osb Group

Building a resilient, sustainable business

Annual Report and Accounts 2021

Who we are

OSB Group is a leading specialist mortgage lender, primarily focused on carefully selected sub-segments of the mortgage market. Our continued success is driven by strong relationships with all our stakeholders.

Our Purpose

To help our customers, colleagues and communities prosper.

Our Values

Our Values are what our employees stand by, and support us in achieving our Purpose.

Overview

Strategic Report

Corporate Governance Report

Financial Statements and Notes

Appendices

Find out more online

Our corporate website gives direct access to a wide range of information about the OSB Group: **www.osb.co.uk**

Highlights

Delivering exceptional returns

Throughout the Strategic report, the Key performance indicators (KPIs) are presented on a statutory and an underlying basis.

Management believe that the underlying KPIs provide a more consistent basis for comparing the Group's performance between financial periods.

Underlying KPIs exclude exceptional items, integration costs and other acquisition-related items. For a reconciliation of statutory to underlying KPIs, see the Appendix.

The Group's external auditor performed an independent reasonable assurance review of certain KPIs as highlighted with the symbol Δ – see the Appendix for the auditor's statement.

Key:

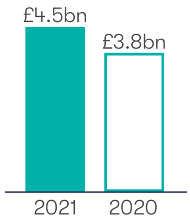
- Statutory 2021
- Statutory 2020
- Underlying 2021
- Underlying 2020
- Group 2021
- Group 2020

For more information on the Financial review, see page 44

Financial KPIs

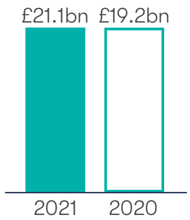
Gross new lendingΔ

+ 20%

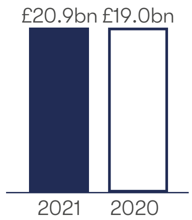


Net loan book

+ 10%

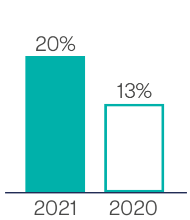


+ 10%

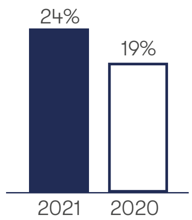


Return on equityΔ

+ 7ppts

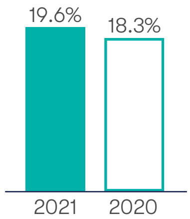


+ 5ppts



Fully loaded Common Equity Tier 1 ratio

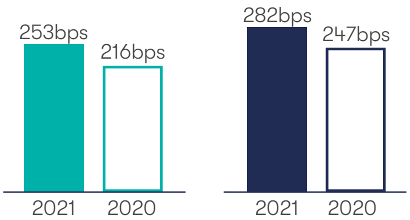
+ 1.3ppt



Non-financial KPIs

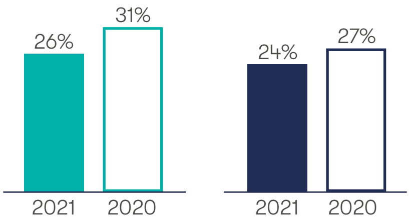
Net interest margin^Δ

+ 37bps   + 35bps



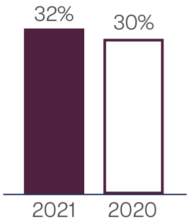
Cost to income ratio^Δ

- 5ppts   - 3ppts



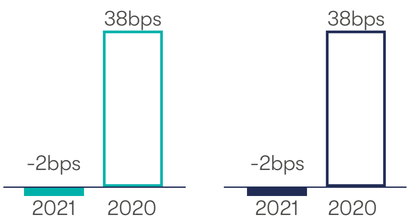
Women in senior management[1]

+ 2ppts



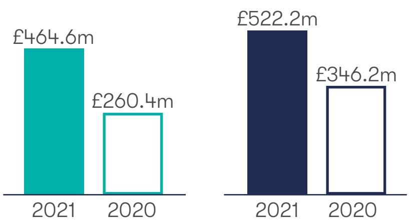
Loan loss ratio^Δ

- 40bps   - 40bps



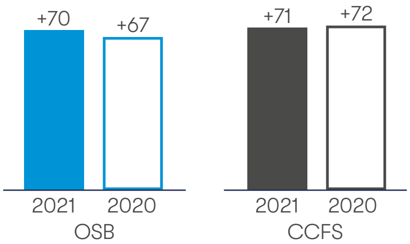
Profit before tax

+ 78%   + 51%



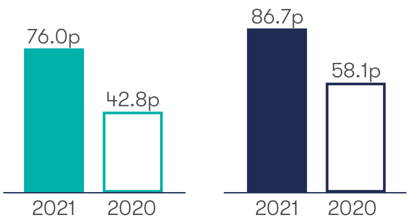
Savings customer satisfaction – Net Promoter Score

+ 3   - 1



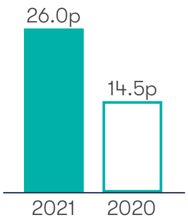
Basic EPS^Δ
(pence per share)

+ 78%   + 49%



Full year dividend^Δ
(pence per share)

+ 79%



Reduction in operational carbon footprint[2] against 2019 baseline

10.2%

1. Employees undertaking roles at Grades A to E.
2. Operational footprint is defined as Scope 1, Scope 2 and Scope 3 (paper, water, waste, business travel, electricity transmission and distribution) emissions and excludes upstream and downstream emissions from the Group's value chain.

OSB Group is a leading specialist mortgage lender; what makes us different is our unique business model and our exceptional returns.

Leader in growing market sub-segments

OSB Group is a leading mortgage lender in professional Buy-to-Let and specialist Residential market sub-segments.

Our target market sub-segments are supported by the fundamental lack of affordable housing in the UK.

The owner-occupied and private rental housing market segments have stood firm throughout 2021 with customer demand supported by additional government stimulus, including the Stamp Duty Land Tax holiday.

The Combination with CCFS in 2019 strengthened our position and allowed us to provide our recognised high-quality service to a wider reach of customers. The Group's share of new business in the Buy-to-Let segment was c. 6% in 2021, as we controlled lending with a tighter risk appetite during the first half, and delivered leading returns.

For more information on UK mortgage market, see page 20.

Our competitive advantage

The Group focuses on market sub-segments where its specialist approach to underwriting offers a key source of differentiation.

Following the Combination with CCFS, the Group offers a unique breadth of complementary yet differentiated lending propositions to our customers, ranging from speedy decisions for 'off the peg' solutions from our Precise Mortgages brand, through to structuring unique 'bespoke' solutions through InterBay Commercial brand. Our greater scale and increasing ability to generate cost efficiencies from the Group's fully owned subsidiary, OSB India, have enabled us to deliver a consistently strong cost to income ratio, whilst still investing in the business to support our strategic priorities. OSB Group remains the most cost-efficient bank in the sector.

Integrating the two Banks has also led to a more sophisticated and diversified funding model in both retail savings and wholesale markets, ensuring constant and efficient access to funding and liquidity supporting the optimisation of cost of funds.

Exceptional returns driven by attractive margins and growth opportunities

Throughout its history, the Group has consistently generated a market-leading return on equity (RoE), driven by attractive margins, significant growth in its specialist market sub-segments and sound risk management.

The Group's business model is based on a secured balance sheet, strong capital and liquidity positions and prudent and diligent risk management, which provide a solid platform for growth at attractive returns.

In 2021, the Group's achievements included:

- underlying RoE of 24% and statutory RoE of 20%;
- 10% net loan book growth;
- strong cost discipline and efficiency with an underlying cost to income ratio of 24% and 26% on a statutory basis; and
- discipline in lending decisions with a progressive return to pre-pandemic criteria.

Highly capital-generative business with strong potential for capital distribution

The Group is strongly capitalised with a proven track record of capital generation through profitability. This allows it to support significant growth as well as distributions to shareholders.

The strong capital position and our performance in 2021 enabled the Group to announce additional returns for shareholders through a £100m share repurchase programme and a final dividend for 2021 of 21.1 pence per share, which together with the 2021 interim dividend of 4.9 pence represents 30% of underlying profit attributable to ordinary shareholders (2020: 25%). At the end of 2021, the Group's CET1 ratio was 19.6% and total capital ratio was 21.2%.

For more information on the Board's capital management approach, see page 19.

Experienced leadership team

The Group is managed by an experienced and well-respected leadership team and governed by a Board with a broad range of skills and expertise. The leadership team has a long track record in operational management and delivering sustainable returns for shareholders.

Post Combination, we have taken two great cultures and combined them as one under common Values and a common Purpose, to help our customers, colleagues and communities prosper. This ensures we act positively with conscience and have environmental, social and governance (ESG) matters front of mind when shaping and managing our business.

Focus on sustainability

In 2021, the Group formalised its approach to environmental, social and governance matters and consolidated them into its ESG Framework. These matters form part of the Group strategy and risk management framework. In 2021, we further embedded ESG throughout the business and we are setting ambitious targets for the future.

OSB Group recognises the importance of operating sustainably as a business and considers a wide range of matters from climate change to diversity and inclusion.

For more information on the Group's ESG Framework, see page 76.

Chairman's Statement

In 2021 we successfully negotiated the continuing challenges presented by the pandemic and the business delivered exceptional results, whilst largely completing the integration of CCFS. The increased scale of our tried and tested business model is proving resilient and competitive generating attractive returns for our owners across the cycle. I am confident that notwithstanding the uncertainties created by geopolitical events, the Group is well positioned for the future.

> **In 2021, the Board was particularly focused on sustainability.**

David Weymouth
Non-Executive Chairman

Our colleagues have continued to provide the high levels of service our customers expect, whether from our support centres, our branches, or our operations in India. I would like to thank all of them for their professionalism, commitment and flexibility during another testing year.

The Group has a very strong capital position and continues to generate significant levels of capital through profitability. The Board has reviewed our existing and future capital requirements and I am pleased to announce a £100m share buyback programme. In addition the Board is recommending a 26 pence per share full year dividend for 2021, equivalent to a payout ratio of 30% (2020: 25%). We are committed to returning any additional excess capital to our shareholders and intend to update the market once greater clarity is obtained on the impact of BASEL 3.1 and its timing versus our IRB accreditation.

The Board spent time in 2021 reflecting on how we best align our business with the critically important, but rapidly evolving expectations of our stakeholders represented by the ESG agenda. We have designated one of our Non-Executive Board members, Sarah Hedger, to help shape and oversee our endeavours in this area, led by an Executive Committee supported by appropriate full time resource. We developed a broad based ESG Framework which is presented on page 76. Our overall goal is to ensure that by operating within that Framework our business remains relevant and is governed to the highest standards.

As a first concrete step, we have committed the Group to be carbon neutral (for direct emissions) in 2022 through reduction initiatives, supplemented by emissions removals credits where required. In addition, we are targeting net zero greenhouse emissions[1] by 2050 and are developing plans to achieve that.

I am very pleased to welcome our new Board member Simon Walker, who joined in January 2022. He joins after a long career in professional practice focusing on banking with particular expertise in mortgages and risk management.

Future prospects

Predicting future geopolitical and economic developments would be foolhardy. On the other hand, inflationary pressure on household income is a certainty. Our commitment to a resilient business model, underpinned by deep expertise in understanding the market sub-segments in which we operate, is consistently delivering robust outcomes. We remain confident in our ability to generate attractive returns that are genuinely sustainable throughout the cycle.

David Weymouth
Chairman
17 March 2022

1. Net zero is defined as a reduction in Scope 1, 2, and 3 emissions to zero or to a residual level that is consistent with reaching net zero emissions at the global or sector level in eligible 1.5°C aligned pathways.

Strategic report

Strong relationships, built on regular engagement and open dialogue with all our stakeholders, are central to the Group's strategy and culture.

Our Purpose is to help our customers, colleagues and communities prosper.

Resources and relationships

Brands and heritage

We have a family of specialist lending brands targeting selected sub-segments of the mortgage market which are underserved by large UK banking institutions. We have well-established savings franchises through Kent Reliance, with its 150-year heritage and the Charter Savings Bank brands.

Employees

Our team of highly skilled employees possess expertise and in-depth knowledge of the lending, property, capital and savings markets, underwriting and risk assessment and customer management.

Infrastructure

We benefit from cost and efficiency advantages provided by our wholly-owned subsidiary, OSB India, as well as credit expertise and mortgage administration services provided by CCFS.

Relationships with intermediaries and customers

Our strong and deep relationships with the mortgage intermediaries that distribute our products continue to win us industry recognition.

Capital strength

We have a strong CET1 ratio and capability to generate capital through profitability. The Board is focused on capital strength and delivering shareholder returns.

What we do

Specialist mortgage lending

Our key strengths:

- Strong levels of mortgage origination
- Excellent loan performance
- Award-winning product propositions
- Strong relationships with intermediaries

Strategic priorities:

- Be a leading specialist lender in our chosen market sub-segments
- Retain focus on our complementary underwriting platforms: OSB's bespoke and manual approach and CCFS' automated risk assessment platforms
- Further deepen relationships and distribution with intermediaries
- Provide thought leadership and assist our borrowers in reducing their greenhouse gas emissions

Sophisticated funding platforms

Our key strengths:

- Stable savings funding via Kent Reliance and Charter Savings Bank brands
- Capital markets expertise with securitisation platforms allowing for programmatic issuance of high-quality residential mortgage-backed securities (RMBS)

Strategic priorities:

- Provide cost-efficient funding through resilient and diversified funding platforms to support our future growth
- Deliver consistently good-value savings products to our customers
- Pursue sophisticated wholesale funding and efficient balance sheet management
- Leverage investment grade corporate rating for further diversification

Unique operating model

Our key strengths:

- OSB India: Best-in-class customer service
- Deep credit expertise and data analytics of CCFS
- Continued, disciplined cost management

Strategic priorities:

- Continue to leverage our unique and cost-efficient operating model
- Leverage deep credit expertise and data analytics
- Maintain an efficient, scalable and resilient infrastructure
- Reduce environmental impact of our operations

To achieve our Purpose, we operate in a sustainable way with the relevant environmental, social and governance matters at the heart of our business. We are aligned to a strong governance framework and we recognise the needs and differences of our stakeholders.

Statutory net loans to customers

£21.1bn

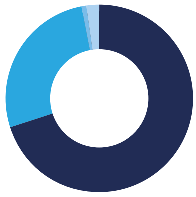
2020: £19.2bn

Read more on pages 12 to 13

OSB segment net loans

Buy-to-Let/SME	82%
Residential	18%

CCFS segment underlying net loans



Buy-to-Let	70%
Residential	27%
Bridging	1%
Second charge	2%

Statutory retail deposits

£17.5bn

2020: £16.6bn

Read more on page 14

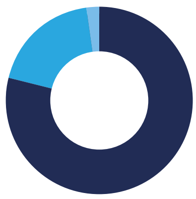
21

securitisations since 2013 across OSB and CCFS worth over

£9.8bn

2020: 19 securitisations worth £7.9bn

Group's funding channels as at 31 December 2021



Retail	79%
Bank of England	19%
Wholesale	2%

Statutory cost to income ratio

26%

2020: 31%

Read more on page 15

571

colleagues employed at OSB India as at 31 December 2021

2020: 493

Outcomes and value creation

For shareholders

Statutory basic EPS

76.0p

Dividend per share

26.0p

For savings customers

OSB savings customer NPS[1]

+70

OSB customer retention[2]

90%

CCFS savings customer NPS[1]

+71

CCFS customer retention[2]

85%

For intermediaries

OSB broker NPS[1]

+55

CCFS broker NPS[1]

+42

For employees

Women in senior management roles[3]

32%

Number of Group employees promoted in 2021

176

For the environment

Reduction in operational carbon footprint[4] against 2019 baseline

10.2%

For our communities

Group sponsorships and donations

nearly £395k

1. OSB customer NPS score relates to Kent Reliance savings customers; CCFS customer NPS relates to Charter Savings Bank customers; OSB broker NPS relates to Kent Reliance brokers and CCFS broker NPS relates to Precise Mortgage brokers.
2. Retention is defined as average maturing fixed contractual retail deposits that remain with the Bank on their maturity date.
3. Employees undertaking roles at Grades A to E.
4. Operational footprint is defined as Scope 1, Scope 2 and Scope 3 (paper, water, waste, business travel, electricity transmission and distribution) emissions and excludes upstream and downstream emissions from the Group's value chain.

Specialist mortgage lending

The complementary strengths and enhanced customer propositions from the Group's diverse brands support our goal to become a leading specialist lender in the UK. The Group reports its lending business under two segments.

Kent Reliance

Heritable Development Finance

InterBay Commercial

Gross loan book[1]

£12.1bn

2020: £11.1bn

Organic originations

£2.4bn

2020: £1.9bn

Net interest income[1]

£414.8m

2020: £332.8m

Read more on pages 31 to 35

1. Statutory.

OneSavings Bank segment

Through our brands we tailor our lending proposition to the specific needs of our borrowers. Under our Kent Reliance and InterBay brands all of our loans are underwritten by experienced and skilled underwriters, supported by technology to reduce the administrative burden on underwriters and mortgage intermediaries. We refer to scorecards and bureau data to support our skilled underwriter loan assessments. We consider each loan on its own merits, responding quickly and flexibly to offer the best solution for each of our customers. No case is too complex for us, and for those borrowers with more tailored or larger borrowing requirements, our Transactional Credit Committee meets three times each week, demonstrating our responsiveness to broker needs.

Buy-to-Let/SME sub-segments

Buy-to-Let
We provide loans to limited companies and individuals, secured on residential property held for investment purposes. We target experienced and professional landlords or high net worth individuals with established and extensive property portfolios.

Commercial mortgages
We provide loans to limited companies and individuals, secured on commercial and semi-commercial properties held for investment purposes or for owner-occupation.

Residential development
We provide development loans to small and medium-sized developers of residential property.

Funding lines
We provide loans to non-bank finance companies secured against portfolios of financial assets, principally mortgages.

Asset finance
We provide loans under hire purchase, leasing and refinancing arrangements to UK SMEs and small corporates to finance business-critical assets.

Residential sub-segments

First charge
We provide loans to individuals, secured by a first charge against their residential home.

Our target customers include those with a high net worth and complex income streams and near-prime borrowers.

We are also experts in shared ownership, lending to first-time buyers and key workers buying a property in conjunction with a housing association.

Funding lines
We provide funding lines to non-bank lenders who operate in high-yielding, specialist sub-segments such as residential bridge finance.

Charter Court Financial Services segment

Precise Mortgages

Our Precise Mortgages brand uses an automated underwriting platform to manage mortgage applications and to deliver a rapid decision in principle, based on rigorous lending policy rules and credit scores. The platform is underpinned by extensive underwriting expertise, enabling identification of new niches and determining appropriate lending parameters. The platform enables Precise Mortgages to react quickly to non-standard mortgage requests which are common in the Group's target market sub-segments, while ensuring consistent underwriting within the Group's risk appetite. Quick response times help the Group to compete for the 'first look' at credit opportunities, while a robust manual verification process further strengthens the disciplined approach to credit risk.

Buy-to-Let
We provide products to professional and non-professional landlords with good quality credit histories, through a wide product offering, including personal and limited company ownership.

Residential
We provide a range of competitive products to prime borrowers, complex prime borrowers (including self-employed, Help to Buy and new build) and near-prime borrowers.

Bridging
We focus on lending to customers who need to fund short-term cash flow needs, for example, to cover light refurbishments, home improvements, auction purchases and to 'bridge' delays in obtaining mortgages and 'chain breaks'.

Second charge
We offer loans to prime residential customers with low loan to value ratios, who require additional capital and who wish to secure a loan with a charge against a property which is already charged to another lender.

Gross loan book[2]
£9.0bn
2020: £8.0bn

Organic originations
£2.2bn
2020: £1.9bn

Net interest income[2]
£235.7m
2020: £201.2m

Read more on pages 36 to 39

2. Underlying.

Sophisticated funding platforms

The Group's lending business is supported by diversified and stable funding platforms. This enables cost of funds optimisation while prudently managing funding and liquidity risks.

Statutory retail deposits

£17.5bn

2020: £16.6bn

Securitisations

21

securitisations since 2013, across OSB and CCFS, worth over

£9.8bn

2020: 19 securitisations worth over £7.9bn

Read more on page 40

Retail savings

The Group is predominantly funded by retail savings deposits sourced through two brands: Kent Reliance and Charter Savings Bank (CSB).

Kent Reliance is an award-winning retail savings franchise with over 150 years of heritage and nine branches in the South East of England. It also takes deposits via post, telephone and online, while CSB, a multi- award-winning retail savings bank, offers its products online and via post.

Both Banks have a wide range of savings products, including easy access, fixed term bonds, cash ISAs and business savings accounts. CSB and Kent Reliance have diversified their retail funding sources through pooled funding platforms. The range of products sourced via these platforms includes easy access, longer term bonds and non-retail deposits.

In 2021, CSB won many industry awards, including the prestigious Moneyfacts Consumer Awards for Online Savings Provider of the Year and ISA Provider of the Year.

Kent Reliance's proposition for savers is simple: to offer consistently good-value savings products that meet customer needs for cash savings and loyalty rates for existing customers.

CSB's philosophy is to maintain and develop its award-winning business offering competitively priced savings products. Operating with an agile, nimble approach, CSB can respond quickly to the funding requirements of the business at an advantageous cost of funds.

Our securitisation platforms

The Group has built attractive diversification opportunities to supplement its retail funding.

CCFS uses its securitisation platform as a means of providing low-cost term funding. Wholesale funding enables the business to rebalance the weighted average life of liabilities away from shorter duration retail funding and thereby optimise the funding mix. The Group recognises the cyclical nature of capital markets funding and therefore utilises it opportunistically, taking advantage of favourable market conditions.

CCFS is a programmatic issuer of high-quality residential mortgage-backed securities through the Precise Mortgage Funding and Charter Mortgage Funding franchises, completing 14 securitisations worth more than £4.5bn to 31 December 2021.

In 2019, OSB established its Canterbury Finance securitisation programme to enable it to issue high-quality residential mortgage-backed securities. It has since issued four securitisations of organically originated mortgages totalling £4.3bn to 31 December 2021.

The Group also has the capability to engage in transactions which could result in the full derecognition of the underlying mortgage assets, through the sale of residual positions in its securitisation vehicles.

In 2021, CCFS also had access to a warehouse funding facility from a Tier 1 investment bank. This facility was available as a bridge to RMBS funding, helping the Group to maximise the efficiency of its liquidity position through the transition from retail deposit to securitisation funding. This warehouse facility was closed in December 2021.

The Group also takes advantage of the Bank of England's funding schemes. In 2021, the drawings under the Term Funding Scheme were fully repaid and drawings under the Term Funding Scheme for SMEs increased to £4.2bn (2020: £2.6bn and £1.0bn, respectively).

Unique operating model

The lending and savings businesses operate through the Group's unique and cost-efficient operating model and a robust, scalable and resilient infrastructure.

osbIndia

Group's employees

1,782

2020: 1,786

OSBI regretted attrition rate

17%

2020: 11%

Colleagues employed at OSB India

571

2020: 493

Women in senior management roles[1]

32%

2020: 30%

Reduction in operational carbon footprint[2] against 2019 baseline

10.2%

Our commitment to achieve net zero greenhouse gas emissions by

2050

Read more on pages 78 to 105

Customer service

The Group operates customer service functions in multiple locations across the UK including Chatham, Wolverhampton, Fareham, London and Fleet. These, together with our wholly owned subsidiary OSB India, help us deliver on our aim of putting customers first.

The Group has proven collections capabilities and expertise in case management and supporting customers in financial difficulty, from initial arrears through to repossession.

This offers valuable insights into, as well as the opportunity to learn from, the performance of mortgage loan products. We have deep credit expertise through proprietary data analytics.

We deliver cost efficiencies through excellent process design and management. We have an efficient, scalable and resilient infrastructure supported by strong IT security.

OSB India

OSB India (OSBI) is a wholly-owned subsidiary based in Bangalore and Hyderabad, India.

OSBI puts customer service at the heart of everything it does and we reward our employees based on the quality of service they provide to customers, demonstrated by our excellent customer Net Promoter Score.

At OSBI, we employ highly talented and motivated employees at a competitive cost. We benchmark our processes against industry best practice, challenging what we do and eliminating customer pain points as they arise. We continue to invest in developing skills that enable highly efficient service management, matching those to business needs both in India and the UK.

Various functions are also supported by OSBI, including Support Services, Operations, IT, Finance and Human Resources. We have a one team approach between the UK and India and we are proud of our low employee turnover in India, with a regretted attrition rate of just under 17%, comparing favourably to local industry averages.

OSBI operates a fully paperless office – all data and processing are in the UK.

ESG

Our Purpose is to help our customers, colleagues and communities prosper. To achieve our Purpose, we operate in a sustainable way with relevant environmental, social and governance matters at the heart of the Group.

As a specialist lender, we have been long aware of our responsibilities and the positive impact we can make in society through our activities.

We have always strived to have our customers, colleagues and communities in mind through our culture and robust governance. As such, responding to the challenges and opportunities that the environmental, social and governance matters present, has naturally become an integral part of the Group's strategy.

1. Employees undertaking roles at Grades A to E.
2. Operational footprint is defined as Scope 1, Scope 2 and Scope 3 emissions; it excludes upstream and downstream emissions from our value chain.

Our Purpose is to help our customers, colleagues and communities prosper

Building strong relationships with all of our stakeholders through regular engagement and open dialogue is fundamental to achieving the Group's Purpose to help our customers, colleagues and communities prosper. Our relationships with our stakeholders are central to the Group's strategy and culture; and are embedded in the Board's responsibilities.

We outline below how OSB Group and its Directors engaged with key stakeholders, and in doing so, discharged their duties under section 172. For more information on activities of the Board and its Committees, see pages 116 to 163 in the Corporate Governance Report.

Customers

We pride ourselves on building strong, long-term relationships with our customers. In 2021, we continued to demonstrate our commitment to providing excellent service by supporting our borrowers and savers throughout the uncertainties caused by the ebb and flow of the pandemic. We continued to help those looking for mortgages and supported our savers safely, in branches or by telephone, post and the internet.

We offer our savers an opportunity to let us know how we are doing whenever they call or interact with our Banks by listening to their views and acting upon what they tell us. Customer feedback is collected throughout the year and despite the continuing difficulties of the pandemic, increased volume of calls and savers' activity, we are incredibly proud of achieving strong satisfaction metrics for both Kent Reliance and Charter Savings Bank.

The needs of our customers are at the heart of our business; and the Board believes that the long-term success of the Group is dependent on the strength of our relationships with our customers.

The Board's engagement with customers is indirect and Directors are kept informed of customer-related matters through regular reports, feedback and research. Satisfaction scores and retention rates, together with the number of complaints and resolution times, form part of the management and Board monthly reporting packs, ensuring the visibility of our customers' experience to management and the Board. Customer satisfaction scores are also used as part of the Executive remuneration assessment and form the basis of new initiatives and actions which continually improve customer experience.

When the business is considering the launch of a new product, customers and intermediaries may be consulted to ensure it meets their needs and any concerns raised are addressed.

In addition, management and the Board engaged with customers through the Kent Reliance Provident Society (KRPS) which conducts customer engagement activity studies for OSB. During 2021, KRPS conducted two such studies.

Further information about our customers can be found in the Customer section on pages 94 to 95

The following matters, which were identified as affecting our stakeholders, were of particular interest to the Board in 2021:

- the ongoing impact of COVID-19 on customers in terms of their behaviours, financial health and any forbearance needs;
- the impact of environmental, social and governance (ESG) factors;
- industry-related conduct risk issues and the potential impact on customers; and
- management information in relation to customer complaints and complaints data from the Financial Ombudsman Service, engagement scores, satisfaction scores and retention rates.

Savings NPS for Kent Reliance

+70

2020: +67

Savings NPS for Charter Savings Bank

+71

2020: +72

Intermediaries

Our lending products, with the exception of funding lines and residential development loans, are distributed via mortgage brokers. Mortgage brokers are vital to our success; we have adapted the way in which we assist them during 2021, as the pandemic impacted their businesses and how they serve their customers, to provide an even better service.

We pride ourselves in providing unique and consistent lending propositions across all lending brands, which fulfil our goal of making it easier for intermediaries to serve their customers, our borrowers. Regular engagement with the broker community extends beyond our propositions and enables us to continuously enhance the service we provide, with our business development managers listening and working closely with intermediaries to discuss cases and helping to obtain swift and reliable decisions.

Broker and borrower satisfaction scores are tracked on a regular basis, along with details of all complaints, and are reviewed by the Board and management within monthly reporting packs.

We held fewer intermediary events during 2021, but the Group's Sales teams participated in 418 physical and virtual intermediary events, interacting with brokers and keeping abreast of industry developments and intermediary requirements.

Colleagues

Our colleagues are our key asset and our success depends on the 1,782 talented individuals we employ.

We have always favoured interactive communication between management and our employees through regular town hall meetings, informal sessions with management and opportunities to ask questions anonymously directly to the Chief Executive Officer (CEO) with the questions and responses available on the intranet. These methods of engagement proved popular with employees and have contributed to many initiatives that were undertaken by the business during the year.

In line with the UK Corporate Governance Code, the Group has adopted a combination of methods for engaging with its workforce including the establishment of a formal workforce advisory panel and a designated Non-Executive Director (NED). Mary McNamara is the NED appointed by the Board with responsibility for employee engagement and is a permanent member of the Workforce Advisory Forum (known internally as OneVoice). Mary has direct engagement with the workforce by attending OneVoice meetings and other events organised by the Diversity and Inclusion Working Group. This provides her with an insight into the culture and concerns of the workforce, which she is able to bring to the attention of the Board.

OneVoice was set up to gather the views of the workforce, so that the Board and management can consider a broadly representative range of stakeholder perspectives to guide strategic decisions for the future of the Group and oversee the alignment of the Values. OneVoice has its own Terms of Reference which outlines the objectives and composition of the Forum. Members of the workforce are invited to apply to become an employee representative (provided there are open vacancies to be filled) by completing a short application form.

Members of the Board and management attended OneVoice meetings throughout the year in order to understand and discuss employee-related issues directly with representatives across the business. Employee representatives are encouraged to be open and honest in their feedback at each meeting. The themes from OneVoice discussions are shared and discussed with the Board and this informs the approach towards new policies, benefits and any other employee-related projects.

Engagement also took place via Group-wide surveys, including a 'Culture Pulse Survey' which was conducted across all employees and a dashboard compiled of a series of measures and indicators was provided to the Board to ensure visibility of how the Group's Values are embedded into the culture. The Board reviewed the results and discussed how to address any themes emerging from them. OSB India was officially certified as a 'Great Place to Work' in 2021 for the fifth year in a row. The Group also participated in the Financial Services Culture Board Survey in 2021.

For more detail on employee initiatives in the year, see the Employees section on pages 95 to 103

The interests of the Group's employees were also considered by the Board and its Committees during the year via regular updates provided by senior management, the Group's HR function and the feedback from meetings of working groups. One of the key topics at the forefront of the Board's mind in 2021 was the continued impact of the pandemic on our employees' lives, both professionally and personally, their well-being and mental health.

Further information on OneVoice can be found in the Directors' Report on page 164 to 165

Members of the Board also have standing invitations to attend meetings of the Diversity and Inclusion Working Group, with its members consisting of employee representatives from across the business. Updates are submitted to the Board or its Committees on an annual basis. Members of the Board oversee the Group's talent management initiatives and senior management succession planning.

Finally, the Board has oversight of the Group's whistleblowing activity and reviews and approves the Group's gender pay gap reporting and its commitment to the Women in Finance Charter.

The Board monitors the effectiveness of its methods of engaging with employees and adapts them where necessary. Areas of continued focus include formalising a workforce engagement plan and developing engagement improvement plans in areas which have been identified as lower scoring in the results of employee surveys.

Shareholders

Our approach to investor engagement has remained straightforward as we favour an open dialogue. Despite the continued restrictions on physical meetings, 2021 was a year of dynamic and active engagement with our shareholders and the Investor Relations team met 131 individual investors via virtual one-to-one meetings, industry conferences and roadshows.

The Board ensures that all shareholders have equal access to information through regulatory announcements, general meetings and publications on our website. The Board's primary engagement with investors comes through the Group's CEO and Chief Financial Officer (CFO) who meet with investors and sell-side analysts and present the Group's results to the market. The Board receives regular updates from the Investor Relations function, which includes investor feedback, analysts' recommendations and market views. In a number of meetings, investors raised queries around capital returns which was also the subject of commentary by sell-side analysts.

The issue of Additional Tier 1 (AT1) securities was a frequent subject of discussion with investors in terms of optimising the capital stack. In 2021, the Board focused on capital management, including optimisation of the Group's capital structure. To that end, new AT1 securities were issued at the Group level and the legacy AT1 securities as well as Perpetual Subordinated Bonds issued by OneSavings Bank plc were redeemed.

The CEO, CFO and Group Head of Investor Relations kept the Board informed of investors' evolving expectations with regards to climate-related matters which helped guide the Group's Task Force on Climate-related Financial Disclosures and commitment to net zero carbon emissions as set out on page 86.

Suppliers

Our business is supported by a large number of suppliers, which in turn allows us, as a Group, to provide high standards of service to our customers. The members of the Board do not interact directly with the Group's suppliers; however, they are involved in overseeing the Group's supplier relationships and are kept up to date by management on supplier considerations and developments.

Supplier payment practice reports are published on a six-monthly basis following approval by the CFO and signed by the main operating entities. The Group enters into standard terms with suppliers, which include terms requiring payment within 30 days of the invoice date following receipt of a valid invoice. Over 90% of all invoices are paid within 30 days in line with the standard payment period for qualifying contracts, with the average time taken to pay invoices ranging from five to 14 days across the Group. The maximum contractual payment period agreed varies between 30 days to 45 days. There have been no changes to the standard payment terms in the reporting period.

Any complaints received in respect of invoice payments are considered as part of the dispute resolution process. During the year, the Group did not deduct any sums from payments under qualifying contracts as a charge for remaining on a supplier list.

In 2021, the Board was also involved with the following aspects of supplier relationships:

- consideration of potential supplier challenges as a result of the integration and the ongoing impact of COVID-19;
- consideration of the risks associated with suppliers and the framework for assurance;
- oversight of key supplier relationships including the engagement between the Group Audit Committee and the external auditor; and
- oversight of all levels of insurance in place for the Group.

The Group's Modern Slavery and Human Trafficking Statement is reviewed and approved on an annual basis by the Board and can be found on our website at www.osb.co.uk.

Regulators

The Board recognises the importance of having an open and continuous dialogue with all of our regulators, as well as other government bodies, trade associations and UK Finance.

The Group maintains a proactive dialogue with the Prudential Regulation Authority (PRA) and Financial Conduct Authority (FCA). Engagement typically takes the form of regular and ad hoc meetings attended by both members of the Board and Executives, as well as subject matter experts. Meetings held with regulators during the year covered, among other topics, operational resilience, the ability to respond to a financial stress, business continuity review and incident management. There was also significant interaction with our regulators with regard to capital management and the optimisation of our capital structure.

Even though the Directors do not participate in all meetings, Executives, including the Group Chief Risk Officer and Group Chief Credit and Compliance Officer provide the Board and its Committees with feedback and regular updates in respect of the broader regulatory developments and compliance considerations.

The Group also regularly interacts and has constructive relationships with the Bank of England and HM Revenue & Customs, among others, which helps to ensure that the Group is aligned with the relevant regulatory frameworks and that the business is engaged with issues impacting the financial services industry.

The PRA attended a Board meeting during 2021.

Communities

The Group partners with national and local charities, which offer employees the chance to make a difference both nationwide and closer to home. Giving something back to our community is important to all of us, whether it is through volunteering, fundraising or efforts that help protect our environment and aligns with the Group's Values. Our nominated charity partners are chosen by employees who give up their time and take part in a variety of events, with the hope of making a meaningful impact to these charities and to the lives of those that the charities help.

The total amount donated to charity partners and good causes by the Group and employees in the year was nearly £395k. To read more about how our employees volunteered their time see the Communities section on pages 104 and 105.

Engagement with our local communities is actively encouraged and fully supported by the Board and management who believe that fostering such relationships contributes to the communities in which we operate to make a positive impact.

Environment

Sustainability is becoming increasingly important to the Board and management. The Group operates under the highest governance and ethical standards and is focused on reducing its impact on the environment. The Board and management are cognisant of the impact of social and environmental change on our business and stakeholders and regularly promote awareness of environmental issues among our employees, as well as adhering to our plan to become a greener organisation and comply with enhanced regulation and disclosures.

The Board is responsible for encouraging and overseeing an environmentally friendly culture and ensuring that the business is ready to respond to the growing impact of climate change on the Group's activities in line with its Stewardship value. Further details can be found in the Environment section on pages 78 to 85.

Section 172 Statement

The Directors are bound by their duties under section 172(1)(a) to (f) of the Companies Act 2006 and the manner in which these have been discharged; in particular their duty to act in the way they consider, in good faith, promotes the success of the Company for the benefit of its members as a whole.

The stakeholders which the Directors considered in this regard are customers, intermediaries, colleagues, shareholders, suppliers, regulators and the local communities in which we are located. These stakeholders are considered to be those most likely to be impacted by decisions taken by the Board. The pages on 16 to 18 and those that follow, set out how Directors complied with the requirements of section 172 during the year.

Decision making

The Board recognises that considering our stakeholders in key business decisions is fundamental to our ability to deliver the Group's strategy in line with our long-term values and operating the business in a sustainable way. Balancing the needs and expectations of our key stakeholders has been at the forefront of the Board's mind and has been more important than ever during 2021, as a result of the ongoing global pandemic; whilst acknowledging that some decisions will result in different outcomes for each stakeholder.

Key strategic decisions in the year

Capital management

During 2021, the Board made the decision to redeem legacy AT1 securities and Perpetual Subordinated Bonds issued by OneSavings Bank plc as they no longer qualified as capital at the Group level. A new issue of AT1 securities from the Company was executed in October 2021. These steps were taken as the Group seeks to optimise its capital structure following the insertion of OSB GROUP PLC as the holding company and listed entity of the Group.

The Group has a very strong capital position and proven capital generation capability through profitability. These support continued strong growth as well as additional distributions to shareholders, despite ongoing uncertainty over the timing and impact of Basel 3.1 and IRB accreditation. The Board considered the expectations of shareholders in relation to capital management referencing the number of questions raised during roadshows and other shareholder interactions and approved the commencement of a £100m share repurchase programme. The Board is also recommending an increase in the Group's full year 2021 ordinary dividend payout ratio to 30% of underlying earnings attributable to ordinary shareholders. The decision of the Board in this regard fulfilled those expectations and were also considered to be in the long-term interests of the Company.

Commitment to net zero carbon emissions by 2050

In response to feedback received from shareholders, employees and intermediaries, the Board felt that it was important for the Group to commit to achieving net zero carbon emissions by 2050 in line with the 2015 Paris Agreement. The Board has made the decision to commit to reduce its financed greenhouse gas emissions by 47% per m2 by 2030 and by 91% per m2 by 2050, from a base year of 2021 and to commit to achieving net zero greenhouse gas emissions in our own operations (Scope 1, 2 and material Scope 3) by 2030 or sooner. The Board acknowledges that setting targets drives concerted action and a roadmap to achieve these targets is being drafted with the aim of developing a robust plan over the next 12 to 18 months with the assistance of the Net Zero Banking Alliance (NZBA) and the Science Based Targets initiative (SBTi), which will assess the Group's targets and approach to ensure that the outcomes can be credibly achieved. The Board recognised the importance of having distinct science-based targets and reducing the emissions of the Group would have a positive impact on the environment. The Board also considered the impact on and expectations of employees, intermediaries and shareholders; which was a key factor in the decision to proceed.

Risk appetite and lending criteria

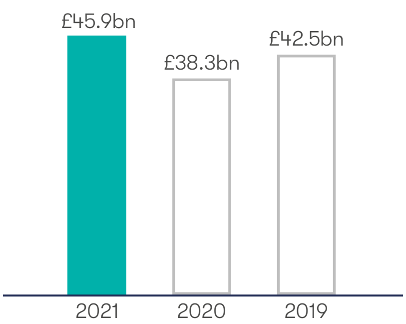
Following indications of market recovery from the pandemic in the summer of 2021, the Board considered its risk appetite in relation to lending criteria and the appropriateness of increasing the loan to value on some mortgages from 75 to 80%. In making its decision, the Board took into consideration feedback from some shareholders that the Group may have been conservative in the recovering market. A range of customer indicators were also considered including the level of payment deferrals, arrears data and economic outlook; and also the impact on the Group's Underwriting team. The Board deliberated whether changing the lending criteria was within risk appetite and would be in the long-term sustainable interest of the Company and Group. The Board concluded that changing the lending criteria remained within the Group's risk appetite and was appropriate for customers.

Market review

Despite ongoing disruption due to the pandemic, residential property transaction volumes rebounded in 2021.

UK Buy-to-Let gross advances

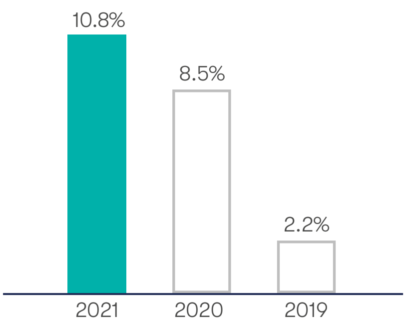
£46bn



Source: UK Finance, New and outstanding Buy-to-Let mortgages, Feb 2022.

UK average house price inflation

10.8%



Source: ONS, December UK House Price Index, Feb 2022.

The UK housing and mortgage market

Despite the ongoing disruption as a result of the pandemic, residential property transaction volumes rebounded in 2021, reaching 1.5m according to HMRC, representing a 43% increase compared to 1.0m in 2020.[1] Similarly, UK gross mortgage lending reached £313bn in 2021, representing an annual increase of 27% from £246bn in the prior year.[2] In both cases, the level of activity reported in 2021 was higher than the level of activity reported in 2019, prior to the pandemic. This increase was driven by several factors, including the release of pent-up demand, changing buyer preferences with a desire for space suitable for home working, a Stamp Duty Land Tax (SDLT) holiday as well as mortgage interest rates dropping to historic lows.

The year began with the third national lockdown, however housing market disruption was significantly less severe than during the first lockdown in March 2020 as the industry swiftly adapted their working practices and processes to accommodate the need for social distancing and other measures.

The removal of restrictions from July enabled property transactions to progress with fewer delays and this led to rising demand. Lenders responded by continuing to expand lending and product criteria, with research published by Twenty7Tec showing that the number of available mortgage products rose continually throughout the year, from fewer than 10,000 in January 2021 to more than 16,000 by the end of the year.[3]

The SDLT holiday that was implemented in July 2020, continued to generate increased purchase activity into 2021 as buyers sought to benefit from the temporary increase in the 'nil-rate' band. This measure was initially due to end in March 2021, but was extended to June 2021 with a further temporary relief period in effect until September 2021. It resulted in purchase completions increasing by 44% year on year to represent 70% of new mortgage lending by value (2020: 62%)[4] with notable spikes in activity in March, June and September aligned with the relief withdrawal periods.

The increase in borrowers' demand, combined with continued low mortgage interest rates and a lack of supply, led to upwards pressure on house prices during the year. The ONS reported that house prices rose by an average of 10.8% in 2021 (2020: 8.5%)[5] and growth was expected to continue into 2022. Equally, respondents to the RICS Residential Market Survey in November 2021 expected prices to continue to rise both in the near term and over a 12-month horizon.

The UK savings market

The historically low interest rates, that were a dominant feature of the savings market in 2021, did not prevent the trend of increasing overall savings balances in the UK, which rose from £1,953bn in December 2020 to £2,120bn at the end of 2021, according to the Bank of England.[6] There were also more providers and more savings accounts on offer in the market in 2021, following the decline seen in the previous year, as the total number of savings products being promoted in December 2021 was 1,646, compared to 1,514 in December 2020.[7]

According to the ONS, the household savings ratio that peaked at 22.5% in 2020, as a result of so-called accidental savings, reduced to 18.0% by the third quarter of the year and 11.3% by the fourth quarter.[8]

Overall, in 2021, according to the Household Sector Deposits report, easy access accounts held by financial institutions continued to exceed fixed term accounts. By the end of the year, as consumer confidence around future prospects improved, savers began to lock their cash away for longer periods of time in order to secure a higher return. Fixed rate bonds accounted for over 50% of all savings accounts in the fourth quarter of 2021, an increase from about a quarter during much of 2020.[8]

During the year, rates bounced back from the reductions seen during 2020. Fixed rate bonds increased by 70bps over 2021 with rates on variable rate products being slower to rise and only increasing by 25bps. 2021 ended with a much anticipated base rate increase of 15bps in December 2021.

The UK mortgage market and climate change

It has been estimated that privately owned residential properties represent 15% of total carbon emissions in the UK and it is acknowledged that there are significant barriers to implementing energy efficiency improvements.[9] The UK Government's focus on achieving its net zero goals has highlighted the need to improve the energy efficiency of UK housing stock.

Two key consultations relating to improving home energy performance have been held by the Department for Business, Energy and Industrial Strategy, however the outcomes are yet to be published:

- *Improving the Energy Performance of Privately Rented Homes in England and Wales* closed in January 2021. The outcome is widely expected to introduce a minimum requirement to ensure that all rental properties achieve an EPC (Energy Performance Certificate) rating of C or higher from 2028. It is also expected to increase the current required works cap (the maximum amount that is expected to be paid to improve the property's EPC rating) from £3,500 to £10,000, before exemptions can be applied.
- *Improving home energy performance through lenders* closed in February 2021. The outcome is expected to impose a requirement on all lenders to report on the EPC of their loan portfolio, along with a commitment to show annual improvements towards an average rating of C or higher.

These changes could have a significant impact on the private rented sector in the UK. The industry eagerly anticipates the publication of the final outcomes from each of these consultations, however discussion as well as action from lenders have already taken place, with the emergence of a green finance sector. The Green Finance Institute reported that nine Buy-to-Let lenders had launched dedicated green finance products by the end of December 2021[10], however these products have largely seen limited success in driving a change in borrowers' attitudes.

The Group's lending sub-segments

Buy-to-Let

According to UK Finance, Buy-to-Let gross advances reached £45.9bn in 2021[11], a 15% increase from £38.3bn in 2020, despite the lingering effects of the pandemic. Research conducted by BVA BDRC, in its Landlords Panel survey in the third quarter, found that half of landlords reported that their lettings business had been negatively affected by the pandemic. However, this was fewer than the 81% that had expected to suffer a negative impact at the start of the pandemic, signalling that performance may have been better than initially feared for many landlords. The increasing optimism was also reflected in the landlord confidence indicators, all of which reached a five-year high in the third quarter of 2021.[12]

Purchase activity was significantly impacted in the early months of 2020, however the SDLT holiday supported a strong recovery in house purchase activity, which continued throughout 2021. According to UK Finance, Buy-to-Let purchases reached £17.5bn in 2021, a 73% increase from £10.1bn in 2020.[11] Within this market, the professionalisation of borrowers continued due to the increased tax liability for private landlords and sustained regulatory change that has occurred over a number of years, which might have deterred new amateur entrants who would otherwise be tempted by robust rental yields and strong capital gains.

Research conducted by BVA BDRC on behalf of the Group reported that in the fourth quarter of 2021, 24% of landlords with large portfolios of 20 or more properties intended to acquire new properties in the next 12 months compared to just 8% of single-property landlords. The research also found that of those landlords that planned to purchase new properties, more respondents intended to buy within a limited company structure than as an individual in their personal name.[12]

According to UK Finance, remortgage activity in the Buy-to-Let sector reached £27.0bn in 2021, a 1% decrease from £27.4bn in 2020.[11] This decrease reflected the market's focus on purchases fuelled by the temporary SDLT holiday.

In the Private Rented Sector (PRS), much like the housing market as a whole, supply constraints have continued amidst increasing tenant demand leading to upwards pressure on rents. As a result, contributors to the RICS Residential Market Survey in November 2021 reported a rental growth projection of almost 4% over the next 12 months, with rental growth expected to average approximately 5% over the next five years.

The fundamentals underpinning the PRS remained strong throughout 2021, with growth in house prices outpacing wage growth to stretch affordability even further and the reduced availability of high loan to value mortgages generated strong demand for rental properties, particularly as individuals returned to office-based working in central city locations.

Residential

The UK residential mortgage market was equally affected by the SDLT holiday as buyers sought to complete purchases while they could benefit from lower transactional costs. This resulted in large spikes in purchase completions in March, June and September aligned with the relief withdrawal periods.

According to UK Finance, purchase completions reached £190.1bn[13] in 2021, a 45% increase from £130.8bn in 2020 as home movers sought more space and first-time buyers took their first step onto the property ladder, as the availability of high loan to value mortgages increased.

Residential purchase completions

£190bn

2020: £131bn

Buyers also had an additional deadline to consider this year as changes to the Government's popular Help to Buy scheme were introduced at the end of March 2021; these changes restricted the scheme to first-time buyers only while also introducing new regional property price caps. The Group offers products under the scheme via the Precise Mortgages brand and benefited from increased activity in the first quarter, with buyers seeking to complete their purchases before the new rules came into effect.

Commercial

Similar to the residential property market, the start to 2021 was marked by a national lockdown and meant that only essential retailers were allowed to trade from premises. May saw the reopening of non-essential retail and outdoor social and leisure venues. Most indoor social and leisure venues opened in May, with nightclubs being the final sector to reopen in July. The pandemic support grants and the furlough scheme offered assistance to many businesses through these challenging times.

As in 2020, and despite very strong summer trading that resulted from limited international travel opportunities, the hospitality and leisure sectors were severely impacted by coronavirus restrictions. Retail shopping centres and the High Street were already experiencing a contraction in demand and values before the pandemic as consumers moved online. CBRE Group reported an annual decline of 1.7% in rent for 'all retail, a further decline from the 8.3% reduction recorded in 2020'.[14] However, convenience retail and retail warehousing showed growth in 2021 as shopping for essentials remained local. Whilst the prime retail settings struggled, the lower value, tertiary and suburban retail segments remained comparatively buoyant. In addition, mixed use asset classes such as semi-commercial property, which offers a diverse income stream underpinned by the residential lettings, continued to be attractive to investors. Overall, CBRE reported that capital values for 'all retail' increased 6.3% in 2021, with the growth substantially achieved in the last two quarters of the year.

In contrast, the industrial sector, especially warehouse and distribution, saw greater occupier and investor demand, resulting in an increase in rents and capital values, with CBRE reporting annual rental value and capital value growth of 9.0% and 35.6%, respectively, for 'all industrial'.[14] Finally, office space was impacted by lower occupancy rates as office workers were working from home for the majority of 2021. The attitude of businesses to retaining office premises and presence has been mixed, however it has been acknowledged by most that the office remains an important tool to grow a business, to ingrain a desired culture and to develop junior employees. Where new lettings and sales were made, a flight to quality was apparent, with A-grade stock seeing greater demand than B-grade stock, despite it being of lower value. CBRE reported annual rental value and capital value growth of 0.7% and 3.4%, respectively, for 'all offices'.[14]

Overall, commercial property investment volumes recovered in 2021, reaching more than £55bn, up by nearly a quarter on the 2020 figure, and the highest level since 2018. The year ended on a high, with £17.8bn transacted in the final quarter of the year.[15]

Residential development

The long period of house price growth in the UK, as well as strong demand for housing outstripping both the housing supply and real wage growth, has led to affordability issues and access to the housing ladder being outside the reach of many. In 2021, the pandemic support schemes put in place by the government appeared to have boosted demand, which remained strong throughout the year. It was the strongest for houses that were affordable to local populations in the regions, which the Heritable business has concentrated on funding. It was notable that sales rates for the few apartment schemes funded in London were also high, seemingly bucking the trend of that particular market. These have resulted in high levels of repayments for the Heritable business through 2021.

It appears that some regions remain structurally reliant on the government's Help to Buy scheme and therefore these areas tend to be avoided by Heritable. When government intervention into the housing markets, both directly and indirectly, is withdrawn there is a risk that transaction volumes will fall. At that point, the support required by small and medium sized developers, which forms Heritable's core audience for development finance, will increase.

Second charge lending

According to the Finance and Leasing Association, second charge mortgage lending reached £1.1bn[16] in 2021, an increase of 47% compared to 2020. The Group maintains a reduced presence in this smaller market and continues to offer lending to low-risk, prime borrowers.

Funding lines

There are a number of successful non-bank or alternative providers of finance to retail and SME customers in the UK. These businesses are funded through a variety of means, including wholesale finance provided by banks, investment funds and securitisation or bond markets, high net worth investors and market-based peer-to-peer platforms.

The Group was an active provider of secured funding lines to these specialty finance providers, primarily focusing on short-term real estate finance and development finance. Through these activities, the Group achieved senior secured exposure at attractive returns to asset classes that it knows well, primarily secured against property-related mortgages. OSB Group sees a regular flow of opportunities; however, given the pandemic and economic uncertainty, in 2021, the Group did not consider any new client facilities, choosing to focus on servicing the existing borrowers and applying amended, restricted lending criteria.

1. UK Finance, Property sale transactions, PT2M, Feb 2022
2. UK Finance, New mortgage lending by purpose of loan, MM23M, Feb 2022
3. Twenty7Tec Mortgage Market Research, Dec 2021
4. UK Finance, New mortgage lending by purpose of loan, MM23, Feb 2022
5. ONS, UK House Price Index, Dec 2021
6. Bank of England, Money and Credit Report, Dec 2021
7. Moneyfacts, Monthly Treasury Report, Dec 2021
8. ONS, Household Sector Deposits, Dec 2021
9. LENDERS Project – Core Report July 2017
10. https://www.greenfinanceinstitute.co.uk/programmes/ceeb/green-mortgages/
11. UK Finance, New and outstanding Buy-to-Let mortgages, MM17M, Feb 2022
12. BVA BDRC, Landlords Panel survey, Q3 2021
13. UK Finance, RL1UK and RL2UK, Feb 2022
14. CBRE, UK Monthly Index, December 2021
15. https://www.carterjonas.co.uk/commercial-market-outlook
16. FLA, February 2022

Chief Executive Officer's Statement

Looking back on 2021, I am incredibly proud of the operational and financial performance of OSB Group, and our delivery of record profits, whilst proving once again the resilience of our strategy and business model against the backdrop of the pandemic.

Underlying return on equity

24%

2020: 19%

Statutory return on equity

20%

2020: 13%

I am incredibly proud of the operational and financial performance of OSB Group, and our delivery of record profits, whilst proving once again the resilience of our strategy and business model against the backdrop of the pandemic.

Andy Golding
Chief Executive Officer

In 2021, we made significant progress on important projects including our approach to climate change and sustainability. More importantly, the Board has committed to be carbon neutral for our direct emissions in 2021 through reduction initiatives and emissions removal credits. In addition, we have set a significant target of achieving Net Zero greenhouse gas emissions by 2050 and we are developing detailed plans to achieve this ambitious goal for the Group and our stakeholders. We fully recognise that no business can achieve net zero on their own and collaborative support from industry and policy makers will be required.

We continued to build our business and delivered underlying and statutory net loan book growth of 10%, supported by £4.5bn of new lending at attractive margins. This was delivered as the Group successfully met the challenges from ongoing uncertainty caused by the pandemic. Once again for 2021, we achieved a class-leading return on equity of 24% on an underlying basis and 20% on a statutory basis (2020: 19% and 13% respectively).

The Group has a very strong capital position and proven capital generation capability through profitability, with the fully-loaded CET1 ratio improving further to 19.6% as at 31 December 2021 (31 December 2020: 18.3%). This has enabled the Board to support strong growth and shareholder returns, and announce a £100m share buyback programme to commence on 18 March 2022. Additionally, the Board is recommending an increase in the full year 2021 ordinary dividend payout ratio to 30%. The Board remains committed to returning any additional excess capital to shareholders and intends to update the market on its capital management framework once greater clarity is obtained on the impact of Basel 3.1 and its timing versus the Group attaining IRB accreditation.

Financial performance

I am delighted that the Group continued to generate a high level of profitability during 2021, with record underlying pre-tax profit of £522.2m, up 51% on the prior year, and underlying basic earnings per share of 86.7 pence, up 49% (2020: £346.2m and 58.1 pence, respectively). On a statutory basis, profit before tax increased to £464.6m (2020: £260.4m) and basic earnings per share was 76.0 pence (2020: 42.8 pence).

The underlying net interest margin for the year improved to 282bps (2020: 247bps) due to a lower cost of retail funds and one-off underlying net effective interest rate gains of £18.6m which contributed 8bps to NIM in the year. The statutory NIM was 253bps for 2021 (2020: 216bps).

The Group maintained its strong focus on cost discipline and efficiency and the underlying management expense ratio remained broadly stable at 70bps in 2021. The underlying cost to income ratio which benefitted from stronger net interest income, and fair value gains on hedging activity, further improved to 24% from 27% in 2020. The statutory management expense ratio and cost to income ratio were 71bps and 26%, respectively (2020: 70bps and 31%).

The management expense and cost to income ratios in both 2021 and 2020 also benefitted from cost synergies and lower spending as a result of lockdowns, the working from home guidance and some hiring delays in an increasingly competitive labour market.

Our strong lending franchise

Demand for mortgages remained strong in 2021 and the Group remained a lender of choice in our core Buy-to-Let and Residential market sub-segments, with total organic originations of £4.5bn, up 20% from £3.8bn in 2020. This was achieved with restricted lending across the Group's sub-segments during the first half of the year. In July 2021, more positive economic indicators enabled us to introduce new products at pre-pandemic criteria in our core Buy-to-Let and Residential sub-segments at attractive margins, however we continued to control lending in our more cyclical sub-segments; commercial, bridging, development finance, funding lines and second charge residential. I am pleased that at the beginning of 2022, we have also returned to the market with products at pre-pandemic criteria in our commercial, semi-commercial and bridging sub-segments and we entered 2022 with a robust pipeline of new business.

The property purchase market was particularly active for the Group during 2021, with strong demand stimulated by the temporary reduction in stamp duty, which also brought forward completions to the first half as borrowers rushed to complete mortgages prior to the cut-off deadlines. The Group saw especially strong demand for its products from landlords buying via a limited company structure and those buying specialist property types such as houses in multiple occupation and multi-unit properties, areas where we have long-standing expertise.

Landlords are demonstrating high levels of confidence and we continue to support them as they decide to add to their portfolios, remortgage properties within their existing portfolios or incorporate their business, selecting to do so with the Group given our expertise and multi-brand mortgage propositions.

The Group continued to receive recognition from mortgage customers and intermediaries in the year and Precise Mortgages was recognised by Mortgage Introducer Awards 2021 as Specialist Lender of the Year and by L&G Mortgage Club Awards 2021 as Best Lender for partnership with the club. Kent Reliance received the Best Specialist Lender award from the Mortgage Strategy Awards.

Proven strong credit and risk management

The high quality of the Group's loan book was reflected in the strong credit performance during the year, with balances over three months in arrears remaining broadly stable at just 1.4% and 0.7% of the loan book at the end of December for OSB and CCFS respectively (31 December 2020: 1.3% and 0.5%). The weighted average LTV of the Group's loan book reduced to 62% as at 31 December 2021 from 65% in 2020 supported by house price appreciation. The weighted average LTV of new business written by the Group fell to 69% from 70% during the year as the Group controlled its lending criteria.

The concerns for the economy identified at the beginning of the pandemic have not generally materialised, and the macroeconomic outlook improved over the course of 2021, albeit with the more recent concerns over rising cost of living moderating the outlook somewhat. The Group reflected this in its IFRS 9 models and recorded an impairment credit of £4.9m on an underlying basis for the year (statutory impairment credit of £4.4m), representing an underlying and statutory loan loss ratios of -2bps, compared with 38bps for underlying and statutory loan loss ratios in 2020.

The Group's Internal Ratings-Based (IRB) programme made tangible progress against plan during the year. The IRB capabilities developed by the Group continue to be integrated into key risk and capital management processes, and are already informing strategic decision making and business planning activities. The anticipated delay in Basel 3.1 implementation and extension to the Group's MREL deadlines, provided the Group with the opportunity to enhance our level of end state compliance prior to submitting our module 1 application. We continue to engage with the PRA to agree a submission date.

The integration of OSB and CCFS has continued to progress well during the year and it remains ahead of schedule. By 31 December 2021, we had delivered annualised run rate savings of c. £24m and we expect to marginally exceed our run-rate pledge by the end of the third anniversary of the Combination. Integration costs to date are also lower than originally expected at £20m.

Offsetting our emissions

"We're committed to offsetting our operational emissions whilst we determine and deploy our net zero transition plan. We are offsetting 2021, and 2020's operational footprint using carefully selected, quality, verified offsetting projects, focusing on areas vital to the decarbonisation of the housing sector. These include a domestic solar energy project in India, large scale renewable energy infrastructure projects and a project that demonstrates innovation in the built environment to avoid embedded emissions from construction. We see these projects as aligning with our ambitions, and that facilitate the transition to a low carbon housing economy."

Multi-channel funding model

Retail deposits remained the primary source of funding for the Group in the year, reaching £17.5bn as at 31 December 2021. Our competitive retail savings propositions, through the Kent Reliance and Charter Savings Bank brands, allowed the Group to raise the funds needed to support loan growth at attractive rates as we opened over 44,000 new savings accounts in the year.

The retention rate for savers remained high, achieving 90% for maturing fixed rate bonds and ISAs at Kent Reliance and 85% for Charter Savings Bank. Our efforts to provide excellent customer service and transparent and fair savings products were reflected in the strong Net Promoter Scores of +70 for Kent Reliance and +71 for Charter Savings Bank. I am delighted that Charter Savings Bank won ISA Provider of the Year and Online Savings Provider of the Year from Moneyfacts Consumer awards. These awards demonstrate the dedication to delivering excellent customer service across the Group both in India and in the UK.

We continued to complement our retail savings franchises by utilising our capabilities in the wholesale funding market. In 2021, we completed securitisations with a value of £1.9bn which were largely retained and significantly increased the contingent wholesale funding options available to the Group.

Securitisation also provided an opportunity to increase efficiency in our drawings from the Bank of England funding schemes through the use of retained AAA bonds. In 2021, the drawings under the Term Funding Scheme were fully repaid and drawings under the Term Funding Scheme for SMEs increased to £4.2bn (31 December 2020: £2.6bn and £1bn, respectively).

ESG

Our Purpose is to help our customers, colleagues and communities prosper. To achieve it, we operate in a sustainable way with relevant ESG matters at the heart of our business.

Strong governance is fundamental to delivering the Group's strategy and we have a long tradition of looking after our stakeholders and involvement in the communities in which we operate. The environment is no less important to us. As a specialist lender, we have long been aware of our responsibilities and the positive impact we can have on society by responding to the challenges and opportunities that ESG matters present and which have become an integral part of the Group's strategy.

We have created a new ESG governance structure and a dedicated team responsible for managing the Group's ESG strategy and coordinating its implementation and delivery. I am delighted that following our decision to become carbon neutral for our direct emissions in 2021 and to demonstrate our continued and long-term dedication to climate change, we have joined the Net Zero Banking Alliance. We have also committed to assist with industry's efforts to achieve its decarbonisation goals and to achieve net zero greenhouse gas emissions by 2050.

Our people are our key asset and we continued to work hard to keep them safe and supported, in the UK and India throughout 2021. I would like to take this opportunity to thank all of our colleagues for their continued dedication, flexibility, strong team spirit and camaraderie throughout 2021.

Our customers continued to receive the support that they are accustomed to, delivered by our resilient and effective operations. We were also active in supporting our communities through a range of community and fundraising initiatives, donating nearly £395k to charitable causes in 2021.

Looking forward

The UK economy showed determined strength during 2021, which included strong employment growth and house price inflation. However recent geopolitical events driving further inflationary pressure, do create additional uncertainty over the macroeconomic outlook. OSB Group has a proven track record of delivering strong results as a listed business and we have consistently demonstrated our resilience. The solid foundations of our business allow us face the future with optimism.

The Group has a healthy pipeline of new business and we are successfully leveraging our unique multi-brand structure to drive strong current application volumes. We are seeing strong demand for our products in our core markets and landlord confidence in BTL remains positive. Our own research confirmed that tenant demand is good and trending upward.

Based on current new business volumes and our focus on retention, we expect to deliver underlying net loan book growth of c. 10% in 2022. The pricing and funding costs we are currently seeing are expected to deliver an underlying NIM for 2022 broadly flat to 2021. We expect the underlying cost to income ratio to increase marginally, with potential for additional inflationary headwinds. The cost to income ratio in 2021 benefitted from fair value gains from hedging activities and reduced expenditure during the pandemic.

Andy Golding
Chief Executive Officer
17 March 2022

Our Vision is to be recognised as the UK's number one choice for specialist banking through our commitment to exceptional service, strong relationships and competitive propositions.

Specialist mortgage lending

Priorities	Be a leading specialist lender in our chosen market segments	Focus on automated and bespoke manual underwriting
Our goals	Originate loans at attractive margins in our chosen market sub-segments • Target market sub-segments which offer attractive returns on a risk-adjusted basis • Deliver incremental, non-organic business • Invest in a highly responsive, customer-focused culture • Innovate to secure sustainable long-term market leadership • Provide solutions to environmental, legislative and social changes impacting our borrowers and their properties	High-quality decisions protecting the business • Use deep credit experience to deliver high-quality lending decisions • Provide a differentiated underwriting approach dependent upon the needs and characteristics of our customers; offering both an automated approach and a skilled manual underwriting capability and in-house real estate expertise • Deliver a quality, differentiated service informed by comprehensive market feedback and research • Clear, accurate and efficient decisions recognised by intermediaries for their quality and fairness
2021	• Organic originations were £4.5bn, up 20% from £3.8bn in 2020 after returning to pre-pandemic risk appetite in core sub-segments • Group originations and market share fell in bridging and commercial sub-segments due to maintaining restrictions or redeploying lending criteria cautiously whilst the fundamentals of these markets were assessed	• Progressive widening of some lending criteria returning to pre-pandemic risk appetite in core sub-segments as macroeconomic indicators improved • The OSB Transactional Credit Committee met three times each week to assist with more complex or larger new mortgage applications • Maintained high underwriting and servicing standards notably in response to housing market activity spurred by the SDLT holiday
Looking forward	• Maintain our strong credit and return requirements and assess the attractiveness of growth opportunities in our current market sub-segments • Deploy scale and resources on organic lending opportunities • Identify new market sub-segments with high returns on a risk-adjusted basis • Leverage our proven track record for portfolio acquisitions to deliver incremental non-organic growth	• Using OSB's and CCFS' credit experience in a best-of-both approach • Leverage differentiated but complementary underwriting capabilities to enhance customer propositions • Increase underwriting efficiency to better serve borrower needs across complementary brands • Use enhanced data insight and analysis of the combined OSB and CCFS data sets and analytic capabilities
Key risks[1]	• Political and economic uncertainty affecting long-term demand for specialist mortgages and appetite from landlords to grow their portfolios • Potential regulatory and tax changes including legislative focus on Buy-to-Let • New specialist lenders entering the market	• Changing regulation for underwriting • More complex underwriting requirements • Difficulty in recruiting experienced employees • Increasing intermediary demands • Demands of the ever-changing technology landscape
KPIs	Organic originations £4.5bn 2020: £3.8bn	Loan loss ratio -2bps 2020: 38bps

1. For more information on the Group's risk management and principal risks and uncertainties see the Risk review on pages 50 to 73.

	Sophisticated funding platforms	**Unique operating model**
Further deepen relationships and reputation for delivery with intermediaries	Maintain stable, high-quality, diversified funding platforms	Leverage our unique and cost-efficient operating model
Increase partner engagement in response to demand • Access to specialist products developed by listening to intermediary partners • Be accessible and available to intermediaries • Complementary propositions for OSB and CCFS brands • Gain intermediary recognition for delivering sustainable propositions • Deliver bespoke solutions to meet intermediary and customer needs	Expertise in funding options • Maintain resilient and diversified funding platforms to support future growth and ensure liquidity requirements are met through the economic cycle and cost of funds is optimised • Be primarily funded through attracting and retaining a loyal retail savings customer base • Deliver propositions offering transparent, straightforward savings products, providing long-term value combined with excellent service levels • Maintain a sophisticated securitisation funding programme and balance sheet management capability	Best-in-class customer service • Have customer service at the heart of everything that we do • Maintain centres of excellence across OSB's and CCFS' existing locations in Chatham, Wolverhampton and in India • Extend activity in OSB India (OSBI) to develop high-quality areas of excellence • Deliver cost efficiencies through excellent process design and management • Deliver flexible and resilient operating processes
• Widened access to the Group's specialist products as we leveraged our complementary brand propositions • Continued to be accessible and available to intermediaries by finding new ways of working as the impact of the pandemic changed • Restructured Sales team to focus on market sub-segments post-pandemic • Enhanced telephone intermediary resource to complement our face-to-face service	• Opened over 44,000 new savings accounts across both Banks in 2021 • Achieved 90% customer retention for Kent Reliance and 85% for Charter Savings Bank • Received multiple awards for savings products, including Online Savings Provider of the Year and ISA Provider of the Year from Moneyfacts Consumer Awards and Best Fixed Rate Savings Provider in the Moneynet Awards • Delivered securitisation transactions with a combined value of £1.9bn in 2021	• Investments in training and process development contributed to strong savings customer NPS of +70 for Kent Reliance and +71 for Charter Savings Bank • Continued to develop deep credit know-how through proprietary data analytics • Opened new site in Hyderabad to complement Bangalore • 571 employees at OSB India at the end of 2021 • Demonstrated outstanding operational resilience and flexibility
• Continue to build direct relationships with intermediaries • Leverage best practices of CCFS and OSB across the combined Group to maintain and further enhance best-in-class service performance to brokers • Increase the breadth of sales support to intermediaries during the application process • Investment in technology to enhance the intermediary and borrower customer journey	• Continue to invest in both Kent Reliance and Charter Savings Bank retail deposit franchises • Benefit from the ability to execute structured balance sheet management transactions across the combined Group's balance sheet • Utilise in-house expertise to enable efficient access to capital markets • Increase the Group's encumbrance efficiency: access to more wholesale funding for each pound of assets encumbered	• Use greater scale to deliver efficient, scalable and resilient infrastructure including IT security • Deliver cost efficiencies and operational enhancements by leveraging OSBI's lending, savings and support operations and capabilities • Deliver efficiencies and enhanced capabilities in centres of excellence • Use robotics technology and improve workflows to further enhance primary servicing
• Loss of key broker relationships • More complex underwriting requirements slowing the process • Lack of investment in technology solutions meaning the Group fails to keep pace with market demands	• Increased competition for retail funds • Increased customer expectation for technology • Volatility of capital markets on demand and price • Increased burden of regulatory compliance, for example, Open Banking (which currently does not apply to the Group) • Competition in wholesale markets as banks repay their TFSME drawings	• Harder to achieve continuous service improvement as the Group grows • Increasing costs in India • Increasing complexity from compliance with changing regulation • Maintaining operational resilience as the Group grows
OSB broker NPS +55 2020: +49 CCFS broker NPS +42 2020: +54	21 securitisations since 2013 across the Group worth over £9.8bn	Underlying cost to income ratio 24% 2020: 27%

Lending in 2021

The Group's lending performance in 2021 reflected not only the dynamics present in the wider mortgage market, but also the Group's discipline in its lending decisions.

