accordance with the target end state, reflecting industry best practice and regulatory expectations.
- Development and embedding of Group-level recovery and resolution plans. The Risk function is also committed to ensuring effective and timely compliance with the requirements of the Resolution Assessment Framework over the coming two years, whilst providing oversight and advisory support with respect to the Group's minimum requirement for own funds and eligible liabilities (MREL) strategy and planning.

- Delivering further enhancements to the Group and individual entity ILAAPs and related liquidity risk management arrangements.
- Further embedding of the Group's IRB risk measurement capabilities including the monitoring and management of the credit risk profile utilising enhanced analytics, to ensure improved credit decisioning, pricing and risk management. Continued progression of the Group's IRB programme in accordance with defined timelines also remains a key area of focus.
- Alignment of operational risk management systems and operational risk frameworks across the Group.
- Implementation of recommendations from the independent review of controls and processes in the funding lines business.
- Continued close monitoring, scenario analysis and stress testing of the Group's capital and liquidity projections.
- Delivery of a climate change risk management framework covering both physical and transitional risks.

The Board and senior management are fully committed to achieving the objectives above through continued investment in people, systems, data and processes.

Risk management

Approach to risk management
The Group views its capabilities to effectively identify, assess and manage its risk profile as critical to its growth strategy. The Group has developed a transitional overarching Risk Management Framework (RMF) to drive a consistent approach to risk identification and assessment across both licensed bank entities. This framework will continue to evolve and be updated as integration activity continues prior to the Group reaching its target end state.

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

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

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

1. Risk principles and culture - the Group has established a set of risk principles which inform and guide all risk management activities and it has a strong, proactive and transparent 'risk culture' where all employees across the Group are aware of their responsibilities in relation to risk management.
2. Risk strategy and appetite – the Group has a clear business purpose, vision and values strategy which is supported by an articulated risk vision and underlying principles. The Group calibrates its risk appetite to reflect the Group's strategic objectives and business operating plans, as well as external economic, business and regulatory constraints.
3. Risk assessment and control – the Group's business model and strategy exposes it to a defined risk profile and the risk governance structure is informed by this risk profile such that the Group can identify and manage its risks in an effective and efficient manner.
4. Risk definitions and categorisation – the Group sets out its principal risks which represent the primary risks to which the Group is exposed.
5. Risk analytics (including stress testing and scenario analysis) – the Group uses quantitative analysis and statistical modelling to help improve its business decisions.

6. Risk data and Information Technology – the maintenance of high quality risk information, along with the Group's data enrichment and aggregation capabilities, are central to the Risk function's objectives being achieved.
7. Risk frameworks, policies and procedures – risk frameworks, policies and supporting documentation outline the process by which risk is effectively managed and governed within the Group.
8. Risk management information (MI) and reporting – the Group has established a comprehensive suite of risk MI and reports covering all principal risk types.
9. Risk governance and function organisation – risk governance refers to the processes and structures established by the Board to ensure that risks are assumed and managed within the Board-approved risk appetite, with clear delineation between risk taking, oversight and assurance responsibilities. The Group's risk governance framework is structured to adhere to the 'three lines of defence' model.

Further detail on these modules is set out in the Group's Pillar 3 disclosures.

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

The Group risk appetite is articulated by means of a series of statements which outline the level and nature of risks that the Group is able and willing to assume in pursuit of its strategic and business objectives. These statements are further supported by a suite of risk thresholds which ensure that the Group's risk profile is monitored and controlled within defined parameters and that appetite breaches are subject to appropriate management and Board oversight. The Risk Appetite Framework also helps to outline roles and responsibilities relating to all aspects of the risk appetite, based on a defined structure, processes, procedures and governance.

Risk appetite is calibrated to reflect the Group's strategic objectives, business operating plans, as well as external economic, business and regulatory constraints. In particular, risk appetite is calibrated to ensure that the Group continues to deliver against its strategic and business objectives and maintains sufficient financial resource buffers to withstand plausible but extreme stresses. The primary objective of the risk appetite is to ensure that the Group's strategy and business operating model is sufficiently resilient.

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

The Group's risk appetite is subject to a full refresh annually across all principal risk types and an additional mid-year review where any metrics can be assessed and updated as appropriate. The assessment of the Group's risk profile against its strategy and risk appetite has been enhanced to ensure early detection and response to adverse trends.

Approach to managing climate change risk

Climate change and society's response to it, may result in a number of financial risks materialising. Supervisory statement 3/19 was published in April 2019 and it sets out the PRA's expectations concerning financial services firms developing their approaches to identifying, monitoring and controlling climate change risk relevant to their specific business.

The PRA published a 'Dear CEO' letter in July 2020 emphasising its expectations for firms to have fully embedded their approaches to managing climate-related financial risk by the end of 2021.

The Group is exposed to physical, transitional and reputational risks relating to climate change:

- Physical risks and the risks associated with a transition to a low carbon economy, arise from a number of factors, and relate to specific weather events (such as heatwaves, floods, wildfires and storms) and longer-term shifts in the climate (such as changes in precipitation, extreme weather variability, rising sea level risk and rising mean temperatures). These risks could include adverse movements in the value of certain properties that are in coastal or low lying areas, or located in areas prone to increased levels of subsidence and heave.
- Transitional risks may arise from the process of adjustment towards a low-carbon economy which may lead to changes in policy, regulation, the emergence of disruptive technology or business models shifting sentiment, and societal preferences, or evolving evidence, frameworks and legal interpretations. These risks include a potential adverse impact in the value of properties that require substantial updates to meet future energy performance requirements.
- Reputational risk arising from a failure to meet changing societal, investor or regulatory demands.

How the Group identifies and assesses climate change risk

Within the Group's 2020 ICAAP, a number of financial and transitional climate change risks were identified, and a series of detailed financial risk assessments (IFRS 9 impairment and capital) were conducted over a range of scenarios to quantify the potential impact on the Group, should any of the scenarios materialise. This process was supported by the acquisition of data from an external third party.

The key conclusion from this analysis was that the Group is currently exposed to a low level of climate change risk, when assessing the potential impairment and capital impacts over a range of physical perils such as flooding, subsidence and coastal erosion across the Group's loan book. The Risk function also analysed the energy performance certificate (EPC) profile of the Buy-to-Let loan book and the risks relating to landlords having extensive remediation activity to ensure an appropriate EPC rating is in place. Again, this analysis indicated that the Group's EPC profile is strong and the modelled impact of remediation remains low.

The ongoing provision of this data will allow the Group to monitor how its climate change risk profile evolves over time, and consequently take action if required to ensure that the risk of climate change remains at an acceptable level.

Processes in place to manage climate change risk

Climate change risk impacts a number of the Group's other principal risk types, therefore work is ongoing to assess the wider consequences across the Group. This will involve the management of climate change risk being overseen by a number of the Group's Risk Committees.

How the management of climate change risk is integrated within the Group's wider risk management approaches

The Board has overseen the Group's plans to comply with the PRA's expectations and emerging industry best practice around climate change risk management, with progress made across the following areas during 2020:

- The overarching Risk Management Framework was updated to articulate the Group's approach to climate change risk management.
- A dedicated working group was established to oversee and manage the Group's response to climate change risk.
- A detailed financial risk assessment of the Group's exposure to climate change risk was

conducted as part of the 2020 ICAAP.
- The Chief Risk Officers of the two banks have designated senior management function (SMF) responsibility for the management of climate change risk.

During 2021 the Group plans to further enhance and embed its approaches to identifying, monitoring and managing climate change risk, including the development of a dedicated Climate Change Risk Management Framework, coupled with further enhancements to climate change risk profile monitoring, whilst conducting further sensitivity analysis. The development of formal climate change risk appetite statements and limits, together with a full suite of key risk and performance indicators, is also planned. Plans will be developed in the first half of 2021 to ensure that the Group complies with the recommendations set out by the Task Force on Climate-related Financial Disclosures, which have been introduced into UK listing requirements on or after 1 January 2021. These will be overseen by a specified Board member and the member of the senior management team responsible for ESG.

Risk appetite statements

Strategic and business risk appetite statement

The Group's strategic and business risk appetite states that the Group does not intend to undertake any medium to long-term strategic actions that would put at risk its vision of being a leading specialist lender, backed by a strong and dependable saving franchise.

The Group adopts a long-term sustainable business model which, while focused on niche sub-sectors, is capable of adapting to growth objectives and external developments.

Reputational risk appetite statement

The Group does not knowingly conduct business or organise its operations to put its reputation and franchise value at risk.

Credit risk appetite statement

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

Market risk appetite statement

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

Liquidity and funding risk appetite statement

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

Solvency risk appetite statement

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

Operational risk appetite statement

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

Conduct risk appetite statement

The Group aims to operate and conduct its business to the highest standards which ensure integrity and trust with respect to how the Group operates and manages its relationships with key stakeholders. In this regard, the Group has no appetite to knowingly assume risks which may result in an unfair outcome for customers and/or cause disruptions in the market segments in which it operates. However, where the Group identifies potential conduct risks it will proactively intervene by managing, escalating and mitigating them promptly to ensure a fair outcome is achieved.

Compliance / regulatory risk appetite statement

The Group views ongoing conformity with regulatory rules and standards across all the jurisdictions in which it operates as a critical component of its risk culture. The Group does not knowingly accept compliance risk which could result in regulatory sanctions, financial loss or damage to its reputation. The Group will not tolerate any systemic failure to comply with applicable laws, regulations or codes of conduct relevant given its business operating model.

Integration risk appetite statement

The Combination of OSB and CCFS is intended to enhance scale, bringing together resources and capabilities, and to explore further growth opportunities which deliver attractive long-term returns. The delivery against the integration strategy is framed within the Group's purpose, vision and values and the broader risk appetite. The integration is deemed to be inherently low risk owing to the retention of core operating brands, similarities of business models, no large-scale IT integration or substantial migration of customer accounts. Accordingly, the Board has a low risk appetite for adverse integration activity outcomes, which put the strategic rationale of the merger, the Group's purpose, vision and values or broader risk appetite at risk. In the event that integration work streams are subject to delay or reprioritisation, the Board expects the rationale to be clearly understood and justified, with defined mitigation actions implemented, overseen by robust levels of governance.

Risk profile performance overview

Credit risk

The Group's fully secured loan portfolios performed robustly throughout 2020, with the credit profile remaining broadly stable, post careful monitoring and management of both the OSB and CCFS lending portfolios.

The Group's credit risk appetite approach ensured that the loan portfolios were positioned to perform well in both benign and stressed macroeconomic environments. Prudent management actions taken shortly after the onset of the COVID-19 pandemic, such as tightening loan to values (LTVs) and other credit policy criteria across all loan types, ensured that new lending performed well and was positioned to withstand future stress.

Cautious underlying net loan book growth of 5%, or 9% excluding the impact of structured asset sales in the year, was delivered via controlled new lending in the Group's core Buy-to-Let and residential owner-occupier segments, which more than offset reductions in bridging and second charge outstanding balances. The Group also tightened criteria in its more cyclical product lines. Mortgage lending balances against semi-commercial and commercial lending also reduced, as did the Group's development finance and funding lines sub-segments due to tighter lending criteria and strong repayment inflows.

Sensible new lending LTV criteria and favourable property price indexing resulted in the average weighted stock LTV for OSB[1] and CCFS reducing during 2020 to 64% and 67% respectively as at 31 December 2020 (31 December 2019: restated[2] OSB 65% and CCFS 69%), which resulted in a prudent average weighted LTV profile of 65% at the Group level.

A low level of arrears continued to be observed during 2020, with just 0.9% of net loan balances greater than three months in arrears, which was in line with the position as at 31 December 2019. These stable metrics are in part supported by accounts being offered COVID-19 payment deferrals, which will have stopped accounts missing payments during the eligible period.

Group and solo banks interest coverage ratios for new lending improved during 2020 to 201% for OSB and 193% for CCFS (2019: restated[3] 199% OSB and 187% CCFS).

During 2020 forward-looking external credit bureau probability of default and customer indebtedness scores improved across the Group's core lending segments.

To support our customers during the COVID-19 pandemic the Group granted payment deferrals to c. 26k accounts representing 28% of the loan book by value during the peak at the end of June 2020. As at 31 December 2020 active COVID-19 payment deferrals represented only 1.3% of the Group's loan book by value. Low levels of arrears have been observed from the payment holiday cohort to date.

1. Average weighted LTV for OSB includes KR and Interbay Buy-to-Let, semi-commercial and commercial, first and second charge residential lending.
2. The Group restated the comparative LTVs due to a change in calculation methodology.
3. Interest coverage ratios for 2019 were restated due to an improvement in calculation methodology.

Expected Credit Losses (ECL)

Full year statutory impairment losses totalled £71.0m versus £15.6m for 2019, with the increase being driven by the potential impact of the COVID-19 pandemic on the UK economy and resulting changes in customer behaviour and property valuations. The Group also recorded an impairment provision of £20m in relation to potential fraudulent activity by a third party on a secured funding line provided by the Group.

Detailed below are a number of the COVID-19 related factors and other material items which drove the elevated impairment charge for the year:

a) Macroeconomic scenarios – during 2020 the Group adopted a suite of more adverse economic scenarios, which reflected the potential impact of the COVID-19 pandemic across the UK economy. Rising unemployment levels may result in increasing levels of customers falling into arrears and defaulting on loan payments, whilst falling house prices may result in lower levels of equity and therefore potential future losses post sale. Downside scenarios also included the impact of economic disruption caused from the United Kingdom's exit from the European Union. Throughout the year these scenarios were updated as the pandemic progressed and government support measures were introduced. The introduction and consequent updates made to forward-looking macroeconomic scenarios drove £21.2m of the total impairment charge during 2020 or 11bps of the annualised loan loss ratio.

b) Staging criteria – the Group ensured it complied with industry best practice and regulatory guidance with respect to payment deferrals and their treatment in IFRS 9 staging criteria, which included payment deferrals on their own not being treated as a significant increase in credit risk. During 2020, the Group made iterative enhancements to staging criteria, leveraging both internal and external information to identify performing higher risk cohorts across the entire customer base, but also including the payment deferral population, moving eligible exposures into stage 2 where a lifetime loss allowance was held. In 2020 the impact from these staging enhancements was £4.8m of the annual impairment charge or 3bps of the annualised loan loss ratio.

c) COVID-19 post model adjustments – the Group implemented a number of post model adjustments to ensure that modelled estimates remained appropriate, considering the impact that government support measures such as the repossession moratorium and payment deferrals had on credit bureau files and on loss given default and probability of default estimates. The quantum of these post model adjustments was impacted by the interaction with the severe forward-looking macroeconomic scenarios, during the impairment calculation process. The combined impact of these COVID-19 related post model adjustments contributed £10.4m of the total 2020 impairment charge which equated to c. 5bps of the annualised loan loss ratio.

d) Model enhancements - post Combination, the Group continued to make enhancements across the full suite of IFRS 9 impairment models, aligning modelling approaches and definitions where appropriate. An example of this was the implementation of an aligned definition of default across the Group. In line with the normal course of business a number of model recalibrations were made during the year, to ensure that modelled estimates continued to align to actually observed performance. The cumulative impact of these modelling enhancements contributed £10.7m of the total loan loss charge during 2020, which contributed 6bps to the loan loss ratio. The interaction of the severe forward-looking macroeconomic scenarios within IFRS 9 impairment calculations elevated the impact of these modelling enhancements.

e) Funding line impairment - the Group recognised an impairment provision of £20m, which represented 11bps of the annualised loan loss ratio, in relation to potential fraudulent activity by a third-party on a funding line of £28.6m provided by the Group, secured against lease receivables and the underlying hard assets. The Group's funding line business is primarily secured against property-related mortgages[1] and we believe that this is an isolated incident. The outstanding funding line exposure was classified as in default (not past due) and therefore transferred to stage 3, with a consequent specific provision raised.

1 The Group's gross loans to customers include £175.7m in relation to funding lines of which 66% is secured on property-related mortgages.

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

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

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

The Group has adopted an approach which utilises four macroeconomic scenarios. These scenarios are provided by an industry leading economics advisory firm, that provide management and the Board with advice on which scenarios to utilise and the probability weightings to attach to each scenario.

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

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

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

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

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

iii. Macroeconomic scenario governance
The Group has a robust governance process to oversee macroeconomic scenarios and probability weightings used within ECL calculations. Updated scenarios are provided on a monthly basis where an assessment is carried out by the Group's Risk function to determine whether an update is required.

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

iv. Changes made during 2020

a. Macroeconomic scenario

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

Throughout 2020, the scenario suite was monitored and updated as government measures were updated and the impact of the pandemic evolved.

b. Significant increase in credit risk rules

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

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

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

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

			Scenario %	
Scenario	**Probability weighting (%)**	**Economic measure**	**5 year average (yearly growth %)**	**Cumulative growth/(fall) to peak/(trough) (%)**
Base case	40	GDP	3.2	(5.8)
		House Price Index	2.1	(8.5)
		Bank Base Rate	0.5	1.4
		Unemployment rate	6.9	3.7
		Commercial Real Estate Index	2.1	(8.5)
Upside	30	GDP	3.6	(5.6)
		House Price Index	3.6	(6.3)
		Bank Base Rate	0.8	1.7
		Unemployment rate	6.1	3.1
		Commercial Real Estate Index	3.6	(6.3)
Downside	23	GDP	2.6	(6.7)
		House Price Index	(0.4)	(18.9)
		Bank Base Rate	0.1	0.0
		Unemployment rate	8.8	5.8
		Commercial Real Estate Index	(0.4)	(18.9)
Severe downside	7	GDP	2.2	(8.0)
		House Price Index	(2.2)	(26.4)
		Bank Base Rate	0.1	0.0
		Unemployment rate	9.6	6.5
		Commercial Real Estate Index	(5.5)	(40.0)

Forbearance

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

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

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

- Temporary switch to interest only: a temporary account change to assist customers through periods of financial difficulty where arrears do not accrue at the original contractual payment. Any arrears existing at the commencement of the arrangement are retained.
- Interest rate reduction: the Group may, in certain circumstances, where the borrower meets the required eligibility criteria, transfer the mortgages to a lower contractual rate. Where this is a formal contractual change, the borrower will be requested to obtain independent financial advice as part of the process.
- Loan term extension: a permanent account change for customers in financial distress where the overall term of the mortgage is extended, resulting in a lower contractual monthly payment.
- Payment holiday: a temporary account change to assist customers through periods of financial difficulty where arrears accrue at the original contractual payment. Any arrears existing at the commencement of the arrangement are retained.
- Voluntary-assisted sale: a period of time is given to allow borrowers to sell the property and arrears accrue based on the contractual payment.
- Reduced monthly payments: a temporary arrangement for customers in financial distress. For example, a short-term arrangement to pay less than the contractual payment. Arrears continue to accrue based on the contractual payment.

- Capitalisation of interest: arrears are added to the loan balance and are repaid over the remaining term of the facility or at maturity for interest only products. A new payment is calculated, which will be higher than the previous payment.
- Full or partial debt forgiveness: where considered appropriate, the Group will consider writing off part of the debt. This may occur where the borrower has an agreed sale and there will be a shortfall in the amount required to redeem the Group's charge, in which case repayment of the shortfall may be agreed over a period of time, subject to an affordability assessment or where possession has been taken by the Group; and on the subsequent sale where there has been a shortfall loss.
- Arrangement to pay: where an arrangement is made with the borrower to repay an amount above the contractual monthly instalment, which will repay arrears over a period of time.
- Promise to pay: where an arrangement is made with the borrower to defer payment or pay a lump sum at a later date.
- Bridging loans more than 30 days past due: bridging loans which are more than 30 days past their maturity date. Repayment is rescheduled to receive a balloon or bullet payment at the end of the term extension where the institution can duly demonstrate future cash flow availability.

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

Fair value of collateral methodology

The Group ensures that security valuations are reviewed on an ongoing basis for accuracy and appropriateness. Commercial properties are subject to annual indexing, whereas residential properties are indexed against monthly House Price Index data.

Solvency risk

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

Solvency risk is a function of balance sheet growth, profitability, access to capital markets and regulatory changes. The Group actively monitors all key drivers of solvency risk and takes prompt action to maintain its solvency ratios at acceptable levels. The Board and management also assess solvency when reviewing the Group's business plans and inorganic growth opportunities.

During 2020, the Group proactively managed the balance sheet, whilst the PRA introduced capital support measures detailed within the CRR 'Quick Fix' package which resulted in capital ratios strengthening. The counter-cyclical buffer was also cut from 1% to 0% during the period as a regulatory response to COVID-19.

The Group's fully-loaded CET1 and total capital ratios under CRD IV increased to 18.3% as at 31 December 2020 (31 December 2019: 16.0% and 17.3% respectively) demonstrating the strong organic capital generation capability of the business, the impact of the regulatory support measures and prudent management of the credit risk profile. The Group's leverage ratio was 6.9% as at 31 December 2020 (31 December 2019: 6.5%).

The total capital ratio is the same as the CET1 ratio following the insertion of OSB Group as the ultimate holding company, as non-controlling interest securities, subordinated debt and PSBs issued by OSB no longer qualify as regulatory capital at the Group level.

Liquidity and funding risk

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

The Group continues to attract new retail savers and has high retention levels with existing customers. In addition, the Combination allowed the Group a wider range of wholesale funding options, including securitisation issuances and use of retained notes from both Banks.

In 2020, both Banks actively managed their respective liquidity and funding profiles within the confines of their risk appetites as set out in each Bank's ILAAP.

Each Bank's risk appetite is based on internal stress tests that cover a range of scenarios and time periods and therefore are a more severe measure of resilience to a liquidity event than the standalone liquidity coverage ratio (LCR). As at 31 December 2020, OSB had a liquidity coverage ratio of 254% (2019: 199%) and CCFS 146% (2019: 145%), and the Group LCR was 198%, all significantly above the 2020 regulatory requirement of 100%.

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

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

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

Transition away from LIBOR
The PRA and FCA have continued to encourage banks to transition away from using LIBOR as a benchmark in all operations before the end of 2021. Throughout the UK banking sector LIBOR remains a key benchmark and, for each market impacted, solutions to this issue are progressing through various industry bodies.

An internal working group has been established with strong oversight from the Compliance and Risk functions. Risk assessments have been completed to ensure this process is managed in a measured and controlled manner. The Group no longer writes any LIBOR-linked business and is transitioning new and back book swaps from a LIBOR to a SONIA basis.

Interest rate risk
The Group does not actively assume interest rate risk, does not execute client or speculative securities transactions for its own account, and does not seek to take a significant directional interest rate position. Limits have been set to allow management to run occasional unhedged positions in response to balance sheet dynamics and capital has been allocated for this. Exposure limits are calibrated in proportion to available CET1 capital and estimated annual net interest income to cover capital and profit and loss risks.

The Group sets limits on the tenor and rate reset mismatches between fixed rate assets and liabilities, including derivatives hedges, with exposure and risk appetite assessed by reference to historical and potential stress scenarios at consistent levels of modelled severity.

Throughout 2020, both Banks managed their interest rate risk exposures within risk appetite limits.

Basis risk
Basis risk arises from assets and liabilities repricing with reference to different interest rate indices, including positions which reference variable market and managed rates. As with structural interest rate risk, the Group does not seek to take a significant basis risk position, but maintains defined limits to allow operational flexibility.

For both OSB and CCFS, exposure is assessed and monitored regularly across a range of 'business as usual' and stressed scenarios.

Throughout 2020, both Banks managed their basis risk exposure within their risk appetite limits.

Operational risk
The Group continues to adopt a proactive approach to the management of operational risks. The operational risk management framework has been designed to ensure a robust approach to the identification, measurement and mitigation of operational risks, utilising a combination of both qualitative and quantitative evaluations. The Group's operational processes, systems and controls are designed to minimise disruption to customers, damage to the Group's reputation

and any detrimental impact on financial performance. The Group actively promotes the continual evolution of its operating environment.

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

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

Due to the COVID-19 pandemic and the resulting high number of employees working and accessing systems from home, the risk of a cyber attack has heightened. Whilst IT security risks continue to evolve, the level of maturity of the Group's controls and defences has significantly increased, supported by dedicated IT security experts. The Group's ongoing penetration testing continues to drive enhancements by identifying potential areas of risk.

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

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

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

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

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

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

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

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

The Group remains highly focused on delivering against its core strategic objectives and strengthening its position further through strong and sustainable financial performance.

Reputational risk

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

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

Integration risk

At the point of the Combination, integration risk was identified as a principal risk for the duration of the integration programme, though the integration of the two entities was deemed inherently low risk owing to the similarity of the two business models, with the programme involving no material system or data migrations. The Board took the view that it has limited appetite for integration related risks and deemed it appropriate to identify, assess and manage integration risks in full compliance with the wider risk management framework and governance disciplines of the Group.

Integration risk relates to any risk which may result in the non-delivery of planned integration objectives with respect to desired strategic outcomes and costs and synergies performance targets. Additionally, integration risk is also assessed with respect to the other principal risks which may be adversely impacted as a consequence of the integration activities.

The Board exercises oversight of the integration programme through the Board Integration Committee based on defined critical success factors and an integration risk appetite. The integration programme is supported by an Integration Management Office, with clearly defined plans, established roles and responsibilities, necessary financial discipline and governance arrangements. The integration programme is subject to second line oversight and third line assurance to enable the Board and senior management to monitor progress against plan and performance against integration risk appetite.

The integration programme and the underlying risk profile continued to perform in line with expectations during 2020, where no material risk incidents or trends where identified during the year. The integration programme did experience some level of disruption owing to the pandemic, but overall the programme has continued to progress as planned.

Principal risks and uncertainties

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

Performance against targets

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

Mitigation

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

Direction: increased

The COVID-19 pandemic has adversely impacted the Group meeting its strategic and business targets.

Opportunities remain, including the Group realising integration benefits as planned, which will support the Group in any future macroeconomic stress, whilst managing challenges posed by increasing levels of competition in our key market segments.

Economic environment

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

Mitigation

The Group continued to utilise and enhance its stress testing capabilities to assess and minimise potential areas of macroeconomic vulnerabilities.

Direction: increased

Economic risks remain elevated due to the ongoing COVID-19 pandemic and risks surrounding the removal of government support measures.

The risk relating to a no trade deal Brexit subsided following an agreement being reached, however the full implications of the deal arrangements being operationalised are yet to be observed.