Even though the third national lockdown marked the first quarter of the year, it did not bring severe disruption as the Group's lending brands demonstrated their flexibility and resilience, and adapted their processes and practices.

The Group saw strong levels of applications and completions in its Residential sub-segments, with prospective borrowers seeking to complete property purchases while the stamp duty holiday was still in effect, bringing some activity forward to the first half of the year. The Group was also active in the popular Help to Buy scheme in the year. The new rules that came into force in April 2021, restricted new completions from the scheme to first-time buyers only and introduced regional price caps, which led to a spike in completions at the end of March 2021. Through its Kent Reliance brand, the Group also offers mortgages under the shared ownership scheme, which saw strong applications and completions during the year.

In its Buy-to-Let sub-segments, the Group also saw increased completion activity as the stamp duty holiday was phased out, despite the additional surcharge for second homes continuing to apply. The Group saw particularly strong demand for its products from landlords buying via a limited company structure and those buying specialist property types, such as houses in multiple occupation and multi-unit properties. Throughout the first half of 2021, the Group continued to apply restricted lending criteria in terms of maximum loan to value and loan sizes in its core sub-segments, as well as higher pricing initially introduced as a response to the pandemic.

In July 2021, as the economy and the outlook improved, new products were introduced in both the Buy-to-Let and Residential sub-segments at pre-pandemic criteria, including maximum loan to values of 85% and products for customers with a less-than-perfect credit history. This resulted in stronger new applications in the second half of the year.

Throughout 2021, lending in the Group's more cyclical business lines, including commercial, residential development finance, funding lines and second charge residential, remained constrained as measures introduced in response to the pandemic prevailed. This led to a lower volume of business in these sub-segments during the year. The restrictive measures remained under constant review and were gradually relaxed, as we saw evidence of improving macroeconomic conditions, for example, loan to value criteria in the bridging sub-segment were returned to pre-pandemic levels in October.

The Group's arrears remained broadly stable throughout the year and, as at 31 December 2021, the percentage of loans and advances in three months plus arrears was 1.4% for OSB (2020: 1.3%) and 0.7% for CCFS (2020: 0.5%).

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

OneSavings Bank (OSB) segment

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

Contribution to profit

For year ended 31 December 2021	BTL/SME £m	Residential £m	Total £m
Net interest income	**340.5**	**74.3**	**414.8**
Other income	**7.2**	**1.5**	**8.7**
Total income	**347.7**	**75.8**	**423.5**
Impairment of financial assets	**(6.2)**	**2.7**	**(3.5)**
Contribution to profit	**341.5**	**78.5**	**420.0**

For year ended 31 December 2020	BTL/SME £m	Residential £m	Total £m
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

Loans and advances to customers

As at 31 December 2021	BTL/SME £m	Residential £m	Total £m
Gross loans and advances to customers	**9,936.1**	**2,121.2**	**12,057.3**
Expected credit losses	**(72.0)**	**(10.2)**	**(82.2)**
Net loans and advances to customers	**9,864.1**	**2,111.0**	**11,975.1**
Risk-weighted assets	**4,614.1**	**957.6**	**5,571.7**

As at 31 December 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

OneSavings Bank (OSB) segment (Continued)

Buy-to-Let/SME sub-segment

Gross loan book

£9,936.1m

2020: £9,164.6m

+8%

Net interest income

£340.5m

2020: £264.7m

+29%

Contribution to profit

£341.5m

2020: £235.9m

+45%

Loans and advances to customers

	31-Dec-2021 £m	31-Dec-2020 £m
Buy-to-Let	**8,867.7**	8,044.6
Commercial	**794.4**	821.9
Residential development	**120.7**	133.1
Funding lines	**153.3**	165.0
Gross loans and advances to customers	**9,936.1**	9,164.6
Expected credit losses	**(72.0)**	(67.0)
Net loans and advances to customers	**9,864.1**	9,097.6

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

The Buy-to-Let/SME net loan book increased by 8% to £9,864.1m in 2021, supported by organic originations of £1,804.7m, which were 17% higher than £1,542.5m in 2020.

Buy-to-Let/SME net interest income increased by 29% to £340.5m from £264.7m in 2020, reflecting growth in the loan book, a lower cost of retail funds and an effective interest rate reset gain of £24.9m, due to updated prepayment assumptions based on observed customer behaviour. This segment also benefitted from £7.2m of other income relating to gains on the Group's hedging activities, principally fair value gains on mortgage pipeline swaps (2020: £0.2m), offset by an impairment loss of £6.2m (2020: £47.0m loss). The impairment loss was largely due to individually assessed provisions raised against two commercial counterparties, individual assessment methodology enhancements and changes in the credit profile of the BTL/SME loan book, including portfolio size and staging mix, which more than offset provision releases as the macroeconomic outlook improved. In addition the positive impact of house price appreciation in the year was partially offset by falls in commercial property values. Overall, the Buy-to-Let/SME segment made a contribution to profit of £341.5m, up 45% compared with £235.9m in 2020.

The average book loan to value (LTV)[1] in the Buy-to-Let/SME segment reduced to 65% as at 31 December 2021 benefitting from house price appreciation in the year (31 December 2020: 67%), with only 2.5% of loans exceeding 90% LTV (31 December 2020: 2.9%). The average LTV for new Buy-to-Let/SME origination[1] was 73% (2020: 71%).

Buy-to-Let

Buy-to-Let gross loans increased by 10% to £8,867.7m from £8,044.6m at the end of 2020. The Group gradually relaxed its underwriting criteria in this segment and reintroduced products with pre-pandemic criteria in July, stimulating demand, and the organic originations increased by 33% in the year to £1,477.7m (2020: £1,114.4m).

Professional and multi-property landlords continued to represent the majority of borrowers in this sub-segment reaching 82% of completions by value for the Kent Reliance brand.

Many landlords continued the trend of incorporating their businesses to optimise their tax position and 73% of Buy-to-Let mortgage applications in Kent Reliance

came from landlords borrowing via a limited company (2020: 75%). Research conducted on behalf of the Group by BVA BDRC shows that this segment of the market continues to expand, with limited company ownership remaining the most popular option amongst landlords intending to purchase new properties in the next 12 months.

As at 31 December 2021, the proportion of Kent Reliance Buy-to-Let completions represented by refinancing reduced slightly to 54% (2020: 58%) as more landlords took the opportunity to add to their portfolios while the SDLT holiday on purchases was in place. Landlords continued to favour mortgages with longer initial terms as mortgage rates became more attractive during 2021, and five-year fixed rate mortgages represented 62% of Kent Reliance completions (2020: 52%). In addition, OSB's retention programme, Choices, was successful in retaining customers, with 71% of existing borrowers choosing a new product with us within three months of their original product ending (2020: 75%).

The weighted average LTV of the Buy-to-Let book reduced to 64% as at 31 December 2021, benefiting from house price appreciation and the average loan size was £250k (31 December 2020: 67% and £260k). The weighted average interest coverage ratio for Buy-to-Let originations during 2021 was 199% (2020: 201%).

Commercial

Through its InterBay brand, the Group lends to borrowers investing in commercial and semi-commercial property, reported in the Commercial total, and more complex Buy-to-Let properties, reported in the Buy-to-Let total. The gross loan book in the commercial business reduced 3% to £794.4m (31 December 2020: £821.9m) as the Group retained its prudent lending criteria introduced as a response to the pandemic throughout the year.

The Group launched a holiday let proposition in 2021 under its InterBay brand to assist landlords wishing to diversify their portfolios.

The weighted average LTV of the commercial book remained low at 69% and the average loan size was £380k in 2021 (31 December 2020: 71% and £385k).

InterBay Asset Finance, which predominantly targets UK SMEs and small corporates financing business-critical assets, had a successful year achieving record volumes. Demand for lending under the Coronavirus Business Interruption Loan Scheme (CBILS) continued to be strong, although it ended for new applications in March, with all deals required to be funded by the end of November. InterBay Asset Finance was also approved for the CBILS successor scheme, the Recovery Loan Scheme, which expires at the end of June 2022. The gross carrying amount under finance leases was £116.2m as at 31 December 2021 (31 December 2020: £65.5m).

Residential development

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

The residential development finance gross loan book at the end of 2021 was £120.7m (31 December 2020: £133.1m), with a further £188.0m committed (31 December 2020: £145.6m). Total commitments were £500.3m including all approved limits that are subject to continued performance (31 December 2020: £502.7m). The increased rates of sale experienced by Heritable's developer customers continued in 2021, leading to high levels of loan repayments in the year.

Heritable has written £1,436m of loans since inception through to the end of 2021, of which £792m have been repaid. In addition, as at the end of 2021, the business had commitments to finance the development of 2,239 residential units, the majority of which are houses located outside central London. The business continued to take an exacting approach to approving funding for new customers in 2021 given the macroeconomic uncertainty.

Funding lines

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 2021 were £450.0m, with total loans outstanding of £153.3m (31 December 2020: £520.0m and £165.0m, respectively). During the year, the Group adopted a cautious risk approach and did not consider any new secured funding line facilities, choosing to focus on servicing the existing borrowers and continuing to apply restricted lending criteria.

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

OneSavings Bank (OSB) segment (Continued)

Residential sub-segment

Gross loan book

£2,121.2m

2020: £1,966.8m

+8%

Net interest income

£74.3m

2020: £68.1m

+9%

Contribution to profit

£78.5m

2020: £65.0m

+21%

Loans and advances to customers

	31-Dec-2021 £m	31-Dec-2020 £m
First charge	**1,895.9**	1,660.7
Second charge	**224.7**	295.4
Funding lines	**0.6**	10.7
Gross loans and advances to customers	**2,121.2**	1,966.8
Expected credit losses	**(10.2)**	(16.6)
Net loans and advances to customers	**2,111.0**	1,950.2

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

The Residential sub-segment net loan book grew 8% to £2,111.0m as at 31 December 2021 (31 December 2020: £1,950.2m) with organic originations of £558.6m during the year (2020: £354.2m).

Net interest income in the Residential sub-segment increased by 9% to £74.3m (2020: £68.1m) due to the growth in the loan book, the benefit of a lower cost of retail funds and a £7.5m effective interest rate gain due to cash outperformance versus modelled assumptions on the second charge acquired books. This segment also benefitted from an impairment credit of £2.7m (2020: £3.7m loss), due to less severe forward-looking macroeconomic scenarios adopted by the Group and strong house price performance, partially offset by post model adjustments applied during the year. Overall, contribution to profit from this segment increased by 21% to £78.5m compared with £65.0m in 2020.

The average book LTV[1] reduced to 48% (31 December 2020: 54%) with only 0.8% of loans by value with LTVs exceeding 90% (31 December 2020: 1.6%). The average LTV of new residential origination[1] during 2021 reduced to 50% (2020: 61%) as a result of growth in shared ownership originations, which complete at much lower LTVs.

First charge

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

The first charge gross loan book increased by 14% in the year to £1,895.9m from £1,660.7m at the end of 2020, as the Group retained its strong presence in the shared ownership sub-segment, achieving record levels of first charge residential originations of £558.2m (2020: £338.7m) in the year. The Group expanded its residential product offering from July, increasing the maximum LTV to pre-pandemic levels and re-launching products to assist customers with a less-than-perfect credit history, contributing to strong originations in this sub-segment.

Second charge

The OSB second charge mortgage brand, Prestige Finance, no longer offers new mortgages to borrowers, with its loan book in run-off and managed by Precise Mortgages. Second charge mortgages are currently offered under the Precise Mortgages brand as part of the CCFS segment. The Prestige Finance second charge residential loan book had a gross value of £224.7m at the end of 2021 (31 December 2020: £295.4m).

Funding lines

The Group continued to provide secured funding lines to non-bank lenders which operate in certain high-yielding, specialist sub-segments, such as residential first and second charge finance. The Group continued to adopt a cautious approach to these more cyclical businesses given macroeconomic uncertainty. Total credit approved limits as at 31 December 2021 reduced to £20.0m with total loans outstanding of £0.6m secured against property-related mortgages (31 December 2020: £29.2m and £10.7m, respectively).

1. Residential sub-segment average weighted LTVs include first and second charge lending.

Charter Court Financial Services (CCFS) segment

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

Contribution to profit

For year ended 31 December 2021	Buy-to-Let £m	Residential £m	Bridging £m	Second charge £m	Other[1] £m	Total underlying £m	Acquisition-related items[2] £m	Total statutory £m
Net interest income	**151.0**	**81.3**	**5.2**	**6.7**	**(8.5)**	**235.7**	**(62.9)**	**172.8**
Other income	–	–	–	–	**20.0**	**20.0**	**12.7**	**32.7**
Total income	**151.0**	**81.3**	**5.2**	**6.7**	**11.5**	**255.7**	**(50.2)**	**205.5**
Impairment of financial assets	**4.3**	**2.3**	**1.4**	**0.4**	–	**8.4**	**(0.5)**	**7.9**
Contribution to profit	**155.3**	**83.6**	**6.6**	**7.1**	**11.5**	**264.1**	**(50.7)**	**213.4**

For year ended 31 December 2020	Buy-to-Let £m	Residential £m	Bridging £m	Second charge £m	Other[1] £m	Total underlying £m	Acquisition-related items[2] £m	Total statutory £m
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 net interest income from acquired loan portfolios as well as gains on structured asset sales, fee income from third party mortgage servicing and gains or losses on the Group's hedging activities.
2. For more details on acquisition-related adjustments, see Reconciliation of statutory to underlying results in the Financial review.

Loans and advances to customers

As at 31 December 2021	Buy-to-Let £m	Residential £m	Bridging £m	Second charge £m	Other[1] £m	Total underlying £m	Acquisition-related items[2] £m	Total statutory £m
Gross loans and advances to customers	**6,301.9**	**2,451.8**	**56.3**	**153.7**	**17.7**	**8,981.4**	**143.1**	**9,124.5**
Expected credit losses	**(13.9)**	**(5.1)**	**(0.3)**	**(0.3)**	–	**(19.6)**	**0.3**	**(19.3)**
Net loans and advances to customers	**6,288.0**	**2,446.7**	**56.0**	**153.4**	**17.7**	**8,961.8**	**143.4**	**9,105.2**
Risk-weighted assets	**2,352.1**	**1,011.1**	**29.3**	**62.2**	**6.5**	**3,461.2**	**68.7**	**3,529.9**

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

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

Gross loan book*

£8,981.4m

2020: £8,001.2m

+12%

Net interest income*

£235.7m

2020: £201.2m

+17%

Contribution to profit*

£264.1m

2020: £198.1m

+33%

* Underlying.

Underlying loans and advances to customers

	31-Dec-2021 £m	31-Dec-2020 £m
Buy-to-Let	**6,301.9**	5,292.0
Residential	**2,451.8**	2,386.1
Bridging	**56.3**	106.1
Second charge	**153.7**	197.9
Other[1]	**17.7**	19.1
Gross loans and advances to customers	**8,981.4**	8,001.2
Expected credit losses	**(19.6)**	(28.2)
Net loans and advances to customers	**8,961.8**	7,973.0

1. Other relates to acquired loan portfolios.

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

The CCFS underlying net loan book grew by 12% to £8,961.8m at the end of 2021 (31 December 2020: £7,973.0m) supported by organic originations of £2,160.2m, which increased by 16% from £1,870.2m of new business written in 2020.

Charter Court Financial Services (CCFS) segment (Continued)

CCFS Buy-to-Let sub-segment

During 2021, CCFS' organic originations in the Buy-to-Let sub-segment through the Precise Mortgages brand increased by 32% to £1,482.3m (2020: £1,122.6m) as the Group benefitted from strong demand for new purchases driven by the stamp duty holiday and the gradual return to pre-pandemic lending criteria. The new business supported a 19% increase in the underlying gross Buy-to-Let loan book to £6,301.9m from £5,292.0m at the end of 2020.

The demand for CCFS' Buy-to-Let products was particularly strong amongst landlords borrowing through a limited company, which represented 69% of Buy-to-Let completions for the Precise Mortgages brand in 2021 (2020: 56%) and loans for specialist property types, including houses of multiple occupation and multi-unit properties represented 26% of completions in this sub-segment (2020: 30%). Landlords also took the opportunity to add to their portfolios while the SDLT holiday was available and purchases increased to 61% of completions for Precise Mortgages (2020: 43%). Five-year fixed rate mortgages were popular as well at 64% of completions, up from 61% in 2020.

The weighted average LTV of the loan book in this sub-segment was 68% at the end of 2021 (31 December 2020: 69%). The new lending average LTV was 74% with an average loan size of £192k (2020: 74% and £170k, respectively). The weighted average interest coverage ratio for Buy-to-Let origination was 188% during 2021 (2020: 193%).

Underlying net interest income in this sub-segment increased by 32% to £151.0m, compared with £114.8m in 2020, due primarily to growth in the loan book and a lower cost of retail funds, partially offset by an underlying effective interest rate reset loss of £14.7m to reflect customers choosing a new product at the end of their fixed rate period earlier, and spending less time on the higher revert rate. This segment also benefitted from an impairment credit of £4.3m (2020: £14.9m loss) due to less severe forward-looking macroeconomic scenarios adopted by the Group and strong house price performance, partially offset by model enhancements applied during the year. On an underlying basis, Buy-to-Let made a contribution to profit of £155.3m in 2021, up 55% compared to the prior year (2020: £100.2m).

On a statutory basis, the Buy-to-Let sub-segment made a contribution to profit of £109.5m (2020: £71.5m).

CCFS Residential sub-segment

The underlying gross loan book in CCFS' Residential sub-segment reached £2,451.8m in 2021, an increase of 3% from £2,386.1m as at 31 December 2020. Organic originations were £558.0m in 2021 (2020: £573.9m) with restricted criteria in place until July 2021. As the macroeconomic indicators improved, the Group made a decision to relax some of the criteria to pre-pandemic levels, in particular the maximum loan to value limits.

The Group continued to benefit from CCFS' expertise, with a particularly strong focus on first-time buyers and those purchasing new build properties under the popular Help to Buy scheme. As new restrictions to the scheme were introduced at the end of March 2021, there was a spike in completions as borrowers sought to finalise their purchases ahead of the new rules coming into force. Strong activity under the Help to Buy scheme was further boosted by the stamp duty holiday with purchases representing 86% of completions in this sub-segment in the period (2020: 79%).

The average loan size in this sub-segment was £136k (31 December 2020: £160k) with an average LTV for new lending of 66% (2020: 67%) and the book LTV reduced to 59% as at 31 December 2021 benefiting from house price appreciation in the year (31 December 2020: 62%).

Underlying net interest income grew to £81.3m (2020: £67.8m) reflecting the growth in the loan book and a lower cost of retail funds. The Residential sub-segment recorded an impairment credit of £2.3m (2020: £4.0m loss) due to less severe forward-looking macroeconomic scenarios adopted by the Group and strong house price performance, partially offset by post model adjustments. Overall, on an underlying basis, the Residential sub-segment made a contribution to profit of £83.6m, up by 30% compared with £64.1m in 2020.

On a statutory basis, the Residential sub-segment made a contribution to profit of £67.1m (2020: £45.4m).

CCFS Bridging sub-segment

The Group continued to control volumes in its high-quality regulated bridging sub-segment, by continuing to limit the number of products available and applying restricted lending criteria for much of the year. Some relaxation of these restrictions commenced in October 2021, with the maximum loan to value for standard and light refurbishment products increasing to 75% in line with pre-pandemic criteria. Short-term bridging originations were lower at £109.1m in 2021 compared with £141.8m in 2020, and as a result the gross underlying loan book in this sub-segment reduced to £56.3m as at 31 December 2021 (31 December 2020: £106.1m).

Underlying net interest income reduced to £5.2m from £11.8m in 2020, primarily reflecting the decrease in the loan book. The bridging sub-segment made a contribution to profit of £6.6m in 2021 on an underlying basis, compared with £10.5m in 2020, reflecting the reduction in the underlying net interest income, partially offset by an impairment credit of £1.4m (2020: £1.3m loss). The impairment credit was due to less severe forward-looking macroeconomic scenarios adopted by the Group, strong house price performance and the reduction in the loan book in this sub-segment.

On a statutory basis, the bridging sub-segment made a contribution to profit of £6.4m (2020: £9.7m).

CCFS Second charge sub-segment

The second charge gross underlying loan book reduced to £153.7m compared with £197.9m as at 31 December 2020, due to lower organic originations of £10.8m in the year (2020: £31.9m). Throughout 2021, the Group applied significant lending policy restrictions, with the controlled increase in the maximum loan to value from 50% to 65% in March being the only relaxation of criteria. The Group also continued to focus on prime borrowers.

Underlying net interest income in the second charge sub-segment reduced to £6.7m (2020: £7.4m) due to the lower lending and the contribution to profit remained flat for the year at £7.1m. An impairment credit of £0.4m (2020: £0.3m loss) was due to less severe forward-looking macroeconomic scenarios adopted by the Group and strong house price performance, partially offset by post model adjustments.

On a statutory basis, the contribution to profit from the second charge sub-segment was £5.7m (2020: £6.6m).

Wholesale funding review

Securitisation is central to the Group's liability management strategy, as well as a key funding source, with c. £10bn of issuance since December 2013 across CCFS and OSB.

In addition to providing cost efficient funding, the Group uses securitisations 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 use other options when the market is poor.

2021 exemplified the strength of this approach. The Group issued its largest ever securitisation transaction, Canterbury No. 4, in July 2021. This transaction securitised c. £1.7bn of mortgage loans and provided the Group with c. £1.4bn of AAA rated senior bonds which can be used as collateral in commercial and central bank repo facilities, or be sold into the market at short notice for liquidity purposes. In the year, the Group sold £200m of the AAA- rated Canterbury No. 4 bonds post completion to satisfy short-term funding needs.

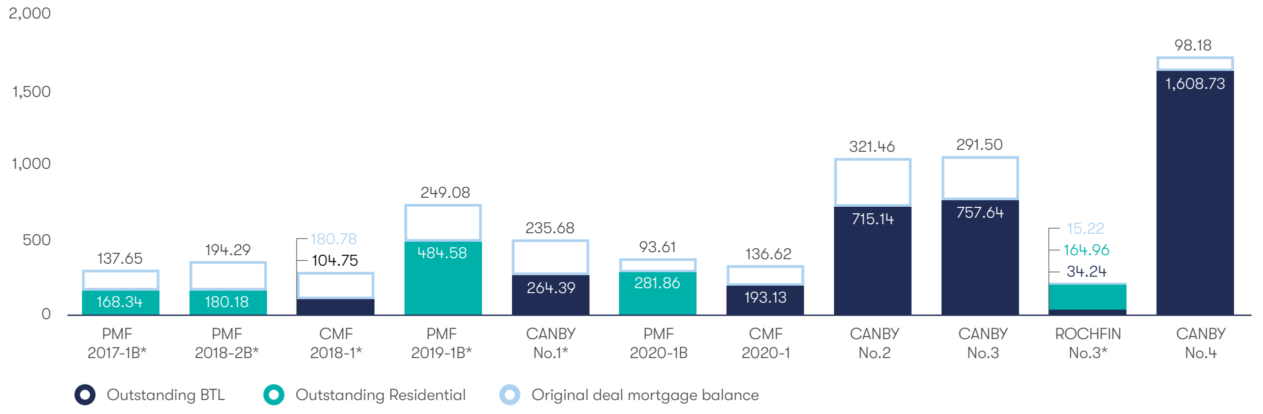
The Canterbury No. 4 transaction also forms part of a broader strategy to increase the Group's wholesale funding options and, in particular, to increase its encumbrance efficiency. The Group can access more wholesale funding for each pound of assets encumbered and thus use wholesale funding to a greater degree than would otherwise be possible.

A combination of balance sheet growth and the increased use of securitised collateral enabled the Group to expand its total borrowings from the Bank of England in 2021. Before the closure of the Term Funding Scheme in October 2021, the Group repaid its drawings under this scheme and replaced them with drawings under the Term Funding for SMEs, which at the end of 2021 totalled £4.2bn. These borrowings provide four-year funding at a cost of Bank Base Rate.

During 2021, the Group also arranged Rochester Financing No.3, which involved the re-financing of the Rochester Financing No.2 transaction issued in 2016, which securitised a portfolio of acquired third party originated UK mortgages.

In 2021, CCFS also had access to a warehouse funding facility from a Tier 1 investment bank. This facility was available as a bridge to RMBS funding, helping the Group to maximise the efficiency of its liquidity position through the transition from retail deposit to securitisation funding. This warehouse facility was closed in December 2021.

Group's active issuances to 31 December 2021 (£m)



	PMF 2017-1B*	PMF 2018-2B*	CMF 2018-1*	PMF 2019-1B*	CANBY No.1*	PMF 2020-1B	CMF 2020-1	CANBY No.2	CANBY No.3	ROCHFIN No.3*	CANBY No.4
Number of accounts 3+ months in arrears	1	0	22	2	20	0	6	32	15	129	9
Losses to date (£k)	9	0	0	8	0	0	0	0	0	131	0
Weighted average mortgage interest rate	3.61%	3.78%	4.40%	3.81%	3.94%	3.80%	4.40%	4.08%	3.88%	2.90%	3.73%
Senior note spread (over LIBOR)	0.75%	0.68%	0.47%	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Senior note spread (over SONIA)	n/a	n/a	n/a	0.93%	1.17%	0.93%	0.60%	0.95%	1.00%	0.70%	0.65%
Weighted average margin at closing	1.02%	0.77%	0.55%	1.27%	1.45%	1.13%	0.66%	1.14%	1.33%	0.86%	0.86%

* Group derecognition deal.

PMF – Precise Mortgage Funding plc **ROCHFIN** – Rochester Finance plc **CMF** – Charter Mortgage Funding plc **CANBY** – Canterbury Finance plc

Throughout the Strategic report the results and the Key performance indicators (KPIs) are presented on a statutory and an underlying basis.

Management believe that the underlying results and the underlying KPIs provide a more consistent basis for comparing the Group's performance between financial periods.

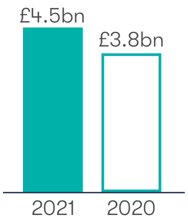
Underlying results for 2021 and 2020 exclude exceptional items, integration costs and other acquisition-related items. For a reconciliation of statutory results to underlying results, see page 49.

The Group's external auditor performed an independent reasonable assurance review of certain KPIs as highlighted with the symbol Δ – see the Appendix for the auditor's statement.

Key:

- Statutory 2021
- Statutory 2020
- Underlying 2021
- Underlying 2020

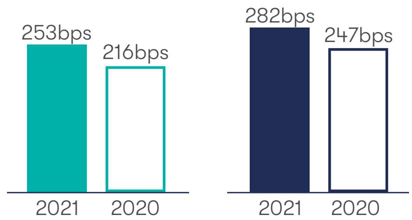
1. Gross new lending[Δ]
£4.5bn (2020: £3.8bn)



Definition
Gross new lending is defined as gross new organic lending before redemptions.

2021 performance
Gross new lending increased 20% in the year and reflected a gradual return to pre-pandemic criteria in our core sub-segments.

2. Net interest margin (NIM)[Δ]
Statutory 253bps (2020: 216bps)
Underlying 282bps (2020: 247bps)

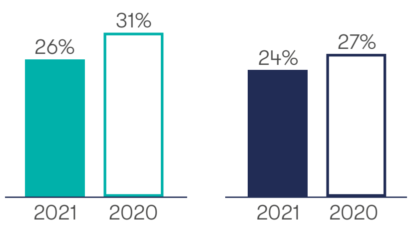


Definition
NIM is defined as net interest income as a percentage of a 13-point average of interest earning assets (cash, investment securities, loans and advances to customers and credit institutions).

It represents the margin earned on loans and advances and liquid assets after swap expense/income and cost of funds.

2021 performance
Both statutory and underlying NIM improved in 2021, primarily due to a lower cost of retail funds and one-off effective interest rate reset gain.

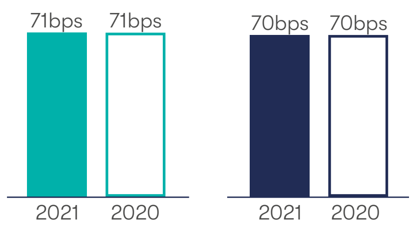
3. Cost to income ratio[Δ]
Statutory 26% (2020: 31%)
Underlying 24% (2020: 27%)



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

2021 performance
Statutory and underlying cost to income ratios improved in 2021 as the Group benefitted from higher income in the year and lower spending as a result of pandemic-related restrictions.

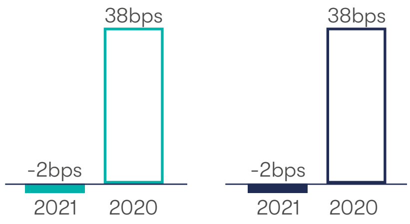
4. Management expense ratio[Δ]
Statutory 71bps (2020: 71bps)
Underlying 70bps (2020: 70bps)



Definition
Management expense ratio is defined as administrative expenses as a percentage of a 13-point average of total assets. It is a measure of operational efficiency.

2021 performance
Statutory and underlying management expense ratios remained stable in 2021 as the Group continued to benefit from cost synergies and lower spending as a result of pandemic-related restrictions.

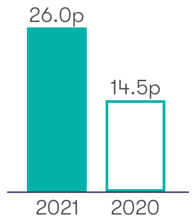
5. Loan loss ratio^Δ
Statutory -2bps (2020: 38bps)
Underlying -2bps (2020: 38bps)



Definition
Loan loss ratio is defined as impairment losses as a percentage of a 13-point average of gross loans and advances. It is a measure of the credit performance of the loan book.

2021 performance
Statutory and underlying loan loss ratios improved in the year as the Group used less severe forward-looking macroeconomic scenarios in its IFRS 9 models, albeit with additional 10% weighting to the downside scenario to account for the cost of living and affordability pressures, and benefitted from strong house price performance.

6. Dividend per share^Δ
Statutory 26.0 pence per share
(2020: 14.5 pence per share)

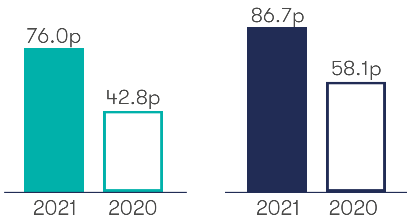


Definition
Dividend per share is defined as the sum of the recommended final dividend and any interim dividend for the year, divided by the number of ordinary shares in issue at the year end.

2021 performance
The Board recommends a final dividend for 2021 of 21.1 pence per share, which together with the 2021 interim dividend of 4.9 pence represents 30% of underlying profit attributable to ordinary shareholders.

For calculation of the final dividend, see the Appendix.

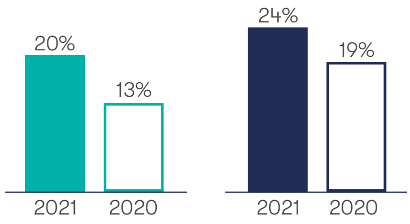
7. Basic EPS, pence per share^Δ
Statutory 76.0 (2020: 42.8)
Underlying 86.7 (2020: 58.1)



Definition
Basic EPS 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.

2021 performance
Statutory basic EPS improved to 76.0 pence per share and underlying basic EPS improved to 86.7 pence per share, both benefitting from higher profitability in the year.

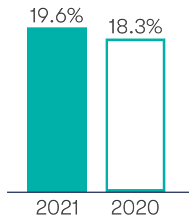
8. Return on equity^Δ
Statutory 20% (2020: 13%)
Underlying 24% (2020: 19%)



Definition
Return on equity 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, as a percentage of a 13-point average of shareholders' equity (excluding £150m of AT1 securities and £60m of non-controlling interest securities).

2021 performance
Statutory and underlying return on equity improved in 2021 due to strong profitability in the year.

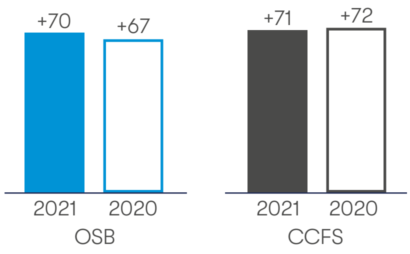
9. CRD IV fully-loaded Common Equity – Tier 1 capital ratio
Statutory 19.6% (2020: 18.3%)



Definition
This is defined as Common Equity Tier 1 (CET1) capital as a percentage of risk-weighted assets (calculated on a standardised basis) and is a measure of the capital strength of the Group.

2021 performance
The CET1 ratio strengthened in the year supported by strong capital generation from profitability.

10. Savings customer satisfaction – Net Promoter Score
OSB +70 (2020: +67), CCFS +71 (2020: +72)



Definition
The NPS measures our customers' satisfaction with our service and products. It is based on customer responses to the question of whether they would recommend us to a friend. The question scale is 0 for absolutely not to 10 for definitely yes. Based on the score, a customer is defined as a detractor between 0 and 6, a passive between 7 and 8 and a promoter between 9 and 10. Subtracting the percentage of detractors from the percentage of promoters gives an NPS of between -100 and +100.

2021 performance
OSB's savings customer NPS improved to +70 and CCFS' was an outstanding +71.

Financial review

Review of the Group's performance presented on a statutory basis for 2021 and 2020.

Statutory profit

The Group's statutory profit before tax increased by 78% to £464.6m (2020: £260.4m) after exceptional items, integration costs and other acquisition-related items of £57.6m[1] (2020: £85.8m). The increase was primarily due to growth in the loan book, a lower cost of retail funds and an impairment credit. The Group adopted adverse Covid-19 related forward-looking assumptions in its IFRS 9 models in 2020 which resulted in a substantial impairment charge in the prior year. The Group also benefitted from fair value gains on the Group's hedging activities in 2021, which more than offset lower gains on sale of financial instruments.

Statutory profit after tax was £345.3m in 2021, an increase of 76% from £196.3m in the prior year, due to the increase in profit before tax partially offset by a higher effective tax rate. It included after-tax exceptional items, integration costs and other acquisition-related items of £47.8m[1] (2020: £68.6m).

The Group's effective tax rate increased to 25.7% in 2021 (2020: 23.1%) primarily due to a larger proportion of the profits being subject to the Bank Corporation Tax Surcharge.

Statutory return on equity for 2021 improved to 20% (2020: 13%) reflecting the increase in profitability in the year. Statutory basic earnings per share increased to 76.0 pence (2020: 42.8 pence), in line with the increase in profit after taxation.

Net interest income

Statutory net interest income increased by 24% in 2021 to £587.6m (2020: £472.2m), largely reflecting growth in the loan book and a lower cost of retail funds. It also included net effective interest rate (EIR) reset gains of £11.5m to reflect updated prepayment assumptions based on customer behaviour.

Summary Profit or Loss	Group 31-Dec-2021 £m	Group 31-Dec 2020 £m
Net interest income	**587.6**	472.2
Net fair value gain on financial instruments	**29.5**	7.4
Gain on sale of financial instruments	**4.0**	20.0
Other operating income	**7.9**	9.0
Administrative expenses	**(166.5)**	(157.0)
Provisions	**(0.2)**	(0.1)
Impairment of financial assets	**4.4**	(71.0)
Impairment of intangible assets	**3.1**	(7.0)
Integration costs	**(5.0)**	(9.8)
Exceptional items	**(0.2)**	(3.3)
Profit before tax	**464.6**	260.4
Profit after tax	**345.3**	196.3
Key ratios Δ		
Net interest margin	**253bps**	216bps
Cost to income ratio	**26%**	31%
Management expense ratio	**71bps**	71bps
Loan loss ratio	**-2bps**	38bps
Return on equity	**20%**	13%
Basic earnings per share, pence	**76.0**	42.8
Dividend per share, pence	**26.0**	14.5
Extracts from the Statement of Financial Position	**£m**	£m
Loans and advances to customers	**21,080.3**	19,230.7
Retail deposits	**17,526.4**	16,603.1
Total assets	**24,531.9**	22,654.5
Key ratios		
Common equity tier 1 ratio	**19.6%**	18.3%
Total capital ratio	**21.2%**	18.3%
Leverage ratio	**7.9%**	6.9%

For definitions of key ratios, see Key performance indicators on pages 42 to 43, for more detail on the calculation of key ratios, see the Appendix on pages 246 and 248.

The Group's external auditor performed an independent reasonable assurance review of certain alternative performance measures as highlighted with the symbol Δ – see the Appendix for the auditor's statement.

Statutory net interest margin (NIM) was 253bps compared to 216bps in the prior year, due primarily to a lower cost of retail funds and the EIR reset gains, which contributed 5bps. In 2020, statutory NIM was impacted by a delay in passing on the base rate cuts in full to retail savers.

Net fair value gain on financial instruments

The statutory net fair value gain on financial instruments of £29.5m in 2021 (2020: £7.4m) included a £10.3m net gain on unmatched swaps (2020: £18.0m net loss) and a net gain of £2.4m (2020: £6.8m loss) in respect of the ineffective portion of hedges.

The Group also recorded a £3.0m gain (2020: £13.0m gain) from the amortisation of hedge accounting inception adjustments, a £13.4m gain from the unwind of acquisition-related inception adjustments (2020: £17.0m gain) and a £0.2m gain (2020: £2.4m gain) from amortisation of the fair value relating to de-designated hedge relationships. Other items amounted to a gain of £0.2m (2020: £0.2m loss).

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

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

Gain on sale of financial instruments

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

In 2020, the Group made a gain of £20.0m on a statutory basis, which related to the disposal of the remaining notes under the Canterbury No.1 and PMF 2020-1B securitisations in January 2020 and a sale of AAA notes from the Canterbury No. 3 securitisation.

Other operating income

Statutory other operating income of £7.9m (2020: £9.0m) mainly comprised CCFS' commissions and servicing fees, including those relating to securitised loans which have been derecognised from the Group's balance sheet.

Administrative expenses

Statutory administrative expenses increased 6% to £166.5m in 2021 (2020: £157.0m) largely due to higher employee costs.

The Group's statutory cost to income ratio improved to 26% (2020: 31%) as a result of the increase in total income, primarily due to higher net interest income and gains from the Group's hedging activities, which more than offset lower gains on sale of financial instruments.

The statutory management expense ratio remained at 71bps in 2021 (2020: 71bps) as the Group maintained its strong focus on cost discipline and efficiency.

The management expense and cost to income ratios in 2021 and 2020 also benefited from lower spending as a result of lockdowns, the working from home guidance and some hiring delays in an increasingly competitive labour market.

The Group continued to make strong progress towards achieving target synergies from the Combination. As at 31 December 2021, the Group had delivered run rate savings of c. £24m and we expect to marginally exceed our run-rate pledge by the end of the third anniversary of the Combination. Integration costs to achieve these synergies were c. £20m with final integration costs expected to be below the target of £39m.

Impairment of financial assets

The Group recorded an impairment credit of £4.4m in 2021 (2020: £71.0m loss) and the statutory loan loss ratio improved to -2bps compared to 38bps in 2020.

As the outlook improved, the Group used less severe forward-looking macroeconomic scenarios in its IFRS 9 models, albeit with an additional 10% weighting to the downside scenarios, to reflect future risks from an increase in the cost of living and affordability pressures from further rises in interest rates. This, together with the strong house price performance, led to a release of provisions of £24.9m. This release was partially offset by IFRS 9 model enhancements of £4.3m, post model adjustments of £6.8m and other charges of £9.4m. Further detail is provided in the Risk review section.

In 2020, impairment losses were largely due to adverse pandemic-related forward-looking macroeconomic scenarios adopted by the Group, changes to staging criteria in line with the PRA guidance, pandemic-related enhancements to the Group's models and fraudulent activity by a third party on a funding line provided by the Group.

Impairment of intangible assets

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

Integration costs

The Group recorded £5.0m of integration costs in 2021 (2020: £9.8m) which largely related to redundancy costs and professional fees for external advice on the Group's future operating structure.

Exceptional items

Exceptional costs of £0.2m in 2021 and £3.3m in 2020 related to the insertion of OSB GROUP PLC as the new holding company and listed entity of the Group.

Dividend

The Board has recommended a final dividend of 21.1 pence per share for 2021, which together with the 2021 interim dividend of 4.9 pence per share, represents 30% of underlying profit attributable to ordinary shareholders. See the Appendix for the calculation of the 2021 final dividend.

The recommended dividend will be paid on 18 May 2022, subject to approval at the AGM on 12 May 2022, with an ex-dividend date of 24 March 2022 and a record date of 25 March 2022.

Balance sheet growth

On a statutory basis, net loans and advances to customers grew by 10% to £21,080.3m in 2021 (31 December 2020: £19,230.7m), reflecting originations of £4.5bn in the year.

Total assets grew by 8% to £24,531.9m (31 December 2020: £22,654.5m), primarily reflecting the growth in loans and advances, partially offset by acquisition-related adjustments.

On a statutory basis, retail deposits increased by 6% to £17,526.4m from £16,603.1m as at 31 December 2020, as the Group continued to attract new savers. The Group complemented its retail deposits funding with drawings under the Bank of England's schemes. In the year, the drawings under the Term Funding Scheme were fully repaid (31 December 2020: £2.6bn) and drawings under the TFSME increased to £4.2bn as at 31 December 2021 from £1.0bn at the end of the prior year.

The CCFS warehouse facility was closed in December 2021.

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).

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 2021, OSB had £1,322.8m and CCFS had £1,318.0m of HQLA LCR eligible assets (31 December 2020: £1,366.7m and £1,069.1m, respectively). OSB also held a significant portfolio of unencumbered prepositioned Bank of England level C eligible collateral in the Bank of England Single Collateral Pool. CCFS's portfolio of level C eligible collateral met the majority of Bank of England drawings (with the remainder collateralised by UK Government debt) but at year end CCFS did not have significant levels of available prepositioned unencumbered collateral, due to the 100% haircuts applied to LIBOR based assets from 31 December 2021. LIBOR transition plans for the Group have been submitted to the Bank of England for review, and when approved, the 100% haircuts will be removed releasing significant level C eligible collateral for future use in Bank of England facilities and contingent liquidity.

Summary Consolidated Statement of Cash Flows

	Group 31-Dec-2021 £m	Group 31-Dec-2020 £m
Profit before tax	**464.6**	260.4
Net cash generated/(used in):		
Operating activities	**(461.7)**	(1,326.3)
Investing activities	**80.6**	755.8
Financing activities	**747.2**	838.3
Net increase in cash and cash equivalents	**366.1**	267.8
Cash and cash equivalents at the beginning of the period	**2,370.6**	2,102.8
Cash and cash equivalents at the end of the period	**2,736.7**	2,370.6

As at 31 December 2021, OSB had a liquidity coverage ratio of 240% and CCFS 158% (31 December 2020: 254% and 146%, respectively) and the Group LCR was 196% (31 December 2020: 198%), all significantly in excess of the 2021 regulatory minimum of 100% plus Individual Liquidity Guidance.

Capital

The Group's capital position remained exceptionally strong, with a fully-loaded CET1 ratio of 19.6% and a total capital ratio of 21.2% as at the end of 2021 (31 December 2020: 18.3% and 18.3%, respectively), with the improvement in both ratios largely due to capital generation from profitability in the year. In addition, the total capital ratio benefitted from the issue of £150.0m of Additional Tier 1 securities from the Group's holding company.

The Group had a leverage ratio of 7.9% as at 31 December 2021 (31 December 2020: 6.9%).

The combined Group had a Pillar 2a requirement of 1.27% (2020: 1.18%) of risk-weighted assets (excluding a static integration add-on of £19.5m) as at 31 December 2021.

Cash flow statement

The Group's cash and cash equivalents increased by £366.1m during the year to £2,736.7m as at 31 December 2021.

Loans and advances to customers increased by £1,844.0m during the year, partially funded by £923.3m of deposits from retail customers and a decrease in loans and advances to credit institutions (primarily the Bank of England call account) of £167.4m. Additional funding was provided by cash generated from financing activities of £747.2m and included £634.4m of net drawings under the Bank of England's TFS and TFSME schemes and £36.1m of net proceeds from securitisation of mortgages during the year. Cash generated from investing activities was £80.6m.

In 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.

1. See the reconciliation of statutory to underlying results on page 49.

Review of the Group's performance presented on an underlying basis for 2021 and 2020.

Underlying profit

The Group's underlying profit before tax was £522.2m for the year, an increase of 51% compared with £346.2m in 2020, primarily due to growth in the loan book, a lower cost of retail funds and an impairment credit. The Group adopted adverse Covid-19 related forward-looking assumptions in its IFRS 9 models in 2020 which resulted in a substantial impairment charge in the prior year. The Group also benefitted from fair value gains on the Group's hedging activities in 2021, which partially offset lower gains on the sale of financial instruments.

Underlying profit after tax was £393.1m, up 48% (2020: £264.9m) due to the increase in profit before tax, partially offset by an increase in the effective tax rate.

Summary Profit or Loss	**Group 31-Dec-2021 £m**	Group 31-Dec-2020 £m
Net interest income	**650.5**	534.0
Net fair value gain/(loss) on financial instruments	**18.5**	(5.9)
Gain on sale of financial instruments	**2.3**	33.1
Other operating income	**7.9**	9.0
Administrative expenses	**(161.7)**	(152.7)
Provisions	**(0.2)**	(0.1)
Impairment of financial assets	**4.9**	(71.2)
Profit before tax	**522.2**	346.2
Profit after tax	**393.1**	264.9
Key ratios ∆		
Net interest margin	**282bps**	247bps
Cost to income ratio	**24%**	27%
Management expense ratio	**70bps**	70bps
Loan loss ratio	**-2bps**	38bps
Return on equity	**24%**	19%
Basic earnings per share, pence	**86.7**	58.1
Extracts from the Statement of Financial Position	**£m**	£m
Loans and advances to customers	**20,936.9**	19,020.8
Retail deposits	**17,524.8**	16,600.0
Total assets	**24,403.6**	22,472.2

The Group's external auditor performed an independent reasonable assurance review of certain alternative performance measures as highlighted with the symbol ∆ – see the Appendix for the auditor's statement.

Alternative performance measures

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

Underlying results for 2021 and 2020 exclude exceptional items, integration costs and other acquisition-related items.

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

For more information on APMs and the reconciliation between APMs and the statutory equivalents, see the Appendix on pages 246 and 248.

The Group's effective tax rate on an underlying basis increased to 24.7% for 2021 (2020: 23.5%), due to a larger proportion of the profits being subject to the Bank Corporation Tax Surcharge.

On an underlying basis, return on equity for 2021 improved to 24% (2020: 19%) reflecting higher profitability in the year, and underlying basic earnings per share increased to 86.7 pence (2020: 58.1 pence), due to the increase in profit after tax.

Net interest income

Underlying net interest income increased by 22% to £650.5m in 2021 (2020: £534.0m) due primarily to growth in the loan book and a lower cost of retail funds. It also included net effective interest rate reset gains of £18.6m to reflect updated prepayment assumptions based on customer behaviour.

The underlying net interest margin increased to 282bps from 247bps in 2020 primarily reflecting a lower cost of retail funds and EIR reset gains which contributed 8bps. In 2020, underlying NIM was impacted by a delay in passing on the base rate cuts in full to retail savers.

Net fair value gain on financial instruments

The underlying net fair value gain on financial instruments was £18.5m in 2021 compared to a loss of £5.9m in 2020.

The gain for 2021 included a gain on unmatched swaps of £10.3m (2020: £18.0m loss), a gain of £2.4m (2020: £6.8m loss) from hedge ineffectiveness and a £5.4m gain from amortisation of inception adjustments (2020: £16.7m gain). Other hedging and fair value movements amounted to a net gain of £0.4m (2020: £2.2m gain).

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

Gain on sale of financial instruments

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

In 2020, the underlying gain of £33.1m related to the disposal of the remaining notes under the Canterbury No.1 and PMF 2020-1B securitisations in January 2020 and a sale of notes from the Canterbury No.3 securitisation.

Other operating income

On an underlying basis, other operating income was £7.9m in 2021 (2020: £9.0m) and mainly comprised CCFS' commissions and servicing fees, including those relating to securitised loans which have been deconsolidated from the Group's balance sheet.

Administrative expenses

Underlying administrative expenses were up 6% to £161.7m in 2021 (2020: £152.7m) due primarily to increased employee costs.

The underlying cost to income ratio improved to 24% (2020: 27%) as a result of higher total income, primarily due to an increase in net interest income in the year and gains from the Group's hedging activities, partially offset by lower gains on sale of financial instruments.

The underlying management expense ratio remained stable at 70bps for 2021 (2020: 70bps) as the Group maintained its strong focus on cost discipline and efficiency.

The management expense and cost to income ratios in 2021 and 2020 also benefitted from lower spending as a result of lockdowns, the working from home guidance and some hiring delays in an increasingly competitive labour market.

Impairment of financial assets

The Group recorded an underlying impairment credit of £4.9m in 2021 (2020: £71.2m loss) representing an underlying loan loss ratio of -2bps (2020: 38bps).

As the outlook improved, the Group used less severe forward-looking macroeconomic scenarios in its IFRS 9 models, albeit with an additional 10% weighting to the downside scenarios, to reflect future risks from an increase in the cost of living and affordability pressures from further rises in interest rates. This, together with the strong house price performance, led to a release of provisions of £24.9m. This release was partially offset by IFRS 9 model enhancements of £4.3m, post model adjustments of £6.8m and other charges of £8.9m. Further detail is provided in the Risk review section.

In 2020, impairment losses were largely due to adverse pandemic-related forward-looking macroeconomic scenarios adopted by the Group, changes to staging criteria in line with the PRA guidance, pandemic-related enhancements to the Group's models and fraudulent activity by a third party on a funding line provided by the Group.

Balance sheet growth

On an underlying basis, net loans and advances to customers were £20,936.9m (31 December 2020: £19,020.8m) an increase of 10%, reflecting gross originations of £4.5bn in the year.

Total underlying assets grew by 9% to £24,403.6m (31 December 2020: £22,472.2m), primarily reflecting the growth in loans and advances.

Retail deposits increased by 6% to £17,524.8m (31 December 2020: £16,600.0m) as both Banks continued to attract new savers by offering attractively priced savings products and outstanding customer service. The balance of the Group's funding requirement was provided by the Bank of England's TFSME drawings, which as at 31 December 2021 increased to £4.2bn from £1.0bn at the end of 2020 as the TFS drawings were fully repaid (31 December 2020: £2.6bn).

Reconciliation of statutory to underlying results

	FY 2021			FY 2020		
	Statutory results £m	Reverse acquisition-related and exceptional items £m	**Underlying results £m**	Statutory results £m	Reverse acquisition-related and exceptional items £m	**Underlying results £m**
Net interest income	587.6	62.9[1]	**650.5**	472.2	61.8	**534.0**
Net fair value gain/(loss) on financial instruments	29.5	(11.0)[2]	**18.5**	7.4	(13.3)	**(5.9)**
Gain on sale of financial instruments	4.0	(1.7)[3]	**2.3**	20.0	13.1	**33.1**
Other operating income	7.9	–	**7.9**	9.0	–	**9.0**
Total income	629.0	50.2	**679.2**	508.6	61.6	**570.2**
Administrative expenses	(166.5)	4.8[4]	**(161.7)**	(157.0)	4.3	**(152.7)**
Provisions	(0.2)	–	**(0.2)**	(0.1)	–	**(0.1)**
Impairment of financial assets	4.4	0.5[5]	**4.9**	(71.0)	(0.2)	**(71.2)**
Impairment of intangible assets	3.1	(3.1)	–	(7.0)	7.0	–
Integration costs	(5.0)	5.0[6]	–	(9.8)	9.8	–
Exceptional items	(0.2)	0.2[7]	–	(3.3)	3.3	–
Profit before tax	464.6	57.6	**522.2**	260.4	85.8	**346.2**
Profit after tax	345.3	47.8	**393.1**	196.3	68.6	**264.9**
Summary Balance Sheet						
Loans and advances to customers	21,080.3	(143.4)[8]	**20,936.9**	19,230.7	(209.9)	**19,020.8**
Other financial assets	3,382.3	22.0[9]	**3,404.3**	3,341.8	36.8	**3,378.6**
Other non-financial assets	69.3	(6.9)[10]	**62.4**	82.0	(9.2)	**72.8**
Total assets	24,531.9	(128.3)	**24,403.6**	22,654.5	(182.3)	**22,472.2**
Amounts owed to retail depositors	17,526.4	(1.6)[11]	**17,524.8**	16,603.1	(3.1)	**16,600.0**
Other financial liabilities	4,908.7	2.3[12]	**4,911.0**	4,296.6	4.4	**4,301.0**
Other non-financial liabilities	72.4	(45.0)[13]	**27.4**	77.9	(61.4)	**16.5**
Total liabilities	22,507.5	(44.3)	**22,463.2**	20,977.6	(60.1)	**20,917.5**
Net assets	2,024.4	(84.0)	**1,940.4**	1,676.9	(122.2)	**1,554.7**

Notes to the reconciliation of statutory to underlying results table:

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

Risk review

Continued progress was made in 2021 against the Group's strategic risk management objectives for the year, including the priority areas set out in the Annual Report and Accounts for the year ended 31 December 2020.

Executive summary

The Group delivered strong operating and financial performance against the backdrop of an improving economic outlook. However, the Group remains cognisant of the continued risks which could emerge from pandemic related disruption, future economic shocks and a deteriorating geopolitical situation in Europe. Prolonged inflationary pressure coupled with monetary policy tightening could feed through into consumer affordability and confidence.

It is important to note that the strong performance was delivered within the confines of a prudent risk appetite. The Group operated within the boundaries of its risk appetite limits during 2021. The Group's overall asset quality remained stable with respect to customer behaviour and affordability levels, whilst collateral values improved during the year. Arrears levels remained broadly stable, although certain portfolio segments experienced increases as the impact of the pandemic took effect, which were offset by improvements in other segments.

Group risk appetite statements and limits were designed and implemented, based on aligned approaches calibrated for anticipated financial forecasts and stress test analysis. Risk appetite is monitored and managed at the Group and at the solo Bank level.

All risk management activities were considered within the confines of the Board approved risk appetite supported by a set of comprehensive frameworks, policies, systems and controls. Established procedures ensured that all risks were subject to the three lines of defence governance and oversight principles.

The Group operated within defined roles and responsibilities for risk management, with oversight at the Board and executive level with independent assurance provided by the Group's Internal Audit function. The Group's risk management and governance arrangements were leveraged effectively to guide and support decision making during periods of heightened uncertainty and change.

Active monitoring and assessment of the Group's credit risk portfolio drivers is a critical risk management discipline. This was achieved through the active monitoring of credit portfolio performance indicators, sensitivity and stress test analysis and thematic deep dives. Cross-functional expertise was leveraged to review emerging trends and take pre-emptive actions in accordance with the defined risk appetite and governance standards. The Group's investment in advanced credit analytics greatly enhanced monitoring capabilities, improved forward-looking assessments and supported stress testing and capacity planning analysis. This in turn allowed the Board to make more informed decisions in uncertain macroeconomic and political environments.

Ensuring that the Group continued to maintain expected credit loss provisions based on its underlying prudent risk appetite, was an important consideration of the Board and senior management. Expected credit loss (ECL) provisions were assessed leveraging the Group's IFRS 9 approved methodologies, individually assessed provisioning approaches and portfolio segment based stress and sensitivity analysis. Benchmarking analysis was provided to the Board and senior management, enabling review and challenge of provision coverage levels and underlying macroeconomic scenarios.

The Group also maintained strong levels of capital and funding throughout 2021, being mindful of the heightened levels of future uncertainty. Capital and funding levels were assessed against the impacts of extreme but plausible economic, business and operational shocks and reflected in the Group's solvency and liquidity risk appetite.

The Group's Risk and Compliance functions made good progress against planned strategic risk and compliance objectives including further embedding of the Group Strategic Risk Management Framework and enhancing underlying systems and controls. The Group continued to invest in people and technology with key hires made to focus on operational continuity in resolution, model development and governance, data governance and controls, solvency and operational risk management. The Group's second line functions continued to operate effectively using a shared service operating model and delivered all key objectives during the pandemic.

The Group's capital management framework was further enhanced during the year, whilst considerable time was spent on running a number of capital planning scenarios and sensitivities across a range of potential Basel 3.1 outcomes. The Group's Internal Adequacy Assessment Process (ICAAP) was further enhanced during the year and subjected to a supervisory review and evaluation process (CSREP) by the Prudential Regulation Authority (PRA). A number of reverse stress tests were performed to provide visibility to the Group and entity Boards with respect to the severity of the macroeconomic scenario which could result in the Group and its entities breaching minimum regulatory requirements, which were utilised in the going concern and viability assessments.

Both the regulated Bank entities continued to retain prudent levels of liquidity in the context of the uncertain economic and business outlook. Particular attention was directed to the monitoring of the entity level liquidity positions, focusing on retail savings customer behaviour, competitor actions and product changes within the wider savings market. Given the increasing prominence of securitisation as a wholesale funding source, the Group undertook a review to identify further areas of enhancement with respect to systems and controls. This review was completed and the implementation of identified enhancements is underway.

The Group engaged in a number of Financial Conduct Authority (FCA) thematic reviews and continued to invest in the level of subject matter compliance experts, to facilitate good customer outcomes and treat customers fairly and be well-positioned to respond to changes in regulatory expectations and industry best practices.

Progress was made in developing and embedding policies, processes and controls to ensure compliance with the Bank of England's Resolvability Assessment Framework (RAF), including meeting the requirements for operational continuity in resolution. The Group also made significant progress in establishing the required infrastructure to meet its future minimum requirements for own funds and eligible liabilities (MREL).

The Group is committed to reviewing its risk and controls framework considering the operating environment, business operating model and any learnings from recent risk incidents. Future pandemic-related disruptions, ongoing integration activity and regulatory initiatives could result in an increase in the number of operational risk incidents observed. The Group continuously leverages its operational risk management and governance frameworks to identify, assess and appropriately manage all operational incidents. Reflecting on the risk events realised within the year, resulted in additional focus and resources being assigned to migrating the Group onto a single operational risk system, whilst increasing capacity to continuously review, assess and test all key risks and controls.

The Group leveraged its operational resilience capabilities and framework to effectively manage any disruption caused by the pandemic. The Group continued to review and enhance its operational resilience capabilities and framework in the context of emerging best practice standards, regulatory expectations and the changing nature of its operating model.

The Group views fair customer outcomes and provision of timely and effective support to customers in distress as a central pillar supporting its purpose, vision and values. The Group has customer centric policies and procedures in place which are subject to ongoing reviews and benchmarking. The Group kept its customers front and centre during all phases of the pandemic ensuring customers continue to be treated fairly and in line with regulatory guidelines. The Group was also appropriately attuned to the emerging industry and regulatory focus on customer vulnerability acknowledging planned changes in consumer duty regulation.

The Group's Internal Ratings Based (IRB) Programme made tangible progress against plan during the year. The Group's end state IRB models are passing through the final stages of governance, whilst an extensive self-assessment against IRB requirements has been completed and the required application documents have been drafted and are going through our governance process. The IRB capabilities developed by the Group continue to be integrated into key risk and capital management processes, and are already informing strategic decision making and business planning activities. The anticipated delay in Basel 3.1 implementation and the one year extension to the Group's MREL deadlines, provided the Group with the opportunity to enhance our level of end state compliance prior to submitting our module 1 application. We continue to engage with the PRA to agree a submission date.

During the year, progress was made in implementing further enhancements across the Group's strategy, governance, risk management arrangements and disclosures relating to climate risk, to facilitate compliance with recommendations set out in the Prudential Regulation Authority supervisory statement SS3/19. Climate risk was captured within the Group's enterprise risk register and a specific climate risk management framework was developed which is a sub-framework of the overarching Group Strategic Risk Management Framework. A dedicated Climate Risk Committee was established to ensure enhancements continued to be delivered as required. The Group refreshed and enhanced analysis identifying and quantifying the risks relating to climate change in relation to the Group's loan portfolios. Impairment and capital considerations were assessed via the ICAAP. For further detail please see the TCFD report.

The Group was subjected to a fraud which it became aware of in early 2021, in one of its third party funding lines which upon detailed investigation was deemed an isolated incident. A provision was raised and reported in the 2020 annual accounts and adjusted during 2021 as required. The impact of this incident was appropriately reflected in the Groups risk appetite and was subject to appropriate oversight and review by the Board and senior management.

Priority areas for 2022

A significant level of uncertainty remains around the UK economic outlook and operating environment for 2022 and beyond. Therefore, continued close monitoring of the Group's risk profile and operating effectiveness remains a key priority. Other priorities include:

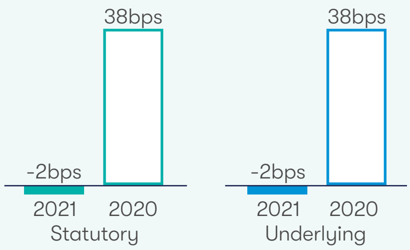
- Continue to leverage the Group's Strategic Risk Management Framework to actively identify, assess and manage risks in line with approved risk appetite.
- Fully integrate the Group's Risk and Control Self-Assessment (RCSA) processes into a Group wide risk system which will ensure more dynamic and continuous assessment, adherence to common standards, an improved user interface and increased review and challenge.
- Leverage enhancements made across the Group's portfolio analytical capabilities to improve risk-based pricing, balance sheet management, capital planning and stress testing.
- Focus on the delivery of all required capabilities to ensure compliance with the Bank of England's Resolvability Assessment Framework (RAF) and Operational Continuity in Resolution (OCIR).
- Further enhance management information to facilitate a more informed oversight of the Group's risk profile.
- Make continued progress in obtaining IRB accreditation and further leverage capabilities within wider risk management disciplines such as IFRS 9 ECL calculations, underwriting, existing customer management and collections to drive portfolio performance benefits and improvements in shareholder returns.

High-level key risk indicators

Risk appetite is aligned to a select range of key performance indicators which are used to assess performance against strategic, business, operational and regulatory objectives.

Actual performance against these indicators is continually assessed and reported. Detailed to the right is a summary of the Group's key risk indicators with high level commentary on the performance in 2021.

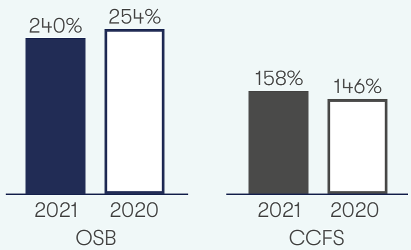
Loan loss ratio[A]



Commentary

Improving forward-looking macroeconomic scenarios and house price outperformance resulted in a release of provision for 2021, which was partially offset by the impact of model enhancements, post model adjustments, business as usual provision movements and write offs observed. A further 10% weighting was assigned to the Group's downside scenarios to reflect emerging risks in relation to the cost of living.

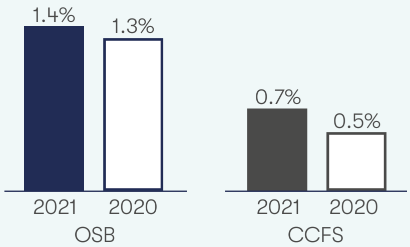
Liquidity coverage ratio



Commentary

Liquidity ratios remained strong during 2021, driven by strong retail deposit inflows and refinancing of TFS into TFSME and extra drawdowns made during the year.

3+ months' arrears



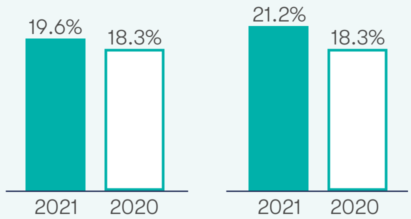
Commentary

The Group's ratio of balances which are greater than three months in arrears remained broadly stable at 1.1% (2020: 0.9%), which was well within budgeted forecasts.

Across the OSB bank entity a marginal increase in arrears was observed, driven by a small cohort of customers who had fallen into arrears after taking multiple or extended payment holidays. These increases were partially offset by falling arrears levels across other lending sub-segments.

CCFS arrears growth was also in part driven by ongoing portfolio seasoning, and again a small cohort of customers who have moved into arrears post payment holidays expiring.

CET1 **Total capital**



Commentary

Capital ratios strengthened during the year, due to capital generation from profitability. The total capital ratio benefited from the issuance of £150.0m of additional Tier 1 securities from the Group's holding company.

Strategic Risk Management Framework

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

Post Combination, the Group implemented a transitional Strategic Risk Management Framework to drive a consistent approach to risk identification and assessment across both regulated banking entities. During 2021 a Group approach was implemented across all key principal risks, which resulted in the framework no longer being transitional in nature. Over time further enhancements will be made as required.

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

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

1. Risk principles and culture – the Group established a set of risk management and oversight principles which inform and guide all underlying risk management and assessment activities. These principles are informed by the Group's Purpose, Vision and Values.
2. Risk strategy and appetite – the Group has established a clear business vision and strategy which is supported by an articulated risk vision and underlying principles. The Board is accountable for ensuring that the Group's SRMF is structured against the strategic vision and is delivered within agreed risk appetite thresholds.
3. Risk assessment and control – the Group is committed to building a safe and secure banking operation via an integrated and effective enterprise strategic risk management framework.
4. Risk definitions and categorisation – the Group sets out its principal risks which represent the primary risks to which the Group is exposed.
5. Risk analytics – the Group uses quantitative analysis and statistical modelling to help improve its business decisions.
6. Stress testing and scenario development – stress testing is an important risk management tool which is used to evaluate the potential effects of a specific event and or movement in a set of variables to understand the impact on the Group's financial and operating performance. The Group has a dedicated stress testing framework which sets out the Group's approach to stress testing.
7. Securitisation framework – the Group developed a securitisation framework which articulates the key components of a securitisation issuance that are relevant to the Group. This sub-framework is now reflected within the wider SRMF. As enhancement areas are identified and implemented the framework will be updated as required.
8. 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.
9. Risk Management Framework's policies and procedures – risk frameworks, policies and supporting documentation outline the process by which risk is effectively managed and governed within the Group.
10. Risk management information and reporting – the Group established a comprehensive suite of risk MI and reports covering all principal risk types.
11. 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.

The following diagrams outline the core components of the SRMF and the organisational arrangements to ensure that the Group operates in accordance with the requirements of the SRMF.

Strategic Risk Management Framework (SRMF)

Key elements	Risk principles and culture Risk strategy and appetite		Risk governance and function organisation Risk definitions and categorisation	
Principal risks	**Financial risks**	**Non-financial risks**		
	Credit risk Market risk Liquidity and funding risk Solvency risk	Strategic and business risk Reputational risk Compliance/regulatory risk	Operational risk Conduct risk Integration risk	
Capabilities	Risk framework and policies	Risk data and IT	Risk analytics	Risk management information
Risk regulatory submissions	ICAAP	ILAAP	Recovery plan/ Z-templates	

Group organisational structure

The Board has ultimate responsibility for the oversight of the Group's risk profile and risk management framework and where it deems it appropriate, it delegates its authority to relevant Committees. The Board and its Committees are provided with appropriate and timely information relating to the nature and level of the risks to which the Group is exposed and the adequacy of the risk controls and mitigants. The Internal Audit function provides independent assurance to the Board and its Committees as to the effectiveness of the systems and controls and the level of adherence with internal policies and regulatory requirements. The Board also commissions third party subject matter expert reviews and reports in relation to issues and areas requiring deeper technical assessment and guidance.

The schematic below provides a high level overview of the Group's governance arrangements to ensure that robust risk oversight is maintained across the Group's risk profile.

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

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

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

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

Structure of the Group

Board Committees

Board of Directors

- Board Capital & Funding Committee
- Group Remuneration Committee
- Group Nomination & Governance Committee
- Group Audit Committee
- Group Risk Committee
  - Group Models & Ratings Committee

Management Committees

Group Executive Committee

- Group Credit Committee
  - Portfolio Management Committee
  - Transactional Credit Committee (TCC)
  - Heritable Transactional Credit Committee (HTCC)
- Models & Ratings Management Committee
- Operations Committee
- Environmental, Social & Governance (ESG) Committee
  - Climate Risk Committee
- Group Risk Management Committee
- Regulatory Governance Committee
- Group Assets & Liabilities Committee
- Group Executive Disclosure Committee

Business and control functions

First Line of Defence	Second Line of Defence	Third Line of Defence
Ensures that risks are identified, measured, monitored and reported in line with policy in an effective manner. **Key Brands / Finance and HR / Operations / IT and Change / Commercial / Sales and Marketing / Legal and Regulation**	Provides an independent review and challenge to the business and control functions to ensure that all aspects of the risk profile are managed in adherence to risk appetite and risk policies. **Risk and Compliance**	Provides independent assurance on the effectiveness of the SRMF, compliance with regulations, adherence to policies and effectiveness of controls. **Internal Audit**

Executives

Chief Executive Officer

Group Chief Financial Officer **Group Chief Operating Officer** **Group Chief Information Officer** **Group General Counsel & Company Secretary** **Group Commercial Director** **Group Managing Director, Mortgages** **Brand-Level Senior Management** **Group Managing Director, Savings**	**Group Chief Risk Officer** **Group Chief Credit & Compliance Officer and CCFS Chief Risk Officer**	**Group Chief Internal Auditor**

Management of climate change risk

During 2021 further progress was made in developing and embedding the Group's climate risk management approach within the Group's wider risk management arrangements. This included the development of a specific Climate Risk Management Framework, implementation of an ESG Committee and a dedicated Climate Risk Committee and ESG steering group.

The Group is exposed to the following climate-related risks:

Physical risk – relates to climate or weather-related events such as heatwaves, droughts, floods, storms, rising sea levels, coastal erosion and subsidence. These risks could result in financial losses with respect to the Group's own real estate and customer loan portfolios.

Transition risk – arising from the effect of adjusting to a low-carbon economy and changes to appetite, strategy, policy or technology. These changes could result in a reassessment of asset values and increased credit exposures for banks and other lenders as the costs and opportunities arising from climate change become apparent. Reputational risk arises from a failure to meet changing and more demanding societal, investor and regulatory expectations.

Approach to analysing climate risk

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

a) Climate scenarios considered

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

Emissions scenario

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

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

b) Climate risk perils considered

The following three physical perils of climate change were assessed:

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

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

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

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

In addition to the physical perils, the current Energy Performance Certificate (EPC) of each property was considered to allow for an assessment of transitional risk due to policy change.

Both the OSB and CCFS portfolios were profiled against each of the perils detailed under the best (RCP 2.6) and worst (RCP 8.5) climate scenarios during the 2020's. The Risk function focused on performance over the next ten years, considering the average expected life of a mortgage.

- Flood risk

By the 2030s, at the Group level, the percentage of properties predicted to experience a flood is expected to increase from 0.48% in the least severe scenario to 0.50% in the most severe scenario. Both scenarios represent a low proportion of the Group's loan portfolios.

- Subsidence

In the 2030s, at the Group level the percentage of properties predicted to experience subsidence is expected to increase from 0.41% in the least severe scenario to 0.43% in the most severe scenario. The outcome of both scenarios represents a low proportion of the Group's loan portfolios.

- Coastal erosion

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

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

The CCFS bank entity has only 12 properties within 100m of the coastline, whilst the OSB bank entity has only 9.

The impact of the most severe climate change scenario is expected to result in an incremental 13 properties for OSB and 8 for CCFS to fall within 100 metres of the coastline. Again, demonstrating there is a low risk to the Group.

c) Energy Performance Certificate profile

The EPC profile of both bank entities follows a similar trend to the national average. At the Group level 35% of properties have an EPC of C or better, 48% have an EPC of D, with 15% in E and negligible percentages in F or G. 90% of the properties supporting the Group's loan portfolios have the potential to have at least an EPC rating of C.

Value at Risk assessment

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

Climate change scenarios

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

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

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

Methodology – physical risks

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

The ECL and RWAs are then recalculated taking these reduced valuations as inputs. These reduced valuations directly impact the loan to values (LTVs), and hence loss given default (LGD).

Methodology – transitional risks

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

If a property is already efficient (i.e. EPC grade of C, B or A) then the potential transitional risk is assumed to be zero as they already meet the requirements.

If a property's potential EPC grade is less than C (which is the minimum government target) then the property is given a target energy efficiency equal to that of its maximum potential energy efficiency. The difference between the property's target and current energy efficiencies dictate the costs of the renovations required to meet the regulation.

Once the cost of renovation has been estimated the LGD (to reflect valuation impacts) and the probability of default (PD) (to reflect affordability impacts) are stressed to recalculate the ECL. The valuation impacts are also used to recalculate risk weighted asset values (RWAs).

To apply the LGD stress, a relationship between LGD and LTV was derived. The LTV was stressed by subtracting the costs of renovations from the property value. This stressed LTV was then mapped back to a stressed LGD.

The stressed PD or LGD is then used to derive a stressed ECL.

When it comes to calculating RWAs, the costs of meeting the EPC guidelines are subtracted from the property valuations. This causes a change in the loan to value level which leads to an increase in RWAs.

d) Analysis outcome

The Group is exposed to a non-material EPC or capital risk, based on the collateral and EPC profile of the Group's loan portfolios.

e) Planned enhancements during 2022

In the future, the Group's climate risk data and scenario analysis capabilities will be enhanced in line with industry best practices.

During 2022 key areas of enhancement include:

- Further embedding of the Climate Risk Management Framework.
- Development of climate risk appetite statements and limits.
- Further enhancements to the climate risk scenario analysis.
- Embedding climate risk within the risk and control assessment (RCSA) process across the Group.

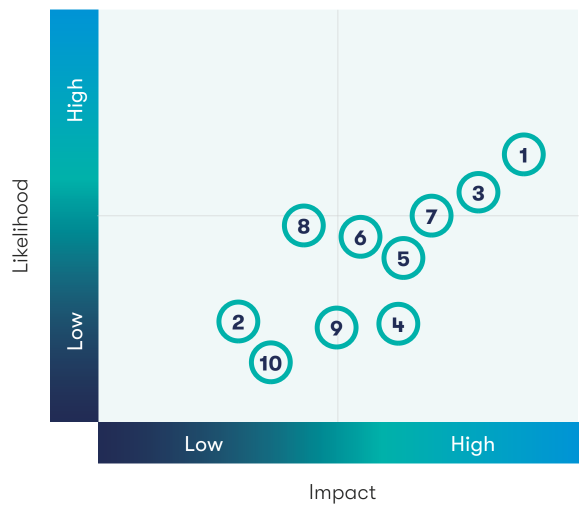
Principal risks and uncertainties

The Board carried out an assessment of the principal risks and uncertainties which may threaten the Group's operating model, strategic objectives, financial performance and regulatory compliance commitments.

The outcome of that assessment is summarised in the heat map below, with further details provided in each principal risk section.

1. Strategic and business risk
2. Reputational risk
3. Credit risk
4. Market risk
5. Liquidity and funding risk
6. Solvency risk
7. Operational risk
8. Conduct risk
9. Compliance/regulatory risk
10. Integration risk

Current assessment of principal risks



1 Strategic and business risk

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

Risk	Mitigation	Direction
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.	Regular monitoring by the Board and the Group Executive Committee of business and financial performance against the strategic agenda and risk appetite. The financial plan is subject to regular reforecasts. The balanced business scorecard is the primary mechanism to support how the Board assesses management performance against key targets. Use of stress testing to flex core business planning assumptions to assess potential performance under stressed operating conditions.	**Increased** The Group delivered strong performance against targets during 2021 despite the continued impact of the pandemic. Future improvements in unemployment levels and house prices, are somewhat offset by the risks relating to rising inflation and future interest rate rises. Competition has increased across both the lending and savings markets, however the Group has strong operational capabilities and financial resources to continue to compete effectively.

Risk	Mitigation	Direction
Economic environment The economic environment in the UK is an important factor impacting the strategic and business risk profile. A macroeconomic downturn may impact the credit quality of the Group's existing loan portfolios and may influence future business strategy as the Group's new business proposition becomes less attractive due to lower returns.	The Group's business model as a secured lender helps limit potential credit risk losses and supports performance through the economic cycle. The Group continues to utilise and enhance its stress testing capabilities to assess and minimise potential areas of macroeconomic vulnerability.	**Unchanged** Economic risks during 2021 relating to pressure on economic growth due to the impact of pandemic restrictions, may have resulted in future rises in unemployment and falling house prices. During the year these risks shifted to the risks related to rising inflation levels and interest rates, which are in part mitigated by low unemployment levels and stable house prices.
Competition risk The risk that new bank entrants and existing peer banks shift focus to the Group's market sub-segments, increasing the level of competition.	The Group continues to develop products and services which meet the requirements of the markets in which it operates. The Group has a diversified suite of products and capabilities to utilise, along with significant financial resources to support a response to changes in competition.	**Increased** Competition risk progressively intensified across core lending sectors in 2021, as competitors' lending appetites increased with the improvement in the economic outlook.

2 Reputational risk

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

Risk	Mitigation	Direction
Deterioration of reputation Potential loss of trust and confidence that our stakeholders place in us as a responsible and fair provider of financial services.	Culture and commitment to treating customers fairly and being open and transparent in communication with key stakeholders. Established processes in place to proactively identify and manage potential sources of reputational risk.	**Decreased** The Group delivered strong performance during 2021 across all core targets, despite the disruptions caused by the pandemic.

3 Credit risk

Definition	Risk appetite statement
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.	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.

Risk	Mitigation	Direction
Individual borrower defaults Borrowers may encounter idiosyncratic problems in repaying their loans, for example loss of a job or execution problems with a development project. While in most cases of default the Group's lending is secured, some borrowers may fail to maintain the value of the security, which may result in a loss being incurred.	Across both OSB and CCFS, a robust underwriting assessment is undertaken to ensure that a customer has the ability and propensity to repay and sufficient security is available to support the new loan requested. At CCFS, an automated scorecard approach is taken, whilst OSB utilises a bespoke manual underwriting approach, supplemented by bespoke application scorecards to inform the lending decision. Should there be problems with a loan, the Collections and Recoveries team works with customers who are unable to meet their loan service obligations to reach a satisfactory conclusion while adhering to the principle of treating customers fairly. Our strategic focus on lending to professional landlords means that properties are likely to be well managed, with income from a diversified portfolio mitigating the impact of rental voids or maintenance costs. Lending to owner-occupiers is subject to a detailed affordability assessment, including the borrower's ability to continue payments if interest rates increase. Lending on commercial property is based more on security, and is scrutinised by the Group's independent Real Estate team as well as by external valuers. Development finance lending is extended only after a deep investigation of the borrower's track record and stress testing the economics of the specific project.	**Unchanged** The drivers of borrower default risk have shifted from the risk around rising unemployment and declining house prices, to rising inflation and consequent increases in interest rates impacting affordability for accounts which revert onto higher interest rates and an increasing risk of borrower default.

Risk	Mitigation	Direction
Macroeconomic downturn A broad deterioration in the UK economy would adversely impact both the ability of borrowers to repay loans and the value of the Group's security. Credit losses would impact the Group's lending portfolios, even if individual impacts were to be small, the aggregate impact on the Group could be significant.	The Group works within portfolio limits on LTV, affordability, name, sector and geographic concentration that are approved by the Group Risk Committee and the Board. These are reviewed on a semi-annual basis. In addition, stress testing is performed to ensure that the Group maintains sufficient capital to absorb losses in an economic downturn and continues to meet its regulatory requirements.	**Unchanged** The economic outlook is uncertain although it improved in 2021, future risks remain related to further COVID-19 variants, rising inflation and resultant increases in interest rates driving higher levels of customer defaults, falling collateral values and rising impairment levels.
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.	The Group transacts only with high quality wholesale counterparties. Derivative exposures include collateral agreements to mitigate credit exposures.	**Unchanged** The Group's wholesale credit risk exposure remains limited to high-quality counterparties, overnight exposures to clearing banks and swap counterparties.

4 Market risk

Definition	Risk appetite statement
Potential loss due to changes in market prices or values.	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.

Risk	Mitigation	Direction
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.	The Group's Treasury function actively hedges to match the timing of cash flows from assets and liabilities.	**Unchanged** The Group's simple asset and liability structure and ongoing careful management resulted in the level of interest rate risk remaining unchanged in 2021.
Basis risk The risk of loss from an adverse divergence in interest rates. It arises where assets and liabilities reprice from different variable rate indices. These indices may be market, administered, other discretionary variable rates, or that received on call accounts with other banks.	Due to the Group balance sheet structure, no active management of basis risk was required by OSB Group in 2021.	**Unchanged** Product design and balance sheet structure enabled the Group to maintain the overall level of basis risk across both Banks throughout the year.

5 Liquidity and funding risk

Definition	Risk appetite statement
The risk that the Group, although solvent, does not have sufficient financial resources to enable it to meet its obligations as they fall due.	The Group will maintain sufficient liquidity to meet its liabilities as they fall due under normal and stressed business conditions; this will be achieved by maintaining strong retail savings franchises, supported by high-quality liquid asset portfolios comprised of cash and readily-monetisable assets, and through access to pre-arranged secured funding facilities. The Board requirement to maintain balance sheet resources sufficient to survive a range of severe but plausible stress scenarios is interpreted in terms of the liquidity coverage ratio and the ILAAP stress scenarios.

Risk	Mitigation	Direction
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.	The Group's funding strategy is focused on a highly stable retail deposit franchise. The Group's large number of depositors provides diversification, where a high proportion of balances are covered by the FSCS protection scheme, largely mitigating the risk of a retail run. In addition, the Group performs in-depth liquidity stress testing and maintains a liquid asset portfolio sufficient to meet obligations under stress. The Group holds prudential liquidity buffers to manage funding requirements under normal and stressed conditions. The Group has further diversified its retail channels by expanding the range of pooled deposit providers used. The Group proactively manages its savings proposition through both the Liquidity Working Group and the Group Assets and Liabilities Committee. Finally, the Group has prepositioned mortgage collateral and securitised notes with the Bank of England which allows it to consider alternative funding sources to ensure it is not solely reliant on retail savings. The Group also has a mature RMBS programme.	**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.	The Group continuously monitors wholesale funding markets and is experienced in taking proactive management actions where required. The Group issued two securitisations in 2021 and the Group saw strong demand for secured funding issuance.	**Unchanged** The Group's range of wholesale funding options available, including repo or sale of retained notes, collateral upgrade trades remained broadly unchanged.

Risk	Mitigation	Direction
Refinancing of TFSME Funding risk relating to the refinancing of Bank of England funding with retail deposits or securitisation funding. In the year, the Group repaid its TFS drawings in full and drew a total of £4.2bn under the TFSME creating a refinancing concentration around the maturity of the scheme.	The Group has a TFSME allowance significantly above its wholesale funding requirements which allowed the TFS scheme to be fully refinanced by TFSME.	**Decreased** Drawings made across the TFSME scheme, repaying TFS borrowings during the year, extended the repayment profile of wholesale funding. This coupled with the fact that the Group has a well-established retail deposit franchises and established securitisation capability resulted in this risk decreasing in the year.

6 Solvency risk

Definition	Risk appetite statement
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.	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.

Risk	Mitigation	Direction
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.	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.	**Decreased** The Group's stable credit profile and ongoing profitability, coupled with capital structure optimisation during 2021 via the issuance of AT1 securities, means the Group's capital resources have improved. The Group has been provided with an extra year to meet its interim and end state MREL requirements, which helps mitigate the risks around markets not being supportive of issue and the resulting cost. Risks remain around adverse credit profile performance, resulting from further COVID-19 variants, rising inflation and interest rates. Uncertainty remains as to the impact of Basel 3.1, with the implementation date likely to be beyond the initially planned 1 Jan 2023 date potentially moving out to 2025.

7 Operational risk

Definition	Risk appetite statement
The risk of loss or a negative impact on the reputation of the Group resulting from inadequate or failed internal processes, people or systems, or from external events.	The Group's operational processes, systems and controls are designed to minimise disruption to customers, damage to the Group's reputation and any detrimental impact on financial performance. The Group actively promotes the continuous evolution of its operating environment through the identification, evaluation and mitigation of risks, whilst recognising that the complete elimination of operational risk is not possible.

Risk	Mitigation	Direction
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.	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.	**Unchanged** The Group has well-established processes to allow it to operate effectively when employees work from home and the cyber risks related to working remotely. Whilst IT security risks continue to evolve, the level of maturity of the Group's controls and defences has significantly increased, supported by dedicated IT security experts. 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.	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.	**Unchanged** Progress was made in 2021 to embed Group-wide governance frameworks in part driven by the Group's IRB project. Further work is planned for 2022, 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.	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.	**Increased** The Group continued to adopt an ambitious change agenda, although core planned integration activity is largely complete. In 2021 this risk was monitored and managed well, however further change is planned in 2022, against the challenging operating environment resulting from the risk of new COVID-19 variants and ongoing macroeconomic uncertainty.
IT failure The risks resulting from a major IT application or infrastructure failure impacting access to the Group's IT systems.	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.	**Unchanged** Whilst progress was made in reducing both the likelihood and impact of an IT failure, the risks remain, in particular due to new hybrid working arrangement. Further work is planned during 2022.

Risk	Mitigation	Direction
Organisational change and integration The risks resulting from the Group's ongoing integration activities, including systems, people and infrastructure.	There is a low risk integration project plan (e.g. no large-scale integration-related IT project change planned). The Group has an experienced and capable project management office, with close oversight and direction provided by the Group Executive.	**Unchanged** To date, organisational change resulting from the integration project has been managed well and is largely complete. Further work is required to reach the target end state and carefully considered plans, strong risk identification, monitoring and management capabilities remain in place.

8 Conduct risk

Definition	Risk appetite statement
The risk that the Group's behaviours or actions result in customer detriment or negatively impact the integrity of the markets in which it operates.	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 sub-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.

Risk	Mitigation	Direction
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.	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.	**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. Non-compliance with GDPR regulations.	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. The Group has a dedicated project to drive compliance with GDPR regulation.	**Unchanged** Further controls were introduced during 2021, although network/system threats continue to evolve in both volume and sophistication. Good progress was made across key GDPR project work streams.
Integration risk The risk that the integration programme directly or indirectly causes poor outcomes for customers and the market.	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.	**Decreased** Integration activity is largely complete with no material issues being identified to date. Controls are in place to ensure that the integration programme does not result in poor customer outcomes.

9 Compliance/regulatory risk

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

Risk	Mitigation	Direction
Prudential regulatory changes The Group continues to see a high volume of key compliance regulatory changes that impact its business activities. These include the implementation of Basel 3.1 capital rules and increased Resolvability Assessment Framework requirements, including updated minimum requirements for own funds and eligible liabilities (MREL).	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.	**Unchanged** The Group continues to have a high level of interaction with UK regulators and continues to identify and 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.	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.	**Increased** 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. The Group continues to interact with regulatory bodies to take part in thematic reviews as required. Identifying, monitoring and supporting vulnerable customers continues to be a key area of focus. Ongoing reviews of long-term arrears and forbearance customers, continues to ensure that payment terms still remain appropriate. New consumer duty regulation will require dedicated resources to be deployed to ensure the Group continues to comply with emerging regulatory requirements.

10 Integration risk

Definition	Risk appetite statement
The risks resulting from the Group's ongoing integration activities, including business, operational and financial performance, systems, people and infrastructure.	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 mitigating actions implemented, overseen by robust levels of governance.

Risk	Mitigation	Direction
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 impacts operating and financial performance.	Well-established change and project management capabilities, coupled with continued close oversight from the Executive and Board Committees ensures risks continue to be mitigated effectively. Independent assessment, monitoring and reporting is being undertaken by the Risk and Internal Audit functions.	**Decreased** This risk has decreased with key planned integration activity largely complete. 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 and considers its top emerging risks to be:

Emerging risk	Description	Mitigating action
Political and macroeconomic uncertainty	The impact of new COVID-19 variants remains unknown. The Group's lending activity is predominantly focused in the United Kingdom (with a legacy back book of mortgages in the Channel Islands) and, as such, will be impacted by any risks emerging from changes in the macroeconomic environment. Rising inflation and interest rates pose risks to the Group's loan portfolio performance.	The Group has mature and 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 which relate to specific weather events, such as storms and flooding, or to longer-term shifts in the climate, such as rising sea levels. These risks could include adverse movements in the value of certain properties that are in coastal and low lying areas, or located in areas prone to increased subsidence and heave • Transitional risks may arise from the adjustment towards a low-carbon economy, such as tightening energy efficiency standards for domestic and commercial buildings. These risks could include a potential adverse movement in the value of properties requiring substantial updates to meet future energy performance requirements • Reputational risk arising from a failure to meet changing societal, investor or regulatory demands	During 2021, further progress was made in developing and embedding the Group's climate risk management approach within the Group's wider risk management arrangements. This included the development of a specific Climate Risk Management Framework, implementation of an ESG Committee and a dedicated Climate Risk Committee and ESG steering group. Updated financial impact analysis was conducted as part of the ICAAP. The Group invested a significant amount of time in developing its ESG and climate risk strategy along with its Task Force on Climate Related Financial Disclosures (TCFD). The Group's Chief Risk Officers have designated senior management responsibility for the management of climate change risk.
Model risk	The risk of financial loss, adverse regulatory outcomes, reputational damage or customer detriment resulting from deficiencies in the development, application or ongoing operation of models and ratings systems. The Group also notes changes in industry best practice with respect to model risk management.	The Group has well-established model risk governance arrangements in place, with Board and Executive Committees in place to ensure robust oversight of the Group's model risk profile. Dedicated resources are in place to ensure model governance arrangements continue to meet any changes in industry and regulatory expectations.
Regulatory change	The Group remains subject to high levels of regulatory oversight and an extensive and broad-ranging regulatory change agenda, including meeting the requirements of the Resolvability Assessment Framework and Operational Continuity in Resolution. The Group is therefore required to respond to prudential and conduct related regulatory changes, taking part in thematic reviews as required. There is also uncertainty in relation to the regulatory landscape post the United Kingdom's exit from the European Union.	The Group has established horizon scanning capabilities, coupled with dedicated prudential and conduct regulatory experts in place to ensure the Group manages future regulatory changes effectively. The Group also has strong relationships with regulatory bodies, and via membership of UK Finance inputs into upcoming regulatory consultations.
Evolving working practices	The COVID-19 pandemic has resulted in new ways of working which are impacting employee collaboration, the embedding of the Group's Purpose, Vision and Values and labour market dynamics, which are making it more challenging to recruit and retain talent across certain positions.	The Group operated effectively during the COVID-19 lockdown periods, with the majority of staff working from home. A hybrid working model has been established which continues to work well.

Risk profile performance review

Credit risk

The Group's loan portfolios performed robustly during 2021. Prudent criteria for new originations delivered strong new business quality, whilst the back book also outperformed forecasted expectations. In particular, the Group saw lower than forecasted arrears levels and better than expected house price inflation.

The Group's prudent credit risk appetite ensures that loan portfolios are positioned to perform well in both benign and stress macroeconomic environments. This approach continued to serve the Group well during the ongoing uncertainty surrounding the potential impact that new variants of the COVID-19 virus can have on the UK's macroeconomic outlook.

Net loan book growth of 10% was delivered through controlled new lending in the Group's core Buy-to-Let and residential owner-occupier sub-segments, which more than offset reductions in bridging and second charge loan books. The Group also maintained 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 the tighter criteria deployed and strong repayment inflows.

Sensible new lending LTV criteria and favourable property price indexing resulted in the average weighted stock LTV for OSB and CCFS reducing during 2021 to 60% and 65%, respectively as at 31 December 2021 (31 December 2020: OSB 64% and CCFS 67%), which resulted in a prudent average weighted LTV profile of 62% for the Group.

A low level of arrears continued to be observed during 2021, with just 1.1% of net loan balances being greater than three months in arrears, which was broadly in line with 0.9% as at 31 December 2020. Increasing arrears levels were observed across a small number of portfolios as payment holidays expired, however these increases were partially offset by improving performance across other loan portfolios.

Group and solo bank interest coverage ratios remained strong during 2021 at 199% for OSB and 188% for CCFS (2020: 201% OSB and 193% CCFS).

During 2021, forward-looking external credit bureau probability of default and customer indebtedness scores remained strong, with some reversion back to pre-pandemic levels as customers returned to spending, once lockdown restrictions were relaxed.

Expected credit losses (ECL)

Balance sheet expected credit losses reduced from £111.0m to £101.5m during the year, a reduction of £9.5m. Model enhancements, post model adjustments, underlying credit profile charges and balances written off and other non-material items partially offset this movement, to result in a full year statutory impairment credit of £4.4m representing a loan loss ratio of -2bps (2020: £71.0m charge, 38bps, respectively). The provision release in 2021 was primarily driven by forecasted improvements in the forward-looking macroeconomic outlook, and positive house price movements observed during the year.

A summary of the key impairment drivers during 2021 included:

a. Macroeconomic outlook – improvements in the economic outlook resulted in a £24.9m net release in provision levels. This net release resulted from a £12.3m provisions release resulting from positive residential house price growth, whilst a further £22.2m of provision was released through less severe forward-looking macroeconomic scenarios being implemented. These positive movements were partially offset by a further 10% weighting being applied to the downside macroeconomic scenarios in Q4 2021, to reflect potential go forward risks surrounding future increases in the cost of living due to increasing inflation and interest rate levels, which increased provision levels by £9.6m.

b. Model enhancements – enhancements were made to the Group's underlying models to ensure estimates continued to reflect actual credit profile performance. The cumulative impact of these enhancements contributed £4.3m to the total loan loss charge for 2021.

c. COVID-19 post model adjustments – during the pandemic the Group implemented a number of post model adjustments to ensure that idiosyncratic risks which were not captured by the IFRS 9 suite of models, were reflected in provision levels. An example of this was adjustments made to time to sale estimates to reflect the elongated legal process due to backlogs resulting from the COVID-19 possession moratorium. The cumulative impact of post model adjustments made during the year resulted in a provision charge of £6.8m.

d. Credit profile provision charges – impairment charges driven by changes in the credit profile such as portfolio size, portfolio mix and changes in staging mix totalled £4.3m.

e. Other impairment charges – balance sheet write offs and other non-material impairment items resulted in a cumulative total £5.1m charge for the year.

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

Impairment coverage levels remained above pre-pandemic levels, reflecting the continued uncertainty surrounding the macroeconomic outlook. The Group's Risk function conducted top down analysis, assessing portfolio specific risks relating to rising cost of living and further interest rate rises, which confirmed the appropriateness of modelled provision levels including any post model adjustments.

Coverage levels are presented in the tables on the next page.

As at 31 December 2021	Gross carrying amount £m	Expected credit losses £m	Coverage ratio
Stage 1	**18,188.4**	**12.1**	**0.07%**
Stage 2	**2,413.6**	**25.0**	**1.04%**
Stage 3 (+ POCI)	**562.1**	**64.4**	**11.46%**
Total	**21,164.1**	**101.5**	**0.48%**
As at 31 December 2020			
Stage 1	16,116.3	21.2	0.13%
Stage 2	2,691.0	31.0	1.15%
Stage 3 (+ POCI)	515.3	58.8	11.41%
Total	19,322.6	111.0	0.57%

Macroeconomic scenarios

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

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

i. How macroeconomic variables and scenarios are selected

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

The Group adopted an approach which utilises four macroeconomic scenarios. These scenarios are provided by an industry leading economics advisory firm, that 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 quarterly 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 2021

Throughout 2021, the scenario suite was monitored and updated as government measures were updated and the impact of the pandemic evolved.

As the macroeconomic outlook improved during 2021, the Group's Risk and Audit Committees focused on assessing whether specific risks had been captured within externally provided forward-looking forecasts. Of particular focus were the risks relating to rising costs of living and subsequent rising interest rates to control inflation levels. The Board consequently decided to shift a 10% weighting from the upside scenario, to the downside and severe downside scenarios (5% applied to each) to acknowledge the increasing risks relating to the rising cost of living and potential impacts of rising interest rates not captured within the scenarios at the year end.

Details relating to the scenarios utilised to set the 31 December 2021 IFRS 9 provision levels are provided in the table below.

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

As at 31 December 2021		Base case %	Upside scenario %	Downside scenario %	Severe downside scenario %
Weighting applied		**40**	**20**	**28**	**12**
Economic driver	**Measure**				
Gross Domestic Product (GDP)	5 year average (yearly GDP growth %)	**3.3**	**4.0**	**2.3**	**1.7**
	Cumulative growth/(fall) to peak/(trough) (%)	**14.5**	**18.5**	**1.2**	**-0.4**
House Price Index (HPI)	5 year average (yearly HPI growth %)	**1.9**	**4.5**	**-2.9**	**-5.8**
	Cumulative growth/(fall) to peak/(trough) (%)	**-3.5**	**-1.0**	**-22.2**	**-33.9**
Bank Base Rate (BBR)	5 year average (%)	**0.3**	**1.1**	**-0.1**	**-0.3**
	Cumulative growth/(fall) to peak/(trough) (%)	**0.7**	**1.7**	**-0.4**	**-0.6**
Unemployment Rate (UR)	5 year average (%)	**4.2**	**3.7**	**6.1**	**6.5**
	Cumulative growth/(fall) to peak/(trough) (%)	**0.1**	**-1.2**	**1.8**	**2.1**
Commercial Real Estate Index (CRE)	5 year average (yearly HPI growth %)	**1.9**	**4.5**	**-2.9**	**-5.8**
	Cumulative growth/(fall) to peak/(trough) (%)	**-3.5**	**-1.0**	**-22.2**	**-33.9**

As at 31 December 2020		Base case %	Upside scenario %	Downside scenario %	Severe downside scenario %
Weighting applied		40	30	23	7
Economic driver	**Measure**				
Gross Domestic Product (GDP)	5 year average (yearly GDP growth %)	3.2	3.6	2.6	2.2
	Cumulative growth/(fall) to peak/(trough) (%)	-5.8	-5.6	-6.7	-8.0
House Price Index (HPI)	5 year average (yearly HPI growth %)	2.1	3.6	-0.4	-2.2
	Cumulative growth/(fall) to peak/(trough) (%)	-8.5	-6.3	-18.9	-26.4
Bank Base Rate (BBR)	5 year average (%)	0.5	0.8	0.1	0.1
	Cumulative growth/(fall) to peak/(trough) (%)	+1.4	+1.7	+0.0	+0.0
Unemployment Rate (UR)	5 year average (%)	6.9	6.1	8.8	9.6
	Cumulative growth/(fall) to peak/(trough) (%)	+3.7	+3.1	+5.8	+6.5
Commercial Real Estate Index (CRE)	5 year average (yearly HPI growth %)	2.1	3.6	-0.4	-5.5
	Cumulative growth/(fall) to peak/(trough) (%)	-8.5	-6.3	-18.9	-40.0

Forbearance

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

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

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

- Temporary switch to interest only: a temporary account change to assist customers through periods of financial difficulty where 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 mortgage to a lower contractual rate. Where this is a formal contractual change, the borrower will be requested to obtain independent financial advice as part of the process.
- Loan term extension: a permanent account change for customers in financial distress where the overall term of the mortgage is extended, resulting in a lower contractual monthly payment.
- Payment holiday: a temporary account change to assist customers through periods of financial difficulty where 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 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.

During 2021, the Group conducted a review of long term arrears cases with a particular focus on acquired second charge portfolios. This review resulted in the Group entering into forbearance arrangements with customers to ensure future repayment terms remained sustainable. As a result, the Group saw an increase in new forbearance measures granted within the year.

Removing the impact of this review, forbearance levels remained broadly stable year on year.

Further information regarding forbearance can be found in note 46 to the financial statements.

Fair value of collateral methodology

The Group ensures that security valuations are reviewed on an ongoing basis for accuracy and appropriateness. Commercial properties are subject to quarterly indexing, 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, 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 2021, the Group proactively managed the balance sheet, whilst the PRA retained capital support measures detailed within the CRR 'Quick Fix' package implemented in 2020 which continued to support capital ratios. The counter-cyclical buffer remained at 0%, with the PRA signalling that it would increase to 1% from 13 December 2022 in line with the usual 12-month implementation period. If the UK economic recovery proceeds broadly in line with the PRA's projections and a material change in the macroeconomic outlook does not occur, the PRA expects to increase the rate to 2% in the second quarter of 2022, which would also be expected to take effect after the usual 12 month implementation period.

The Group's fully-loaded CET1 and total capital ratios under CRD IV increased to 19.6% and 21.2%, respectively, as at 31 December 2021 (31 December 2020: 18.3% and 18.3%, 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. Capital structure optimisation including the issuance of AT1 securities contributed to the Group's strong capital ratios. The Group's leverage ratio was 7.9% as at 31 December 2021 (31 December 2020: 6.9%).

Liquidity and funding risk

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

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

In 2021, 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.

Funding and liquidity risk remained broadly stable throughout the year. Retail funding was generally raised at a low cost of funds due to increased available funds in the market. There was a short period in the late third quarter where retail funding was volatile as the Group funded the additional lending brought about by the stamp duty land tax changes. The Group refinanced TFS funding into TFSME and drew down further funds elongating the funding profile by a further four years ahead of the scheme's closure in October 2021.

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 2021, OSB had a liquidity coverage ratio of 240% (2020: 254%) and CCFS 158% (2020: 146%), and the Group LCR was 198%, all significantly above regulatory requirements.

Market risk

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

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

The Group's balance sheet is predominantly GBP denominated. The Group has some minor foreign exchange risk from funding the OSBI business. Wholesale counterparty risk is measured on a daily basis and constrained by counterparty risk limits.

The Group has a dedicated working group to focus on the risk and transition away from the LIBOR benchmark. Required capabilities were implemented during 2021 and the Group is well positioned to respond to any future changes.

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 incoming 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 and financial objectives, against a highly competitive and uncertain backdrop.

Reputational risk

Reputational risk can arise from a variety of sources and is a second order risk – the crystallisation of 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

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 synergy 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 integration programme and the underlying risk profile continued to perform in line with expectations with no material risk incidents or trends 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.

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 set on an annual basis and are reviewed and refreshed quarterly. The operating and financial plans consider, among other matters, the Board's risk appetite, macroeconomic outlook, market opportunity, the competitive landscape, and sensitivity of the financial plans to volumes, margin pressures and any changes in capital requirements.

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

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 viability 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 the Principal risks and uncertainties section).

The Group identifies, assesses, manages and monitors its risk profile based on the disciplines outlined within the Strategic 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 has developed bespoke stress testing capabilities to assess the impact of extreme but plausible scenarios in the context of its principal risks impacting the primary strategic, financial and regulatory objectives. Stress test scenarios are identified in the context of the Group's operating model, identified risks, business and economic outlook. The Group actively engages external experts to inform the process by which it develops business and economic stress scenarios.

A broad range of stress scenarios are analysed considering the potential impacts to changes in HPI, unemployment and interest rates over a range of severity scenarios. The Group's capabilities are well established and continue to support proactive management of the Group's risk profile, ongoing operational resilience and liquidity and capital positions.

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 counter parties. 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 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 with respect to the potential impact of new variants.

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 considered the potential impact and risks facing the Group with respect to the pandemic as set out in the Risk review on pages 50 to 73 and the Principal risks and uncertainties on page 58.

In line with prior years, in the viability assessment process the Board considered the latest macroeconomic forward-looking scenarios utilised for business planning and the Group's IFRS 9 calculations which consider the ongoing risks relating to new COVID-19 variants and other macroeconomic risks such as rising inflation and interest rate rises. Utilising analysis which identifies scenarios which would result in the Group becoming unviable, the Board considered the plausibility of these scenarios materialising, whilst considering the likely impact of new COVID-19 variants. Forecasts and capital stress tests considered the impact of the countercyclical buffer being progressively phased back in, IFRS9 transitional arrangements unwinding, the Group's go forward minimum requirements for own funds and liabilities (MREL) phasing in and a range of Basel 3.1 outcomes.

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.
- 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.

Our Purpose is to help our customers, colleagues and communities prosper. To achieve it, we operate in a sustainable way with environmental, social and governance matters relevant to the Group at heart.

As a specialist lender, we have long been aware of our responsibilities and the positive impact we can make to society through our activities and responding to the challenges and opportunities that environmental, social and governance (ESG) matters present, has now become an integral part of the Group's strategy.

ESG has been a key consideration for the Board and the Group's management. During 2021, one of our Non-Executive Directors, Sarah Hedger, was appointed as the Group's ESG Champion. We also created a new ESG Governance structure (see TCFD section) and a dedicated ESG team who are responsible for the preparation, management and monitoring of the Group's ESG strategy and operating framework and in collaboration with cross-functional departments, its implementation and delivery.

We have embedded ESG and climate risk into our Strategic Risk Management Framework as an enterprise risk and in 2022, the Executive remuneration will be linked directly to ESG performance. Our aim is to build an agile and maturing ESG response which is relevant to the Group's specialist lending activities and which align to the Group's Purpose, Vision and Values, whilst supporting the Group's approach to long term sustainability, value creation and resilience.

Environment

Climate change is the most pressing challenge facing our planet and we are acutely aware of the threat climate change poses not just to our business, but far more importantly, the way in which we live our lives, be that our customers, colleagues, suppliers, or communities.

Following the decision to be carbon neutral[1] for our operational emissions[2] in 2021 and to demonstrate our continued and long-term dedication to climate change, we have joined the Net Zero Banking Alliance and committed to assist with industry efforts to achieve decarbonisation goals and to achieve net zero greenhouse gas emissions[3] by 2050. We fully recognise, however, that no business can achieve net zero on their own and collaborative support from industry and policy makers will be required to achieve this goal.

During 2021, we established a baseline for the emissions associated with the properties we finance, commonly referred to as Scope 3 financed emissions, using the Partnership for Carbon Accounting Financials (PCAF) methodology. In 2022, we will publish our science-based targets for 2030, in order to reach net zero no later than 2050, aligned with the goals of the Paris Climate Accord. A robust transition plan and roadmap will be developed supported by qualitative and quantitative targets.

We realise that the biggest potential for positive impact regarding climate change is influencing the quality of UK housing stock. As such, opportunities exist for the Group to build on its experience and expertise in our chosen markets sub-segments, to provide supporting products, thought leadership, and the education and awareness our customers need in support of their decarbonisation journey.

To read more about our performance and ambitions, see the Environment section on page 78.

Social responsibility

At OSB Group, we have a long tradition of looking after our customers, employees and the communities in which we operate and this approach is firmly embedded in our Purpose.

Our goal of helping our customers prosper means not only providing excellent service demonstrated in the high NPS scores we receive but also working hard to make transacting with us as easy as possible, doing our best to offer transparent products and providing assistance to vulnerable borrowers. Our Sales teams are focused on helping brokers and borrowers in even the most complex of cases. We pride ourselves in having high standards and practices that govern how we deal with our customers.

Our Vision to be recognised as the UK's number one choice specialist bank would not be possible without the talented and dedicated colleagues the Group employs. Our ambition is to continue building a diverse and inclusive culture that we are proud of and one of our accomplishments in 2021 was combining two great cultures and establishing a set of common values for OSB and CCFS colleagues.

We are immensely proud to retain, recruit and train the best talent and we will continue to provide a nurturing work environment to our nearly 1,800 strong workforce, and to encourage them to fulfil their professional and personal goals.

We have also been helping our communities in the UK and India prosper through our volunteering and philanthropy efforts. We have always been active in the communities in which we operate and have a strong ethos of giving something back. As well as supporting our national charity partner, Campaign Against Living Miserably, we also helped more local causes, donating nearly £395k in the year.

To read more about our efforts for our employees and our communities, see the Social responsibility section on page 94.

Governance

Strong governance is fundamental to the execution of the Group's strategy and promoting the success of the Group. It forms a vital part of our ESG framework. The Group's Board recognises its responsibility for providing oversight and control, and for setting the tone on how we conduct the business, deal with our stakeholders and fulfil our regulatory obligations.

Climate risk challenges and opportunities were one of the key considerations for the Board in the year and many initiatives were undertaken to respond to them. In 2021, the Climate Risk Committee met five times to progress the framework, targets and measurement necessary to achieve our climate-related goals. In addition, to fully align the performance of the Group, its ESG goals and Executive remuneration, environmental targets are embedded in the 2022 remuneration scorecard for the Group's CEO, CFO and the Executive Committee members, see the Remuneration report on page 144.

The Board was also actively engaged in overseeing the launch of the Group's Purpose, Vision and Values, which established one Group-wide approach post the Combination with CCFS. The Group's diversity and inclusion efforts were also guided by the Board and Board members participated in the activities of the Diversity and Inclusion Working Group in the year. We are proud that the efforts to promote diversity, inclusion and equality at OSB Group were awarded a Talent Inclusion and Diversity Evaluation Award (TIDE) achieving the silver standard.

To read more about our governance structure, see the Governance section on page 114.

We are proud of the progress we have made on ESG but recognise that there is more to do in the future. Our purpose of helping our customers, colleagues and communities prosper, backed by the strong ESG foundations we have laid in 2021 places us well to tackle the important challenges we, and our stakeholders, face.

In the pages that follow, we provide more detail on our progress so far and how we plan to continue to build on our success.

1. Carbon neutrality is defined as balancing operational emissions so they are equal (or less than) the emissions removed through carbon offsetting.
2. Operational footprint is defined as the Group's Scope 1, Scope 2 and Scope 3 (paper, water, waste, business travel, electricity transmission and distribution) emissions. It therefore excludes upstream and downstream emissions from our value chain.
3. Net zero is defined as reducing scope 1, 2, and 3 emissions to zero or to a residual level that is consistent with reaching net zero emissions at the global or sector level in eligible 1.5°C aligned pathways.

Environment

Reducing impact from our operations

As a specialist lender, the impact of our operations is relatively low compared to the emissions associated with properties we provide finance for. Our operational emissions are driven predominantly by the use of resources associated with electricity and gas, the procurement of goods and services and travel for business purposes. These sources are to be expected given the simple nature of our operations. The Group has been committed to reducing the footprint of our operational emissions for a number of years and progress has been made against our 2019 baseline.

100%

of electricity purchased by the Group in the UK was from renewable tariffs

Management

Our Environmental Policy embodies the Group's commitment to meeting or exceeding all relevant environmental obligations under law and regulation, reducing our impact and to continuously improving performance. The policy is endorsed by the Environmental, Social and Governance (ESG) Committee and approved by the Group Nomination and Governance Committee.

Policy commitments:

- accepting responsibility for contributing to the protection of the environment and striving to ensure that our actions will not detract from the long-term sustainability of environmental resources;
- striving to reduce the consumption of materials and energy and use renewable or recyclable materials where possible;
- to be a 'Zero to Landfill' business, meaning that all Group waste is either reused, recycled or sent to a dedicated Energy from Waste facility;
- to minimise harmful emissions and prevent pollution;
- to promote advantageous environmental practices by all employees; and to consult with suppliers to improve the environmental impact of goods and services provided to the Group.

Below are the objectives stated within the policy:

Energy and water

- seek to reduce the amount of energy used as much as possible;
- adjust heating with energy consumption in mind; and
- the energy consumption and efficiency of new products will be taken into account when purchasing.

Paper

- minimise the use of paper in the office;
- reduce packaging as much as possible;
- seek to buy recycled and recyclable paper products; and
- reuse and recycle all paper where possible.

Office supplies

- evaluate the environmental impact of any new products the Group intends to purchase;
- favour more environmentally-friendly and efficient products wherever possible; and
- reuse and recycle everything where possible.

Transportation

- promote the use of travel alternatives such as e-mail or video/telephone conferencing;
- make additional efforts to accommodate the needs of those using public transport;
- encourage car sharing for journeys to and from the workplace; and
- favour 'green' vehicles and encourage use by providing electric vehicle charge points.

Maintenance and cleaning

- cleaning materials used will be as environmentally-friendly as possible;
- materials used in office refurbishment will be as environmentally friendly as possible; and
- only licensed and appropriate organisations will be used to dispose of waste.

All UK offices work under a management system certified to the international environmental management standard ISO:14001 2015, supported by the Environmental Working Group whose efforts are focused on raising awareness across the Group and driving improvement.

Improvement has been driven by programs including:

- further replacements of lighting with energy efficient solutions;
- the effective management of energy consumption through our Building Management Systems;
- procuring paper for our offices that comes from renewable sources and recycling it when its disposed of;
- increasing awareness amongst employees through training;
- OSBI offices becoming paperless;
- installation of Electric Vehicle charging points in UK office locations; and
- implementation of the Group's Electric Vehicle Incentive scheme.

The ongoing pandemic and the impacts of lockdowns, restrictions and our priority to protect the health of employees hampered our ability to further progress delivery against objectives.

2021 was a milestone year for the Group, committing to carbon neutrality in our operational emissions for the first time and to delivering net zero operational emissions by 2030.

This further demonstrates the absolute commitment of the Group to responsible and sustainable business practices.

2021 was the first year that 100% of the electricity the Group procured in the UK came from renewable sources saving around 342 tonnes of CO_2 emissions (tCO_2e). High quality carbon offsets from Verra – Verified Carbon Standard, Gold Standard or UN Clean Development Mechanism certified programs have been used to compensate for the residual emissions of 908.8 tCO_2e.

Greenhouse gas emissions

We utilise the Greenhouse Gas Protocol to measure our carbon footprint across Scopes 1, 2 and 3. Scope 3 has 15 categories, the most material of which (Category 1 paper and water, Category 3 electricity transmission and distribution, Category 5 waste and Category 6 business travel) are within our own activities, other than financed emissions (category 15).

We have reported on all of the emissions sources required under The Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013 and the Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018 – commonly referred to as Streamlined Energy and Carbon Reporting (SECR). The emissions disclosure is verified by Interface NRM, an independent UKAS and ASI accredited Certification Body, operating in accordance with ISO 17021 (2015) Conformity assessment: Requirements for bodies providing audit and certification of management systems; and ISO 17065 (2012) Conformity assessment – Requirements for bodies certifying products, processes and services.

OSB Group plc is a 'quoted company' under the SECR regulation and must report annually on greenhouse gas emissions from Scope 1 and 2 electricity, gas and transport.

In 2021, we reduced our absolute operational Scope 1, 2 and 3 (business travel, paper, waste, water, electricity transmission and distribution) emissions by 10.2% against a 2019 baseline. This remains primarily due to the impact of the pandemic and through reduction and efficiency activities.

Our 2021 total market-based[2] operational footprint was 908.82 tCO_2e, covering Scopes 1, 2 and 3 (business travel, paper, waste, water, transmission and distribution). The market-based methodology includes reductions from the procurement of electricity from renewable energy tariffs that covered 67% of consumption.

Reduction in operational carbon footprint[1] against 2019 baseline

10.2%

1. Operational footprint is defined as Scope 1, Scope 2 and Scope 3 (paper, water, waste, business travel, electricity transmission and distribution) emissions and excludes upstream and downstream emissions from the Group's value chain.

Increased occupancy in 2021 drove higher overall consumption of electricity, natural gas and gas oil than in 2020, (an additional 391,372 kWh) all sources of fuel for heating, lighting, power and ventilation.

In addition, we expanded our emissions inventory in 2021 to include further Scope 3 categories including rail, taxi and accommodation, which contributed an additional 18tCO_2e, and the emissions form transmission and distribution losses associated with the electricity we were supplied with, contributed 31 tCO_2e.

These improvements have built on the energy efficiency activities of 2020, where benefits were driven primarily through investment in improved controls of Building Management systems and the majority of the estate changing to LED lighting and PIR sensors, with LED lighting fitted in all refurbishment works undertaken.

2. The market-based method reflects emissions from electricity that we have purposefully chosen e.g. renewable energy tariffs. It derives emission factors from contractual instruments.

Greenhouse Gas (GHG) Emissions

Direct and indirect GHG emissions (Scopes 1, 2 and 3)	Description	Specific fuels			
Amounts in metric tonnes CO_2 equivalent			2019	2020	**2021**
Total direct (Scope 1)	Combustion of fuel on site and transportation	On site: natural gas, gas oil transport: petrol, diesel, unknown vehicle fuel	151.75	268.36	**269.77**
Total indirect (Scope 2)	Purchased energy	Electricity			
		Location-based	1,084.45	789.86	**869.37**
		Market-based	1,034.05	386.00	**527.14**
Total indirect Scope 3 (exc. category 15)	GHG Protocol Scope 3 material categories exc. category 15	Unknown vehicle fuel	156.81	71.26	**111.91**
Total operational emissions (location-based)	For electricity, reflects the average emissions intensity of grids on which energy consumption occurs		1,393.01	1,128.62	**1,251.05**
Total operational emissions (market-based)	For electricity, reflects the emissions from the electricity that we are purchasing, including renewable energy tariffs		1,393.01	725.62	**908.82**
Total Indirect Scope 3 – financed emissions (category 15)	Category 15 Investments (financed emissions)[1]	Scope 1 direct and 2 indirect emissions (gas and electricity)	N/M	N/M	**278,854**
Total GHG emissions	All measured emissions for the year 2021		**1,393.01**	**1,128.62**	**280,105.05**

GHG intensity

GHG intensity ratio	Description			
		2019	2020	**2021**
Full Time Equivalent (FTE) employees	The number of FTEs employed	1,789	1,740	**1,744**
Annual turnover	£m	343	508	**629**
Scope 1, 2 and 3 (business travel only)	Metric tonnes of CO_2 equivalent per employee	0.78	0.65	**0.72**
Scope 1, 2 and 3 (business travel only)	Metric tonnes of CO_2 equivalent per £m turnover	4.06	2.22	**1.99**
Scope 3 financed emissions – physical emissions intensity	Kgs of CO_2 equivalent per square metre[2]	N/M	N/M	**24.81**

Country breakdown – operational emissions

Direct and indirect GHG emissions
(Scopes 1, 2 and 3 non-category 15)

	2019	2020	2021
UK			
Tonnes of CO_2 equivalent	933.21	624.22	**637.44**
Percentage of overall operation emissions	67%	55%	**50%**
India			
Tonnes of CO_2 equivalent	459.8	504.71	**631.61**
Percentage of overall operation emissions	33%	45%	**50%**

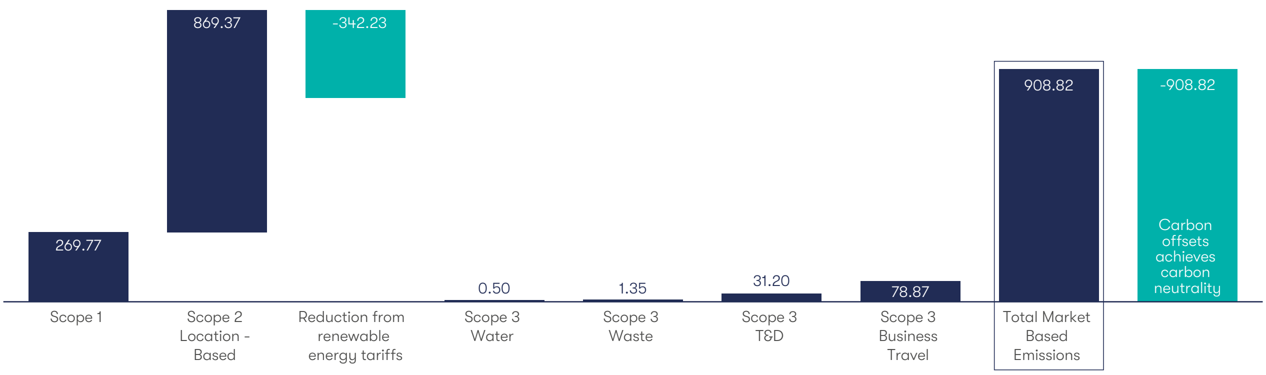
Energy consumption

Energy usage kWh	Specific fuels	2019	2020	2021
Total kWh consumed	Electricity, natural gas, gas oil, petrol, diesel, unknown vehicle fuel	–	3,459,592	**3,801,988**
UK kWh consumed	Electricity, natural gas, gas oil, petrol, diesel, unknown vehicle fuel	–	2,818,406	**2,952,631**
India kWh consumed	Electricity, natural gas, gas oil, petrol, diesel, unknown vehicle fuel	–	641,186	**849,358**

N/M = Not measured

1. Calculated by multiplying an attribution factor (outstanding amount of loan divided by the property value at origination) by the emissions associated with the property taken from EPC. Calculated for the mortgage portfolio as the largest asset class. It does not cover non-modelled book or securitised loans.
2. Total 2021 sq m coverage was 11,238,236.7. Absolute emissions 467,188.02 tCO_2e, financed emissions 278,853,50 tCO_2e (calculated as per PCAF methodology for Mortgages).

2021 Operational Emissions Breakdown (tCO_2e)



Electricity and gas

The majority of our operational emissions is generated through the use of electricity, gas and diesel. These energy sources are used in the most part to provide heat, power, lighting and ventilation to our office buildings.

In 2021, all electricity purchased in the UK came from renewable energy tariffs, reducing net emissions by 342 tCO_2e, when using the market-based method. The market-based method reflects specifically the emissions from the electricity that a company is purchasing; this may be different from the location based method, which reflects electricity that is generated locally.

In India, diesel is used to power back-up generators that are frequently used as a result of instability in the electricity grid.

Waste

Waste generated within our buildings is segregated at the point of disposal, prior to removal from site. Business process waste is in the form of paper, waste from electrical and electronic equipment (WEEE), alongside general household waste generated in employee welfare areas. Where the Group is responsible for final disposal of waste, it is recycled or sent to an Energy from Waste facility. 63 tonnes of waste paper were recycled in 2021 via a specialist contractor.

Water

Water use is driven directly by the occupancy of our buildings in relation to welfare facilities. The emissions associated with water use are c.0.4% of our overall operational footprint.

Achievements in 2021

Pillar	Ambition	Progress
Net Zero emissions by 2050	Delivering the Group's transition to a low carbon economy in line with climate science	Reduced absolute Scope 1, 2 and 3 (business travel only) emissions by 10.2% from a 2019 baseline
		Re-certification of our UK office buildings to ISO 14001:2015 Environmental Management Standard
		All purchased electricity in the UK was from renewable energy tariffs and represented 67% of electricity the Group procures annually.
		Set a baseline for Scope 3 financed emissions using PCAF methodology
		Committed to offset our 2021 Scope 1, 2 and 3 (business travel only) emissions using verified and validated carbon offsets
		Started work to determine our Net Zero targets using SBTi methodology for Scope 1, 2 and 3 emissions
		Launched the Electrical Vehicle incentive scheme giving employees access to electric vehicles at competitive prices
		OSBI now operates paperless offices saving c. 3,400 A4 sheets of paper
		Integrated greenhouse gas emissions metrics and targets into Executive remuneration
Mitigating and adapting to Climate Risk (Further detail can be found in the TCFD report on page 86)	Incorporating climate-related risks and opportunities into risk management and strategic planning	Formalised our approach to Climate Risk Management by incorporating it into the Group Enterprise Risk Register with the requisite frameworks, risk management tools and oversight mechanisms
Sustainable products	Delivering options to our savings and lending customers that support their transition to low carbon	Initiated work to develop products that offer a meaningful opportunity for the Group and customers to address financed emissions
Sustainable supply chains	Supporting our suppliers and service providers towards carbon literacy and delivering decarbonisation across our value chains	Updated our Vendor Code of Conduct and Ethics to include expectations of vendors to integrate environmental considerations into their operational processes and to monitor and improve environmental performance
Collaborating to succeed	Actively seeking out opportunities to go further, faster in driving real change in the financial services sector and real economy	Joined the United Nations Net Zero Banking Alliance
		Signed the commitment letter to the Science Based Targets initiative
		Signed the commitment letter to the Partnership for Carbon Accounting Financials

"

In 2022, we will set science-based targets for 2030 in order to achieve net zero no later than 2050, aligned with the goals of the Paris Climate Accord.

Neil Richardson
ESG Sustainability Director

Reducing impact from our portfolio

Financed emissions

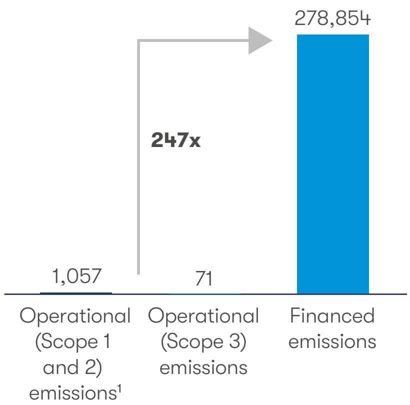
A significant step forward was made in 2021 with the establishment of a baseline for our mortgage portfolios financed emissions. Financed emissions, (classified as Scope 3) are the greenhouse gas emissions associated with our loans and investments in a reporting year.

The Group has selected the Partnership for Carbon Accounting Financials (PCAF) methodology as the most robust and suitable method to calculate financed emissions. The PCAF method attributes a proportion of the total emissions of a property, taken from Energy Performance Certificate (EPC), to the lender based on the outstanding value of the loan versus the value at origination. An inherent limitation of this methodology is that it relies on the availability of property EPC certificates. In 2021, 76% of properties had a valid EPC certificate. Where a valid EPC certificate was not available, properties were allocated a D rating. 2021 PCAF calculations included the mortgage portfolio as the largest asset class. It did not cover non-modelled book or securitised loans.

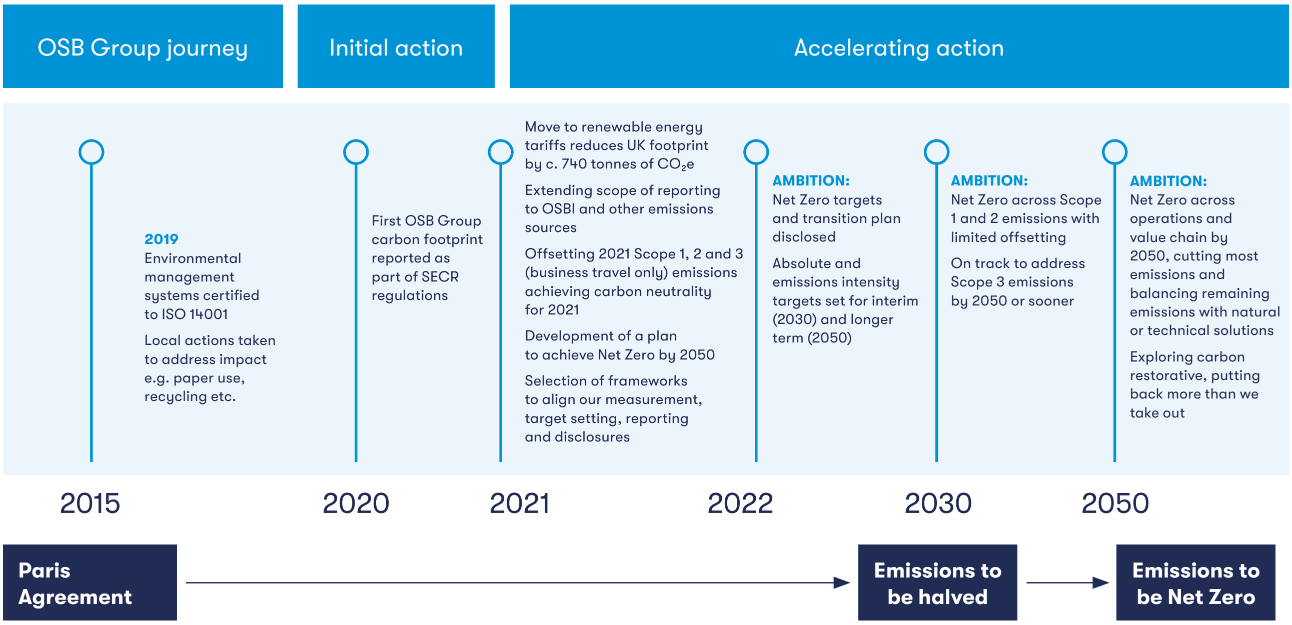
We will look to improve EPC coverage to improve the accuracy of our emissions calculations over time.

The outcome of our initial baseline is that financed emissions account for around 247 times that of our operational emissions; see the graph to the right that shows the comparison between our operations emissions and our financed emissions.

Financed emissions baseline
OSB's GHG emissions (tCO_2e)



Pathway to Net Zero in 2050



Net Zero

The financial sector, including specialist lenders such as ourselves understand local communities and stakeholders and can shape the path to net zero demanding a just and fair transition for the UK's communities. Through sector-wide initiatives we can define the action needed to ensure we deliver a net zero future that supports our customers, colleagues and communities to prosper.

The Group has made formal commitment to:

- Science-Based Targets Initiative (SBTi)
- Partnership for Carbon Accounting Financials (PCAF)

These initiatives will ensure our emissions baselines and reduction targets are aligned with the latest, sector specific thinking on measurement, carbon reduction pathways and target setting.

The Group is excited to have joined the United Nations – Net Zero Banking Alliance (NZBA) recognising that collaborative working to solve the challenges that lie ahead will be critical in maintaining momentum and creating a meaningful voice to represent the needs of the sector and those of our customers. Integral to our membership of NZBA and beyond, we are committed to using the deep understanding of the sub-sectors we work in to provide thought leadership reflective of the specialist nature of our business and our position in the market. We believe adopting a leadership position in this evolving arena will ensure value creation for our customers, colleagues and communities.

Priorities

The Group is focused on driving down our own direct impact on the climate through proportionate and meaningful action. Furthermore we are committed to ensuring that we provide strong thought leadership, education, awareness and products that help customers achieve climate-related improvements, thus ensuring that we expand our scope of focus to the emissions we enable through our footprint.

The Group's net zero strategy is based on a responsible and transparent transition for our operational emissions with the following principles for action:

- eliminating emissions wherever possible
- improving the efficiency of our processes to reduce the associated emissions or their impact
- offsetting the residual emissions through the procurement of validated and verified high quality carbon offsets.

In 2022, we will work to define our wider Scope 3 indirect emissions inventory. In doing so, we will better understand the overall emissions profile of upstream and downstream activities associated with our supply and value chains. With this analysis we can identify significant emissions sources and associated risks and opportunities for improvement.

A forward looking decarbonisation plan for our operations emissions towards net zero by 2030 will be defined and deployed during 2022.

Addressing the emissions associated with the properties we finance will be a strategic focus for 2022 but requires careful consideration to make sure our transition plans drive real emissions reductions, are sustainable, fair and offer value to our customers.

In 2022, we will publish our Net Zero targets for operational emissions[2] and financed emissions[3], defined using STBi methodologies. This cements our ambition to the delivery of the Paris Climate Accord goals.

Priorities table

Targets	Set and disclose Science Based Targets for Scope 1, 2 and 3 emissions for 2030, in order to achieve net zero no later than 2050
Transition plan	Define the near and medium term actions the Group will take to deliver the transition to Net Zero by 2050
Metrics	Implement suitable metrics and improve data integrity and quality to measure and report progress towards targets
Engagement	Engage key stakeholders in understanding our carbon ambitions and improving carbon literacy
Products	Develop and release products that deliver a material difference to our net zero ambitions and those of our customers
Supply Chain	Cascade our ambitions to strategic suppliers of goods and services in order to begin addressing our supply chain emissions
Collaboration	Identify key collaboration opportunities for both sharing and learning through initiatives, programs, charities and networks
Risk assessment	Further refine our approach to climate risk assessment in line with climate and ESG strategy. Further detail on opportunities for 2022 can be found in the TCFD report on page 86

1. Operational emissions are based on 2020
2. Operational emissions target boundary will reflect Greenhouse Gas Protocol standard inventory boundary with all Scope 1 and Scope 2 categories and material scope 3 categories in scope, excluding Category 15 financed emissions which will have a separate target.
3. A specific target for Scope 3 category 15 financed emissions will be set following SBTi Guidance for Financial Institutions.

Task Force on Climate-Related Financial Disclosures (TCFD)

Listing Rule 9.8.6R(8) requires that, from this year, the Group provides climate-related financial disclosures that comply with the 11 TCFD recommendations and recommended disclosures, or that it explains why it is not compliant. The Board confirms that it has disclosed sufficient information to comply with the 11 TCFD recommendations and recommended disclosures. We will continue to review the guidance contained in the TCFD annex and will supplement our future disclosures where appropriate.

Our climate ambition and strategy
OSB Group acknowledges that we have a responsibility to respond to the threat of climate risk and have embarked upon a programme of work to address this evolving risk and ensure that we are able to address associated challenges.

As a specialist secured lender, we believe that our position enables us to contribute towards assisting our customers and by extension, wider society towards a low-carbon economy.

The Board and management understand and are committed to ensuring that the Group takes appropriate and timely actions to discharge its duties towards the global sustainability agenda. To that end, we are focused on driving down the Group's own direct impact on the climate through proportionate and meaningful action. Furthermore, we are also committed to ensuring that we provide strong thought leadership, education, awareness, and products that help customers achieve climate-related improvements, thus ensuring that we expand our scope of focus to the emissions we enable through our footprint.

The Board is conscious that the climate agenda from regulatory bodies continues to evolve and further work is required to fully embed our climate operating model across the Group. During 2021, a new Environmental, Social and Governance (ESG) Committee was established to assist in driving forward key ESG initiatives and actions. We remain committed to embedding climate considerations in the Group's strategy, governance, risk management and financial and strategic planning.

The Group has aligned its disclosures to be compliant with TCFD and to provide transparent reporting to assist our stakeholders in understanding the impact of climate change on our business. The assessment of which has resulted in a low financial materiality to the business whilst still taking a proportionate approach should this change in the future.

This is our first iteration of climate-related disclosures and as such, while a lot of progress has been made, we recognise that more work needs to be done and have identified these specifically in the table below, where relevant.

The 11 recommended disclosures required within the context of TCFD compliance are listed as:

1. Describe the board's oversight of climate-related risks and opportunities.

2. Describe management's role in assessing and managing climate-related risks and opportunities.

3. Describe the climate-related risks and opportunities the organization has identified over the short, medium, and long term.

4. Describe the impact of climate-related risks and opportunities on the organisation's businesses, strategy, and financial planning.

5. Describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.

6. Describe the organisation's processes for identifying and assessing climate-related risks.

7. Describe the organisation's processes for managing climate-related risks.

8. Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organization's overall risk management.

9. Disclose the metrics used by the organisation to assess climate related risks and opportunities in line with its strategy and risk management process.

10. Disclose Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks.

11. Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets.

The Group's response to each is detailed in the table below and numbered against each, where we provide a summary of our approach to these matters and indicate where additional information can be found.