Regulatory requirements

The potential for emerging regulatory requirements to increase the demands on the Group's operational capacity and increase the cost of compliance.

Mitigation

The Group continues to invest in its IT and data management capabilities to increase the ability to respond to regulatory change.

A structured approach to change management and fully leveraging internal and external expertise allows the Group to respond effectively to regulatory change.

Direction: increased

Increased levels of regulatory scrutiny and increased regulatory expectations are driven by the increased size of the Group post-Combination.

Competition risk

The risk that new bank entrants and existing peer banks shift focus to the Group's market segments, which increases the level of competition.

Mitigation

The Group continues to develop products and services which meet the requirements of the markets in which it operates.

Post the Combination, the Group has an enlarged suite of products and capabilities to utilise, along with increased scale and financial resources to support a response to changes in competition.

Direction: unchanged

The Group responded well to all competition and market changes throughout 2020 and is well positioned to respond to changes in competition in 2021.

Reputational risk

The potential risk of adverse effects that can arise from the Group's reputation being affected due to factors such as unethical practices, adverse regulatory actions, customer dissatisfaction and complaints or negative/adverse publicity.

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

Deterioration of reputation

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

Mitigation

Culture and commitment to treating customers fairly and being open and transparent in communication with key stakeholders. Established processes to proactively identify and manage potential sources of reputational risk.

Direction: unchanged

Expectations remain high to deliver the integration in a timely and effective manner while achieving strategic objectives. Expectations have been raised across all stakeholders, including employees, customers, regulators and shareholders.

Credit risk

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

Individual borrower defaults

Borrowers may encounter idiosyncratic problems in repaying their loans, for example loss of a job or execution problems with a development project.

While in most of cases of default the Group's lending is secured, some borrowers may fail to maintain the value of the security.

Mitigation

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

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

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

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

Direction: increased

The impact of COVID-19 on the UK economy is uncertain and could result in a material increase in unemployment levels and decreases in property prices, which could drive higher impairment levels.

The impact of the government support measures ending remains unknown and the knock-on impact into borrower defaults thereafter.

Macroeconomic downturn

A broad deterioration in the economy would adversely impact both the ability of borrowers to repay loans and the value of the Group's security. Credit losses would impact across the lending portfolio, so even if individual impacts were to be small, the aggregate impact on the Group could be significant.

Mitigation

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

Direction: increased

The economic outlook is uncertain, driven by the potential range of outcomes resulting from COVID-19 and the end of government support measures.

Wholesale credit risk

The Group has wholesale exposures both through call accounts used for transactional and liquidity purposes and through derivative exposures used for hedging.

Mitigation

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

Direction: unchanged

The Group's wholesale credit risk exposure remains limited to high quality counterparties, overnight exposures to clearing bank and swap counterparties.

Market risk

Potential loss due to changes in market prices or values.

Interest rate risk

The risk of loss from adverse movement in the overall level of interest rates. It arises from mismatches in the timing of repricing of assets and liabilities, both on and off balance sheet. It includes the risks arising from imperfect hedging of exposures and the risk of customer behaviour driven by interest rates, e.g. early redemption.

Mitigation

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

Direction: unchanged

The Group continues to assess interest on a regular basis ensuring that interest rate risk exposure is limited.

Basis risk

The risk of loss from an adverse divergence in interest rates. It arises where assets and liabilities reprice from different variable rate indices. These indices may be market rates (e.g. Bank Base Rate, Sterling Overnight Index Average (SONIA), or the London Interbank Offered Rate (LIBOR)) or administered (e.g. the Bank's Standard Variable Rate (SVR), other discretionary variable rates, or that received on call accounts with other banks).

Mitigation

Due to the Group balance sheet structure, no active management of basis risk was required by OSB Group during 2020.

Key mitigants include new swaps being linked to SONIA and existing LIBOR linked swaps being transitioned to SONIA. LIBOR linked mortgages will also be transitioned to referencing either the Bank of England base rate or SONIA.

Direction: unchanged

Product design, balance sheet structure and replacing LIBOR swaps with SONIA swaps enabled the Group to maintain the overall level of basis risk across both Banks through the year.

The basis risk position will reduce over 2021 as CCFS and OSB fully transition from LIBOR.

Liquidity and funding risk

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

Retail funding stress

As the Group is primarily funded by retail deposits, a retail run could put it in a position where it could not meet its financial obligations.

Increased competition for retail savings driving up funding costs, adversely impacting retention levels and profitability.

Mitigation

The Group's funding strategy is focused on a highly stable retail deposit franchise. The large number of depositors provides diversification and a high proportion of balances are covered by the FSCS and so there is no material risk of a retail run.

In addition, the Group performs in-depth liquidity stress testing and maintains a liquid asset portfolio sufficient to meet obligations under stress. The Group holds prudential liquidity buffers to manage funding requirements under normal and stressed conditions.

The Group has further diversified its retail channels by expanding the range of pooled deposit providers used.

The Group proactively manages its savings proposition through both the Liquidity Working Group and the Group Assets and Liabilities Committee. Finally, the Group has prepositioned mortgage collateral 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.

Direction: unchanged

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

During the year, OSB and CCFS were both able to attract significant flows of new deposits and depositors when required.

Wholesale funding stress

A market-wide stress could close securitisation markets or make issuance costs unattractive for the Group.

Mitigation

The Group continuously monitors wholesale funding markets, and is experienced in taking proactive management actions where required.

The Group has issued a number of securitisations during 2020 where both CCFS and OSB saw strong market demand for secured wholesale issuance

Direction: unchanged

The Group's range of wholesale funding options available, including repo or sale of retained notes, collateral upgrade trades and warehouse facilities, remains broadly unchanged.

Refinancing of Term Funding Scheme (TFS) and TFSME

The Group has drawn a total of £2.6bn funding under the TFS and £1.0bn under the TFSME creating a refinancing concentration around the maturity of the schemes.

Mitigation

The Group has fully factored in repayment of TFS into the funding plans of both Banks, with planned repayment prior to the contractual date to minimise timing and concentration risk. The Group has a wider range of funding options to manage this process.

The Group has a TFSME allowance significantly above its wholesale funding requirements which allows the TFS scheme to be fully refinanced by TFSME.

Direction: decreased

The TFSME scheme will allow the Group to significantly extend the maturities of its Bank of England based funding.

Solvency risk

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

Deterioration of capital ratios

Key risks to solvency arise from balance sheet growth and unexpected losses which can result in the Group's capital requirements increasing or capital resources being depleted such that it no longer meets the solvency ratios as mandated by the PRA and Board risk appetite.

The regulatory capital regime is subject to change and could lead to increases in the level and quality of capital that the Group needs to hold to meet regulatory requirements.

Mitigation

Currently the Group operates from a strong capital position and has a consistent record of strong profitability.

The Group actively monitors its capital requirements and resources against financial forecasts and plans and undertakes stress testing analysis to subject its solvency ratios to extreme but plausible scenarios.

The Group also holds prudent levels of capital buffers based on CRD IV requirements and expected balance sheet growth.

The Group engages actively with regulators, industry bodies and advisers to keep abreast of potential changes and provides feedback through the consultation process.

Direction: unchanged

Proactive management of the Group's balance sheet and support measures provided by the PRA via the CRR 'Quick Fix' package which included a reset of the IFRS 9 capital transitional relief and the extension of the SME support factor, together with ongoing profitability, resulted in the Group's capital ratios strengthening.

Risks remain around adverse credit profile performance, resulting from the ongoing COVID-19 pandemic and the removal of government support measures.

Operational risk

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

IT Security (including cyber risk)

The risks resulting from a failure to protect the Group's systems and the data within them. This includes both internal and external threats.

Mitigation

The Group 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.

Direction: increased

Due to the COVID-19 pandemic and the resulting high number of employees working and accessing systems from home, the risk of a cyber-attack was heightened.

Whilst IT security risks continue to evolve, the level of maturity of the Group's controls and defences has significantly increased, supported by dedicated IT security experts.

The Group's ongoing penetration testing continues to drive enhancements by identifying potential areas of risk.

Data quality and completeness

The risks resulting from data being either inaccurate or incomplete.

Mitigation

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.

Direction: unchanged

Further progress was made during 2020 in embedding Group-wide governance frameworks, standards and controls. Further work is planned in 2021, to move closer to the Group's target end state.

Change management

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

Mitigation

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

Direction: increased

The Group continues to adopt an ambitious change agenda, driven by the integration programme. During 2020 this risk was monitored and managed well, however further change is planned in 2021, against the backdrop of the ongoing COVID-19 pandemic and likely periods of employees working from home.

IT Failure

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

Mitigation

The Group continues to invest in improving the resilience of its core infrastructure. It has identified its prioritised business services and the infrastructure that is required to support them. Tests are performed regularly to validate its ability to recover from an incident.

Direction: unchanged

Whilst progress was made in reducing both the likelihood and impact of an IT failure, the risks remain, in particular due to the new operating environment. Further work is planned during 2021.

Organisational change and integration

The risks resulting from the Group's ongoing integration activities, including systems, people and infrastructure.

Mitigation

There is a low risk integration project plan (e.g. no large-scale integration-related IT project change planned). Experienced and capable project management office, with close oversight and direction provided by the Group Executive and Board Integration Committees.

Direction: unchanged

To date, organisational change resulting from the integration project has been managed well, with no material risks emerging during 2020. Further work is required to reach the target end state and carefully considered plans, strong risk identification and monitoring and management capabilities remain in place.

Conduct risk

The risk that the Group's behaviours or actions result in customer detriment or negative impact on the integrity of the markets in which it operates.

Product suitability

Whilst the Group originates relatively simple products, there remains a risk that products (primarily legacy) may be deemed to be unfit for their original purpose in line with current regulatory definitions.

Mitigation

The Group has a strategic commitment to provide simple, customer-focused products. In addition, a Product Governance framework is established to oversee both the origination of new products and to revisit the ongoing suitability of the existing product suite.

Direction: unchanged

Whilst this risk remained low as a result of increased awareness and dedicated oversight, the Group remains aware of the changes to the regulatory environment and their possible impact on product suitability.

Data protection

The risk that customer data is accessed inappropriately, either as a consequence of network/ system intrusion or through operational errors in the management of the data.

Mitigation

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.

Direction: unchanged

Despite a number of additional controls being introduced in 2020, the network/system threats continue to evolve in both volume and sophistication.

Integration risk

The risk that the integration programme directly or indirectly causes poor outcomes for customers and the market.

Mitigation

During the integration process, the Group is committed to adopting a low-risk approach with a view to taking reasonable steps to avoid causing poor outcomes for its customers and the market. The Group will conduct detailed analysis of potential customer harm associated with particular integration steps.

Direction: unchanged

No material issues have been identified to date and controls are in place to ensure that the integration programme does not result in poor customer outcomes.

Compliance and regulatory risk

The risk that a change in legislation or regulation or an interpretation that differs from the Group's will adversely impact the Group.

Prudential regulatory changes

The Group continues to see a high volume of key compliance regulatory changes that impact its business activities. These include: change in Standardised Approach capital rules and implementation of an IRB floor, implementation of the European Standardised Information Sheet, extending the Senior Managers and Certification Regime to all FCA regulated firms and introduction of Strong Customer Authentication requirements.

The focus on external wall cladding for high-rise buildings was extended to smaller buildings in February 2021, and the value of properties supporting the Group's loan portfolios could be impacted, or customer behaviour could change if significant remediation activity is required to ensure building safety regulations are met.

Mitigation

The Group has an effective horizon scanning process to identify regulatory change.

All significant regulatory initiatives are managed by structured programmes overseen by the Project Management team and sponsored at Executive level.

The Group has proactively sought external expert opinions to support interpretation of the requirements and validation of its response, where required.

The Group has initiated a study into external wall cladding and is reviewing its own property portfolio along with the collateral supporting lending portfolios. The Group also notes the recent support measures announced by the government to help individuals to ensure compliance with building safety standards, including the removal of defective cladding.

Direction: unchanged

The Group continues to have a high level of interaction with the UK regulators and continues to respond effectively to all regulatory changes.

Conduct regulation

Regulatory changes focused on the conduct of business could force changes in the way the Group carries out business and impose substantial compliance costs.

Product design, underwriting, arrears and forbearance policies are misaligned to regulatory expectations, which result in customers not being treated fairly, particularly those experiencing financial hardship or vulnerable customers, with the potential for reputational damage, redress and other regulatory actions.

Mitigation

The Group has a programme of regulatory horizon scanning linking into a formal regulatory change management programme. In addition, the focus on simple products and customer oriented culture means that current practice may not have to change significantly to meet new conduct regulations.

All Group entities utilise underwriting, arrears, 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 who are vulnerable or experiencing financial hardship, are treated fairly, consistently and in a way that considers their individual needs and circumstances.

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

Direction: unchanged

The level of regulatory change continues to be high, but the Group has sufficient resources and capabilities to respond to any changes in an effective and efficient manner.

During the year, the Group took part in a number of FCA thematic reviews, including reviews on long-term forbearance in the second charge market and a Business model drivers and unaffordable lending review.

Integration risk

The risks resulting from the Group's ongoing integration activities, including business operational and financial performance, systems, people and infrastructure.

Risk

A reduction in the oversight of business as usual operational performance, increased risk to operational resilience via the change process, unintended staff attrition or infrastructure failure, which in turn adversely impact operating and financial performance.

Mitigation

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 assessment, monitoring and reporting is being undertaken by the Risk and Internal Audit functions.

Direction: unchanged

To date the integration project has progressed as planned, and the governance, project management and control structures have operated effectively, with no material risks crystallising.

Emerging risks

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

Political and macroeconomic uncertainty

The impact of COVID-19 and the removal of government support measures remains uncertain. The Group's lending activity is predominantly focused in the United Kingdom (with a legacy back book of mortgages in the Channel Islands) and, as such, will be impacted by any risks emerging from changes in the macroeconomic environment. Risks also remain around the disruption that the UK's exit from the European Union, will have on the economy.

Mitigation

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

Climate change

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

Physical risks can relate to specific weather events, such as storms and flooding, or to longer-term shifts in the climate, such as rising sea levels. These risks could include adverse movements in the value of certain properties that are in coastal and low lying areas, or located in areas prone to increased subsidence and heave.

Transitional risks may arise from the adjustment towards a low-carbon economy, such as tightening energy efficiency standards for domestic and commercial buildings. These risks could include a potential adverse movement in the value of properties requiring substantial updates to meet future energy performance requirements.

Reputational risk arising from a failure to meet changing societal, investor or regulatory demands.

Mitigation

The Group developed an approach to assessing and managing the risks relating to climate change within its Risk Management Framework. This includes scenario analysis, development of key risk indicators and inclusion of climate risks within operational resilience activities.

A cross-functional working group is overseeing the Group's response to climate change, in line with industry best practice and regulatory guidelines.

As part of the Group's ICAAP a detailed analysis was conducted using third party data to conduct an initial assessment of the financial risk that climate change could pose to the Group. This analysis will be developed further during 2021 and will be aligned with activity to develop an integrated ESG plan during the first half of 2021.

The Group's Chief Risk Officers have designated senior management responsibility for the management of climate change risk; during 2021 a Board member will be specified to ensure that the Group meets regulatory and wider stakeholder expectations.

Model risk

The risk of financial loss, adverse regulatory outcomes, reputational damage or customer detriment resulting from deficiencies in the development, application or ongoing operation of models and ratings systems.

Post the completion of the Combination with CCFS, the Group notes the increasing usage of models to conduct financial assessments whilst informing business decisions. The Group also notes changes in industry best practice with respect to managing model risk.

Mitigation

During 2020, Board and Executive level model oversight Committees and a suite of Group level policies were introduced.

Further enhancements are planned during 2021 to ensure that the model governance arrangements meet regulatory expectations and model risk is managed effectively.

LIBOR reform

The LIBOR benchmark may cease to be set after the end of 2021 due to the low level of supporting unsecured loans in the wholesale interbank loan market. The 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.

Mitigation

The Group ALCO has set up a dedicated working group to focus on this risk and transition away from the LIBOR benchmark. Key mitigating actions include new swaps being linked to SONIA and existing LIBOR linked swaps being transitioned to SONIA. LIBOR linked mortgages will also be transitioned to referencing either the Bank of England base rate or SONIA.

Coronavirus

The COVID-19 pandemic has had a material impact on individuals and businesses where the Group has operations, including the UK and India. The lockdown measures introduced to stem the spread of the virus have had a profound effect on how businesses operate and individuals work, which may have a materially adverse impact on the Group's profitability, capital and liquidity positions.

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

Mitigation

The Group has taken a considered approach to minimising and managing the impact of a coronavirus-related global pandemic. The Group approach represents a comprehensive response strategy covering both severity and consequences of a global pandemic. 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 employees (UK and India) and supervisory authorities.

Negative interest rates

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

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

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

Mitigation

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

Viability statement

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

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

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

While a five-year time frame is used internally, levels of uncertainty increase as the planning horizon extends and the Group's operating and financial plans focus more closely on the next three years. The Board therefore considers a period of three years to be an appropriate period for the assessment to be made.

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

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

The viability of the Group is assessed at both the Group and the underlying regulated Bank levels, through leveraging the risk management frameworks and stress testing capabilities of both regulated banks. Post Combination, the risk assessment and stress testing capabilities of OSB and CCFS have been progressively aligned; however, the strength of the capital and funding profiles of both Banks provides an appropriate level of assurance that the Group and its entities can withstand a severe but plausible stress scenario.

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

A broad range of stress scenarios are analysed, including the economic impact of COVID-19 forecasting the potential impacts to HPI, unemployment and interest rates. Stress testing has played a critical role in framing the Group's response to the pandemic in relation to risk appetite, capital, liquidity levels and credit provisioning.

Stresses are applied to lending volumes, capital requirements, liquidity and funding mix, interest margins and credit and operational losses. Stress testing also supports key regulatory submissions such as the ICAAP, ILAAP and the Recovery Plan. ICAAP stress testing assesses capital resources and requirements over a five-year period.

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

In addition, the Group identifies a range of catastrophic scenarios, which could result in the failure of its current business model. Business model failure scenarios (Reverse Stress Tests or RSTs) are primarily used to inform the Board of the outer limits of the Group's risk profile. RSTs play an important role in helping the Board and Executives to assess the available recovery options to revive a failing business model. The RST exercise is based on analysing a range of scenarios, including an extreme macroeconomic downturn, a cyberattack leading to a loss of customer data which is used for fraudulent activities, extreme regulatory and taxation changes impacting Buy-to-Let lending volumes and a liquidity crisis caused by severe market conditions combined with idiosyncratic consequences.

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

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

The pandemic has had a disruptive impact on the Group's business growth objectives and the changing characteristics of the underlying risk profiles, particularly in relation to credit and operational risks. The Group has enhanced its risk assessment, monitoring and reporting procedures to ensure that these risks are effectively managed and has accordingly adjusted its risk appetite.

The Group has also maintained strong capital and funding profiles with a view to ensuring continued financial resilience. However, the Group remains fully cognisant of the evolving nature of the pandemic crisis, particularly the potential risks which may be realised as government support schemes start to wind down.

The Board has also considered the potential implications of the pandemic in its assessment of the financial and operational viability of the Group and has a reasonable belief that the Group retains adequate levels of financial resources (capital and liquidity) and operational contingency. In assessing the viability of the Group, the Board has considered the potential impact and risks facing the Group with respect to the pandemic as set out in the Risk review and the Principal risks and uncertainties.

The Group has recently undertaken a comparative review of the macroeconomic stress scenarios used to assess the Group's ongoing viability relative to the pandemic scenarios, as obtained from the Group's third-party economic advisers. Given the evolving nature of the pandemic crisis, the Group will continue to refine and update the scenarios in consultation with its economic advisers.

This exercise was undertaken to ensure that the shape and severity of the scenarios used to assess the Group's financial viability are sufficiently severe to accommodate for the latest assessment of the potential economic impact of the pandemic.

The pandemic scenarios take into consideration the following drivers and implications relevant to a pandemic crisis:

- Government guidance and policy response to the crisis
- Impact of customers subject to payment deferrals and thereafter requiring forbearance
- Impact on employment levels, regional house price and commercial property price changes and interest rates. These macroeconomic drivers are subsequently reflected in stressed credit risk parameters in probability of default and loss given default estimates
- Implication for consumer spending and business investment

The pandemic scenarios are designed to be severe, but plausible, based on the assumption that the impact on the UK economy is immediate and quickly feeds through into rising unemployment rates, declining residential and commercial property prices and a rapid slowdown in lending volumes. The Treasury and Bank of England take proactive fiscal and monetary stimulatory actions, but given the invasive nature of the pandemic, the UK economy does not show signs of recovery until 2022.

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

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

- Enhancing stress testing capabilities through more focused assessment of more vulnerable cohorts of its lending portfolio supported by increased granularity of monitoring and risk reporting
- Increasing the diversification of its funding profile, supported by enhanced assessment of funding and liquidity risk profiles

- Continued improvements to the risk and control self-assessment procedures across key areas of operational risk, including operations and technology
- Enhancing the assessment of operational resilience through the ongoing review of priority business functions, including supporting infrastructure and dependencies through a simulated business continuity exercise

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

Statement of Directors' responsibilities

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

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

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

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

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

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

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

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

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

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

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

- so far as the Director is aware, there is no relevant audit information of which the Company's auditor is unaware; and

- they have taken all the steps they ought to have taken as a Director in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Approved by the Board and signed on its behalf by:

Jason Elphick

Group General Counsel and Company Secretary

8 April 2021

OSB GROUP PLC

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2020

	Note	**2020** **£m**	2019 £m
Interest receivable and similar income	4	**711.9**	539.9
Interest payable and similar charges	5	**(239.7)**	(195.2)
Net interest income		**472.2**	344.7
Fair value gains/(losses) on financial instruments	6	**7.4**	(3.3)
Gain/(loss) on sale of financial instruments	7	**20.0**	(0.1)
Other operating income	8	**9.0**	2.1
Total income		**508.6**	343.4
Administrative expenses	9	**(157.0)**	(108.7)
Provisions	39	**(0.1)**	-
Impairment of financial assets	25	**(71.0)**	(15.6)
Impairment of intangible assets	10	**(7.0)**	-
Gain on Combination with CCFS		**-**	10.8
Integration costs	13	**(9.8)**	(5.2)
Exceptional items	14	**(3.3)**	(15.6)
Profit before taxation		**260.4**	209.1
Taxation	15	**(64.1)**	(50.3)
Profit for the year		**196.3**	158.8
Other comprehensive income			
Items which may be reclassified to profit or loss:			
Fair value changes on financial instruments measured as Fair Value through Other Comprehensive Income:			
Arising in the year		**1.0**	0.8
Revaluation of foreign operations		**-**	(0.6)
Tax on items in other comprehensive income		**(0.5)**	(0.2)
Other comprehensive income		**0.5**	-
Total comprehensive income for the year		**196.8**	158.8
Attributable to:			
Equity shareholders of the company		**191.3**	153.3
Non-controlling interest		**5.5**	5.5
		196.8	158.8
Dividend, pence per share	17	**-**	16.1
Earnings per share, pence per share			
Basic	16	**42.8**	52.6
Diluted	16	**42.4**	52.2

The above results are derived wholly from continuing operations.

The notes below form part of these accounts.

The financial statements were approved by the Board of Directors on 8 April 2021.

OSB GROUP PLC
Consolidated Statement of Financial Position
As at 31 December 2020

	Note	2020 £m	2019 £m
Assets			
Cash in hand		**0.5**	0.4
Loans and advances to credit institutions	19	**2,676.2**	2,204.6
Investment securities	20	**471.2**	635.3
Loans and advances to customers	21	**19,230.7**	18,446.8
Fair value adjustments on hedged assets	27	**181.6**	16.8
Derivative assets	26	**12.3**	21.1
Other assets	28	**9.1**	14.3
Current taxation asset		**8.4**	-
Deferred taxation asset	29	**4.7**	4.8
Property, plant and equipment	31	**39.2**	41.6
Intangible assets	32	**20.6**	31.4
Total assets		**22,654.5**	21,417.1
Liabilities			
Amounts owed to credit institutions	33	**3,570.2**	3,068.8
Amounts owed to retail depositors	34	**16,603.1**	16,255.0
Fair value adjustments on hedged liabilities	27	**8.2**	(5.1)
Amounts owed to other customers	35	**72.9**	29.7
Debt securities in issue	36	**421.9**	296.3
Derivative liabilities	26	**163.6**	92.8
Lease liabilities	37	**11.7**	13.3
Other liabilities	38	**27.8**	34.9
Provisions	39	**1.8**	1.6
Current taxation liability		**-**	41.5
Deferred taxation liability	30	**48.3**	63.1
Subordinated liabilities	40	**10.5**	10.6
Perpetual subordinated bonds	41	**37.6**	37.6
		20,977.6	19,940.1
Equity			
Share capital	43	**1,359.8**	4.5
Share premium	43	**-**	864.2
Retained earnings		**1,608.6**	553.2
Other reserves	44	**(1,351.5)**	(4.9)
Shareholders' funds		**1,616.9**	1,417.0
Non-controlling interest		**60.0**	60.0
Total equity and liabilities		**22,654.5**	21,417.1

The notes below form part of these accounts. The financial statements were approved by the Board of Directors on 8 April 2021 and signed on its behalf by

Andy Golding
Chief Executive Officer

April Talintyre
Chief Financial Officer

Company number: 11976839

OSB GROUP PLC

Consolidated Statement of Changes in Equity

For the year ended 31 December 2020

	Share capital £m	Share premium £m	Capital contribution £m	Transfer reserve £m	Own shares[1] £m	Foreign exchange reserve £m	FVOCI reserve £m	Share-based payment reserve £m	Retained earnings £m	Non-controlling interest securities £m	Total £m
At 31 December 2018	2.4	158.8	6.5	(12.8)	-	(0.4)	(0.1)	4.7	439.3	60.0	658.4
Profit for the year	-	-	-	-	-	-	-	-	158.8	-	158.8
Shares issued as consideration for CCFS Combination	2.0	705.1	-	-	-	-	-	-	(6.4)	-	700.7
Own shares[1]	-	-	-	-	(3.7)	-	-	-	-	-	(3.7)
Coupon paid on non-controlling interest securities	-	-	-	-	-	-	-	-	(5.5)	-	(5.5)
Dividends paid	-	-	-	-	-	-	-	-	(37.3)	-	(37.3)
Other comprehensive income	-	-	-	-	-	(0.6)	0.8	-	-	-	0.2
Share-based payments	0.1	0.3	-	-	-	-	-	(0.2)	4.3	-	4.5
Tax recognised in equity	-	-	-	-	-	-	(0.2)	1.1	-	-	0.9
At 31 December 2019	4.5	864.2	6.5	(12.8)	(3.7)	(1.0)	0.5	5.6	553.2	60.0	1,477.0
Profit for the year	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**196.3**	**-**	**196.3**
Coupon paid on non-controlling interest securities	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(5.5)**	**-**	**(5.5)**
Other comprehensive income	**-**	**-**	**-**	**-**	**-**	**-**	**1.0**	**-**	**-**	**-**	**1.0**
Share-based payments	**-**	**2.6**	**-**	**-**	**-**	**-**	**-**	**2.4**	**3.2**	**-**	**8.2**
Tax recognised in equity	**-**	**-**	**-**	**-**	**-**	**-**	**(0.5)**	**(0.2)**	**0.5**	**-**	**(0.2)**
Transfer between reserves	**-**	**-**	**(6.5)**	**12.8**	**-**	**-**	**-**	**-**	**(6.3)**	**-**	**-**
Own shares[1]	**-**	**-**	**-**	**-**	**(0.3)**	**-**	**-**	**-**	**0.4**	**-**	**0.1**
Cancellation of OneSavings Bank plc share capital and share premium	**(4.5)**	**(866.8)**	**-**	**-**	**-**	**-**	**-**	**-**	**866.8**	**-**	**(4.5)**
Issuance of OSB GROUP PLC share capital	**1,359.8**	**-**	**-**	**(1,355.3)**	**-**	**-**	**-**	**-**	**-**	**-**	**4.5**
At 31 December 2020	**1,359.8**	**-**	**-**	**(1,355.3)**	**(4.0)**	**(1.0)**	**1.0**	**7.8**	**1,608.6**	**60.0**	**1,676.9**

[1] The Group has adopted look-through accounting (see note 2) and recognised the Employee Benefit Trusts within OSB GROUP PLC (2019: OneSavings Bank plc).

The reserves are further disclosed in note 44.

OSB GROUP PLC

Consolidated Statement of Cash Flows

For the year ended 31 December 2020

	Note	2020 £m	2019 £m
Cash flows from operating activities			
Profit before taxation		**260.4**	209.1
Expenses recognised in equity		**-**	(6.4)
Adjustments for non-cash items	51	**79.2**	26.2
Changes in operating assets and liabilities	51	**(1,537.2)**	(711.8)
Cash used in operating activities		**(1,197.6)**	(482.9)
Provisions refunded/(paid)	39	**0.1**	(0.2)
Net tax paid		**(128.8)**	(53.0)
Net cash used in operating activities		**(1,326.3)**	(536.1)
Cash flows from investing activities			
Unencumbered cash acquired on CCFS Combination		**-**	870.4
Maturity and sales of investment securities	20	**407.3**	357.7
Purchases of investment securities	20	**(190.9)**	(389.9)
Interest received on investment securities		**7.0**	-
Sales of financial instruments	7	**539.9**	-
Purchases of equipment and intangible assets	32,31	**(7.5)**	(11.6)
Cash generated from investing activities		**755.8**	826.6
Cash flows from financing activities			
Financing received[1]	42	**1,991.2**	872.7
Financing repaid[1]	42	**(1,103.6)**	(338.5)
Cash held in deconsolidated special purpose vehicles		**(23.0)**	-
Interest paid on financing		**(21.4)**	(2.6)
Coupon paid on non-controlling interest securities		**(5.5)**	(5.5)
Dividends paid	17	**-**	(37.3)
Proceeds from issuance of shares under employee SAYE schemes	43	**2.6**	0.4
Cash payments on lease liabilities	37	**(2.0)**	(1.1)
Cash generated from financing activities		**838.3**	488.1
Net increase in cash and cash equivalents		**267.8**	778.6
Cash and cash equivalents at the beginning of the year	18	**2,102.8**	1,324.2
Cash and cash equivalents at the end of the year	18	**2,370.6**	2,102.8
Movement in cash and cash equivalents		**267.8**	778.6

1. Insertion of OSB GROUP PLC

As part of the Group's integration strategy, following the Combination with CCFS, a new holding company, OSB GROUP PLC (OSBG), was inserted as the new ultimate holding company and listed entity of the Group. OneSavings Bank plc (OSB) was both a banking entity and the ultimate parent company of the Group until 27 November 2020, at which point it became a 100% subsidiary of the new ultimate parent company, OSBG.

As part of the insertion of OSBG, the existing listed share capital and share premium of OSB was cancelled on 27 November 2020 and the share capital and share premium amounts of OSB transferred to retained earnings. OSB subsequently issued the same number of new unlisted £0.01 ordinary shares from retained earnings to OSBG. Each cancelled £0.01 OSB share was replaced with one OSBG share with a nominal value of £3.04 each. The difference in the value of share capital in issue of the OSBG shares compared to the cancelled OSB shares is recognised in the transfer reserve within equity.

The insertion of OSBG has been treated as a business combination under common control, with the Group controlled by the same parties both before and after the insertion. Combinations under common control are outside the scope of IFRS 3 Business Combinations and accordingly, the insertion has not been recognised at fair value and no goodwill or fair value acquisition adjustments have been recognised. The Group's consolidated financial statements have been presented to include OSB's consolidated assets, liabilities, income and expenses prospectively from the date of the insertion without restating pre-combination information, as if OSBG had been the parent company throughout the current and prior years.

2. Accounting policies

a) Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union (EU) and interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC).

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

As permitted by section 408 of the Companies Act 2006, no Statement of Comprehensive Income is presented for the Company.

b) Going concern

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

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

2. Accounting policies (continued)

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

- Financial and capital forecasts were prepared under stress scenarios which were assessed against the latest 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 result in the Group utilising its regulatory capital buffers in full and breaching the Group's minimum prudential requirements along with analysis and insight from the Group's Internal Capital Adequacy Assessment Process (ICAAP). The Directors assessed the likelihood of those reverse stress scenarios occurring within the next 12 months and concluded that the likelihood is remote.

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

- The Group continues to assess the resilience of its business operating model and supporting infrastructure in the context of the emerging economic, business and regulatory environment. The key areas of focus continue to be on the provision of critical services to customers, employee health and safety and the evolving governmental policies and guidelines. The Group has assessed and enhanced its information technology platforms to support its employees with flexible working and homeworking across all locations, ensuring stable access to core systems, data and communication devices. The response to the pandemic demonstrates the inherent resilience of the Group's critical processes and infrastructure. It also reflects the necessary agility in responding to future operational demands. The operational dependencies on third-party vendors and outsourcing arrangements continue to be an important area of focus.

The Group's financial projections, supported by the COVID-19 assessments, demonstrate 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, it is appropriate to prepare these Financial Statements on a going concern basis.

c) Basis of consolidation

The Group's consolidated financial statements have been presented to include OSB's consolidated assets, liabilities, income and expenses prospectively from the date of the insertion of OSBG without restating pre-insertion information, as if OSBG had been the parent company throughout the current and prior years.

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

2. Accounting policies (continued)

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

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

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

The Group is not deemed to control an entity when it exercises power over an entity in an agency capacity. In determining whether the Group is acting as an agent, the Directors consider the overall relationship between the Group, the investee and other parties to the arrangement with respect to the following factors: (i) the scope of the Group's decision-making power; (ii) the rights held by other parties; (iii) the remuneration to which the Group is entitled; and (iv) the Group's exposure to variability of returns. The determination of control is based on the current facts and circumstances and is continuously assessed. In some circumstances, different factors and conditions may indicate that different parties control an entity depending on whether those factors and conditions are assessed in isolation or in totality. Judgement is applied in assessing the relevant factors and conditions in totality when determining whether the Group controls an entity. Specifically, judgement is applied in assessing whether the Group has substantive decision-making rights over the relevant activities and whether it is exercising power as a principal or an agent.

d) Business combinations

The Group uses the acquisition method to account for business combinations, other than business combinations under common control (see note 1). The Group recognises the identifiable assets acquired and liabilities assumed at their acquisition date fair values. The Group recognises deferred tax on the difference between fair value and the acquisition date carrying value in accordance with International Accounting Standard (IAS) 12. The consideration transferred for each business combination is measured at fair value and, comprises the sum of equity interest issued by the Group. Acquisition-related costs are recognised as exceptional items within profit or loss.

The Group recognises goodwill on business combinations when the fair value of consideration transferred exceeds the fair value of identifiable assets acquired less the fair value of liabilities assumed. The Group recognises a gain within profit or loss when the fair value of consideration transferred is less than the fair value of identifiable assets acquired less the fair value of liabilities assumed.

2. Accounting policies (continued)

The Group reports provisional amounts for business combinations when the accounting is incomplete at the reporting date following the combination. During the measurement period, the Group adjusts provisional amounts recognised at the acquisition date to reflect new information obtained that existed as of the acquisition date and would have affected the measurement of the amounts recognised as at that date. The Group also recognises additional assets or liabilities during the reporting period if new information is obtained that existed as of the acquisition date and would have resulted in the recognition of those assets or liabilities as at that date. The Group adjusts the gain taken to profit or loss where there is negative goodwill, or adjusts goodwill recognised on the balance sheet, when provisional amounts are finalised or additional assets and liabilities are recognised during the measurement period. The measurement period shall not exceed one year from the acquisition date.

The Group finalised the acquisition date fair values of assets acquired and liabilities assumed in the Combination with CCFS prior to 3 October 2020. There were no changes to the provisional fair values recognised on the assets or liabilities.

e) Foreign currency translation

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

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

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

f) Segmental reporting

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

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

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

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

The Group has disclosed the risk management tables in note 46 at a sub-segment level to provide detailed analysis of the Group’s core lending business.

2. Accounting policies (continued)

g) Interest income and expense

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

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

The Group monitors the actual cash flows for each acquired book and where they diverge significantly from expectation, the future cash flows are reset. In assessing whether to adjust future cash flows on an acquired portfolio, the Group considers the cash variance on an absolute and percentage basis. The Group also considers the total variance across all acquired portfolios. Where cash flows for an acquired portfolio are reset, they are discounted at the EIR to derive a new carrying value, with changes taken to profit or loss as interest income.

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

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

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

h) Fees and commissions

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

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

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

i) Integration costs and exceptional items

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

2. Accounting policies (continued)

j) Taxation

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

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

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

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

The Company's subsidiaries are in a group payment arrangement for corporation tax and show a net corporation tax liability and deferred tax asset accordingly. In 2019, the Group's CCFS subsidiaries were not part of the group payment arrangement and the corporation tax liability and deferred tax asset were not netted.

k) Dividends

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

l) Cash and cash equivalents

For the purposes of the Consolidated Statement of Cash Flows, cash and cash equivalents comprise cash, non-restricted balances with central banks and highly liquid financial assets with original maturities of less than three months subject to an insignificant risk of changes in their fair value.

m) Intangible assets

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

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

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

2. Accounting policies (continued)

Intangible assets are reviewed for impairment annually, and if they are considered to be impaired, are written down immediately to their recoverable amounts.

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

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

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

n) Property, plant and equipment

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

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

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

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

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

o) Investment in subsidiaries

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

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

2. Accounting policies (continued)

p) Financial instruments

i. Classification

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

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

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

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

The Group reassesses its business models each reporting period.

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

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

Equity financial instruments comprise own shares and non-controlling interest securities. Accordingly, the coupon paid on the non-controlling interest securities is recognised directly in retained earnings when paid.

ii. Recognition

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

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

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

2. Accounting policies (continued)

iii. Derecognition

The Group derecognises financial assets when the contractual rights to the cash flows expire or the Group transfers substantially all risks and rewards of ownership of the financial asset. In assessing the Group's retention programmes the principles of IFRS 9 and relevant guidance in IAS 8 in respect of debt issuance, results in the original mortgage asset being derecognised with a new financial asset recognised.

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

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

iv. Offsetting

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

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

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

v. Amortised cost measurement

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

vi. Fair value measurement

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

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

2. Accounting policies (continued)

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

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

vii. Identification and measurement of impairment of financial assets

The Group assesses all financial assets for impairment.

Loans and advances to customers

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

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

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

Individual assessment

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

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

If the present value of estimated future cash flows discounted at the original EIR is less than the carrying value of the loan, a provision is recognised for the difference. Such loans are classified as impaired. If the present value of the estimated future cash flows exceeds the carrying value, no provision is recognised.

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

2. Accounting policies (continued)

IFRS 9 modelled impairment

Measurement of ECL

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

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

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

Significant increase in credit risk (movement to stage 2)

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

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

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

Definition of default (movement to stage 3)

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

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

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

Forward-looking macroeconomic scenarios

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

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

BoE Base Rate (BBR).

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

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

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

Period over which ECL is measured

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

Purchased or originated credit impaired (POCI)

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

Intercompany loans

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

Other financial assets

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

q) Loans and receivables

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

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

2. Accounting policies (continued)

Loans and advances over which the Group transfers its rights to the collateral thereon to the BoE under the TFS, TFSME and Indexed Long-Term Repo (ILTR) schemes are not derecognised from the Statement of Financial Position, as the Group retains substantially all the risks and rewards of ownership, including all cash flows arising from the loans and advances and exposure to credit risk. The Group classifies TFS, TFSME and ILTR as amortised cost under IFRS 9 Financial Instruments.

Loans and advances include a small acquired mortgage portfolio where the contractual cash flows include payments that are not solely payments of principal and interest and as such are measured at fair value through profit or loss. The Group initially recognises these loans at fair value, with direct and incremental costs of acquisition recognised directly in profit or loss and, subsequently measures them at fair value.

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

r) Investment securities

Investment securities comprise securities held for liquidity purposes (UK treasury bills and Residential Mortgage-Backed Securities (RMBS)). These assets are non-derivatives that are designated as FVOCI or classified as amortised cost.

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

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

s) Deposits, debt securities in issue and subordinated liabilities

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

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

t) Sale and repurchase agreements

Financial assets sold subject to repurchase agreements (repo) are retained in the financial statements if they fail derecognition criteria of IFRS 9 described in paragraph p (iii) above. The financial assets that are retained in the financial statements are reflected as loans and advances to customers or investment securities and the counterparty liability is included in amounts owed to credit institutions or other

2. Accounting policies (continued)

customers. Financial assets purchased under agreements to resell at a predetermined price where the transaction is financing in nature (reverse repo) are accounted for as loans and advances to credit institutions. The difference between the sale and repurchase price is treated as interest and accrued over the life of the agreement using the EIR method.

u) Derivative financial instruments

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

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

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

The Group is party to a limited number of options and warrants. These are recognised as a derivative financial instruments as applicable where a trigger event takes place and the fair value of the option or warrant can be reliably measured.

v) Hedge accounting

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

Portfolio hedge accounting allows for hedge effectiveness testing and accounting over an entire portfolio of financial assets or liabilities. To qualify for hedge accounting at inception, the hedge relationship is clearly documented and the derivative must be expected to be highly effective in offsetting the hedged risk. In addition, effectiveness must be tested throughout the life of the hedge relationship.

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

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

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

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

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

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

w) Debit and credit valuation adjustments

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

The methodology is based on a standard calculation, taking into account:

- the one-year PD, updated on a regular basis;
- the expected exposure at default;
- the expected LGD; and
- the average maturity of the swaps.

x) Provisions and contingent liabilities

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

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

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

y) Employee benefits – defined contribution scheme

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

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

2. Accounting policies (continued)

z) Share-based payments

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

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

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

Share-based payments that are not subject to further vesting conditions (i.e. the Deferred Share Bonus Plan (DSBP) for senior managers) are expensed in the year services are received with a corresponding increase in equity. Awards granted to Executive Directors in March 2020 are subject to service conditions through to vesting and are expensed over the vesting period. Awards granted to Executive Directors in March 2021 are not subject to future service conditions and are expensed in 2020 where the service is deemed to have been provided.

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

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

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

aa) Leases

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

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

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

2. Accounting policies (continued)

bb) Adoption of new standards

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

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

- Amendments to the Conceptual Framework for Financial reporting, including amendments to references to the Conceptual Framework in IFRS Standards.
- Amendments to IFRS 3 – Definition of a business.
- Amendments to IAS 1 and IAS 8 – Definition of material.

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

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

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

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

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

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

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

The Group does not expect that the adoption of the financial reporting standards listed above will have a material impact on the financial statements of the Group in future periods.

3. Judgements in applying accounting policies and critical accounting estimates

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

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

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

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

(i) Loan book impairments

Significant increase in credit risk for classification in stage 2

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

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

(ii) IFRS 9 classification

The Group has applied judgement in determining whether the contractual terms of a financial asset give rise on specified dates to cash flows that are solely payments of principal or interest (SPPI) on the principal amount outstanding when applying the classification criteria of IFRS 9. The main area of judgement is over the Group's loans and advances to customers which have been accounted for under amortised cost with the exception of one acquired mortgage book of £19.1m (2019: £22.1m) that is recognised at FVTPL.

Estimates

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

(i) Loan book impairments

Set out below are details of the critical accounting estimates which underpin loan impairment calculations. Less significant estimates are not discussed as they do not have a material effect. The Group has recognised total impairments of £111.0m (2019: £42.9m) at the reporting date as disclosed in note 24.

Modelled impairment

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

Loss given default model

The Group has a number of LGD models, which include a number of estimated inputs including propensity to go to possession given default (PPD), forced sale discount (FSD), time to sale (TTS) and sale cost estimates. The LGD is sensitive to the application of the HPI. For the OSB segment at 31 December 2020 a 10% fall in house prices would result in an incremental £25.6m (2019: £13.6m) of provision being required. For the CCFS segment at 31 December 2020 a 10% fall in house prices would result in an incremental £13.9m (2019: £3.8m) of provision being required. The combined impact across both OSB and CCFS businesses of a 10% fall in house prices would result in an increase in total provisions of £39.5m (2019: £17.4m) as at 31 December 2020.

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

Forward-looking macroeconomic scenarios

The forward-looking macroeconomic scenarios affect both the PD and LGD estimates. Therefore the expected credit losses calculations are sensitive to both the scenarios utilised and their associated probability weightings.

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

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

As at 31-Dec-20	**Weighted**	**100% Base case scenario**	**100% Upside scenario**	**100% Downside scenario**	**100% Severe downside scenario**
Total loans before provisions, £m	**19,322.6**	**19,322.6**	**19,322.6**	**19,322.6**	**19,322.6**
Modelled ECL, £m	**71.6**	**54.6**	**40.1**	**113.5**	**166.7**
Non-modelled ECL, £m	**39.4**	**39.4**	**39.4**	**39.4**	**39.4**
Total ECL, £m	**111.0**	**94.0**	**79.5**	**152.9**	**206.1**
ECL Coverage, %	**0.57**	**0.49**	**0.41**	**0.79**	**1.07**

As at 31-Dec-19					
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

(ii) Loan book acquisition accounting and income recognition

Acquired loan books are initially recognised at fair value. Significant estimation is required in calculating their EIR using cash flow models which include assumptions on the likely macroeconomic environment, including HPI, unemployment levels and interest rates, as well as loan level and portfolio attributes and history used to derive prepayment rates and the amount of incurred losses.

Through the Combination in 2019, the Precise Mortgages book is treated as an acquired book with a fair value uplift to book value, at the point of initial recognition, of £301.0m, reflecting a premium applied to the book. Fair value sensitivities have been completed on the Precise Mortgages book, including the market rate applied to the discounted cash flows, being one month LIBOR plus a margin (margin blended average used 2.91%). Where the margin applied is increased/decreased by 25bps the initial premium recognised on the book increases/decreases by £66.0m/£67.0m.

The EIR on loan books purchased at significant discounts or premiums is particularly sensitive to the weighted average life of the loan book through the constant prepayment rate (CPR) and the constant default rate (CDR) estimates assumed, as the purchase discount or premium is recognised over the expected life of the loan book through the EIR. New defaults are modelled at zero loss (as losses will be

Judgements in applying accounting policies and critical accounting estimates (continued)
recognised in profit or loss as impairment losses) and therefore have the same impact on the EIR as prepayments.

Incurred losses at acquisition are calculated using the Group's modelled provision assessment (see (i) Loan book impairments above for further details).

The EIR calculated at acquisition is not changed for subsequent variances in actual to expected cash flows, unless the variance is due to changes in expectations of market rates of interest. The Group monitors the actual cash flows for each acquired book, and where they diverge significantly from expectation, the revised future cash flows are discounted at the original EIR, with any resulting change in carry value creating a corresponding gain or loss in the Statement of Comprehensive Income as Interest Income. In assessing whether to adjust future cash flows on an acquired portfolio, the Group considers the cash variance on an absolute and percentage basis. The Group also considers the total variance across all acquired portfolios and the economic outlook. The Group recognised a £3.5m loss in 2020 as a result of resetting cash flows on acquired books (2019: gain of £0.5m). The largest acquired book is Precise with sensitivities completed on increasing/reducing the life of the book by six months which results in a reset gain/loss of c. £33m/£37m (2019: c.£48m/£50m).

(iii) Effective interest rate on organic lending
Estimates are made when calculating the EIR for newly-originated loan assets. These include the likely customer redemption profiles.

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

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

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

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

Applying a six month extension in the expected weighted average life of the organic loan books, would result in a gain of c. £22.6m (2019: £23.6m) recognised in Net Interest Income. It includes a c. £13.8m (2019: £19.5m) 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. £6.9m (2019: £4.6m) recognised in Net Interest Income. This includes c. £2.0m (2019: £0.4m) gain in relation to the Kent Reliance loan book.

4. Interest receivable and similar income

	2020 **£m**	2019 £m
At amortised cost:		
On OSB mortgages	**500.6**	480.5
On CCFS mortgages	**331.9**	80.2
On investment securities	**2.5**	0.6
On other liquid assets	**5.3**	12.2
Amortisation of fair value adjustments on CCFS Combination[1]	**(67.8)**	(22.6)
Amortisation of fair value adjustments on hedged assets[2]	**(17.9)**	-
At fair value through profit or loss:		
Net expense on derivative financial instruments - lending activities	**(47.7)**	(14.0)
On CCFS mortgages	**-**	0.3
At FVOCI:		
On investment securities	**5.0**	2.7
	711.9	539.9

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

5. Interest payable and similar charges

	2020 **£m**	2019 £m
On retail deposits	**245.5**	177.3
On BoE borrowings	**8.4**	13.3
On perpetual subordinated bonds	**1.7**	1.8
On subordinated liabilities	**0.8**	0.7
On wholesale borrowings	**1.3**	1.9
On debt securities in issue	**3.4**	3.7
On lease liabilities	**0.3**	0.1
Amortisation of fair value adjustments on CCFS Combination[1]	**(3.3)**	(1.0)
Net income on derivative financial instruments - savings activities	**(18.4)**	(2.6)
	239.7	195.2

[1] Amortisation of fair value adjustments on CCFS customer deposits at Combination.

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

	2020 **£m**	2019 £m
Fair value changes in hedged assets	**107.3**	70.1
Hedging of assets	**(116.8)**	(75.1)
Fair value changes in hedged liabilities	**(4.1)**	(4.6)
Hedging of liabilities	**6.8**	4.8
Ineffective portion of hedges	**(6.8)**	(4.8)
Net (losses)/gains on unmatched swaps	**(18.0)**	3.5
Amortisation of inception adjustments	**13.0**	-
Amortisation of acquisition related inception adjustments	**17.0**	3.3
Amortisation of de-designated hedge relationships	**2.4**	-
Fair value movements on mortgages at FVTPL	**(0.2)**	-
Amortisation of fair value adjustments on hedged assets	**-**	(5.5)
Debit and credit valuation adjustment	**-**	0.2
	7.4	(3.3)

Amortisation of inception adjustments relates in part to hedged assets and liabilities recognised on the Combination where pre-existing hedge relationships ceased on the date of Combination. The inception adjustment is being amortised over the life of the derivative instruments acquired on Combination and recognises an offsetting asset or liability to the fair value of the derivative instruments on the date of Combination. The remainder of the amortisation of inception adjustment relates to the amortisation of the hedging adjustments arising when hedge accounting commences, primarily on derivative instruments previously taken out against the mortgage pipeline and also on derivative instruments previously taken out against new retail deposits.

7. Gain/loss on sales 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, a gain on sale of £1.9m was recognised.

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

On 23 January 2020, the Group securitised £375.5m of mortgage loans through Precise Mortgage Funding 2020-1B plc (PMF 2020-1B), issuing £388.9m of Sterling floating rate notes. The Group retained the 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 substantially all of the risks and rewards have been transferred. The Group recognised a gain on sale of £2.0m on disposal. 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.

On 14 September 2020, the Group sold £150.0m of Canterbury 3 A2 notes for £150.1m, resulting in a gain on sale of £0.1m.

In 2019, the Group identified an additional £0.1m of customer receipts due to the purchaser of the personal loan portfolio in the prior year, recognising an additional loss on sale of £0.1m.

8. Other income

	2020 £m	2019 £m
Interest received on mortgages held at FVTPL[1]	**0.6**	-
Fees and commissions receivable	**8.4**	3.4
Other operating costs[2]	**-**	(1.3)
	9.0	2.1

[1] In 2019, £0.3m interest received on mortgages held at FVTPL was included in interest receivable and similar income (see note 4.).
[2] Other operating costs includes commission expense incurred on retail savings generated from the branch network which is included in administration expenses from 2020.

9. Administrative expenses

	2020 £m	2019 £m
Staff costs	**86.0**	60.5
Facilities costs	**5.7**	3.6
Marketing costs	**5.1**	4.0
Support costs	**18.4**	12.7
Professional fees	**22.3**	10.4
Other costs[1]	**5.7**	9.3
Depreciation (see note 31)	**5.6**	3.9
Amortisation (see note 32)	**8.2**	4.3
	157.0	108.7

[1]In 2019, other costs mainly comprised irrecoverable VAT. In 2020, the Group included irrecoverable VAT within the underlying expense.