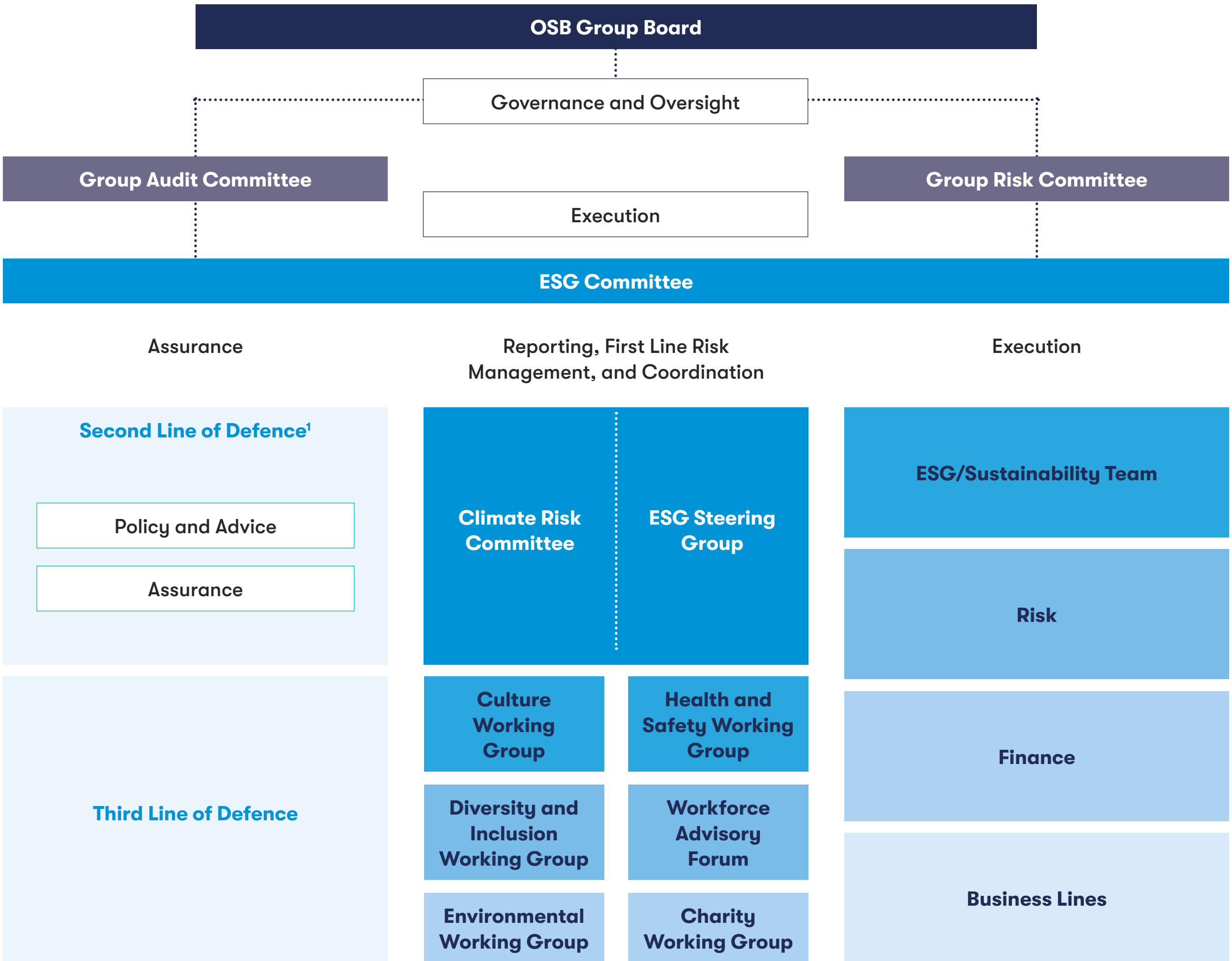
Achievements in 2021	Opportunities and developments for 2022	Further details
Governance		
1. Board oversight of climate-related risks and opportunities: • The Board enhanced its oversight of climate-related risks via quarterly updates related to climate risk and the Group's progress. All major Committee papers incorporate environmental impact as a standalone section, highlighting the emphasis the Board is placing on the climate. Furthermore, climate risk and ESG matters are a key consideration of the Group strategy, for which the Board assumes responsibility and maintains oversight. This illustrates the importance the Board has given to climate risk, ensuring that the Board considers climate-related issues when reviewing and guiding strategy and that it can respond in an agile and appropriate manner to a range of climate-related risks and opportunities. • In addition to its direct oversight, the Board delegated responsibility for the Group's climate related risk appetite, risk monitoring, provisioning, and capital and liquidity management through the ICAAP to the Group Risk Committee. • The Group Audit Committee reviewed the overarching ESG strategy, which includes climate-related risks and opportunities and will continue to do so as a routine matter. • The Group CRO has been delegated SMF (Senior Management Function) responsibility for climate risk. • A Non-Executive Director of the Board, Sarah Hedger, was appointed to oversee ESG matters on behalf of the Board.	• Continue to develop climate-related expertise to ensure effective oversight of climate-related risks, the Group is intent on working with external advisers as appropriate to inform annual budgets, business plans as well as setting the Group's performance objectives. • Oversee the continued development of an agile and versatile climate risk strategy and monitor adherence to this by setting and monitoring meaningful climate-related targets through risk appetite monitoring. • Climate and wider ESG training is to be provided to the Board in the second quarter of 2022. • It is envisioned that during 2022 the Group Risk Committee will become formally responsible for ensuring that the Group integrates climate-related financial risk appropriately into its risk appetite, once set (see Risk Management opportunities below for risk appetite setting) and thus will be able to oversee progress against goals and targets for addressing climate-related issues.	See the Governance report for further information on governance structure.
2. Management's role in assessing and managing climate-related risks and opportunities: • The Climate Risk Committee which is a Management Committee responsible for the effective identification and management of climate-related risks, was established in 2020. The Committee is guided by the Climate Risk Management Framework (CRMF) which is used to monitor the Group's progress and adherence to its climate-related goals. Its output is summarised and shared with the ESG Committee which then is passed to the Board for consideration. • Climate risk was recognised as an enterprise risk and SMF responsibilities were allocated to the Group's CRO. • Robust scenario analysis methodology is in place and was independently verified by the Group Internal Audit Function. • An ESG Sustainability Director was appointed and is responsible for ensuring the Group's strategy is aligned and consistent with the various climate-related initiatives across the Group as well as ensuring the Group is well positioned to meet its ESG reporting objectives. • The Internal Audit function also widened its remit in 2021 to include periodic reviews of climate risk activity as evidenced by a climate scenario audit that took place in August 2021.	• The Group will finalise its climate risk strategy, which also incorporates the Group's wider ESG ambitions. The governance structures to support our climate risk strategy will continue to be embedded across the Group's risk management disciplines. It is envisioned that this strategy will also provide a better understanding of the risks and opportunities of climate risk. • A Group-wide review of policies across all principal risk areas will be conducted to ensure that climate risk is appropriately embedded and monitored. • Longer term climate targets will be developed during 2022 for inclusion in the Group's long term incentive plans. • ESG metrics are incorporated in the CEO's and the CFO's personal objectives and the Balanced Business Scorecard. From 2022, the personal objectives will include specific climate related metrics such as GHG direct emissions intensity ratio.	None

Climate Risk Governance structure

We are aware that our climate ambitions can only be achieved through the successful integration of climate-related matters into our governance and management structure. To that end, we have implemented a robust governance model to reflect our ambitions and strategy.

Roles and responsibilities have been allocated across the various committees, teams and working groups as appropriate and work continues to further embed climate-risk across the organisation.

The Chief Executive Officer (CEO) holds overall accountability for the Group's climate-related risk and exposure and is supported by the Group Chief Risk Officer (CRO). The Group CRO holds a joint SMF accountability for identifying and managing climate-related risks across their respective risk areas. This responsibility is reflected in the fact that the Group CEO and CRO have had a variety of ESG metrics incorporated into their Balanced Business Scorecard, including climate specific metrics such as GHG emissions.



1. Compliance's role will evolve over time; commencing with policy and advice and then assurance once required.

Achievements in 2021	Opportunities and developments for 2022	Further details

Strategy

Achievements in 2021	Opportunities and developments for 2022	Further details
3. Climate-related risks and opportunities identified over the short, medium, and long term: • The Group primarily lends on residential assets either for owner occupation or for landlords to let. In this context, the Group undertook scenario analysis[1] across its portfolio using a best-case scenario of warming limited to 0.9°C to 2.3°C by 2100 and a worst case scenario of warming up between 3.2°C to 5.4°C by 2100 to determine the level of exposure to climate-related risks. The key physical risks used for scenario analysis are flooding, subsidence and coastal erosion in the long term (10 years+) and energy performance certificate (EPC) rating requirements which is used a key transitional risk in the short term (3 years+). The analysis showed that current exposure to these risks as a proportion of our overall lending is relatively small based on the makeup of our portfolio. 1. The Group defined its time periods as follows: short term: less than one year; medium term: period to 2035; long term: period to 2050.	• The Group recognises the opportunity to expand its scenario analysis to a wider range of transition risks. Work will be undertaken in 2022 to expand the scope of scenarios to areas such as consumer behavioural patterns and wider market trends. • The Group has undertaken and commissioned research within the mortgage market to fully understand broker and customer perceptions, attitudes, and knowledge within this area, and will regularly refresh this to identify solutions that allow the market to meet the government's climate change commitments. • Continue to identify climate-friendly products, utilising the full range of the Group's brands to maximise positive impact on climate cognizant of any conduct risk related matters that may arise as a result of climate risk. • Climate risk will be assessed for its materiality as one of the drivers in the Group's financial planning processes. • The Group understands that sustainable finance is an important tool for facilitating the transition to a low-carbon economy. Funding, thought leadership, broker and borrower education and awareness will be key enablers in this endeavour.	None
4. Impact of climate-related risks and opportunities on Group's businesses, strategy, and financial planning: • The Group made sustainability a key priority for the Board and committed to the development and implementation of a robust Net Zero Plan in line with the Paris Agreement's central aim to strengthen the global response to the threat of climate change. The Group established emissions reduction targets grounded in climate science through the Science Based Targets initiative (SBTi) methodology which will be submitted for SBTi validation in 2022. Firstly a target for Scope 3 Category 15 Financed emissions and secondly a target for Operational emissions covering Scope 1, 2 and other material scope 3 categories. These targets show commitment to business ambition for 1.5°C. An interim target for 2030 was set as well as a Net Zero target for 2050. • For the first time, in 2021 the Group measured its Scope 3 financed emissions. The Partnership for Carbon Accounting Financials methodology was used to ensure this measurement is robust. As a material source of emissions this is an important step forward and allows subsequent analysis and modelling of actions to address an area of significant risk and opportunity. This ambitious strategy is wholly aligned with our organizational values, in particular; Aim High and Stewardship. The PCAF calculation covers the mortgage portfolio as the largest asset class. It does not cover non-modelled book or securitised loans. • Historically, policy and subsequent improvement programs focused on emissions associated with buildings the Group operated from, and progress was made from 2020 to 2021.	• Following the establishment of Science Based Targets, and in line with SBTi and UN Finance Initiatives guidance on target setting for banks, the Group will now develop a clear and robust transition and action plan to achieve the targets set for Scope 1, 2 and 3 emissions to be verified by SBTi which will result in greater understanding of the effect on climate on the businesses financial performance and financial position. • The Group will consider opportunities such as green funding, green savings, securitisation, climate risk underwriting criteria and ESG awareness campaigns to pursue the most impactful opportunities and support customers in their transition. • The Group acknowledges that whilst there are actions that can be taken directly to address emissions, a more systemic shift is required across the financial services sector and the real economy to achieve the Net Zero target. Therefore, the Group has committed to joining sectoral initiatives such as the United Nations Finance Initiative – Net Zero Banking Alliance to go further, faster, through collaborative working.	None

Achievements in 2021	Opportunities and developments for 2022	Further details
Strategy		
5. Resilience of Group's strategy taking into consideration climate-related scenario analysis: • The Group's ICAAP review in 2021 considered the resilience of its strategy and loan book to climate risks such as floods, coastal erosion, subsidence, and minimum EPC ratings. The ICAAP saw minimal impact from climate risk. Scenarios considered are: RCP scenarios that consider an increase in global temperatures by 2100, compared the least severe scenario (RCP 2.6 – increase of 0.9°C to 2.3°C) to the most severe (RCP 8.5 – increase of 3.2°C to 5.4°C.	• Despite the ICAAP noting limited impact on the Group, there are plans to expand the number of transitional climate risks considered in future scenario analysis. The results of these may drive changes to strategy which the Group will disclose if material.	

Insights from our scenario analysis: key drivers

We are aware that our climate ambitions can only be achieved through a thorough understanding of our exposure to climate risk. We focused out financial risk assessments on our mortgage portfolio in the UK as it comprises c. 94% of our portfolio.

The key drivers that may affect the real estate market are extreme weather events such as floods, subsidence, and coastal erosion – which may impact the value of properties adversely as well the ability of our clients to afford their mortgages. From a regulatory policy perspective, changes to minimum energy efficiency performance standards could also have a similar impact to physical risks in terms of our customers' ability to repay their mortgages as well as the impact on their properties. The short- and medium-term risks faced by the Group are similar, in that the physical risks are related to the increased risk of flooding, subsidence and coastal erosion, whereas the transitional risk is associated with the ability of the Group and our customers to adapt to a changing regulatory environment.

In the long term, with climate change continuing on an unchanged trajectory, mortgages in vulnerable geographic regions (i.e. those prone to flooding, coastal erosion, subsidence and other climate related issues) could be impacted severely.

Insights from our scenario analysis: Impact on the Group

Physical risk

The physical impacts from climate risk to our real estate portfolio across the UK are expected to be limited.

Sensitivity analysis completed using the RCP scenarios on increase in global temperatures by 2100, compared the least severe scenario (RCP 2.6 – increase of 0.9°C to 2.3°C) to the most severe (RCP 8.5 – increase of 3.2°C to 5.4°C).

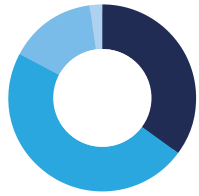
For the Group, the analysis shows that the exposure to the probability of flood over the next decade increases by 0.02% from the best-case scenario to the worst case scenario – this is reflected in the fact that only 0.15% of the Group's portfolio is in an area with a flood risk greater than 20%. For subsidence, the increase from best-case to worst-case increase is at a similar level to flood risk of 0.02%, with portfolio risk of subsidence being less than 0.5%. For coastal erosion, over 93% of the portfolio is more than 1000 metres from the coastline. Of the properties within 1000 metres of the coast line, 27 are located in areas likely to experience coastal erosion.

Transitional risk

The EPC distribution of the Group's portfolio and potential change in government policy have the potential to result in larger impacts.

The Group has 35% of properties with an EPC of C or better, 48% EPC of D, 15% EPC of E and 2 % EPC of F or G. Of the properties with an EPC of D or worse, 90% have a potential of at least EPC C.

EPC ratings of the Group's portfolio



C or better	35%
D	48%
E	15%
F or G	2%

Achievements in 2021	Opportunities and developments for 2022	Further details
Risk Management		
6. Processes for identifying and assessing climate-related risks: • Scenario analysis is used as an important tool to understand and inform the potential impact of climate change on the Group's operations in the UK. It consisted of climate change portfolio analysis (covering both physical and transitional risk), which also considered an assessment of EPC ratings in the UK. • Climate-related horizon-scanning is in place to monitor regulatory or legislative changes which could impact the Group which feeds into the assessment of transition risks. • A climate risk MI dashboard was developed detailing key physical and transitional risk exposures which is presented on an annual basis. It is envisioned that this dashboard will form the basis of the setting of a strategy and risk appetite, more information can be found in the Risk Management opportunities section. • The Group uses its membership of UK Finance to assess industry-related trends and developments that feed into its risk management identification processes.	• The Group plans to enhance its engagement with stakeholders to determine how customers are being supported to reduce their carbon footprint. • The climate risk MI dashboard will be enhanced for 2022 based on trend analysis found from scenario analysis and further consideration to the frequency of data delivery to management. It will also form the basis of how the Group embarks on setting and monitoring its climate risk strategy and appetite. • The Group will also assess its position on the classification of climate risk as a principal risk into 2022. • Climate risk will be embedded into the risk control self-assessment (RCSA) process across the Group which will enable the identification of climate-related risk in a proactive manner as well as embedding the right climate risk conscious-behaviours across the Group. • It also envisioned that Board training will assist with the identification of climate related risks in 2022.	See the Risk review for our approach to managing climate change risk.
7. Processes for managing climate-related risks: • Business continuity and disaster recovery plans were updated to reflect risks from extreme weather and have appropriate plans to mitigate the associated risks in place. • On an annual basis, the Group conducts a complete review of its loan book from a climate related perspective. This enables the Group to determine the materiality of any climate-related risks. • See Strategy section for further detail on climate risk and enterprise risk classification.	• A clear goal is to create a threat and peril hierarchy matrix that articulates clear management actions that address each risk in a proportionate manner. The matrix will include detailed escalation and decision pathways. • Redefining the Environmental Working Group terms of reference to reflect the broader remit of the Net Zero Plan.	See the Risk review.
8. Integrating climate-related risk processes into overall risk management: • Climate risk was integrated into the Group-wide Strategic Risk Management Framework (SRMF) as well as through the Climate Risk Management Framework, a sub-framework of the SRMF specifically designed to manage and monitor climate-related risk. • The Group incorporated climate risk into its three lines of defence risk management model, with the recognition of climate risk as an enterprise risk.	• Plans are in place to conduct an on-boarding review of all new business at origination from a climate risk perspective. This enhanced due diligence will take into consideration both transitional and physical risk. • A climate (and wider ESG) training plan will be created to ensure that all relevant employees receive appropriate training.	See the Risk review.

Achievements in 2021	Opportunities and developments for 2022	Further details
Metrics and targets		
9. Metrics used to assess climate-related risks and opportunities: • The Group looks at a variety of metrics to assess climate-related risks and opportunities, these include but are not limited to: – Portfolio EPC distribution at level of F and G – Properties within 100m of coastline should maximum emission scenario be realised. I.e. no climate action is taken and a worst case scenario prevails – Properties not eligible for Flood Re insurance – Properties exposed to flood alert zones – Properties with a 1% exposure to subsidence risk in a 10-year term in the maximum emission scenario – Scope 3 financed emissions tCO_2e/m^2 using PACF methodology – Scope 1, 2 and 3 (business travel only) emissions tCO_2e/FTE using GHG Protocol Corporate Standard • Please see the Governance section on our planned approach to the usage of metrics for Executive remuneration.	• Further metrics and targets to be defined as the Group continues its ESG journey. • Further Scope 3 emissions sources in line with the GHG Protocol Corporate Standard. • Trend analysis and metrics from opportunities are to be presented in subsequent disclosures. • EPC data will be a key to the understanding of driver of business strategy and for part of our approach to Net Zero risks and opportunities into 2022.	See the Environment section on page 78 for more information on future metrics and targets.
10. Scope 1, 2 and 3 Greenhouse Gas (GHG) emissions and the related risks: • Scopes 1, 2 and 3 emissions have been disclosed (where available for Scope 3) • Intensity ratios have been established and reported on • Scope 1, 2 and scope 3 (business travel only) tonnes of carbon equivalent (tCO_2e) per full time equivalent • Scope 3 – financed emissions only – tCO_2e per m^2 • Comparative figures have been disclosed for 2019 onwards	• An assessment of the risks associated with the Group's Scope 1, 2 and 3 emissions will be conducted and disclosed for 2022. Validation of this is planned for 2022.	See page 80 for the GHG emissions intensity ratios.
11. Targets used to manage climate-related risks and opportunities: • The Group is actively working towards creating qualitative and quantitative targets. The principles guiding the targets to manage were presented and approved by the relevant Management Committee.	• Utilise the UN – Finance Initiative "Guidelines for target setting" to begin developing targets and timeframes for delivery. • Further targets are to be developed in 2022 to manage the following three key ambitions: – Becoming a Net Zero Bank – Effectively managing our exposure to climate risk – Supporting our customers These ambitions form part of the Group's overall approach to its Values and Purpose and the Group is actively working on a transition plan towards achieving Net Zero.	None

Social responsibility

Customers

OSB Group encourages a culture that aims to:

- Communicate and work with each customer on an individual basis.
- Act with consistency across all channels.
- Promote a confident, open and trustworthy workforce.
- Offer simplicity and ease of business.
- Offer long-term value for money.

Offer transparent products without the use of short-term bonus rates and to offer existing customers the benefit of loyalty rates.

Our customers are part of our success and we aim to become a financial services provider of choice. To support this, we use an established governance framework for consistent best practice across the business and ensure that we have robust policies and procedures to minimise the risk of failure to deliver the service our savers and our borrowers have come to expect.

The main policies which govern how we transact with customers are discussed below and apply at a Group level.

- Lending Policy – ensures that the Group lends money responsibly and within the Group's lending criteria and risk appetite. The Lending Policy is approved annually and rolled out to all relevant operational employees to use within their day-to-day roles. The Lending Policy goes through two quality assurance processes with both the Operations and the Credit team, with results presented to the Group Risk Committee each year. The performance of our lending and potential risks and changes are discussed, challenged and approved at the Group Credit Committee and Group Risk Committee.
- Customer Vulnerability Policy – sets out the standards and approach for the identification and treatment of vulnerable customers and provides guidance to all parts of the Group to ensure vulnerable customers consistently receive fair outcomes. It ensures that employees are appropriately trained to identify vulnerability and potential suicide risks in our customers and put in place appropriate actions to deal with such issues as effectively as possible. The Vulnerable Customer Review Committee seeks to continually improve standards and ensures that policy and outcomes are reported to the Group Risk Committee and ultimately the Board. The Group is committed to delivering fair and suitable outcomes to all customers based on their individual circumstances.
- Arrears Management and Forbearance Policy – ensures that handling of arrears and repossessions delivers fair and suitable outcomes tailored to the circumstances of the individual customer. The policy is focused on seeking to work proactively with customers to prevent them falling into arrears or to cure the arrears position to deliver an appropriate outcome. The Group Risk Committee is responsible for reviewing risk issues and reporting regularly to the Board, which retains responsibility for understanding and controlling the degree of risk undertaken.

Employees are required to complete a range of mandatory training modules throughout the year. In 2021, such modules were completed by 99.6% of all employees within the Group.

There are also policies that apply to the business as a whole and govern our operations, including:

- Data Protection and Retention policies to ensure that the Group protects its customer data and manages and retains it fairly and appropriately.
- Conduct Risk Framework, including treating customers fairly to ensure that the Group conducts its business fairly and without causing customer detriment.
- Conflicts of Interest Policy to ensure that the Group can identify and, if possible, avoid conflicts, and where this is not possible, to manage conflicts fairly.

Customer engagement

We take a personal approach to our customers, treating each customer as an individual and listening to their needs.

Many of our customers are also members of the Kent Reliance Provident Society (KRPS or the Society), the Society formed from the membership of the former Kent Reliance Building Society. OSB and the Society have benefitted from member engagement through the online 'portal' launched late in 2015, enabling input from a geographically broader range of members. During 2021, two major studies were undertaken, assisting the Bank to understand opinions of savers.

Customer complaints

Whilst we concentrate on providing an excellent service, when things go wrong, we aim to put them right and learn from any mistakes made.

- Complaints Handling Policy – ensures that the Group responds to complaints swiftly, fairly and consistently and that customers' concerns are taken seriously. We investigate complaints competently, diligently and impartially, supported by appropriately trained employees. Through the Operations Committee, management information on complaints is collected and reported on a regular basis to the Board and other relevant Committees (as appropriate) for them to consider if additional actions are required. Root cause analysis is used to identify and solve underlying issues rather than apply quick fixes.

Employees

The skills, expertise and commitment of our colleagues have always been fundamental to the achievement of our strategic goals.

Despite the pandemic-related challenges, throughout 2021, we continued to invest in training, development and employee engagement activities in order to ensure that the Group provides a compelling and attractive employee proposition both for our existing employees and for candidates considering joining the Group.

Inevitably, a large proportion of employee communications during 2021 continued to relate to the pandemic, including guidance to ensure the safety of those employees who, due to the nature of their roles, were required to work from our office and branch locations. In addition, regular guidance and support was provided for employees who were required to work from home for considerable periods of the year.

When office working restrictions relaxed, a significant project was progressed developing and implementing the Group's approach to hybrid working. This approach provides ongoing flexibility for the vast majority of employees and allows them to split their working week between their office and home, reflecting broader global trends. The ability to fully embed our hybrid working approach was somewhat curtailed by the government's work from home guidance being reintroduced in late 2021; however, it will remain a key area of focus in the future.

The pandemic-related office working and travel restrictions inevitably caused challenges for managers in developing face to face relationships with new employees. Whilst this was a challenge that all employers faced, it was magnified throughout the Group as a significant number of managers have had teams spread across different geographical locations as a result of the Combination with CCFS and the related restructuring activities associated with the progression of Target Operating Models.

Recruitment

The Group's Talent Acquisition team ensures that across all locations, an internal recruitment specialist partners with each hiring manager, in order to provide them with bespoke support in attracting high quality candidates for vacant positions and, through robust interview and selection processes, assist them in making strong recruitment decisions.

The Group's recruitment demands increased significantly during 2021 as a result of; (i) significant numbers of newly-created roles arising from departmental Target Operating Model restructuring; (ii) generic organisational growth; (iii) activating historic vacancies which were placed on hold in 2020 as a result of the pandemic; and (iv) an increased level of regretted attrition.

During the year, the Talent Acquisition team filled 387 UK vacancies and 239 in OSB India, significantly exceeding the number of vacancies filled in 2020 (approximately 170 in the UK and 110 in OSB India).

A key focus for our Talent Acquisition team was again placed on proactively identifying potential candidates directly and through improved use of our website and external job boards. In 2021, they filled almost 30% of UK vacancies on a direct recruitment basis, resulting in a saving in excess of £800,000 on agency recruitment fees. Within OSB India, around half of all the vacancies which closed in 2021 were as a result of direct recruitment activity.

Our recruitment procedures are fair and inclusive, with shortlisting, interviewing and selection always carried out without regard to gender, gender reassignment, sexual orientation, marital or civil partnership status, colour, race, caste, nationality, ethnic or national origin, religion or belief, age, pregnancy or maternity leave or trade union membership. In addition, Executive sign off is required for senior vacancies where it has not been possible to identify or progress a female candidate through to the interview process. A similar process is followed where there no male candidates are identified for junior vacancies.

In 2021, The Group welcomed almost 200 new UK employees (compared with just under 130 in 2020) with a similar number joining OSB India (90 in 2020). Our Group-wide employee base at the end of 2021 totalled 1,782, which is similar to the 1,786 reported as the end of 2020.

Training and Development

The People Development team, based in both the UK and India, concentrate on providing learning and development opportunities for all employees, using a mix of internal and externally-sourced content, which are delivered through a range of media, including workshop and digital formats.

Despite the challenges associated with restrictions requiring remote rather than face to face activities, the People Development team continued to provide a wide range of workshops, with these relating to a broad spectrum of skills and behaviours; three separate management development programmes to suit varying levels of leadership experience; and regulatory training along with business change content to support operational and other training needs.

Throughout 2021, around 950 separate internal workshops were delivered by the People Development team and the recorded number of training hours for delegates attending these workshops averaged over 2,300 hours per month, exceeding what was achieved prior to the pandemic. In addition, People Development facilitated the attendance of over 100 employees at other learning events, which were either delivered externally or delivered internally by external training providers.

Vacancies filled by the Talent Acquisition team

387

Throughout 2021, a high level of focus was applied to the Group's Fit to Practice Scheme, which requires Line Managers to play a proactive role in identifying development needs, providing developmental feedback and establishing appropriate activities to continually progress the competence levels of their direct reports. With Line Managers being required to record three separate activities within each three month rolling period (a 1:1 discussion, a performance observation and a quality assessment), with the average activity completion rate throughout 2021 for over 1,000 employees in-scope for the Fit to Practice Scheme (UK and India) being just under 90%. Significant work was progressed in expanding the scheme to CCFS employees, with over 150 individuals already included as part of a pilot.

Group-wide, monthly mandatory regulatory training requirements were completed throughout 2021 and less than 0.5% of employees were more than one month late in completing their training, demonstrating the importance we place on ensuring that our employees are suitably aware of key requirements.

The Group is also committed to supporting employees undertaking professional development; in 2021, 118 UK employees received financial support to pursue their professional qualifications.

Retention and Progression

The Group has a genuine desire to retain, support and develop its employees. During 2021, almost 140 UK employees were formally promoted to a more senior grade along with 36 employees at OSB India.

We advertise vacancies internally in order to provide career development opportunities for existing employees and in 2021, around 35% of UK vacancies were filled by way of internal appointments with 10% of vacancies at OSB India filled by existing employees.

As a result of the pandemic significantly reducing external recruitment opportunities, our Group-wide regretted attrition figures for 2020 were artificially low at just under 7% (UK) and just over 11% (India). Retention has been a challenge throughout the banking sector during 2021, as record numbers of vacancies were advertised with an unprecedented number of individuals resigning in order to join new employers in the market.

The decision by certain employers to offer full remote working created additional external opportunity by removing the requirement to live within commuting distance to an office location. The Group's approach centred around a core principle of being a primarily office-based employer; however, our hybrid working was implemented, providing the vast majority of UK employees the flexibility to split their working time between their office location and home.

The Group's 2021 UK regretted attrition rates increased to almost 14%, with the rate for OSB India increasing to just under 17% (this compared favourably with average rates within their local market).

In terms of non-regretted attrition, the majority of planned restructuring activities designed to achieve the Target Operating Models established as a result of the Combination with CCFS were completed in 2020. With less restructuring activities taking place in 2021, the UK non-regretted attrition rate fell significantly from 11% in 2020 to just over 7% in 2021. Within OSB India, the non-regretted attrition rate was again very low at 5% and similar to the rate seen in 2020.

2021 saw a continued focus on leadership development with our People Development team delivering three separate programmes, each of which are bespoke to different levels of existing leadership and management experience. Throughout the year, we saw 31 employees join our Future Supervisors and Managers Programme, 58 current managers commence the Essential Managers Programme; and among our more senior managers, 16 individuals joined our Stellar Leadership Programme.

A comprehensive approach to succession planning was undertaken during 2021 to ensure that a proactive focus was applied to identifying individuals who, over a period of up to five years, had the potential to step up into roles at Group Executive Committee level or the senior management positions which report directly into an Executive role. In addition, gaps were identified and mitigating actions put in place, should the current incumbent vacate their existing role.

The Group engaged with an external specialist to provide our most senior management beneath the Group Executive Committee with the opportunity to aid their ongoing career progression. In late 2021, we saw 23 individuals embark on a robust process of establishing their core development needs by undertaking psychometric and business reasoning assessments and an intensive competency based interview. These formed a bespoke and independent report from the external specialist specifying the individual's key developmental themes to be discussed with their Executive Line Manager and agree related development activities to be progressed.

Employee promotions across UK and India

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Remuneration and Benefits

The Group believes in rewarding our employees fairly and transparently, enabling them to share in the success of the business. Details of the Group's remuneration policies can be found in the Remuneration Report on pages 147 to 153.

One of our key area of focus during 2021 related to embedding the new Group grading structure and a wide range of newly-harmonised approaches in order to ensure that, from a reward and employee benefits perspective, all UK employees had the same offerings.

All related activities were progressed as scheduled, with single external benefit providers established to replace the multiple providers that were in place prior to the Combination. Where non-core benefits were previously only available to one of the legacy entities, these were expanded to all UK employees in 2021, providing a robust and compelling benefits proposition for all.

In addition to embedding harmonised generic terms and conditions of employment, the methodologies for determining annual pay increases and discretionary bonus awards were also harmonised. In terms of new employee benefits, we launched our Technology Purchase Scheme and in late November 2021 our Electric Vehicle Lease Scheme, which supports our ESG agenda and saw 10 orders placed for new vehicles by year end.

Together we can all prosper

At OSB Group we are working hard to create a positive, collaborative, safe and supportive environment for our people to prosper in.

Our Purpose

To help our customers, colleagues and communities to prosper.

Our Vision

To be recognised as the UK's number one choice of specialist bank, through our commitment to exceptional service, strong relationships and competitive propositions.

By that we mean more than just helping them to be more financially well off. We want them to flourish, thrive and succeed in their personal and professional goals.

By working **Stronger together, Taking ownership, Aiming high** and **Respecting others,** we will more powerfully achieve our own goals, as well as our stakeholders'.

But we are not just focused on lending and savings (though that is what we do and what we are great at); we are a business that cares about leaving things better than we found them. We are passionate about our final value, **Stewardship,** which encourages us to give back to our communities, supporting those who are vulnerable or less fortunate, embracing diversity and finding new ways to protect our environment.

It does not matter where we are working from; a branch, on the road, in the office or from home. It does not even matter that we are not all in the same country, we are clear about what we want to achieve. We know how we want to achieve it and we are absolutely determined to build upon the foundations we have created so our customers, shareholders, communities and our people can all prosper.

> **By working Stronger together, Taking ownership, Aiming high and Respecting others, we will more powerfully achieve our own goals.**

Our values

Stronger together

We collaborate to create a culture in which we all share goals and values. We aim to build trust, respect and openness across the Group.

Take ownership

We take ownership of what needs to be done as well as our personal and professional development, helping to achieve the collective goals of the business.

Aim high

We set the bar high for ourselves and our customers. They are the ones who know when we are going above and beyond and remember the promises we keep.

Respect others

We treat all others fairly and communicate in a way that respects an inclusive and diverse culture, listening to all voices and ensuring opinions are offered and heard.

Stewardship

We act with conscience and take social, environmental and ethical factors into consideration when making decisions.

Our harmonised approach to benefits also provided employees with an element of choice, enabling them to determine their preference for a higher employee pension contribution and a slightly lower discretionary bonus opportunity or vice versa. In addition, employees had an opportunity to select from two separate health and insurance packages, depending on desired level of cover for life insurance, income protection, private medical insurance and a medical cash plan. Our second annual benefit choices window opened in November 2021 and saw 65 employees elect to change from one or both of their existing packages, with new selections becoming effective from 1 January 2022.

We also encouraged our employees to hold shares in the Group for the long term, via our Sharesave Scheme, which is offered annually to all UK employees. The Sharesave Scheme allows employees to save a fixed amount of between £5 and £500 per month over a three year period in order to use these savings at the end of the qualifying period to buy shares at a fixed option price. 300 employees joined the 2021 Sharesave scheme and, taking into account the schemes launched in previous years, nearly 700 (around 58%) UK employees were Sharesave Scheme members as at the end of 2021.

Redundancy and Redeployment

Our Group Redundancy and Redeployment Policy is designed to ensure that, ahead of any potential redundancy situation, we take all reasonable steps to identify feasible alternatives that meet the needs of the business. Should redundancy situations become unavoidable, the Group ensures that employees are appropriately informed and consulted, that internal redeployment opportunities are explored and that outplacement support is made available to assist them in obtaining employment externally.

The Board has further safeguarded the existing contractual and statutory rights of the Group's employees for a period following the Combination by way of enhanced redundancy payments.

The Group concluded all significant restructuring activities to achieve the desired Target Operating Models in 2021. Whilst these restructures led to around 40 UK employees leaving the Group by way of redundancy, our proactive efforts in identifying redeployment opportunities saw around 20 other employees secure internal redeployment into alternative positions.

Employee Engagement and Culture

The 2022 Best Companies to Work For survey was undertaken in December 2021 and saw an impressive 77% of UK employees submit responses. Given the challenges posed by the pandemic as well as the restructuring and harmonisation activities relating to the Combination, the survey results were 1.4% lower than in the previous year. The Group retained an overall 'One Star' rating, with Best Companies defining this as a very good level of employee engagement.

The Group also participated in the 2021 Financial Service Culture Board (FSCB) survey for the fifth time, with the aim of influencing positive change throughout the banking sector and providing insight into employees' perceptions of the application of the Group's values, potential barriers to challenge and to voice any observations of unethical or inappropriate behaviour.

Aligned to the engagement challenges detailed above, the Group's baseline FSCB survey score reduced by 2.75% in comparison to the previous year.

When considering the results of both of these surveys, it was recognised that the degree of harmonisation and integration-related change was more profound on our Wolverhampton employees. There will be enhanced engagement to address these concerns.

OSB India participates in a separate employee engagement survey, run by the Great Place to Work Institute, and was officially certified as a 'Great Place to Work' for the fifth year, with strong results in all five survey categories (credibility of management, respect for people, fairness at the workplace, pride and camaraderie between people). The 2021 baseline saw an increase of 4% on the previous year, reflecting the strong brand and culture that exists throughout the team in Bangalore.

The new Group values (Stronger Together, Take Ownership, Aim High, Respect and Stewardship) were launched in early 2021 along with a new Purpose, Vision and Values, with the intention that over time, they will drive true cultural harmonisation irrespective of workplace location. Whilst four of the five new values linked closely to those previously in place, our new Stewardship value provides an opportunity for additional focus on behaviours that relate to the Group's responsibilities from an environmental, social and governance perspective.

Throughout the Group, the values and the related behavioural expectations provide an opportunity for Line Managers to assess and provide behavioural feedback within appraisal processes and consider related learning development activities. The values are also aligned to established award programmes and a range of ongoing communications.

The Group's Workforce Advisory Forum (OneVoice) met regularly throughout 2021, including employee representatives from all core geographical locations, including OSB India. The aim of the forum is to further enhance the level of engagement that the Group Executive Committee and the Board have with the wider workforce. To achieve this, in addition to employee representatives, the forum is attended by rotating Non-Executive Directors and Group Executive Committee members to ensure that they can hear directly from the employees and share feedback (positive or negative) on important matters.

The Group operates a Whistleblowing Policy, championed by the Chair of the Group Audit Committee. We encourage employees to feel confident in raising serious concerns at the earliest opportunity and we provide multiple channels to do so confidentially, protected from possible reprisals. Regular reports were provided to the Group Audit Committee, including an annual report, which was also presented to the Board.

Employee Recognition and Awards

In 2021, the Group recognised the significant tenure of almost 150 UK employees who reached a 5, 10, or 15 year milestone of employment via our Long Service Award programme. There were two employees who reached 20 years' service and our longest-serving employee has now been with the Group for over 34 years.

In addition to harmonising Long Service Awards, the Group expanded the provision of a week of additional annual leave for all employees reaching a 10 year service milestone, a benefit previously available only to Wolverhampton employees.

Each quarter, all employees within the Group, are invited to nominate their colleagues as part of our Galaxy Award Scheme. Nominations are sought for five separate categories, linking directly to each of our Values with individual winners and runners-up for each category determined by a detailed process. Throughout 2021, nearly 500 nominations were submitted and the details of all nominees were published on the Group's intranet along with details of the quarterly award winners and their nomination rationale.

Additionally, the Group's 'Thank You' facility provided an opportunity for employees to publicly recognise the contributions of their colleagues and during 2021, there were over 1,500 thank you messages posted on the intranet.

Diversity and Inclusion

We recognise the benefits that diversity brings to the business and we actively promote and encourage a culture and environment that values and celebrates our differences. In 2021, we continued our journey to become a truly diverse and inclusive organisation which is committed to providing equal opportunities through the recruitment, training and development of our employees.

OSB median gender pay gap as at 5 April 2021

32.0%

5 April 2020: 36.4%

CCFS median gender pay gap as at 5 April 2021

19.8%

5 April 2020: 14.4%

The commitment to actively promote an environment where disabled candidates and employees are welcomed remained an area of focus. In line with our Disability Confident Employer (Level Two) status, we are proud that the Group offers employment to employees who are registered as disabled.

2021 saw a continued focus on supporting mental health and well-being via the provision of related workshops which were delivered on a remote basis, including specific guidance, support and training relating to the pandemic.

The Group published its 2021 Gender Pay Gap Report in line with legislation that applies to all UK companies with more than 250 employees. The full publication is available on the Group's website (www.osb.co.uk) and shows that OSB's median gender pay gap as at the snapshot date of 5 April 2021 was 32.0%, reducing from the 2020 reported figure of 36.4%. The CCFS median gender pay gap at the same snapshot date was significantly lower at 19.8%; however, it increased from 14.4% reported in the previous year. Across both OSB and CCFS, the bonus pay gaps reduced significantly and the percentage of females awarded a bonus was slightly higher than male employees.

Whilst it is pleasing to see continued progress across the Group, we are committed to reducing these gaps further. Fundamentally, for both OSB and CCFS, the gaps relate to the structure of our workforce and reflect the fact that we have more men than women in senior roles and more female employees undertaking clerical roles. Progress has been made to positively impact both aspects of our workforce structure and we remain confident that our gaps will continue to close.

We recognise that we need to focus on improving our gender balance and we made solid progress towards the most recent commitment that the Group made as a signatory of HM Treasury's Women in Finance Charter that by the end of 2023, 33% of senior management positions within the UK would be undertaken by female employees. Having ended 2020 at 29.8%, there was positive progress in 2021, ending the year at 32% and bringing us closer to our goal.

Our Group-wide Diversity and Inclusion (D&I) Working Group ensures an employee led focus on a wide range of D&I matters, with their core purpose being to raise awareness and tackle issues of inclusion so that every single employee is included and treated equally and fairly and, that we celebrate our differences – whatever they may be.

A range of activities were undertaken last year which from a gender perspective included celebrating International Women's Day, a facilitated Q&A with female members of our Board and Group Executive Committee, the launch of menopause training and the sharing of personal stories from colleagues which addressed some difficult topics around post-natal depression and being childfree or childless.

In terms of broader diversity and inclusion topics, the Group celebrated International Men's Day, Black History Month and Disability Awareness Week which helped our colleagues understand how to better support colleagues and customers with hearing impairments. Mental Health was an ongoing subject of focus throughout the year, with colleagues sharing their personal experiences of related challenges.

In July, the Group published its Transgender Equality Commitment. As a part of PRIDE month and National Inclusion Week in September, there were a range of activities including an employee Forum with members of our Board and Group Executive Committee sharing experiences from their respective diverse backgrounds.

The Group is also a member of the Employers Network for Equality & Inclusion (ENEI), the UK's leading employer network, covering all aspects of equality and inclusion issues in the workplace. We were delighted that ENEI completed a Talent, Inclusion & Diversity Evaluation (TIDE), measuring the Group across eight different areas of diversity and inclusion which resulted in a silver standard TIDE mark award.

In the year, work was undertaken to obtain a more comprehensive overview of ethnicity throughout the Group which will aid our efforts in increasing the percentage of ethnically diverse employees undertaking senior management positions.

Over 10% of our UK employees work under a formal flexible working arrangement relating to part time hours and over 30 additional employees compress their full time working hours into less than five days a week.

At the end of 2021, around 57% of our UK workforce was female and at OSB India, females constituted 41% of all employees; 18% of our Group Executive Committee were female as was 50% of the OSB Group Board.

	Male	Female
Number of Board Directors (OSB Group)	4	4
Number of Directors of subsidiaries	16	4
Number of senior managers (not Directors)[1]	104	51
All other employees[1]	737	876

1. Includes OSB, OSB India and CCFS. Senior managers are employees within the Grade A to E population.

OSB India

OSB India, a wholly-owned subsidiary of the Group, is based in Bangalore and as at the end of 2021 had 571 employees. OSB India supports the Group across various functions including Support Services, Operations, IT, Finance and Human Resources. OSB India is a holder of ISO 27001: 2013 certification, demonstrating high standards of information security.

OSB India's business continuity site in Hyderabad was converted to a fully-fledged operational site in late 2021 in order to accommodate both organisational growth and further enhance operational resilience. By the end of the year, around 61 employees from a range of functions were operating permanently from the Hyderabad office, with this number expected to increase significantly during 2022.

In compliance with the Modern Slavery Act, OSB India does not support excessive overtime and all employees in India are encouraged to work in accordance with local legislation. Employees are based in our modern Bangalore and Hyderabad offices and are provided with a range of benefits which include 22 days of annual leave, 12 days' sick leave and cafeteria services.

Human rights

We want each employee and all stakeholders to be treated with fairness, dignity and respect.

The Group endorses the UN Declaration of Human Rights and supports the UN Guiding Principles of Business and Human Rights. The Group adheres to the International Labour Organisation Fundamental Conventions and does not tolerate child labour or forced labour. The Group also respects freedom of association and the rights of employees to be represented by trade unions or works councils. The Group does not discriminate on the basis of any of the protected characteristics within the Equality Act 2010 and fosters a culture of inclusiveness, demonstrated by the internal publication of a Transgender Commitment Statement, with a Menopause Support Statement due to be published shortly. Our Diversity and Inclusion Policy applies throughout the Group and an overview is communicated to our employees during induction training.

The Group's fifth annual statement in accordance with the Modern Slavery Act 2015 was published on our website in June 2021. In the year, no instances of modern slavery were reported and the Group adopts a pervasive approach to its internal policies which aim to ensure that we establish good employment practices, act ethically and with integrity, including the provision of relevant mandatory training. The Group continued to actively engage with its existing and new suppliers and enhanced the ability to classify third party services based upon the level of risk ensuring the inclusion of contractual mechanisms, where appropriate, in respect of modern slavery. The Group updated and published its Vendor Code of Conduct and Ethics to document its expectation of suppliers in compliance with modern slavery regulations and other ethical considerations including Diversity and Inclusion and environmental concerns. We were also cognisant of the risks of modern slavery due to the pandemic.

The Group has an Anti-bribery and Corruption Policy, which is reviewed annually and approved by the Group Audit Committee. The Group will not accept or condone any behaviour connected with accepting, requesting or offering any bribe or inducement in return for providing a favour.

The Group is not itself considered to be at a high risk of bribery; all business is conducted in the UK and the only significant outsourcing arrangement is with a wholly-owned subsidiary of a UK building society in relation to CCFS' deposit-taking business.

In relation to the procurement of goods and services, the anti-bribery and corruption policies operated in conjunction with a number of other Group policies which were incorporated into the Conflicts of Interest Policy, Modern Slavery Act Statement, and Vendor Management and Outsourcing Policy.

If an employee suspects that any of these policies are not being followed, they are required to immediately report this in accordance with the Group's Internal Fraud Policy and Response Plan or the financial crime reporting procedure, as appropriate. The Group's Whistleblowing Policy and process are also available as an alternative reporting channel, if for whatever reason, it was felt that the other procedures described above were not appropriate.

Communities

We care strongly about giving something back to our communities and helping them prosper.

We are proud that to embrace our Stewardship Value by actively supporting our charity partners and local good causes through fundraisers, fund-matching and volunteering.

How we gave back to our communities
The total amount that the Group and our colleagues donated to charity in 2021 was £394,848, through Group donations, employee fundraising, fund-matching, good causes fund applications and Pennies from Heaven.

Once restrictions in the UK lifted, teams were encouraged to use their volunteering day to make a difference and reconnect with their team and plan a charity activities together. In 2021, 72 volunteering days were logged across the Group.

As well as monetary donations, teams across the UK also organised gifts and support packages to our charity partners and other good causes, including bedding to Haven Refuge, gifts to Demelza Hospice (jointly with XL@Football), treats and goodies for the animals at Happy Pants Ranch, gifts for children at Medway Hospital, support care packages to homeless charities local to our branches – and many more!

Our charity partners
UK charity partner – Campaign Against Living Miserably (CALM)
CALM was chosen as our first Group charity partner. CALM raise awareness of mental health issues to create social change, encouraging people to talk about mental health and to seek help when they need it. They are also a leading movement against suicide.

Maria Kuzak, Senior Philanthropy Manager, CALM, said:

"Following the generous support of OSB Group in 2021, we'd like to thank each of you for your continued support. Your donations have enabled us to have extra people on the phones and live chat. Demand for our services have increased 46% since the pandemic. In 2021, we had over 157,000 conversations with people who were struggling – that's over one million minutes. As a result of our conversations, we directly prevented 367 suicides last year, and we simply couldn't have done this without your help – you've literally saved lives."

Local UK charity partners
- The Haven, Wolverhampton

The Haven Wolverhampton supports women and dependent children who are vulnerable to domestic violence, homelessness and abuse, providing them with practical and emotional support.

Jade Secker, Fundraising Manager, The Haven, said:

"We're completely overwhelmed by the support and donations we've received from OSB Group throughout 2021. You've not only made a difference in 2021, your donations will continue to make a life changing difference into 2022, as it will enable us to keep vital services such as our helpline and court support services going. This is so important and it's only possible thanks to people like you all at OSB Group and your ongoing care for those at The Haven; thank you so much."

- Fareham/Fleet: The Shooting Star Hospice

The hospice supports families living in London and Surrey who are dealing with life-limiting conditions, providing care for the families and offering a bespoke service to suit their needs.

Anne Carey, Head of Corporate Engagement, Shooting Star Hospice, said:

"We're absolutely delighted that OSB Group will continue to support us in 2022 as we're thrilled with the support, donations and volunteering that we've received in 2021. The financial donations have meant we can pay for additional pre-bereavement support for a family, provide essential guidance on pain management, family and sibling support, and anticipatory grief.

The generosity of organisations like OSB Group allows us to provide vital support for families with children with life-limiting conditions, when they need us the most."

- Kent: Demelza Hospice Care for Children (supported by Kent Reliance through our Children's Savings Accounts)

Demelza provides clinical care, therapies, specialised activities and practical support across Kent, South East London and East Sussex.

Lavinia Jarrett, Acting Chief Executive, Demelza Hospice Care for Children, said:

"Kent Reliance has supported Demelza since we opened in 1998 and we've enjoyed working together on a number of fundraising activities. We're always so grateful for financial donations, which have helped us to provide hundreds of additional care hours, but we love how many of you choose to give up your time to volunteer with us too. We also really welcome the additional partnership with XL@Football Academy that together with Kent Reliance will help support our fundraising goals in 2022. So we'd like to thank everyone who has contributed in some way as it makes such a difference to us."

- Kent: The Happy Pants Ranch

The ranch is a safe haven for over 100 unwanted and abandoned animals, but the Ranch rescued and re-homed well over 200 animals.

Amey ***, Owner

"I can't tell you what a huge help and support you've been throughout our partnership so far. Your donations have

> We're completely overwhelmed by the support and donations we've received from OSB Group throughout 2021.
>
> **Jade Secker**
> Fundraising Manager, The Haven

helped us put up critical perimeter fencing to help keep our animals safe, and provided much needed additional hay and food to support us through the winter months. We've also enjoyed having people come volunteer with us as the animals love to make new friends. I'm so pleased that we'll be your local charity partner into next year too, I hope that means we'll get to meet more of you for some volunteering, or just because you'd like to pop down to see the animals – you're all welcome."

Our community partnership in action: UK

Coventry Rugby Club

- Rugby and Reading – a 2018 study by the National Literacy Trust found that one in eight disadvantaged children do not own a book of their own. This initiative inspires children to pick up a book and stay healthy through one-to-one reading sessions with players and coaches, followed by a fun sporting activity such as tag-rugby.
- Rugby in Schools – community coaches visit schools and deliver rugby sessions adapted for all ages and abilities, with a particular focus on children with learning and physical disabilities.
- Matchday Experience – 40 disadvantaged children are invited to a Championship rugby match where they meet their elite sporting heroes, receive a free rugby shirt and form the Guard of Honour as the players enter the pitch.
- Junior Club Night – first team players and coaches visit grassroots rugby clubs and provide their expertise by coaching the youngest players and delivering help and assistance to the local grassroot coaches.
- Project:500 – community coaches provide fun multi-sport training camps during school holidays for disadvantaged children, and provide nutritional meals each day of the camp.

Wolverhampton Rugby Club

The Group has a long-standing relationship with Wolverhampton Rugby, a community-based, grassroots club serving both male and female teams from the age of six upwards. Our partnership has meant people of all ages are able to come together, share talents, learn new skills and in turn, strengthen community bonds.

Our sponsorship pays for running of the grassroots club, enabling it to be remain a hub of the local community.

XL@Football Academy, Kent

Our newest partnership which was established in 2021, is a female football academy with the mission to develop young female footballers and provide a pathway into the professional game, delivering the same level of training, coaching and support as male teams receive.

We are proud to be their official club sponsor, sponsoring five teams in total.

We have gifted the logo placement to Demelza Hospice Care for Children, our local charity partner, to create a three-way partnership to help raise awareness and fundraising opportunities.

India

SOS Children's Village, Bangalore

SOS Children's Village provide support for the holistic development of orphans, women and children in vulnerable families.

We provide funding to support education, food, clothing and housing for 20 orphans as well as funding for an additional 12 children in Hyderabad hospital, orphaned due to COVID-19.

HBS Hospital, Bangalore

HBS Hospital is a non-profit hospital which provides critical healthcare to members of society who are not able to afford the care they need.

The Group provides dialysis sessions to 40 individuals who live below the poverty line. We also donated two dialysis machines which can provide over 11,000 dialysis sessions over a period of five years.

Kolar Gold Field Hospital, Kolar

New for 2021, OSB India is now also supporting the Kolar Gold Field Civil Hospital. This hospital closed down two decades ago following the closures of mines in the area, but has now been transformed into a COVID-19 care centre, with four rooms being used for Intensive Care Unit facilities.

The Group has been helping to set up a high dependency paediatric ward with equipment.

Non-financial information statement

The requirements of sections 414CA and 414CB of the Companies Act 2006 relating to non-financial reporting are addressed in this section.

We have a range of policies and guidance that support key outcomes for all our stakeholders. Performance against our strategic non-financial performance measures is one indicator of the effectiveness and outcomes of policies and statements. The Group's policies and statements include, but are not limited to, those summarised in the table below. The table provides cross references to where further information is included within the Annual Report.

Description of policies/statement	Due diligence undertaken	Outcomes/Impacts/Risks	Further information
Environmental matters			
Our **Environmental Policy embodies our Stewardship value,** outlining our commitment to acting with conscience and considering environmental factors at all times. The policy commits to reducing our environmental impact and to continually improving our environmental performance as an integral part of our business strategy. It seeks to ensure that we meet or exceed all relevant legal and regulatory environmental obligations.	The Environmental Policy was reviewed by the Environmental Working Group which focuses on: • assessing the impact of business activities and driving initiatives to minimise the consumption of energy, water, paper, office supplies, use of transportation and impact of maintenance and cleaning; • aligning the environmental data and actions for all entities within the Group; • developing a culture of environmental conscience across the Group; and • encouraging environmental responsibility with employees and within supply chains.	The focus of actions in 2021 has been on reducing the impact of our directly controlled operations, developing our environmental management systems maturity and sharing best practice across the Group. Key highlights for the year include: • transitioning our UK offices and branches where the Group had operational control to renewable electricity tariffs, reducing emissions significantly; • undertaken re-certification audits to ISO 14001:2015 Environmental management standard within our office buildings; • completed the rollout of video conferencing facilities within office buildings to reduce unnecessary business travel; • continued to introduce energy-efficient solutions such as LED lighting as part of office refurbishments or reactive maintenance; • established the Environmental, Social and Governance Committee; and • initiated the development of a Net Zero plan. This plan will determine the objectives and targets over the near and long-term to achieve Net Zero emissions across Scope 1, Scope 2 and Scope 3 emissions.	See pages 78 to 85.

Description of policies/statement	Due diligence undertaken	Outcomes/Impacts/Risks	Further information
Employee matters			
Our **Group Flexible Working Policy** sets out a range of flexible working arrangements and the approach that the Group will take in reviewing formal Flexible Working Requests from employees. Our **Group Homeworking Policy** is applicable to all UK employees and provides clarity in respect of the Group's approach regarding formal homeworking arrangements (i.e. following a Flexible Working Request being agreed), informal arrangements and enforced arrangements (e.g. COVID-19).	The Group Flexible Working Policy was drafted by HR Management and reviewed by the Group's Legal and Company Secretariat function. The policy was then endorsed by the Governance Forum and approved by the Group Executive Committee. A similar process, as outlined above, was followed for the Group Homeworking Policy. In addition, the policy was reviewed by the Health and Safety, Data Protection and Information Security teams. An external review was undertaken prior to the policy being approved.	We seek to accommodate, where possible, all requests for flexible working, with the majority of requests being agreed. The Group Homeworking Policy introduced an attestation for those working from home (formally, informally and on an enforced basis), with this requiring employees who work from home to confirm that they are aware of and can appropriately mitigate risks presented by working from home in respect of data protection, information security and health and safety.	See page 95.
Our **Group Diversity and Inclusion Policy** sets out the Group's commitment to promoting equality of opportunity, providing an inclusive workplace and eliminating any unfair treatment or unlawful discrimination.	In order to ensure appropriate Board oversight of matters relating to diversity and inclusion, updates are regularly provided to the Group Nomination and Governance Committee. In addition, the Group General Counsel and Company Secretary, who is the Executive responsible for diversity and inclusion, issues regular updates to all employees in order to drive awareness of ongoing internal initiatives and progress relating to diversity and inclusion. An external adviser, Legal and HR were involved in drafting the new policy, which has been through the governance process and approved by the Group Nomination and Governance Committee.	Our Group-wide Diversity and Inclusion Working Group has progressed a number of initiatives and activities, some of which supported gender-related focus areas, such as progressing towards our published Women in Finance Charter target and reducing our gender pay gap. The Diversity and Inclusion Working Group has ensured a far broader focus on other areas of diversity, which contributed to the Group achieving a silver award as a result of a Talent, Inclusion and Diversity Evaluation (TIDE) undertaken by the Employers Network for Equality and Inclusion (ENEI).	See pages 101 and 102.
Our **Group Whistleblowing Policy – Raising a Concern** aims to encourage all employees, and others who have serious concerns about wrongdoing in the workplace, to raise their concerns at the earliest opportunity. The Group's whistleblowing arrangements endeavour to manage whistleblowing cases fairly, consistently and in a way which protects individual whistleblowers.	A Whistleblowing Report is regularly presented to the Group Audit Committee and an Annual Whistleblowing Report is presented to the Board. The Chair of the Group Audit Committee is the designated Whistleblowers' Champion.	The Group Audit Committee is responsible for overseeing the effective operation of the policy; this aims to mitigate the risk of undetected wrongdoing and unwanted exposure for the Group.	Group Audit Committee Report, see page 139.

Description of policies/statement	Due diligence undertaken	Outcomes/Impacts/Risks	Further information
Our **Group Health and Safety Policy** outlines our approach and responsibilities under statutory legislation. We recognise our duty and responsibility and the Health and Safety Policy ensures that the Group complies with legislation to protect its employees and customers, and provides a suitable and safe environment for employees, customers and anyone affected by the Group's operations.	The management of COVID-19 and associated risk assessment is now subject to regular review with participation from Property Services, Operational Resilience and the appointed third party Health and Safety specialists. The Health and Safety Working Group meets twice per annum to review the objectives of the Health and Safety Policy. Any relevant matters arising from these meetings are reported to Operational Risk. An accountable Executive is responsible for the Health and Safety Policy and a third party adviser reviews it annually prior to it being approved by the Board.	A number of COVID-19 measures remain in place in our offices and branches, proportionate to the level of risk determined through risk assessment. Health and safety statistics are provided on a dashboard shared monthly with the Board along with an annual Health and Safety Report. Risk assessments are completed across the Group annually. Annual health and safety training is completed by all employees. Health and Safety awareness in the workplace has increased with updates provided on the Group intranet to reduce the possibility of injury to employees and customers.	Strategic Report, see page 17.
Social matters			
Our **Modern Slavery Statement and Vendor Code of Conduct and Ethics** outlines the measures we have taken to combat the risks of modern slavery and human trafficking in our businesses and supply chains.	The Modern Slavery Statement is updated in line with the requirements. In addition, as part of an annual review, the Modern Slavery Working Group updated its Vendor Code of Conduct and Ethics. The Group's Executive Committee has approved the Code which is currently being issued to all third party service suppliers. The Code includes provisions on the Group's Values, Diversity and Inclusion and Human Rights. It also provides details of breach reporting procedures. We perform relevant checks via the Organisation for Economic Co-operation and Development (OECD) Watch at the onboarding stage and, where required, as part of our ongoing due diligence checks. In addition, we continue to ensure that our standard contractual terms include references to modern slavery where relevant. All employees are required to complete mandatory training to raise awareness.	The largest risks to the Group are its supply chain, its Indian operations and employment processes. To sufficiently mitigate the risks, our Vendor Management team includes specific testing of key controls within the Vendor Management Risk Assessment Matrix in line with the Vendor Management Framework. The Group ensures that appropriate contractual wording is included in its recruitment-related contractual documentation where appropriate. There are breach reporting procedures in place and there were no reportable incidents in this financial year.	See page 103.

Description of policies/statement	Due diligence undertaken	Outcomes/Impacts/Risks	Further information
Our **Group Vendor Management and Outsourcing Policy** sets out the core requirements which we must meet and provides a structure to efficiently manage potential and contracted third party relationships ensuring the right level of engagement and due diligence, in compliance with our regulatory obligations.	All third parties are classified according to the nature of the services provided and the associated risk. Due diligence relating to issues such as data security, financial stability, legal and reputational risks is undertaken when onboarding, monitoring and exiting all third parties. The monthly Vendor Management Committee reviews compliance with our Group Vendor Management and Outsourcing Policy and the performance of our key third parties. There is regular reporting to the Group Risk Committee and an annual assurance update is provided to the Board.	We recognise the importance of building strong relationships and governance with our third parties and of the possible reputational risk this can impose. We actively monitor our third parties to ensure that they are adhering to our requirements and standards, so that we can in turn meet our obligations to stakeholders.	Strategic Report, see page 18.
Our **Lending Policy** sets out the parameters within which we are willing to lend money responsibly within our set criteria and credit risk appetite.	All changes to the Lending Policy require approval from the Group Credit Committee, with material changes escalated to the Group Risk Committee. As a second line of defence, the Credit Quality Assurance process monitors adherence to the policy through a risk-based sampling approach. System parameters and underwriting processes act as an additional control to ensure lending parameters are not breached.	The Group Risk Committee challenges how the Lending Policy is applied to ensure that the right outcomes are achieved. The credit risk appetite of the Group monitors the performance and make-up of the portfolio relative to pre-agreed trigger limits and therefore is a measure of the overall performance of the Lending Policy. Non-adherence to the credit risk appetite could lead to business being written outside the agreed risk appetite.	See page 19.
Our **Group Complaint Handling Policy** outlines, at a high level, our regulatory expectations for complaint handling from a customer-centric perspective.	We investigate complaints competently, diligently and impartially, supported by appropriately trained employees. Our Complaints processes are designed to be easily accessible by all customers and ensure that those in vulnerable circumstances experience the same opportunities to complain and a service that is tailored to individual needs. Root cause analysis is used to identify and solve underlying issues rather than apply quick fixes. Complaint performance forms part of the management information provided to Management Committees and to the Board. Analysis of complaints outcomes and potential business and customer impact is an integral part of the Group's processes.	Complaints remained aligned to the level of business activity. Complaints are also a component of Executive bonus scheme metrics affecting remuneration outcomes. Complaints may be an early warning of not treating customers fairly, which has regulatory consequences for the Group.	See page 95.

Description of policies/statement	Due diligence undertaken	Outcomes/Impacts/Risks	Further information
Our **Group Customer Vulnerability Policy** sets the standards and approach for the identification and treatment of vulnerable customers and provides guidance to all areas of the Group to ensure vulnerable customers consistently receive fair outcomes.	Regular case study reviews through the Vulnerable Customer Review Committee ensure that best practice processes across the different customer journeys are monitored and shared with representatives from differing customer-facing and second line functions. In line with policy the Compliance function conducts risk-based second line assurance reviews across both vulnerable customer and other operational processes, in accordance with its annual Compliance Assurance Plan, should the need arise.	An enhanced training programme has been developed to focus on more complex customer scenarios including identifying vulnerable customers and how best to serve them and their changing needs. There is a potential impact to our reputation and regulatory risks for not treating customers fairly. Customer complaint data shows that there were no systemic issues in vulnerability processes and outcomes for the year.	See page 94.
Our **Group Data Protection Policy** ensures that there are adequate policies and procedures in place to enable compliance with the UK General Data Protection Regulation (GDPR) and the Data Protection Act 2018; and sets out the necessary steps that should be taken when processing personal data.	The Group Data Protection Officer reports twice each year, to the Group Executive Committee and the Board, regarding compliance with the Data Protection Policy and reports on any data incidents and data subject access requests.	The privacy and security of personal information is respected and protected. We regard sound privacy practices as a key element of corporate governance and accountability. Non-compliance would expose the Group to the potential breach of GDPR provisions and fines.	See page 95.
Our **Group Arrears Management and Forbearance Policy** ensures that we address the need for internal systems and processes to treat customers in financial difficulties fairly, including being proactive with customers who display characteristics of being on the cusp of financial difficulty.	As the second line of defence, the Compliance function reviewed customer journeys; these reviews are risk-based and look at customer outcomes across the collections and litigation processes to ensure customers are dealt with in an effective and fair manner. The Compliance function conducts second line thematic reviews across collection and litigation processes in line with policy.	Our arrears rates are monitored through the Group Credit Committee on a monthly basis to ensure senior management oversight of arrears trends. There is credit risk associated with credit losses following the ineffective management of customer accounts. This has been an area of focus for the Board and Executives and adjustments were made to accommodate payment deferral requests, as a result of COVID-19. To ensure that those customers who had been adversely impacted by COVID-19 were supported with regards to the management of their mortgage payments, a clear set of internal policies and procedures were in place to effectively manage all forbearance/payment deferral requests. The changes were put in place in line with the regulatory timelines noted in the Financial Conduct Authority (FCA) guidance and in line with that guidance, any customers requiring further support outside the COVID-19 guidance period are supported utilising the standard policy toolkit which is applied in accordance with all regulator/Mortgage Conduct of Business (MCOB) rules requirements.	See page 94.

Description of policies/statement	Due diligence undertaken	Outcomes/Impacts/Risks	Further information
Our **Anti-Bribery and Corruption Policy** outlines our stance to conduct all of our business in an honest and ethical manner. We take a zero-tolerance approach to bribery and corruption and are committed to acting professionally, fairly and with integrity in all of our business dealings and relationships. The purpose of the policy is to provide employees, contractors and third party service providers with clear guidelines to ensure that we conduct our activity in an ethical and appropriate manner including complying with the laws and regulations of each jurisdiction in which we operate. The policy forms an integral part of the Group Financial Crime Risk Management Framework.	The policy is subject to an annual review process with approval provided by the Group Audit Committee. Anti-Bribery and Corruption training forms part of the wider Financial Crime training package that is mandatory for each employee to complete on an annual basis. In addition, the requirements set out in the Anti-Bribery and Corruption Policy are incorporated into the Group's Vendor Management and Outsourcing Policy. Gifts, hospitality and donations are closely monitored through a log maintained by Group Compliance in accordance with our associated policy and procedures.	No material issues or breaches have arisen from the Group's adherence to the existing Anti-Bribery and Corruption Policy and processes. We recognise that there may be instances where an employee may be exposed to the risk of bribery or corruption and, as result, provide numerous channels in which an employee can report such an event, including via the whistleblowing process. During the tender process for a new supplier, all employees involved in the process must ensure compliance with the Anti-Bribery and Corruption Policy and requirements. This approach also applies to the Conflicts of Interest Policy.	See page 103.
Our **Conflicts of Interest Policy** aims to identify, maintain and operate effective organisational and administrative arrangements to identify and take all reasonable steps in order to avoid conflicts where possible.	The policy is subject to an annual review process with approval provided by the Group Executive Committee. Conflicts of interest training forms part of the wider Financial Crime training package that is mandatory for each employee to complete on an annual basis. Conflicts of interest disclosures are typically made as part of the recruitment process, as part of the annual attestation process and/or when there is a change to circumstances, such as a new potential conflict arising. In addition, conflicts of interest requirements are incorporated into the Group's Vendor Management and Outsourcing Policy. Group compliance maintains the conflicts of interest register, which is reviewed quarterly by the Group Conduct Risk Management Committee and escalated to the Group Risk Management Committee, as required. In addition, the Group Nomination and Governance Committee reviews Executive and Director conflicts.	No material issues or breaches have arisen from the Group's adherence to the existing Conflicts of Interest Policy and processes. As a financial services provider, we face the risk of actual and potential conflicts of interest periodically. We recognise that there may be instances where conflicts of interest are unavoidable and that a conflict may exist even if no unethical or improper act or outcome results from it. Where it is not possible to avoid a potential conflict of interest, we are committed to ensuring that any conflicts of interest that arise are managed fairly and in the best interests of our customers.	Corporate Governance Report, see page 127.

Description of policies/statement	Due diligence undertaken	Outcomes/Impacts/Risks	Further information
Our **Fraud Policy** outlines our duty to comply with prevailing legal and regulatory requirements and to have appropriate systems and controls in place to mitigate the risk of fraud. This includes ensuring appropriate monitoring and escalation procedures are in place and are operating effectively. Our strategy for managing fraud risk is to adopt a zero-tolerance approach towards any form of fraud; however, we accept that incidents of fraud will occur as a result of doing business. The purpose of the policy and supporting procedures is to provide a consistent approach throughout the Group to the prevention, detection and investigation of fraud. The policy forms an integral part of the Group Financial Crime Framework.	The policy is subject to an annual review with approval provided by the Group Audit Committee. Fraud awareness training forms part of the wider Financial Crime training package that is mandatory for each employee to complete on an annual basis. External stakeholders, customers, clients and relevant third parties are made aware of our robust stance towards fraud management through literature or similar communication channels. All potential fraud incidents are investigated by a dedicated Group Financial Crime team that is specifically trained in identifying and reporting fraudulent behaviour. The Group will seek to recover all losses arising from fraud-related activities and to take necessary action, as appropriate. The Group Conduct Risk Management Committee, Group Risk Management Committee and the Group Risk Committee regularly review and monitor fraud reporting.	During the first half of 2021, following the discovery of fraudulent activity by a third party on a funding line provided by the Group and secured against lease receivables and the underlying hard assets, the Group commissioned an external review of processes and controls in its funding lines business. The review confirmed that it was an isolated incident and the majority of recommended enhancements to processes and controls have now been implemented and the remainder will be made before the end of the year. The £20.0m impairment provision taken in 2020 against the potential fraud has increased to £22.0m. The funding lines business remains primarily property related and the Group does not intend to add any new non-property-related funding lines in the future. As a financial services provider, we recognise that we are inherently exposed to the risk of fraud and that losses may occur as a result of doing business. In order to deter, detect and disrupt those who would seek to use the Group to facilitate any form of financial crime we have appropriate systems and controls in place. Key risk and performance indicators are agreed by senior management and reviewed on a regular basis. Management information on fraud-related activity is presented on a regular basis to senior management in order to provide visibility of our fraud exposure and any associated loss.	Group Audit Committee Report, see page 139.

Description of policies/statement	Due diligence undertaken	Outcomes/Impacts/Risks	Further information
Our **Anti-Money Laundering and Counter Terrorist Financing Policy** seeks to explain the responsibility of senior managers, the Money Laundering and Reporting Officer (MLRO) and all employees. The policy requires that the highest ethical standards are met and requires all employees to act with integrity at all times. We have no appetite for breaching legislation or regulation regarding anti-money laundering or counter terrorist financing. The policy provides a consistent approach to the deterrence and detection of those suspected of laundering the proceeds of crime or those involved in the funding of terrorism and the relevant disclosure to the necessary authorities. The policy forms an integral part of the Group Financial Crime Risk Management Framework.	The policy is subject to an annual review with approval provided by the Group Audit Committee. Anti-money laundering and counter terrorist financing forms part of the wider Financial Crime training package that is mandatory for each employee to complete on an annual basis. We have documented processes and procedures in place to identify the Group's customers prior to entering into a relationship. Systems and controls have been adopted to identify and report activity deemed to be suspicious. All suspicious activity is investigated by a dedicated Group Financial Crime team who are specifically trained in identifying and reporting suspicious behaviour.	No material issues or breaches have arisen from the Group's adherence to the existing Anti-Money Laundering and Counter Terrorist Financing Policy and processes. As a financial services provider, the Group recognises that it is inherently exposed to the risk of financial crime. Key risk and performance indicators are agreed by senior management and reviewed on a regular basis. Management information on financial crime-related activity is presented to senior management in order to provide visibility of our exposure to financial crime.	Group Audit Committee Report, see page 139.
Our **Group Operational Resilience Policy** documents the approach and expectations of the Group in establishing and enhancing its levels of resilience. It also references how the Group complies with the Financial Conduct Authority and Prudential Regulation Authority policies on Operational Resilience which were first published in March 2021. These policies require all firms to adopt a proactive approach to preventing a disruption to its services, whilst also ensuring that sufficient planning and testing is established in order to respond effectively to a disruptive incident. Along with the wider industry, the Group has made excellent progress in implementing the requirements of the two regulatory policies.	The Group's ongoing response to COVID-19 demonstrates how it can respond rapidly and effectively to a severe threat to the services that it provides to its customers, although we recognise that a pandemic is just one of a number of possible threats to the disruption of service. The Group is well placed to respond to threats that occur suddenly and which may last for an extended period. An Operational Resilience Simulation exercise was conducted in January 2022.	The Group continues to invest in improving its infrastructure and expects to deliver a number of enhancements in 2022 and beyond. Whilst these changes are designed to improve its services and efficiency, we recognise the implementation risks associated with delivering significant change programmes and are ensuring that operational resilience remains a key consideration when setting the change management agenda.	See page 64.