9. Administrative expenses (continued)

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

	2020 £'000	2019 £'000
Fees payable to the Company's auditor for the audit of the Company's annual accounts	**65**	1,269
Fees payable to the Company's auditor for the audit of the accounts of subsidiaries	**2,198**	846
Total audit fees	**2,263**	2,115
Audit-related assurance services[1]	**217**	187
Other assurance services[2]	**45**	142
Other non-audit services[3]	**101**	-
Total non-audit fees	**363**	329
Total fees payable to the Company's auditor	**2,626**	2,444

[1] Includes review of interim financial information and profit verifications
[2] 2020 costs comprise an assurance review of APMs, 2019 costs related to the Combination and agreed upon procedures in respect of securitisations
[3] Primarily comprises work related to the insertion of a new holding company.

Staff costs comprise the following:

	2020 £m	2019 £m
Salaries, incentive pay and other benefits	**68.5**	49.1
Share-based payments	**5.1**	4.0
Social security costs	**8.1**	4.4
Other pension costs	**4.3**	3.0
	86.0	60.5

The average number of people employed by the Group (including Executive Directors) during the year is analysed below. For 2019, the average for CCFS is based on the post Combination period.

	2020	2019
OSB		
Operations	**835**	812
Support functions	**297**	286
CCFS		
Operations	**579**	530
Support functions	**105**	161
	1,816	1,789

10. 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 CCFS anticipated lending volumes over three years post combination which have been revised due to COVID-19 impacts, with an impairment of £7.0m recognised. The remaining carrying value of the broker relationships intangible asset at 31 December 2020 is £5.8m (2019: £16.1m).

11. Directors' emoluments and transactions

	2020 £'000	2019 £'000
Short-term employee benefits[1]	**2,675**	2,334
Post-employment benefits	**99**	112
Share-based payments[2]	**425**	632
	3,199	3,078

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

In addition to the total Directors' emoluments above, the Executive Directors were granted deferred bonuses of £495k (2019: £511k) in the form of shares. The DSBP awards that will be granted in March 2021 will have a holding period of three years with no further conditions attached other than standard clawback situations. In March 2020 and prior, the DSBP awards were subject to either a three or five year vesting period with conditions attached, notably if the Director leaves prior to vesting, the award is forfeited unless a good leaver reason applies such as redundancy, retirement or ill health.

The Executive Directors received a further share award under the PSP with a grant date fair value of £1,359k (2019: £1,305k) using a share price of £2.58 (2019: £3.90) (the average mid-market quotation for the preceding five days before grant). These shares vest annually from year three in tranches of 20 per cent, subject to performance conditions discussed in note 12 and the Annual Report on Remuneration.

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

Some Non-Executive Directors who left office during the year, received a payment equal to three months' fee in lieu of the unexpired period of notice, totalling £59k. There was no compensation for loss of office during 2019.

There were no outstanding loans granted in the ordinary course of business to Directors and their connected persons as at 31 December 2020 and 2019.

The Annual Report on Remuneration and note 12 Share-based payments provide further details on Directors' emoluments.

12. Share-based payments

Following the insertion of OSB GROUP PLC as the holding company on 27 November 2020, the share awards and options over OneSavings Bank plc shares were automatically transferred to OSB GROUP PLC shares.

The Group operates the following share-based schemes:

Sharesave Scheme
The Save As You Earn (SAYE) or Sharesave Scheme is a share option scheme which is available to all UK-based employees. The Sharesave Scheme allows employees to purchase options by saving a fixed amount of between £5 and £500 per month over a period of either three or five years at the end of which the options, subject to leaver provisions, are usually exercisable. If not exercised, the amount saved is returned to the employee. The Sharesave Scheme has been in operation since 2014 and an invitation to join the scheme is usually extended annually, with the option price calculated using the mid-market price of an OSB GROUP PLC ordinary share over the three dealing days prior to the Invitation Date and applying a discount of 20%.

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

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

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

The performance conditions that apply to PSP awards from 2020 are based on a combination of earnings per share (EPS) weighting of 35%, total shareholder return (TSR) 35%, risk-based 15% and return on equity (ROE) 15%. Prior to 2020, PSP awards were based on a combination of EPS weighting of 40%, TSR 40% and ROE 20%. The PSP conditions are assessed independently. For the EPS element, growth targets are linked to the Company's three-year growth plan, measuring growth from the base figure for the prior year. For the TSR element, the Company's ordinary shares relative performance is measured against the FTSE 250 (excluding investment trusts). The risk-based measure is assessed against the risk management performance with regard to all relevant risks including, but not limited to, an assessment of regulatory risk, operational risk, conduct risk, liquidity risk, funding risk, marketing risk and credit risk. For the ROE element, growth rates are assessed against OSB GROUP PLC's underlying profit after taxation as a percentage of average shareholders' equity.

As part of the Combination, the Group granted mirror PSP awards for the 2018 and 2019 CCFS schemes that terminated upon the Combination. The mirror PSP schemes follow the same performance conditions as the Group's 2018 and 2019 PSP awards.

The share-based expense for the year includes a charge in respect of the Sharesave Scheme, DSBP and PSP. All charges are included in employee expenses within note 9 Administrative expenses.

12. Share-based payments (continued)

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

	2020	2019
	£m	£m
Sharesave Scheme	**0.5**	0.2
Deferred Share Bonus Plan	**3.9**	1.3
Performance Share Plan	**0.7**	2.5
	5.1	4.0

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

	Sharesave Scheme		**Deferred Share Bonus Plan**	**Performance Share Plan**
	Number	**Weighted average exercise price, £**	**Number**	**Number**
At 1 January 2020	**2,869,146**	**2.63**	**738,473**	**3,096,371**
Granted	**1,483,202**	**2.29**	**839,735**	**2,756,176**
Exercised/Vested	**(1,080,430)**	**2.32**	**(449,608)**	**(383,205)**
Forfeited	**(526,586)**	**2.79**	**(8,843)**	**(482,815)**
At 31 December 2020	**2,745,332**	**2.53**	**1,119,757**	**4,986,527**
Exercisable at:				
31 December 2020	**118,402**	**2.89**	**-**	**-**
At 1 January 2019	841,629	2.93	1,258,712	1,737,997
Granted	1,261,307	2.65	476,933	1,079,392
CCFS mirror/roll over schemes	1,183,475	2.42	-	931,853
Exercised/Vested	(154,963)	1.96	(920,891)	(235,241)
Forfeited	(262,302)	3.23	(76,281)	(417,630)
At 31 December 2019	2,869,146	2.63	738,473	3,096,371
Exercisable at:				
31 December 2019	-	-	-	-

For the share-based awards granted during the year, the weighted average grant date fair value was 188 pence (2019: 208 pence).

12. Share-based payments (continued)

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

	2020		2019	
Exercise price	**Number**	**Weighted average remaining contractual life (years)**	Number	Weighted average remaining contractual life (years)
Sharesave Scheme				
227-335 pence (2019: 134 - 335 pence)	**2,745,332**	**2.5**	2,869,146	2.0
Deferred Share Bonus Plan				
Nil	**1,119,757**	**0.7**	738,473	0.6
Performance Share Plan				
Nil	**4,986,527**	**2.5**	3,096,371	1.7
	8,851,616	**2.3**	6,703,990	1.7

Sharesave Scheme

	2020		2019		2018		2017		2016	
Contractual life, years	**3**	**5**	3	5	3	5	3	5	3	5
Share price at issue, £	**2.86**	**2.86**	3.32	3.32	4.19	4.19	3.93	3.93	3.00	3.00
Exercise price, £	**2.29**	**2.29**	2.65	2.65	3.35	3.35	3.15	3.15	2.40	2.40
Expected volatility, %	**57.6**	**57.6**	31.9	31.9	16.1	16.5	18.0	17.3	18.4	20.1
Dividend yield, %	**3.3**	**3.3**	4.8	4.8	4.4	4.4	4.1	4.1	4.6	4.6
Grant date fair value, £	**1.22**	**1.34**	0.90	0.91	0.40	0.43	0.75	0.70	0.10	0.15

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

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

Deferred Share Bonus Plan

	2020	2019	2018	2017	
Contractual life, years	**3**	3	3	3	5
Mid-market share price, £	**2.58**	3.96	3.80	4.04	4.04
Attrition rate, %	**-**	8.4	9.7	11.8	11.8
Dividend yield, %	**5.6**	4.7	4.6	4.0	4.0
Grant date fair value, £	**2.21**	3.47	3.34	3.61	3.37

12. Share-based payments (continued)

For DSBP awards where conditions exist, an attrition rate is applied as an estimate of the actual number of awards that will meet the related conditions at the vesting date. These schemes carry no rights to dividend equivalents and a Black Scholes model is used to determine the grant date fair value with a dividend yield input applied – based on the average dividend yield across external analyst reports for the quarter prior to scheme grant date.

Performance Share Plan

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

Performance conditions exist for the scheme notably that you are employed by the Company at the vesting date, with good leaver exceptions, and an attrition rate is applied as an estimate of the actual number of awards that will meet the related conditions at the vesting date.

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

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

The inputs into the models are as follows:

	2020	2019	2018	2017
Contractual life, years	**3-7**	3	3	3
Mid-market share price, £	**2.58**	3.96	4.11	4.04
Attrition rate, %	**7.3**	8.4	9.7	11.8
Expected volatility, %	**43.9**	26.8	29.1	63.7
Dividend yield, %	**5.6**	4.7	4.6	4.0
Vesting rate - TSR %	**27.8**	44.9	54.0	60.0
Grant date fair value, £	**2.06**	3.47	3.61	3.61

CCFS PSP Mirror Schemes

	2019	2018
Contractual life, years	3	2
Mid-market share price, £	3.54	3.54
Expected volatility, %	28.6	28.6
Attrition rate, %	-	-
Dividend yield, %	4.8	4.8
Vesting rate - TSR, %	37.4	37.4
Grant date fair value, £	3.29	3.17

13. Integration costs

	2020 £m	2019 £m
Consultant fees	**1.7**	3.0
Staff costs	**8.1**	2.2
	9.8	5.2

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.

14. Exceptional items

	2020 £m	2019 £m
Consultant fees	**2.0**	4.0
Legal and professional fees	**1.3**	4.6
Success fees	**-**	7.0
	3.3	15.6

Exceptional items for 2020 relate to the insertion of OSB GROUP PLC as the new holding company and listed entity of the Group. 2019 expenses relate to the all-share Combination with CCFS.

15. Taxation

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

	2020 £m	2019 £m
Corporation taxation	**(79.7)**	(57.1)
Deferred taxation	**0.8**	(0.2)
Release of deferred taxation on CCFS Combination[1]	**14.8**	7.0
Total taxation	**(64.1)**	(50.3)

[1] Release of deferred taxation on CCFS Combination relates to the fair value unwind of the CCFS assets and liabilities at the acquisition date.

15. Taxation (continued)

The charge for taxation on the Group's profit before taxation differs from the charge based on the standard rate of UK Corporation Tax of 19% (2019: 19%) as follows:

	2020 £m	2019 £m
Profit before taxation	**260.4**	209.1
Profit multiplied by the standard rate of UK Corporation Tax (19%)	**(49.5)**	(39.7)
Bank surcharge[1]	**(11.0)**	(8.5)
Taxation effects of:		
Expenses not deductible for taxation purposes	**(1.6)**	(3.0)
Impact of deferred tax rate change	**(4.4)**	-
Negative goodwill on acquisition not taxable	**-**	2.0
Adjustments in respect of earlier years	**0.4**	(2.7)
Tax adjustments in respect of share-based payments	**(0.8)**	(0.7)
Impact of tax losses carried forward	**-**	0.5
Tax on coupons paid on non-controlling interest securities	**1.5**	1.0
Timing differences on capital items	**1.3**	0.2
Other	**-**	0.6
Total taxation charge	**(64.1)**	(50.3)

[1] Tax charge for the two banking entities of £18.4m offset by the tax impact of unwinding CCFS Combination items of £5.8m (2019: Tax charge for the two banking entities of £10.4m offset by the tax impact of unwinding CCFS Combination items of £1.9m).

Factors affecting tax charge for the year

The effective tax rate for the year ended 31 December 2020, excluding the impact of the deferred tax rate change and adjustments in respect of earlier years, was 23.1% (2019: 22.8%).

The £(4.4)m impact of the deferred tax rate change relates predominantly to the deferred tax liability from the CCFS combination (see note 30).

During the year a tax charge of £0.3m (2019: tax charge of £1.1m) of tax has been recognised directly within equity relating to the Group's share-based payment schemes.

During the year a tax credit of £0.5m (2019: tax credit of £0.2m) has been recognised within other comprehensive income relating to investment securities classified as FVOCI.

15. Taxation (continued)

Factors that may affect future tax charges

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

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

16. Earnings per share

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

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

	2020 £m	2019 £m
Statutory profit after tax	**196.3**	158.8
Less: Coupon on non-controlling interest securities classified as equity	**(5.5)**	(5.5)
Statutory profit attributable to ordinary shareholders	**190.8**	153.3

	2020	2019
Weighted average number of shares, millions		
Basic	**446.2**	291.6
Dilutive impact of share-based payment schemes	**4.0**	1.8
Diluted	**450.2**	293.4
Earnings per share, pence per share		
Basic	**42.8**	52.6
Diluted	**42.4**	52.2

17. Dividends

On 27 November 2020, OSB GROUP PLC became the ultimate parent company, and soon after the listed entity of Group, replacing OneSavings Bank plc which is now a 100% subsidiary of OSB GROUP PLC. There were no dividends paid in the period since the ultimate parent company was inserted.

	OSB GROUP PLC & OneSavings Bank plc 2020		OneSavings Bank plc 2019	
	£m	**Pence per share**	£m	Pence per share
Final dividend for the prior year	**-**	**-**	25.3	10.3
Interim dividend for the current year	**-**	**-**	12.0	4.9
	-		37.3	

The Directors recommend a final dividend of £64.9m, 14.5 pence per share (2019: nil, nil) payable on 2 June 2021 with an ex-dividend date of 15 April 2021 and a record date of 16 April 2021. This dividend is not reflected in these financial statements as it is subject to approval by shareholders at the AGM on 27 May 2021. This will make up the total dividend for 2020 of £64.9m, 14.5 pence per share (2019: £12.0m, 4.9 pence per share).

As at 31 December 2020 OSB GROUP PLC had no distributable reserves (2019: nil). The Company reduced the nominal value of OSB GROUP PLC shares from 304 pence each to 1 penny each on 26 February 2021 (see note 52). The recommended dividend of £64.9m will be made out of the distributable reserve position following this capital reduction exercise.

18. Cash and cash equivalents

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

	2020 £m	2019 £m
Cash in hand	**0.5**	0.4
Unencumbered loans and advances to credit institutions	**2,370.1**	2,052.5
Investment securities with original maturity less than 3 months	**-**	49.9
	2,370.6	2,102.8

19. Loans and advances to credit institutions

	2020 £m	2019 £m
Unencumbered:		
BoE call account	**2,256.5**	1,916.2
Call accounts	**55.6**	81.7
Cash held in special purpose vehicles[1]	**51.0**	44.0
Term deposits	**7.0**	10.6
Encumbered:		
BoE cash ratio deposit	**52.3**	41.7
Cash held in special purpose vehicles[1]	**42.7**	-
Cash margin given	**211.1**	110.4
	2,676.2	2,204.6

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

20. Investment securities

	2020 £m	2019 £m
Held at FVOCI:		
UK and EU Sovereign debt	**-**	149.8
RMBS loan notes	**285.0**	358.9
	285.0	508.7
Held at amortised cost:		
RMBS loan notes	**186.2**	126.6
	186.2	126.6
Less: Expected credit losses	**-**	-
	186.2	126.6
	471.2	635.3

At 31 December 2020 the Group had £147.1m (2019: £173.0m) of FVOCI RMBS and £13.7m (2019: nil) of amortised cost RMBS loan notes sold under repos.

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

20. Investment securities (continued)

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

	2020 £m	2019 £m
At 1 January	**635.3**	58.9
Additions[1]	**291.6**	439.8
CCFS Combination	**-**	493.5
Disposals and maturities[2]	**(457.2)**	(357.7)
Movement in accrued interest	**0.5**	-
Changes in fair value	**1.0**	0.8
At 31 December	**471.2**	635.3

[1] Additions include £100.7m of retained RMBS loan notes following the deconsolidation of PMF 2020-1B.
[2] Disposals and maturities include £49.9m of UK Sovereign debt which had an original maturity of less than three months.

At 31 December 2020, investment securities included investments in unconsolidated structured entities (note 46) of £100.7m (2019: nil) notes in PMF 2020-1B and £285.0m (2019: £358.9m) notes in PMF 2019-1B. The investments represent the maximum exposure to loss from unconsolidated structured entities.

21. Loans and advances to customers

	2020 £m	2019 £m
Held at amortised cost:		
Loans and advances (see note 22)	**19,257.1**	18,419.9
Finance leases (see note 23)	**65.5**	47.7
	19,322.6	18,467.6
Less: Expected credit losses (see note 24)	**(111.0)**	(42.9)
	19,211.6	18,424.7
Residential mortgages held at fair value	**19.1**	22.1
	19,230.7	18,446.8

22. Loans and advances

	2020			2019		
	OSB £m	**CCFS £m**	**Total £m**	OSB £m	CCFS £m	Total £m
Gross carrying amount						
Stage 1	**9,310.8**	**6,749.5**	**16,060.3**	9,999.2	7,240.0	17,239.2
Stage 2	**1,362.0**	**1,327.6**	**2,689.6**	442.4	307.1	749.5
Stage 3	**344.5**	**48.1**	**392.6**	277.7	16.7	294.4
Stage 3 (POCI)	**48.6**	**66.0**	**114.6**	53.6	83.2	136.8
	11,065.9	**8,191.2**	**19,257.1**	10,772.9	7,647.0	18,419.9

22. Loans and advances (continued)

The mortgage loan balances pledged as collateral for liabilities are:

	2020 £m	2019 £m
BoE under TFS, TFSME and ILTR	**5,203.2**	4,458.3
Securitisation	**435.4**	366.7
Warehouse funding	**-**	97.4
Master servicer for securitisation vehicle	**-**	40.4
	5,638.6	4,962.8

The Group's securitisation programmes, use of TFS, TFSME and ILTR and Warehouse funding arrangements result in certain assets being encumbered as collateral against such funding. As at 31 December 2020, the percentage of the Group's gross customer loans and receivables that are encumbered was 29% (2019: 27%).

At 31 December 2019, £40.4m of retention loans (i.e. loans in securitisation portfolios that are retained by the originator) were treated as encumbered. For 2020, the Group has treated these as unencumbered as they are available to use to raise collateral as long as the risk and rewards of the loans remain with the Group.

The tables below show the movement in loans and advances to customers by IFRS 9 stage during the year, based on the following assumptions:

	Stage 1 £m	Stage 2 £m	Stage 3 £m	Stage 3 (POCI) £m	Total £m
At 31 December 2018	8,279.6	436.8	225.4	56.2	8,998.0
Originations[1]	4,098.6	-	-	-	4,098.6
CCFS Combination[3]	7,091.1	43.5	-	94.4	7,229.0
Repayments and write-offs[2]	(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 31 December 2019	17,239.2	749.5	294.4	136.8	18,419.9
Originations[1]	**3,767.0**	**-**	**-**	**-**	**3,767.0**
Acquisitions	**60.8**	**-**	**-**	**1.5**	**62.3**
Disposals	**(787.3)**	**(16.1)**	**(1.0)**	**-**	**(804.4)**
Repayments and write-offs[2]	**(2,119.1)**	**(3.9)**	**(41.0)**	**(23.7)**	**(2,187.7)**
Transfers:					
- To Stage 1	**324.8**	**(293.5)**	**(31.3)**	**-**	**-**
- To Stage 2[4]	**(2,300.3)**	**2,344.5**	**(44.2)**	**-**	**-**
- To Stage 3	**(124.8)**	**(90.9)**	**215.7**	**-**	**-**
At 31 December 2020	**16,060.3**	**2,689.6**	**392.6**	**114.6**	**19,257.1**

[1] Originations include further advances and drawdowns on existing commitments.
[2] Repayments and write-offs include customer redemptions.
[3] The mortgages acquired in the all-share Combination with CCFS are shown at the acquisition date fair value.

22. Loans and advances (continued)

[4] Increase from previous year due to the additional qualitative and quantitative tests applied in 2020 for loans with payment deferrals. Payment deferrals increased in 2020 notably through COVID-19 initiatives and impacts.

During the year the Group purchased one external mortgage book at par. The Group did not purchase any external mortgage books during 2019 other than those acquired in the Combination.

23. Finance leases

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

	2020 £m	2019 £m
Gross investment in finance leases, receivable		
Less than one year	**21.9**	14.1
Between one and five years	**50.4**	38.5
More than 5 years	**1.3**	1.2
	73.6	53.8
Unearned finance income	**(8.1)**	(6.1)
Net investment in finance leases	**65.5**	47.7
Net investment in finance leases, receivable		
Less than one year	**18.6**	11.5
Between one and five years	**45.7**	35.0
More than five years	**1.2**	1.2
	65.5	47.7

The Group has recognised £2.6m of ECLs on finance leases as at 31 December 2020 (2019: £0.3m).

24. Expected credit loss

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

At 31 December 2020	**ECL provision 2020 £m**	**Weighting 2020 %**	**Weighted ECL provision 2020 £m**	ECL provision 2019 £m	Weighting 2019 %	Weighted ECL provision 2019 £m
Scenarios						
Upside	**40.1**	**30**	**12.0**	14.6	10	1.5
Base case	**54.6**	**40**	**21.8**	24.4	40	9.7
Downside scenario	**113.5**	**23**	**26.1**	48.1	35	16.8
Severe downside scenario	**166.7**	**7**	**11.7**	62.5	15	9.4
Total weighted provisions			**71.6**			37.4
Non-modelled provisions:						
Individually-assessed provisions	-	-	**29.0**	-	-	4.2
Post model adjustments[1]	-	-	**10.4**	-	-	1.3
Total provision			**111.0**			42.9

1. COVID-19 post model adjustments – the Group implemented a number of post model adjustments to ensure that modelled estimates remained appropriate, in light of the impact that COVID-19 support measures, such as the repossession moratorium and the impact of payment deferrals on the credit bureau files, had on probability of default and loss given default estimates. In addition updated model estimates were also aligned to recently observed actual performance. Additional information can be found in the Credit risk section of the Risk profile performance overview.

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

	2020			2019		
	OSB £m	**CCFS £m**	**Total £m**	OSB £m	CCFS £m	Total £m
Stage 1	**12.3**	**8.9**	**21.2**	3.5	2.1	5.6
Stage 2	**17.9**	**13.1**	**31.0**	3.6	2.0	5.6
Stage 3	**49.4**	**2.3**	**51.7**	23.4	0.4	23.8
Stage 3 (POCI)	**4.0**	**3.1**	**7.1**	5.1	2.8	7.9
	83.6	**27.4**	**111.0**	35.6	7.3	42.9

24. Expected credit loss (continued)

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

	Stage 1 £m	Stage 2 £m	Stage 3 £m	Stage 3 (POCI) £m	Total £m
At 31 December 2018	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 31 December 2019	5.6	5.6	23.8	7.9	42.9
Originations	**6.3**	**-**	**-**	**-**	**6.3**
Acquisitions	**-**	**-**	**0.1**	**-**	**0.1**
Disposals	**(0.1)**	**(0.2)**	**(0.1)**	**-**	**(0.4)**
Repayments and write-offs	**(0.7)**	**(0.3)**	**(4.1)**	**(1.1)**	**(6.2)**
Remeasurement of loss allowance	**6.3**	**7.7**	**29.0**	**(0.2)**	**42.8**
Transfers:					
- To Stage 1	**2.0**	**(1.4)**	**(0.6)**	**-**	**-**
- To Stage 2	**(1.0)**	**2.8**	**(1.8)**	**-**	**-**
- To Stage 3	**(0.1)**	**(1.2)**	**1.3**	**-**	**-**
Changes in assumptions and model parameters	**2.9**	**18.0**	**4.1**	**0.5**	**25.5**
At 31 December 2020	**21.2**	**31.0**	**51.7**	**7.1**	**111.0**

24. Expected credit loss (continued)

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

	Carrying value 2020 £m	**ECL 2020 £m**	**Coverage 2020 %**	Carrying value 2019 £m	ECL 2019 £m	Coverage 2019 %
Criteria:						
Relative PD movement	**946.9**	**17.0**	**1.80**	588.2	4.8	0.82
Qualitative measures	**1,680.7**	**12.7**	**0.76**	79.8	0.4	0.44
30 days past due backstop	**63.4**	**1.3**	**2.05**	81.5	0.4	0.54
Total	**2,691.0**	**31.0**	**1.15**	749.5	5.6	0.75

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

25. Impairment of financial assets

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

	2020 £m	2019 £m
Write-offs in year	**1.9**	4.1
Disposals	**0.4**	-
CCFS Combination	**-**	3.6
Increase in ECL provision	**68.7**	7.9
	71.0	15.6

The CCFS Combination losses relate to the initial ECL recognised on the CCFS loan book following the Combination in October 2019.

26. Derivatives

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

	Gross amount of recognised financial assets / (liabilities)	Net amount of financial assets / (liabilities) presented in the Consolidated Statement of Financial Position	Contracts subject to master netting agreements not offset in the Consolidated Statement of Financial Position	Cash collateral paid / (received) not offset in the Consolidated Statement of Financial Position	Net amount
	£m	£m	£m	£m	£m
At 31 December 2020					
Derivative assets:					
Interest rate risk hedging	**12.3**	**12.3**	**(11.8)**	**-**	**0.5**
	12.3	**12.3**	**(11.8)**	**-**	**0.5**
Derivative liabilities:					
Interest rate risk hedging	**(163.6)**	**(163.6)**	**11.8**	**210.5**	**58.7**
	(163.6)	**(163.6)**	**11.8**	**210.5**	**58.7**
At 31 December 2019					
Derivative assets:					
Interest rate risk hedging	21.1	21.1	(9.8)	(8.0)	3.3
	21.1	21.1	(9.8)	(8.0)	3.3
Derivative liabilities:					
Interest rate risk hedging	(92.8)	(92.8)	9.8	110.4	27.4
	(92.8)	(92.8)	9.8	110.4	27.4

Included within the Group's derivative liabilities is £0.1m (2019: £3.4m) relating to derivative contracts not covered by master netting agreements and therefore no cash collateral has been paid.

26. Derivatives (continued)

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

	Total nominal £m	Less than 3 months £m	3 - 12 months £m	1 - 5 years £m	More than 5 years £m
At 31 December 2020					
Derivative assets	**8,687.8**	**1,450.7**	**3,407.8**	**3,808.3**	**21.0**
Derivative liabilities	**10,392.4**	**148.0**	**1,868.0**	**8,065.9**	**310.5**
	19,080.2	**1,598.7**	**5,275.8**	**11,874.2**	**331.5**
At 31 December 2019					
Derivative assets	7,795.4	1,110.8	2,608.2	3,760.9	315.5
Derivative liabilities	9,982.4	144.3	2,528.6	7,155.5	154.0
	17,777.8	1,255.1	5,136.8	10,916.4	469.5

The Group has 925 (2019: 1,175) derivative contracts with an average fixed rate of 0.47% (2019: 0.91%).

27. Hedge accounting

	2020 £m	2019 £m
Hedged assets		
Current hedge relationships	**197.5**	64.2
Swap inception adjustment	**(100.5)**	(67.8)
Cancelled hedge relationships	**84.6**	20.4
Fair value adjustments on hedged assets	**181.6**	16.8
Hedged liabilities		
Current hedge relationships	**(11.8)**	(2.9)
Swap inception adjustment	**6.2**	8.0
De-designated hedge relationships	**(2.6)**	-
Fair value adjustments on hedged liabilities	**(8.2)**	5.1

The swap inception adjustment relates in part to hedged assets and liabilities recognised on the Combination where pre-existing hedge relationships ceased on the date of Combination. The swap inception adjustment is being amortised over the life of the derivative instruments acquired on Combination and recognises an offsetting asset or liability to the fair value of the derivative instruments on the date of Combination. The remainder of the swap inception adjustment relates to the hedging adjustments arising when hedge accounting commences, primarily on derivative instruments previously taken out against the mortgage pipeline and also on derivative instruments previously taken out against new retail deposits.

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

27. Hedge accounting (continued)

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

	2020		2019	
Loans and advances to customers	**Hedged item £m**	**Hedging instrument £m**	Hedged item £m	Hedging instrument £m
Carrying amount of hedged item/nominal value of hedging instrument	**11,282.4**	**11,159.7**	10,312.5	10,248.3
Cumulative fair value adjustments	**197.5**	**(156.9)**	64.2	(75.6)
Fair value adjustments for the period	**107.3**	**(117.4)**	70.1	(75.1)
Cumulative fair value on cancelled hedge relationships	**84.6**	**-**	20.4	-

The cumulative fair value adjustments of the hedging instrument comprise £0.7m (2019: £13.2m) recognised within derivative assets and £157.6m (2019: £88.8m) recognised within derivative liabilities.

The movement in cancelled hedge relationships is as follows:

	2020 £m	2019 £m
At 1 January	**20.4**	17.3
New cancellations[1]	**86.1**	8.6
Amortisation	**(17.9)**	(5.5)
Derecognition of hedged item	**(4.0)**	-
At 31 December	**84.6**	20.4

[1] Following the securitisation of mortgages during the year and LIBOR swaps transferred to SONIA swaps through the IBOR transition, the Group cancelled swaps which were effective prior to the event, with the designated hedge moved to cancelled hedge relationships to be amortised over the original life of the swap.

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

	2020		2019	
Customer deposits	**Hedged item £m**	**Hedging instrument £m**	Hedged item £m	Hedging instrument £m
Carrying amount of hedged item/nominal value of hedging instrument	**6,849.9**	**6,858.0**	6,684.6	6,687.5
Cumulative fair value adjustments	**(11.8)**	**9.2**	(2.9)	3.5
Fair value adjustments for the period	**(4.1)**	**6.8**	(4.6)	4.8

The cumulative fair value adjustments of the hedging instrument comprise £9.4m (2019: £5.9m) recognised within derivative assets and £0.2m (2019: £2.4m) recognised within derivative liabilities.

28. Other assets

	2020 £m	2019 £m
Prepayments	**7.3**	9.3
Other assets	**1.8**	5.0
	9.1	14.3

29. Deferred taxation asset

	Losses carried forward £m	Accelerated depreciation £m	Share-based payments £m	IFRS 9 transitional adjustments £m	Others[1] £m	Total £m
At 31 December 2018	1.4	(0.1)	1.5	0.7	-	3.5
Profit or loss (charge)/credit	(0.5)	0.3	0.8	(0.1)	(0.7)	(0.2)
CCFS Combination	-	(0.1)	0.5	0.1	1.4	1.9
Transferred to corporation tax liability	-	-	(1.3)	-	-	(1.3)
Tax taken directly to OCI	-	-	-	-	(0.2)	(0.2)
Tax taken directly to equity	-	-	1.1	-	-	1.1
At 31 December 2019	0.9	0.1	2.6	0.7	0.5	4.8
Profit or loss credit/(charge)	**-**	**0.3**	**0.9**	**-**	**(0.4)**	**0.8**
Transferred to corporation tax liability	**-**	**-**	**(0.6)**	**-**	**-**	**(0.6)**
Tax taken directly to OCI	**-**	**-**	**-**	**-**	**(0.5)**	**(0.5)**
Tax taken directly to equity	**-**	**-**	**0.2**	**-**	**-**	**0.2**
At 31 December 2020	**0.9**	**0.4**	**3.1**	**0.7**	**(0.4)**	**4.7**

[1] Others include deferred taxation assets recognised on financial assets classified as FVOCI, derivatives and short-term timing differences.

In 2020, the profit or loss credit/(charge) includes £(0.3)m impact of the deferred tax rate change (2019: nil).

As at 31 December 2020, the Group had £3.5m (2019: £3.5m) of losses for which a deferred tax asset has not been recognised as the Group does not expect sufficient future profits to be available to utilise the losses.

30. Deferred taxation liability

The deferred tax liability recognised on the Combination relates to the timing differences of the recognition of assets and liabilities at fair value, where the fair values will unwind in future periods in line with the underlying asset or liability. The deferred tax liability has been measured using the relevant rates for the expected periods of utilisation.

	CCFS Combination £m
At 31 December 2018	-
CCFS Combination	70.1
Profit or loss credit	(7.0)
At 31 December 2019	63.1
Profit or loss credit	**(14.8)**
At 31 December 2020	**48.3**

In 2020, the profit or loss credit includes £4.7m impact of the deferred tax rate change (2019: nil).

31. Property, plant and equipment

	Freehold land and buildings £m	Leasehold improvements £m	Equipment and fixtures £m	Right of use assets: Property leases £m	Right of use assets: Other leases £m	Total £m
Cost						
At 1 January 2019	16.0	0.9	11.0	3.8	-	31.7
Additions	3.1	1.5	2.4	2.5	0.1	9.6
CCFS Combination	-	0.3	2.1	6.4	1.2	10.0
Disposals and write-offs[1]	-	-	(1.2)	-	-	(1.2)
Foreign exchange difference	0.2	-	0.1	-	-	0.3
At 31 December 2019	19.3	2.7	14.4	12.7	1.3	50.4
Additions	**-**	**0.3**	**2.5**	**0.6**	**-**	**3.4**
Disposals and write-offs[1]	**-**	**-**	**(3.0)**	**(0.2)**	**-**	**(3.2)**
Foreign exchange difference	**(0.1)**	**-**	**(0.1)**	**-**	**-**	**(0.2)**
At 31 December 2020	**19.2**	**3.0**	**13.8**	**13.1**	**1.3**	**50.4**
Depreciation						
At 1 January 2019	0.8	0.3	5.0	-	-	6.1
Charged in year	0.3	0.2	2.3	1.0	0.1	3.9
CCFS Combination	-	-	-	-	-	-
Disposals and write-offs	-	-	(1.2)	-	-	(1.2)
At 31 December 2019	1.1	0.5	6.1	1.0	0.1	8.8
Charged in year	**0.3**	**0.4**	**2.9**	**1.8**	**0.2**	**5.6**
Disposals and write-offs[1]	**-**	**-**	**(3.0)**	**(0.2)**	**-**	**(3.2)**
At 31 December 2020	**1.4**	**0.9**	**6.0**	**2.6**	**0.3**	**11.2**
Net book value						
At 31 December 2020	**17.8**	**2.1**	**7.8**	**10.5**	**1.0**	**39.2**
At 31 December 2019	18.2	2.2	8.3	11.7	1.2	41.6

[1] During the year the Group wrote off fully depreciated assets.

32. Intangible assets

	Development costs £m	Computer software and licences £m	Assets arising on consolidation[2] £m	Total £m
Cost				
At 1 January 2019	-	13.6	-	13.6
Additions	0.5	3.8	-	4.3
CCFS Combination	-	-	23.6	23.6
Disposals and write-offs[1]	-	(2.0)	-	(2.0)
At 31 December 2019	0.5	15.4	23.6	39.5
Additions	**1.8**	**2.6**	**-**	**4.4**
Disposals and write-offs[1]	**-**	**(1.3)**	**-**	**(1.3)**
At 31 December 2020	**2.3**	**16.7**	**23.6**	**42.6**
Amortisation				
At 1 January 2019	-	5.8	-	5.8
CCFS Combination	-	-	-	-
Charged in year	-	3.0	1.3	4.3
Disposals and write-offs[1]	-	(2.0)	-	(2.0)
At 31 December 2019	-	6.8	1.3	8.1
Charged in year	**0.1**	**3.6**	**4.5**	**8.2**
Impairment in the year	**-**	**-**	**7.0**	**7.0**
Disposals and write-offs[1]	**-**	**(1.3)**	**-**	**(1.3)**
At 31 December 2020	**0.1**	**9.1**	**12.8**	**22.0**
Net book value				
At 31 December 2020	**2.2**	**7.6**	**10.8**	**20.6**
At 31 December 2019	0.5	8.6	22.3	31.4

[1] During the year the Group wrote off fully amortised assets.
[2] Assets arising on consolidation comprise broker relationships of £5.8m (2019: £16.1m), technology of £2.9m (2019: £3.2m), brand name of £1.2m (2019: £1.6m) and banking licence of £0.9m (2019: £1.4m). The carrying value of the intangible assets are reviewed each reporting period with a £7.0m impairment recognised in relation to broker relationships due to impacts of the COVID-19 pandemic.

33. Amounts owed to credit institutions

	2020 £m	2019 £m
BoE TFS	**2,568.6**	2,632.8
BoE TFSME	**1,000.1**	-
BoE ILTR	**-**	290.6
Warehouse funding	**-**	93.6
Commercial repo	**0.1**	41.4
Cash margin received	**-**	8.0
Loans from credit institutions	**1.4**	2.4
	3,570.2	3,068.8

34. Amounts owed to retail depositors

	OSB 2020 £m	CCFS 2020 £m	Total 2020 £m	OSB 2019 £m	CCFS 2019 £m	Total 2019 £m
Fixed rate deposits	**6,275.6**	**4,781.4**	**11,057.0**	5,617.9	4,907.6	10,525.5
Variable rate deposits	**3,429.7**	**2,116.4**	**5,546.1**	3,817.9	1,911.6	5,729.5
	9,705.3	**6,897.8**	**16,603.1**	9,435.8	6,819.2	16,255.0

35. Amounts owed to other customers

	2020 £m	2019 £m
Fixed rate deposits	**46.0**	26.0
Variable rate deposits	**26.9**	3.7
	72.9	29.7

36. Debt securities in issue

	2020 £m	2019 £m
Asset backed loan notes at amortised cost	**421.9**	296.3
Amount due for settlement within 12 months	**-**	40.1
Amount due for settlement after 12 months	**421.9**	256.2
	421.9	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 contractual 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.

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 31 December 2020, notes were issued through the following funding vehicles:

	2020 £m	2019 £m
CMF 2020-1 plc	**288.6**	-
Canterbury Finance No.3 plc	**133.3**	-
Canterbury Finance No.1 plc	**-**	256.2
Precise Mortgage Funding 2015-1 plc	**-**	40.1
	421.9	296.3

37. Lease liabilities

	2020 £m	2019 £m
At 1 January	**13.3**	3.8
CCFS Combination	**-**	7.7
New leases	**0.1**	3.6
Lease terminated	**-**	(0.8)
Lease repayments	**(2.0)**	(1.1)
Interest accruals	**0.3**	0.1
At 31 December	**11.7**	13.3

During the year, the Group incurred expenses of £0.7m (2019: £0.7m) in relation to short-term leases and nil (2019: £0.1m) in relation to low-value assets.

38. Other liabilities

	2020 £m	2019 £m
Falling due within one year:		
Accruals	**19.7**	23.1
Deferred income	**0.6**	1.1
Other creditors	**7.5**	10.7
	27.8	34.9

39. Provisions and contingent liabilities

The Financial Services Compensation Scheme (FSCS) provides protection of deposits for the customers of authorised financial services firms, should a firm collapse. FSCS protects retail deposits of up to £85k for single account holders and £170k for joint holders. As OSB and CCFS both hold banking licences, the full FSCS protection is available to customers of each bank.

The compensation paid out to consumers is initially funded through loans from the BoE and HM Treasury. In order to repay the loans and cover its costs, the FSCS charges levies on firms regulated by the PRA and the FCA. The Group is among those firms and pays the FSCS a levy based on its share of total UK deposits.

The Group has reviewed its current exposure to Payment Protection Insurance (PPI) claims, following the FCA deadline for PPI claims on 29 August 2019 and has recognised a provision of £0.3m as at 31 December 2020 (2019: £0.3m). The Group has maintained its provision for FCA conduct rules exposures of £1.2m (2019: £1.3m) to cover potential future claims.

39. Provisions and contingent liabilities (continued)

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

	2020				2019			
	FSCS £m	Other regulatory provisions £m	ECL on undrawn loan facilities £m	Total £m	FSCS £m	Other regulatory provisions £m	ECL on undrawn loan facilities £m	Total £m
At 1 January	(0.2)	1.6	0.2	1.6	0.1	1.7	-	1.8
Refund/(paid) during the year	0.3	(0.2)	-	0.1	(0.1)	(0.1)	-	(0.2)
Charge/(credit)	-	0.1	-	0.1	(0.2)	-	0.2	-
At 31 December	0.1	1.5	0.2	1.8	(0.2)	1.6	0.2	1.6

In January 2020, the Group was contacted by the FCA in connection with a multi-firm thematic review into forbearance measures adopted by lenders in respect of a portion of the mortgage market. The Group 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 and is a contingent liability.

40. Subordinated liabilities

	2020 £m	2019 £m
At 1 January	10.6	10.8
Repayment of debt at maturity	(0.1)	(0.2)
At 31 December	10.5	10.6

The Group's outstanding subordinated liabilities are summarised below:

	2020 £m	2019 £m
Linked to LIBOR:		
Floating rate subordinated loans 2022 (LIBOR +5%)	0.1	0.2
Floating rate subordinated loans 2022 (LIBOR +2%)	0.2	0.2
Fixed rate:		
Subordinated liabilities 2024 (7.45%)	10.2	10.2
	10.5	10.6

The fixed rate subordinated liabilities are repayable at the dates stated or earlier, in full, at the option of the Group with the prior consent of the PRA. All subordinated liabilities are denominated in Pounds Sterling and are unlisted.

The rights of repayment of the holders of these subordinated liabilities are subordinated to the claims of all depositors and all other creditors.

41. Perpetual Subordinated Bonds

	2020 £m	2019 £m
Sterling Perpetual Subordinated Bonds (4.5991%)	**22.3**	22.3
Sterling Perpetual Subordinated Bonds (4.6007%)	**15.3**	15.3
	37.6	37.6

The bonds are listed on the London Stock Exchange.

The 4.5991% bonds were issued with discretion over the payment of interest which is conditional, they are therefore classified as financial liabilities. The coupon rate is 4.5991% until the next reset date on 7 March 2021.

The 4.6007% bonds were issued with no discretion over the payment of interest and may not be settled in the Group's own equity. They are therefore classified as financial liabilities. The coupon rate is 4.6007% until the next reset date on 27 August 2024.

42. Reconciliation of cash flows for financing activities

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

	Amounts owed to credit institutions (see note 33) £m	Debt securities in issue (see note 36) £m	Subordinated liabilities (see note 40) £m	PSBs (see note 41) £m	Total £m
At 31 December 2018	1,584.0	-	10.8	37.6	1,632.4
Cash movements:					
Principal drawdowns	587.7	285.0	-	-	872.7
Principal repayments	(273.7)	(64.6)	(0.2)	-	(338.5)
Non-cash movements:					
CCFS Combination	1,168.4	75.1	-	-	1,243.5
Accrued interest movement	2.4	0.8	-	-	3.2
At 31 December 2019	3,068.8	296.3	10.6	37.6	3,413.3
Cash movements:					
Principal drawdowns	**1,505.0**	**486.2**	**-**	**-**	**1,991.2**
Principal repayments	**(998.9)**	**(104.6)**	**(0.1)**	**-**	**(1,103.6)**
Deconsolidation of special purpose vehicles	**-**	**(256.2)**	**-**	**-**	**(256.2)**
Non-cash movements:					
Accrued interest movement	**(4.7)**	**0.2**	**-**	**-**	**(4.5)**
At 31 December 2020	**3,570.2**	**421.9**	**10.5**	**37.6**	**4,040.2**

43. Share capital

Ordinary shares	Number of shares authorised and fully paid	Nominal value £m	Premium £m
At 1 January 2019	244,487,537	2.4	158.8
Shares issued under OSB employee share plans	1,312,862	0.1	0.3
CCFS Combination	199,643,055	2.0	705.1
At 31 December 2019	445,443,454	4.5	864.2
Shares issued under OSB employee share plans	**1,860,744**	**-**	**2.6**
Cancellation of OneSavings Bank plc £0.01 share capital and share premium	**(447,304,198)**	**(4.5)**	**(866.8)**
Issuance of OSB GROUP PLC £3.04 share capital	**447,304,198**	**1,359.8**	**-**
Shares issued under OSBG employee share plans	**8,582**	**-**	**-**
At 31 December 2020	**447,312,780**	**1,359.8**	**-**

The holders of ordinary shares are entitled to receive dividends as declared from time to time, and are entitled to one vote per share at meetings of the Company. All ordinary shares rank equally with regard to the Company's residual assets.

All ordinary shares issued in the current and prior year were fully paid.

44. Other reserves

The Group's other reserves are as follows:

	2020 £m	2019 £m
Share-based payment	**7.8**	5.6
Capital contribution	**-**	6.5
Transfer	**(1,355.3)**	(12.8)
Own shares	**(4.0)**	(3.7)
FVOCI	**1.0**	0.5
Foreign exchange	**(1.0)**	(1.0)
Non-controlling interest securities	**60.0**	60.0
	(1,291.5)	55.1

Capital contribution

The capital contribution reserve relates to one-off nil price share awards of shares in OSB granted to certain senior managers on OSB's admission to the London Stock Exchange in June 2014. The awards were granted by OSB's major shareholder at the time of the IPO. The reserve was transferred to retained earnings during the year following distribution of all the awards.

Transfer reserve

The transfer reserve in 2019 represented the difference between the value of net assets transferred to the Group from Kent Reliance Building Society in 2011 and the value of shares issued to the A ordinary shareholders. The net assets transferred were predominantly savings and mortgages that have now either been replaced by new products, which is a derecognition event of the initial net asset, or are no longer with the Group. The balance was therefore transferred to retained earnings in 2020.

44. Other reserves (continued)

On 27 November 2020, a new ultimate parent company was inserted into the Group, being OSBG. The share capital generated from issuing 447,304,198 nominal shares at £3.04 per share, replacing the nominal shares of £0.01 in OSB previously recognised in share capital at the consolidation level, created a transfer reserve of £1,355.3m.

Own shares
The Company has adopted the look-through approach for the EBT, including the EBT within the Company. As at 31 December 2020, the EBT held 1,001,238 OSBG shares (2019: 1,045,155 OSB shares). The Group and Company show these shares as a deduction from equity, being the cost at which the shares were acquired of £4.0m (2019: £3.7m).

FVOCI reserve
The FVOCI reserve represents the cumulative net change in the fair value of investment securities measured at FVOCI.

Foreign exchange
The foreign exchange reserve relates to the revaluation of the Group's Indian subsidiary, OSB India Private Limited.

Non-controlling interest securities
Non-controlling interest securities comprise £60.0m of Fixed Rate Resetting Perpetual Subordinated Contingent Convertible Securities issued by OSB. The securities previously qualified as Additional Tier 1 capital under the Capital Requirements Directive and Regulation (CRD IV) for OSB; however, they do not qualify for OSBG under the CRD IV with the application of article 85 – 87 requirements where there is an article 9 permission. The securities will be subject to full conversion into ordinary shares of OSB in the event that its CET1 capital ratio falls below 7%. The securities will pay interest at a rate of 9.125% per annum until the first reset date of 25 May 2022, with the reset interest rate equal to 835.9 basis points over the five-year semi-annual mid-swap rate for such a period. Interest is paid semi-annually on 25 May and 25 November. OSB may, at any time, cancel any interest payment at its full discretion and must cancel interest payments in certain circumstances specified in the terms and conditions of the securities. The securities are perpetual with no fixed redemption date. OSB may, in its discretion and subject to satisfying certain conditions, redeem all (but not some) of the securities at the principal amount outstanding plus any accrued but unpaid interest from the first reset date and on any interest payment date thereafter.

45. Financial commitments and guarantees

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

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

	2020 **£m**	2019 £m
Land and buildings: due within:		
One year	**0.1**	0.6
	0.1	0.6

45. Financial commitments and guarantees (continued)

c) Undrawn loan facilities:

	2020	2019
	£m	£m
OSB mortgages	**547.2**	639.2
CCFS mortgages	**420.8**	568.1
Asset Finance	**11.5**	3.6
	979.5	1,210.9

Undrawn loan facilities are approved loan applications which have not yet been exercised. They are payable on demand and are usually drawn down or expire within three months.

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

46. Risk management

Overview

Financial instruments form the vast majority of the Group's assets and liabilities. The Group manages risk on a consolidated basis and risk disclosures that follow are provided on this basis.

Types of financial instrument

Financial instruments are a broad definition which includes financial assets, financial liabilities and equity instruments. The main financial assets of the Group are loans to customers and liquid assets, which in turn consist of cash in the BoE call accounts, call accounts with other credit institutions and UK and EU sovereign debt. These are funded by a combination of financial liabilities and equity instruments. Financial liability funding comes predominantly from retail deposits and drawdowns under the BoE TFS, TFSME and ILTR, supported by debt securities, subordinated debt, wholesale and other funding. Equity instruments include own shares and non-controlling interest securities meeting the equity classification criteria. The Group’s main activity is mortgage lending; it raises funds or invests in particular types of financial assets to meet customer demand and manage the risks arising from its operations. The Group does not trade in financial instruments for speculative purposes.

The Group uses derivative instruments to manage its financial risks. Derivative financial instruments (derivatives) are financial instruments whose value changes in response to changes in underlying variables such as interest rates. The most common derivatives are futures, forwards and swaps. Of these, the Group only uses swaps.

Derivatives are used by the Group solely to reduce (hedge) the risk of loss arising from changes in market rates. Derivatives are not used for speculative purposes.

Types of derivatives and uses

The derivative instruments used by the Group in managing its risk exposures are interest rate swaps. Interest rate swaps convert fixed interest rates to floating or vice versa. As with other derivatives, the underlying product is not sold and payments are based on notional principal amounts.

Unhedged fixed rate liabilities create the risk of paying above-the-market rate if interest rates subsequently decrease. Unhedged fixed rate mortgages and liquid assets bear the opposite risk of income below-the-market rate when rates go up. While fixed rate assets and liabilities naturally hedge

46. Risk management (continued)
each other to a certain extent, this hedge is usually never perfect because of maturity mismatches and principal amounts.

The Group uses swaps to convert its instruments, such as mortgages, deposits and liquid assets, from fixed or base rate-linked rates to reference linked variable rates. This ensures a guaranteed margin between the interest income and interest expense, regardless of changes in the market rates.

Transition away from LIBOR
The PRA and FCA have continued to encourage banks to transition away from using LIBOR as a benchmark in all operations before the end of 2021. Throughout the UK banking sector, LIBOR remains a key benchmark and, for each market impacted, solutions to this issue are progressing through various industry bodies. The Group has closely monitored the market and the output from the various industry working groups managing the transition to new benchmark interest rates. This includes announcements made by LIBOR regulators (including the FCA) regarding the transition from GBP LIBOR to SONIA. The FCA has made clear that, at the end of 2021, it will no longer seek to persuade, or compel, banks to submit to LIBOR.

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

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

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

The application of the Phase 1 amendments impacts the Group's accounting in the following ways. Hedge accounting relationships will continue even when, for IBOR fair value hedges, the benchmark interest rate component may not be separately identifiable.

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

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

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

Mortgages
New loan product transition was completed for CCFS in 2019 and OSB launched new BBR-linked products during 2020 to replace loans with a LIBOR component.

At 31 December 2020, the Group had £8,001.7m of GBP LIBOR-linked lending, including funding lines and mortgages that will revert to LIBOR in the future, out of a total mortgage balance of £19,257.1m. The Group continues to work through the back book transition for existing loans which is planned to be completed before the end of 2021.

Investment securities
At 31 December 2020, the Group had £118.7m of GBP LIBOR-linked investment securities, comprising RMBS loan notes and the Group is monitoring the issuers' intentions in respect of IBOR transition with £40.0m transferred to SONIA coupons after the year end.

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

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

Derivatives
As at 31 December 2020, the derivatives in the CCFS segment have all transitioned across to a SONIA basis with the OSB segment yet to complete. The total nominal amount of the Group's derivatives was £19,080.2m, of which the Group had GBP LIBOR-linked swaps with a nominal value of £8,020.0m and a fair value liability of £89.1m hedging assets and liabilities. It is planned that existing derivatives will be actively transitioned onto alternative benchmarks before the end of 2021.

Types of risk

The principal financial risks to which the Group is exposed are credit, liquidity and market risks, the latter comprising interest and exchange rate risk. In addition to financial risks, the Group is exposed to various other risks, most notably operational, conduct and regulatory, which are covered in the Risk review.

Credit risk

Credit risk is the risk that losses may arise as a result of the Group's borrowers or market counterparties failing to meet their obligations to repay.

The Group has adopted the Standardised Approach for assessment of credit risk regulatory capital requirements. This approach considers risk weightings as defined under Basel II and Basel III principles.