Description of the business model

A description of the business model is set out on pages 10 to 15 and includes non-financial KPIs relating to broker and customer satisfaction scores, customer retention, greenhouse gas emissions, sponsorship and donations, and women in senior management roles.

Principal risks and uncertainties

A description of the principal risks and uncertainties is set out on pages 58 to 68.

This Strategic report was approved by the Board and signed on its behalf by:

Jason Elphick
Group General Counsel and Company Secretary
17 March 2022

Corporate Governance Report

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Strategic Report
Governance
Financial Statements
Appendices

The Board recognises that good corporate governance is fundamental to the sustainable execution of the Company's strategy in line with evolving stakeholder expectations.

Experienced leadership

David Weymouth
Chairman

Committee membership
Chair of the Board Capital and Funding and Group Nomination and Governance Committees; a member of the Group Remuneration Committee.

Experience and qualifications
David is also Chairman of Mizuho International Plc and his other current non-executive directorships include Fidelity International Holdings (UK) Limited, The Royal London Mutual Insurance Society. He also served as a non-executive director on the board of Bank of Ireland (UK) plc. David was previously Chief Information Officer at Barclays Bank plc and Chief Risk Officer at RSA Insurance Group plc. He sat on the Executive Committee of both companies. His experience as an executive includes a wide range of senior roles in operations, technology, risk and leadership.

Key skills
David has over 40 years' experience in the financial services industry and has a degree in Modern Languages from University College London and an MBA from the University of Exeter.

Appointment
David was appointed to the OSB Board in September 2017 and held the position of Chairman until October 2019. He was reappointed as Chairman in February 2020.

Noël Harwerth
Senior Independent Director

Committee membership
Member of the Group Audit, Group Nomination and Governance, Group Remuneration and Group Risk Committees.

Experience and qualifications
Noël was appointed to the Board of CCFS in June 2017 and was its Senior Independent Director from August 2017. Noël is a non-executive director of Scotiabank Europe plc. She is also a member of the UK Export Finance Board. She is a former non-executive director of Sirius Minerals plc, Standard Life Aberdeen plc and RSA Insurance Group plc, prior to which she held a variety of senior roles with Citicorp for 15 years, latterly serving as the Chief Operating Officer of Citibank International plc. Noël has held non-executive roles with GE Capital Bank Limited, Sumitomo Mitsui Banking Corporation Europe Limited, Avocet Mining plc, Alent plc, Corus Group plc, Logica plc, The London Metal Exchange and Standard Life Assurance Limited.

Key skills
Noël has extensive experience in both the public sector with government bodies and the private sector with global banking companies, which brings valuable insight to the boardroom debate.

Appointment
Noël was appointed to the OSB Board and the position of Senior Independent Director in October 2019.

Andy Golding
Chief Executive Officer

Committee membership
Member of the Board Capital and Funding Committee.

Experience and qualifications
Prior to joining OSB, Andy was CEO of Saffron Building Society, where he had been from 2004. Prior to that, he held senior positions at National Westminster Bank plc, John Charcol Limited and Bradford & Bingley plc. Andy served as a non-executive director for Kreditech Holding SSL GmbH and Northamptonshire Healthcare NHS Foundation Trust. Andy is a director of the Building Societies Trust Limited. He served as a member of the Building Societies Association's Council and the Financial Conduct Authority's Smaller Business Practitioner Panel.

Key skills
Andy has over 30 years' experience in financial services.

Appointment
Andy was appointed to the OSB Board in December 2011.

April Talintyre
Chief Financial Officer

Committee membership
Member of the Board Capital and Funding and Group Models and Ratings Committees.

Experience and qualifications
April was previously an Executive Director in the Rothesay Life pensions insurance business of Goldman Sachs Group and worked for Goldman Sachs International for over 16 years, including as an Executive Director in the Controllers Division in London and New York. April began her career at KPMG LLP in a general audit department.

Key skills
April has broad financial services experience and has been a member of the Institute of Chartered Accountants in England and Wales since 1992.

Appointment
April joined OSB in May 2012 and was appointed to the OSB Board in June 2012.

Graham Allatt
Independent Non-Executive Director

Committee membership
Chair of the Group Risk and Group Models and Ratings Committees; a member of the Group Audit and the Board Capital and Funding Committees.

Experience and qualifications
Graham was previously Acting Group Credit Director at Lloyds TSB plc and Chief Credit Officer at Abbey National plc. Prior to this, he spent 18 years at National Westminster Bank plc culminating in the role of Managing Director, Credit Risk at NatWest Markets plc. A Fellow of the Institute of Chartered Accountants; Graham was involved with housing associations for nearly 30 years as Treasurer and Board member in the North of England and in London.

Key skills
Graham has significant banking, credit risk and financial services experience.

Appointment
Graham was appointed to the OSB Board in May 2014.

Rajan Kapoor
Independent Non-Executive Director

Committee membership
Chair of the Group Audit Committee and member of the Board Capital and Funding, Group Remuneration, Group Risk and Group Models and Ratings Committees.

Experience and qualifications
Rajan was appointed to the Board of CCFS in September 2016. He was Financial Controller of the Royal Bank of Scotland (RBS) Group plc and held a number of senior finance positions during a 28-year career with RBS.

Key skills
Rajan has extensive experience of financial and regulatory reporting in the UK and US with a strong background in internal financial controls, governance and compliance.

Rajan is a Fellow of the Institute of Chartered Accountants and of the Chartered Institute of Bankers in Scotland.

Appointment
Rajan was appointed to the OSB Board in October 2019.

Sarah Hedger
Independent Non-Executive Director

Committee membership
Member of the Group Audit and Group Remuneration Committees.

ESG Champion.

Experience and qualifications
Sarah previously held leadership positions at General Electric Company for 12 years in its Corporate, Aviation and Capital business development teams, leaving General Electric Company as Leader of Business Development and M&A for its global GE Capital division. Prior to General Electric Company, Sarah worked at Lazard & Co. Limited for 11 years, leaving as Director, Corporate Finance and also spent five years as an auditor at PricewaterhouseCoopers LLP (PwC). She served as an Independent non-executive director of Balta Group NV, a Belgian company listed on Euronext, until 31 December 2021.

Key skills
Sarah has significant capital management and mergers and acquisitions experience in financial services. She is a qualified chartered accountant.

Appointment
Sarah was appointed to the OSB Board in February 2019.

Mary McNamara
Independent Non-Executive Director

Committee membership
Chair of the Group Remuneration Committee and member of the Group Nomination and Governance Committee.

Experience and qualifications
Mary is Chair of the Remuneration Committee and Senior Independent Director at Motorpoint Group plc. She served as a non-executive director of Dignity plc and Chair of its Remuneration Committee. She was the CEO of the Commercial Division and a Director of the Banking Division at Close Brothers Group PLC. Prior to that, Mary was interim Chief Operating Officer of Skandia, the European arm of Old Mutual Group, and prior to that, spent 17 years at GE Capital, running a number of businesses including GE Fleet Services Europe and GE Equipment Finance.

Key skills
Mary has broad senior management experience in the banking and finance sectors.

Appointment
Mary was appointed to the OSB Board in May 2014.

Simon Walker
Independent Non-Executive Director

Committee membership
Member of the Board Capital and Funding, Group Audit, Group Risk and Group Models and Ratings Committees.

Experience and qualifications
Simon has significant experience in financial services. He joined KPMG in 1980 and was made a partner of the firm in 1992, going on to lead the firm's National Building Societies and Mortgage Practice and subsequently became banking partner in Financial Risk Management. Simon graduated in Law from University College London and is a qualified chartered accountant. Simon is a non-executive director of Leeds Theatre Trust Limited.

Key skills
Simon has significant experience in mortgages, SME lending, risk management and regulation within the banking sector.

Appointment
Simon was appointed to the Board on 4 January 2022.

Group Executive team
(biographies)

A strong core team

Jens Bech
Group Commercial Director

Experience and qualifications
Jens joined OSB as Chief Risk Officer in 2012, before becoming Group Commercial Director in 2014.

Jens joined from the Asset Protection Agency, an executive arm of HM Treasury, where he held the position of Chief Risk Officer. Prior to joining the Asset Protection Agency, Jens spent nearly a decade at management consultancy Oliver Wyman Limited where he advised a global portfolio of financial services firms and supervisors on strategy and risk management. Jens led Oliver Wyman Limited's support of Iceland during the financial crisis.

Jason Elphick
Group General Counsel and Company Secretary

Experience and qualifications
Jason joined OSB in June 2016. He has over 25 years of legal private practice and in-house financial services experience.

Jason's private practice experience was primarily in Australia with King & Wood Mallesons and in New York with Sidley Austin LLP. He has been admitted to practice in Australia, New York and England and Wales.

Jason's previous in-house financial services experience was as Director and Head of Bank Legal at Santander Group in London. Prior to this, he held various roles at National Australia Bank Limited, including General Counsel Capital and Funding, Head of Governance, Company Secretary and General Counsel Product, Regulation and Resolution.

John Gaunt
Group Chief Information Officer

Experience and qualifications
John joined OSB in October 2019, following the Combination with CCFS.

John held the position of Director of IT and Change Management at CCFS and had responsibility for the operational and tactical delivery of all business matters relating to information technology, information security and change management.

With over 19 years' experience in information technology, information security and change management within the financial services sector, John has held a number of senior IT roles within Nationwide Building Society and Derbyshire Building Society.

Jon Hall
Group Managing Director, Mortgages

Experience and qualifications
Jon joined OSB in November 2021.

Jon has significant experience within the financial services sector and joined the Group from Aspinall Financial Services, a pre-authorisation bank start-up, having previously led Masthaven Bank from 2016 to early 2021 as their Chief Commercial Officer and Deputy Chief Executive Officer (CEO). Jon started his career with PwC, before joining Aviva plc and subsequently became CEO of Saffron Building Society.

Jon is a Fellow of the Institute of Chartered Accountants in England and Wales.

Hasan Kazmi
Group Chief Risk Officer

Experience and qualifications
Hasan joined OSB in September 2015 as Chief Risk Officer. He became Group Chief Risk Officer in 2021.

Hasan has over 25 years of risk experience having worked at several financial institutions, including Barclays Capital, Royal Bank of Canada and Standard Chartered Bank. Prior to joining OSB, he was a Senior Director at Deloitte LLP within the Risk and Regulatory practice with responsibility for leading the firm's enterprise risk, capital, liquidity, recovery and resolution practice. Hasan graduated from the London School of Economics with a MSc in Systems Design and Analysis and a BSc in Management.

Clive Kornitzer
Group Chief Operating Officer

Experience and qualifications
Clive joined OSB in 2013. Clive has over 25 years of financial services experience, having worked at several financial organisations including Yorkshire Building Society, John Charcol Limited and Bradford and Bingley plc.

Prior to joining OSB, Clive spent six years at Santander Group where he was the Chief Operating Officer for the intermediary mortgage business. He has also held positions at the European Financial Management Association and has been the Chair of the FS Forums Retail Banking Sub-Committee.

Clive is a Fellow of the Chartered Institute of Bankers.

Lisa Odendaal
Group Chief
Internal Auditor

Experience and qualifications
Lisa joined OSB in April 2016. Prior to joining OSB, she worked for Grant Thornton LLP where she was an Associate Director responsible for leading several outsourced audit functions within its Business Risk Services division.

Lisa is a qualified Chartered Internal Auditor and has over 25 years of internal audit and operational experience gained in the UK, UAE and Switzerland, having worked at several financial institutions, including PwC, Morgan Stanley Group, HSBC and Man Group plc.

Paul Whitlock
Group Managing
Director, Savings

Experience and qualifications
Paul joined OSB in October 2019, following the Combination with CCFS.

Paul was an Executive of Charter Savings Bank. Paul brings specialist knowledge of the savings market and is responsible for all aspects of the Group's savings strategy, products, propositions, sales, distribution and operations.

With over 20 years of UK and international experience in the retail banking industry, including senior positions at First Direct, HSBC and Shawbrook Bank Limited, Paul has extensive experience delivering banking products to the consumer market.

Richard Wilson
Group Chief Credit and
Compliance Officer

Experience and qualifications
Richard joined OSB in 2013.

Prior to joining OSB, Richard was head of the credit function for Morgan Stanley Group's UK origination business and subsequently looked after the Credit and Collections strategy within its UK, Russian and Italian businesses. Between 1988 and 2006, Richard held various roles at Yorkshire Building Society, including the position of Mortgage Application Centre Manager.

Dear Shareholder,

The Company's Corporate Governance Report for 2021 is set out in the following pages and demonstrate full compliance with the Code throughout the year.

The statement of corporate governance practices, including the Reports of the Committees, set out on pages 120 to 165 and information incorporated by reference, constitutes the Corporate Governance Report of OSB GROUP PLC.

Building a culture of stewardship

The Board recognises that good corporate governance is fundamental to the sustainable execution of the Group's strategy in line with evolving stakeholder expectations. This year, the Board has accelerated its focus on environmental, social and governance (ESG) matters to ensure that the Group remains aligned with the expectations of its stakeholders.

The introduction of Stewardship as one of the Group's core values reflects the Board's ambition to promote a culture which positively impacts the Group's stakeholders, the communities in which we operate and the environment. This year, a number of governance initiatives have been implemented to ensure Stewardship is embedded into the Group's culture and remains a key consideration in Board decisions. This includes the appointment of Sarah Hedger as ESG Champion, the establishment of an ESG Committee and a Climate Risk Committee. The Group's Task Force on Climate-related Financial Disclosures (TCFD) are also presented for the first time on pages 86 to 93. Further details on ESG matters can be found on pages 76 to 85.

Evaluating effectiveness

During the year, the Board and its Committees undertook an externally facilitated evaluation conducted by Independent Audit[1], details of which are set out in the report on pages 128 and 129. I am pleased that the review concluded that the Board and its Committees continue to operate effectively. The Board will continue to address the recommended areas of focus over the coming year.

Board appointment

During 2021, the Group Nomination and Governance Committee oversaw the process for recruiting a new Non-Executive Director and I am pleased that Simon Walker joined the Board at the start of the year, bringing significant experience in mortgages and risk management. He will be seeking election at the 2022 Annual General Meeting (AGM). All other members of the Board will be seeking re-election at the AGM.

Engaging with stakeholders

The Board is committed to maintaining effective engagement and active dialogue with its stakeholders. Full details can be found on page 124.

The Investor Relations function continues to assist the Board in developing a programme of meetings and presentations to both institutional and private shareholders, details of which are also set out in the report that follows. Shareholders have an opportunity to further engage with us at the AGM which will be held at our offices at 90 Whitfield Street, Fitzrovia, London W1T 4EZ on 12 May 2022 at 11am.

Further details are set out in the Notice of AGM.

David Weymouth
Chairman
17 March 2022

1. Independent Audit has no other connection with the Company or individual Directors.

> **The Board recognises that good corporate governance is fundamental to the sustainable execution of the Company's strategy in line with evolving stakeholder expectations.**

David Weymouth
Chairman
17 March 2022

Corporate Governance Statement

UK Corporate Governance Code 2018 (the Code) Compliance Statement

During 2021, the Company applied all the principles and complied with all the provisions of the Code. The Corporate Governance Report and the table on this page illustrates how we have applied the Code principles and complied with the provisions. The Code is available at www.frc.org.uk.

The role and structure of the Board

The Board of Directors (the Board) is responsible for the long-term sustainable success of the Company and provides leadership to the Group. The Board focuses on generating value for shareholders by setting strategy, monitoring performance and ensuring that appropriate systems, controls and resources are in place to enable the Company to meet its objectives whilst safeguarding the interests of stakeholders and maintaining effective corporate governance. The Board continued to focus on integration matters for the first half of the year as well as COVID-19, matters relating to ESG; and ensuring that the Group contributes to wider society. The activities undertaken by the Board during the year are set out on page 123. The Board has established a number of Committees, as indicated in the chart on page 54. Each have their own terms of reference, which are reviewed at least annually. Details of each Committee's activities during 2021 are shown in the Group Nomination and Governance, Group Audit, Group Risk, Group Models and Ratings, Board Capital and Funding, Board Integration and Directors' Remuneration reports on pages 130 to 163.

The Board retains specific powers in relation to the approval of the Group's strategic aims, policies and other matters, which must be approved by it under legislation or the Articles. These powers are set out in the Board's written terms of reference and Matters Reserved to the Board, which are reviewed at least annually.

Directors

The Directors who served during the year are listed in the table below. In addition, Simon Walker was appointed to the Board on 4 January 2022.

The Board currently consists of nine Directors; the Chairman, two Executive Directors (being the Chief Executive Officer (CEO) and Chief Financial Officer (CFO)) and six independent Non-Executive Directors (NEDs). The biographies of the Directors can be found on pages 116 and 117.

Board meetings and attendance

The Board met 15 times during the year, which was more than usual; these related to a number of reasons including the potential fraudulent activity by a third party on a funding line provided by the Group. The Board has a formal meeting schedule with ad hoc meetings called as and when circumstances require. There is an annual calendar of agenda items to ensure that all matters are given due consideration and are reviewed at the appropriate point in the regulatory and financial cycle. The Board has established a number of Committees as shown in the table below. The table also shows each Director's attendance at the Board and Committee meetings they were eligible to attend in 2021.

A summary of the matters reserved for decision by the board is set out below.

Strategy and management
- Overall strategy of the Group.
- Approval of long-term objectives.
- Approval of annual operating and capital expenditure budgets.
- Review of performance against strategy and objectives.

Structure and capital
- Changes to the Group's capital or corporate structure.
- Changes to the Group's management and control structure.

Risk management
- Overall risk appetite of the Group.
- Approval of the Strategic Risk Management Framework (SRMF).

Financial reporting and controls
- Approval of financial statements.
- Approval of dividend policy.
- Approval of significant changes in accounting policies.
- Ensuring maintenance of a sound system of internal control and risk management.

Remuneration
- Determining the Remuneration Policy for the Executive Directors and senior management (including Material Risk Takers).
- Overseeing the introduction of new share incentive plans or major changes to existing plans.

Corporate governance
- Review of the Group's overall governance structure.
- Determining the independence of Directors.

Board members
- Changes to the structure, size and composition of the Board.
- Appointment or removal of the Chairman, Chief Executive Officer, Senior Independent Director and Company Secretary.

Other
- The making of political donations.
- Reviewing the overall levels of insurance for the Group.

Attendance at meetings of the Board Capital and Funding Committee are not included due to its transactional nature.

Director	Board	Group Audit Committee[1]	Group Remuneration Committee	Group Nomination and Governance Committee	Group Risk Committee[1]	Board Integration Committee
David Weymouth (Chairman)	15/15	n/a	7/7	5/5	n/a	4/4
Graham Allatt	14/15	8/8	n/a	n/a	7/7	n/a
Andy Golding	15/15	n/a	n/a	n/a	n/a	3/4
Noël Harwerth	14/15	7/8	7/7	5/5	7/7	n/a
Sarah Hedger	15/15	8/8	7/7	n/a	n/a	4/4
Rajan Kapoor	15/15	8/8	7/7	n/a	7/7	4/4
Mary McNamara	15/15	n/a	7/7	5/5	n/a	n/a
April Talintyre	15/15	n/a	n/a	n/a	n/a	n/a

1. Two additional joint meetings of the Group Risk Committee and Group Audit Committee were held in January and July 2021.

All Directors are expected to attend all meetings of the Board, any Committees of which they are members and to devote sufficient time to the Group's affairs to fulfil their duties as Directors. Where Directors are unable to attend a meeting, they are encouraged to submit any comments on the meeting materials in advance to the Chair to ensure that their views are recorded and taken into account during the meeting. Graham Allatt provided comments for the meeting he was not able to attend. An additional Board meeting was held in December 2021 at short notice.

As a result of the ongoing situation with COVID-19, the majority of meetings were held virtually via video conference, with face-to-face meetings gradually reintroduced across split sites in Chatham, London and Wolverhampton following the easing of social distancing measures imposed by the UK Government.

Key Board activities during the year included:

- Development of Strategy.
- Monitor and assess culture.
- Approve the new Purpose, Vision and Values and Group re-branding.
- Regular updates relating to COVID-19 and return to office.
- Risk monitoring and review.
- Response to potential funding line fraud.
- Governance and compliance.
- External affairs and competitor analysis.
- Talent review/succession planning including the appointment of a new NED.
- Annual, interim and quarterly reporting.
- Customer/brand/product review.
- Policy review and update.
- Investment proposals.
- Climate change developments.
- ESG strategy.
- Charitable and Community initiatives.

Purpose, Vision and Values

The Board oversaw the launch of the Group's new Purpose, Vision and Values. The Board sets the tone from the top in relation to conduct and culture and acts with integrity.

The Board assesses and monitors culture to ensure that it is aligned with the Group's Purpose, Values and strategy through regular updates from management, interactions with employees (informally and through OneVoice), reviewing and discussing the results of the Financial Services Culture Board (FSCB) and Best Companies to Work For surveys. A representative from the FSCB was invited to explain the results to the Directors, whether they are in line with other firms of a similar size and provide independent observations for potential areas of focus. As a result, an employee engagement plan is being developed. The Board also annually reviews regretted leaver analysis for signs of poor culture. The Board is satisfied that the Purpose, Values and strategy of the Group are aligned with culture but recognises that this is a developing area. Further details are provided on page 17.

The Culture Working Group was established during 2021, with the main objective of reviewing culture action plans in order to identify any key themes and systemic issues, as well as to identify and support conduct training and other development resources to enable employees to successfully meet the required behaviours that support the Group's Values. The Culture Working Group is a sub-committee of the newly-formed ESG Committee.

During 2021, the Board also received regular updates from management regarding the levels of engagement of employees, particularly as a result of the ongoing situation with COVID-19 and the return to office approach following the easing of social distancing measures imposed by the UK Government. The Board oversees charitable and community activities undertaken by employees. Further details of the Board's engagement with its stakeholders and the community is included on pages 16 to 18.

Risk management and internal control

The Board retains ultimate responsibility for setting the Group's risk appetite and ensuring that there is an effective SRMF to maintain levels of risk within the risk appetite. The Board regularly reviews its procedures for identifying, evaluating and managing risk, acknowledging that a sound system of internal control should be designed to manage rather than eliminate the risk of failure to achieve business objectives.

The Board has carried out a robust assessment of the principal risks facing the business including those that would threaten its business model, future performance, solvency or liquidity. Further details are contained in the Viability Statement on pages 74 and 75.

The Board has established a Group Risk Committee to which it has delegated authority for oversight of the Group's risk appetite, risk monitoring and capital management. The Group Risk Committee provides oversight and advice to the Board on current risk exposures and our future risk strategy. The Committee also assists the Board in fostering a culture within the Group which emphasises and demonstrates the benefits of a risk-based approach to internal control and management.

Further details of the Group's risk management approach, structure and principal risks are set out in the Group Risk Committee Report on pages 141 to 143.

The Board has delegated authority to the Group Audit Committee for reviewing the effectiveness of the Company's internal control systems including oversight of financial reporting processes. The Group Audit Committee is supported by the Internal Audit function in discharging this responsibility and receives regular reports from the Group Chief Internal Auditor regarding the overall effectiveness of the internal control system within the Group. The Group Audit Committee also receives reports from the external auditor on control matters. Details of the review of the effectiveness of the Company's internal control systems are set out in the Group Audit Committee Report on pages 138 to 139.

Control environment

The Group is organised along the 'three lines of defence' model to ensure at least three stages of independent oversight to protect the customer and the Group from undue influence, conflict of interest and poor controls.

The first line of defence is provided by the operational business lines which identify, measure, assess and control risks through the day-to-day activities of the business within the frameworks set by the second line of defence. The second line of defence is provided by the Risk, Compliance and governance functions which include the Board and Group Executive Committee. As noted in this report, the Board sets the Company's risk appetite and is ultimately responsible for ensuring an effective SRMF is in place. The Compliance function maintains the 'key controls framework' which tracks and reports on key controls within the business to ensure compliance with the main provisions of the Financial Conduct Authority (FCA) and the Prudential Regulation Authority (PRA) handbooks. Policy documents also include key controls that map back to the key controls framework. The third line of defence is the Internal Audit function.

The Board is committed to the consistent application of appropriate ethical standards and the Conduct Risk Framework sets out the basic principles to be followed to ensure ethical considerations are embedded in all business processes and decision-making forums. The Group also maintains detailed policies and procedures in relation to the prevention of bribery and corruption, as well as a Whistleblowing Policy.

Stakeholder engagement

The Board is committed to maintaining effective engagement and active dialogue with its stakeholders and ensuring that stakeholder views and interests are a key consideration in the Board's decision making. This year, the Board continued to focus on external and internal developments in relation to climate change, including discussions around the Group's climate strategy and goals, as well as oversight of progress towards the disclosure requirements of TCFD. The Board and its Committees spent time on a broad range of sustainability considerations, including as part of strategy discussions and regular ESG updates recognising that this is a growing area of importance for stakeholders. The Board and Group Nomination and Governance Committee have continued to monitor diversity and inclusion, both as part of ongoing board succession planning and in relation to activities aimed at developing a diverse and inclusive talent pipeline below Board level. Further information relating to Diversity can be found on pages 131 and 132.

Full details of how the Board engages with the Group's key stakeholders are included on pages 16 to 19.

Relations with shareholders

Dialogue with shareholders

The Group has a dedicated Investor Relations function which maintains regular, open and transparent dialogue with institutional investors and sell-side analysts. The team has access to the CEO and CFO who are available for meetings with shareholders and frequently attend industry conferences. Twice each year, post year-end and half-year results, the CEO and the CFO participate in roadshows and meetings with larger investors. However, due to the restrictions imposed by the UK Government in response to COVID-19, such meetings have been held via video conference. The Board is updated on shareholder expectations following these meetings to ensure the strategy is aligned with those expectations.

In 2021, the Investor Relations team responded to a range of enquiries and points of feedback raised by shareholders, including in relation to ESG matters and capital management.

The Board's primary contact with institutional shareholders and sell-side analysts is through the CEO and the CFO. The Board is also regularly presented with shareholders' feedback, analysts' recommendations and market views via Investor Relations updates, topics which are frequently on the Board agenda.

The Chairs of each Board Committee are available to engage with shareholders on any significant matters that relate to their areas of responsibility.

Further details can be found in the Section 172 Statement on pages 17 and 18.

Annual General Meeting

Our AGM will be held at our offices at 90 Whitfield Street, Fitzrovia, London W1T 4EZ on 12 May 2022 at 11am. Where possible, the Chairs of each of the Committees of the Board will be present to answer questions put to them by shareholders. The Annual Report and Accounts and Notice of the AGM will be sent to shareholders at least 20 working days prior to the date of the meeting.

Shareholders are encouraged to participate in the AGM process and all resolutions will be proposed and voted on at the meeting on an individual basis by shareholders or their proxies. Voting results will be announced and made available on the Company's website, www.osb.co.uk. At the 2021 AGM, all resolutions were passed with more than 80% of votes in favour.

Shareholders may require the Directors to call a general meeting other than an AGM as provided by the Companies Act 2006. Requests to call a general meeting may be made by members representing at least 5% of the paid-up capital of the Company as carries the right of voting at general meetings of the Company (excluding any paid-up capital held as treasury shares). A request must state the general nature of the business to be dealt with at the meeting and may include the text of a resolution that may properly be moved and is intended to be moved at the meeting. A request may be in hard copy form or in electronic form and must be authenticated by the person or persons making it. A request may be made in writing to the Company Secretary to the registered office or by sending an email to company.secretariat@osb.co.uk. At any general meeting convened on such request, no business shall be transacted, except that stated by the requisition or proposed by the Board.

Workforce policies and practices

The Board is supported by its Committees to ensure that workforce policies and practices are consistent with the Company's core values and support its long-term sustainable success. The Board monitors and assesses culture to ensure it is aligned to the Group's continued commitment to treating customers fairly, carrying out business with integrity and preventing bribery, corruption, fraud or the facilitation of tax evasion and modern slavery. The Board, with the support of its Committees, approves key policies and practices which impact the workforce and drive their behaviours. Training is provided to employees to ensure the policies are embedded within the culture. Further details of workforce policies and practices are included on pages 95 to 103.

Whistleblowing

The Group has established procedures by which employees may, in confidence, raise concerns relating to possible improprieties in matters of financial reporting, financial control or any other matter. The Group Whistleblowing Policy applies to all employees and is benchmarked against industry standards. The Group Audit Committee is responsible for monitoring the Group's whistleblowing arrangements and the policy. The Group Audit Committee regularly reports to the Board on its activities.

An internal assurance review of whistleblowing was undertaken during 2021 and the Group is confident that the arrangements are effective, facilitate the proportionate and independent investigation of reported matters and allow appropriate follow-up action to be taken. Further details are provided in the Group Audit Committee Report on page 139.

Roles of the Chairman and Chief Executive Officer

The roles of Chairman and CEO are distinct and held by different people. There is a clear division of responsibilities, which has been agreed by the Board and is formalised in a schedule of responsibilities for each.

The Chairman, David Weymouth, was independent on appointment. He leads the Board and is responsible for its overall effectiveness and directing the Group. He ensures that the Board has the right mix of skills, experience and development so that it can focus on the key issues affecting the business and for leading the Board and ensuring it acts effectively. Andy Golding, as CEO, has overall responsibility for managing the Group and implementing the strategies and policies agreed by the Board. A summary of the key areas of responsibility of the Chairman and CEO and how these have been discharged during the year, are set out below.

Chairman's responsibilities	Activities carried out in 2021
Chairing the Board and general meetings of the Company.	David Weymouth chaired the majority of Board meetings held during 2021, including the AGM. He was not able to chair one meeting due to a voice-related ailment.
Setting the Board agenda and ensuring that adequate time is available for discussion of all agenda items.	The Chairman liaised with the Company Secretary to set the annual calendar of Board business and the agenda for each meeting. Time is allocated for each item of business at meetings.
Promoting the highest standards of integrity, probity and corporate governance throughout the Company.	The Board received regular updates from its Committees on changes in corporate governance and its application to the Company.
Ensuring that the Board receives accurate, timely and clear information in advance of meetings.	The Chairman, in liaison with the Company Secretary and the CEO, agreed the information to be distributed to the Board in advance of each meeting.
Promoting a culture of openness and debate by facilitating the effective contribution of all NEDs. Ensuring constructive relations between Executives and NEDs and the CEO in particular.	The Chairman ran meetings in an open and constructive way, encouraging contribution from all Directors and regularly met with NEDs without management present so that any concerns could be expressed. The Chairman adapted his approach to ensure that virtual meetings were conducted in a manner that allowed all Directors to participate fully. An external evaluation of the Board concluded that the Board was led by a well-respected and hard-working Chairman who was insightful, strategic and fostered a positive and inclusive atmosphere within the boardroom.
Regularly considering succession planning and the composition of the Board.	The Board received regular updates from the Group Nomination and Governance Committee. Details of the Committee's activities are explained in the Group Nomination and Governance Committee Report on pages 130 to 133.
Ensuring training and development needs of all Directors are met and that all new Directors receive a full induction.	The Chairman, in liaison with the Company Secretary, has reviewed the Directors' training requirements. Details of training held during the year are given on page 127.
Ensuring effective communication with shareholders and stakeholders.	The Chairman, along with other members of the Board, are available should any shareholders or other key stakeholders wish to speak to them. Our shareholders did not requested any additional meetings during the year.

Chief Executive Officer's responsibilities

Andy Golding's responsibilities as CEO are to ensure that the Group operates effectively at strategic, operational and administrative levels. He is responsible for all the Group's activities; he provides leadership and direction to encourage others to effect strategies agreed by the Board; channels expertise, energy and enthusiasm; builds individual capabilities within the team; develops and encourages talent within the business; identifies commercial and business opportunities for the Group, building strengths in key areas; and is responsible for all commercial activities of the Group, liaising with regulatory authorities where appropriate. He is responsible for the quality and financial well-being of the Group, represents the Group to external organisations and builds awareness of the Group externally.

In addition, Andy has a specific focus on the delivery of integration objectives, providing leadership and direction in response to COVID-19 and its impact on the business and employees throughout 2021 and beyond, as well as all matters relating to ESG strategy.

An experienced Group Executive team, comprising specialists in finance, banking, risk, operations, internal audit, legal and IT matters, assist the CEO in carrying out his responsibilities. The biographies for the Group Executive team are set out on pages 118 and 119.

Senior Independent Director

Noël Harwerth is the Senior Independent Director (SID). The SID's role is to act as a sounding board for the Chairman and to support him in the delivery of his objectives. This includes ensuring that the views of all other Directors are communicated to, and given due consideration by, the Chairman. In addition, the SID is responsible for leading the annual appraisal of the Chairman's performance.

The SID is also available to shareholders should they wish to discuss concerns about the Company, other than through the Chairman and CEO.

Group Executive Committee

The CEO chairs the Group Executive Committee, whose members also include the CFO, Group Chief Operating Officer, Group Chief Risk Officer (CRO), Group General Counsel and Company Secretary, Group Commercial Director, Group Chief Information Officer, Group Chief Credit and Compliance Officer, Group Managing Director for Mortgages, Group Managing Director for Savings and the Group Chief Internal Auditor. The Group Executive Committee is supported by a number of Management Committees. The purpose of the Group Executive Committee is to assist the CEO in the performance of his duties, including:

- The development and implementation of the strategic plan as approved by the Board.
- The development, implementation and oversight of a strong operating model that supports the strategic plan.
- The development and implementation of systems and controls to support the strategic plan.
- To review and oversee operational and financial performance.
- To prioritise and allocate the Group's resources in accordance with the strategic plan.
- To oversee the development of a high-performing senior management team.
- To oversee the customer proposition and experience to ensure consistency with the Group's obligation to treat customers fairly.
- To oversee the appropriate protection and control of private and confidential data.
- To review and oversee the key and strategic business risks.
- To oversee how the Purpose, Vision and Values are being embedded.
- To implement the integration of CCFS, including overseeing the Risk and Compliance functions, with a view to ensuring the effective management of risks across the individual entities and on an aggregated basis.

The members of the Group Executive Committee are also members of the ESG Committee, which was established to provide oversight of the Group's management of ESG matters and compliance with relevant legal and regulatory requirements, including applicable rules, principles of corporate governance and industry standards.

The areas of focus for the Group Executive Committee during the year included:

- COVID-19.
- Business review.
- Capital and funding.
- Human resources and succession planning.
- Governance, control and risk environment – current and forward looking.
- Integration.
- Monitoring target operating model progress.
- Culture – Purpose, Vision and Values.
- ESG matters including climate change.

Company Secretary

The Company Secretary, Jason Elphick, plays a key role within the Company, advising on good governance and assisting the Board to discharge its responsibilities, acting with integrity and independence to protect the interests of the Company, its shareholders and employees of the Group. Jason advises the Company to ensure that it complies with all statutory and regulatory requirements and he works closely with the Chairman, CEO and Chairs of the Committees of the Board so that Board procedures (including setting agendas and the timely distribution of papers) are complied with and that there is a good communication flow between the Board, its Committees, senior management and NEDs. Jason also provides the Directors with advice and support, including facilitating induction programmes and training, in conjunction with the Chairman.

Balance and independence

The Board comprises six NEDs, the Chairman and two Executive Directors. All of the NEDs, including the Chairman, have been determined by the Board to be independent in character and judgement and free from relationships or circumstances which may affect, or could appear to affect, the relevant individual's judgement. The independence of the NEDs is reviewed continuously, including a formal annual review. Any NED who does not meet the independence criteria will not stand for election or re-election at the AGM.

Non-Executive Directors' terms of appointment and time commitment

NEDs are appointed for terms of three years, subject to annual re-election by shareholders. The initial term may be renewed up to a maximum of three terms (a total of nine years). The terms of appointment of NEDs specify the amount of time they are expected to devote to the business, which is a minimum of two and a half days per month, calculated based on the time required to prepare for and attend Board and Committee meetings, the AGM, meetings with shareholders and training. NEDs are also committed to working additional hours as may be required in exceptional circumstances, such as COVID-19.

NEDs are required to confirm annually that they continue to have sufficient time to devote to the role.

Conflicts of interest

The Company's Articles set out the policy for dealing with Directors' conflicts of interest and are in line with the Companies Act 2006. The Articles permit the Board to authorise conflicts and potential conflicts, as long as the potentially conflicted Director is not counted in the quorum and does not vote on the resolution to authorise the conflict.

Directors are required to complete an annual confirmation including a fitness and propriety questionnaire, which requires declarations of external interests and potential conflicts. In addition, all Directors are required to declare their interests in the business to be discussed at each Board and Committee meeting. The interests of new Directors are reviewed during the recruitment process and authorised, if appropriate, by the Board at the time of their appointment. The Group Nomination and Governance Committee reviews conflicts of interest relating to Directors at least annually; periodic reviews are also undertaken as required. The Group has adopted a Conflicts of Interest Policy, which includes a procedure for identifying potential conflicts of interest within the Group.

No Director had a material interest in any contract of significance in relation to the Group's business at any time during the year or at the date of this report.

Board resources

Training and development

The Chairman ensures that all Directors receive a tailored induction on joining the Board, with the aim of providing a new Director with the information required to allow him or her to contribute to the running of the Group as soon as possible. The induction programme is facilitated and monitored by the Company Secretary to ensure that all information provided is fully understood by a new Director and that any queries are dealt with. Typically, the induction programme will include a combination of key documents and face-to-face sessions covering the governance, regulatory and other arrangements of the Group.

As senior managers, under the Senior Managers Regime operated by the PRA and FCA, all Directors have had to maintain the skills, knowledge and expertise required to meet the demands of their positions of 'significant influence' within the Group. As part of the annual fitness and propriety assessment, Directors are required to complete a self-certification that they have undertaken sufficient training during the year to maintain their skills, knowledge and expertise and to make declarations as to their fitness and propriety. The Company Secretary supports the Directors to identify relevant internal and external courses to ensure that Directors are kept up to date with key regulatory changes, their responsibilities as senior managers and other matters impacting the business.

Information and support

The Company Secretary and the Chairman agree an annual calendar of matters to be discussed at each Board meeting to ensure that all key Board responsibilities are discharged over the year. Board agendas are then distributed with accompanying detailed papers to Directors in advance of each Board and Committee meeting. These include reports from Executive Directors and other members of senior management. All Directors have direct access to senior management should they require additional information on any of the items to be discussed. The Board and Group Audit Committee also receive regular and specific reports to allow the monitoring of the adequacy of the Group's systems and controls.

The information supplied to the Board and its Committees is kept under review and formally assessed on an annual basis as part of the Board evaluation exercise to ensure it is fit for purpose and that it enables sound decision-making.

There is a formal procedure through which Directors may obtain independent professional advice at the Group's expense. The Directors also have access to the services of the Company Secretary as described on page 126.

Directors' indemnities

The Articles provide, subject to the provisions of UK legislation, an indemnity for Directors and Officers of the Group in respect of liabilities they may incur in the discharge of their duties or in the exercise of their powers, including any liabilities relating to the defence of any proceedings brought against them, which relate to anything done or omitted, or alleged to have been done or omitted, by them as Officers or employees of the Group. Directors' and Officers' Liability Insurance cover is in place in respect of all Directors.

Directors' powers

As set out in the Articles, the business of the Company is managed by the Board, which may exercise all the powers of the Company. In particular, save as otherwise provided in company law or in the Articles, the Directors may allot (with or without conferring a right of renunciation), grant options over, offer, or otherwise deal with or dispose of shares in the Company to such persons at such times and generally on such terms and conditions as they may determine. The Directors may at any time after the allotment of any share but before any person has been entered in the Register as the holder, recognise a renunciation thereof by the allottee in favour of some other person and may accord to any allottee of a share, a right to effect such renunciation upon and subject to such terms and conditions as the Directors may think fit to impose. Subject to the provisions of company law, the Company may purchase any of its own shares (including any redeemable shares).

Board appointments and succession plans

The Board may appoint a Director, either to fill a vacancy or as an addition to the existing Board. All appointments to the Board are made on the recommendation of the Group Nomination and Governance Committee and are subject to a formal, rigorous and transparent procedure. Succession plans are also considered by the Group Nomination and Governance Committee. Appointments and succession plans are based on merit and objective criteria and, within this context, promote diversity of gender, social and ethnic backgrounds, cognitive and personal strengths. The Group Nomination and Governance Committee Report on pages 130 to 133 provides further details on the process for appointing Board Directors, succession planning and diversity.

Simon Walker was appointed as a NED on 4 January 2022 and will stand for election at the AGM on 12 May 2022. All other Directors will be put forward for re-election at the AGM. In addition to any power of removal conferred by the Companies Act, any Director may be removed by special resolution, before the expiration of his or her period of office and, subject to the Articles, another person who is willing to act as a Director may be appointed by ordinary resolution in his or her place.

Board composition

The size and composition of the Board is kept under review by the Group Nomination and Governance Committee and the Board to ensure that an appropriate balance of skills and experience are represented. Following an external skills review undertaken in 2020 and subsequent appointment of Simon Walker, the Board is satisfied that its current composition allows it to operate effectively and that all Directors are able to bring specific insights and make valuable contributions to the Board, due to their varied commercial backgrounds. The NEDs provide constructive challenge to the Executives and the Chairman ensures that the views of all Directors are taken into consideration in the Board's deliberations.

The Directors' biographies can be found on pages 116 and 117.

Board evaluation

The Board undertakes an evaluation of its performance and that of its Committees and individual Directors annually. An externally-facilitated evaluation of the Board was conducted during 2021 by Independent Audit, which also carried out the previous external evaluation in 2019; a different reviewer conducted each of the Board evaluations.

Independent Audit's review of the Board comprised reviewing internal documents; conducting interviews with members of the Board and Group Executive Committee; observing Board and Committee meetings; and preparing a comprehensive report, which was shared and discussed with the Board.

Independent Audit concluded that the Board appeared to be working well together with a range of strengths; and is made up of a diverse group of NEDs with a range of complementary and relevant expertise. The NEDs are diligent and engaged and the Executives value their insight and challenge. The report noted that the Board was led by a well-respected and hard-working Chairman who was insightful, strategic and fostered a positive and inclusive atmosphere within the boardroom. The Chairman has built a close working relationship with the CEO, which was based on openness and trust. Relationships on the Board were good with a strong sense of common purpose.

The report outlined that all Board members commended the CEO for his strong leadership and the way in which he, along with the Group Executive team, have successfully built the business over the years. NEDs have good visibility of a range of Executives in the boardroom and they appreciate the open and transparent tone set by the Group Executive team.

The Board focuses well on its main areas of responsibility with good time spent and attention paid to future strategy, customers, investors, people and culture, risk management, financial oversight and financial controls. The NEDs felt that the Executives reacted well to the pandemic, working hard to steer the business through the multiple challenges faced. The NEDs also responded well, making themselves available and moving to shorter, more frequent online meetings. The Committees function well and all benefit from diligent and skilled Chairs.

As part of its evaluation, Independent Audit made some suggestions, as outlined in the table on page 129. Independent Audit was satisfied that no individual or group of Directors dominated the discussions or had undue influence in the decision-making process.

Suggestion	Action proposed
Once the strategy is agreed, develop a clear set of Key Performance Indicators (KPIs) to help the Board monitor progress and ensure the agenda is focused on strategic themes.	Group Strategy was approved by the Board. Following this, a set of relevant monitoring KPIs was developed and regular updates are provided to the Board.
Develop a coherent ESG action plan as part of the overall strategy.	An ESG action plan has been developed by the ESG Sustainability Director and his team. The Group Audit Committee was presented with an outline of the Group's TCFD readiness and a similar update was provided to the Group Risk Committee on climate risk. Sarah Hedger was appointed as the ESG Champion. A description of the overall strategy for ESG is being refined for presentation to the Board.
Continue to work on a succession and development plan for Executives and invite all NEDs to sit on the Group Nomination and Governance Committee.	All NEDs will be invited to attend a Group Nomination and Governance Committee and a 'People and Culture' Board meeting in 2022. Succession planning will be a regular Group Nomination and Governance Committee agenda item in 2022. An external consultancy firm will be appointed in 2022 to assist with long-term succession planning.
Organise occasional sessions with the CEO to brief NEDs about capacity and succession planning within the Group Executive team.	All NEDs will be invited to a dedicated Group Nomination and Governance Committee and the CEO will also provide regular updates to the Board.
Continue to focus on the IT strategy and transformation plan to simplify processes and enhance operational resilience.	Simplification and transformation of the Group (including IT) is part of the Board's approved strategy.
Continue strengthening the risk management framework and three lines of defence model, building on the work already undertaken.	The Group Chief Risk Officer has set out plans to further enhance the Group's Strategic Risk Management Framework, which will be subject to an external review during 2022.
Develop a plan for engaging with the workforce.	This is already addressed, partly through regular OneVoice meetings (four scheduled each year) which are attended by Mary McNamara and other NEDs on a rotational basis. A draft plan for engagement will be considered by the Group Nomination and Governance Committee during the year. Company Secretariat will also arrange for structured formal site visits for Simon Walker, who joined the Board on 4 January 2022, and all existing NEDs will be invited to join these visits. Some NEDs also engage with the workforce through mentoring employees.

Dear Shareholder,

This report is presented to you in my capacity as Chair of the Group Nomination and Governance Committee.

Committee member	Meetings attended
David Weymouth (Chair)	5/5
Noël Harwerth	5/5
Mary McNamara	5/5

The Committee is responsible for leading the process for the appointment of new members of the Board and provides oversight and guidance to the Board on all matters of Corporate Governance relating to the Group. This includes ensuring that:

- the Board sets the tone from the top in relation to the values, ethics and culture of the Group leading to a sustainable business;
- the Board, its Committees and the boards of the subsidiary companies operate effectively and have an appropriate balance of diversity, skills, experience, availability, independence and knowledge of the Group to enable them to discharge their respective responsibilities effectively; and
- the Group adheres to best practice in relation to Corporate Governance in a manner that is proportionate to the size and complexity of the Group, in line with the Code and the requirements of the PRA and FCA.

Following the Committee's focus in 2020 on the Board skills assessment and subsequent resizing of the Board, the Committee commenced the process for the appointment of a new NED with the right skills to bolster Board succession options and appointed Per Ardua[1] to assist with the process. Per Ardua was tasked with providing a diverse list of candidates with relevant experience and skills, in line with the Group Diversity and Inclusion Policy. Following an extensive search and interview process, the Committee submitted a recommendation to the Board that Simon Walker be appointed as a new member of the Board and its Committees. Simon Walker joined the Board on 4 January 2022. Following Simon's appointment, and as at the date of this report, the Board is comprised of 44% females and continues to meet the requirements of the Parker Review and Hampton-Alexander guidelines.

The Group has subscribed to the Women in Finance Charter, an initiative to drive the representation of female employees at senior levels across the financial services industry. An initial three-year target had been set by the Group committing to ensuring that 30% of all senior roles would be filled by females by the end of 2020. As reported in last year's report, the Group narrowly missed the target with 29.8% of senior roles being occupied by women, although this clearly demonstrated the significant progress made in obtaining its three-year commitment. The target has since been re-set and the Committee agreed a new three-year commitment to the end of 2023 to achieve 33%, which is an important step. I am pleased to confirm that current levels indicate that the Group has already achieved its increased target with 32.3% of all senior roles being undertaken by female employees.

In addition to NED recruitment, a number of other items were also considered by the Committee during 2021, including the Financial Services Culture Board 2021 Survey Results, Board effectiveness, Board and Executive succession planning, compliance with the Corporate Governance Code annual review, as well as ESG matters such as updates on charitable and community activities across the Group, the Culture Project, diversity and inclusion initiatives, employee engagement for 2021 and the Gender Pay Gap Report.

Further details on areas considered by the Committee are provided on the following pages.

David Weymouth
Chair of the Group Nomination and Governance Committee and Chairman of the Board
17 March 2022

1. Per Ardua has no other connection with the Company or individual Directors.

The main focus of the Committee this year has been on the Board skills assessment and subsequent resizing of the Board.

David Weymouth
Chair of the Group Nomination and Governance Committee

Membership and meetings
The Committee met a total of five times during 2021. The members of the Committee are Noël Harwerth, Mary McNamara and David Weymouth (Chair).

Responsibilities
The specific responsibilities and duties of the Committee are set out in its terms of reference which are available on our website, www.osb.co.uk.

Composition of the Board and its Committees
The Committee conducted a review of the composition of the Group Audit, Group Remuneration and Group Risk Committees and its own composition during 2021, carefully considering the skills of the existing members and looking at any skills gaps applicable to each Committee.

Following a Board skills assessment and subsequent resizing of the Board, the Committee commenced the process for the appointment of a new NED with the right skills to bolster Board succession options. Per Ardua was tasked with providing a diverse list of candidates with relevant experience and skills, in line with the Group Diversity and Inclusion Policy. From the list presented to the Committee, three candidates were interviewed and the preferred candidate was chosen and recommended to the Board for appointment. Simon Walker joined the Board on 4 January 2022.

Succession planning
The Committee considered both Board and Executive level succession planning during 2021, including ways in which existing skills could be developed further and any recent additional skills, which it was felt would complement the Board and its Committees.

Diversity and inclusion
The Group recognises and embraces the benefits of having a diverse Board and workforce; and sees diversity at Board level as an essential element in maintaining a competitive advantage. We believe that a truly diverse Board and workforce will include and make good use of differences in the skills, regional and industry experience, age, background, race, gender and other distinctions between people. The Board recognises that diversity is the key to better decision-making and avoiding 'group think'.

These differences are considered in determining the optimum composition of the Board and, where possible, will be balanced appropriately. All Board appointments are made on merit, in the context of the skills, experience, independence and knowledge which the Board as a whole requires to be effective.

Group Nomination and Governance Committee – key responsibilities

- Review and oversee the structure, size and composition of the Board (including the balance of skills, knowledge, experience and diversity, including gender).
- Review and oversee the composition (including the skills, knowledge, experience and diversity, including gender) of Committees of the Board and succession planning for chairs of the various Committees and the Senior Independent Director.
- Ensure plans are in place for orderly succession planning for Directors and other senior management and oversee the development of a diverse pipeline for succession.
- Keep under review the leadership needs of the Group, both Executive and Non-Executive.
- Identify and recommend for the approval of the Board, candidates to fill Board vacancies as and when they arise.
- Monitor, oversee and keep the Board aware of strategic corporate governance issues and changes affecting the Company and the market in which it operates.
- Review whether Directors continue to meet the independence criteria at least annually.
- Review annually the time required from NEDs.
- Review and approve changes to the Board's Corporate Governance guidelines.
- Review and recommend to the Board for approval the Corporate Governance Report, for inclusion in the Annual Report.
- Monitor developing trends, initiatives or proposals in relation to legal developments, Board governance issues and best corporate governance practice.

The Committee regularly reviews diversity initiatives including its annual review of the Diversity and Inclusion Policy which sets out the Board's commitments in relation to diversity and inclusion. These commitments include addressing behavioural gender and ethnic bias in the executive search for Directors and basing appointments on merit and objective criteria and, within this context, promoting diversity of gender, social and ethnic backgrounds, cognitive and personal strengths. The policy also sets out the Board's commitment to the Women in Finance Charter and has introduced measurable objectives with the Group committing to increase the percentage of female employees in senior management positions within the Group's UK population to 33% by the end of 2023. Currently, 18% of the Group Executive Committee and 44% of our Board are female. One of the nine Directors is from an ethnic minority. The Board recognises and embraces the benefits that diversity can bring; diversity and inclusion at Board level is an essential element in maintaining a competitive advantage.

Jason Elphick is the appointed Diversity and Inclusion Champion. His role is to promote diversity initiatives such as our commitment to those with a disability, mental health in the workplace and unconscious bias training. The Diversity and Inclusion Working Group continued to develop and deliver the Group's Diversity and Inclusion agenda in order to promote, champion and encourage diversity, inclusion and equality within the workplace in line with the Respect Others value. The Diversity and Inclusion Working Group consists of volunteer representatives from across the Group. A number of activities were hosted during the year with attendance from members of the Board and Group Executive Committee. The Diversity and Inclusion Working Group reports to the ESG Committee, which in turn provides updates to the Committee and the Board on all matters relating to diversity, inclusion and equality.

As a result of all of the work undertaken by the Diversity and Inclusion Working Group, the Group has been awarded a Talent Inclusion and Diversity Evaluation Award (TIDE) achieving the silver standard. The TIDE compares us to other companies in our approach to Diversity and Inclusion and recognises all of the collaborative work undertaken across the Group. The report scores the Group across eight categories: workforce, strategy and plan, leadership and accountability, recruitment and attraction, training and development, other employment practices, communication and engagement and procurement. Our overall score is benchmarked against all of the other participating organisations.

Further details relating to diversity and inclusion are set out on pages 101 and 102.

Environmental, Social and Governance

The Committee monitored sustainability and ESG developments relevant to the Group including consideration of points arising from engagement with shareholders and other stakeholders in these areas. ESG continues to be a key area for the Board and its Committees and is expected to remain a focus in the coming years.

The Committee recommended Sarah Hedger's appointment as ESG Champion to facilitate Board engagement on ESG matters. An ESG Sustainability Director was also appointed to lead the ESG Management team. This role involves attending and presenting to relevant Committees on ESG issues. Board and Committee discussions around ESG are informed by engagement with shareholders and other stakeholders, legislative and regulatory initiatives and wider market developments. Areas of focus include sustainability strategy and targets (including progress in the year and future plans), the impact of COVID-19 on the sustainability agenda, wider market themes and trends including issues connected to COP26 and TCFD disclosures, on which we report for the first time this year. The Committee will continue to consider ESG and broader sustainability matters in the year ahead and make recommendations to the Board as necessary. Further information on the Group's ESG initiatives is included on pages 76 to 105.

The Committee reviewed changes in the regulatory landscape, particularly the remit and composition of the Committees and the operation of two banking licences within the Group. The Committee remained satisfied that there are effective arrangements in place.

Activities during 2021

In last year's report, the Committee identified six key priorities.

A summary of actions taken and outcomes are set out in the table below.

Objective	Action taken
Monitoring the application and embedding of corporate governance in the new Group.	A review of the Group's compliance with the Corporate Governance Code was carried out by the Company Secretariat and presented to the Committee. A similar review will be undertaken prior to the publication of the 2021 Annual Report.
Overseeing the roll-out of the revised Purpose, Vision and Values.	The results of the Culture Pulse Survey were presented to the Committee and the results indicated that the new Purpose, Vision and Values had been well received and were being regularly demonstrated across the Group. Training has been aligned to the new Values and they have been incorporated into induction materials.
Continuing the work on Board succession planning – the current NED recruitment process.	The Committee endorsed the appointment of Simon Walker as a NED, which was subsequently approved by the Board. The Committee also reviewed the skills and experience matrix of the Board (including consideration of Board diversity) to ensure that the Board's composition was fit for purpose and to maintain an effective succession plan. Discussions are continuing in relation to succession.
Overseeing the effective roll-out of the new Diversity and Inclusion Working Group and continued oversight/ involvement with the Workforce Advisory Forum (OneVoice).	The Committee approved the revised Group Diversity and Inclusion Policy in May 2021, which was updated to incorporate the Diversity and Inclusion Working Group. During the year, the Diversity and Inclusion Working Group promoted a wide range of initiatives and events, details of which were presented to the Committee. Some of the topics covered include: inequality in recruitment, World Health Day, World Menopause Day, mental health training, PRIDE awareness and the use of pronouns. External benchmarking was also carried out to test the effectiveness of the Group's diversity and inclusion activities. Four OneVoice meetings were held during the year, which were well attended by permanent members of the Forum and appointed employee representatives. At least one member of the Board and Group Executive Committee was also in attendance at each meeting. Topics discussed include; culture, diversity and inclusion, employee morale, ESG matters and other matters of interest to employees.
Bring together environmental, social and governance initiatives and develop a robust oversight framework.	The ESG Committee was established during the year, reporting directly to the Group Executive Committee. Reports from the ESG Committee are shared with the Board and relevant Board Committees. The purpose of the ESG Committee is to support the Board in its oversight of the Group's strategy relating to ESG matters, coordinate various ESG activities across the Group, facilitate stakeholder debate, track progress and monitor performance of the Group's ESG commitments.
Overseeing the development and implementation of Executive succession plans.	A detailed review of potential successors for the members of the Group Executive Committee was presented to the Committee.

Priorities for 2022

- Continue to work on developing the Board and Group Executive Committee succession plans and invite all NEDs to attend such meetings of the Committee.
- Oversee the development of a structured workforce engagement plan to build upon the engagement provided by employee forums, including face-to-face engagement and informal visits.
- Organise occasional sessions with the CEO to brief NEDs on capacity and succession planning within senior teams.
- Continue to oversee the development of the ESG strategy and how it is being embedded throughout the Group.

Dear Shareholder,

The Group Audit Committee report for 2021 sets out how the Committee has discharged its responsibilities and satisfied itself on the integrity of the Group's financial statements for the year ended 31 December 2021.

Committee member	Meetings attended
Rajan Kapoor (Chair)	8/8
Graham Allatt	8/8
Noël Harwerth	7/8
Sarah Hedger	8/8

The Committee's primary objective is to assist the Board in overseeing the systems of internal control and external financial and narrative reporting across the Group. The Committee performs this role by ensuring effective external and internal audit arrangements are in place, reviewing and monitoring compliance assurance processes, overseeing fraud prevention and whistleblowing procedures and monitoring the integrity of the Group's financial and regulatory disclosures.

The Committee's areas of focus during the year included: challenging management on accounting judgements and estimates, in particular the calculation of expected credit losses (ECL) and effective interest rate (EIR) accounting in accordance with IFRS 9; considering the findings of the external independent review into the funding lines business and ensuring these were addressed; overseeing the Group's ESG strategy to ensure that a strong governance framework is in place to meet the new Taskforce on Climate-related Financial Disclosure (TCFD) requirements and other non-financial reporting requirements. The Committee also considered the potential impact of, and led the Group's response to, the Department for Business, Energy and Industrial Strategy's (BEIS) consultation on 'Restoring trust in audit and corporate governance'. We welcome many of these proposals, but urged that the final requirements are proportionate and allow companies adequate time for compliance.

The Committee has continued to work closely with the Group's external auditors and has carried out an assessment of their independence and effectiveness. Regular updates were received from Internal Audit and an external quality assessment of the Internal Audit function was also completed. As Chair, I am committed to ensuring that the Committee's performance is kept under review and further details of the Committee's performance evaluation is included within this report. I also work with the CFO and Committee Secretary to ensure that the agenda remains appropriate in light of regulatory changes and relevant developments within the Group.

In addition to my role as Chair of this Committee, I act as the Group's Whistleblowers' Champion and have overall responsibility for the integrity, effectiveness and independence of the Group's policies and procedures on whistleblowing. I am also available to meet with the Company's investors on request in accordance with the FRC Stewardship Code.

I would like to thank all Committee members for their diligent contribution during 2021.

Rajan Kapoor
Chair of the Group Audit Committee
17 March 2022

The Committee's primary objective is to assist the Board in overseeing the systems of internal control and external financial and narrative reporting across the Group.

Rajan Kapoor
Chair of the Group Audit Committee

Membership and meetings

The Committee met eight times during the year. Two additional joint meetings of the Group Risk and Group Audit Committees were held in January and July 2021. The current members of the Committee are Rajan Kapoor (Chair), Graham Allatt, Noël Harwerth, Sarah Hedger and Simon Walker. The members are all independent NEDs and details of their qualifications and experience can be found on pages 116 and 117. Rajan Kapoor served as Chair of the Group Audit Committee throughout the year and has wide-ranging financial experience in the banking industry, including recent and relevant financial experience as required by the UK Corporate Governance Code 2018. Simon Walker became a member of the Committee following his appointment to the Board on 4 January 2022.

As a whole, the Committee has an appropriate balance of skills and standing invitations to Committee meetings are extended to the Chairman of the Board, Executive Directors, the Group Chief Risk Officer, the Group Chief Internal Auditor and the external audit partner, all of whom attend meetings as a matter of practice. Other non-members may be invited to attend all or part of any meeting, as and when appropriate.

Activities during 2021

The principal activities undertaken by the Committee during the year are described below.

Viability and going concern

The Committee reviewed the current position of the Group, along with principal and emerging risks; and assessed the prospects of the Group before recommending the Group's long-term viability statement for approval by the Board. The Committee also undertook a review, before recommending to the Board, that the going concern basis should be adopted in preparing the annual and interim financial statements. Further details are set out on pages 74 to 75 and 166.

Alternative performance measures

The Committee provided oversight and challenge in relation to the use of alternative performance measures (APMs) in the Annual Report to ensure that these were applied consistently and remained relevant. The Group presents APMs on an underlying basis, alongside the statutory basis, which helps demonstrate the performance of the Group on a consistent basis and enables meaningful comparisons to prior years. See pages 246 to 248 for further details.

Group Audit Committee – key responsibilities

Internal control and risk management

- Review systems of internal financial control over financial reporting to identify, assess and monitor financial risks and other internal control and risk management systems.
- Review and approve systems and controls for the prevention of bribery and procedures for detecting fraud including conduct risk and related activities.
- Review the adequacy and effectiveness of anti-money laundering systems and controls.
- Review the adequacy of the Group's whistleblowing arrangements and procedures.

Financial and non-financial reporting

- Review and recommend to the Board, the long-term viability statement and the adoption of the going concern basis for the preparation of the year-end financial statements.
- Monitor the integrity of the financial statements, including annual and interim reports, trading updates, Pillar 3 disclosures and any other formal announcements relating to financial performance.
- Provide challenge and oversight on the consistency, quality and appropriateness of significant accounting policies and judgements and on the methods used to account for significant or unusual transactions.
- Ensure compliance with all appropriate accounting standards.
- Consider and recommend changes to accounting policies to the Board.
- Review and challenge, where appropriate, all material information included in the Annual Report and the financial statements, such as the business review and the corporate governance statements relating to the audit and to risk management.

Internal and External Audit

- Review and monitor the effectiveness of the Group's internal and external audit arrangements.

As APMs are important measures of how the Group performed, the Committee asked the external auditor, Deloitte, to provide assurance on their computation. Deloitte was selected as the Committee considered that they could perform the work efficiently and economically. The Committee was satisfied that this assignment did not affect Deloitte's independence as external auditor. A copy of Deloitte's independent assurance statement can be found on page 247.

Financial reporting and regulatory disclosures

The Committee's review of financial reporting during the year included the approval of the Annual Report and Accounts, the Interim Results, quarterly trading updates and analysts' presentations. The Committee also approved the Group's Pillar 3 regulatory disclosures for publication on the Group's website, following a review of the governance and control procedures around their preparation.

As part of its review, the Committee assessed management's application of key accounting policies, significant accounting judgements and compliance with disclosure requirements to ensure that these were consistent and appropriate to satisfy the relevant requirements. In particular, the Committee carefully considered the presentation of results on a statutory and underlying basis to ensure transparency and consistency throughout.

In addition, the Committee reviewed and approved the underlying assumptions which formed the basis of IFRS 9 impairment calculations to ensure that they remained appropriate for the year-end financial statements. The Committee reviewed management's assessment of whether the continuing impact of the COVID-19 pandemic on the UK economy and the Group's business plans was an impairment assessment trigger for the Group's intangible assets and significant investments in subsidiaries at the Company level.

Fair, balanced and understandable

The Committee considered, on behalf of the Board, whether the 2021 Annual Report and Accounts taken as a whole are fair, balanced and understandable and whether the disclosures are appropriate. The Committee also considered whether the non-financial information within the Annual Report was consistent with the financial statements, the use of alternative performance measures and associated disclosures.

Following its review, the Committee advised the Board that it is satisfied that the Annual Report and Accounts is fair, balanced and understandable; and provides the information necessary for shareholders and other stakeholders to assess the Group's position and performance, business model and strategy in line with section 172 requirements as outlined on pages 16 to 19.

Significant areas of judgement and estimates considered by the Committee

The Committee considered management's significant accounting judgements and use of accounting policies in relation to the interim and full-year results of the Group. In its assessment, the Committee received reports from management and provided challenge in relation to each area of significant judgement and management's recommended approach. The Committee also sought the views of the external auditor on the accounting treatment and judgements underpinning the financial statements.

Significant issues considered	How these were addressed by the Committee
Loan book expected credit losses	The Committee received reports from management and challenged the approach to provisioning for loan book ECLs. The Committee consulted the Group's economic advisers who identified macroeconomic scenarios and proposed probability weightings. The Committee considered management's proposals on how probabilities attached to the economic scenarios and approved the final weightings utilised within the Group's impairment calculations. The Group continued to utilise four scenarios; an upside, base case and two further downside scenarios. The Group undertakes regular industry benchmarking of the economic scenarios, weightings and the resulting overall coverage. These benchmarks, in addition to insight from the Group's economic advisers, support management in the selection and weighting of economic scenarios. The Committee reviewed the key assumptions and judgements to ensure that these appropriately reflect the economic and social environment. The Group has ensured that the identification of Significant Increases in Credit Risk remains appropriate, in addition to making adjustments for model limitations due to either the impacts of, or government policy responses to, COVID-19. The Committee is monitoring the administration of a third party following the potentially fraudulent activity at one of the Group's secured funding lines which resulted in a £20.0m impairment charge in 2020. The remaining exposure is immaterial to the Group.

Significant issues considered	How these were addressed by the Committee
Loan book acquisition accounting and income recognition	The Group has a history of purchasing acquired books including the Combination with CCFS, where acquisition accounting is applied. Acquired loan books are initially recognised at fair value with interest recognised at the EIR. Significant judgement is required in calculating the EIR, using cash flow models, which include assumptions on the likely macroeconomic environment, including House Price Index (HPI), unemployment levels and interest rates, as well as loan level and portfolio attributes and history used to derive prepayment rates, the probability and timing of defaults and the amount of incurred losses at the time of acquisition. The EIRs on the CCFS book, due to the size of the book, along with loan books purchased at significant discounts, are particularly sensitive to the prepayment and default rates assumed, with the market price adjustment recognised over the expected life of the loan books through the EIR. New defaults are modelled at zero loss (as losses will be recognised in profit and loss as impairment losses) and therefore have the same impact on EIR as prepayments. Incurred losses at acquisition are calculated using the Group's collective provision model. The Committee reviewed and challenged reports from management, before each reporting date, on the approach taken. Particular focus was given to loan books where performance varied from expectation. The Committee reviewed a comparison of actual cash flows to those assumed in the cash flow models by book, to challenge management's assessment of the need to update cash flow projections and adjust carrying values accordingly. The Committee also reviewed management's assumptions for improved cash performance and recovery of interest and principal through the extension of forbearance, in accordance with the Group's collections policies, for loans that are currently non-performing on the Second Charge books. The Committee considered the impact of COVID-19, and the associated government restrictions and support measures, on observed customer prepayment behaviour; whether it was temporary or permanent in nature and whether it was appropriate to reset future cash flow expectations. The Committee reviewed sensitivities provided by management illustrating the impact of extending or shortening the expected weighted average lives of acquired loan portfolios. Based on this work, the Committee is satisfied that the approach taken and judgements and estimates made, were reasonable.
Effective interest rate	A number of assumptions are made when calculating the EIR for newly-originated loan assets. These include their expected redemption profiles, product switching activity and the anticipated level of any early redemption charges (ERCs). Certain mortgage products offered by the Group include significant directly attributable fee income; in particular, certain Buy-to-Let products and/or those that transfer to a higher revert rate after an initial discount or fixed period. Judgement is used in assessing the expected rate of prepayment during the discounted or fixed period and during the period post rate reversion. The Group uses historical experience of customer behaviour in its assessment along with economic outlook and market conditions. The Group transitioned modelling for OSB organic books from a book level to a loan by loan level approach in line with other modelling in the Group. OSB applies a period spent on the higher reversion rate in the EIR for two, three and five-year fixed products. The assumed period spent on the revert rate is based on a careful consideration of past behavioural data and the potential impact of the economic and regulatory outlook. The Committee also reviewed and challenged other assumptions used in the EIR calculations; in particular, prepayment curves applied in the redemption profile. Prepayment curves for fixed rate mortgages were approved by the Group Assets and Liabilities Committee (ALCO) prior to implementation. CCFS applies a period spent on the higher reversion rate for all products based on observed historical behaviour of similar cohorts of products. Management closely monitors observed behaviour and compares these to assumptions applied in financial and accounting models. Proposals on changes to prepayment assumptions are considered and approved by ALCO on a quarterly basis. The Committee received information on the prepayment curve change proposals and supporting analysis to enable it to independently challenge the approach and conclusions. The Committee considered the impact of COVID-19 and the associated government restrictions and support measures on observed customer prepayment behaviour; whether it was temporary in nature and whether forward-looking assumptions should be updated. The Committee received and reviewed sensitivities illustrating the impact of extending or shortening the expected weighted average lives of organically originated loan portfolios, which influence the expectation of income at higher reversionary rates; the period over which fees are recognised; and the expectations of early repayment income. Having considered all the evidence, the Committee is satisfied that the approach taken and judgements made were reasonable. Further details of the above significant areas of judgement and estimation can be found in note 3 to the financial statements.