46. Risk management (continued)

The classes of financial instruments to which the Group is most exposed are loans and advances to customers, loans and advances to credit institutions, cash in the BoE call account, call and current accounts with other credit institutions and investment securities. The maximum credit risk exposure equals the total carrying amount of the above categories plus off-balance sheet undrawn committed mortgage facilities.

Credit risk - loans and advances to customers

Credit risk associated with mortgage lending is largely driven by the housing market and level of unemployment. A recession and/or high interest rates could cause pressure within the market, resulting in rising levels of arrears and repossessions.

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

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

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

	2020					
	OSB		**CCFS**		**Total**	
	Gross carrying amount	**Capped collateral held**	**Gross carrying amount**	**Capped collateral held**	**Gross carrying amount**	**Capped collateral held**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**
Stage 1	**9,366.8**	**9,303.4**	**6,749.5**	**6,747.9**	**16,116.3**	**16,051.3**
Stage 2	**1,363.4**	**1,359.8**	**1,327.6**	**1,327.6**	**2,691.0**	**2,687.4**
Stage 3	**352.6**	**323.3**	**48.1**	**48.1**	**400.7**	**371.4**
Stage 3 (POCI)	**48.6**	**48.4**	**66.0**	**66.0**	**114.6**	**114.4**
	11,131.4	**11,034.9**	**8,191.2**	**8,189.6**	**19,322.6**	**19,224.5**

	2019					
	OSB		CCFS		Total	
	Gross carrying amount	Capped collateral held	Gross carrying amount	Capped collateral held	Gross carrying amount	Capped collateral held
	£m	£m	£m	£m	£m	£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.

46. Risk management (continued)

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

	2020				2019			
	OSB £m	**CCFS £m**	**Total £m**	**%**	OSB £m	CCFS £m	Total £m	%
Band								
0% - 50%	**1,740.3**	**419.3**	**2,159.6**	**11**	1,732.6	567.8	2,300.4	12
50% - 60%	**1,462.0**	**483.3**	**1,945.3**	**10**	1,301.8	612.3	1,914.1	10
60% - 70%	**2,813.4**	**1,109.3**	**3,922.7**	**20**	2,435.7	1,588.5	4,024.2	22
70% - 80%	**3,942.9**	**5,144.3**	**9,087.2**	**47**	4,182.1	4,236.3	8,418.4	46
80% - 90%	**879.1**	**1,033.7**	**1,912.8**	**10**	946.0	641.5	1,587.5	9
90% - 100%	**105.8**	**1.3**	**107.1**	**1**	91.1	0.6	91.7	-
>100%	**187.9**	**-**	**187.9**	**1**	131.3	-	131.3	1
Total loans before provisions	**11,131.4**	**8,191.2**	**19,322.6**	**100**	10,820.6	7,647.0	18,467.6	100

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

	2020				2019			
OSB	**BTL/SME £m**	**Residential £m**	**Total £m**	**%**	BTL/SME £m	Residential £m	Total £m	%
Band								
0% - 50%	**795.7**	**944.6**	**1,740.3**	**16**	905.9	826.7	1,732.6	16
50% - 60%	**1,228.1**	**233.9**	**1,462.0**	**13**	1,062.8	239.0	1,301.8	12
60% - 70%	**2,602.1**	**211.3**	**2,813.4**	**25**	2,240.2	195.5	2,435.7	23
70% - 80%	**3,693.4**	**249.5**	**3,942.9**	**35**	3,993.5	188.6	4,182.1	38
80% - 90%	**584.5**	**294.6**	**879.1**	**8**	621.4	324.6	946.0	9
90% - 100%	**89.4**	**16.4**	**105.8**	**1**	45.1	46.0	91.1	1
>100%	**171.4**	**16.5**	**187.9**	**2**	114.3	17.0	131.3	1
Total loans before provisions	**9,164.6**	**1,966.8**	**11,131.4**	**100**	8,983.2	1,837.4	10,820.6	100

46. Risk management (continued)

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

	2020				
OSB	**Buy-to-Let £m**	**Commercial £m**	**Residential development £m**	**Funding lines £m**	**Total £m**
Band					
0% - 50%	**643.3**	**80.6**	**12.5**	**59.3**	**795.7**
50% - 60%	**1,040.1**	**84.3**	**64.2**	**39.5**	**1,228.1**
60% - 70%	**2,407.4**	**132.0**	**56.4**	**6.3**	**2,602.1**
70% - 80%	**3,411.7**	**251.3**	**-**	**30.4**	**3,693.4**
80% - 90%	**370.1**	**214.4**	**-**	**-**	**584.5**
90% - 100%	**54.1**	**35.3**	**-**	**-**	**89.4**
>100%	**117.9**	**24.0**	**-**	**29.5**	**171.4**
Total loans before provisions	**8,044.6**	**821.9**	**133.1**	**165.0**	**9,164.6**

	2019				
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

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

	2020				2019			
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%	**835.8**	**105.1**	**3.7**	**944.6**	708.0	115.4	3.3	826.7
50% - 60%	**167.2**	**64.5**	**2.2**	**233.9**	158.1	77.5	3.4	239.0
60% - 70%	**151.7**	**58.1**	**1.5**	**211.3**	122.3	70.9	2.3	195.5
70% - 80%	**208.1**	**39.9**	**1.5**	**249.5**	137.0	49.5	2.1	188.6
80% - 90%	**274.8**	**19.3**	**0.5**	**294.6**	291.7	32.3	0.6	324.6
90% - 100%	**12.4**	**3.6**	**0.4**	**16.4**	40.0	5.7	0.3	46.0
>100%	**10.7**	**4.9**	**0.9**	**16.5**	9.5	7.3	0.2	17.0
Total loans before provisions	**1,660.7**	**295.4**	**10.7**	**1,966.8**	1,466.6	358.6	12.2	1,837.4

46. Risk management (continued)

The table below shows the LTV banding for the CCFS segments' four major lending streams:

	2020					
CCFS	**Buy-to-Let £m**	**Residential £m**	**Bridging £m**	**Second charge lending £m**	**Total £m**	**%**
Band						
0% - 50%	**92.7**	**242.1**	**50.4**	**34.1**	**419.3**	**5**
50% - 60%	**196.0**	**233.9**	**17.9**	**35.5**	**483.3**	**6**
60% - 70%	**632.9**	**400.2**	**16.8**	**59.4**	**1,109.3**	**14**
70% - 80%	**3,916.2**	**1,155.7**	**21.1**	**51.3**	**5,144.3**	**62**
80% - 90%	**600.7**	**410.8**	**-**	**22.2**	**1,033.7**	**13**
90% - 100%	**0.5**	**0.8**	**-**	**-**	**1.3**	**-**
Total loans before provisions	**5,439.0**	**2,443.5**	**106.2**	**202.5**	**8,191.2**	**100**

	2019					
CCFS	Buy-to-Let £m	Residential £m	Bridging £m	Second charge lending £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

46. Risk management (continued)

Analysis of mortgage 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.

	2020					
	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	**9,322.8**	**9,259.7**	**6,744.8**	**6,743.2**	**16,067.6**	**16,002.9**
Past due <1 month	**44.0**	**43.7**	**4.7**	**4.7**	**48.7**	**48.4**
	9,366.8	**9,303.4**	**6,749.5**	**6,747.9**	**16,116.3**	**16,051.3**
Stage 2						
Not past due	**1,126.4**	**1,123.0**	**1,249.6**	**1,249.6**	**2,376.0**	**2,372.6**
Past due <1 month	**177.6**	**177.5**	**55.9**	**55.9**	**233.5**	**233.4**
Past due 1 to 3 months	**59.4**	**59.3**	**22.1**	**22.1**	**81.5**	**81.4**
	1,363.4	**1,359.8**	**1,327.6**	**1,327.6**	**2,691.0**	**2,687.4**
Stage 3						
Not past due	**130.1**	**100.9**	**15.3**	**15.3**	**145.4**	**116.2**
Past due <1 month	**16.9**	**16.9**	**4.0**	**4.0**	**20.9**	**20.9**
Past due 1 to 3 months	**56.9**	**56.8**	**9.1**	**9.1**	**66.0**	**65.9**
Past due 3 to 6 months	**51.0**	**51.0**	**9.0**	**9.0**	**60.0**	**60.0**
Past due 6 to 12 months	**33.9**	**33.9**	**3.9**	**3.9**	**37.8**	**37.8**
Past due over 12 months	**23.5**	**23.5**	**1.4**	**1.4**	**24.9**	**24.9**
Possessions	**40.3**	**40.3**	**5.4**	**5.4**	**45.7**	**45.7**
	352.6	**323.3**	**48.1**	**48.1**	**400.7**	**371.4**
Stage 3 (POCI)						
Not past due	**22.5**	**22.3**	**31.9**	**31.9**	**54.4**	**54.2**
Past due <1 month	**4.0**	**4.0**	**6.0**	**6.0**	**10.0**	**10.0**
Past due 1 to 3 months	**5.7**	**5.7**	**9.4**	**9.4**	**15.1**	**15.1**
Past due 3 to 6 months	**3.4**	**3.4**	**5.6**	**5.6**	**9.0**	**9.0**
Past due 6 to 12 months	**6.0**	**6.0**	**4.2**	**4.2**	**10.2**	**10.2**
Past due over 12 months	**7.0**	**7.0**	**2.4**	**2.4**	**9.4**	**9.4**
Possessions	**-**	**-**	**6.5**	**6.5**	**6.5**	**6.5**
	48.6	**48.4**	**66.0**	**66.0**	**114.6**	**114.4**
Total loans before provisions	**11,131.4**	**11,034.9**	**8,191.2**	**8,189.6**	**19,322.6**	**19,224.5**

46. Risk management (continued)

	2019					
	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

46. Risk management (continued)

The table below shows the analysis of mortgage portfolio by arrears for the OSB segments' two major lending streams:

	2020			2019		
	BTL/SME	**Residential**	**Total**	BTL/SME	Residential	Total
OSB	**£m**	**£m**	**£m**	£m	£m	£m
Stage 1						
Not past due	**7,873.4**	**1,449.4**	**9,322.8**	8,514.9	1,449.4	9,964.3
Past due <1 month	**20.8**	**23.2**	**44.0**	48.7	33.9	82.6
	7,894.2	**1,472.6**	**9,366.8**	8,563.6	1,483.3	10,046.9
Stage 2						
Not past due	**893.0**	**233.4**	**1,126.4**	156.9	104.1	261.0
Past due <1 month	**116.0**	**61.6**	**177.6**	80.0	38.9	118.9
Past due 1 to 3 months	**29.7**	**29.7**	**59.4**	32.3	30.2	62.5
	1,038.7	**324.7**	**1,363.4**	269.2	173.2	442.4
Stage 3						
Not past due	**98.9**	**31.2**	**130.1**	39.6	31.7	71.3
Past due <1 month	**9.0**	**7.9**	**16.9**	22.5	13.8	36.3
Past due 1 to 3 months	**36.7**	**20.2**	**56.9**	9.8	19.0	28.8
Past due 3 to 6 months	**26.5**	**24.5**	**51.0**	17.0	28.9	45.9
Past due 6 to 12 months	**15.8**	**18.1**	**33.9**	9.1	18.3	27.4
Past due over 12 months	**6.9**	**16.6**	**23.5**	13.5	11.8	25.3
Possessions	**37.7**	**2.6**	**40.3**	38.7	4.0	42.7
	231.5	**121.1**	**352.6**	150.2	127.5	277.7
Stage 3 (POCI)						
Not past due	**0.2**	**22.3**	**22.5**	0.2	20.6	20.8
Past due <1 month	**-**	**4.0**	**4.0**	-	6.1	6.1
Past due 1 to 3 months	**-**	**5.7**	**5.7**	-	4.9	4.9
Past due 3 to 6 months	**-**	**3.4**	**3.4**	-	6.5	6.5
Past due 6 to 12 months	**-**	**6.0**	**6.0**	-	5.7	5.7
Past due over 12 months	**-**	**7.0**	**7.0**	-	8.3	8.3
Possessions	**-**	**-**	**-**	-	1.3	1.3
	0.2	**48.4**	**48.6**	0.2	53.4	53.6
Total loans before provisions	**9,164.6**	**1,966.8**	**11,131.4**	8,983.2	1,837.4	10,820.6

46. Risk management (continued)

The tables below show the sub-segment analysis of mortgage portfolio by arrears of the OSB BTL/SME lending stream:

	2020				
OSB	**Buy-to-Let £m**	**Commercial £m**	**Residential development £m**	**Funding lines £m**	**Total £m**
Stage 1					
Not past due	**6,847.1**	**756.8**	**133.1**	**136.4**	**7,873.4**
Past due <1 month	**13.4**	**7.4**	**-**	**-**	**20.8**
	6,860.5	**764.2**	**133.1**	**136.4**	**7,894.2**
Stage 2					
Not past due	**864.7**	**28.3**	**-**	**-**	**893.0**
Past due <1 month	**114.5**	**1.5**	**-**	**-**	**116.0**
Past due 1 to 3 months	**26.8**	**2.9**	**-**	**-**	**29.7**
	1,006.0	**32.7**	**-**	**-**	**1,038.7**
Stage 3					
Not past due	**54.3**	**16.0**	**-**	**28.6**	**98.9**
Past due <1 month	**8.5**	**0.5**	**-**	**-**	**9.0**
Past due 1 to 3 months	**34.7**	**2.0**	**-**	**-**	**36.7**
Past due 3 to 6 months	**25.4**	**1.1**	**-**	**-**	**26.5**
Past due 6 to 12 months	**13.8**	**2.0**	**-**	**-**	**15.8**
Past due over 12 months	**6.4**	**0.5**	**-**	**-**	**6.9**
Possessions	**35.0**	**2.7**	**-**	**-**	**37.7**
	178.1	**24.8**	**-**	**28.6**	**231.5**
Stage 3 (POCI)					
Not past due	**-**	**0.2**	**-**	**-**	**0.2**
	-	**0.2**	**-**	**-**	**0.2**
Total loans before provisions	**8,044.6**	**821.9**	**133.1**	**165.0**	**9,164.6**

46. Risk management (continued)

	2019				
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

46. Risk management (continued)

The tables below show the sub-segment analysis of mortgage portfolio by arrears of the OSB Residential mortgages lending stream:

	2020			
OSB	**First charge £m**	**Second charge £m**	**Funding lines £m**	**Total £m**
Stage 1				
Not past due	**1,226.5**	**212.2**	**10.7**	**1,449.4**
Past due <1 month	**19.4**	**3.8**	**-**	**23.2**
	1,245.9	**216.0**	**10.7**	**1,472.6**
Stage 2				
Not past due	**207.2**	**26.2**	**-**	**233.4**
Past due <1 month	**56.0**	**5.6**	**-**	**61.6**
Past due 1 to 3 months	**24.6**	**5.1**	**-**	**29.7**
	287.8	**36.9**	**-**	**324.7**
Stage 3				
Not past due	**26.4**	**4.8**	**-**	**31.2**
Past due <1 month	**6.8**	**1.1**	**-**	**7.9**
Past due 1 to 3 months	**15.8**	**4.4**	**-**	**20.2**
Past due 3 to 6 months	**19.1**	**5.4**	**-**	**24.5**
Past due 6 to 12 months	**13.1**	**5.0**	**-**	**18.1**
Past due over 12 months	**13.8**	**2.8**	**-**	**16.6**
Possessions	**2.6**	**-**	**-**	**2.6**
	97.6	**23.5**	**-**	**121.1**
Stage 3 (POCI)				
Not past due	**15.5**	**6.8**	**-**	**22.3**
Past due <1 month	**2.8**	**1.2**	**-**	**4.0**
Past due 1 to 3 months	**3.3**	**2.4**	**-**	**5.7**
Past due 3 to 6 months	**2.0**	**1.4**	**-**	**3.4**
Past due 6 to 12 months	**3.4**	**2.6**	**-**	**6.0**
Past due over 12 months	**2.4**	**4.6**	**-**	**7.0**
	29.4	**19.0**	**-**	**48.4**
Total loans before provisions	**1,660.7**	**295.4**	**10.7**	**1,966.8**

46. Risk management (continued)

	2019			
	First charge	Second charge	Funding lines	Total
OSB	£m	£m	£m	£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
Possessions	0.1	1.2	-	1.3
	27.8	25.6	-	53.4
Total loans before provisions	1,466.6	358.6	12.2	1,837.4

46. Risk management (continued)

The table below shows the analysis of mortgage portfolio by arrears for the CCFS segments' four major lending streams:

	2020				
CCFS	**Buy-to-Let £m**	**Residential £m**	**Bridging £m**	**Second charge lending £m**	**Total £m**
Stage 1					
Not past due	**4,652.5**	**1,846.4**	**72.6**	**173.3**	**6,744.8**
Past due <1 month	**2.1**	**1.9**	**-**	**0.7**	**4.7**
	4,654.6	**1,848.3**	**72.6**	**174.0**	**6,749.5**
Stage 2					
Not past due	**727.6**	**469.6**	**30.0**	**22.4**	**1,249.6**
Past due <1 month	**13.3**	**39.6**	**1.7**	**1.3**	**55.9**
Past due 1 to 3 months	**7.9**	**12.8**	**0.2**	**1.2**	**22.1**
	748.8	**522.0**	**31.9**	**24.9**	**1,327.6**
Stage 3					
Not past due	**6.7**	**7.9**	**0.2**	**0.5**	**15.3**
Past due <1 month	**1.3**	**2.7**	**-**	**-**	**4.0**
Past due 1 to 3 months	**1.0**	**7.9**	**-**	**0.2**	**9.1**
Past due 3 to 6 months	**2.3**	**6.3**	**0.3**	**0.1**	**9.0**
Past due 6 to 12 months	**1.0**	**2.7**	**-**	**0.2**	**3.9**
Past due over 12 months	**0.8**	**0.5**	**-**	**0.1**	**1.4**
Possessions	**4.3**	**1.1**	**-**	**-**	**5.4**
	17.4	**29.1**	**0.5**	**1.1**	**48.1**
Stage 3 (POCI)					
Not past due	**8.8**	**21.0**	**0.3**	**1.8**	**31.9**
Past due <1 month	**1.2**	**4.7**	**-**	**0.1**	**6.0**
Past due 1 to 3 months	**2.0**	**7.1**	**-**	**0.3**	**9.4**
Past due 3 to 6 months	**0.1**	**5.3**	**-**	**0.2**	**5.6**
Past due 6 to 12 months	**0.1**	**3.7**	**0.4**	**-**	**4.2**
Past due over 12 months	**0.6**	**1.4**	**0.4**	**-**	**2.4**
Possessions	**5.4**	**0.9**	**0.1**	**0.1**	**6.5**
	18.2	**44.1**	**1.2**	**2.5**	**66.0**
Total loans before provisions	**5,439.0**	**2,443.5**	**106.2**	**202.5**	**8,191.2**

46. Risk management (continued)

	2019				
CCFS	Buy-to-Let £m	Residential £m	Bridging £m	Second charge lending £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
	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

46. 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 in the Principal risks and uncertainties.

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

Forbearance type	Number of accounts 2020	At 31 December 2020 £m	Number of accounts[1] 2019	At 31 December 2019[1] £m
Interest-only switch	**108**	**14.1**	59	8.4
Interest rate reduction	**22**	**2.2**	35	1.6
Term extension	**430**	**27.0**	30	6.6
Payment deferral	**447**	**38.7**	87	4.1
Voluntary-assisted sale	**2**	**0.1**	26	1.0
Payment concession (reduced monthly payments)	**34**	**1.7**	73	3.6
Capitalisation of interest	**2**	**0.1**	-	-
Full or partial debt forgiveness	**11**	**0.2**	6	-
Total	**1,056**	**84.1**	316	25.3
Loan type				
First charge owner-occupier	**570**	**54.0**	85	10.5
Second charge owner-occupier	**372**	**15.0**	198	7.4
Buy-to-Let	**113**	**14.9**	32	7.4
Commercial	**1**	**0.2**	1	-
Total	**1,056**	**84.1**	316	25.3

1. CCFS forbearance is included post Combination.

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

46. Risk management (continued)

Geographical analysis by region

An analysis of loans by region is provided below:

	Group 2020				Group 2019			
	OSB	**CCFS**	**Total**		OSB	CCFS	Total	
Region	**£m**	**£m**	**£m**	**%**	£m	£m	£m	%
East Anglia	**407.6**	**866.2**	**1,273.8**	**7**	391.9	810.9	1,202.8	7
East Midlands	**455.5**	**463.4**	**918.9**	**5**	415.2	410.3	825.5	4
Greater London	**4,851.9**	**2,837.4**	**7,689.3**	**40**	4,738.7	2,713.7	7,452.4	41
Guernsey	**35.8**	**-**	**35.8**	**-**	45.3	-	45.3	-
Jersey	**122.9**	**-**	**122.9**	**1**	141.4	-	141.4	1
North East	**140.1**	**208.4**	**348.5**	**2**	136.7	179.5	316.2	2
North West	**635.4**	**674.8**	**1,310.2**	**7**	587.3	605.4	1,192.7	6
Northern Ireland	**12.9**	**-**	**12.9**	**-**	14.2	-	14.2	-
Scotland	**47.0**	**214.2**	**261.2**	**1**	48.5	190.9	239.4	1
South East	**2,419.8**	**1,316.7**	**3,736.5**	**19**	2,375.2	1,209.6	3,584.8	20
South West	**757.0**	**478.5**	**1,235.5**	**6**	747.5	466.0	1,213.5	7
Wales	**249.2**	**209.9**	**459.1**	**2**	239.3	202.6	441.9	2
West Midlands	**744.5**	**529.2**	**1,273.7**	**7**	702.2	496.0	1,198.2	6
Yorks and Humberside	**251.8**	**392.5**	**644.3**	**3**	237.2	362.1	599.3	3
Total loans before provisions	**11,131.4**	**8,191.2**	**19,322.6**	**100**	10,820.6	7,647.0	18,467.6	100

46. Risk management (continued)

Approach to measurement of credit quality

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

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

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

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

2020	Stage 1 £m	Stage 2 £m	Stage 3 £m	Stage 3 (POCI) £m	Total £m
OSB					
Excellent	**4,689.6**	**295.4**	**-**	**-**	**4,985.0**
Good	**4,564.9**	**756.4**	**-**	**-**	**5,321.3**
Satisfactory	**106.7**	**242.8**	**-**	**-**	**349.5**
Lower	**5.6**	**68.8**	**-**	**-**	**74.4**
Impaired	**-**	**-**	**352.6**	**-**	**352.6**
POCI	**-**	**-**	**-**	**48.6**	**48.6**
CCFS					
Excellent	**4,352.8**	**398.8**	**-**	**-**	**4,751.6**
Good	**2,338.8**	**667.2**	**-**	**-**	**3,006.0**
Satisfactory	**55.3**	**140.2**	**-**	**-**	**195.5**
Lower	**2.6**	**121.4**	**-**	**-**	**124.0**
Impaired	**-**	**-**	**48.1**	**-**	**48.1**
POCI	**-**	**-**	**-**	**66.0**	**66.0**
	16,116.3	**2,691.0**	**400.7**	**114.6**	**19,322.6**

46. Risk management (continued)

2019	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:

Group 2020	**Excellent £m**	**Good £m**	**Satisfactory £m**	**Total £m**
Investment securities	**471.2**	**-**	**-**	**471.2**
Loans and advances to credit institutions	**2,432.9**	**233.4**	**9.9**	**2,676.2**
Derivative assets	**6.5**	**5.8**	**-**	**12.3**
	2,910.6	**239.2**	**9.9**	**3,159.7**

Group 2019				
Investment securities	635.3	-	-	635.3
Loans and advances to credit institutions	2,047.8	146.1	10.7	2,204.6
Derivative assets	11.6	9.5	-	21.1
	2,694.7	155.6	10.7	2,861.0

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

The Group holds treasury instruments in order to meet liquidity requirements and for general business purposes. The credit risk arising from these investments is closely monitored and managed by the Group's Treasury function. In managing these assets, Group Treasury operates within guidelines laid down in the Treasury Policy approved by ALCO and performance is monitored and reported to ALCO monthly, including through the use of an internally developed rating model based on counterparty credit default swap spreads.

The Group has limited exposure to emerging markets (Indian operations) and non-investment grade debt. ALCO is responsible for approving treasury counterparties.

46. Risk management (continued)

During the year, the average balance of cash in hand, loans and advances to credit institutions and investment securities on a monthly basis was £3,196.0m (2019: £2,016.2m).

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

	2020		2019	
	£m	**%**	£m	%
BoE[1]	**2,308.8**	**73**	1,957.9	69
Other banks	**367.4**	**12**	246.7	9
Central government	**-**	**-**	149.8	5
Securitisation	**471.2**	**15**	-	-
Supranationals	**-**	**-**	485.5	17
Total	**3,147.4**	**100**	2,839.9	100

[1] Balances with the BoE include £52.3m (2019: £41.7m) held in the cash ratio deposit.

The tables below show the geographical exposure of the Group's loans and advances to credit institutions and investment securities:

	2020		2019	
	£m	**%**	£m	%
United Kingdom	**3,137.5**	**100**	2,829.2	100
India	**9.9**	**-**	10.7	-
Total	**3,147.4**	**100**	2,839.9	100

The Group monitors exposure concentrations against a variety of criteria, including asset class, sector and geography. To avoid refinancing risks associated with any one counterparty, sector or geographical region, the Board has set appropriate limits.

Liquidity risk

Liquidity risk is the risk of having insufficient liquid assets to fulfil obligations as they become due or the cost of raising liquid funds becoming too expensive.

The Group's approach to managing liquidity risk is to maintain sufficient liquid resources to cover cash flow imbalances and fluctuations in funding in order to retain full public confidence in the solvency of the Group and to enable the Group to meet its financial obligations as they fall due. This is achieved through maintaining a prudent level of liquid assets and control of the growth of the business. The Group has established a call account with the BoE and has access to its contingent liquidity facilities.

Liquidity management is the responsibility of ALCO, with day-to-day management delegated to Treasury as detailed in the Treasury Policy. ALCO is responsible for setting limits over the level and maturity profile of wholesale funding and for monitoring the composition of the Group financial position. For each material class of financial liability a contractual maturity analysis is provided below.

The Group also monitors a range of triggers, defined in the contingency funding plan and recovery and resolution plan, which are designed to capture liquidity stresses in advance in order to allow sufficient time for management action to take effect. These are monitored daily by the Risk team, with breaches immediately reported to the CRO, CEO, CFO and the Group Treasurer.

46. Risk management (continued)

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

2020	Carrying amount £m	On demand £m	Less than 3 months £m	3 - 12 months £m	1 - 5 years £m	More than 5 years £m
Financial liability by type						
Amounts owed to retail depositors	16,603.1	3,810.7	2,733.5	6,517.5	3,541.4	-
Amounts owed to credit institutions	3,570.2	0.4	85.0	1,035.3	2,449.5	-
Amounts owed to other customers	72.9	26.9	7.5	38.5	-	-
Derivative liabilities	163.6	-	0.2	4.5	153.9	5.0
Debt securities in issue	421.9	-	-	-	421.9	-
Lease liabilities	11.7	-	0.2	0.7	3.6	7.2
Subordinated liabilities	10.5	-	0.2	0.1	10.2	-
Perpetual Subordinated Bonds	37.6	-	0.6	-	-	37.0
Total liabilities	20,891.5	3,838.0	2,827.2	7,596.6	6,580.5	49.2
Financial asset by type						
Cash in hand	0.5	0.5	-	-	-	-
Loans and advances to credit institutions	2,676.2	2,512.8	111.1	18.3	-	34.0
Investment securities	471.2	-	0.3	-	470.9	-
Loans and advances to customers	19,230.7	4.1	316.7	266.4	1,239.7	17,403.8
Derivative assets	12.3	-	1.3	3.7	7.1	0.2
Total assets	22,390.9	2,517.4	429.4	288.4	1,717.7	17,438.0
Cumulative liquidity gap		(1,320.6)	(3,718.4)	(11,026.6)	(15,889.4)	1,499.4

46. Risk management (continued)

2019	Carrying amount £m	On demand £m	Less than 3 months £m	3 - 12 months £m	1 - 5 years £m	More than 5 years £m
Financial liability by type						
Amounts owed to retail depositors	16,255.0	4,050.7	2,411.9	6,579.3	3,213.1	-
Amounts owed to credit institutions	3,068.8	10.2	232.0	193.5	2,633.1	-
Amounts owed to other customers	29.7	3.7	2.8	23.1	0.1	-
Derivative liabilities	92.8	-	-	2.3	83.4	7.1
Debt securities in issue	296.3	-	-	40.1	256.2	-
Lease liabilities	13.3	-	0.3	1.0	3.8	8.2
Subordinated liabilities	10.6	-	0.2	0.1	10.3	-
Perpetual Subordinated Bonds	37.6	-	0.6	-	-	37.0
Total liabilities	19,804.1	4,064.6	2,647.8	6,839.4	6,200.0	52.3
Financial asset by type						
Cash in hand	0.4	0.4	-	-	-	-
Loans and advances to credit institutions	2,204.6	2,077.1	85.8	-	-	41.7
Investment securities	635.3	-	49.9	116.4	469.0	-
Loans and advances to customers	18,446.8	4.5	290.7	524.1	1,174.8	16,452.7
Derivative assets	21.1	-	0.3	3.0	16.0	1.8
Total assets	21,308.2	2,082.0	426.7	643.5	1,659.8	16,496.2
Cumulative liquidity gap		(1,982.6)	(4,203.7)	(10,399.6)	(14,939.8)	1,504.1

46. Risk management (continued)

Liquidity risk – contractual cash flows

The following tables provide an analysis of the Group's gross contractual cash flows, derived using interest rates and contractual maturities at the reporting date and excluding impacts of early payments or non-payments:

2020	**Carrying amount £m**	**Gross inflow/ outflow £m**	**Up to 3 months £m**	**3 - 12 months £m**	**1 - 5 years £m**	**More than 5 years £m**
Financial liability by type						
Amounts owed to retail depositors	**16,603.1**	**16,644.9**	**7,302.6**	**3,610.5**	**4,121.0**	**1,610.8**
Amounts owed to credit institutions and other customers	**3,643.1**	**3,658.8**	**113.4**	**1,048.9**	**826.6**	**1,669.9**
Derivative liabilities	**163.6**	**157.7**	**11.0**	**41.4**	**103.8**	**1.5**
Debt securities in issue	**421.9**	**426.4**	**17.3**	**52.0**	**67.3**	**289.8**
Lease liabilities	**11.7**	**13.2**	**0.5**	**1.2**	**6.4**	**5.1**
Subordinated liabilities	**10.5**	**13.1**	**0.4**	**0.5**	**12.2**	**-**
Perpetual Subordinated Bonds	**37.6**	**39.8**	**0.7**	**0.3**	**1.8**	**37.0**
Total liabilities	**20,891.5**	**20,953.9**	**7,445.9**	**4,754.8**	**5,139.1**	**3,614.1**
Off-balance sheet loan commitments	**979.5**	**979.5**	**979.5**	**-**	**-**	**-**
Financial asset by type						
Cash in hand	**0.5**	**0.5**	**0.5**	**-**	**-**	**-**
Loans and advances to credit institutions	**2,676.2**	**2,676.2**	**2,623.9**	**18.3**	**-**	**34.0**
Investment securities	**471.2**	**494.9**	**1.2**	**4.0**	**483.8**	**5.9**
Loans and advances to customers	**19,230.7**	**36,156.7**	**373.4**	**1,132.4**	**4,960.5**	**29,690.4**
Derivative assets	**12.3**	**12.1**	**3.2**	**4.6**	**4.3**	**-**
Total assets	**22,390.9**	**39,340.4**	**3,002.2**	**1,159.3**	**5,448.6**	**29,730.3**

46. Risk management (continued)

2019	Carrying amount £m	Gross inflow/ outflow £m	Up to 3 months £m	3 - 12 months £m	1 - 5 years £m	More than 5 years £m
Financial liability by type						
Amounts owed to retail depositors	16,255.0	16,407.3	5,532.0	4,309.7	4,911.8	1,653.8
Amounts owed to credit institutions and other customers	3,098.5	3,133.3	255.1	229.5	2,648.7	-
Derivative liabilities	92.8	91.4	5.6	20.7	61.4	3.7
Debt securities in issue	296.3	315.3	14.4	82.9	218.0	-
Lease liabilities	13.3	22.4	0.7	1.4	17.1	3.2
Subordinated liabilities	10.6	14.2	0.4	0.5	13.3	-
Perpetual Subordinated Bonds	37.6	45.5	0.4	1.3	6.8	37.0
Total liabilities	19,804.1	20,029.4	5,808.6	4,646.0	7,877.1	1,697.7
Off-balance sheet loan commitments	1,210.9	1,210.9	1,210.9	-	-	-
Financial asset by type						
Cash in hand	0.4	0.4	0.4	-	-	-
Loans and advances to credit institutions	2,204.6	2,204.6	2,162.9	-	-	41.7
Investment securities	635.3	672.4	52.1	123.2	497.1	-
Loans and advances to customers	18,446.8	37,024.4	371.6	1,423.6	5,032.4	30,196.8
Derivative assets	21.1	23.4	2.4	5.7	15.1	0.2
Total assets	21,308.2	39,925.2	2,589.4	1,552.5	5,544.6	30,238.7

The actual repayment profile of retail deposits may differ from the analysis above due to the option of early withdrawal with a penalty.

Perpetual Subordinated Bonds have been shown to the next interest rate reset date.

The actual repayment profile of loans and advances to customers may differ from the analysis above since many mortgage loans are repaid prior to the contractual end date.

46. Risk management (continued)

Liquidity risk – asset encumbrance

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

	2020				
	Encumbered		**Unencumbered**		
	Pledged as collateral	**Other[1]**	**Available as collateral**	**Other[2]**	**Total**
	£m	**£m**	**£m**	**£m**	**£m**
Cash in hand	**-**	**-**	**0.5**	**-**	**0.5**
Loans and advances to credit institutions	**211.1**	**95.0**	**2,256.5**	**113.6**	**2,676.2**
Investment securities	**161.0**	**-**	**310.2**	**-**	**471.2**
Loans and advances to customers	**5,638.6**	**-**	**2,752.0**	**10,840.1**	**19,230.7**
Derivative assets	**-**	**-**	**-**	**12.3**	**12.3**
Non-financial assets	**-**	**-**	**-**	**263.6**	**263.6**
	6,010.7	**95.0**	**5,319.2**	**11,229.6**	**22,654.5**

	2019				
	Encumbered		Unencumbered		
	Pledged as collateral	Other[1]	Available as collateral	Other[2]	Total
	£m	£m	£m	£m	£m
Cash in hand	-	-	0.4	-	0.4
Loans and advances to credit institutions	110.4	41.7	1,916.2	136.3	2,204.6
Investment securities	173.0	-	462.3	-	635.3
Loans and advances to customers	4,922.4	40.4	1,939.6	11,544.4	18,446.8
Derivative assets	-	-	-	21.1	21.1
Non-financial assets	-	-	-	108.9	108.9
	5,205.8	82.1	4,318.5	11,810.7	21,417.1

[1] Represents assets that are not pledged but that the Group believes it is restricted from using to secure funding for legal or other reasons.
[2] Represents assets that are not restricted for use as collateral, but the Group treats as available as collateral once they are readily available to secure funding in the normal course of business.

46. Risk management (continued)

Liquidity risk – liquidity reserves

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

	2020	2019
	£m	£m
Unencumbered balances with central banks	**2,256.5**	1,916.2
Unencumbered cash and balances with other banks	**113.6**	136.3
Other cash and cash equivalents	**0.5**	0.4
Unencumbered investment securities	**310.2**	462.3
	2,680.8	2,515.2

Market risk

Market risk is the risk of an adverse change in the Group's income or the Group's net worth arising from movement in interest rates, exchange rates or other market prices. Market risk exists, to some extent, in all the Group's businesses. The Group recognises that the effective management of market risk is essential to the maintenance of stable earnings and preservation of shareholder value.

Interest rate risk

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

Currently interest rate risk is managed separately for OSB and CCFS due to the use of different treasury management and asset and liability management (ALM) systems. However, the methodology applied to the setting of risk appetites was aligned across the Group in 2020. Both Banks apply an economic value at risk approach as well as an earnings at risk approach for interest rate risk and basis risk. The interest rate sensitivity is impacted by behavioural assumptions used by the Group; the most significant of which are prepayments and reserve allocations. Expected prepayments are modelled based on historical analysis and current market rates. The reserve allocation strategy is approved by ALCO and set to reflect the current balance sheet and future plans.

46. Risk management (continued)

Economic value at risk is measured using the impact of six different internally derived interest rate scenarios. The internal scenarios are defined by ALCO and are based on three 'shapes' of curve movement (shift, twist and flex). Historical data is used to calibrate the severity of the scenarios to the Group's risk appetite. The Board has set limits on interest rate risk exposure of 2.25% and 1% of CET1 for OSB and CCFS, respectively. The table below shows the maximum decreases to net interest income under these scenarios after taking into account the derivatives:

	2020	2019
	£m	£m
OSB	**5.6**	4.3
CCFS	**0.7**	3.7
Group	**6.3**	8.0

Exposure for earnings at risk is measured by the impact of a +/-50bps parallel shift in interest rates on the expected profitability of the Group in the next 12 months. The risk appetite limit is 2% of full year net interest income (NII). The table below shows the maximum decreases after taking into account the derivatives:

	2020	2019
	£m	£m
OSB[1]	**(0.1)**	2.5
CCFS	**2.2**	0.6
Group	**2.1**	3.1

[1] Due to product floors earnings increases in both the +50bps and -50bps scenarios.

The Group is also exposed to basis risk. Basis risk is the risk of loss from an adverse divergence in interest rates. It arises where assets and liabilities reprice from different variable rate indices. These indices may be market rates (e.g. bank base rate, LIBOR or SONIA) or administered (e.g. the Group's SVR, other discretionary variable rates, or that received on call accounts with other banks).

The Group measures basis risk using the impact of five scenarios on net interest income over a one-year period including movements such as diverging base, LIBOR and SONIA rates. Historical data is used to calibrate the severity of the scenarios to the Group's risk appetite. The Board has set a limit on basis risk exposure of 4% of full year net interest income. The table below shows the maximum decreases to net interest income at 31 December 2020 and 2019:

	2020	2019
	£m	£m
OSB	**5.4**	9.3
CCFS	**8.0**	9.7
Group	**13.4**	19.0

Foreign exchange rate risk

The Group has limited exposure to foreign exchange risk in respect of its Indian operations. A 5% increase in exchange rates would result in a £0.4m (2019: £0.4m) effect in profit or loss and £0.5m (2019: £0.4m) in equity.

46. Risk management (continued)

Structured entities

The structured entities consolidated within the Group at 31 December 2020 were Canterbury Finance No.2 plc, Canterbury Finance No.3 plc and CMF 2020-1 plc. These entities hold legal title to a pool of mortgages which are used as a security for issued debt. The transfer of mortgages fails derecognition criteria because the Group retained the subordinated notes and residual certificates issued and as such did not transfer substantially the risks and rewards of ownership of the securitised mortgages. Therefore, the Group is exposed to credit, interest rate and other risks on the securitised mortgages.

Cash flows generated from the structured entities are ring-fenced and are used to pay interest and principal of the issued debt securities in a waterfall order according to the seniority of the bonds. The structured entities are self-funded and the Group is not contractually or constructively obliged to provide further liquidity or financial support.

The structured entities consolidated within the Group at 31 December 2019 were Canterbury Finance No.1 plc and Precise Mortgage Funding 2015-1 plc.

Unconsolidated structured entities

Structured entities, which were sponsored by the Group include Precise Mortgage Funding 2015-2B plc, Precise Mortgage Funding 2017-1B plc, Charter Mortgage Funding 2017-1 plc, Precise Mortgage Funding 2018-1B plc, Charter Mortgage Funding 2018-1 plc, Precise Mortgage Funding 2019-1B plc, Canterbury Finance No.1 plc and Precise Mortgage Funding 2020-1B plc.

These structured entities are not consolidated by the Group, as the Group does not control the entities and is not exposed to the risks and rewards of ownership from the securitised mortgages. The Group has no contractual arrangements with the unconsolidated structured entities other than the investments disclosed in note 20 and servicing the structured entities' mortgage portfolios.

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

During 2020 the Group received £5.0m interest income (2019: £2.7m) and £4.6m servicing income (2019: £1.1m) from unconsolidated structured entities.

47. Financial instruments and fair values

i. Financial assets and financial liabilities

The following tables summarise the classification and carrying value of the Group's financial assets and financial liabilities:

		2020			
	Note	Fair value through profit or loss £m	FVOCI £m	Amortised cost £m	Total carrying amount £m
Assets					
Cash in hand		-	-	0.5	0.5
Loans and advances to credit institutions	19	-	-	2,676.2	2,676.2
Investment securities	20	-	285.0	186.2	471.2
Loans and advances to customers	21	19.1	-	19,211.6	19,230.7
Derivative assets	26	12.3	-	-	12.3
		31.4	285.0	22,074.5	22,390.9
Liabilities					
Amounts owed to retail depositors	34	-	-	16,603.1	16,603.1
Amounts owed to credit institutions	33	-	-	3,570.2	3,570.2
Amounts owed to other customers	35	-	-	72.9	72.9
Debt securities in issue	36	-	-	421.9	421.9
Derivative liabilities	26	163.6	-	-	163.6
Subordinated liabilities	40	-	-	10.5	10.5
Perpetual Subordinated Bonds	41	-	-	37.6	37.6
		163.6	-	20,716.2	20,879.8

47. Financial instruments and fair values (continued)

		2019			
	Note	Fair value through profit or loss £m	FVOCI £m	Amortised cost £m	Total carrying amount £m
Assets					
Cash in hand		-	-	0.4	0.4
Loans and advances to credit institutions	19	-	-	2,204.6	2,204.6
Investment securities	20	-	508.7	126.6	635.3
Loans and advances to customers	21	22.1	-	18,424.7	18,446.8
Derivative assets	26	21.1	-	-	21.1
		43.2	508.7	20,756.3	21,308.2
Liabilities					
Amounts owed to retail depositors	34	-	-	16,255.0	16,255.0
Amounts owed to credit institutions	33	-	-	3,068.8	3,068.8
Amounts owed to other customers	35	-	-	29.7	29.7
Debt securities in issue	36	-	-	296.3	296.3
Derivative liabilities	26	92.8	-	-	92.8
Subordinated liabilities	40	-	-	10.6	10.6
Perpetual Subordinated Bonds	41	-	-	37.6	37.6
		92.8	-	19,698.0	19,790.8

47. Financial instruments and fair values (continued)

The Group has no financial assets nor financial liabilities classified as held for trading.

ii. Fair values

The following tables summarise the carrying value and estimated fair value of financial instruments not measured at fair value in the Statement of Financial Position:

	2020		2019	
	Carrying value £m	**Estimated fair value £m**	Carrying value £m	Estimated fair value £m
Assets				
Cash in hand	**0.5**	**0.5**	0.4	0.4
Loans and advances to credit institutions	**2,676.2**	**2,676.2**	2,204.6	2,204.6
Investment securities	**186.2**	**186.6**	126.6	126.6
Loans and advances to customers	**19,211.6**	**19,352.0**	18,424.7	18,654.2
	22,074.5	**22,215.3**	20,756.3	20,985.8
Liabilities				
Amounts owed to retail depositors	**16,603.1**	**16,666.1**	16,255.0	16,259.7
Amounts owed to credit institutions	**3,570.2**	**3,570.2**	3,068.8	3,068.8
Amounts owed to other customers	**72.9**	**72.9**	29.7	29.7
Debt securities in issue	**421.9**	**421.9**	296.3	296.3
Subordinated liabilities	**10.5**	**10.7**	10.6	10.7
Perpetual Subordinated Bonds	**37.6**	**32.3**	37.6	33.2
	20,716.2	**20,774.1**	19,698.0	19,698.4

The fair values in these tables are estimated using the valuation techniques below. The estimated fair value is stated as at 31 December and may be significantly different from the amounts which will actually be paid on the maturity or settlement dates of each financial instrument.

Cash in hand
This represents physical cash across the Group's branch network where fair value is considered to be equal to carrying value.

Loans and advances to credit institutions
This mainly represents the Group's working capital current accounts and call accounts with central governments and other banks with an original maturity of less than three months. Fair value is not considered to be materially different to carrying value.

Loans and advances to customers
This mainly represents secured mortgage lending to customers. The fair value of fixed rate mortgages has been estimated by discounting future cash flows at current market rates of interest. Future cash flows include the impact of expected credit losses. The interest rate on variable rate mortgages is considered to be equal to current market product rates and as such fair value is estimated to be equal to carrying value.

Amounts owed to retail depositors
The fair value of fixed rate retail deposits has been estimated by discounting future cash flows at current market rates of interest. Retail deposits at variable rates and deposits payable on demand are considered to be at current market rates and as such fair value is estimated to be equal to carrying value.

47. Financial instruments and fair values (continued)

Amounts owed to credit institutions
This mainly represents amounts drawn down under the BoE TFS, TFSME and ILTR, warehouse funding and commercial repos. Fair value is considered to be equal to carrying value.

Amounts owed to other customers
This represents fixed rate saving products to corporations and local authorities with original maturities greater than three months. The fair value is estimated by discounting future cash flows at current market rates of interest.

Debt securities in issue
While the Group's debt securities in issue are listed, the quoted prices for an individual note may not be indicative of the fair value of the issue as a whole, due to the specialised nature of the market in such instruments and the limited number of investors participating in it. Fair value is not considered to be materially different to carrying value.

Subordinated liabilities and Perpetual Subordinated Bonds
The fair value of subordinated liabilities is estimated by using quoted market prices of similar instruments at the reporting date. The PSBs are listed on the London Stock Exchange with fair value being the quoted market price at the reporting date.

iii. Fair value classification

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

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

2019	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	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

47. Financial instruments and fair values (continued)

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.

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

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

47. Financial instruments and fair values (continued)

2019	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
	20,756.3	20,612.4	126.6	5,614.1	15,245.1	20,985.8
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
	19,698.0	19,569.2	33.2	7,182.9	12,482.3	19,698.4

48. Pension scheme

Defined contribution scheme

The amount charged to profit or loss in respect of contributions to the Group's defined contribution and stakeholder pension arrangements is the contribution payable in the period. The total pension cost in the year amounted to £4.3m (2019: £3.0m).

49. Operating segments

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

- OSB
- CCFS

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

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

2020	OSB £m	CCFS £m	Combination £m	Total £m
Balances at the reporting date				
Gross loans and advances to customers	**11,131.4**	**8,001.2**	**209.1**	**19,341.7**
Expected credit losses	**(83.6)**	**(28.2)**	**0.8**	**(111.0)**
Loans and advances to customers	**11,047.8**	**7,973.0**	**209.9**	**19,230.7**
Capital expenditure	**5.3**	**2.4**	**-**	**7.7**
Depreciation and amortisation	**7.1**	**2.4**	**4.3**	**13.8**
Profit or loss for the year				
Net interest income/(expense)	**332.8**	**201.2**	**(61.8)**	**472.2**
Other income	**18.8**	**17.4**	**0.2**	**36.4**
Total income/(expense)	**351.6**	**218.6**	**(61.6)**	**508.6**
Administrative expenses	**(95.2)**	**(57.5)**	**(4.3)**	**(157.0)**
Provisions	**-**	**(0.1)**	**-**	**(0.1)**
Impairment of financial assets	**(50.7)**	**(20.5)**	**0.2**	**(71.0)**
Impairment of intangible assets	**-**	**-**	**(7.0)**	**(7.0)**
Integration costs	**(7.5)**	**(2.3)**	**-**	**(9.8)**
Exceptional items	**(3.3)**	**-**	**-**	**(3.3)**
Profit/(loss) before taxation	**194.9**	**138.2**	**(72.7)**	**260.4**
Taxation	**(46.9)**	**(32.0)**	**14.8**	**(64.1)**
Profit/(loss) for the year	**148.0**	**106.2**	**(57.9)**	**196.3**

49. Operating segments (continued)

2019	OSB £m	CCFS £m	Combination £m	Total £m
Balances at the reporting date				
Gross loans and advances to customers	10,820.6	7,374.4	294.7	18,489.7
Expected credit losses	(35.6)	(8.0)	0.7	(42.9)
Loans and advances to customers	10,785.0	7,366.4	295.4	18,446.8
Capital expenditure	10.2	1.1	-	11.3
Depreciation and amortisation	6.3	1.3	0.6	8.2
Profit or loss for the year				
Net interest income/(expense)	316.2	50.1	(21.6)	344.7
Other (expense)/income	(12.9)	8.3	3.3	(1.3)
Total income/(expense)	303.3	58.4	(18.3)	343.4
Administrative expenses	(92.3)	(15.1)	(1.3)	(108.7)
Provisions	0.1	(0.1)	-	-
Impairment of financial assets	(11.9)	(0.1)	(3.6)	(15.6)
Gain on Combination with CCFS	-	-	10.8	10.8
Integration costs	(2.5)	(2.7)	-	(5.2)
Exceptional items	(15.6)	-	-	(15.6)
Profit/(loss) before taxation	181.1	40.4	(12.4)	209.1
Taxation	(47.1)	(10.2)	7.0	(50.3)
Profit/(loss) for the year	134.0	30.2	(5.4)	158.8

50. Country by country reporting

Country by Country Reporting (CBCR) was introduced through Article 89 of CRD IV, aimed at the banking and capital markets industry.

The name, nature of activities and geographic location of the Group's companies are presented below:

Jurisdiction	Country	Name	Activities
UK[1]	England	OSB GROUP PLC	Commercial banking
		OneSavings Bank plc	
		5D Finance Limited	
		Broadlands Finance Limited	
		Charter Court Financial Services Group Plc	
		Charter Court Financial Services Limited	
		Charter Mortgages Limited	
		Easioption Limited	
		Exact Mortgage Experts Limited	
		Guernsey Home Loans Limited	
		Heritable Development Finance Limited	
		Inter Bay Financial I Limited	
		Inter Bay Financial II Limited	
		Interbay Asset Finance Limited	
		Interbay Funding, Ltd	
		Interbay Group Holdings Limited	
		InterBay Holdings Ltd	
		Interbay ML, Ltd	
		Jersey Home Loans Limited	
		Prestige Finance Limited	
		Reliance Property Loans Limited	
		Rochester Mortgages Limited	
	Guernsey	Guernsey Home Loans Limited	
	Jersey	Jersey Home Loans Limited	

[1] Guernsey Home Loans Limited (Guernsey) and Jersey Home Loans Limited (Jersey) are incorporated in Guernsey and Jersey respectively but are considered to be located in the UK as they are managed and controlled in the UK with no permanent establishments in Guernsey or Jersey.

50. Country by country reporting (continued)

Jurisdiction	Country	Name	Activities
UK	England	Canterbury Finance No. 2 plc	Special purpose vehicle
		Canterbury Finance No. 3 plc	
		CMF 2020-1 plc	
		CML Warehouse Number 1 Limited	
		CML Warehouse Number 2 Limited	
		Precise Mortgage Funding 2014-1 plc	
		Precise Mortgage Funding 2014-2 plc	
		Precise Mortgage Funding 2015-1 plc	
		Precise Mortgage Funding 2015-3R plc	
India	India	OSB India Private Limited	Back office processing

Other disclosures required by the CBCR directive are provided below:

2020	**UK**	**India**	**Consolidation[2]**	**Total**
Average number of employees	**1,330**	**486**	**-**	**1,816**
Turnover[1], £m	**508.3**	**9.4**	**(9.1)**	**508.6**
Profit/(loss) before tax, £m	**260.1**	**1.3**	**(1.0)**	**260.4**
Corporation tax paid, £m	**128.6**	**0.2**	**-**	**128.8**

2019	UK	India	Consolidation[2]	Total
Average number of employees	1,335	454	-	1,789
Turnover[1], £m	343.1	8.9	(8.6)	343.4
Profit/(loss) before tax, £m	208.8	1.6	(1.3)	209.1
Corporation tax paid, £m	52.6	0.4	-	53.0

[1] Turnover represents total income before impairment losses, regulatory provisions and operating costs, but after net interest, net commissions and fees, gains and losses on financial instruments and external servicing fees.
[2] Relates to a management fee from Indian subsidiaries to OneSavings Bank plc for providing back office processing.

50. Country by country reporting (continued)

The tables below reconcile tax charged and tax paid during the year.