Significant issues considered	How these were addressed by the Committee
Hedge accounting	Hedge accounting has been an area of focus for the Committee during the year. The Committee reviewed management's activities to develop the basis of hedge effectiveness testing and the introduction of new processes to support hedge accounting for Sterling Overnight Index Average (SONIA)-linked derivatives. The Committee also received regular reports on the selection and implementation of a new Group hedge accounting system solution.
Phase 2 Interbank Offered Rate (IBOR) amendments	The Committee considered the implications of the Phase 2 IBOR amendments, which enabled entities to reflect the effects of transitioning from London Interbank Offered Rate (LIBOR) to alternative benchmark interest rates without giving rise to accounting impacts that would not provide useful information to users of financial statements.
Intangibles and investments in subsidiaries	The Committee reviewed management's assessment of whether the ongoing impact of the COVID-19 pandemic on the UK economy and the Group's business plans was an impairment assessment trigger for the Group's intangible assets and significant investments in subsidiaries at the Company level. The Committee challenged and satisfied itself on the appropriateness of the key underlying assumptions to the impairment assessments. This review resulted in a part reversal of impairment of £2.7m in 2021 in respect of the intangible asset relating to broker relationships recognised on the Combination. In 2020, an impairment of £7.0m of the intangible assets was recognised in light of uncertainty on future short-term mortgage lending volumes given the COVID-19 pandemic. The part reversal of impairment reflects the increase in new business volumes in 2021 and expectations in subsequent years compared to prior years' assessments. There was no impairment in investments in subsidiaries at the company level.

Taxation

The Committee received an update on the Group's tax position and discussed matters such as the relationship with HMRC and tax compliance status. The Committee endorsed the Group's UK tax strategy, which is available on our website, www.osb.co.uk.

Internal Audit

The Committee is responsible for approving the remit of Group Internal Audit, together with the annual Internal Audit plan and ensuring that it has adequate resources and appropriate access to information to enable it to perform its function effectively and in accordance with the relevant professional standards. The Committee approved the Internal Audit Charter in October 2021, which formally defines Internal Audit's purpose, authority and responsibility and can be found on our website, www.osb.co.uk.

The Internal Audit function is resourced with an in-house team supported by a panel of third party accountancy firms that provide expert resource (on a co-source basis) for specific technical/specialist audits. In the last year, the Group Internal Audit team has grown in size, developed its methodology and matured its assurance to support the growth ambitions of the Group.

The Committee holds private sessions with the Group Chief Internal Auditor and ensures that the Internal Audit function has adequate standing and is free from management, or other restrictions, which may impair its independence and objectivity. On an annual basis, the Committee assesses the effectiveness of the Internal Audit function. In 2021, this was facilitated by a survey completed by Committee members, the Executives (excluding the Group Chief Internal Auditor) and the external auditor, who maintains a close relationship with the Internal Audit function. Additionally, this year, an external quality assessment was carried out in line with the recommendations of the Chartered Institute of Internal Auditors, which concluded that a number of Group Internal Audit practices exceeded the standard they typically see elsewhere. This was particularly apparent around the quality of their work, relationships with all stakeholders and the forward-looking focus on key business developments and the broader environment. The assessment also confirmed that the right reporting lines were in place and the independence and objectivity of the team was evident. The Committee considered the results of this assessment and relevant recommendations from the review were added to Internal Audit's Continuous Improvement Plan. The Committee confirms that it is satisfied that the Internal Audit function operated effectively during the year.

The Committee received regular updates from the Group Chief Internal Auditor on progress against the 2021 Internal Audit Plan and noted the results of audit assignments, significant findings and themes; and any outstanding audit action points. Where relevant, this has also considered the ongoing impact of COVID-19. This is a dynamic plan, which was actively updated on a quarterly basis to capture any emerging risks that required assurance. In addition, the Committee, together with the Executives and external auditor, received written reports following the conclusion of each Internal Audit engagement. Management actions on all Internal Audit recommendations were tracked and reported to the Committee.

As well as monitoring progress with the 2021 Internal Audit Plan, the Committee also considered and approved the 2022 Plan which is based on an assessment of the key risks faced by the Group.

Systems of internal control and risk management

The Committee approved the annual review of the Compliance Risk Assessment and Assurance Plan and received regular reports from the Group's Compliance function. The Committee used the Internal Audit and Compliance Reports to support its assessment of the effectiveness of the Group's system of internal controls and risk management. The Committee also received a report on the effectiveness of the Group's system of controls from the CEO, which was based on a self-assessment process completed by senior managers and Executives. The Committee continues to review operational incidents and ensures that appropriate follow up action is taken.

The Committee received and reviewed reports from management on key controls over the accuracy and completeness of the financial statements, the status of the substantiation of balance sheet general ledger accounts at the reporting date and judgements made in the calculation of regulatory capital disclosures and the supporting external professional advice. The systems of internal control and risk management have been in place throughout the year under review and up to the date of approval of the Annual Report and Accounts.

The Committee reviewed and approved a number of policies following their annual update, including; anti-bribery and corruption, data protection, data retention and record management, fraud, sanctions, loan impairment provisioning, whistleblowing, anti-money laundering and prevention of terrorist financing. The Committee received reports on fraud prevention arrangements, fraud incidents, whistleblowing, financial crime systems and controls and received an annual report from the Money Laundering Reporting Officers for the two Banks during the year.

Whistleblowing

The Committee is responsible for monitoring the Group's Whistleblowing Policy and arrangements. Where concerns have been raised, a detailed report is provided on the investigation, actions taken, lessons learnt and changes made as a result.

The Chair of the Committee has overall responsibility for whistleblowing arrangements with oversight from the Board. Training and periodic updates are provided to all employees who are encouraged to use the multiple channels available to raise any concerns they may have. Training is also provided to Line Managers and those involved in any investigations to ensure that they comply with relevant regulations. No concerns were raised that required a report to be made to the regulators.

External auditor

The Committee is responsible for overseeing the Group's relationship with its external auditor, Deloitte. This includes the ongoing assessment of the auditor's independence and the effectiveness of the external audit process, the results of which inform the Committee's recommendation to the Board relating to the auditor's appointment (subject to shareholder approval) or otherwise. The Committee holds regular private sessions with the external auditor.

External auditor effectiveness and independence

The Committee assesses the effectiveness of the external audit function on an annual basis. In 2021, the review was facilitated through a survey completed by members of the Committee, the Executive Directors and other key employees who had significant interaction with the external audit team during the year. The survey assessed the effectiveness of the lead partner and audit team, the audit approach and execution, the role of management in the audit process, communication, reporting and support to the Committee as well as the independence and objectivity of the external auditor. The assessment concluded that the external audit process was effective and objective, with some minor areas for improvement suggested.

The Committee is satisfied that Deloitte is independent; in making this assessment, it took into account the non-audit services provided during the year and confirmations given by Deloitte as to its continued independence at various stages in the year.

External auditor appointment and tenure

The Group's external audit contract was put out for tender for the 2019 financial year and the next external audit tender is expected to be 2028 for the financial year 2029. Rob Topley has been the lead audit partner since 2019.

The Committee confirms that the Group has complied with the Statutory Audit Services for Large Companies Market Investigation (mandatory use of competitive tender processes and Audit Committee Responsibilities) Order 2014, which requires FTSE 350 companies to put their statutory audit services out to tender no less frequently than every 10 years. There are no restrictive contractual provisions or third parties limiting the Company's choice of auditor and a resolution to re-appoint Deloitte as external auditor will be presented at the AGM.

External audit reports

Rob Topley, the lead external audit partner, attended six out of eight meetings of the Committee during 2021. He also attended the two additional joint meetings of the Group Risk and Group Audit Committees; another partner attended those meetings he was unable to attend. Rob Topley reported to the Committee at the half year and full year on the audit-related work and conclusions. This included Deloitte's view on accounting judgements made by management, compliance with IFRSs and observations on controls. The Committee also received helpful benchmark data from Deloitte during the year.

Non-audit services

The Committee reviewed and approved the policy governing the use of the external auditor for non-audit services which is designed to ensure that any provision of non-audit services to the Group by the external auditor does not impact its independence and objectivity. The Committee closely monitors and receives regular reports on non-audit services.

The Group maintains active relationships with several other large firms and any decision to appoint the external auditor for non-audit services is taken in the context of its understanding of the Group, which can place it in a better position than other firms to undertake the work, and includes an assessment of the cost-effectiveness and practicality of using an alternative firm.

The EU statutory audit market reform legislation adopted in the UK applies a cap on permissible non-audit services of 70% of the preceding three-year average of audit fees for UK incorporated Public Interest Entities (PIEs). The Revised Ethical Standard issued by the FRC in December 2019 contained a 'whitelist' of permitted non-audit services, distinguishing between those which fall under the cap, including extended assurance work, and those not subject to the cap, being services required by a competent authority or regulator by law. The cap is applicable for financial periods commencing on or after 17 June 2019. As a result of the Combination with CCFS and the insertion of a new holding company in 2020, the Group contains multiple PIEs and the application of the rules needs to be considered carefully for each PIE. The rules on capping non-audit services will be applicable to the Company for the first time in 2023 (based on the average audit fees for 2020, 2021 and 2022), to OSB for the first time in 2022 (based on the average audit fees for 2019, 2020 and 2021) and applied to CCFS for the first time in 2020 (based on the average audit fees for 2017, 2018 and 2019).

Notwithstanding the above effective dates, the Committee set a cap for non-audit services in 2021 of 50% of audit services. The Committee pre-approved a number of non-audit services in 2021, including interim profit verifications, the half-year review, assurance review of certain key performance indicators in the Annual Report and Accounts, TCFD, and reporting on the Inline Extensible Business Reporting Language (iXBRL) tagging of Financial Statements. The Committee also agreed mandates for the CFO and the Chair of the Committee to approve additional permitted engagements subject to agreed thresholds.

The fees paid to the external auditor in respect of non-audit services during 2021 totalled £619,000, representing 26% of 2021 Group audit services of £2,398,000 (2020: £363,000 representing 16% of 2020 Group audit services of £2,263,000) and are summarised in the table below. All non-audit services provided by Deloitte were assurance related in nature and consistent with the role of the external auditor. No advisory or consulting services were provided.

	Group 2021 £'000	Group 2020 £'000
Fees payable to the Company's auditor for the audit of the Company's annual accounts	**68**	65
Fees payable to the Company's auditor for the audit of the accounts of subsidiaries	**2,330**	2,198
Total audit fees	**2,398**	2,263
Audit-related assurance services	**258**	217
Other assurance services	**121**	45
Other non-audit services	**240**	101
Total non-audit fees	**619**	363
Total fees payable to the Group's auditor	**3,017**	2,626

Audit-related assurance services include the interim review and profit verifications for regulatory purposes. Other assurance services in 2021 includes an assurance review of APMs, iXBRL and opinion to the Committee on synergy savings presented in the Annual Report (2020: assurance review of APMs). Other non-audit services primarily comprise work related to reporting accounting work and an opinion on Additional Tier 1 (AT1) securities issuance and the comfort letter for the Euro Medium-Term Note programme (2020: the insertion of the new holding company).

Committee effectiveness

The Committee formally evaluates its performance on an annual basis. In 2021, the assessment was facilitated using a survey completed by members of the Committee and other attendees, including the external auditor. The review concluded that the Committee operated effectively throughout 2021 with no significant improvements required. An externally facilitated Board and Committee effectiveness review was also undertaken which included the Committee and further details can be found on pages 128 to 129.

The Committee undertook training during the year, including making extensive use of training programmes run by the major accountancy firms and other external advisers. In addition, Committee members attended a number of in-house workshops on specific areas and completed all mandatory training as required. Some members of the Committee also interacted with key employees during the year to increase their knowledge and understanding of the business.

Common membership across the Group's Committees facilitates effective communication lines between the Committees regarding finance, risk and remuneration matters; and ensures that agendas are aligned and duplication of responsibilities is avoided.

Dear Shareholder,

The Committee has continued to discharge its risk oversight, review and challenge responsibilities effectively during a period of continuing uncertainty and change.

Committee member	Meetings attended
Graham Allatt (Chair)	7/7
Noël Harwerth	7/7
Rajan Kapoor	7/7

The Committee remains focused on the risks to the Group's strategic, business and regulatory agenda based on the Board-approved risk appetite. In particular, the Committee ensured that appropriate and timely decisions were taken to manage the Group's risk profile during a period of heightened uncertainty and change.

The pandemic-related disruptions and their impact on the UK economic and business outlooks has been an important backdrop against which the Committee has discharged its duties. The Committee has also been mindful of the increasing regulator agenda and supervisory focus following the Combination of OSB and CCFS.

As the Group has transitioned to an integrated approach to risk management, the Committee has overseen and guided the development of its risk frameworks, risk appetite and key regulatory submissions (Internal Capital Adequacy Assessment Process (ICAAPs), Internal Liquidity Adequacy Assessment Process (ILAAPs) and Recovery Plan). The Committee has also ensured that appropriate levels of risk governance and oversight have been maintained over the individually regulated entities. A number of key regulatory projects have also been subject to review and discussion by the Committee. These have included the Internal Ratings-Based Approach (IRB), Resolution Assessment Framework (RAF) and Operational Resilience.

The Committee, jointly with the Group Audit Committee, has also provided a significant level of review and challenge to IFRS 9 based methodologies, judgements and estimates, economic scenario calibrations and weightings, including the adequacy of individually assessed provisions. The Committee has also ensured that the total level of credit provisions at the Group and its regulated entities are commensurate with the wider risks and uncertainties. Assessment of risk-based capital and funding requirements, including supporting methodologies and assumptions, were subject to Committee review and recommendation for Board approval as part of the Group and regulated entities' ICAAP, ILAAP and Recovery Plan.

The Committee has closely scrutinised the Group and its regulated entities' risk profiles against the Board-approved risk appetites, requesting focused reviews and deep dives to understand better, emerging trends and incidents.

IRB represents an important strategic initiative intended to enhance risk management capabilities. The Committee has been provided with regular updates on progress against plan, use and integration of IRB outputs within credit underwriting, credit risk management, capital planning and stress testing processes. The Committee has exercised oversight and approval of IRB and IFRS 9 based models and policies through the Group Models and Rating Committee (a sub-committee of the Group Risk Committee).

Post the Combination of OSB and CCFS, the Group became subject to a 'bail-in' resolution strategy, as set by the Bank of England. The Committee has been kept updated on key elements of the resolution strategy including minimum requirements for own funds and eligible liabilities (MREL), Operational Continuity in Resolution (OCIR) and other resolution barriers.

The Committee has exercised oversight of the Group's efforts to enhance its operational resilience capabilities in line with industry good practice and emerging regulatory requirements. Given the increased level of pandemic-related operational disruptions and residual integration activities, the Committee has overseen continued efforts to align and enhance the Group's approach to risk and controls assessment based on a single system platform and common standards.

The Committee has also been mindful of the need to ensure that the Group's first and second line risk management and oversight functions are appropriately resourced and structured to reflect the size and growth objectives of the Group.

Upon his appointment, the Group CRO presented to the Committee his strategic priorities and agenda. Following Committee review and discussion, the strategic priorities and agenda for the Group Risk and Compliance functions were approved. Key initiatives outlined within the strategic priorities and agenda will be subject to regular reporting to the Committee.

Graham Allatt
Chair of the Group Risk Committee
17 March 2022

Membership and meetings
The Committee met seven times during the year. The current members are Graham Allatt as Chair, Noël Harwerth, Rajan Kapoor and Simon Walker. Graham Allatt served as Chair of the Group Risk Committee throughout the year. Simon Walker joined the Board and became a member of the Committee on 4 January 2022.

In addition to the members of the Committee, the Chairman of the Board has a standing invitation to the Committee, along with the CEO, CFO, CRO and Group Chief Credit and Compliance Officer, unless the Chairman of the Committee informs any of them that they should not attend a particular meeting or discussion.

Responsibilities
The primary objective of the Committee is to support the Board in discharging its risk oversight and governance responsibilities. In particular, the Committee enables the Board to:

- Set a clear tone from the top in relation to a risk-based culture which fosters individual and collective accountability for risk management.
- Continuously review, challenge and recommend enhancements to the Group's Strategic Risk Management Framework (SRMF).
- Ensure the Group organises and resources its risk management and oversight functions across the first and second line effectively.
- Actively assess performance against risk appetite and challenge management to ensure that the Board's strategic, business and regulatory objectives are not put at unacceptable levels of risk.
- Provide oversight to key regulatory initiatives.

The Committee's specific responsibilities are set out in its terms of reference, which are available on the Company's website at www.osb.co.uk.

Activity during 2021
The key areas of the Committee's focus during 2021 are outlined in the following pages.

Risk appetite
The Committee played an active role in shaping and assessing the design of the Group's risk appetite in the context of economic and business outlook and uncertainties, the strategic growth agenda of the Group and regulatory developments. The Committee also ensured that the proposed risk appetite was subject to appropriate alignment to the Group's strategic agenda, business plans and stress testing capabilities. Risk appetites were set at both Group and banking entity levels. The Committee reviewed the Group's position against risk appetite across all principal risks and escalated issues to the Board, where appropriate.

Internal Ratings-Based (IRB) Programme
The Committee reviewed regular updates from the harmonised Group IRB programme, which incorporated progress made against key milestones in model development, model governance and technical enhancements. The Committee is well positioned to provide oversight and approval of relevant supervisory submissions relating to the IRB approval process.

Group Risk Committee – key responsibilities

Risk appetite and assessment

- Advise the Board on overall risk appetite, tolerance and strategy.
- Review risk assessment processes that inform the Board's decision-making.
- Consider the Group's capability to identify and manage new risks.
- Advise the Board on proposed strategic transactions, including acquisitions or disposals, ensuring risk aspects and implications for risk appetite and tolerance are considered.

Risk monitoring and framework

- Review credit risk, interest rate risk, liquidity risk, market risk, compliance and regulatory risks, solvency risk, conduct risk, reputational risk and operational risk exposures by reference to risk appetite.
- Challenge and endorse the SRMF.
- Provide challenge and oversight to the Internal Capital Adequacy Assessment Process (ICAAP) framework.
- Monitor actual and forecast risk and regulatory capital positions.
- Recommend changes to capital utilisation.
- Provide challenge and oversight to the Internal Liquidity Adequacy Assessment Process (ILAAP) framework.
- Monitor the actual and forecast liquidity position.
- Review reports on risk appetite thresholds, identify where a risk of a material breach of risk limits exists and ensure proposed actions are adequate.
- Provide challenge and oversight to the Recovery Plan framework.
- Monitor risks arising from Climate Change.

CRO and risk governance structure

- Consider and approve the remit of the Risk function.
- Recommend to the Board the appointment and removal of the CRO.
- Review promptly, all reports from the CRO.
- Review and monitor management's responsiveness to the findings of the CRO.
- Receive summary reports from all senior risk management committees.

Credit risk
The Committee has monitored the performance of the Group's loan book on both aggregated and asset class sub-segment bases by assessing the key indicators of credit quality, security coverage, affordability and borrower risk profile. The Committee also assessed forward-looking credit risk indicators in the form of bureau data on customer credit scores, mover alerts and indebtedness, business and economic early warning indicators.

The Committee challenged and approved updates to policies including the Group Lending Policy, the Arrears Management and Forbearance Policy and the Loan Impairment Provisioning Policy, as well as the credit risk appetite. The Committee also exercised oversight over credit risk models and provided an appropriate level of challenge in relation to model construction and validation to ensure that the models are appropriate, robust and fit for the purpose for which they are intended. The Committee has also directed management on how to monitor model performance.

During 2021, the Committee (jointly with the Group Audit Committee) provided oversight of the Group's IFRS 9 methodologies focusing on key assumptions and the appropriateness of judgements made. The Committee also assessed and approved the Group's provision adequacy levels, supported by analysis provided by the Risk function.

The Group recognised an impairment provision of £20.0m in 2020 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's funding line business is primarily secured against property-related mortgages and following a review, it was concluded that this was an isolated incident. The Group Audit Committee and Group Risk Committee continue to monitor the administration of the potential fraudulent activity.

Market risk and liquidity risk

Market risk and liquidity risk are continually monitored by the Group Assets and Liabilities Committee (ALCO), which provides reports to the Committee. The Committee reviewed ALCO's regular assessments of the UK macroeconomic environment and potential impacts on the Group's assets and liquidity.

The Committee also reviewed and recommended the market and liquidity risk appetite to the Board for approval. The Committee oversaw the Group's liquidity management plans during COVID-19, ensuring that liquidity positions remained appropriate against the uncertain economic backdrop arising from the pandemic.

Solvency risk and ICAAP

The Committee reviewed the Group ICAAP which demonstrates how the Group would manage its capital resources and requirements during a plausible but severe period of stress.

The Committee also reviewed and challenged the Group Capital Plan and monitored total capital and Common Equity Tier One (CET1) forecasts throughout the year, ensuring that risks were understood and managed appropriately. The Committee also reviewed and recommended the solvency risk appetite to the Board for approval.

Operational risk

The Committee received reports on operational risks at each of its meetings. The reports covered risk incidents that had arisen to allow the Committee to assess management's response and remedial action proposed. The reports also covered key risk indicators (KRIs), which can be quantitative or qualitative and provided insights regarding changes in the Group's operational risk profile. The Committee also reviewed and recommended the operational risk appetite to the Board for approval.

The Committee requested a detailed analysis of operational incidents that occurred during 2021 to further understand any root causes and trends. The Committee was satisfied that the actions taken were appropriate and that the control of operational incidents continued to improve.

Conduct, regulatory and financial crime risks

The Committee received reports covering conduct, regulatory and financial crime KRIs, which can be quantitative or qualitative and provide insights regarding changes in the Group's conduct, regulatory and financial crime risk profiles. The Committee also assessed and recommended enhancements to the conduct, regulatory and financial crime risk appetites before recommending them for approval by the Board.

Risk Management Framework integration

The Committee considered the Integration Plan and harmonisation of the Risk Management Frameworks and functions of OSB and CCFS. An external firm assisted the Group with the creation of the Integration Plan which sets out the key components of the respective Banks' frameworks. The scope of all components is broken down into three distinct groupings, namely; 'business as usual', 'regulatory requirements' and 'risk projects' and sets out a summary of workstreams and timelines to achieve harmonisation.

Other risk types

The Committee reviewed the Group profiles of reputational risk, climate change risk and business and strategic risk against their respective risk appetites. Further details on climate-related risks are set out in the TCFD report on pages 86 to 93.

Other Committees

Group Models and Ratings Committee

The Group Models and Ratings Committee is a sub-committee of the Group Risk Committee and met seven times during the year. The primary purpose of the Committee is to act as the designated Committee for the purpose of material aspects of the rating and estimation processes (as articulated in Article 189 of the EU Capital Requirements Regulation) and provide assurance of the Group's models and ratings systems.

The Committee is chaired by the Chair of the Group Risk Committee, Graham Allatt. Rajan Kapoor, April Talintyre and Simon Walker are members of the Committee. Simon Walker joined the Board and became a member of the Committee on 4 January 2022.

Board Capital and Funding Committee

The Board Capital and Funding Committee is a Committee of the Board. Its primary objective is to approve capital, funding and equity activities of the Group consistent with Board-approved plans. The Committee met four times during the year. The current members are David Weymouth as Chair, Graham Allatt, Andy Golding, Rajan Kapoor and April Talintyre. Simon Walker joined the Board and became a member of the Committee on 4 January 2022.

Board Integration Committee

During 2021, the Committee met four times prior to being disbanded on 15 June 2021, when the remaining responsibilities of the Board Integration Committee were transferred to the Board.

Dear Shareholder,

The 2021 Directors' Remuneration Report sets out details of the Directors' remuneration in respect of 2021 and how we intend to operate the Directors' Remuneration Policy (the Remuneration Policy) in 2022. Executive remuneration is in line with the Remuneration Policy which was approved by shareholders at the 2021 AGM with over 99% support and is also included within this report for reference.

Committee member	Meetings attended
Mary McNamara (Chair)	7/7
Noël Harwerth	7/7
Sarah Hedger	7/7
Rajan Kapoor	7/7
David Weymouth	7/7

Overview of 2021 performance and incentive outcomes

2021 was a strong year for the Group despite the uncertainty in the operating environment. Financial highlights in 2021 included record underlying pre-tax profits of £522.2m, net loan book growth of 10% and delivering an improved underlying cost to income ratio of 24%. There was also tangible progress in key projects during the year with IRB projects and our ESG agenda taking significant steps forward.

Our customers and employees are key stakeholders of the business and the customer Net Promoter Score (NPS) and employee engagement scores across the Group continue to reflect our strong relationships in these areas.

The 2021 Executive Bonus Scheme was again based 90% on the Balanced Business Scorecard (BBS), which measures corporate performance against Financial, Customer, Quality and Staff metrics, and 10% on personal objectives. Targets for each measure were set at the start of the year and assessed by the Committee following the end of the financial year, liaising as necessary with the Group Risk and Group Audit Committees.

There has been strong performance against each of the Financial, Customer, Quality and Staff BBS categories during 2021. In particular, financial targets have significantly outperformed expectations with 46% out of the 50% earned. Whilst 2021 financial performance has benefitted from items including the unwinding of impairment provisions taken in 2020 and fair value gains on the Group's hedging activities, the Committee is satisfied that the outturn is in line with underlying performance (before the inclusion of these items) and that a consistent approach is being applied whereby adverse impacts would similarly not be excluded; as was the case in 2020 when provisions reduced the financial performance assessment.

Under the Customer metric, the Group's customer and broker NPS scores were both outstanding with low levels of customer complaints, meaning that 14.5% out of the 15% was earned. The achievements against the Quality category were strong, although a payout of 10.6% out of 15% reflects the high level of expectations when setting the targets. Payouts against the Staff metrics was mixed resulting in 5.7% out of the 10% earned with employee engagement meeting the threshold performance level, with outperformance of the gender diversity targets. As a result of this performance, the Executive Directors earned 76.83% out of the 90% of bonus assessed against the scorecard.

Performance against personal targets was also considered by the Board and Committee to be strong, with key targets being met in an uncertain year. This resulted in a payout of 10% out of a maximum 10% of bonus for both the CEO and CFO.

As such, payouts under the 2021 Executive Bonus Scheme are 86.83% of maximum for the CEO and CFO. The bonus is paid half in cash and half in shares which must be held for a minimum of three years; and up to seven years for a portion, in line with regulatory requirements. Full details of the performance conditions and bonus payments are provided on page 156 of this report. The Committee believes that this payout was appropriate, reflecting the underlying performance of the Group and wider stakeholder experience and discretion was not used to adjust the outturn from the performance metrics. This payout is also consistent with the payouts under employee bonus plans throughout the business.

We will continue to apply the Remuneration Policy robustly to ensure that there remains a strong link between the remuneration received by Executives and employees and the performance of the business whilst taking into account risk.

Mary McNamara
Chair of the Group Remuneration Committee
17 March 2022

The 2019 award under the Performance Share Plan (PSP) will vest in March 2022 at 87.16% of maximum based on performance over the three-year performance period which ended on 31 December 2021. Performance was based 40% on Earnings Per Share (EPS) growth, 40% on Total Shareholder Return (TSR) versus the companies in the FTSE 250 Index (excluding Investment Trusts) and 20% on RoE. Given that the Combination with CCFS completed in the first year of the three-year performance period, the Committee determined immediately following the Combination that the EPS and RoE targets should be assessed on a combined basis against targets adjusted to ensure that they were no tougher or easier to achieve based on the business plan immediately before and after the Combination. Performance against the EPS target range exceeded the maximum target and so 100% of the EPS part of the award vested. The TSR of 53.8% growth over the period, placed OSB between the median and upper quartile of the FTSE 250 peer group and therefore 82.9% of the TSR part of the award vested. The average RoE over the performance period was 22.6% resulting in 70% of the RoE part of the award vesting. In total, 87.16% of the award vested and the Committee is comfortable that there has been a clear and strong link between reward and performance and that discretion was not required to adjust the incentive outcome. In line with the Remuneration Policy at the time of grant, shares received by the Executives on vesting (net of tax) will be held for a further two years before they can be sold.

Overall, the Committee believes that the Remuneration Policy is operating as intended and that the payouts under the incentive plans are appropriate. As such, no change to the Remuneration Policy is required at this time.

Implementation of the Remuneration Policy in 2022

The CEO and CFO will receive a salary increase of 4% in 2022. This is lower than the average increase applicable to the workforce where the inflationary increase will be 5%.

The pension contribution remains at 8% of salary, which is aligned to the rate for the majority of the workforce.

The 2022 annual bonus will be subject to a maximum limit of 110% of salary and will continue to be based 90% on performance against the BBS and 10% on personal objectives. Half of any bonus will be in deferred shares, which may not be sold for at least three years. The Committee has reviewed the metrics to be used in the BBS and has agreed that the Staff quadrant will be broadened into an Environmental, Social and Governance (ESG) category reflecting the increased focus within the business on the ESG strategy. The ESG category will include carbon reduction and ethnic diversity metrics, in addition to the current gender diversity and employee engagement metrics. The personal objectives for the CEO and CFO in 2022 also include a target to embed the ESG strategy within the business. The increased focus on ESG is supported by employees who were consulted as part of discussions on Executive pay during the year and are in line with the majority of shareholder views. The metrics and weightings within the ESG category will be kept under review in future years to ensure that they continue to support the business priorities in this area, and we will also look at the possibility of whether the PSP should incorporate ESG metrics which are longer term in nature, from 2023.

PSP awards of 110% of salary will be made to the Executive Directors with performance being measured over the period to 31 December 2024. Performance will continue to be based on TSR (35% weighting), EPS growth (35% weighting), RoE (15% weighting) and risk (15% weighting).

The targets for each measure are set out in this report and the Committee is satisfied that these provide the appropriate stretch, taking into account the business plan, external operating environment and market expectations. Furthermore, when assessing the performance outcome, the Committee may adjust the formulaic vesting outcome to ensure it is aligned with the underlying performance, risk appetite and individual conduct over the period.

In line with the changes implemented in 2020, the 2022 PSP awards will vest 20% each year between three and seven years after grant, with each tranche subject to a one-year holding period.

Review of Non-Executive Directors' fees

During the year, the Committee reviewed the Chairman's fee and, recognising the increase in workload since the fee was last reviewed in 2020 and a review of market rates, determined that the fee should increase from £300,000 to £330,000.

Separately, the Board (minus the Non-Executive Directors (NEDs)) reviewed NED fees and recognising the same factors, determined that the base fee levels should be increased from £70,000 to £80,000; and the fees for Committee membership should be increased from £5,000 to £7,500. This takes into account the level of contributions at Board and Committees and the complexities of a dual banking licence. Sarah Hedger has been appointed ESG Champion to provide independent oversight of the ESG strategy for which she will receive a fee of £7,500. Further details are contained within this report.

Consideration of shareholder views

Prior to the 2021 AGM, we engaged with investors to confirm that they remained comfortable with the Remuneration Policy and how it is being operated and were pleased to receive continuing investor support both in relation to the Remuneration Policy and its operation, with over 99% support. We have taken into account shareholder views when determining the metrics and targets for the 2022 annual bonus and PSP awards and increased the focus on ESG matters within the annual bonus as a result.

Consideration of employee policies and views

As the NED responsible for representing the workforce on the Board, I regularly meet with employees, individually and through forums such as the Workforce Advisory Forum (OneVoice), to understand their views, including those on remuneration, and report these views to the Board. During 2021, the views of OneVoice were sought with regards to the approach to senior management remuneration and the Committee agreed that the additional focus on ESG within the annual bonus was in line with the views expressed. Further details on the activities of OneVoice can be found on pages 164 and 165.

The Annual Report on Remuneration will be presented to shareholders at the 2022 AGM as an advisory resolution and I look forward to your support at such time.

Mary McNamara
Chair of the Group Remuneration Committee
17 March 2022

Group Remuneration Committee – key responsibilities

- Review and recommend for Board approval the Group Remuneration Policy.
- Review the ongoing appropriateness and alignment of the Group Remuneration Policy to the Group strategy (including ESG) and alignment with key stakeholder expectations.
- Review workforce remuneration and related implementation policies and note annually the remuneration trends across the Group.
- Review and recommend for Board approval the remuneration policy for the Executive Directors, including pension rights and any compensation payments.
- Review and approve the remuneration policy for senior management and the Company Secretary and all employees that are identified as Material Risk Takers for the purposes of the Prudential Regulation Authority's Remuneration Code (the Remuneration Code) including pension rights and any compensation payments.
- Review and approve the total individual remuneration package of the Chairman of the Board, each Executive Director, the Company Secretary and other designated senior managers[1] including bonuses, any other incentive payments and share-based awards.
- Ensure workforce remuneration practices and culture are taken into account when determining individual remuneration packages.
- Approve the appointment of remuneration consultants.
- Approve the design of, and determine targets for, any performance-related pay schemes operated by the Group and approve the total annual payments made under such schemes.

1. Designated senior managers include all members of the Group Executive Committee and any other senior employees in independent control functions.

This section describes our Directors' Remuneration Policy (the Remuneration Policy) for which shareholder approval was sought at the AGM on 27 May 2021 and which formally came into effect from that date. It is intended that this Policy will last for three years from the 2021 AGM date. There are no changes to the OSB Remuneration Policy that was approved at the 2020 AGM. Certain factual data has been updated where applicable (e.g. page references and illustration of remuneration policy); the original version approved by shareholders can be found on pages 149 to 155 of the 2020 Annual Report.

Policy overview

This Remuneration Policy has been prepared in accordance with the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008, as subsequently amended. The Remuneration Policy has been developed taking into account a number of regulatory and governance principles, including:

- The 2018 UK Corporate Governance Code.
- The regulatory framework applying to the Financial Services Sector (including the Dual-regulated firms Remuneration Code and provisions of the EU Capital Requirements Directive).
- The Executive remuneration guidelines of the main institutional investors and their representative bodies.

Approach to designing the Remuneration Policy

The Committee is responsible for the development, implementation and review of the Directors' Remuneration Policy. In addressing this responsibility, the Committee works with management and external advisers to develop proposals and recommendations. The Committee considers the source of information presented to it, takes care to understand the detail and ensures that independent judgement is exercised when making decisions. The Group Risk Committee considers whether the Remuneration Policy and practices are in line with the risk appetite and the Group Audit Committee confirms incentive plan performance results, where appropriate.

The Code sets out principles against which the Committee should determine the Remuneration Policy for Executive Directors. These are shown in the first column of the table below, together with the Committee's approach, in the second column:

Principle	Committee approach
Clarity – remuneration arrangements should be transparent and promote effective engagement with shareholders and the workforce.	• We aim to set out our approach to remuneration in this report as transparently as possible. • We will engage with our Workforce Advisory Forum (OneVoice) to explain the alignment of the Executive Directors' Remuneration Policy with that of the workforce.
Simplicity – remuneration structures should avoid complexity and their rationale and operation should be easy to understand.	• Within the required regulatory framework and in line with investor guidance, we have structured the Remuneration Policy to be as simple as possible. • We have a simple policy offering pension at the same rate as employees, an annual bonus plan which cascades to most employees and, for senior employees, performance shares to provide alignment with longer-term performance. • There is, however, a degree of complexity required for Executive Director packages to ensure a robust link to performance, to avoid reward for failure and to comply with investor and Code requirements.
Risk – remuneration arrangements should ensure reputational and other risks arising from excessive rewards and behavioural risks that can arise from target-based incentive plans are identified and mitigated.	• We have mitigated these risks through careful policy design, including long-term performance measurement, the use of specific risk-based measures, deferral and shareholding requirements (including post cessation of employment) and discretion and clawback provisions if incentive payment levels are inappropriate.
Predictability – the range of possible values of rewards to individual Directors and any other limits or discretions should be identified and explained at the time of approving the Remuneration Policy.	• We look carefully each year at the range of likely performance outcomes for incentive plans when setting performance target ranges for threshold, target and maximum payouts and would use discretion where necessary where this leads to an inappropriate pay outcome.
Proportionality – the link between individual awards, the delivery of strategy and the long-term performance of the Company should be clear. Outcomes should not reward poor performance.	• Incentive plans are determined based on a proportion of base salary so there is a sensible balance between fixed pay and performance-linked elements. • There are provisions to override the formula-driven outcome of incentive plan deferrals and clawbacks to ensure that poor performance is not rewarded or if incentive payments are too high for the performance delivered, in the view of the Committee. • As illustrated by the chart showing our TSR performance and historical CEO remuneration on pages 158 and 159, we believe that there has been a strong link between Executive Directors' pay and performance.
Alignment to culture – incentive schemes should drive behaviours consistent with Company purpose, values and strategy.	• The Balanced Business Scorecard used for the annual bonus is based on a wide range of measures linked to financial performance, customer, quality and staff, to ensure that payments are aligned to Company culture and values. • Bonus plans operate widely throughout the Company and are approved by the Committee to ensure consistency with Company purpose, values and strategy.

How the views of employees and shareholders are taken into account

The Chair is the designated Non-Executive Director in relation to employee matters; she regularly meets with employees, including through OneVoice. The Chair attends OneVoice to provide an overview of Executive pay and governance within the Group and to provide the opportunity to give feedback, which is communicated to the Committee and the Board. The Committee also receives updates in relation to the remuneration structure throughout the Group, salary and bonus reviews each year. As set out in the Remuneration Policy table, in setting remuneration for the Executive Directors, the Committee takes note of the overall approach to reward for employees in the Group and salary increases will ordinarily be in line (in percentage of salary terms) with those of the wider workforce. Thus, the Committee is satisfied that the decisions made in relation to Executive Directors' pay are made with an appropriate understanding of the wider workforce.

The Committee undertook extensive engagement with shareholders during the review of the Remuneration Policy in late 2019 and early 2020 and has again consulted with shareholders prior to the Remuneration Policy being re-presented to shareholders at the 2021 AGM to confirm that they remain supportive. The Committee will seek to engage with major shareholders and the main shareholder representative bodies and proxy advisory firms when it is proposed that any material changes are to be made to the Remuneration Policy or its implementation. In addition, we will consider any shareholder feedback received at the AGM.

The table below and the accompanying notes describe the Remuneration Policy for Executive Directors.

Element	Purpose and link to strategy	Operation and performance conditions	Maximum
Salary	To reward Executive Directors for the role and duties required. Recognises individual's experience, responsibility and performance.	Paid monthly. Base salaries are usually reviewed annually, with any changes usually effective from 1 January. No performance conditions apply to the payment of salary. However, when setting salaries, account is taken of an individual's specific role, duties, experience and contribution to the Company. As part of the salary review process, the Committee takes account of individual and corporate performance, increases provided to the wider workforce and the external market for UK listed companies both in the financial services sector and across all sectors.	Increases will generally be broadly in line with the average of the workforce. Higher increases may be awarded in exceptional circumstances such as a material increase in the scope of the role, following the appointment of a new Executive Director (which could also include internal promotions) to bring an initially below-market package in line with the market over time or in response to market factors.
Benefits	To provide market competitive benefits to ensure the well-being of employees.	The Company currently provides: • car allowance; • life assurance; • income protection; • private medical insurance; and • other benefits as appropriate for the role.	There is no maximum cap on benefits, as the cost of benefits may vary according to the external market.
Pension	To provide a contribution to retirement planning.	Executive Directors may participate in a defined contribution plan or, if they are in excess of the HM Revenue & Customs (HMRC) annual or lifetime allowances for contributions, may elect to receive cash in lieu of all or some of such benefit.	In line with the rate receivable by the majority of the workforce, which is currently 8% of salary.

Element	Purpose and link to strategy	Operation and performance conditions	Maximum
Annual bonus	To incentivise and reward individuals for the achievement of pre-defined, Committee-approved, annual financial, operational and individual objectives which are closely linked to the corporate strategy.	The annual bonus targets will have a 90% weighting based on performance in line with an agreed balanced scorecard which includes an element of risk appraisal. Within the scorecard, at least 50% of the bonus will be based on financial performance. 10% of the bonus will be based on personal performance targets. The objectives in the scorecard, and the weightings on each element, will be set annually and may be flexed according to role. Each element will be assessed independently, but with Committee discretion to vary the payout (including to zero) to ensure there is a strong link between payout and performance. On top of this, there is a general discretion to adjust the outturn to reflect other exceptional factors at the discretion of the Committee. 50% of any bonus earned will be delivered in shares, subject to a three-year holding period. In exceptional circumstances of high bonus payments, there may be a requirement to defer a proportion of bonus with vesting staggered over three to seven years, in line with the deferral arrangements for the PSP described below. Updated clawback and malus provisions apply, as described in note 1 overleaf.	The maximum bonus opportunity is 110% of salary per annum. The threshold level for payment is 25% of maximum for any measure.
Performance Share Plan	To incentivise and recognise execution of the business strategy over the longer term. Rewards strong financial performance over a sustained period.	PSP awards will typically be made annually at the discretion of the Committee, usually following the announcement of full-year results. Usually, awards will be based on a mixture of internal financial performance targets, risk-based measures and relative TSR. At least 50% of the PSP award will ordinarily be based on financial and relative TSR metrics. The performance targets will usually be measured over three years. Any vesting will be subject to an underpin, whereby the Committee must be satisfied: (i) that the vesting reflects the underlying performance of the Company; (ii) that the business has operated within the Board's risk appetite framework; and (iii) that individual conduct has been satisfactory. On top of this, there is a general discretion to adjust the outturn to reflect other exceptional factors at the discretion of the Committee. Awards granted after 1 January 2020 will vest in five equal tranches of 20%, following the Committee's determination of performance. At the time each tranche vests, a one-year holding period will apply. (Awards granted before this date will vest in accordance with the terms of the previous Policy.) Clawback and malus provisions apply as described in note 1 overleaf.	The maximum PSP grant limit is 110% of salary in respect of grants in any financial year. The threshold level for payment is 25% of maximum for any measure.

Element	Purpose and link to strategy	Operation and performance conditions	Maximum
All-employee share plan (Sharesave Plan)	All employees, including Executive Directors, are encouraged to become shareholders through the operation of an all-employee share plan.	Tax-favoured plan under which regular monthly savings may be made over a three- or five-year period and can be used to fund the exercise of an option, where the exercise price is discounted by up to 20%.	Maximum permitted savings based on HMRC limits.
Share ownership guidelines	To increase alignment between Executive Directors and shareholders.	Executive Directors are expected to build and maintain a minimum holding of shares. Executive Directors must retain at least 50% of the shares acquired on vesting of any share awards (net of tax) until the required holding is attained. On cessation of employment, Executive Directors must retain the lower of the in-service shareholding requirement, or the Executive Directors' actual shareholding, for two years.	At least 250% of salary for the CEO and at least 200% of salary for the CFO or such higher level as the Committee may determine from time to time. The net of tax value of any unvested deferred awards (which are not subject to any future performance condition) may count towards the definition of a shareholding for this purpose.

1. Clawback and malus provisions apply to both the annual bonus, including amounts deferred into shares and PSP awards. These provide for the recovery of incentive payments within seven years in the event of: (i) a material misstatement of results; (ii) an error; (iii) a significant failure of risk management; (iv) regulatory censure; (v) in instances of individual gross misconduct; (vi) corporate failure; (vii) reputational damage; or (viii) any other exceptional circumstance as determined by the Board. A further three years may be applied following such a discovery, in order to allow for the investigation of any such event. In order to effect any such clawback, the Committee may use a variety of methods: withhold deferred bonus shares, future PSP awards or cash bonuses, or seek to recoup cash or shares already paid.

Choice of performance measures for Executive Directors' awards

The use of a Balanced Business Scorecard for the annual bonus reflects the balance of financial and non-financial business drivers across the Group. The combination of performance measures ties the bonus plan to both the delivery of corporate targets, risk measures and strategic/personal objectives. This ensures there is an appropriate focus on the balance between financial and non-financial targets and risk, with the scorecard composition being set by the Committee from year to year depending on the corporate plan.

The PSP is based on a mixture of financial and risk measures and relative TSR, in line with our key objectives of sustained growth in earnings leading to the creation of shareholder value over the long term within an appropriate risk framework. TSR provides a close alignment between the relative returns experienced by our shareholders and the rewards to Executives.

There is an underpin in place on the PSP to ensure that the payouts are aligned with underlying performance, financial and non-financial risk and individual conduct.

Annual bonus and PSP targets are set taking into account the business plans, shareholder expectations, the external market and regulatory requirements.

In line with HMRC regulations for such schemes, the Sharesave Plan does not operate performance conditions.

How the Group Remuneration Committee operates the variable pay policy

The Committee operates the share plans in accordance with their respective rules, the Listing Rules and HMRC requirements, where relevant. The Committee, consistent with market practice, retains discretion over a number of areas relating to the operation and administration of certain plans, including:

- Who participates in the plans.
- The form of the award (for example, conditional share award or nil cost option).
- When to make awards and payments; how to determine the size of an award; a payment; and when and how much of an award should vest.
- Whether share awards will be eligible to receive dividend equivalents and the method of calculation.
- The testing of a performance condition over a shortened performance period.
- How to deal with a change of control or restructuring of the Group.
- Whether a participant is a good/bad leaver for incentive plan purposes; what proportion of an award vests at the original vesting date or whether and what proportion of an award may vest at the time of leaving.
- How and whether an award may be adjusted in certain circumstances (e.g. for a rights issue, a corporate restructuring or for special dividends).
- What the weighting, measures and targets should be for the annual bonus plan and PSP from year to year.

The Committee also retains the discretion within the Remuneration Policy to adjust existing targets and/or set different measures for the annual bonus. For the PSP, if events happen that cause it to determine that the targets are no longer appropriate, an amendment could be made so they can achieve their original intended purpose and ensure the new targets are not materially less difficult to satisfy.

Any use of the above discretions would, where relevant, be explained in the Annual Report on Remuneration and may, as appropriate, be the subject of consultation with the Company's major shareholders.

The Group operates in a heavily regulated sector, the rules of which are subject to frequent evolution. The Committee therefore also retains the discretion to make adjustments to payments under this Policy as required by financial services regulations.

Conflicts of interest

The Committee ensures that no Director is present when their remuneration is being discussed and considers any potential conflicts prior to meeting materials being distributed and at the beginning at each meeting.

Awards granted prior to the effective date

Any commitments entered into with Directors prior to the effective date of this Policy will be honoured. Details of any such payments will be set out in the Annual Report on Remuneration as they arise.

Remuneration Policy for other employees

The Committee has regard to pay structures across the wider Group when setting the Remuneration Policy for Executive Directors and ensures that policies at and below the Executive level are coherent. There are no significant differences in the overall remuneration philosophy, although pay is generally more variable and linked more to the long term for those at more senior levels. The Committee's primary reference point for the salary reviews for the Executive Directors is the average salary increase for the broader workforce.

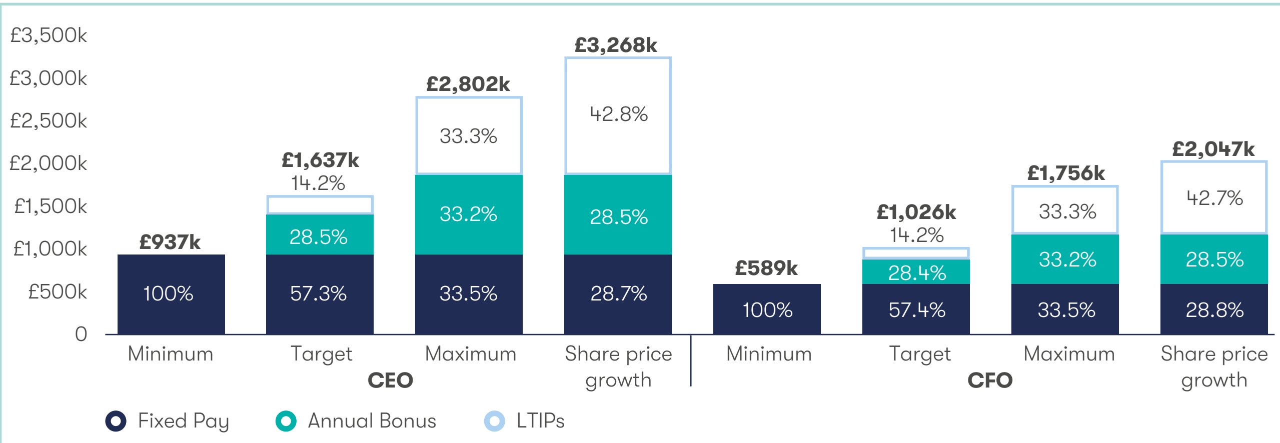
A highly collegiate approach is followed in the assessment of the annual bonus, with our Balanced Business Scorecard being used to assess bonus outcomes throughout the Group, with measures weighted according to role, where relevant.

Overall, the Remuneration Policy for the Executive Directors is more heavily weighted towards performance-related pay than for other employees. In particular, performance-related long-term incentives are not provided outside the most senior management population as they are reserved for those considered to have the greatest potential to influence overall levels of performance.

Although PSPs are awarded only to the most senior managers in the Group, the Company is committed to widespread equity ownership and a Sharesave Plan is available to all employees. Executive Directors are eligible to participate in this plan on the same basis as other employees.

Illustrations of application of Remuneration Policy

The chart below illustrates how the composition of the Executive Directors' remuneration packages would vary under various performance scenarios. This chart has been updated from the version in the Policy approved at the 2021 AGM to illustrate how it is intended the Remuneration Policy will be implemented in 2022.



1. Minimum performance assumes no award is earned under the annual bonus plan and no vesting is achieved under the PSP – only fixed pay (salary, benefits and pension are payable).
2. At on-target, half of the annual bonus is earned (i.e. 55% of salary) and 25% of maximum is achieved under the PSP (i.e. 27.5% of salary).
3. At maximum, full vesting is achieved under both plans (i.e. 110% of salary under the bonus and PSP).
4. As at maximum, but illustrating the effect of a 50% increase in the share price on PSP awards.

Other than as noted in the chart above, share price growth and all-employee share plan participation are not considered in these scenarios.

The terms and provisions that relate to remuneration in the Executive Directors' service agreements are set out below. Service contracts are available for inspection at the Company's registered office.

Provision	Policy
Notice period	12 months on either side.
Termination payments	A payment in lieu of notice may be made on termination to the value of the Executive Director's basic salary at the time of termination. Such payments may be made in instalments and in such circumstances can be reduced to the extent that the Executive Directors mitigate their loss. Rights to DSBP and PSP awards on termination are shown below. The employment of each Executive Director is terminable with immediate effect without notice in certain circumstances, including gross misconduct, fraud or financial dishonesty, bankruptcy or material breach of obligations under their service agreements.
Remuneration	Salary, pension and core benefits are specified in the agreements. There is no contractual right to participate in the annual bonus plan or to receive long-term incentive awards.
Post-termination	These include six months' post-termination restrictive covenants against competing with the Company; nine months' restrictive covenants against dealing with clients or suppliers of the Company; and nine months' restrictive covenants against soliciting clients, suppliers and key employees.
Contract date	Andy Golding, 12 February 2020; April Talintyre, 12 February 2020.
Unexpired term	Rolling contracts.

Payments for loss of office

On termination, other than for gross misconduct, the Executive Directors will be contractually entitled to salary, pension and contractual benefits (car allowance, private medical cover, life assurance and income protection) over their notice period. The Company may make a payment in lieu of notice equivalent to the salary for the remaining notice period. Payments in lieu of notice would normally be phased and subject to mitigation, by offsetting the payments against earnings elsewhere.

The Company may also pay reasonable legal costs in respect of any compromise settlement.

Annual bonus on termination

There is no automatic/contractual right to bonus payments and the default position is that the individual will not receive a payment. The Committee may determine that an individual is a 'good leaver' and may elect to pay a pro-rated bonus for the period of employment at its discretion and based on full-year performance.

Deferred bonus awards on termination

In respect of outstanding awards made under the previous policy, deferred bonus awards normally lapse on termination of employment. However, in certain good leaver situations, awards may instead vest on the normal vesting date (or on cessation of employment in exceptional circumstances). Good leaver scenarios include: (i) death; (ii) injury, ill-health or disability; (iii) retirement with the agreement of the Company; (iv) redundancy; (v) the employing company ceasing to be a member of the Group; or (vi) any other circumstance the Committee determines good leaver treatment is appropriate. Shares which are subject to a holding period will ordinarily be released at the normal time. Where a portion of the annual bonus is required to be deferred in line with FCA regulations, the treatment on cessation will be in line with deferred awards made under the previous policy (as above).

Performance Share Plan awards on termination

Awards normally lapse on termination of employment. However, in certain good leaver situations, awards may vest on the normal vesting date and to the extent that the performance conditions are met. The Committee is, however, permitted under the PSP rules and FCA regulations to allow early vesting of the award to the extent it considers appropriate, taking into account performance to date. Unless the Committee determines otherwise, awards vesting in good leaver situations will be pro-rated for time employed during the performance period. Shares which are subject to a post-vesting holding period will ordinarily be released at the normal time.

Approach to recruitment and promotions

The ongoing remuneration package for a new Executive Director would be set in accordance with the terms of the Company's approved Remuneration Policy.

On recruitment, the salary may (but need not necessarily) be set at a lower rate, with phased increases (which may be above the average for the wider employee population) as the Executive Director gains experience. The salary would in all cases be set to reflect the individual's experience and skills and the scope of the role. Annual bonus and PSP award levels would be in line with the Remuneration Policy.

The Company may take into account and compensate for remuneration foregone upon leaving a previous employer using cash awards, the Company's share plans or awards under Listing Rule 9.4.2, as may be required. This would include: taking into account the quantum foregone; the extent to which performance conditions apply; the form of award; and the time left to vesting. These would be structured in line with any regulatory requirements (such as the PRA Rulebook).

For all appointments, the Committee may agree that the Company will meet certain appropriate relocation costs.

For an internal appointment, including the situation where an Executive Director is appointed following corporate activity, any variable pay element awarded in respect of their prior role would be allowed to pay out broadly according to its terms.

Should an individual be appointed to a role (Executive or Non-Executive) on an interim basis, the Company may provide additional remuneration, in line with the Remuneration Policy for the specific role, for the duration the individual holds the interim role.

For the appointment of a new Chairman or NED, the fee arrangement would be in accordance with the approved Remuneration Policy in force at that time.

External appointments

Executive Directors may accept one directorship of another company with the consent of the Board, which will consider the time commitment required. The Executive Director would normally be able to retain any fees from such an appointment.

The Remuneration Policy for the Chairman and Non-Executive Directors

Element	Purpose and link to strategy	Operation	Maximum opportunity
Fees	To attract and retain a high-calibre Chairman and NEDs by offering a market competitive fee.	The Chairman and NEDs are entitled to an annual fee, with supplementary fees payable for additional responsibilities including the Chair of the Group Audit, Group Nomination and Governance, Group Remuneration and Group Risk Committees and for acting as the SID. Fees are reviewed periodically. The Chairman and NEDs are entitled to reimbursement of travel and other reasonable expenses incurred in the performance of their duties.	There is no prescribed maximum annual increase. The Committee is guided by the general increase in the non-executive market but on occasion may need to recognise, for example, change in responsibility and/or time commitments.

Letters of appointment

The NEDs are appointed by letters of appointment that set out their duties and responsibilities. The key terms are:

Provision	Policy
Period of appointment	Initial three-year term, subject to annual re-election by shareholders. On expiry of the initial term and subject to the needs of the Board, NEDs may be invited to serve a further three years. NEDs appointed beyond nine years will be at the discretion of the Group Nomination and Governance Committee.
Notice periods	Three months on either side. The appointments are also terminable with immediate effect and without compensation or payment in lieu of notice if the Chairman or NEDs are not elected or re-elected to their position as a Director of the Company by shareholders.
Payment in lieu of notice	The Company is entitled to make a payment in lieu of notice on termination.

Letters of appointment are available for inspection at the Company's registered office. The effective dates of the current NEDs' appointments are shown in the table below.

Non-Executive Director	Date of appointment
Graham Allatt	6 May 2014[1]
Noël Harwerth	4 October 2019 (appointed to the CCFS Board in June 2017)[1]
Sarah Hedger	1 February 2019[1]
Rajan Kapoor	4 October 2019 (appointed to the CCFS Board in September 2016)[1]
Mary McNamara	6 May 2014[1]
Simon Walker	4 February 2022
David Weymouth	1 September 2017[1]

1. These dates reflect the date that each NED joined OneSavings Bank plc (prior to the insertion of OSB GROUP PLC as the holding company and listed entity).

Introduction

This section outlines details of the remuneration received by Executive Directors and Non-Executive Directors in respect of the financial year ended 31 December 2021. This Annual Report on Remuneration will, in conjunction with the Annual Statement of the Committee Chair on pages 144 to 146, be proposed for an advisory vote by shareholders at the forthcoming AGM to be held on 12 May 2022.

Some of the data provided has been audited by Deloitte, which is indicated, where applicable.

Membership and meetings

The Committee met a total of seven times during 2021. The members of the Committee are Mary McNamara (Chair), Noël Harwerth, Sarah Hedger, Rajan Kapoor and David Weymouth. The attendance of individual Committee members is set out in the Corporate Governance Report.

The Board considers each of the members of the Committee to be independent in accordance with the UK Corporate Governance Code.

Responsibilities

The Committee's responsibilities are set out in its terms of reference, which are available on the Company's website. In summary, the responsibilities of the Committee include:

- Pay for employees under the Committee's scope:
  - Setting the Remuneration Policy.
  - Determining total individual remuneration (including salary increases, bonus opportunities and outcomes and long-term incentive plan (LTIP) awards).
  - Ensuring that contractual terms on termination, and any payments made, are fair to the individual and the Company, that failure is not rewarded and that the duty to mitigate loss is fully recognised.
- Approving the design of, and determining targets for, any performance-related pay schemes operated by the Company and approving total payments made under such schemes.

Employees under the Committee's scope include Executive Directors, the Chairman of the Board, the Company Secretary and all employees that are identified as Material Risk Takers for the purposes of the PRA and FCA's Dual-regulated firms Remuneration Code (Code Staff).

Key matters considered by the Committee

Key issues reviewed and discussed by the Committee during the year included:

- Review and approval of 2021 salary increases.
- Review and approval of 2020 bonus awards.
- Determining the 2021 grants under the PSP.
- Consideration of remuneration arrangements for the CEO and CFO for 2022.
- Approval of the 2022 personal objectives for the CEO, CFO and Group Executive team.
- Updates on the performance of in-flight PSP awards.
- Regular shareholder updates, as well as the approach and strategy in respect of shareholder engagement.
- Review of pay arrangements across the Group.
- Leaving arrangements for senior employees.
- Considering and recommending the Directors' Remuneration Report to the Board for approval.
- Annual review of the costs and performance of the external remuneration consultant.
- Other business as usual matters for employees under the Committee's scope.

Advisers to the Committee

Korn Ferry provided independent advice to the Committee during 2021, having been appointed following a competitive tender process in 2017. The total fees paid to Korn Ferry in 2021 were £111,840 and were charged on a time and materials basis.

Korn Ferry has no other connection with the Company or any individual Director with the exception of Mary McNamara. Korn Ferry acts as Remuneration Consultant to the Remuneration Committee of Motorpoint Group Plc, of which Mary McNamara is Chair. Korn Ferry is a member of the Remuneration Consultants Group and abides by the voluntary code of conduct of that body, which is designed to ensure objective and independent advice is given to remuneration committees. The Committee is satisfied that Korn Ferry provides objective and independent advice.

The Committee consults with the CEO (as appropriate) and seeks input from the Chair of the Group Risk Committee to ensure that any remuneration or pay scheme reflects the Company's risk appetite and profile and considers current and potential future risks.

The Committee also receives input on senior management remuneration from the CFO and Group HR Director. The Group General Counsel and Company Secretary acts as Secretary to the Committee and advises on regulatory and technical matters, ensuring that the Committee fulfils its duties under its terms of reference.

No individual is present in discussions directly relating to their own pay.

Directors' pay outcomes for 2021

Remuneration and fees payable for 2021 – (audited)

The table below sets out a single figure for the total remuneration received by each Executive Director and NED for the years ending 31 December 2021 and 31 December 2020.

Executive Directors	Year	Basic salary £'000	Taxable benefits[1] £'000	Pension[2] £'000	Annual bonus paid[3] £'000	Amount bonus deferred[3] £'000	LTIP[4] £'000	Total fixed pay £'000	Total variable pay £'000	Total £'000
Andy Golding	**2021**	**815**	**22**	**65**	**389**	**389**	**891**	**902**	**1,669**	**2,571**
	2020	735	22	59	–	167	527	816	697	1,510
April Talintyre	**2021**	**508**	**16**	**41**	**244**	**244**	**600**	**565**	**1,088**	**1,653**
	2020	500	16	40	–	113	354	556	467	1,023

1. Taxable benefits received include car allowance (CEO: £20,000; CFO: £15,000) and private medical cover.
2. Executive Directors currently receive pension contributions (or cash in lieu thereof) of 8% of salary, which is in line with the majority of the workforce.
3. 50% of bonus is payable in cash and 50% in shares deferred for three years or longer, in line with regulatory requirements. The cash portion of the 2020 bonus was waived prior to the Executive Directors becoming entitled to it.
4. The LTIP figure for the year ended 31 December 2020 has been restated based on the share price on vesting of £4.656580 for the 2018 PSP.

Total fees £'000	2021	2020
Chairman		
David Weymouth	**300**	292
Non-Executive Directors		
Graham Allatt	**115**	114
Noël Harwerth[1]	**110**	109
Sarah Hedger	**83**	84
Rajan Kapoor	**118**	120
Mary McNamara	**105**	105
Former Non-Executive Directors		
Eric Anstee[2]	–	8
Tim Brooke Thom[3]	–	50
Rod Duke[4]	–	122
Margaret Hassall[3]	–	45
Ian Ward[3]	–	48
Sir Malcolm Williamson[2]	–	27
Total	**831**	1,124

NEDs cannot participate in any of the Company's share schemes and are not eligible to join the Company pension scheme.

1. Noël Harwerth received £631 for taxable travel expenses (total received £110,631).
2. Ceased to be a Director of OSB on 4 February 2020.
3. Ceased to be a Director of OSB on 7 May 2020.
4. Ceased to be a Director of OSB on 4 February 2020 and became Chairman of Charter Court Financial Services Limited (CCFSL) on the same date (paid a fee of £125,000 as Chairman of CCFSL).

Executive bonus scheme

The performance against the measures for 2021 is set out below. There has been strong performance against the Balanced Business Scorecard. Financial targets have largely been outperformed in an uncertain environment, which has resulted in 46% of the 50% earned under this quadrant. Whilst 2021 financial performance has benefitted from items including the unwinding of impairment provisions taken in 2020 and fair value gains on the Group's hedging activities, the Committee is satisfied that the outturn is in line with underlying performance and that a consistent approach is being applied whereby adverse impacts would similarly not be excluded, as was the case in 2020 when provisions reduced the financial performance assessment.

Performance against the Customer quadrant was also positive with customer and broker NPS scores outperforming the stretch targets, whilst maintaining low levels of complaints. There was good performance against Quality and Staff quadrants, although the performance against the number of high-severity incidents and employee engagement metrics reduced the payouts.

The performance against the Balanced Business Scorecard provides a rounded assessment of corporate performance over the year, which represent the building blocks for the sustainable success of the business.

2021 performance against the Balanced Business Scorecard

Category	Key performance indicator	Weighting	Targets[1] Threshold (25%)	Budget (50%)	Max (100%)	Actual result	Outcome CEO	Outcome CFO
Financial (50%)	Underlying PBT (£m)	25%	393m	413m	433m	522m	25%	25%
	All-in RoE (%)	10%	17.4%	19.4%	21.4%	23.8%	10%	10%
	Cost to income ratio (%)	7.5%	30.2%	28.2%	26.2%	23.8%	7.5%	7.5%
	Net loan book growth (%)	7.5%	8.3%	10.3%	12.3%	10.1%	3.5%	3.5%
Customer (15%)	Customer satisfaction	6%	60%	65%	70%	69.6%	5.8%	5.8%
	Broker satisfaction	4%	22.5	27.5	32.5	47.7	4%	4%
	Complaints (%)	5%	0.10%	0.09%	0.08%	0.08%	4.7%	4.7%
Quality (15%)	Overdue actions (#)	5%	6	4	2	2.5	4.4%	4.4%
	Arrears (%)	5%	2.8%	2.5%	2.2%	1.11%	5%	5%
	High-severity incidents (#)	5%	3	2	1	3	1.3%	1.3%
Staff (10%)	Diversity (%)[2]	4%	29.5%	30.0%	30.5%	33.5%	4.0%	4.0%
	Employee engagement[3]	6%	690	700	710	691	1.7%	1.7%
Personal (10%)	Vary by Executive	10%	see section below				10%	10%
Total							86.83%	86.83%

1. Targets – based on a sliding scale between threshold, target and maximum.
2. Diversity – based on the Group's commitment to the Women in Finance Charter and the gender diversity of employees in senior roles.
3. Employee engagement – Sunday Times Top 100 Best Companies to Work For survey score.

2021 personal performance

The Executive Directors were allocated up to a maximum of 10% of their bonus based on their personal performance against agreed objectives.

The objectives for 2021 were built around strategic priorities (as identified in our 2020 Annual Report) and cultural indicators. Performance against these objectives for both Executive Directors was considered to be strong, with the delivery of key objectives in a challenging and uncertain year.

The objectives set at the start of the year and the Committee's assessment of performance against them are set out below:

	Objectives	Key achievements
CEO	Deliver the Purpose, Vision and Values across the Group whilst demonstrating role model behaviours considering the perspective of all stakeholders.	Lived the OSB Group Values, leading by example and ensuring employees understood the behaviours expected of them through the pandemic.
	Oversee the progression of the 2021 strategic objectives in line with the Board-approved operating plan and as underpinned by a medium-term goal to maintain the Group's franchises and brands, maintain a strong capital base and position the Group to maximise opportunities, throughout a period of anticipated economic uncertainty.	2021 strategic objectives delivered through economic uncertainty with strong financial performance achieved and progress on operational activities as described in full in the Strategic Report (from page 10).
	Maintain strong relationships with key stakeholders including regulators and investors.	Strong support from investors during 2021 with open and transparent relationship with regulators.
	Ensure cost synergies for the Combination with CCFS are delivered in line with strategic plan.	Integration of CCFS with OSB continues to be delivered on track, including with respect to cost synergies.
CFO	Oversee the progression of the 2021 strategic objectives in line with the Board-approved operating plan and as underpinned by the medium-term goal to maintain the Group's franchises and brands, maintain a strong capital position and position the Group to maximise opportunities throughout a period of anticipated economic uncertainty.	2021 strategic objectives delivered through economic uncertainty with strong financial performance achieved and progress on operational activities as described in full in the Strategic Report (from page 10).
	Successfully deliver planned harmonisation and integration activities across Finance, Human Resources and Treasury.	Key harmonisation and integration projects across Finance, HR and Treasury departments delivered efficiently during 2021.
	Strengthen the Banks' capital and funding management.	Capital and funding management processes have been reviewed and improved to strengthen the Banks for the future.

	Objectives	Key achievements
	Maintain strong relationships with key stakeholders including regulators and investors.	Strong support from investors during 2021 with open and transparent relationship with regulators.
	Ensure cost synergies for the Combination with CCFS are delivered in line with strategic plan.	Integration of CCFS with OSB continues to be delivered on track, including with respect to cost synergies.

Based on this performance, the Committee determined that 10% of a possible 10% for the individual element of the bonus should be paid to each of the CEO and CFO.

2021 bonus scheme payout

Taking into account the performance against the Balanced Business Scorecard and individual objectives, the CEO and CFO therefore each earned 86.83% of maximum (95.5% of salary). This assessment and payout is consistent with the payout under employee plans throughout the business. In line with regulatory requirements, half of the bonus will be paid in cash with the remainder deferred into shares with the majority released after three years and the remainder vesting in equal tranches over three to seven years.

Long-term incentive plan (audited)

The 2019 LTIP award was granted on 14 March 2019 and measured performance over the three financial years to 31 December 2021. Awards will vest after publication of this report, based on the EPS, TSR and RoE performance, at 87.16% of maximum, as set out below.

Given that the Combination with CCFS completed early in the performance period (c. nine months into a 36-month performance period), the Committee determined that the EPS and RoE targets should be assessed on a combined basis against targets that were no tougher or easier to achieve based on the business plan immediately before and after the Combination (the adjustments were agreed by the Committee and the Chair of the Group Audit Committee).

Performance level	Percentage of that part of the award vesting	EPS element[1] (40% of total award)	EPS performance	Vesting of EPS part (40% of total award)	Relative TSR (40% of total award)	Relative TSR performance versus FTSE 250 constituents	Vesting of TSR part (40% of total award)	Average RoE[2,3] (20% of total award)	Average RoE performance	Vesting of RoE part (20% of total award)
Below 'threshold'	0%	Less than 64.7p (5% CAGR)	86.7p	100%	Below median	51 out of 161	82.9%	19.6%	22.6%	70.0%
'Threshold'	25%	64.7p (5% CAGR)			Median			19.6%		
'Stretch'	100%	74.9p (10% CAGR)			Upper quartile			24.6%		

1. EPS targets were set in 2019 prior to the Combination with CCFS based on a 'Threshold' target of 5% CAGR and a 'Stretch' target of 10% CAGR measured from the 2018 base year.
2. RoE targets were set in 2019 prior to the Combination with CCFS based on achieving average RoE over 2018, 2019 and 2020 of between 20% for 'Threshold' vesting and 25% for 'Stretch' vesting.
3. The RoE performance condition is based on the average RoE over the three-year performance period and is subject to an underpin requiring that the CET1 ratio is not below the Board-approved minimum requirement, which has been met.

The Committee is comfortable that the level of vesting is in line with underlying performance, risk appetite, individual conduct and shareholder experience over the performance period. As such, the awards will vest in March 2022, with the shares subject to a two-year holding period.

The 2019 PSP awards will therefore vest as follows:

Executive Directors	Number of shares granted	Number of shares due to vest	Number of shares lapsed	Value from share price increase/ (decrease)[1]	Total value vesting[2]
Andy Golding	199,959	174,284	25,675	210,814	890,662
April Talintyre	134,703	117,407	17,296	142,016	599,997

1. Value of share price increased/(decreased) based on a £3.9008 share price at the time of grant of the award compared to the three-month average share price of £5.1104 to 31 December 2021. The Committee is comfortable that discretion is not required as a result of share price appreciation.
2. Value of shares based on a three-month average share price of £5.1104 to 31 December 2021. This value will be restated next year based on the actual share price on the date of vesting. Dividend equivalents are not paid under the Performance Share Plan.

Executive pay outcomes in context

Percentage change in the remuneration of the Directors (audited)

The table below sets out the percentage change in base salary, value of taxable benefits and bonus for all the Directors compared with the average percentage change for employees. For these purposes, UK employees who have been employed for over a year (and therefore eligible for a salary increase) have been used as a comparator group as they are the analogous population (based on service and location). The percentage change for Executive and Non-Executive Directors is calculated based on the remuneration disclosed in the single figure tables on page 155. The percentage is not included for Non-Executive Directors who joined the Board in the year as the disclosure would not be meaningful. The changes to salary/fees between 2019 and 2020 are as a result of changes made to pay arrangements following the Combination of OSB with CCFS, which also is the reason for the increase in salary for the CEO between 2020 and 2021 when the second stage of his phased increase was implemented. There have been no material changes to the benefits between 2019 and 2020 or between 2020 and 2021. The reduction in bonus for Executive Directors and employees between 2019 and 2020 is as a result of the pandemic impacting the 2020 BBS performance and the Directors waiving the cash portion of their bonus. The increase in annual bonus between 2020 and 2021 is as a result of strong performance in 2021 as the business performed strongly across the BBS in 2021, whereas the payout in 2020 was lower due to the pandemic impacting performance.

	Salary / NED fees		Taxable benefits		Annual bonus	
	2019/20	2020/21	2019/20	2020/21	2019/20	2020/21
UK employees	5.5%	5.1%	0%	21.87%[3]	-27.5%	34%
CEO	42.4%	10.9%	0%	0.6%	-71.9%	366.1%
CFO	44.1%	1.6%	0%	0%	-71.5%	330.1%
Graham Allatt	25.3%	0.9%	0%	0%	n/a	n/a
Noël Harwerth[1]	n/a	0.9%	n/a	285%[4]	n/a	n/a
Sarah Hedger[2]	n/a	(1,2%)	n/a	n/a	n/a	n/a
Rajan Kapoor[1]	n/a	(1.7%)	n/a	n/a	n/a	n/a
Mary McNamara	16.2%	0%	0%	n/a	n/a	n/a
David Weymouth	16.7%	2.7%	0%	n/a	n/a	n/a

1. Noël Harwerth and Rajan Kapoor joined the Board in October 2019.
2. Sarah Hedger joined the Board in February 2019.
3. Relates to the broader provision of our medical cash plan and the revision of car allowances following the harmonisation of benefits post Combination.
4. This relates to taxable travel expenses of £631.

Comparison of Company performance and CEO remuneration (audited)

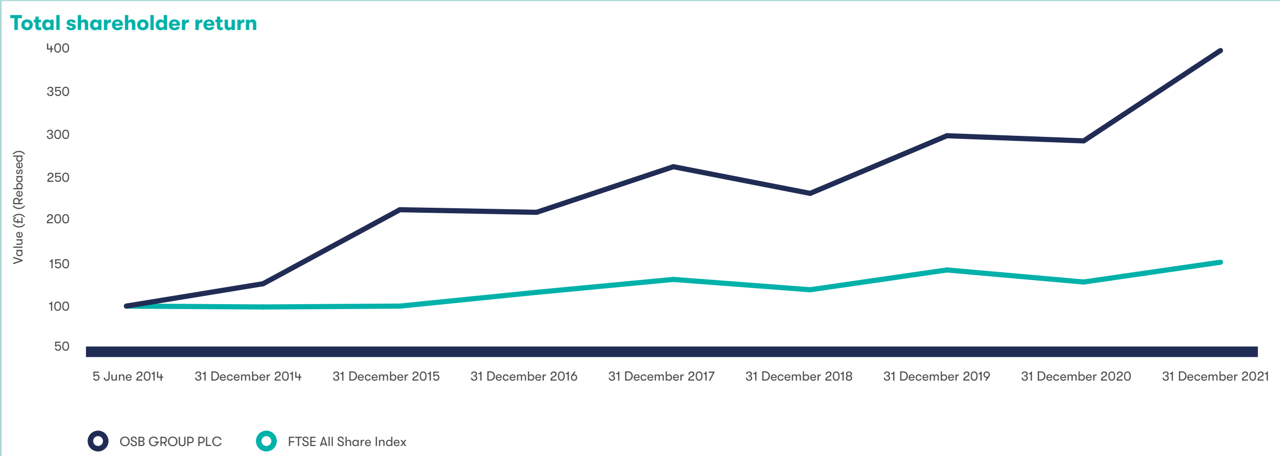
The following table summarises the CEO single figure for total remuneration, annual bonus and LTIP payout as a percentage of maximum opportunity for the period between 2013 and 2021.

	2013	2014	2015	2016	2017	2018	2019	2020[1]	2021
Annual bonus (% of maximum opportunity)	92.5%	92.63%	93.00%	88.75%	85.00%	91.75%	75.89%	20.60%	86.83%
LTIP vesting (% of maximum opportunity)	–	–	–	–	100.00%	50.00%	75.1%	62.74%	87.16%
CEO single figure of remuneration (£'000)	518	777	848	910	1,614	1,602	1,382	1,510	2,571

1. The cash portion of the 2020 bonus was waived by the Executive Directors before they became entitled to it. As such, only the share portion of the 2020 bonus was payable (i.e. half of the bonus of 41.2% of maximum).

Total shareholder return

The chart opposite shows the TSR performance of the Company over the period from listing to 31 December 2021 compared to the performance of the FTSE All Share Index. This index is considered to be the most appropriate index against which to measure performance as the Company has been a member of this index since Admission of OneSavings Bank plc to the London Stock Exchange.



This graph shows the value, at 31 December 2021, of £100 invested in OneSavings Bank plc on Admission (5 June 2014) and following the insertion of a new holding company in November 2020, the shares of OSB GROUP PLC, compared with the value of £100 invested in the FTSE All Share Index on the same date. The other points plotted are the values at intervening financial year ends.

Source: Datastream (Refinitiv)

CEO pay ratios

The ratio of the CEO's single figure of total pay to median employee pay is set out in the table below. The ratio has been calculated in accordance with methodology B as it is the same pay data for employees as is used for the gender pay gap analysis and is based on pay and benefits as at 5 April each year. Full-time equivalent pay for individuals that do not work full time has been calculated by increasing their pay pro-rata to that of a full-time individual. No further estimates or adjustments have been made. The employees identified are considered to be representative of the quartile positions as their total pay is in line with expected positioning and the proportion of fixed pay to variable pay is also in line with other individuals at those levels.

The median ratio decreased in the period between 2017 and 2019 as a result of a combination of factors, which resulted in the total pay for the median individual within the workforce increasing, including positive changes to the Group's pay policy and changes in the employee population between 2018 and 2019. The decrease in the ratio between 2018 and 2019 was also due to the decrease in total pay for the CEO.

The median ratio increased between 2019 and 2020 largely as a result of the decrease in the total pay for the median employee. This was primarily as a result of OSB's Combination with CCFS, which resulted in the UK employee population, with whom the CEO is compared, doubling in size. The increase in the ratio between 2020 and 2021 is primarily due to changes in the CEO pay, which has increased as a result of the staged salary increase upon Combination with CCFS; and due to higher incentive payouts than 2020, which were adversely impacted by COVID-19.

There has been no change to the Group's employment models during this period and the median ratio is consistent with the pay, reward and progression policies within the Company. The Directors' pay is set by the Committee with reference to both the internal relativities across the Group and taking into account external market benchmarks. As such, the pay ratio is considered appropriate and is not considered excessive, particularly when compared to other listed financial services companies.

CEO pay ratio	2017	2018	2019	2020	2021
Method	B	B	B	B	B
CEO single figure	1,614	1,602	1,382	1,510	2,571
Upper quartile	62.1	59.5	54.6	51.6	82.2
Median	**46.1**	**40.1**	**32.0**	**42.1**	**56.1**
Lower quartile	24.8	22.3	22.5	28.1	35.9

2021	Basic salary (£'000)	Total pay (£'000)
CEO	815	2,571
Lower quartile – Employee A	26	31
Median – Employee B	37	46
Upper quartile – Employee C	58	72

Relative importance of the spend on employee pay (audited)

The table below shows the Company's total employee remuneration (including the Directors) compared to distributions to shareholders and operating profit before tax for the year under review and the prior year. In order to provide context for these figures, underlying operating profit as a key financial metric used for remuneration purposes, is shown.

	2021	2020
Total employee costs	**£92.5m**	£86.0m
Distributions to shareholders[1]	**£86.7m**	£64.9m
Underlying profit before tax (PBT)	**£522.2m**	£346.2m
Total employee costs vs PBT	**17.7%**	24.8%
Average headcount	**1,755**	1,816
Average PBT per employee	**£297,550**	£190,639

1. See note 17 to the financial statements.

Other disclosures relating to 2021 executive remuneration

Scheme interests awarded during the financial year (audited)

The table below shows the conditional share awards made to Executive Directors in 2021 under the PSP and the performance conditions attached to these awards. The Committee has discretion to adjust the vesting level to ensure that the reward level reflects underlying performance, risk and individual conduct. There will be full disclosure of the Committee's deliberations on these matters in the 2023 Directors' Remuneration Report. The Awards will vest 20% each year between three and seven years after grant, with each vested tranche subject to a one-year holding period:

Executive	Face value of award (percentage of salary)	Face value of award	Number of shares[1]	Percentage of awards released for achieving threshold targets	End of performance period	Performance conditions[2] (weighting)
Andy Golding	110%	£896,499	181,404	25%	31 December 2023	EPS (35%) TSR (35%)
April Talintyre	110%	£561,001	113,517			RoE (15%) Non-financial/Risk (15%)

1. The number of shares awarded was calculated using a share price of £4.9420 (the closing price on the dealing day before grant on 15 April 2021).
2. Performance conditions are: (i) 35% TSR versus the FTSE 250 (25% vesting for median performance increasing to maximum vesting for upper quartile performance); (ii) 35% EPS (25% vesting for growth in EPS of 7% per annum increasing to maximum vesting for 16% per annum); (iii) 15% RoE (25% vesting for average RoE of 17% increasing to maximum vesting for an average of 23%); and (iv) 15% non-financial/risk scorecard, performance for which is commercially sensitive (full disclosure will be provided retrospectively).

All-employee share plans (audited)

Executive	Date of grant	Exercise price	Market price 31 December 2021	Exercisable from	Exercisable to	Number of options granted	Number of options as at 31 December 2021
Andy Golding	28 October 2020	£2.29013	£5.5450	1 December 2023	1 June 2024	7,859	7,859
April Talintyre	28 October 2020	£2.29013	£5.5450	1 December 2023	1 June 2024	7,859	7,859

Statement of Directors' shareholdings and share interests (audited)

Total shares owned by Directors:

	Interest in shares		Interest in share awards[1]		Shareholding requirements	
	Beneficially owned at 1 January 2021	Beneficially owned at 31 December 2021	Without performance conditions at 31 December 2021[2]	Subject to performance conditions as at 31 December 2021	Shareholding requirement (percentage of basic salary)	Current shareholding (percentage of basic salary)[3]
Executive Directors						
Andy Golding	595,895	505,787	237,298	694,298	250%	435% (Met)
April Talintyre	268,122	325,855	159,487	461,101	200%	455% (Met)
Non-Executive Directors						
Rajan Kapoor	19,970	19,970	–	–	–	–
Mary McNamara[4]	66,850	66,850	–	–	–	–
David Weymouth	18,678	18,678	–	–	–	–
Graham Allatt	–	–	–	–	–	–
Noël Harwerth	–	–	–	–	–	–
Sarah Hedger	–	–	–	–	–	–

1. Vested shares are held in a corporate nominee account and are subject to the relevant retention periods. This account is also used to monitor current and post employment shareholding guidelines. The details of share options relating to the Executive Directors are set out on page 160. None of the current Directors hold vested but unexercised share options and no share options have been exercised during 2021.
2. Includes DSBP awards granted on 15 April 2021 at a price of £4.9420 (CEO: 33,709 shares and CFO: 22,932 shares).
3. Shareholding based on the closing share price on 31 December 2021 (£5.5450) and year-end salaries; it also includes interest in share awards without performance conditions (net of tax).
4. Includes 27,500 shares that are owned by spouse.

The Company operates an anti-hedging policy under which individuals are not permitted to enter into any personal hedging strategies in relation to shares subject to a vesting and/or retention period.

External appointments

Andy Golding is a Director/Trustee of the Building Societies Trust Limited. He receives no remuneration for this position.

Payments to departing Directors (audited)

There were no payments made to past Directors during 2021.

How we will implement the Remuneration Policy for Directors in 2022

The Committee consider the Policy to be operating effectively and as such there are no material changes proposed for the operation of the Remuneration Policy in the full year for 2022, which will be as follows:

Salary

The salaries for the CEO and CFO will be increased in 2022 by 4% to £847,600 and £530,400 respectively, which is below the average workforce percentage increase of at least 5% that is generally linked to inflation.

Annual bonus

The 2022 annual bonus will be subject to a maximum limit of 110% of salary. The performance measures have been set in line with the Balanced Business Scorecard. The Staff quadrant has been re-categorised as an ESG quadrant, with the broader metrics included with respect to reducing the Group's carbon footprint and for the first time an ethnic diversity metric is also included. The Personal objectives are in line with key areas of focus for the year ahead and include embedding an ESG strategy and framework within the business.

The weightings are split between the four quadrants and individual objectives to provide a balanced assessment of performance for the year over key drivers of the long-term sustainable success of the Group. Accordingly, the balance of the metrics is set out on the following page 162.

Performance targets are considered to be commercially sensitive so will not be published in advance. However, there will be full disclosure of the targets set and the extent of their achievement in the 2022 Annual Report on Remuneration. The Committee may apply discretion to adjust the resultant bonus if the result fails to reflect broader performance and the wider shareholder experience.

Half of any bonus will be delivered in shares and cannot be sold for at least three years.

Financial	Customer	Quality	ESG	Individual objectives
Sustainable financial growth of the business through attractive margins and exceptional returns, measured across a range of financial indicators	Helping our customers and communities to prosper in line with our purpose	Strong governance and quality of the business underpins our operations	To support our purpose	Tailored to behaviour in line with our values and strategic priorities including ESG
50% of bonus opportunity	15% of bonus opportunity	15% of bonus opportunity	10% of bonus opportunity	10% of bonus opportunity
Underlying PBT All-in RoE[1] Cost to income ratio[1] Net loan book growth	Customer satisfaction[1] Broker satisfaction Complaints	Overdue management actions Arrears High-severity incidents	Carbon emissions Gender diversity Ethnic diversity Employee engagement	Vary by Executive Details of objectives (and performance against these) will be disclosed retrospectively in next year's report

1. Key performance indicators (see pages 2 to 3).

Performance Share Plan

PSP awards of 110% of salary will be made to the Executive Directors with performance being measured over the three-year period to 31 December 2024. Performance will be assessed against the same performance metrics and weightings as 2021 awards being based on relative TSR versus the FTSE 250 (35% weighting), adjusted EPS growth (35% weighting), Return on Equity (15% weighting) and Non-financial/Risk (15% weighting). The metrics and weightings provide a balanced assessment of corporate performance over three-year periods taking into account financial, share price and non-financial metrics. The discretionary assessment at the time of vesting ensures that the level is in line with underlying performance, risk appetite and individual conduct over the period.

The adjusted EPS growth and average RoE target ranges for the period to 2024 have been set taking into account the business plan, external operating environment and market expectations. The EPS target range has a threshold target of 3% CAGR with a stretch target of 10% CAGR. Whilst this would represent a significant increase in the level of EPS performance (in pence per share), these growth rates are lower than those used for previous awards because the 2021 results (which are used as the base year) benefitted from a number of significant items, including the net release of provisions for expected credit losses and fair value gains. Excluding these items, the EPS growth targets would be more aligned with the ranges used for historical awards (other than the range set for the 2021 awards which we already reported was significantly higher than normal as the 2020 base year was adversely impacted by COVID-19 and other factors). The Committee is comfortable that the 2022 targets provide an appropriate level of stretch taking into account all relevant factors. Similarly, the average RoE target which determines the vesting of 15% of the award has been set with a 17% average required for threshold vesting and a 23% average for stretch vesting. These remain market leading levels of return. Similarly, the average RoE target which determines the vesting of 15% of the award has been set with a 17% average required for threshold vesting and a 23% average for Stretch vesting. These remain market leading levels of return.

Overall, the Committee is comfortable that these targets provide the appropriate stretch and link between pay and performance delivered; and are at least as stretching as target ranges in prior years.

Metrics	Weighting	Threshold (25% of maximum)	Stretch (100% of maximum)	Rationale
Adjusted EPS growth[1]	35%	3% CAGR	10% CAGR	Measures the sustainable financial growth of the business
Relative TSR versus FTSE 250	35%	Median	Upper quartile	Measures the success of the Company versus other listed companies
Average RoE[1]	15%	17%	23%	Measures the sustainable financial growth of the business
Non-financial/Risk	15%	See below		Strong governance and quality of the business underpins our operations

1. Key performance indicators (see pages 2 to 3). No vesting below threshold and pro-rata vesting between threshold and stretch.

For the risk-based measure, the Committee will assess the risk management performance with regard to all relevant risks including, but not limited to, conduct, credit, funding, liquidity, market, operational and regulatory risk. There will be full retrospective disclosure of the Committee's assessment.

Awards will vest 20% each year between three and seven years after grant, with each vested tranche subject to a one-year holding period.

Share ownership guidelines

The CEO and the CFO are required to accumulate and maintain a holding in ordinary shares in the Company equivalent to no less than 250% of salary and 200% of salary, respectively. This is calculated on the basis of the value of beneficially owned shares plus the net of tax value of deferred bonus shares or any other unvested share awards which are not subject to performance conditions. Half of any vested share awards must be retained until the guideline is achieved. Based on the current share price, the CEO and CFO hold shares in excess of these levels. From 2020, the guidelines also apply for two years following cessation of employment.

Chairman and Non-Executive Director fees

The fees for the Chairman and NEDs were reviewed and the rates for 2022 are set out below. The fee payable to the Chairman was reviewed by the Committee and it agreed that the fee for 2022 would be increased to £330,000 from £300,000. The fees payable to the NEDs were also reviewed by the Board (minus the NEDs) during 2021 and for 2022 the base fee will be increased to £80,000 (from £70,000) and the fees for membership of the Group Audit, Remuneration and Risk Committees will be increased to £7,500 (from £5,000). The increases were considered appropriate by the Board to reflect the time and responsibilities of the NED roles, taking into account the increased size of the business since they were last reviewed, the greater fiduciary responsibilities and the degree of regulatory responsibilities involved in discharging the duties at a proportionality level 2 bank. The fees were last reviewed in 2020 following the Combination of OSB with CCFS and no increases were provided in 2021. The fees remain in line with other listed banks of a similar size to OSB Group. Sarah Hedger has been appointed as the ESG Champion to provide independent input into the Group's ESG strategy and will receive an additional fee of £7,500 for this role.

Base fees	£'000
Chairman[1]	330
Non-Executive Director	80
Senior Independent Director	20

Additional Board Committee fees	Chair	Member
Group Nomination and Governance Committee	20	5
Group Audit Committee	30	7.5
Group Remuneration Committee	30	7.5
Group Risk Committee	30	7.5
Group Models and Ratings Committee	10	5

1. The Chairman's fee is inclusive of all duties; no additional Chair or Member fees are paid in relation to Board Committees.

Statement of voting at the Annual General Meeting

Shareholders were asked to approve the 2020 Annual Report on Remuneration and the Directors' Remuneration Policy at the 2021 AGM. The votes received are set out below:

Resolution	Votes for	% of votes cast	Votes against	% of votes cast	Total votes cast	Votes withheld
To approve the 2020 Remuneration Report (2021 AGM)	379,171,085	99.28%	2,750,405	0.72%	381,921,490	3,211
To approve the Remuneration Policy (2021 AGM)	380,816,449	99.98%	65,570	0.02%	380,882,019	1,025,114

Major shareholders and shareholder advisory bodies were consulted in early 2021, to offer an opportunity for them to provide the Committee with feedback on the proposed approach for 2021 and with respect to the fact that the same Remuneration Policy was being re-submitted in line with legal requirements, following the insertion of a new legal entity as the listed entity and holding company for the Group. There were no concerns raised.

Approval

This report was approved by the Board of Directors (on the recommendation of the Group Remuneration Committee) and signed on its behalf by:

Mary McNamara
Chair of the Group Remuneration Committee
17 March 2022

Share capital and rights attaching to shares

The Company had 448,627,855 ordinary shares of £0.01 each in issue as at 31 December 2021.

On 26 February 2021, the nominal value of the ordinary shares was reduced from £3.04 each to £0.01 each.

Further details relating to share capital can be found in note 43.

Without prejudice to any special rights previously conferred on the holders of any existing shares or class of shares, any share in the Company may be issued with such rights (including preferred, deferred or other special rights) or such restrictions, whether in regard to dividend, voting, return of capital or otherwise as the Company may from time to time by ordinary resolution determine (or, in the absence of any such determination, as the Directors may determine).

Authorities to allot and pre-emption rights

On 27 May 2021, shareholders re-established the general authority for the Directors to allot up to £1,493,317.65 of the nominal value of ordinary shares of £0.01 each. In addition, shareholders gave authority for the Directors to grant rights to subscribe for, or to convert any security into, regulatory capital convertible instruments up to £537,594.06 of the nominal value of ordinary shares equivalent to 12% of issued share capital.

Repurchase of shares

The Company has an unexpired authority to repurchase ordinary shares up to a maximum of 44,799,505 ordinary shares. The Company did not repurchase any of its ordinary shares during 2021 (2020: none). On 17 March 2022, the Company announced that it will commence a £100m share repurchase programme over 12 months.

Employee share schemes

The details of the Company's employee share schemes are set out on pages 149 and 150 in the Directors' Remuneration Report and in the Employee engagement section below.

Results, dividends and dividend waiver

The results for the year are set out in the Statement of Comprehensive Income on page 180. Our dividend policy for 2022 remains a payout ratio of at least 25% of underlying profit after taxation to ordinary shareholders. The Directors recommend the payment of a final dividend of 21.1 pence per share payable on 18 May 2022, subject to approval at the AGM on 12 May 2022, with an ex-dividend date of 24 March 2022 and a record date of 25 March 2022 (2020: 14.5 pence total dividend).

The OSB GROUP PLC Employee Benefit Trust, which holds 848,221 shares in the Company in connection with the operation of the Group's share plans, has lodged standing instructions to waive dividends on shares held by it that have not been allocated to employees. The total amount of dividends waived during 2021 was £185,476.

Directors and Directors' interests

The names of the Directors who served during the year can be found in the attendance chart on page 122.

Directors' interests in the shares of the Company are set out on page 161 in the Directors' Remuneration Report. None of the Directors had interests in shares of the Company greater than 0.33% of the ordinary shares in issue. There have been no changes to Directors' interests in shares since 31 December 2021.

Equal opportunities

The Group is committed to applying its Diversity and Inclusion Policy at all stages of recruitment and selection. Short-listing, interviewing and selection will always be carried out without regard to gender, gender reassignment, sexual orientation, marital or civil partnership status, colour, race, nationality, ethnic or national origins, religion or belief, age, pregnancy or maternity leave or trade union membership. Any candidate with a disability will not be excluded unless it is clear that the candidate is unable to perform a duty that is intrinsic to the role, having taken into account reasonable adjustments. Reasonable adjustments to the recruitment process will be made to ensure that no applicant is disadvantaged because of his/her disability. Line Managers conducting recruitment interviews will ensure that the questions they ask job applicants are not in any way discriminatory or unnecessarily intrusive. This commitment also applies to existing employees, with the necessary adjustments made, where there is a change in circumstances.

Employee engagement

Employees are kept informed of developments within the business and in respect of their employment through a variety of means, such as employee meetings, briefings and the intranet. Employee involvement is encouraged and views and suggestions are taken into account when planning new products and projects.

The Sharesave 'save as you earn' Scheme is an all-employee share option scheme which is open to all UK-based employees. The Sharesave Scheme allows employees to purchase options by saving a fixed amount of between £10 and £500 per month over a period of either three or five years, at the end of which the options, subject to leaver provisions, are usually exercisable (options granted prior to 2021 have a lower limit of £5 and only a three-year scheme will be offered from 2021 onwards). The Sharesave Scheme has been in operation since June 2014 and options are granted annually, with the exercise price set at a 20% discount of the share price on the date of grant.

A Workforce Advisory Forum (known as OneVoice) is in place to gather the views of the workforce to enable the Board and Group Executive Committee to consider a broadly representative range of stakeholder perspectives to guide strategic decisions for the future of the Group. OneVoice consists of volunteer representatives (of which there are 30 in total) from each of the various business areas and locations, as well as permanent members including a designated NED, Mary McNamara; a member of the Group Executive Committee, Jason Elphick; and a representative from HR Management. Other NEDs and members of the Group Executive Committee are invited to attend meetings throughout the year.

Members of the Board are keen to engage with our employees across all locations and find the experience of visiting our branches and offices within the UK and India invaluable; however, due to travel restrictions being in place throughout 2021 as a result of the ongoing impact of COVID-19, these visits have not been physically possible for most of the year. It is hoped that now restrictions have been lifted, visits to branches and offices will resume.

Further information in relation to the Board's engagement with the Group's stakeholders including customers, intermediaries, shareholders, suppliers, regulators and communities, can be found on pages 16 to 19.

During 2021, four OneVoice meetings were held. In advance of each meeting, employee representatives are encouraged to engage with employees within their nominated business areas and across all Group locations to identify topics impacting the workforce, which it is felt should be brought to the attention of the Board and Group Executive Committee. A number of items were considered and discussed by OneVoice, including the 2021 Financial Services Culture Board survey results and COVID-19, as well as topics relating to ESG matters such as culture, diversity and inclusion, diversity and recruitment at senior levels, general well-being and mental health first aiders within the workplace, governance of pay within the Group and return to office arrangements. The permanent members of OneVoice were particularly interested in feedback from the workforce on employee morale, employee engagement and the new Stewardship value.

The Group is committed to diversity and to making sure everyone in our business feels included. The Diversity and Inclusion Working Group continued to develop the Group's Diversity and Inclusion Strategy in line with the Respect Others value throughout 2021. The Diversity and Inclusion Working Group brings together a broad mix of employees (26 members) from across the UK business, as well as representation from OSB India, to drive our diversity and inclusion agenda to appreciate differences in age, gender, ethnicity, religion, disability, sexual orientation, education, socio-economic background and national origin and ensure that all employees are treated fairly, with respect and given equal opportunities. Jason Elphick, our Diversity Champion, along with the Diversity and Inclusion Working Group, hosted a number of activities throughout the year including International Women's Day, attended by our SID (Noël Harwerth) and Group Chief Internal Auditor (Lisa Odendaal), menopause training, mental health first aid and a Q&A session during National Inclusion Week with attendance from the Chair of the Group Audit Committee, Rajan Kapoor and Chair of the Group Remuneration Committee and designated NED for employee matters, Mary McNamara. Members and colleagues from the working group also shared their experiences and reflected on what it meant to them to be #unitedforinclusion, the theme for National Inclusion Week in 2021.

Further details can be found in the on pages 95 to 103.

Greenhouse gas emissions

Information relating to greenhouse gas emissions, energy consumption and actions towards energy efficiency can be found on pages 76 to 85.

Political donations

Shareholder authority to make aggregate political donations not exceeding £50,000 was obtained at the AGM on 27 May 2021. Neither the Company nor any of its subsidiaries made any political donations during the year.

Notifiable interests in share capital

At 31 December 2021, the Company had received the following notifications of major holdings of voting rights pursuant to the requirements of Rule 5 of the Disclosure Guidance and Transparency Rules:

	No. of ordinary shares	% of issued share capital
Jupiter Fund Management Plc[1]	53,042,940	11.81
Standard Life Aberdeen	25,088,457	5.61
Elliot Investment Management, L.P.	22,197,844	4.95
Eleva Capital SAS[2]	14,851,300	3.32
Norges Bank[3]	13,383,341	2.99

GLG Partners LP gave notice that its shareholding fell below the notifiable threshold.

Since 31 December 2021, the Company received the following notifications:

- On 11 February 2022, Jupiter Fund Management Plc[1] notified that it had reduced its shareholding to 49,368,489 ordinary shares.

– On 18 February 2022, Jupiter Fund Management Plc[1] further notified that it had reduced its shareholding to 49,124,656 ordinary shares.

– On 11 March 2022, Jupiter Fund Management Plc[1] further notified that it had reduced its shareholding to 44,811,775 ordinary shares.

1. Includes up to 0.03% of financial instruments.
2. Includes 1.0% of financial instruments.
3. Includes 0.01 % of financial instruments.

Annual General Meeting

Accompanying this report is the Notice of the AGM which sets out the resolutions to be proposed to the meeting, together with an explanation of each. This year's AGM will be held at our offices at 90 Whitfield Street, Fitzrovia, London W1T 4EZ on 12 May 2022 at 11am.

Other information

Likely future developments in the Group are contained in the Strategic Report on pages 10 to 113.

Information on financial instruments including financial risk management objectives and policies including the policy for hedging the exposure of the Group to price risk, credit risk, liquidity risk and cash flow risk can be found in the Risk review on pages 69 to 73.

Details on how the Company has complied with section 172 can be found throughout the Strategic and Directors' Reports and on page 16 to 19.

Details relating to post-balance sheet events are set out in note 52.

Going concern statement

The Board undertakes regular rigorous assessments, in accordance with the 'Guidance on Risk Management, Internal Control and Related Financial and Business Reporting', published by the Financial Reporting Council in September 2014, of whether the Group is a going concern in light of current economic conditions and all available information about future risks and uncertainties.

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

The assessments include the following:

- Financial and capital forecasts were prepared under stress scenarios, which were assessed against the latest economic forecasts provided by the Group's external economic advisors. Reverse stress tests were also run, to assess what combinations of House Price Index (HPI) 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 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.
- The Group continues to assess the resilience of its business operating model and supporting infrastructure in the context of the emerging economic, business and regulatory environment. The key areas of focus continue to be on the provision of critical services to customers, employee health and safety and evolving governmental policies and guidelines. The Group continues to invest in its information technology platforms to support its employees with flexible working from office or homeworking across all locations within a hybrid working model. The Group's response to the COVID-19 pandemic demonstrated the inherent resilience of the Group's critical processes and infrastructure. It also highlighted the necessary agility in responding to changing operational demands. The operational dependencies on third party vendors and outsourcing arrangements continue to be an important area of focus.

The Group's financial projections demonstrate that the Group has sufficient capital and liquidity to continue to meet its regulatory 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.

Key information in respect of the Group's SRMF and objectives and processes for mitigating risks, including liquidity risk, are set out in detail on pages 50 to 57.

Approved by the Board and signed on its behalf by:

Jason Elphick
Group General Counsel and Company Secretary
OSB GROUP PLC
Registered number: 11976839
17 March 2022

Statement of Directors' Responsibilities
in respect of the Annual Report and the financial statements

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
17 March 2022

Financial Statements and Notes

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...the operational and financial performance of OSB Group, and delivery of record profits, prove once again the resilience of our strategy and business model...

Independent Auditor's Report
To the Members of OSB GROUP PLC

Report on the audit of the financial statements

1. Opinion

In our opinion:

- the financial statements of OSB GROUP PLC (the 'parent company') and its subsidiaries (the 'Group') give a true and fair view of the state of the Group's and of the parent company's affairs as at 31 December 2021 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with United Kingdom adopted international accounting standards;
- the parent company financial statements have been properly prepared in accordance with United Kingdom adopted international accounting standards and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the consolidated statement of comprehensive income;
- the consolidated and parent company statements of financial position;
- the consolidated and parent company statements of changes in equity;
- the consolidated and parent company statements of cash flow;
- the related notes 1 to 55 of the consolidated financial statements; and
- the related notes 1 to 6 of the parent company financial statements.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom adopted international accounting standards and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

2. Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the Group and the parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We confirm that we have not provided any non-audit services prohibited by the FRC's Ethical Standard to the Group or the parent company.

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

3. Summary of our audit approach

Key audit matters	The key audit matters that we identified in the current year were: • loan impairment provisions; and • effective interest rate income recognition. Within this report, key audit matters are identified as follows: Newly identified Increased level of risk Similar level of risk Decreased level of risk
Materiality	The materiality that we used for the Group financial statements was £20m which was determined by reference to profit before tax and net assets.
Scoping	Our Group audit scope focused primarily on three subsidiaries subject to a full scope audit. The subsidiaries selected for a full scope audit were OneSavings Bank plc, Charter Court Financial Services Limited and Interbay ML Ltd. These three subsidiaries account for 97% of the Group's total assets, 99% of the Group's total liabilities, 98% of the Group's interest receivable and similar income and 96% of the Group's profit before tax.
Significant changes in our approach	In the prior year, our key audit matter in respect of loan impairment provisions included the probability of default (PD) related to borrowers who had taken advantage of payment holidays and the Group's newly implemented approach to indexing OneSavings Bank's commercial properties. As the payment holiday scheme has now ended and the Group's approach to indexing OneSavings Bank's commercial properties is established, these areas no longer feature in our loan impairment provisions key audit matter.

4. Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Our evaluation of the directors' assessment of the Group's and parent company's ability to continue to adopt the going concern basis of accounting included:

- We obtained and read management's going concern assessment, which included consideration of the Group's operational resilience, in order to understand, challenge and evidence the key judgements made by management;
- We obtained an understanding of relevant controls around management's going concern assessment;
- We obtained management's income statement, balance sheet and capital and liquidity forecasts and challenged key assumptions and their projected impact on capital and liquidity ratios, particularly with respect to loan book growth and potential credit losses;
- Supported by our in-house prudential risk specialists, we read the most recent ICAAP and ILAAP submissions, assessed management's capital and liquidity projections, assessed the results of management's capital reverse stress testing, challenged key assumptions and methods used in the capital reverse stress testing model and tested the mechanical accuracy of the capital reverse stress testing model;
- We read correspondence with regulators to understand the capital and liquidity requirements imposed by the Group's regulators, and evidence any changes to those requirements;
- We met with the Group's lead regulators, the Prudential Regulation Authority and the Financial Conduct Authority, and discussed their views on existing and emerging risks to the Group and we considered whether these were reflected appropriately in management's forecasts and stress tests;
- We assessed the historical accuracy of forecasts prepared by management; and
- We assessed the appropriateness of the disclosures made in the financial statements in view of the FRC guidance.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Group's and parent company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In relation to the reporting on how the Group has applied the UK Corporate Governance Code, we have nothing material to add or draw attention to in relation to the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

5. Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

5.1. Loan impairment provisions

Refer to the judgements in applying accounting policies and critical accounting estimates on page 194 and note 24 on page 207.

Key audit matter description

IFRS 9 requires loan impairment provisions to be recognised on an expected credit loss (ECL) basis. The estimation of ECL provisions in the Group's loan portfolios is inherently uncertain and requires management to make significant judgements and estimates. ECL provisions as at 31 December 2021 were £101.5m (2020: £111.0m), which represented 0.48% (2020: 0.58%) of loans and advances to customers. ECLs are calculated both for individually significant loans and collectively on a portfolio basis which require the use of statistical models incorporating loss data and assumptions on the recoverability of customers' outstanding balances.

The uncertain economic environment continues to increase the complexity in estimating ECLs, particularly with regards to determining appropriate forward looking macroeconomic scenarios and appropriately identifying significant increases in credit risk. The ECL provision requires management to make significant judgements and estimates. We therefore consider this to be a key audit matter due to the risk of fraud or error in respect of the Group's ECL provision.

We identified three specific areas in relation to the ECL that require significant management judgement or relate to assumptions to which the overall ECL provision is particularly sensitive.

- Significant increase in credit risk (SICR): The assessment of whether there has been a significant increase in credit risk between the date of origination of the exposure and 31 December 2021. There is a risk that management's staging criteria does not capture SICR and/or are applied incorrectly.
- Macroeconomic scenarios: As set out on page 194, the Group sources economic forecasts from a third-party economics expert and then applies judgement to determine which scenarios to select and the probability weightings to assign. The Group considered four probability weighted scenarios, including base, upside, downside and severe downside scenarios. The key economic variables were determined to be the house price index (HPI) and unemployment. Due to the continuing uncertain economic environment, including uncertainty in relation to future increases in borrowers' and tenants' costs of living and rises in inflation, there have been changes to the economic assumptions in each of the scenarios, as well as a change to the weightings applied to each scenario. There is significant judgement in determining the probability weighting of each scenario and the assumptions and characteristics of each scenario applied.
- Propensity to go into possession following default (PPD) and forced sale discount (FSD) assumptions: PPD measures the likelihood that a defaulted loan will progress into repossession. FSD measures the difference in sale proceeds between a sale under normal conditions and sale at auction. The loss given default (LGD) by loan assumed in the ECL provision calculation is highly sensitive to the PPD and FSD assumptions.

How the scope of our audit responded to the key audit matter

We obtained an understanding of the relevant financial controls over the ECL provision with particular focus on controls over significant management assumptions and judgements used in the ECL determination.

To challenge the Group's SICR criteria, we:

- Evaluated the Group's SICR policy and assessed whether it complies with IFRS 9;
- Assessed the quantitative and qualitative thresholds used in the SICR assessment by reference to standard validation metrics including the proportion of transfers to stage two driven solely by being 30 days past due, the volatility of loans in stage two and the proportion of loans that spend little or no time in stage two before moving to stage three;
- Tested the completeness and accuracy of data used in applying the quantitative and qualitative criteria in the SICR assessment to assess whether loans were assigned to the correct stage;
- Supported by our credit risk specialists, identified and challenged all changes made to the computer code used to perform the SICR assessment, having performed a full review of the computer code in previous audits;
- As part of our testing of the application of the SICR criteria within the ECL model and with support from our credit risk specialists, we independently reperformed management's staging assessment across all three stages using our in-house analytics tool; and
- Performed an independent assessment for a sample of loan accounts which exited forbearance, to determine whether they had been appropriately allocated to the correct stage.

	To challenge the Group's macroeconomic scenarios and the probability weightings applied we: • Agreed the macroeconomics scenarios used in the ECL model to reports prepared by management's third-party economics expert; • Assessed the competence, capability and objectivity of the third-party economics expert, which included making specific inquiries to understand their approach and modelling assumptions to derive the scenarios; • Supported by our economic specialists, assessed and challenged management's assessment of scenarios considered and the probability weightings assigned to them in light of the economic position as at 31 December 2021; • Involved our economic specialists to challenge the Group's economic outlook by reference to other available economic outlook data; • Compared the appropriateness of selected macroeconomic variables and weightings to those used by peer lenders. The key economic variables were the house price index (HPI) and unemployment; • Assessed management's approach to the incorporation and quantification of emerging risks within the ECL model, including forecast cost of living increases and climate change. We confirmed that the emerging risks were not already captured within the existing ECL model, challenged key assumptions, and tested the completeness and accuracy of data used within the assessment; • Supported by our credit risk specialists, assessed and challenged the changes made to the model methodology and computer code used in the macroeconomics model which applies the scenarios to the relevant ECL components, having performed a full review of the computer code of the macroeconomics model in previous audits; • Supported by our credit risk specialists, assessed the performance of the macroeconomic model to confirm whether the economic variables previously selected were still appropriate in light of the uncertain economic environment through considering the modelled macroeconomic results relative to those observed in historical recessions; and • For a sample of loans, we independently recalculated the ECL using the macroeconomic variables to check they were being applied appropriately. To challenge the Group's PPD and FSD assumptions we: • Supported by our credit risk specialists, identified and challenged all changes made to computer code in the LGD models, having performed a full review of the computer code in previous audits; • Recalculated the PPD rates observed on defaulted cases and compared them with the rates used by the Group in the ECL models; • Recalculated the FSD observed on recent property sales on the defaulted accounts and compared them with the rates used by the Group in the ECL models; • Considered the findings raised in management's independent model validation conducted in 2021 and assessed the impact on the year-end provision; and • As a stand back test to consider potential contradictory evidence, assessed the appropriateness of PPD and FSD assumptions adopted by management through benchmarking to industry peers. To address the risk of material misstatement in loan impairment due to fraud, our work included testing the existence of a sample of collateral related to funding lines.
Key observations	We determined that the methodology used, the SICR criteria and PPD and FSD assumptions management has made in determining the ECL provision as at 31 December 2021 were reasonable. Notwithstanding that estimating the probability and impact of future economic outcomes is inherently judgemental and that there is continuing economic uncertainty, on balance, we consider that the macroeconomic scenarios selected by the Directors and the probability weightings applied generate an appropriate portfolio loss distribution. We therefore determined that loan impairment provisions are appropriately stated.

5.2. Effective interest rate income recognition

Refer to the judgements in applying accounting policies and critical accounting estimates on page 195, the accounting policy on pages 185 and 186 and notes 4 and 5 on page 196.

Key audit matter description	In accordance with the requirements of IFRS 9, management is required to spread directly attributable fees, discounts, incentives and commissions on a constant yield basis (effective interest rate, EIR) over the expected life of the loan assets. EIR is complex and the Group's approach to determining the EIR involves the use of models and significant estimation in determining the behavioural life of loan assets. Given the complexity and judgement involved in accounting for EIR and given that revenue recognition is an area susceptible to fraud, there is an opportunity for management to manipulate the amount of interest income reported in the financial statements. The Group's net interest income for the year ended 31 December 2021 was £587.6m (2020: £472.2m). EIR adjustments arise from revisions to estimated cash receipts or payments for loan assets that occur for reasons other than a movement in market interest rates or credit losses. They result in an adjustment to the carrying amount of the loan asset, with the adjustment recognised in the income statement in interest receivable and similar income. As the EIR adjustments reflect changes to the timing and volume of forecast customer redemptions, they are inherently judgemental. The level of judgement exercised by management is increased given the limited availability of historical repayment information. For two of the loan portfolios, KRBS and Precise, the EIR adjustments are sensitive to changes in the behavioural life curves. As set out on page 44, changes in the modelled behavioural life of these portfolios during the year resulted in an interest income gain of £11.5m (2020: £nil), we therefore considered there to be an increased level of risk in respect of this key audit matter in the current year. The continuing uncertain economic environment brings additional uncertainty with regards to forecasting expected behavioural lives and prepayment rates. We therefore identified the estimation of the behavioural life for these portfolios as a focus area of our audit. We also identified a key audit matter in relation to EIR adjustments on the Group's legacy acquired portfolios. EIR on acquired loan portfolios is inherently more judgemental than originated loan portfolios as it involves modelling the expected cash flows on acquisition and comparing to actual and forecast cash flows at each balance sheet date. These loan portfolios are also underwritten outside of the Group's standard processes and therefore may have different profiles than self-originated loans.
How the scope of our audit responded to the key audit matter	We obtained an understanding of the relevant controls over EIR, focusing on the calculation and review of EIR adjustments and the determination of prepayment curves. For the two portfolios where the EIR adjustments were most significant and sensitive to changes in behavioural life, we involved our in-house analytics and modelling specialists to run the Group's loan data for all products through our own independent EIR model, using the behavioural life curves derived by the Group. We compared our calculation of the EIR adjustment required to the amount recorded by management. For the same portfolios, we involved our in-house modelling specialists to independently derive a behavioural life curve using the Group's loan data over recent years. We used these curves in our own independent EIR model to derive an independent output showing the EIR adjustments that should have been recorded in 2021. We compared this output to the amounts recorded by management. We also tested the completeness and accuracy of a sample of inputs into the EIR model for originated loans. For the legacy acquired portfolios, supported by our analytics and modelling specialists, we challenged the assumptions and modelling approach taken to determine the EIR adjustments, tested the completeness and accuracy of a sample of inputs to the modelling, re-performed the discounted cash flow calculations and challenged whether forecasts were consistent with historical performance and our understanding of the nature of the cash flows.
Key observations	Notwithstanding that estimating the future behaviour of loan assets is inherently judgemental and that there is continuing economic uncertainty, we determined that the EIR models and assumptions used were appropriate and that net interest income for the period is appropriately stated.

6. Our application of materiality

6.1. Materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Group financial statements	Parent company financial statements
Materiality	£20.1m (2020: £14.0m)	£15.8m (2020: £13.3m)
Basis for determining materiality	We determined materiality for the Group by reference to 1% of net assets of £2,024.4m (£20.1m), and 5% of statutory profit before tax of £464.6m (£23.2m).	We determined materiality for the parent company by reference to 1% of net assets.
Rationale for the benchmark applied	Consistent with the prior year, we considered both net assets and a profit-based measure as benchmarks for determining materiality. We determined 1% of net assets to be the most relevant and stable benchmark to determine materiality. In the prior year, we capped materiality at the 2019 materiality level of £14m, based on the significant economic uncertainty resulting from the emergence of Covid-19. Whilst some economic uncertainty remains, the impact of Covid-19 was not as pervasive as 2020 and we have therefore removed the prior year cap.	The parent company is principally a holding company and we have therefore determined net assets to be the most relevant benchmark to determine materiality.

6.2. Performance materiality

We set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the financial statements as a whole.

	Group financial statements	Parent company financial statements
Performance materiality	60% (2020: 60%) of Group materiality	60% (2020: 60%) of parent company materiality
Basis and rationale for determining performance materiality	Group performance materiality was set at 60% of Group materiality (2020: 60%). In determining performance materiality, we considered a number of factors, including: our understanding of the control environment; our understanding of the business; and the low number of uncorrected misstatements identified in the prior year. In the prior year we reduced performance materiality in response to the potentially pervasive impact of Covid-19 and remote working on the Group's control environment and financial reporting. In the current year, to reflect that remote and hybrid working has continued to some extent, we retained performance materiality at the prior year level.	

6.3. Error reporting threshold

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £1,005k (2020: £700k), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

7. An overview of the scope of our audit

7.1. Identification and scoping of components

Our Group audit was scoped by obtaining an understanding of the Group and its environment, including Group-wide controls and assessing the risks of material misstatement at the Group level.

Our Group audit scope focused primarily on three subsidiaries: the two main banking entities OneSavings Bank plc and Charter Court Financial Services Limited, as well as Interbay ML Ltd, another significant lending subsidiary. These three subsidiaries were significant components and subject to a full scope audit (2020: three significant components subject to a full scope audit). They represent 98% (2020: 96%) of the Group's interest receivable and similar income, 96% (2020: 98%) of profit before tax, 97% (2020: 98%) of total assets and 99% (2020: 98%) of total liabilities. The subsidiaries were selected to provide an appropriate basis of undertaking audit work to address the risks of material misstatement including those identified as key audit matters above. Our audits of each of the subsidiaries were performed using lower levels of materiality based on their size relative to the Group. The materiality for each subsidiary audit ranged from £5.5m to £16.7m (2020: £5.3m to £11.1m).

	Interest receivable and similar income	Total assets	Total liabilities	Profit before tax
Full audit scope	98%	97%	99%	96%
Review at group level	2%	3%	1%	4%

We tested the Group's consolidation process and carried out analytical procedures to confirm that there were no significant risks of material misstatement in the aggregated financial information of the remaining subsidiaries not subject to a full scope audit or specified audit procedures.

7.2. Our consideration of the control environment

We identified the key IT systems relevant to the audit to be those used in the financial reporting, lending and savings businesses. For these controls we involved our IT specialists to perform testing over the general IT controls, including testing of user access and change management systems.

In the current year we relied on controls for some of the lending business and related interest income and the Group's in-house serviced savings business. For the areas where we relied on controls, we performed walkthroughs with management to understand the process and controls and identified and tested relevant controls that address risks of material misstatement in financial reporting.

7.3. Our consideration of climate-related risks

In planning our audit, we have considered the impact of climate change on the Group's operations and impact on its financial statements. The Group has set out its commitments, aligned with the goals of the Paris Climate Accord, to be a net zero bank by 2050. Further information is provided in the Group's Environment, Social and Governance report on page 76. The Group sets out its assessment of the potential impact of climate change on page 55 of the Risk review section of the Annual Report.

In conjunction with our climate risk specialists, we have held discussions with the Group to understand:

- the process for identifying affected operations, including the governance and controls over this process, and the subsequent effect on the financial reporting for the Group; and
- the long-term strategy to respond to climate change risks as they evolve.

Our audit work has involved:

- challenging the completeness of the physical and transition risks identified and considered in the Group's climate risk assessment and the conclusion that there is no material impact of climate change risk on current year financial reporting;
- assessing management's approach to the incorporation and quantification of climate change risks within the ECL model, (see the loan impairment provision key audit matter above); and
- assessing disclosures in the Annual Report, and challenging the consistency between the financial statements and the remainder of the Annual Report.

We have not been engaged to provide assurance over the accuracy of climate change disclosures. As part of our audit procedures we are required to read these disclosures to consider whether they are materially inconsistent with the financial statements or knowledge obtained in the audit and we did not identify any material inconsistencies as a result of these procedures.

7.4. Oversight of the audit teams

All audit work for the purposes of the Group audit was performed by Deloitte LLP in the UK. The audit team for the Group and the parent company were based in London. There was a component audit team for the component audit of Charter Court Financial Services Limited which is based in Wolverhampton. The Senior Statutory Auditor has responsibility for directing and supervising all aspects of the audit work of the component auditor. In discharging this responsibility, the Group audit team held regular meetings with local management and had regular virtual meetings with the component audit team to oversee the component audit. The Group audit team maintained dialogue with the component auditor throughout all phases of the audit and performed a remote file review of the component audit team's work.

8. Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated.

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

9. Responsibilities of directors

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

10. Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

11. Extent to which the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

11.1. Identifying and assessing potential risks related to irregularities

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, we considered the following:

- the nature of the industry and sector, control environment and business performance including the design of the Group's remuneration policies, key drivers for directors' remuneration, bonus levels and performance targets;
- the Group's own assessment of the risks that irregularities may occur either as a result of fraud or error that was approved by the Board;
- results of our enquiries of management, internal audit and the Audit Committee about their own identification and assessment of the risks of irregularities;
- any matters we identified having obtained and reviewed the Group's documentation of their policies and procedures relating to:
  - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
  - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud. During the first half of 2021, the Directors identified fraudulent activity by a third party in respect of a secured funding line provided by the Group, and recorded a loan impairment provision of £20m in 2020, which has increased to £22m in 2021;
  - the internal controls established to mitigate risks of fraud or non-compliance with laws and regulations;

- the matters discussed among the audit engagement team including the component audit team and involving relevant internal specialists, including tax, valuations, real estate, IT, credit risk and analytics and modelling specialists regarding how and where fraud might occur in the financial statements and any potential indicators of fraud.

As a result of these procedures, we considered the opportunities and incentives that may exist within the organisation for fraud and identified the greatest potential for fraud in the following areas: loan impairment provisions and effective interest rate income recognition. In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override.

We also obtained an understanding of the legal and regulatory frameworks that the Group operates in, focusing on provisions of those laws and regulations that had a direct effect on the determination of material amounts and disclosures in the financial statements. The key laws and regulations we considered in this context included the relevant provisions of the UK Companies Act, Listing Rules and tax legislation.

In addition, we considered provisions of other laws and regulations that do not have a direct effect on the financial statements but compliance with which may be fundamental to the Group's ability to operate or to avoid a material penalty. These included the Group's prudential regulatory requirements and capital, liquidity and conduct requirements.

11.2. Audit response to risks identified

As a result of performing the above, we identified loan impairment provisions and effective interest rate income recognition as key audit matters related to the potential risk of fraud. The key audit matters section of our report explains the matters in more detail and also describes the specific procedures we performed in response to those key audit matters.

In addition to the above, our procedures to respond to risks identified included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- enquiring of management, the Audit Committee and in-house and external legal counsel concerning actual and potential litigation and claims;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- reading minutes of meetings of those charged with governance, reviewing internal audit reports and reviewing correspondence with the Prudential Regulation Authority, the Financial Conduct Authority and HMRC; and
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members including internal specialists and the component audit team, and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

Report on other legal and regulatory requirements

12. Opinions on other matters prescribed by the Companies Act 2006

In our opinion the part of the directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the Group and the parent company and their environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

13. Opinion on other matter prescribed by the Capital Requirements (Country-by-Country Reporting) Regulations 2013

In our opinion the information given in note 50 to the financial statements for the financial year ended 31 December 2021 has been properly prepared, in all material respects, in accordance with the Capital Requirements (Country-by Country Reporting) Regulations 2013.

14. Corporate Governance Statement

The Listing Rules require us to review the directors' statement in relation to going concern, longer-term viability and that part of the Corporate Governance Statement relating to the Group's compliance with the provisions of the UK Corporate Governance Code specified for our review.

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the Corporate Governance Statement is materially consistent with the financial statements and our knowledge obtained during the audit:

- the directors' statement with regards to the appropriateness of adopting the going concern basis of accounting and any material uncertainties identified as set out on page 166;
- the directors' explanation as to its assessment of the Group's prospects, the period this assessment covers and why the period is appropriate as set out on pages 74 and 75;
- the directors' statement on fair, balanced and understandable as set out on page 136;
- the board's confirmation that it has carried out a robust assessment of the emerging and principal risks as set out on page 123;
- the section of the annual report that describes the review of effectiveness of risk management and internal control systems as set out on pages 123 and 138; and
- the section describing the work of the Audit Committee as set out on pages 134 to 140.

15. Matters on which we are required to report by exception

15.1. Adequacy of explanations received and accounting records

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

15.2. Directors' remuneration

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of directors' remuneration have not been made or the part of the directors' remuneration report to be audited is not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

16. Other matters which we are required to address

16.1. Auditor tenure

Following the recommendation of the Audit Committee, we were appointed by the shareholders of the OSB GROUP plc on 17 November 2020 to audit the Group financial statements for the year ending 31 December 2020 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is two years, covering the years ending 31 December 2020 to 31 December 2021.

Prior to our appointment to the parent company, we were auditor of the Group headed by OneSavings Bank plc, since 9 May 2019. The period of total uninterrupted engagement for OneSavings Bank plc, including previous renewals and reappointments of the firm, is three years, covering the year ended 31 December 2019 to 31 December 2021.

16.2. Consistency of the audit report with the additional report to the Audit Committee

Our audit opinion is consistent with the additional report to the Audit Committee we are required to provide in accordance with ISAs (UK).

17. Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

As required by the Financial Conduct Authority (FCA) Disclosure Guidance and Transparency Rule (DTR) 4.1.14R, these financial statements form part of the European Single Electronic Format (ESEF) prepared Annual Financial Report filed on the National Storage Mechanism of the UK FCA in accordance with the ESEF Regulatory Technical Standard ('ESEF RTS'). This auditor's report provides no assurance over whether the annual financial report has been prepared using the single electronic format specified in the ESEF RTS. We have been engaged to provide assurance on whether the annual financial report has been prepared using the single electronic format specified in the ESEF RTS and will report separately to the members on this.

Robert Topley FCA (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
London, United Kingdom
17 March 2022

Consolidated Statement of Comprehensive Income
For the year ended 31 December 2021

	Note	2021 £m	2020 £m
Interest receivable and similar income	4	**746.8**	711.9
Interest payable and similar charges	5	**(159.2)**	(239.7)
Net interest income		**587.6**	472.2
Fair value gains on financial instruments	6	**29.5**	7.4
Gain on sale of financial instruments	7	**4.0**	20.0
Other operating income	8	**7.9**	9.0
Total income		**629.0**	508.6
Administrative expenses	9	**(166.5)**	(157.0)
Provisions	38	**(0.2)**	(0.1)
Impairment of financial assets	25	**4.4**	(71.0)
Impairment of intangible assets	10	**3.1**	(7.0)
Integration costs	13	**(5.0)**	(9.8)
Exceptional items	14	**(0.2)**	(3.3)
Profit before taxation		**464.6**	260.4
Taxation	15	**(119.3)**	(64.1)
Profit for the year		**345.3**	196.3
Other comprehensive (expense)/income			
Items which may be reclassified to profit or loss:			
Fair value changes on financial instruments measured as fair value through other comprehensive income (FVOCI):			
Arising in the year	20	**1.1**	1.0
Amounts reclassified to profit or loss for investment securities at FVOCI		**(2.0)**	–
Tax on items in other comprehensive (expense)/income		**0.5**	(0.5)
Revaluation of foreign operations		**(0.1)**	–
Other comprehensive (expense)/income		**(0.5)**	0.5
Total comprehensive income for the year		**344.8**	196.8
Attributable to:			
Equity shareholders of the Company		**340.1**	191.3
Non-controlling interest		**4.7**	5.5
		344.8	196.8
Dividend, pence per share	17	**26.0**	14.5
Earnings per share, pence per share			
Basic	16	**76.0**	42.8
Diluted	16	**75.2**	42.4

The above results are derived wholly from continuing operations.

The notes on pages 184 to 238 form part of these accounts.

The financial statements on pages 180 to 238 were approved by the Board of Directors on 17 March 2022.

Consolidated Statement of Financial Position
As at 31 December 2021

	Note	2021 £m	2020 £m
Assets			
Cash in hand		**0.5**	0.5
Loans and advances to credit institutions	19	**2,843.6**	2,676.2
Investment securities	20	**491.4**	471.2
Loans and advances to customers	21	**21,080.3**	19,230.7
Fair value adjustments on hedged assets	27	**(138.9)**	181.6
Derivative assets	26	**185.7**	12.3
Other assets	28	**10.2**	9.1
Current taxation asset		**–**	8.4
Deferred taxation asset	29	**5.6**	4.7
Property, plant and equipment	30	**35.1**	39.2
Intangible assets	31	**18.4**	20.6
Total assets		**24,531.9**	22,654.5
Liabilities			
Amounts owed to credit institutions	32	**4,319.6**	3,570.2
Amounts owed to retail depositors	33	**17,526.4**	16,603.1
Fair value adjustments on hedged liabilities	27	**(19.7)**	8.2
Amounts owed to other customers	34	**92.6**	72.9
Debt securities in issue	35	**460.3**	421.9
Derivative liabilities	26	**19.7**	163.6
Lease liabilities	36	**10.7**	11.7
Other liabilities	37	**29.6**	27.8
Provisions	38	**2.0**	1.8
Current taxation liability		**1.0**	–
Deferred taxation liability	39	**39.8**	48.3
Subordinated liabilities	40	**10.3**	10.5
Perpetual Subordinated Bonds	41	**15.2**	37.6
		22,507.5	20,977.6
Equity			
Share capital	43	**4.5**	1,359.8
Share premium	43	**0.7**	–
Retained earnings		**3,215.1**	1,608.6
Other reserves	44	**(1,195.9)**	(1,351.5)
Shareholders' funds		**2,024.4**	1,616.9
Non-controlling interest	44	**–**	60.0
Total equity and liabilities		**24,531.9**	22,654.5

The notes on pages 184 to 238 form part of these accounts. The financial statements on pages 180 to 238 were approved by the Board of Directors on 17 March 2022 and signed on its behalf by

Andy Golding
Chief Executive Officer

April Talintyre
Chief Financial Officer

Company number: 11976839

Consolidated Statement of Changes in Equity

For the year ended 31 December 2021

	Share capital[1] £m	Share premium £m	Capital contribution £m	Transfer reserve £m	Own shares[2] £m	Foreign exchange reserve £m	FVOCI reserve £m	Share-based payment reserve £m	Retained earnings £m	Additional Tier 1 securities £m	Non-controlling interest securities £m	Total £m
At 1 January 2020	4.5	864.2	6.5	(12.8)	(3.7)	(1.0)	0.5	5.6	553.2	–	60.0	1,477.0
Profit for the year	–	–	–	–	–	–	–	–	196.3	–	–	196.3
Other comprehensive income	–	–	–	–	–	–	1.0	–	–	–	–	1.0
Tax on items in other comprehensive income	–	–	–	–	–	–	(0.5)	–	–	–	–	(0.5)
Total comprehensive income	–	–	–	–	–	–	0.5	–	196.3	–	–	196.8
Coupon paid on non-controlling interest securities	–	–	–	–	–	–	–	–	(5.5)	–	–	(5.5)
Share-based payments	–	2.6	–	–	–	–	–	2.4	3.2	–	–	8.2
Tax recognised in equity	–	–	–	–	–	–	–	(0.2)	0.5	–	–	0.3
Transfer between reserves	–	–	(6.5)	12.8	–	–	–	–	(6.3)	–	–	–
Own shares[2]	–	–	–	–	(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
Profit for the year	–	–	–	–	–	–	–	–	345.3	–	–	345.3
Other comprehensive expense	–	–	–	–	–	(0.1)	(0.9)	–	–	–	–	(1.0)
Tax on items in other comprehensive expense	–	–	–	–	–	–	0.5	–	–	–	–	0.5
Total comprehensive income	–	–	–	–	–	(0.1)	(0.4)	–	345.3	–	–	344.8
Coupon paid on non-controlling interest securities	–	–	–	–	–	–	–	–	(4.7)	–	–	(4.7)
Dividends paid	–	–	–	–	–	–	–	–	(86.7)	–	–	(86.7)
Share-based payments	–	0.7	–	–	–	–	–	4.0	2.9	–	–	7.6
Own shares[2]	–	–	–	–	0.5	–	–	–	(0.5)	–	–	–
Capital reduction of OSB GROUP PLC share capital[1]	(1,355.3)	–	–	–	–	–	–	–	1,355.3	–	–	–
Redemption of non-controlling interest securities	–	–	–	–	–	–	–	–	–	–	(60.0)	(60.0)
Transactions costs on redemption of non-controlling interest securities	–	–	–	–	–	–	–	–	(3.5)	–	–	(3.5)
Issuance of Additional Tier 1 securities	–	–	–	–	–	–	–	–	–	150.0	–	150.0
Transactions costs on issuance of Additional Tier 1 securities	–	–	–	–	–	–	–	–	(1.6)	–	–	(1.6)
Tax recognised in equity	–	–	–	–	–	–	–	1.6	–	–	–	1.6
At 31 December 2021	**4.5**	**0.7**	–	**(1,355.3)**	**(3.5)**	**(1.1)**	**0.6**	**13.4**	**3,215.1**	**150.0**	–	**2,024.4**

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

Share capital and premium is disclosed in note 43 and the reserves are further disclosed in note 44.

Consolidated Statement of Cash Flows
For the year ended 31 December 2021

	Note	2021 £m	2020 £m
Cash flows from operating activities			
Profit before taxation		**464.6**	260.4
Adjustments for non-cash items	51	**(10.0)**	79.2
Changes in operating assets and liabilities	51	**(799.0)**	(1,537.2)
Cash used in operating activities		**(344.4)**	(1,197.6)
Provisions refunded	38	**–**	0.1
Net tax paid		**(117.3)**	(128.8)
Net cash used in operating activities		**(461.7)**	(1,326.3)
Cash flows from investing activities			
Maturity and sales of investment securities		**547.7**	407.3
Purchases of investment securities		**(468.2)**	(190.9)
Interest received on investment securities		**1.9**	7.0
Sales of financial instruments	7	**4.0**	539.9
Proceeds from sale of property, plant and equipment	30	**2.0**	–
Purchases of property, plant and equipment and intangible assets	30,31	**(6.8)**	(7.5)
Cash generated from investing activities		**80.6**	755.8
Cash flows from financing activities			
Financing received	42	**5,058.6**	1,991.2
Financing repaid	42	**(4,295.4)**	(1,103.6)
Cash held in deconsolidated special purpose vehicles		**–**	(23.0)
Interest paid on financing		**(8.4)**	(21.4)
Coupon paid on non-controlling interest securities		**(4.7)**	(5.5)
Dividends paid	17	**(86.7)**	–
Redemption of non-controlling interest securities		**(63.5)**	–
Issuance of Additional Tier 1 securities		**148.4**	–
Proceeds from issuance of shares under employee SAYE schemes		**0.8**	2.6
Cash payments on lease liabilities	36	**(1.9)**	(2.0)
Cash generated from financing activities		**747.2**	838.3
Net increase in cash and cash equivalents		**366.1**	267.8
Cash and cash equivalents at the beginning of the year	18	**2,370.6**	2,102.8
Cash and cash equivalents at the end of the year	18	**2,736.7**	2,370.6
Movement in cash and cash equivalents		**366.1**	267.8

1. Capital reduction

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

2. Accounting policies

a) Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the United Kingdom (UK) and interpretations issued by the 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 FVOCI and derivative contracts and other financial assets held at fair value through profit or loss (FVTPL) (see note 2 o) vi).

The financial statements are presented in Pounds Sterling. All amounts in the financial statements have been rounded to the nearest £0.1m (£m). The functional currency of the Group is Pounds Sterling, which is the currency of the primary economic environment in which the Group operates.

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 economic scenarios provided by the Group's external economic advisors, as well as reverse stress tests. In making the assessment the Board has considered all principal and emerging risks including climate risk where the risk is likely to emerge outside of the going concern assessment horizon.

The assessments include the following:

- Financial and capital forecasts were prepared under stress scenarios which were assessed against the latest economic forecasts provided by the Group's external economic advisors. Reverse stress tests were also run, to assess what combinations of House Price Index (HPI) and unemployment variables would result in the Group utilising its regulatory capital buffers in full and breaching the Group's minimum prudential requirements, along with analysis and insight from the Group's Internal Capital Adequacy Assessment Process (ICAAP). The Directors assessed the likelihood of those reverse stress scenarios occurring within the next 12 months and concluded that the likelihood is remote.
- The latest liquidity and contingent liquidity positions and forecasts were assessed against the Internal Liquidity Adequacy Assessment Process (ILAAP) stress scenarios.
- The Group continues to assess the resilience of its business operating model and supporting infrastructure in the context of the emerging economic, business and regulatory environment. The key areas of focus continue to be on the provision of critical services to customers, employee health and safety and evolving governmental policies and guidelines. The Group continues to invest in its information technology platforms to support its employees with flexible working from office or homeworking across all locations within a hybrid working model. The Group's response to the COVID-19 pandemic demonstrated the inherent resilience of the Group's critical processes and infrastructure. It also demonstrated the necessary agility in responding to changing operational demands. The operational dependencies on third party vendors and outsourcing arrangements continue to be an important area of focus.

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

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

c) Basis of consolidation

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

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

2. Accounting policies (Continued)

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) 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 (OCI) and accumulated in the foreign exchange reserve within equity.

e) Segmental reporting

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

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

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

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

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

f) Interest income and expense

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

Interest income on financial assets categorised as stage 1 or 2 are recognised on a gross basis, with interest income on stage 3 assets recognised net of expected credit losses (ECL). See note 2 o) for further information on IFRS 9 stage classifications.

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

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

The EIR is adjusted where there is a movement in the reference interest rate (LIBOR, SONIA 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.

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

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

Coupons paid on non-controlling interest securities and Additional Tier 1 (AT1) securities are recognised directly in equity in the period in which they are paid.

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

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

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

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

i) 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 coupons paid on non-controlling interest securities and AT1 securities directly in profit or loss.

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

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

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

Deferred tax liabilities are recognised for all taxable temporary differences to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

The Company and its UK subsidiaries are in a group payment arrangement for corporation tax and show a net corporation tax liability and deferred tax liability accordingly.

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

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

k) Cash and cash equivalents
For the purposes of the Consolidated Statement of Cash Flows, cash and cash equivalents comprise cash, non-restricted balances with credit institutions and highly liquid financial assets with maturities of less than three months from date of acquisition and subject to an insignificant risk of changes in their fair value.

l) 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)

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

An intangible asset is only recognised if:

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

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

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

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

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

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

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

m) 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.

n) 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 on page 242.

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

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

2. Accounting policies (Continued)

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.

During the year equity financial instruments comprised own shares, non-controlling interest securities and AT1 securities. Accordingly, the coupons paid on the non-controlling interest securities and AT1 securities are 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.

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

iii. Derecognition

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

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

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

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

iv. Offsetting

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

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

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

v. Amortised cost measurement

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

2. Accounting policies (Continued)

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

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

The Group uses SONIA curves to value its derivatives, previously a combination of LIBOR and SONIA curves (for further information on Interbank Offered Rate (IBOR) transition, see note 46). The fair value of the Group's derivative financial instruments incorporates credit valuation adjustments (CVA) and debit valuation adjustments (DVA). The DVA and CVA take into account the respective credit ratings of the Group's two banking entities and counterparty and whether the derivative is collateralised or not. Derivatives are valued using discounted cash flow models and observable market data and are sensitive to benchmark interest and basis rate curves.

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

vii. Identification and measurement of impairment of financial assets

The Group assesses all financial assets for impairment.

Loans and advances to customers

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

- **Stage 1** – a 12 month ECL allowance is recognised where there is no significant increase in credit risk (SICR) since initial recognition.
- **Stage 2** – a lifetime ECL allowance is 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.

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

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

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.

2. Accounting policies (Continued)

Significant increase in credit risk (movement to stage 2)

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

At the point of initial recognition, a loan is assigned a PD estimate. For each monthly reporting date thereafter, an updated PD estimate is computed. The Group's transfer criteria analyses relative changes in PD versus the PD assigned at the point of origination, together with qualitative triggers using both internal indicators, such as forbearance, and external information, such as changes in income and adverse credit information to assess for SICR. In the event that given early warning triggers have not already identified SICR, an account more than 30 days past due 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 HPI, unemployment rate (UR), Gross domestic product (GDP), Commercial Real Estate Index (CRE) and the Bank of England 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 sources economic forecast information from an appropriately qualified third party when determining scenarios. The Group considers four probability-weighted scenarios, base, upside, downside and severe downside scenarios.

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

Period over which ECL is measured

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 POCI assets. These assets attract a lifetime ECL allowance over the full term of the loan, even when these loans no longer meet the definition of default post acquisition. The Group does not originate credit-impaired loans.