2020	**UK £m**	**India £m**	**Total £m**
Tax charge	**63.8**	**0.3**	**64.1**
Effects of:			
Other timing differences	**15.7**	**(0.1)**	**15.6**
Tax outside of profit or loss	**0.2**	**-**	**0.2**
Prior year tax paid during the year	**41.8**	**-**	**41.8**
Tax in relation to future periods prepaid	**7.1**	**-**	**7.1**
Tax paid	**128.6**	**0.2**	**128.8**

2019	UK £m	India £m	Total £m
Tax charge	49.8	0.5	50.3
Effects of:			
Other timing differences	4.3	(0.1)	4.2
Tax outside of profit or loss	(0.9)	-	(0.9)
Prior year tax paid during the year	22.1	-	22.1
Current year tax to be paid after the reporting date	(22.7)	-	(22.7)
Tax paid	52.6	0.4	53.0

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

	2020 £m	2019 £m
Adjustments for non-cash items:		
Depreciation and amortisation	**13.8**	8.2
Interest on investment securities	**(7.5)**	-
Interest on subordinated liabilities	**0.8**	0.7
Interest on Perpetual Subordinated Bonds	**1.7**	1.8
Interest on securitised debt	**3.4**	0.8
Interest on financing debt	**10.9**	2.4
Impairment charge on loans	**71.0**	15.6
Impairment on intangible assets acquired on Combination	**7.0**	-
(Gains)/losses on sale of financial instruments	**(20.0)**	0.1
Provisions	**0.1**	-
Interest on lease liabilities	**0.3**	0.1
Fair value (gains)/losses on financial instruments	**(7.4)**	3.3
Share-based payments	**5.1**	4.0
Gain on Combination with CCFS	**-**	(10.8)
Total adjustments for non-cash items	**79.2**	26.2
Increase in loans and advances to credit institutions	**(154.0)**	(36.8)
Increase in loans to customers	**(1,705.0)**	(2,230.8)
Increase in retail deposits	**348.1**	1,637.8
Net decrease/(increase) in other assets	**1.3**	(4.8)
Net decrease in derivatives and hedged items	**(64.3)**	(20.1)
Net increase/(decrease) in other customers deposits	**43.2**	(19.2)
Net decrease in other liabilities	**(6.5)**	(37.3)
Exchange differences on working capital	**-**	(0.6)
Total changes in operating assets and liabilities	**(1,537.2)**	(711.8)

52. Events after the reporting date

On 11 January 2021, OSB GROUP PLC published a Circular in relation to the Capital Reduction, which subject to shareholder approval as well as certain other conditions set out in the Circular, was undertaken to create the required distributable reserves to enable the Company to pay dividends and other distributions to shareholders in the future. The Circular stated that there would be no change to the total number of shares or the total capital in the Company or the Group's capital ratios as a result of the Capital Reduction. On 26 February 2021, the Capital reduction became effective with OSB GROUP PLC reducing the nominal value of 447,312,780 shares from three hundred and four (304) pence each to one (1) penny each. Interim accounts as at 28 February 2021 have been prepared and delivered to Companies House as a requirement to support the recommended distribution of a dividend of £64.9m on 2 June 2021 by OSB GROUP PLC.

On 26 February 2021, the Group completed the purchase of a c. £55m portfolio of UK residential mortgages from a third party. The portfolio was acquired at a discount to current balances and will continue to be serviced by Exact, the Group's in-house servicer.

On 17 March 2021, the Group issued a trading update stating that it had become aware of potential fraudulent activity by a third party in relation to one of the funding lines provided by the Group, secured against lease receivables and the underlying hard assets. The Group had an outstanding receivable against this funding line of £28.6m as at 31 December 2020. Following an initial report from the Administrator to the third-party company, appointed by the Group, the Group concluded that conditions existed as at the end of the reporting period which make this an adjusting post balance sheet event, with an impairment of £20m recognised in 2020.

53. Controlling party

As at 31 December 2020 there was no controlling party of OSB GROUP PLC.

54. Capital management

The Group's capital management approach is to provide a sufficient capital base to cover business risks and support future business development. The Group remained, throughout the year, compliant with its capital requirements as set out by the PRA, the Group's primary prudential supervisor.

The Group manages and reports its capital at a number of levels including Group level and for the two regulated banking entities within the Group, on an individual consolidation and on an individual basis. The capital position of the two regulated banking entities are not separately disclosed.

The Group’s capital management is based on the three ‘pillars’ of Basel II.

Under Pillar 1, the Group calculates its minimum capital requirements based on 8% of risk-weighted assets.

Under Pillar 2, the Group, and its regulated entities, complete an annual self-assessment of risks known as the Internal Capital Adequacy Assessment Process (ICAAP). The PRA applies additional requirements to this assessment amount to cover risks under Pillar 2 to generate a Total Capital Requirement. Further, the PRA sets capital buffers and the Group applies for imposition of the requirements and modification of rules incorporating the capital buffers and Pillar 2 pursuant to the Financial Services and Markets Act 2000.

Pillar 3 requires firms to publish a set of disclosures which allow market participants to assess information on the Group’s capital, risk exposures and risk assessment process. The Group’s Pillar 3 disclosures can be found on the Group’s website.

Basel III came into force through CRD IV. Basel III complements and enhances Basel I and II with additional safety measures. Basel III changed definitions of regulatory capital, introduced new capital buffers, a non-risk adjusted leverage ratio, liquidity ratios and modified the way regulatory capital is calculated.

The ultimate responsibility for capital adequacy rests with the Board of Directors. The Group's ALCO is responsible for the management of the capital process within the risk appetite defined by the Board, including approving policy, overseeing internal controls and setting internal limits over capital ratios.

The Group actively manages its capital position and reports this on a regular basis to the Board and senior management via the ALCO and other governance committees. Capital requirements are included within budgets, forecasts and strategic plans with initiatives being executed against this plan.

54. Capital management (continued)

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

	(Unaudited) 2020 £m	(Unaudited) 2019 £m
Common Equity Tier 1 capital		
Called up share capital	**1,359.8**	4.5
Share premium, capital contribution and share-based payment reserve	**7.8**	876.3
Retained earnings	**1,608.6**	553.2
Transfer reserve	**(1,355.3)**	(12.8)
Other reserves	**(4.0)**	(4.2)
Total equity attributable to ordinary shareholders	**1,616.9**	1,417.0
Foreseeable dividends	**(64.9)**	(49.9)
IFRS 9 transitional adjustment[1]	**4.9**	5.3
COVID-19 ECL transitional adjustment[2]	**31.0**	-
Deductions from Common Equity Tier 1 capital		
Prudent valuation adjustment[3]	**(0.4)**	(0.5)
Intangible assets[4]	**(20.6)**	(31.4)
Deferred tax asset	**(0.9)**	(0.9)
Common Equity Tier 1 capital	**1,566.0**	1,339.6
Additional Tier 1 capital		
Non-controlling interest securities[5]	**-**	60.0
Total Tier 1 capital	**1,566.0**	1,399.6
Tier 2 capital		
Subordinated debt and PSBs[5]	**-**	47.4
Deductions from Tier 2 capital[5]	**-**	(0.7)
Total Tier 2 capital	**-**	46.7
Total regulatory capital	**1,566.0**	1,446.3
Risk-weighted assets (unaudited)	**8,565.7**	8,383.0

[1] The regulatory capital includes a £4.9m add-back under IFRS 9 transitional arrangements. This represents 75% of the IFRS 9 transitional adjustment booked directly to retained earnings of £6.5m. The full impact of IFRS 9, if applied, would reduce total regulatory capital to £1,561.1m.

[2] The COVID-19 ECL transitional adjustment relates to the Group's increase in Stage 1 and Stage 2 ECL following the impacts of COVID-19 and for which transitional rules are being adopted for regulatory capital purposes.

[3] The Group has adopted the simplified approach under the Prudent Valuation rules, recognising a deduction equal to 0.1% of fair value assets and liabilities after adjusting for hedge accounting.

[4] All software assets continue to be fully deducted from capital in light of the pending intention of the PRA to consult on the CRR 'Quick Fix' package in this area.

[5] Non-controlling interest securities, subordinated debt and PSBs that qualified as regulatory capital in prior years no longer do so at the Group level since the insertion of the holding company, OSB GROUP PLC.

54. Capital management (continued)

The movement in CET1 during the year was as follows:

	(Unaudited) 2020 £m	(Unaudited) 2019 £m
At 1 January	**1,339.6**	561.6
Movement in retained earnings	**1,055.4**	113.6
Share premium from Sharesave Scheme vesting	**2.6**	0.3
Shares issued on Combination with CCFS	**-**	707.1
Movement in other reserves	**(858.1)**	(2.7)
Movement in foreseeable dividends	**(15.0)**	(24.7)
Movement in solo consolidation adjustment	**-**	5.4
IFRS 9 transitional adjustment	**(0.4)**	2.6
COVID-19 ECL transitional adjustment	**31.0**	-
Movement in prudent valuation adjustment	**0.1**	(0.4)
Net decrease/(increase) in intangible assets	**10.8**	(23.7)
Movement in deferred tax asset for carried forward losses	**-**	0.5
At 31 December	**1,566.0**	1,339.6

OSB GROUP PLC

Company Statement of Financial Position

As at 31 December 2020

	Note	**2020 £m**	2019 £m
Assets			
Investments in subsidiaries and intercompany loans	2	**1,425.9**	-
Total assets		**1,425.9**	-
Equity			
Share capital	3	**1,359.8**	-
Retained earnings		**4.0**	-
Other reserves		**62.1**	-
		1,425.9	-
Total equity		**1,425.9**	-

The profit after tax for the year ended 31 December 2020 of OSB GROUP PLC was £0.1m (2019: £nil). As permitted by section 408 of the Companies Act 2006, no separate Statement of Comprehensive Income is presented in respect of the Company.

The Company statement of financial position as at 31 December 2019 comprised Debtors £12,501, Called-up share capital not paid £37,499, 2 Ordinary shares of £1.00 each and Redeemable preference shares of £1.00 each £49,998.

The notes below form an integral part of the Company financial statements.

The financial statements were approved by the Board of Directors on 8 April 2021 and were signed on its behalf by:

Andy Golding
Chief Executive Officer

April Talintyre
Chief Financial Officer

Company number: 11976839

OSB GROUP PLC

Company Statement of Changes in Equity

For the year ended 31 December 2020

	Share capital £m	Transfer reserve £m	Own shares £m	Share-based payment reserve £m	Retained earnings £m	Total £m
Company incorporation on 22nd May 2019	-	-	-	-	-	-
Result for the period	-	-	-	-	-	-
At 31 December 2019	-	-	-	-	-	-
Profit for the year	**-**	**-**	**-**	**-**	**0.1**	**0.1**
Share-based payments	**-**	**-**	**-**	**0.4**	**-**	**0.4**
Own shares[1]	**-**	**-**	**(4.0)**	**-**	**3.9**	**(0.1)**
Shares issued on 27 November 2020	**1,359.8**	**65.7**	**-**	**-**	**-**	**1,425.5**
At 31 December 2020	**1,359.8**	**65.7**	**(4.0)**	**0.4**	**4.0**	**1,425.9**

[1] The Company has adopted look-through accounting and consolidated the Employee Benefit Trust effective from 27 November 2020. The Company initially recognised £6.1m of own shares, with £3.9m recognised in retained earnings relating to gifts made to the EBT, and £2.2m in intercompany loans, relating to a loan from OSB to the EBT which funded the acquisition of shares prior to 27 November 2020. As at 31 December 2020, the EBT had £0.1m of outstanding intercompany borrowing.

OSB GROUP PLC
Company Statement of Cash Flows
For the year ended 31 December 2020

	Note	2020 £m	2019 £m
Cash flows from operating activities			
Profit before taxation		**0.1**	**-**
Change in intercompany loans		**(2.2)**	**-**
Cash used in operating activities		**(2.1)**	**-**
Cash flows from financing activities			
Proceeds from issuance of shares under employee SAYE scheme		**2.1**	**-**
Cash generated from financing activities		**2.1**	**-**
Net increase in cash and cash equivalents		**-**	**-**
Cash and cash equivalents at the beginning of the year		**-**	-
Cash and cash equivalents at the end of the year		**-**	-
Movement in cash and cash equivalents		**-**	**-**

1. Basis of preparation

The separate financial statements of the Company are presented as required by the Companies Act 2006. As permitted by that Act, the separate financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (EU), and are presented in pounds sterling.

The financial statements have been prepared on the historical cost basis. The principal accounting policies adopted are the same as those set out in note 2 to the Consolidated financial statements.

The Company has adopted the predecessor value method with an investment in subsidiary of OSBG being the book value of the balance sheet in OSB at the date of insertion.

There are no critical judgements and estimates that apply to the Company.

2. Investment in subsidiary

The Company has one direct subsidiary, OneSavings Bank plc (OSB), which is carried at the net book value on the date the Company was inserted as the holding company of the Group.

	Shares in subsidiary undertakings £m	Intercompany loans payable £m
At 1 January 2020	-	-
Net book value of OSB on 27 November 2020	1,425.5	-
Additions	0.4	(2.2)
Repayments	-	2.2
At 31 December 2020	**1,425.9**	**-**

The Company holds ordinary shares in its direct subsidiary.

2. Investment in subsidiary (continued)

A list of the Company's direct and indirect subsidiaries as at 31 December 2020 is shown below:

Direct investments	Activity	Registered office	Ownership
OneSavings Bank plc	Mortgage lending and deposit taking	Reliance House	**100%**
Indirect investments	**Activity**	**Registered office**	**Ownership**
5D Finance Limited	Mortgage servicer	Reliance House	**100%**
Broadlands Finance Limited	Mortgage administration services	Charter Court	**100%**
Canterbury Finance No.2 plc	Special purpose vehicle	Churchill Place	**-**
Canterbury Finance No.3 plc	Special purpose vehicle	Churchill Place	**-**
Charter Court Financial Services Group Plc	Holding company	Charter Court	**100%**
Charter Court Financial Services Limited	Mortgage lending and deposit taking	Charter Court	**100%**
Charter Mortgages Limited	Mortgage administration and analytical services	Charter Court	**100%**
CMF 2020-1 plc	Special purpose vehicle	Churchill Place	**-**
CML Warehouse Number 1 Limited	Special purpose vehicle	Bartholomew	**-**
CML Warehouse Number 2 Limited	Special purpose vehicle	Churchill Place	**-**
Easioption Limited	Holding company	Reliance House	**100%**
Exact Mortgage Experts Limited	Group service company	Charter Court	**100%**
Guernsey Home Loans Limited	Mortgage provider	Reliance House	**100%**
Guernsey Home Loans Limited (Guernsey)	Mortgage provider	Guernsey	**100%**
Heritable Development Finance Limited	Mortgage originator and servicer	Reliance House	**100%**
Inter Bay Financial I Limited	Holding company	Reliance House	**100%**
Inter Bay Financial II Limited	Holding company	Reliance House	**100%**
InterBay Asset Finance Limited	Asset finance and mortgage provider	Reliance House	**100%**
Interbay Funding, Ltd	Mortgage servicer	Reliance House	**100%**
Interbay Group Holdings Limited	Holding company	Reliance House	**100%**
Interbay Holdings Ltd	Holding company	Reliance House	**100%**
Interbay ML, Ltd	Mortgage provider	Reliance House	**100%**
Jersey Home Loans Limited	Mortgage provider	Reliance House	**100%**
Jersey Home Loans Limited (Jersey)	Mortgage provider	Jersey	**100%**
OSB India Private Limited	Back office processing	India	**100%**
Precise Mortgage Funding 2014-1 plc	Special purpose vehicle	Great St. Helen's	**-**
Precise Mortgage Funding 2014-2 plc	Special purpose vehicle	Great St. Helen's	**-**
Precise Mortgage Funding 2015-1 plc	Special purpose vehicle	Great St. Helen's	**-**
Precise Mortgage Funding 2015-3R plc	Special purpose vehicle	Great St. Helen's	**-**
Prestige Finance Limited	Mortgage originator and servicer	Reliance House	**100%**
Reliance Property Loans Limited	Mortgage provider	Reliance House	**100%**
Rochester Mortgages Limited	Mortgage provider	Reliance House	**100%**

All investments are in the ordinary share capital of each subsidiary.

2. Investment in subsidiary (continued)

OSB India Private Limited is owned 70.28% by OneSavings Bank plc, 29.72% by Easioption Limited and 0.001% by Reliance Property Loans Limited.

Special purpose vehicles which the Group controls are treated as subsidiaries for accounting purposes.

All of the entities listed above have been consolidated into the Group's consolidated financial statements.

The investment is reviewed annually for indicators of impairment. If impairment indicators are identified an impairment review of the investment is conducted which will quantify if the carry value is in excess of the recoverable amount or an impairment has occurred. In determining recoverable amount the fair value less costs to sell and the value in use are assessed, with the value in use being an estimate of the present value of future cashflows generated by the investment.

The following are the registered offices of the subsidiaries:

Bartholomew - 1 Bartholomew Lane, London, England, EC2N 2AX
Charter Court - 2 Charter Court, Broadlands, Wolverhampton, WV10 6TD
Churchill Place – 5 Churchill Place, 10th Floor, London, E14 5HU
Great St. Helen's - 35 Great St. Helen's, London, EC3A 6AP
Guernsey – 1st Floor, Tudor House, Le Bordage, St Peter Port, Guernsey, GY1 1DB
India - Salarpuria Magnificia No. 78, 9th & 10th floor, Old Madras Road, Bangalore, India, 560016.
Jersey - 26 New Street, St Helier, Jersey, JE2 3RA
Reliance House – Reliance House, Sun Pier, Chatham, Kent, ME4 4ET

During the year the Company received a gift of £0.1m from OSB.

3. Share capital

	Ordinary shares, number	**Nominal value £m**
Incorporation on 2 May 2019, £1 nominal value shares	2	-
At 31 December 2019	2	-
Conversion of £1 ordinary shares to £0.01 ordinary shares	**198**	**-**
Issuance of 408 £0.01 ordinary shares	**408**	**-**
Conversion of £0.01 ordinary shares to £3.04 ordinary shares	**(606)**	**-**
Redemption of preference shares	**-**	**-**
Issuance of new £3.04 ordinary share on Insertion	**447,304,196**	**1,359.8**
Shares issued under employee share plans	**8,582**	**-**
At 31 December 2020	**447,312,780**	**1,359.8**

All ordinary shares issued in the current and prior year were fully paid.

4. Directors and employees

The Company has no employees. OneSavings Bank plc, provides the Company with employee services and bears the costs associated with the Directors of the Company. These costs are not recharged to the Company. The Company will continue to have no employees.

OSB GROUP PLC
Appendix

Alternative performance measures

The Group used alternative performance measures (APMs) when presenting underlying results in 2020 and pro forma underlying results in 2019 as Management believe they provide a more consistent basis for comparing the Group's performance between financial periods. Underlying results exclude exceptional items, integration costs and other acquisition-related items. Pro forma underlying results assume that the Combination with CCFS occurred on 1 January 2019 and include 12 months of results from CCFS. They also exclude exceptional items, integration costs and other acquisition-related items.

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

Below we provide definitions and the calculation methodology of ratios used both on a statutory basis for 2020 and 2019 and underlying basis for 2020 and pro forma underlying basis for 2019.

Key performance indicators

Gross new lending
Gross new lending is defined as gross new organic lending before redemptions.

	2020 £m	2019 £m
Gross new lending - statutory	3,767.0	4,141.0
Gross new lending - CCFS 2019 pre-acquisition	-	2,355.0
Gross new lending - underlying and pro forma underlying	3,767.0	6,496.0

Net interest margin (NIM)
NIM is defined as net interest income as a percentage of a 13 point average[1] of interest earning assets (cash, investment securities, loans and advances to customers and credit institutions). It represents the margin earned on loans and advances and liquid assets after swap expense/income and cost of funds.

	2020 £m	2019 £m
Net interest income – statutory A	472.2	344.7
CCFS 2019 pre-acquisition results	-	152.1
Add back: acquisition-related items[2]	61.8	21.6
Net interest income – underlying and pro forma underlying B	534.0	518.4
13 point average of interest earning assets – statutory C	21,883.4	14,163.5
13 point average of interest earning assets – underlying and pro forma underlying D	21,663.2	19,484.3
NIM statutory equals A/C	2.16%	2.43%
NIM underlying and pro forma underlying equals B/D	2.47%	2.66%

OSB GROUP PLC
Appendix

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.

	2020 £m	2019 £m
Administrative expenses – statutory A	157.0	108.7
CCFS 2019 pre-acquisition results	-	57.7
Add back: acquisition-related items[2]	(4.3)	(1.3)
Administrative expenses – underlying and pro forma underlying B	152.7	165.1
Total income – statutory C	508.6	343.4
CCFS 2019 pre-acquisition results	-	200.8
Add back: acquisition-related items[2]	61.6	18.3
Total income - underlying and pro forma underlying D	570.2	562.5
Cost to income statutory equals A/C	31%	32%
Cost to income underlying and pro forma underlying equals B/D	27%	29%

Management expense ratio
The management expense ratio is defined as administrative expenses as a percentage of a 13 point average[1] of total assets.

	2020 £m	2019 £m
Administrative expenses – statutory (as in cost to income ratio above) A	157.0	108.7
Administrative expenses – underlying and pro forma underlying (as in cost to income ratio above) B	152.7	165.1
13 point average of total assets – statutory C	22,140.1	14,298.0
13 point average of total assets – underlying and pro forma underlying D	21,931.8	19,752.6
Management expense ratio statutory equals A/C	0.71%	0.76%
Management expense ratio underlying and pro forma underlying equals B/D	0.70%	0.84%

OSB GROUP PLC
Appendix

Loan loss ratio
The loan loss ratio is defined as impairment of financial assets as a percentage of a 13 point average[1] of gross loans and advances. It is a measure of the credit performance of the loan book.

	2020 £m	2019 £m
Impairment of financial assets – statutory A	71.0	15.6
CCFS 2019 pre-acquisition results	-	4.3
Add back: acquisition-related items[2]	0.2	(3.6)
Impairment of financial assets – underlying and pro forma underlying B	71.2	16.3
13 point average of gross loans – statutory C	18,739.0	12,171.5
13 point average of gross loans – underlying and pro forma underlying D	18,508.5	16,684.6
Loan loss ratio statutory equals A/C	0.38%	0.13%
Loan loss ratio underlying and pro forma underlying equals B/D	0.38%	0.10%

Return on equity (RoE)
RoE is defined as profit attributable to ordinary shareholders, which is profit after tax and after deducting coupons on non-controlling interest securities, as a percentage of a 13 point average[1] of shareholders' equity (excluding £60m of non-controlling interest securities).

	2020 £m	2019 £m
Profit after tax - statutory	196.3	158.8
Coupons on non-controlling interest securities	(5.5)	(5.5)
Profit attributable to ordinary shareholders – statutory A	190.8	153.3
CCFS 2019 pre-acquisition results	-	92.5
Add back: acquisition-related items[2]	68.6	42.9
Profit attributable to ordinary shareholders – underlying and pro forma underlying B	259.4	288.7
13 point average of shareholders' equity (excluding non-controlling interest securities) – statutory C	1,514.2	866.6
13 point average of shareholders' equity (excluding non-controlling interest securities) – underlying and pro forma underlying D	1,363.8	1,147.1
Return on equity statutory equals A/C	13%	18%
Return on equity underlying and pro forma underlying equals B/D	19%	25%

Basic earnings per share

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

	2020 £m	2019 £m
Profit attributable to ordinary shareholders – statutory (as in RoE ratio above) A	190.8	153.3
Profit attributable to ordinary shareholders – underlying and pro forma underlying (as in RoE ratio above) B	259.4	288.7
Weighted average number of ordinary shares in issue – statutory C	446.2	291.6
Weighted average number of ordinary shares in issue – underlying and pro forma underlying D	446.2	444.8
Basic earnings per share statutory equals A/C	42.8	52.6
Basic earnings per share underlying and pro forma underlying equals B/D	58.1	64.9

1. 13 point average is calculated as an average of opening balance and closing balances for 12 months of the financial year.
2. The acquisition-related items are detailed in the reconciliation of statutory to underlying and pro forma underlying results in the Financial review

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Appendix

Calculation of 2020 final dividend

The table below shows the basis of calculation of the Bank's recommended final dividend for 2020:

	2020 £m	2019 £m
Statutory profit after tax	**196.3**	158.8
Less: coupons on non-controlling interest securities classified as equity	**(5.5)**	(5.5)
Statutory profit attributable to ordinary shareholders	**190.8**	153.3
Add back: Group's integration costs	**9.8**	-
Tax on Group's integration costs	**(2.4)**	-
Add back: Group's exceptional items	**3.3**	15.6
Add back: amortisation of fair value adjustment	**64.5**	21.6
Add back: amortisation of inception adjustment	**(13.3)**	(3.3)
Add back: amortisation of cancelled swaps	**(2.7)**	-
Add back: amortisation of intangible assets acquired	**11.3**	1.3
Release of deferred taxation on the above amortisation adjustments	**(14.8)**	(7.0)
Gain on sale of financial assets	**13.1**	-
Less: gain on Combination	**-**	(10.8)
Add back: ECL on Combination	**(0.2)**	3.6
Add: CCFS pre-acquisition profits	**-**	92.5
Add back: CCFS pre-acquisition exceptional items	**-**	15.7
Add back: CCFS pre-acquisition integration costs	**-**	5.2
Tax on CCFS pre-acquisition integration costs	**-**	(1.6)
Add back: Tax on Heritable option	**-**	2.6
Underlying and pro forma underlying profit attributable to ordinary shareholders	**259.4**	288.7
Total dividend: 25% of underlying and pro forma underlying profit attributable to ordinary shareholders	**64.9**	72.2
Less interim dividends paid:		
CCFS (pre-acquisition)	**-**	(10.3)
OSB	**-**	(12.0)
Recommended final dividend	**64.9**	49.9
Number of ordinary shares in issue	**447,312,780**	445,443,454
Recommended final dividend per share	**14.5**	11.2

OSB GROUP PLC
Appendix

Company information

Registered office and head office

OSB House
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Registered in England no: 11976839 www.osb.co.uk

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Private shareholders are welcome to contact the Company Secretary if they have any questions or concerns they wish to be raised with the Board.