Intercompany loans

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

Other financial assets

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

p) 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 Term Funding Scheme (TFS) and Term Funding Scheme with additional incentives for SMEs (TFSME) are not derecognised from the Consolidated Statement of Financial Position, as the Group retains substantially all the risks and rewards of ownership, including all cash flows arising from the loans and advances and exposure to credit risk. The Group classifies TFS and TFSME 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 FVTPL. 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.

q) Investment securities

Investment securities include securities held for liquidity purposes (UK treasury bills, UK Gilts and Residential Mortgage-Backed Securities (RMBS)). These assets are non-derivatives that are designated as FVOCI or 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 OCI and accumulated in the FVOCI reserve within equity, except for impairment losses which are taken to profit or loss. Where the instrument is sold, the gain or loss accumulated in equity is reclassified to profit or loss.

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

r) 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 and TFSME, asset-backed loan notes issued through the Group's securitisation programmes and subordinated liabilities. Subordinated liabilities include the Sterling PSBs where the terms allow no absolute discretion over the payment of interest. These financial liabilities are initially measured at fair value less direct transaction costs, and subsequently held at amortised cost using the EIR method.

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

s) Sale and repurchase agreements

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

t) Derivative financial instruments

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

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

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

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

u) Hedge accounting

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

Portfolio hedge accounting allows for hedge effectiveness testing and accounting over an entire portfolio of financial assets or liabilities. To qualify for hedge accounting at inception, hedge relationships are clearly documented and derivatives must be expected to be highly effective in offsetting the hedged risks. In addition, effectiveness must be tested throughout the life of the hedge relationship. This applies to all derivatives including SONIA-linked derivatives entered into to replace LIBOR-linked derivatives, as a result of IBOR reforms (see note 2 aa)).

2. Accounting policies (Continued)

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. During 2021 all remaining LIBOR-linked derivatives with a maturity date post Q1 2022 were cancelled and new SONIA-linked derivatives entered into. 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 Consolidated Statement of Financial Position as fair value adjustments on hedged assets and liabilities. The fair value changes of both the derivative and the hedge substantially offset each other to reduce profit volatility.

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

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

v) Debit and credit valuation adjustments

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

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

- the one-year PD;
- the expected exposure at default;
- the expected LGD; and
- the average maturity of the swaps.

w) 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.

x) 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.

y) Share-based payments

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

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

2. Accounting policies (Continued)

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 from April 2021 are not subject to future service conditions and are expensed in the year where the service is deemed to have been provided.

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

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

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

z) Leases

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

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

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

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

aa) Adoption of new standards

International financial reporting standards issued and adopted for the first time in the year ended 31 December 2021

The following financial reporting standard amendments and interpretations were in issue and have been applied in the financial statements from 1 January 2021.

- Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 Interest Rate Benchmark Reform – Phase 2

The Group has adopted 'Interest Rate Benchmark Reform – Phase 2 (Amendments to IFRS 9 Financial Instruments, IAS 39 Financial Instruments: Recognition and Measurement, IFRS 7 Financial Instruments: Disclosures, IFRS 4 Insurance Contracts and IFRS 16 Leases'), which was issued in August 2020 and became mandatory for annual reporting periods beginning on or after 1 January 2021. Adopting these amendments has enabled the Group to reflect the effects of transitioning from IBOR to alternative benchmark interest rates (also referred to as 'risk free rates' or RFRs) without giving rise to accounting impacts that would not provide useful information to users of financial statements. See the IBOR transition section in note 46 Risk Management for further details. The Group continues to apply the Phase 1 amendments 'Interest Rate Benchmark reform: Amendments to IFRS 9/IAS 39 and IFRS 7' where relevant.

The IFRS Interpretations Committee published an agenda decision in April 2021 addressing how a customer should account for the costs of configuring or customising a supplier's application software in a SaaS arrangement that is determined to be a service contract. This has accounting implications for any cloud-based applications that may be held as an intangible asset as the new guidance requires the majority of these costs should not be recognised as an intangible asset except in a few limited circumstances. See note 2 l) for further details.

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

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

There are a number of minor amendments to financial reporting standards that were in issue but have not been applied in the financial statements, as they were not yet effective on 31 December 2021. The adoption of these amendments will not 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 future financial years. Actual results may differ from these estimates.

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

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

Judgements

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

(i) Loan book impairments

Significant increase in credit risk for classification in stage 2

The Group's SICR rules, 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.

- As the COVID-19 payment deferrals initiative has ceased, newly granted payment holidays are considered a SICR event, aligned to the pre-COVID-19 SICR approach. Other adjustments made during the pandemic to account for high risk accounts and those with income stress are still considered in the SICR criteria.

(ii) IFRS 9 classification

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

Management concluded that the Group's business model is a 'held to collect' business model with the majority of the Group's assets being loans and advances held at amortised cost. This conclusion was reached on the basis that the Group originates and purchases loans and advances in order to collect contractual cash flows over the life of the originated or purchased financial instrument.

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 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 £17.7m (2020: £19.1m) 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 £101.5m (2020: £111.0m) 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 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, time to sale and sale cost estimates. The LGD is sensitive to the application of the HPI. For the OSB segment at 31 December 2021 a 10% fall in house prices would result in an incremental £22.7m (2020: £25.6m) of provision being required. For the CCFS segment at 31 December 2021 a 10% fall in house prices would result in an incremental £8.3m (2020: £13.9m) of provision being required. The combined impact across both OSB and CCFS businesses of a 10% fall in house prices would result in an increase in total provisions of £31.0m (2020: £39.5m) as at 31 December 2021.

The Group's forecasts of HPI movements used in the impairment models are disclosed in the Risk profile performance review on page 69.

Forward-looking macroeconomic scenarios

The forward-looking macroeconomic scenarios affect LGD estimates. Therefore the ECL 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. There still remains some uncertainty around

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

the pandemic, with the unknown economic impact of removing COVID-19 support measures in 2021 and the ongoing risk of further COVID-19 variants. There is also emerging uncertainty over the cost of living, with high inflation and base rate increases forecast in the near to medium term, therefore the management and Board deemed it prudent to adjust the probability weightings as at 31 December 2021 to increase the contribution from the downside scenarios and account for the increased economic uncertainty. The Group's macroeconomic scenarios can be found in the Credit Risk section of the Risk profile performance overview on page 69.

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-21	Weighted (see note 24)	100% Base case scenario	100% Upside scenario	100% Downside scenario	100% Severe downside scenario
Total loans before provisions, £m	**21,164.1**	**21,164.1**	**21,164.1**	**21,164.1**	**21,164.1**
Modelled ECL, £m	**48.3**	**26.5**	**13.1**	**74.0**	**120.3**
Non-modelled ECL, £m	**53.2**	**53.2**	**53.2**	**53.2**	**53.2**
Total ECL, £m	**101.5**	**79.7**	**66.3**	**127.2**	**173.5**
ECL Coverage, %	**0.48**	**0.38**	**0.31**	**0.60**	**0.82**
As at 31-Dec-20					
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

(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.

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 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 Consolidated Statement of Comprehensive Income as interest income. The Group also considers the total variance across all acquired portfolios and the economic outlook.

The Group recognised a £7.5m loss in 2021 as a result of resetting cash flows on acquired books (2020: loss of £3.5m). 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. £27m/£31m (2020: c. £33m/£37m).

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

(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 SONIA/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.

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

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. Estimates are reviewed regularly and, as

a consequence of the reviews, adjustments of £19.0m were made in 2021, increasing net interest income and customer loans and receivables.

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, changes in lifestyle including working patterns, higher cost of living and the macroeconomic outlook remains uncertain. A period of six months' variance in the weighted average lives of the loan books was selected to show this sensitivity.

Applying a six month extension in the expected weighted average life of the organic loan books would result in a gain of c. £22.7m (2020: c. £22.6m) recognised in net interest income. Applying a six month reduction in the expected weighted average life of the loan book would result in a reset loss of c. £14.9m (2020: c. £6.9m).

4. Interest receivable and similar income

	2021 £m	2020 £m
At amortised cost:		
On OSB mortgages	**541.3**	496.8
On CCFS mortgages	**342.9**	331.9
On finance leases	**6.3**	3.8
On investment securities	**2.1**	2.5
On other liquid assets	**2.7**	5.3
Amortisation of fair value adjustments on CCFS Combination[1]	**(66.1)**	(67.8)
Amortisation of fair value adjustments on hedged assets[2]	**(39.9)**	(17.9)
	789.3	754.6
At FVTPL:		
Net expense on derivative financial instruments – lending activities	**(42.9)**	(47.7)
At FVOCI:		
On investment securities	**0.4**	5.0
	746.8	711.9

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

	2021 £m	2020 £m
At amortised cost:		
On retail deposits	**156.7**	245.5
On BoE borrowings	**4.5**	8.4
On PSBs	**1.2**	1.7
On subordinated liabilities	**0.8**	0.8
On wholesale borrowings	**0.8**	1.3
On debt securities in issue	**3.9**	3.4
On lease liabilities	**0.3**	0.3
Amortisation of fair value adjustments on CCFS Combination[1]	**(1.5)**	(3.3)
Amortisation of fair value adjustments on hedged liabilities[2]	**(1.1)**	–
	165.6	258.1
At FVTPL:		
Net income on derivative financial instruments – savings activities	**(6.4)**	(18.4)
	159.2	239.7

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

6. Fair value gains on financial instruments

	2021 £m	2020 £m
Fair value changes in hedged assets	**(297.8)**	107.3
Hedging of assets	**298.9**	(116.8)
Fair value changes in hedged liabilities	**27.4**	(4.1)
Hedging of liabilities	**(26.1)**	6.8
Ineffective portion of hedges	**2.4**	(6.8)
Net gains/(losses) on unmatched swaps	**10.3**	(18.0)
Amortisation of inception adjustments[1]	**3.0**	13.0
Amortisation of acquisition-related inception adjustments[2]	**13.4**	17.0
Amortisation of de-designated hedge relationships[3]	**0.2**	2.4
Fair value movements on mortgages at FVTPL	**1.2**	(0.2)
Debit and credit valuation adjustment	**(1.0)**	–
	29.5	7.4

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

7. Gain on sales of financial instruments

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

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

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

On 14 September 2020, the Group sold £150.0m of Canterbury Finance No. 3 plc A2 notes for £150.1m, resulting in a gain on sale of £0.1m.

8. Other operating income

	2021 £m	2020 £m
Interest received on mortgages held at FVTPL	**0.5**	0.6
Fees and commissions receivable	**7.4**	8.4
	7.9	9.0

9. Administrative expenses

	2021 £m	2020 £m
Staff costs	**92.5**	86.0
Facilities costs	**6.0**	5.7
Marketing costs	**4.0**	5.1
Support costs[1]	**25.3**	18.4
Professional fees	**16.9**	22.3
Other costs	**7.3**	5.7
Depreciation (see note 30)	**5.0**	5.6
Amortisation (see note 31)	**9.5**	8.2
	166.5	157.0

1. External servicing costs of £6.1m are now categorised as support costs in 2021 (2020: £6.0m categorised in professional fees).

9. Administrative expenses (Continued)

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

	2021 £'000	2020 £'000
Fees payable to the Company's auditor for the audit of the Company's annual accounts	**68**	65
Fees payable to the Company's auditor for the audit of the accounts of subsidiaries	**2,330**	2,198
Total audit fees	**2,398**	2,263
Audit-related assurance services[1]	**258**	217
Other assurance services[2]	**121**	45
Other non-audit services[3]	**240**	101
Total non-audit fees	**619**	363
Total fees payable to the Company's auditor	**3,017**	2,626

1. Includes review of interim financial information and profit verifications.
2. 2021 costs comprise assurance reviews of Alternative performance measures (APMs), integration costs and European Single Electronic Format tagging. 2020 costs related to assurance review of APMs and integration costs.
3. 2021 costs comprise work related to the AT 1 securities issuance, a gap analysis in relation to TCFD and the European Medium Term Note programme. 2020 primarily comprises work related to the insertion of a new holding company.

Staff costs comprise the following:

	2021 £m	2020 £m
Salaries, incentive pay and other benefits	**72.9**	68.5
Share-based payments	**6.7**	5.1
Social security costs	**7.7**	8.1
Other pension costs	**5.2**	4.3
	92.5	86.0

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

	2021	2020
UK	**1,220**	1,330
India	**535**	486
	1,755	1,816

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. During 2020 an impairment of £7.0m was recognised arising from changes to CCFS anticipated lending volumes over three years post combination, which are a key input to the calculation of the fair value, and which were revised due to COVID-19 impacts. During 2021 an impairment assessment was performed and as actual lending volumes were higher than anticipated the Group has recognised an impairment reversal of £3.1m. The remaining carrying value of the broker relationships intangible asset at 31 December 2021 is £5.0m (2020: £5.8m).

11. Directors' emoluments and transactions

	2021 £'000	2020 £'000
Short-term employee benefits[1]	**2,825**	2,675
Post-employment benefits	**106**	99
Share-based payments[2]	**1,267**	425
	4,198	3,199

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 £633k (2020: £495k) in the form of shares. Deferred Share Bonus Plan (DSBP) awards granted from April 2021 have a holding period of three years with no further conditions attached other than standard clawback situations. In March 2020 and prior years, the DSBP awards were subject to either a three or five year vesting period with conditions attached, notably if the Director leaves prior to vesting, the award is forfeited unless a good leaver reason applies such as redundancy, retirement or ill-health.

11. Directors' emoluments and transactions (Continued)

The Executive Directors received a further share award under the Performance Share Plan (PSP) with a grant date fair value of £1,458k (2020: £1,359k) using a share price of £4.94 (2020: £2.58) (the mid-market quotation on the day preceding the date of grant). These shares vest annually from year three in tranches of 20 per cent, subject to performance conditions discussed in note 12 and the Annual Report on Remuneration.

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

No compensation was paid for loss of office during 2021. The compensation for loss of office during 2020 was £59k.

There were no outstanding loans granted in the ordinary course of business to Directors and their connected persons as at 31 December 2021 and 2020.

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

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 April 2021; the share awards are subject to clawback provisions. The DSBP awards are expensed in the year services are received with a corresponding increase in equity. Awards granted to Executive Directors in March 2020 and prior, are subject to vesting conditions and are expensed over the vesting period.

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

Performance Share Plan

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

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

As part of the Combination, mirror PSP awards were granted to replace 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.

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

	2021 **£m**	2020 £m
Sharesave Scheme	**0.7**	0.5
Deferred Share Bonus Plan	**3.8**	3.9
Performance Share Plan	**2.2**	0.7
	6.7	5.1

12. Share-based payments (Continued)

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 2021	**2,745,332**	**2.53**	**1,119,757**	**4,986,527**
Granted	**339,097**	**3.96**	**363,624**	**1,477,111**
Exercised/Vested	**(270,709)**	**3.10**	**(683,456)**	**(513,927)**
Forfeited	**(392,460)**	**2.63**	**(2,809)**	**(724,631)**
At 31 December 2021	**2,421,260**	**2.65**	**797,116**	**5,225,080**
Exercisable at:				
31 December 2021	**8,480**	**3.37**	**–**	**–**
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	–	–

For the share-based awards granted during the year, the weighted average grant date fair value was 286 pence (2020: 188 pence).

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

	2021		2020	
Exercise price	Number	Weighted average remaining contractual life (years)	Number	Weighted average remaining contractual life (years)
Sharesave Scheme				
227–335 pence (2020: 227–335 pence)	**2,421,260**	**2.0**	2,745,332	2.5
Deferred Share Bonus Plan				
Nil	**797,116**	**0.7**	1,119,757	0.7
Performance Share Plan				
Nil	**5,225,080**	**2.4**	4,986,527	2.5
	8,443,456	**2.1**	8,851,616	2.3

Sharesave Scheme

	2021	2020		2019		2018		2017	
Contractual life, years	**3**	3	5	3	5	3	5	3	5
Share price at issue, £	**5.13**	2.86	2.86	3.32	3.32	4.19	4.19	3.93	3.93
Exercise price, £	**3.96**	2.29	2.29	2.65	2.65	3.35	3.35	3.15	3.15
Expected volatility, %	**37.9**	57.6	57.6	31.9	31.9	16.1	16.5	18.0	17.3
Dividend yield, %	**4.5**	3.3	3.3	4.8	4.8	4.4	4.4	4.1	4.1
Grant date fair value, £	**1.46**	1.22	1.34	0.90	0.91	0.40	0.43	0.75	0.70

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

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

12. Share-based payments (Continued)

Deferred Share Bonus Plan

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

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

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

Performance Share Plan

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

Non-market performance conditions exist for the scheme notably that 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:

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

	2021 £m	2020 £m
Consultant fees	**2.2**	1.7
Staff costs	**2.2**	8.1
Impairment	**0.6**	–
	5.0	9.8

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

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

Impairment relates to a property sold during the year.

14. Exceptional items

	2021 £m	2020 £m
Consultant fees	–	2.0
Legal and professional fees	0.2	1.3
	0.2	3.3

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

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:

	2021 £m	2020 £m
Corporation taxation	128.0	79.7
Deferred taxation	(0.2)	(0.8)
Release of deferred taxation on CCFS Combination[1]	(8.5)	(14.8)
Total taxation	119.3	64.1

1. Release of deferred taxation on CCFS Combination relates to the unwind of the deferred tax liabilities recognised on the fair value adjustments of the CCFS assets and liabilities at the acquisition date (£14.1m) (2020: £19.6m) and the impact of the corporation tax rate increase on these deferred tax liabilities (£5.6m) (2020: £4.8m).

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

	2021 £m	2020 £m
Profit before taxation	464.6	260.4
Profit multiplied by the standard rate of UK Corporation Tax (19%)	88.3	49.5
Bank surcharge[1]	27.7	11.0
Taxation effects of:		
Expenses not deductible for taxation purposes	0.7	1.6
Impact of deferred tax rate change[2]	5.2	4.4
Adjustments in respect of earlier years	–	(0.4)
Tax adjustments in respect of share-based payments	1.2	0.8
Tax on coupon paid on non-controlling interest securities	(2.5)	(1.5)
Timing differences	(1.3)	(1.3)
Total taxation charge	119.3	64.1

1. Tax charge for the two banking entities of £31.9m (2020: £16.8m) offset by the tax impact of unwinding CCFS Combination items of £4.2m (2020: £5.8m).
2. Due to change in corporation tax rate from 19% to 25% on 1 April 2023 (2020: due to cancelled rate reductions from 19% to 17% on 1 April 2020).

Factors affecting tax charge for the year

On 24 May 2021, the Government substantively enacted legislation to increase the corporation tax rate from 19% to 25% from 1 April 2023. This has increased the deferred tax charge in the year by £5.2m.

The effective tax rate for the year ended 31 December 2021, excluding the impact of adjustments in respect of earlier years and the deferred tax rate change, was 24.6% (2020: 23.1%).

The £5.2m (2020: £4.4m) impact of the deferred tax rate change relates predominantly to the deferred tax liability from the CCFS combination (see note 29 and 39).

During the year a tax credit of £1.6m (2020: credit of £0.3m) 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 (2020: charge of £0.5m) has been recognised within OCI relating to investment securities classified as FVOCI.

Factors that may affect future tax charges

In November 2021, the government announced that the bank surcharge would reduce from 8% to 3% from 1 April 2023, together with an increase in the surcharge annual allowance from £25m to £100m. These changes were not substantively enacted into legislation at the balance sheet date and so have not been reflected in these financial statements. We have assessed the impact of these changes and concluded that they will not have a material impact on the Group's deferred tax balances.

16. Earnings per share

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

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

	2021 £m	2020 £m
Statutory profit after tax	**345.3**	196.3
Less: Coupon on non-controlling interest securities classified as equity	**(4.7)**	(5.5)
Statutory profit attributable to ordinary shareholders	**340.6**	190.8

	2021	2020
Weighted average number of shares, millions		
Basic	**448.1**	446.2
Dilutive impact of share-based payment schemes	**4.6**	4.0
Diluted	**452.7**	450.2
Earnings per share, pence per share		
Basic	**76.0**	42.8
Diluted	**75.2**	42.4

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.

	2021		2020	
	£m	Pence per share	£m	Pence per share
Final dividend for the prior year	**64.8**	**14.5**	–	–
Interim dividend for the current year	**21.9**	**4.9**	–	–
	86.7		–	

The Directors recommend a final dividend of £94.7m, 21.1 pence per share (2020: £64.8m, 14.5 pence per share) payable on 18 May 2022 with an ex-dividend date of 24 March 2022 and a record date of 25 March 2022. This dividend is not reflected in these financial statements as it is subject to approval by shareholders at the AGM on 12 May 2022. This will make up the total dividend for 2021 of £116.6m, 26 pence per share (2020: £64.8m, 14.5 pence per share).

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

	2021 £m	2020 £m
Retained earnings	**1,358.4**	–
Other distributable reserves[1]	**(3.5)**	–
Distributable reserves	**1,354.9**	–

1. Other distributable reserves comprises own shares held in the Group's EBT of £3.5m which are recognised within OSBG under look-through accounting.

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

As at 31 December 2020 OSB GROUP PLC had no distributable reserves. 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 1). The dividend of £64.8m was paid on 2 June 2021 out of the distributable reserves 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:

	2021 £m	2020 £m
Cash in hand	**0.5**	0.5
Unencumbered loans and advances to credit institutions	**2,636.2**	2,370.1
Investment securities	**100.0**	–
	2,736.7	2,370.6

19. Loans and advances to credit institutions

	2021 £m	2020 £m
Unencumbered:		
BoE call account	**2,496.4**	2,256.5
Call accounts	**43.3**	55.6
Cash held in special purpose vehicles[1]	**89.6**	51.0
Term deposits	**6.9**	7.0
Encumbered:		
BoE cash ratio deposit	**59.5**	52.3
Cash held in special purpose vehicles[1]	**48.0**	42.7
Cash margin given	**99.9**	211.1
	2,843.6	2,676.2

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

20. Investment securities

	2021 £m	2020 £m
Held at FVTPL:		
RMBS loan notes	**0.7**	–
	0.7	–
Held at FVOCI:		
UK Sovereign debt	**152.1**	–
RMBS loan notes	**15.5**	285.0
	167.6	285.0
Held at amortised cost:		
UK Sovereign debt	**100.0**	–
RMBS loan notes	**223.1**	186.2
	323.1	186.2
Less: Expected credit losses	**–**	–
	323.1	186.2
	491.4	471.2

At 31 December 2021, the Group had no RMBS held at FVOCI (2020: £147.1m) and £119.5m of RMBS held at amortised cost (2020: £13.7m) 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 FVTPL, FVOCI and amortised cost in accordance with the Group's business model for each security.

20. Investment securities (Continued)

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

	2021 £m	2020 £m
At 1 January	**471.2**	635.3
Additions[1,2]	**568.2**	291.6
Disposals and maturities[3]	**(549.7)**	(457.2)
Movement in accrued interest	**0.6**	0.5
Changes in fair value	**1.1**	1.0
At 31 December	**491.4**	471.2

1. Additions include £100.0m of UK Treasury bills which had a maturity of less than three months from date of acquisition (2020: nil).
2. The prior year additions included £100.7m of retained RMBS loan notes following the deconsolidation of PMF 2020-1B.
3. The prior year disposals and maturities included £49.9m of UK Sovereign debt which had a maturity of less than three months from date of acquisition.

At 31 December 2021, investment securities included investments in unconsolidated structured entities (note 46) of £100.7m notes in PMF 2020-1B and £21.0m notes in PMF 2017-1B (2020: £100.7m notes in PMF 2020-1B and £285.0m notes in PMF 2019-1B). The investments represent the maximum exposure to loss from unconsolidated structured entities.

21. Loans and advances to customers

	2021 £m	2020 £m
Held at amortised cost:		
Loans and advances (see note 22)	**21,047.9**	19,257.1
Finance leases (see note 23)	**116.2**	65.5
	21,164.1	19,322.6
Less: Expected credit losses (see note 24)	**(101.5)**	(111.0)
	21,062.6	19,211.6
Residential mortgages held at FVTPL	**17.7**	19.1
	21,080.3	19,230.7

22. Loans and advances

	2021			2020		
	OSB £m	CCFS £m	Total £m	OSB £m	CCFS £m	Total £m
Gross carrying amount						
Stage 1	**10,393.2**	**7,685.7**	**18,078.9**	9,310.8	6,749.5	16,060.3
Stage 2	**1,142.3**	**1,269.8**	**2,412.1**	1,362.0	1,327.6	2,689.6
Stage 3	**360.4**	**99.1**	**459.5**	344.5	48.1	392.6
Stage 3 (POCI)	**45.2**	**52.2**	**97.4**	48.6	66.0	114.6
	11,941.1	**9,106.8**	**21,047.9**	11,065.9	8,191.2	19,257.1

The mortgage loan balances pledged as collateral for liabilities are:

	2021 £m	2020 £m
BoE under TFS and TFSME	**5,887.2**	5,203.2
Securitisation	**486.5**	435.4
	6,373.7	5,638.6

22. Loans and advances (Continued)

The Group's securitisation programmes, use of TFS and TFSME result in certain assets being encumbered as collateral against such funding. As at 31 December 2021, the percentage of the Group's gross customer loans and receivables that are encumbered was 30% (2020: 29%).

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

	Stage 1 £m	Stage 2 £m	Stage 3 £m	Stage 3 (POCI) £m	Total £m
At 1 January 2020	17,239.2	749.5	294.4	136.8	18,419.9
Originations[1]	3,767.0	–	–	–	3,767.0
Acquisitions	60.8	–	–	1.5	62.3
Disposals	(787.3)	(16.1)	(1.0)	–	(804.4)
Repayments and write-offs[2]	(2,119.1)	(3.9)	(41.0)	(23.7)	(2,187.7)
Transfers:					
– To Stage 1	324.8	(293.5)	(31.3)	–	–
– To Stage 2	(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
Originations[1]	**4,523.4**	**–**	**–**	**–**	**4,523.4**
Acquisitions[3]	**277.7**	**–**	**–**	**2.7**	**280.4**
Disposals[3]	**(214.4)**	**–**	**–**	**–**	**(214.4)**
Repayments and write-offs[2]	**(2,539.8)**	**(160.3)**	**(78.6)**	**(19.9)**	**(2,798.6)**
Transfers:					
– To Stage 1	**1,401.0**	**(1,370.2)**	**(30.8)**	**–**	**–**
– To Stage 2	**(1,339.7)**	**1,384.1**	**(44.4)**	**–**	**–**
– To Stage 3	**(89.6)**	**(131.1)**	**220.7**	**–**	**–**
At 31 December 2021	**18,078.9**	**2,412.1**	**459.5**	**97.4**	**21,047.9**

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

23. Finance leases

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

	2021 £m	2020 £m
Gross investment in finance leases, receivable		
Less than one year	**39.7**	21.9
Between one and five years	**87.0**	50.4
More than five years	**0.9**	1.3
	127.6	73.6
Unearned finance income	**(11.4)**	(8.1)
Net investment in finance leases	**116.2**	65.5
Net investment in finance leases, receivable		
Less than one year	**34.7**	18.6
Between one and five years	**80.6**	45.7
More than five years	**0.9**	1.2
	116.2	65.5

The Group has recognised £4.3m of ECLs on finance leases as at 31 December 2021 (2020: £2.6m).

24. Expected credit losses

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

	2021			2020		
	ECL provision £m	**Weighting %**	**Weighted ECL provision £m**	ECL provision £m	Weighting %	Weighted ECL provision £m
Scenarios						
Upside	**13.1**	**20**	**2.6**	40.1	30	12.0
Base case	**26.5**	**40**	**10.6**	54.6	40	21.8
Downside scenario	**74.0**	**28**	**20.7**	113.5	23	26.1
Severe downside scenario	**120.3**	**12**	**14.4**	166.7	7	11.7
Total weighted provisions			**48.3**			71.6
Non-modelled provisions:						
Individually assessed provisions	**–**	**–**	**40.4**	–	–	29.0
Post model adjustments[1]	**–**	**–**	**12.8**	–	–	10.4
Total provision			**101.5**			111.0

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

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

	2021			2020		
	OSB £m	**CCFS £m**	**Total £m**	OSB £m	CCFS £m	Total £m
Stage 1	**9.3**	**2.8**	**12.1**	12.3	8.9	21.2
Stage 2	**14.2**	**10.8**	**25.0**	17.9	13.1	31.0
Stage 3	**56.6**	**3.8**	**60.4**	49.4	2.3	51.7
Stage 3 (POCI)	**2.1**	**1.9**	**4.0**	4.0	3.1	7.1
	82.2	**19.3**	**101.5**	83.6	27.4	111.0

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

	Stage 1 £m	**Stage 2 £m**	**Stage 3 £m**	**Stage 3 (POCI) £m**	**Total £m**
At 1 January 2020	5.6	5.6	23.8	7.9	42.9
Originations	6.3	–	–	–	6.3
Acquisitions	–	–	0.1	–	0.1
Disposals	(0.1)	(0.2)	(0.1)	–	(0.4)
Repayments and write-offs	(0.7)	(0.3)	(4.1)	(1.1)	(6.2)
Re-measurement 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
Originations	**5.7**	**–**	**–**	**–**	**5.7**
Acquisitions	**0.1**	**–**	**–**	**0.1**	**0.2**
Repayments and write-offs	**(2.8)**	**(3.3)**	**(7.4)**	**(1.1)**	**(14.6)**
Re-measurement of loss allowance	**(21.8)**	**(0.8)**	**12.8**	**(2.1)**	**(11.9)**
Transfers:					
– To Stage 1	**11.3**	**(10.5)**	**(0.8)**	**–**	**–**
– To Stage 2	**(2.3)**	**5.1**	**(2.8)**	**–**	**–**
– To Stage 3	**(0.3)**	**(3.1)**	**3.4**	**–**	**–**
Changes in assumptions and model parameters	**1.0**	**6.6**	**3.5**	**–**	**11.1**
At 31 December 2021	**12.1**	**25.0**	**60.4**	**4.0**	**101.5**

24. Expected credit losses (Continued)

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

	2021			2020		
	Carrying value £m	**ECL £m**	**Coverage %**	Carrying value £m	ECL £m	Coverage %
Criteria:						
Relative PD movement	**1,251.6**	**17.1**	**1.37**	946.9	17.0	1.80
Qualitative measures	**1,125.0**	**7.4**	**0.66**	1,680.7	12.7	0.76
30 days past due backstop	**37.0**	**0.5**	**1.35**	63.4	1.3	2.05
Total	**2,413.6**	**25.0**	**1.04**	2,691.0	31.0	1.15

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

	2021 £m	2020 £m
Write-offs in year	**6.7**	1.9
Disposals	**–**	0.4
(Decrease)/increase in ECL provision	**(11.1)**	68.7
	(4.4)	71.0

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

Included within the Group's derivative assets is £48.7m (2020: in derivative liabilities (11.7)m) relating to derivative contracts not covered by master netting agreements on which 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 2021					
Derivative assets	**12,968.3**	**245.2**	**2,345.4**	**10,235.7**	**142.0**
Derivative liabilities	**7,378.0**	**1,361.0**	**4,747.0**	**1,150.0**	**120.0**
	20,346.3	**1,606.2**	**7,092.4**	**11,385.7**	**262.0**
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

The Group has 841 (2020: 925) derivative contracts with an average fixed rate of 0.34% (2020: 0.47%).

27. Hedge accounting

	2021 £m	2020 £m
Hedged assets		
Current hedge relationships	**(190.9)**	197.5
Swap inception adjustment	**(26.2)**	(100.5)
Cancelled hedge relationships	**78.2**	84.6
Fair value adjustments on hedged assets	**(138.9)**	181.6
Hedged liabilities		
Current hedge relationships	**19.6**	(11.8)
Swap inception adjustment	**3.3**	6.2
Cancelled hedge relationships	**(1.4)**	–
De-designated hedge relationships	**(1.8)**	(2.6)
Fair value adjustments on hedged liabilities	**19.7**	(8.2)

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

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

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

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

	2021		2020	
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	**12,364.3**	**12,550.2**	11,282.4	11,159.7
Cumulative fair value adjustments	**(190.9)**	**187.4**	197.5	(156.9)
Fair value adjustments for the period	**(297.8)**	**298.9**	107.3	(117.4)
Cumulative fair value on cancelled hedge relationships	**78.2**	**–**	84.6	–

The cumulative fair value adjustments of the hedging instrument comprise £187.7m (2020: £0.7m) recognised within derivative assets and £0.3m (2020: £157.6m) recognised within derivative liabilities.

27. Hedge accounting (Continued)

The movement in cancelled hedge relationships is as follows:

Hedged assets	2021 £m	2020 £m
At 1 January	**84.6**	20.4
New cancellations[1]	**33.5**	86.1
Amortisation	**(39.9)**	(17.9)
Derecognition of hedged item	**–**	(4.0)
At 31 December	**78.2**	84.6

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:

	2021		2020	
Customer deposits	Hedged item £m	Hedging instrument £m	Hedged item £m	Hedging instrument £m
Carrying amount of hedged item/nominal value of hedging instrument	**6,386.0**	**6,390.0**	6,849.9	6,858.0
Cumulative fair value adjustments	**19.6**	**(18.5)**	(11.8)	9.2
Fair value adjustments for the period	**27.4**	**(26.1)**	(4.1)	6.8

The cumulative fair value adjustments of the hedging instrument comprise £0.3m (2020: £9.4m) recognised within derivative assets and £18.8m (2020: £0.2m) recognised within derivative liabilities.

28. Other assets

	2021 £m	2020 £m
Prepayments	**9.3**	7.3
Other assets	**0.9**	1.8
	10.2	9.1

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 1 January 2020	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
Profit or loss (charge)/credit	**(0.4)**	**0.1**	**1.7**	**–**	**(1.2)**	**0.2**
Transferred to corporation tax liability	**–**	**–**	**(1.4)**	**–**	**–**	**(1.4)**
Tax taken directly to OCI	**–**	**–**	**–**	**–**	**0.5**	**0.5**
Tax taken directly to equity	**–**	**–**	**1.6**	**–**	**–**	**1.6**
At 31 December 2021	**0.5**	**0.5**	**5.0**	**0.7**	**(1.1)**	**5.6**

1. Others includes deferred taxation assets recognised on financial assets classified as FVOCI, derivatives and short-term timing differences.

In 2021, the profit or loss (charge)/credit includes a credit of £0.4m from the deferred tax rate change (2020: charge of £0.3m).

As at 31 December 2021, the Group had £3.5m (2020: £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. 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 2020	19.3	2.7	14.4	12.7	1.3	50.4
Additions[1]	–	0.3	2.5	0.6	–	3.4
Disposals and write-offs[2]	–	–	(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
Additions[1]	**–**	**–**	**2.6**	**0.6**	**0.1**	**3.3**
Disposals and write-offs[2]	**(2.8)**	**(0.1)**	**(1.3)**	**(0.5)**	**(0.2)**	**(4.9)**
Foreign exchange difference	**0.1**	**–**	**0.1**	**–**	**–**	**0.2**
At 31 December 2021	**16.5**	**2.9**	**15.2**	**13.2**	**1.2**	**49.0**
Depreciation						
At 1 January 2020	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[2]	–	–	(3.0)	(0.2)	–	(3.2)
At 31 December 2020	1.4	0.9	6.0	2.6	0.3	11.2
Charged in year[3]	**0.9**	**0.2**	**2.9**	**1.5**	**0.1**	**5.6**
Disposals and write-offs[2]	**(0.8)**	**(0.1)**	**(1.3)**	**(0.5)**	**(0.2)**	**(2.9)**
At 31 December 2021	**1.5**	**1.0**	**7.6**	**3.6**	**0.2**	**13.9**
Net book value						
At 31 December 2021	**15.0**	**1.9**	**7.6**	**9.6**	**1.0**	**35.1**
At 31 December 2020	17.8	2.1	7.8	10.5	1.0	39.2

1. Additions include modifications of £0.4m (2020: nil) of right of use assets.
2. During 2021 the Group disposed of a property for proceeds of £2.0m and wrote off fully depreciated assets of £2.9m. In 2020, the Group wrote off fully depreciated assets of £3.2m.
3. Includes £0.6m of impairment on property sold during the year which is included in note 13 Integration costs (2020: nil).

31. Intangible assets

	Development costs £m	Computer software and licences £m	Assets arising on Combination[2] £m	Total £m
Cost				
At 1 January 2020	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
Additions	**1.4**	**2.8**	**–**	**4.2**
Disposals and write-offs[1]	**–**	**(3.5)**	**(0.2)**	**(3.7)**
At 31 December 2021	**3.7**	**16.0**	**23.4**	**43.1**
Amortisation				
At 1 January 2020	–	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
Charged in year	**0.5**	**3.2**	**5.8**	**9.5**
Impairment reversal in the year	**–**	**–**	**(3.1)**	**(3.1)**
Disposals and write-offs[1]	**–**	**(3.5)**	**(0.2)**	**(3.7)**
At 31 December 2021	**0.6**	**8.8**	**15.3**	**24.7**
Net book value				
At 31 December 2021	**3.1**	**7.2**	**8.1**	**18.4**
At 31 December 2020	2.2	7.6	10.8	20.6

1. During the year the Group wrote off fully amortised assets.
2. Assets arising on Combination comprise broker relationships of £5.0m (2020: £5.8m), technology of £1.9m (2020: £2.9m), brand name of £0.8m (2020: £1.2m) and banking licence of £0.4m (2020: £0.9m). The carrying value of the intangible assets are reviewed each reporting period, a £3.1m impairment reversal (2020: £7.0m impairment charge) was recognised in relation to broker relationships due to less severe impacts of the COVID-19 pandemic than originally estimated.

The Directors have considered the carrying value of intangible assets and determined that there are no indications of impairment at the year end.

32. Amounts owed to credit institutions

	2021 £m	2020 £m
BoE TFS	–	2,568.6
BoE TFSME	**4,203.1**	1,000.1
Commercial repo	**0.5**	0.1
Loans from credit institutions	**0.6**	1.4
Cash collateral and margin received	**115.4**	–
	4,319.6	3,570.2

33. Amounts owed to retail depositors

	2021			2020		
	OSB £m	CCFS £m	Total £m	OSB £m	CCFS £m	Total £m
Fixed rate deposits	**6,221.7**	**4,703.4**	**10,925.1**	6,275.6	4,781.4	11,057.0
Variable rate deposits	**3,517.7**	**3,083.6**	**6,601.3**	3,429.7	2,116.4	5,546.1
	9,739.4	**7,787.0**	**17,526.4**	9,705.3	6,897.8	16,603.1

34. Amounts owed to other customers

	2021 £m	2020 £m
Fixed rate deposits	**50.3**	46.0
Variable rate deposits	**42.3**	26.9
	92.6	72.9

35. Debt securities in issue

	2021 £m	2020 £m
Asset-backed loan notes at amortised cost	**460.3**	421.9
Amount due for settlement after 12 months	**460.3**	421.9
	460.3	421.9

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

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

Interest is payable at fixed margins above SONIA.

As at 31 December 2021, notes were issued through the following funding vehicles:

	2021 £m	2020 £m
CMF 2020-1 plc	**199.8**	288.6
Canterbury Finance No.3 plc	**76.9**	133.3
Canterbury Finance No.4 plc	**183.6**	–
	460.3	421.9

36. Lease liabilities

	2021 £m	2020 £m
At 1 January	**11.7**	13.3
New leases	**0.7**	0.1
Lease terminated	**(0.1)**	–
Lease repayments	**(1.9)**	(2.0)
Interest accruals	**0.3**	0.3
At 31 December	**10.7**	11.7

During the year, the Group incurred expenses of £0.2m (2020: £0.7m) in relation to short-term leases and nil (2020: nil) in relation to low-value assets.

37. Other liabilities

	2021 £m	2020 £m
Falling due within one year:		
Accruals	**23.2**	19.7
Deferred income	**0.9**	0.6
Other creditors	**5.5**	7.5
	29.6	27.8

38. Provisions and contingent liabilities

The Financial Services Compensation Scheme (FSCS) provides protection of deposits for the customers of authorised financial services firms, should a firm collapse. FSCS protects retail deposits of up to £85k for single account holders and £170k for joint holders. As OSB and CCFS both hold banking licences, the full FSCS protection is available to customers of each Bank.

The compensation paid out to consumers is initially funded through loans from the BoE and HM Treasury. In order to repay the loans and cover its costs, the FSCS charges levies on firms regulated by the PRA and the Financial Conduct Authority (FCA). The Group is among those firms and pays the FSCS a levy based on its share of total UK deposits.

The Group has reviewed its current exposure to Payment Protection Insurance (PPI) claims, following the FCA deadline for PPI claims on 29 August 2019 and has recognised a provision of £0.3m as at 31 December 2021 (2020: £0.3m). The Group has maintained its provision for FCA conduct rules exposures of £1.2m (2020: £1.2m) to cover potential future claims.

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

	2021				2020			
	FSCS £m	**Other regulatory provisions £m**	**ECL on undrawn loan facilities £m**	**Total £m**	FSCS £m	Other regulatory provisions £m	ECL on undrawn loan facilities £m	Total £m
At 1 January	**0.1**	**1.5**	**0.2**	**1.8**	(0.2)	1.6	0.2	1.6
Refund/(paid) during the year	**–**	**–**	**–**	**–**	0.3	(0.2)	–	0.1
Charge	**–**	**–**	**0.2**	**0.2**	–	0.1	–	0.1
At 31 December	**0.1**	**1.5**	**0.4**	**2.0**	0.1	1.5	0.2	1.8

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

39. Deferred taxation liability

The deferred tax liability recognised on the Combination relates to the timing differences of the recognition of assets and liabilities at fair value, where the fair values will unwind in future periods in line with the underlying asset or liability. The deferred tax liability has been measured using the relevant rates for the expected periods of utilisation.

	CCFS Combination £m
At 1 January 2020	63.1
Profit or loss credit	(14.8)
At 31 December 2020	48.3
Profit or loss credit	**(8.5)**
At 31 December 2021	**39.8**

In 2021, the profit or loss credit includes a debit of £5.6m impact of the deferred tax rate change (2020: a debit of £4.7m).

40. Subordinated liabilities

	2021 £m	2020 £m
At 1 January	**10.5**	10.6
Repayment of debt at maturity	**(0.2)**	(0.1)
At 31 December	**10.3**	10.5

40. Subordinated liabilities (Continued)

The Group's outstanding subordinated liabilities are summarised below:

	2021 £m	2020 £m
Linked to LIBOR:		
Floating rate subordinated loans 2022 (LIBOR +5%)	–	0.1
Floating rate subordinated loans 2022 (LIBOR +2%)	**0.1**	0.2
Fixed rate:		
Subordinated liabilities 2024 (7.45%)	**10.2**	10.2
	10.3	10.5

The LIBOR-linked subordinated liabilities had a rate reset in September 2021 before the cessation of LIBOR, these subordinated liabilities are due to mature in September 2022.

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

	2021 £m	2020 £m
Sterling PSBs (4.5991%)	–	22.3
Sterling PSBs (4.6007%)	**15.2**	15.3
	15.2	37.6

The bonds are listed on the London Stock Exchange.

The £22.0m PSBs were redeemed on 7 September 2021 following permission from the PRA and approval by the OneSavings Bank plc Board.

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 32) £m	Debt securities in issue (see note 35) £m	Subordinated liabilities (see note 40) £m	PSBs (see note 41) £m	Total £m
At 1 January 2020	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
Cash movements:					
Principal drawdowns	**4,863.0**	**195.6**	**–**	**–**	**5,058.6**
Principal repayments	**(4,113.7)**	**(159.5)**	**(0.2)**	**(22.0)**	**(4,295.4)**
Non-cash movements:					
Accrued interest movement	**0.1**	**2.3**	**–**	**(0.4)**	**2.0**
At 31 December 2021	**4,319.6**	**460.3**	**10.3**	**15.2**	**4,805.4**

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43. Share capital

Ordinary shares	Number of shares issued and fully paid	Nominal value £m	Premium £m
At 1 January 2020	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	–
Capital reduction of £3.04 nominal value shares to £0.01 nominal value shares	–	(1,355.3)	–
Shares issued under OSBG employee share plans	1,315,075	–	0.7
At 31 December 2021	**448,627,855**	**4.5**	**0.7**

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:

	2021 £m	2020 £m
Share-based payment	**13.4**	7.8
Transfer	**(1,355.3)**	(1,355.3)
Own shares	**(3.5)**	(4.0)
FVOCI	**0.6**	1.0
Foreign exchange	**(1.1)**	(1.0)
Non-controlling interest securities	**–**	60.0
AT1 securities	**150.0**	–
	(1,195.9)	(1,291.5)

Transfer reserve

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 2021, the EBT held 848,221 OSBG shares (2020: 1,001,238 OSBG shares). The Group and Company show these shares as a deduction from equity, being the cost at which the shares were acquired of £3.5m (2020: £4.0m).

FVOCI reserve

The FVOCI reserve represents the cumulative net change in the fair value of investment securities measured at FVOCI.

Foreign exchange reserve

The foreign exchange reserve relates to the revaluation of the Group's Indian subsidiary, OSB India Private Limited.

Non-controlling interest securities

Non-controlling interest securities comprised £60.0m of Fixed Rate Resetting Perpetual Subordinated Contingent Convertible Securities issued by OSB. The securities previously qualified as AT1 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 Common Equity Tier 1 (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. These were redeemed on 7 October 2021 at a premium, with the premium of £3.5m recognised directly in equity.

44. Other reserves (Continued)

AT1 Securities

On 5 October 2021, OSBG issued AT1 securities. AT1 securities comprise £150.0m of Fixed Rate Resetting Perpetual Subordinated Contingent Convertible Securities that qualify as AT1 capital under CRD IV. The securities will be subject to full conversion into ordinary shares of OSBG in the event that the Group's CET1 capital ratio falls below 7%. The securities will pay interest at a rate of 6% per annum until the first reset date of 7 April 2027, with the reset interest rate equal to 539.3 basis points over the 5-year Gilt Rate (benchmark gilt) for such a period. Interest is paid semi-annually in April and October. OSBG may, at any time, cancel any interest payment at its full discretion and must cancel interest payments in certain circumstances specified in the terms and conditions of the securities. The securities are perpetual with no fixed redemption date. OSBG may, in its discretion and subject to satisfying certain conditions, redeem all (but not some) of the AT1 securities at the principal amount outstanding plus any accrued but unpaid interest from the first reset date and on any interest payment date thereafter.

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 2021 (2020: nil).

b) The Group's minimum lease commitments under operating leases not subject to IFRS 16 are summarised in the table below:

	2021 £m	2020 £m
Land and buildings: due within:		
One year	**–**	0.1
	–	0.1

c) Undrawn loan facilities:

	2021 £m	2020 £m
OSB mortgages	**706.4**	547.2
CCFS mortgages	**434.5**	420.8
Asset finance	**14.4**	11.5
	1,155.3	979.5

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 2021 (2020: 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, RMBS and UK sovereign debt. These are funded by a combination of financial liabilities and equity instruments. Financial liability funding comes predominantly from retail deposits and drawdowns under the BoE TFS and TFSME, supported by debt securities, subordinated debt, wholesale and other funding. Equity instruments include own shares and AT1 securities meeting the equity classification criteria. The Group's main activity is mortgage lending; it raises funds or invests in particular types of financial assets to meet customer demand and manage the risks arising from its operations. The Group does not trade in financial instruments for speculative purposes.

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.

46. Risk management (Continued)

Types of derivatives and uses

The derivative instruments used by the Group in managing its risk exposures are interest rate swaps. Interest rate swaps convert fixed interest rates to floating or vice versa. As with other derivatives, the underlying product is not sold and payments are based on notional principal amounts.

Unhedged fixed rate liabilities create the risk of paying above-the-market rate if interest rates subsequently decrease. Unhedged fixed rate mortgages and liquid assets bear the opposite risk of income below-the-market rate when rates go up. While fixed rate assets and liabilities naturally hedge each other to a certain extent, this hedge is usually never perfect because of maturity mismatches and principal amounts.

The Group uses swaps to convert its instruments, such as mortgages, deposits and liquid assets, from fixed or base rate-linked rates to reference linked variable rates. This ensures a guaranteed margin between the interest income and interest expense, regardless of changes in the market rates.

IBOR transition

The PRA and FCA have continued to encourage banks to transition away from using LIBOR as a benchmark in all operations before the end of 2021. During 2021 the FCA confirmed that LIBOR would be discontinued on 31 December 2021.

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

The Group has no exposure to existing IBORs, other than to GBP LIBOR. The Group no longer offers any LIBOR-linked loans and during 2021 all remaining LIBOR-linked derivatives with a maturity date post Q1 2022 were cancelled and new SONIA-linked derivatives entered into.

The Group adopted the Phase 1 amendments 'Interest Rate Benchmark reform: Amendments to IFRS 9/IAS 39 and IFRS 7' in 2020. 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 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 has adopted 'Interest Rate Benchmark Reform – Phase 2: Amendments to IFRS 9 Financial Instruments, IAS 39 Financial Instruments: Recognition and Measurement, IFRS 7 Financial Instruments: Disclosures, IFRS 4 Insurance Contracts and IFRS 16 Leases' which was issued in August 2020 and became mandatory for annual reporting periods beginning on or after 1 January 2021 (see note 2 aa)), enabling the Group to reflect the effects of transitioning from IBOR to alternative benchmark interest rates (also referred to as 'risk free rates' or RFRs) without giving rise to accounting impacts that would not provide useful information to users of financial statements. The Group, in regards to hedge accounting has cancelled the LIBOR hedges to initiate new SONIA hedges.

Mortgages

At 31 December 2021, the Group had £6,293.0m (31 December 2020: £8,001.7m) of LIBOR-linked lending, including floating-rate mortgages on LIBOR-linked rates and fixed-rate mortgages that would have reverted to LIBOR-linked rates in the future, out of total mortgages balances of £21,047.9m (31 December 2020: £19,257.1m).

The Group has worked through the back book transition for existing loans. Direct communication with impacted customers regarding the cessation of LIBOR and its implications commenced during the first half of 2021 and is now complete. All necessary systemic changes including IT system modifications are complete and the remaining LIBOR-linked mortgage balances will transition to a LIBOR replacement rate, defined as the 3-month SONIA benchmark rate plus the ISDA fixed adjustment spread of 0.1193%, at their first rate resets in or after Q1 2022.

Investment securities

At 31 December 2021, the Group had £34.8m (2020: £118.7m) of GBP LIBOR-linked investment securities, comprising RMBS loan notes, which will either mature or transfer to SONIA coupons during Q1 2022.

Where LIBOR-linked investment securities do not transfer to adopting SONIA as a reference rate, a synthetic LIBOR rate is temporarily available for issuers to adopt. There are no concerns on the performance of these investments. The Group will only purchase SONIA-linked investment securities in future.

The FCA has confirmed it will allow the temporary use of a synthetic LIBOR rate in all legacy LIBOR contracts, other than cleared derivatives, that have not been changed by 31 December 2021. Synthetic LIBOR will be calculated in a way that does not rely on submissions from panel banks, and is instead based on RFRs. The availability of synthetic LIBOR is not guaranteed beyond the end of 2022.

Retail savings

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

46. Risk management (Continued)

Non-controlling interest securities

The £60.0m non-controlling interest securities, which were paying interest at a rate of 9.125% per annum until their first reset date on 25 May 2022 when they would have reverted to a LIBOR swap rate, were redeemed during October 2021.

Derivatives

As at 31 December 2021, the total nominal amount of the Group's derivatives was £20,346.3m (31 December 2020: £19,080.2m), of which the Group had LIBOR-linked swaps with a nominal value of £436.0m (31 December 2020: £8,020.0m) and a fair value of £(0.2)m (31 December 2020: £89.1m) hedging assets and liabilities.

The remaining LIBOR-linked swaps at 31 December 2021 will mature during Q1 2022.

Types of risk

The principal financial risks to which the Group is exposed are credit, liquidity and market risks, the latter comprising interest and exchange rate risk. In addition to financial risks, the Group is exposed to various other risks, most notably operational, conduct and compliance/regulatory, which are covered in the Risk review on pages 50 to 73.

Credit risk

Credit risk is the risk that losses may arise as a result of the Group's borrowers or market counterparties failing to meet their obligations to repay.

The Group has adopted the Standardised Approach for assessment of credit risk regulatory capital requirements. This approach considers risk weightings as defined under Basel II and Basel III principles.

The classes of financial instruments to which the Group is most exposed are loans and advances to customers, loans and advances to credit institutions, cash in the BoE call account, call and current accounts with other credit institutions and investment securities. The maximum credit risk exposure equals the total carrying amount of the above categories plus off-balance sheet undrawn committed mortgage facilities.

Credit risk – loans and advances to customers

Credit risk associated with mortgage lending is largely driven by the housing market and level of unemployment. A recession and/or high interest rates could cause pressure within the market, resulting in rising levels of arrears and repossessions.

All loan applications are assessed with reference to the Group's Lending Policy. Changes to the policy are approved by the Group Risk Committee, with mandates set for the approval of loan applications.

The Group Credit Committee and ALCO regularly monitor lending activity, taking appropriate actions to reprice products and adjust lending criteria in order to control risk and manage exposure. Where necessary and appropriate, changes to the Lending Policy are recommended to the Group Risk Committee.

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

	2021					
	OSB		**CCFS**		**Total**	
	Gross carrying amount £m	**Capped collateral held £m**	**Gross carrying amount £m**	**Capped collateral held £m**	**Gross carrying amount £m**	**Capped collateral held £m**
Stage 1	**10,502.7**	**10,478.1**	**7,685.7**	**7,684.6**	**18,188.4**	**18,162.7**
Stage 2	**1,143.8**	**1,141.9**	**1,269.8**	**1,269.7**	**2,413.6**	**2,411.6**
Stage 3	**365.6**	**337.9**	**99.1**	**99.1**	**464.7**	**437.0**
Stage 3 (POCI)	**45.2**	**43.6**	**52.2**	**52.2**	**97.4**	**95.8**
	12,057.3	**12,001.5**	**9,106.8**	**9,105.6**	**21,164.1**	**21,107.1**

	2020					
	OSB		CCFS		Total	
	Gross carrying amount £m	Capped collateral held £m	Gross carrying amount £m	Capped collateral held £m	Gross carrying amount £m	Capped collateral held £m
Stage 1	9,366.8	9,303.4	6,749.5	6,747.9	16,116.3	16,051.3
Stage 2	1,363.4	1,359.8	1,327.6	1,327.6	2,691.0	2,687.4
Stage 3	352.6	323.3	48.1	48.1	400.7	371.4
Stage 3 (POCI)	48.6	48.4	66.0	66.0	114.6	114.4
	11,131.4	11,034.9	8,191.2	8,189.6	19,322.6	19,224.5

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

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:

	2021				2020			
	OSB £m	CCFS £m	Total £m	%	OSB £m	CCFS £m	Total £m	%
Band								
0% – 50%	2,293.3	428.2	2,721.5	13	1,740.3	419.3	2,159.6	11
50% – 60%	1,935.3	490.1	2,425.4	11	1,462.0	483.3	1,945.3	10
60% – 70%	4,179.0	1,241.9	5,420.9	26	2,813.4	1,109.3	3,922.7	20
70% – 80%	2,887.7	6,100.7	8,988.4	43	3,942.9	5,144.3	9,087.2	47
80% – 90%	513.2	844.4	1,357.6	6	879.1	1,033.7	1,912.8	10
90% – 100%	77.8	1.5	79.3	–	105.8	1.3	107.1	1
>100%	171.0	–	171.0	1	187.9	–	187.9	1
Total loans before provisions	12,057.3	9,106.8	21,164.1	100	11,131.4	8,191.2	19,322.6	100

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

	2021				2020			
OSB	BTL/SME £m	Residential £m	Total £m	%	BTL/SME £m	Residential £m	Total £m	%
Band								
0% – 50%	1,007.6	1,285.7	2,293.3	19	795.7	944.6	1,740.3	16
50% – 60%	1,693.7	241.6	1,935.3	16	1,228.1	233.9	1,462.0	13
60% – 70%	3,903.0	276.0	4,179.0	35	2,602.1	211.3	2,813.4	25
70% – 80%	2,647.7	240.0	2,887.7	24	3,693.4	249.5	3,942.9	35
80% – 90%	452.8	60.4	513.2	4	584.5	294.6	879.1	8
90% – 100%	66.2	11.6	77.8	1	89.4	16.4	105.8	1
>100%	165.1	5.9	171.0	1	171.4	16.5	187.9	2
Total loans before provisions	9,936.1	2,121.2	12,057.3	100	9,164.6	1,966.8	11,131.4	100

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

	2021				
OSB	Buy-to-Let £m	Commercial £m	Residential development £m	Funding lines £m	Total £m
Band					
0% – 50%	804.0	118.9	19.0	65.7	1,007.6
50% – 60%	1,532.0	105.1	40.1	16.5	1,693.7
60% – 70%	3,708.1	130.1	61.6	3.2	3,903.0
70% – 80%	2,423.7	224.0	–	–	2,647.7
80% – 90%	249.5	165.9	–	37.4	452.8
90% – 100%	46.4	19.8	–	–	66.2
>100%	104.0	30.6	–	30.5	165.1
Total loans before provisions	8,867.7	794.4	120.7	153.3	9,936.1

	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

46. Risk management (Continued)

The table below shows the LTV analysis of the OSB Residential sub-segment:

OSB	2021 First charge £m	2021 Second charge £m	2021 Funding lines £m	2021 Total £m	2020 First charge £m	2020 Second charge £m	2020 Funding lines £m	2020 Total £m
Band								
0% – 50%	**1,173.3**	**111.8**	**0.6**	**1,285.7**	835.8	105.1	3.7	944.6
50% – 60%	**189.8**	**51.8**	**–**	**241.6**	167.2	64.5	2.2	233.9
60% – 70%	**240.2**	**35.8**	**–**	**276.0**	151.7	58.1	1.5	211.3
70% – 80%	**221.3**	**18.7**	**–**	**240.0**	208.1	39.9	1.5	249.5
80% – 90%	**56.5**	**3.9**	**–**	**60.4**	274.8	19.3	0.5	294.6
90% – 100%	**10.3**	**1.3**	**–**	**11.6**	12.4	3.6	0.4	16.4
>100%	**4.5**	**1.4**	**–**	**5.9**	10.7	4.9	0.9	16.5
Total loans before provisions	**1,895.9**	**224.7**	**0.6**	**2,121.2**	1,660.7	295.4	10.7	1,966.8

The tables below show the LTV analysis of the four CCFS sub-segments:

CCFS	2021 Buy-to-Let £m	2021 Residential £m	2021 Bridging £m	2021 Second charge lending £m	2021 Total £m	2021 %
Band						
0% – 50%	**104.8**	**261.0**	**30.2**	**32.2**	**428.2**	**5**
50% – 60%	**205.4**	**246.8**	**9.3**	**28.6**	**490.1**	**5**
60% – 70%	**702.4**	**480.1**	**14.9**	**44.5**	**1,241.9**	**14**
70% – 80%	**4,827.7**	**1,234.5**	**1.4**	**37.1**	**6,100.7**	**67**
80% – 90%	**560.5**	**268.9**	**0.5**	**14.5**	**844.4**	**9**
90% – 100%	**0.1**	**1.4**	**–**	**–**	**1.5**	**–**
Total loans before provisions	**6,400.9**	**2,492.7**	**56.3**	**156.9**	**9,106.8**	**100**

CCFS	2020 Buy-to-Let £m	2020 Residential £m	2020 Bridging £m	2020 Second charge lending £m	2020 Total £m	2020 %
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

46. Risk management (Continued)

Forbearance measures undertaken

The Group has a range of options available where borrowers experience financial difficulties that impact their ability to service their financial commitments under the loan agreement. These options are explained on pages 71 and 72.

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 2021**	**At 31 December 2021 £m**	Number of accounts 2020	At 31 December 2020 £m
Interest-only switch	**159**	**18.6**	108	14.5
Interest rate reduction	**437**	**8.1**	21	2.2
Term extension	**271**	**16.6**	431	27.1
Payment deferral	**499**	**43.0**	447	39.3
Voluntary-assisted sale	**7**	**0.8**	2	0.1
Payment concession (reduced monthly payments)	**51**	**12.1**	34	2.1
Capitalisation of interest	**65**	**1.1**	2	0.1
Full or partial debt forgiveness	**1,078**	**22.6**	11	0.2
Total	**2,567**	**122.9**	1,056	85.6
Loan type				
First charge owner-occupier	**424**	**34.8**	176	27.1
Second charge owner-occupier[1]	**1,931**	**38.7**	665	22.7
Buy-to-Let	**160**	**34.6**	49	8.9
Commercial	**52**	**14.8**	166	26.9
Total	**2,567**	**122.9**	1,056	85.6

The 2020 comparatives have been amended due to a revision to the calculation methodology.

1. Through 2021 the Group undertook an exercise and provided a series of forbearance solutions and options to long-term arrears customers on our Second charge portfolio to support and remedy the accrued delinquency.

The COVID-19 payment deferrals scheme ended during 2021. At 31 December 2020 this represented only 1.3% of the Group's loan book by value. For further information on forbearance see the Risk review on page 71.

Geographical analysis by region

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

	Group 2021				Group 2020[1]			
Region	**OSB £m**	**CCFS £m**	**Total £m**	**%**	OSB £m	CCFS £m	Total £m	%
East Anglia	**361.8**	**967.1**	**1,328.9**	**6**	406.1	866.2	1,272.3	7
East Midlands	**543.8**	**555.8**	**1,099.6**	**5**	452.6	463.4	916.0	5
Greater London	**4,983.7**	**3,052.6**	**8,036.3**	**39**	4,842.0	2,837.4	7,679.4	40
Guernsey	**26.3**	**–**	**26.3**	**–**	35.8	–	35.8	–
Jersey	**99.3**	**–**	**99.3**	**–**	122.9	–	122.9	1
North East	**153.9**	**244.4**	**398.3**	**2**	139.0	208.4	347.4	2
North West	**762.3**	**755.0**	**1,517.3**	**7**	623.7	674.8	1,298.5	7
Northern Ireland	**10.9**	**–**	**10.9**	**–**	12.9	–	12.9	–
Scotland	**35.2**	**226.0**	**261.2**	**1**	41.3	214.2	255.5	1
South East	**2,792.6**	**1,452.4**	**4,245.0**	**20**	2,401.2	1,316.7	3,717.9	19
South West	**825.5**	**544.3**	**1,369.8**	**7**	752.7	478.5	1,231.2	6
Wales	**272.1**	**240.6**	**512.7**	**2**	246.8	209.9	456.7	2
West Midlands	**706.9**	**629.8**	**1,336.7**	**7**	738.5	529.2	1,267.7	7
Yorks and Humberside	**366.8**	**438.8**	**805.6**	**4**	250.4	392.5	642.9	3
Total loans before provisions	**11,941.1**	**9,106.8**	**21,047.9**	**100**	11,065.9	8,191.2	19,257.1	100

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

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:

2021	Stage 1 £m	Stage 2 £m	Stage 3 £m	Stage 3 (POCI) £m	Total £m
OSB					
Excellent	**5,305.7**	**148.4**	**–**	**–**	**5,454.1**
Good	**5,079.2**	**687.1**	**–**	**–**	**5,766.3**
Satisfactory	**113.5**	**232.4**	**–**	**–**	**345.9**
Lower	**4.3**	**75.9**	**–**	**–**	**80.2**
Impaired	**–**	**–**	**365.6**	**–**	**365.6**
POCI	**–**	**–**	**–**	**45.2**	**45.2**
CCFS					
Excellent	**5,126.6**	**319.1**	**–**	**–**	**5,445.7**
Good	**2,519.6**	**693.9**	**–**	**–**	**3,213.5**
Satisfactory	**35.0**	**147.7**	**–**	**–**	**182.7**
Lower	**4.5**	**109.1**	**–**	**–**	**113.6**
Impaired	**–**	**–**	**99.1**	**–**	**99.1**
POCI	**–**	**–**	**–**	**52.2**	**52.2**
	18,188.4	**2,413.6**	**464.7**	**97.4**	**21,164.1**

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)

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

Group 2021	Excellent £m	Good £m	Satisfactory £m	Total £m
Investment securities	491.4	–	–	491.4
Loans and advances to credit institutions	2,688.9	151.8	2.9	2,843.6
Derivative assets	43.0	142.7	–	185.7
	3,223.3	294.5	2.9	3,520.7

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

Credit risk – loans and advances to credit institutions and investment securities

The Group holds treasury instruments in order to meet liquidity requirements and for general business purposes. The credit risk arising from these investments is closely monitored and managed by the Group's Treasury function. In managing these assets, Group Treasury operates within guidelines laid down in the Group Market and Liquidity Risk Policy approved by ALCO and performance is monitored and reported to ALCO monthly, including through the use of an internally developed rating model based on counterparty credit default swap spreads.

The Group has limited exposure to emerging markets (Indian operations) and non-investment grade debt. ALCO is responsible for approving treasury counterparties.

During the year, the average balance of cash in hand, loans and advances to credit institutions and investment securities on a monthly basis was £2,926.0m (2020: £3,196.0m).

The tables below show the industry sector of the Group's loans and advances to credit institutions and investment securities:

	2021		2020	
	£m	%	£m	%
BoE[1]	2,555.9	76	2,308.8	73
Other banks	287.7	9	367.4	12
Central government	252.1	8	–	–
Securitisation	239.3	7	471.2	15
Total	3,335.0	100	3,147.4	100

1. Balances with the BoE include £59.5m (2020: £52.3m) 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:

	2021		2020	
	£m	%	£m	%
United Kingdom	3,328.0	100	3,137.5	100
India	7.0	–	9.9	–
Total	3,335.0	100	3,147.4	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.

46. Risk management (Continued)

The Board has delegated the responsibility for liquidity management to the Chief Executive Officer, assisted by ALCO, with day-to-day management delegated to Treasury as detailed in the Group Market and Liquidity Risk Policy. The Board is responsible for setting risk appetite limits over the level and maturity profile of funding and for monitoring the composition of the Group financial position. 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 recovery plan, which are designed to capture liquidity stresses in advance in order to allow sufficient time for management action to take effect. These are monitored daily by the Risk team, with breaches immediately reported to the Group Chief Risk Officer, Chief Executive Officer, Chief Financial Officer and the Group Treasurer.

The tables below provide a contractual maturity analysis of the Group's financial assets and liabilities:

2021	Carrying amount £m	On demand £m	Less than 3 months £m	3 – 12 months £m	1 – 5 years £m	More than 5 years £m
Financial liability by type						
Amounts owed to retail depositors	**17,526.4**	**5,004.6**	**2,350.3**	**7,458.5**	**2,713.0**	**–**
Amounts owed to credit institutions	**4,319.6**	**42.1**	**1.0**	**–**	**4,203.2**	**73.3**
Amounts owed to other customers	**92.6**	**14.8**	**8.1**	**45.0**	**24.7**	**–**
Derivative liabilities	**19.7**	**–**	**0.7**	**10.4**	**8.6**	**–**
Debt securities in issue	**460.3**	**–**	**–**	**–**	**460.3**	**–**
Lease liabilities	**10.7**	**–**	**0.3**	**0.6**	**3.7**	**6.1**
Subordinated liabilities	**10.3**	**–**	**–**	**0.1**	**10.2**	**–**
PSBs	**15.2**	**–**	**–**	**–**	**15.2**	**–**
Total liabilities	**22,454.8**	**5,061.5**	**2,360.4**	**7,514.6**	**7,438.9**	**79.4**
Financial asset by type						
Cash in hand	**0.5**	**0.5**	**–**	**–**	**–**	**–**
Loans and advances to credit institutions	**2,843.6**	**2,667.8**	**52.0**	**10.1**	**–**	**113.7**
Investment securities	**491.4**	**–**	**172.7**	**6.1**	**312.6**	**–**
Loans and advances to customers	**21,080.3**	**3.3**	**163.8**	**383.5**	**1,327.4**	**19,202.3**
Derivative assets	**185.7**	**–**	**0.1**	**5.4**	**179.9**	**0.3**
Total assets	**24,601.5**	**2,671.6**	**388.6**	**405.1**	**1,819.9**	**19,316.3**
Cumulative liquidity gap		**(2,389.9)**	**(4,361.7)**	**(11,471.2)**	**(17,090.2)**	**2,146.7**

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	–
PSBs	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)

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:

2021	Carrying amount £m	Gross inflow/ outflow £m	Up to 3 months £m	3 – 12 months £m	1 – 5 years £m	More than 5 years £m
Financial liability by type						
Amounts owed to retail depositors	17,526.4	17,554.7	9,305.7	5,883.7	2,365.3	–
Amounts owed to credit institutions	4,319.6	4,359.8	45.2	5.2	4,236.1	73.3
Amounts owed to other customers	92.6	92.6	22.9	45.0	24.7	–
Derivative liabilities	19.7	6.0	(0.4)	5.1	1.2	0.1
Debt securities in issue	460.3	473.2	25.1	75.0	373.1	–
Lease liabilities	10.7	13.1	0.6	1.6	7.7	3.2
Subordinated liabilities	10.3	12.2	0.2	0.7	11.3	–
PSBs	15.2	16.8	0.2	0.5	16.1	–
Total liabilities	22,454.8	22,528.4	9,399.5	6,016.8	7,035.5	76.6
Off-balance sheet loan commitments	1,155.3	1,155.3	1,155.3	–	–	–
Financial asset by type						
Cash in hand	0.5	0.5	0.5	–	–	–
Loans and advances to credit institutions	2,843.6	2,843.6	2,756.3	10.1	–	77.2
Investment securities	491.4	497.0	172.6	108.8	215.6	–
Loans and advances to customers	21,080.3	41,290.2	374.4	1,331.0	5,711.9	33,872.9
Derivative assets	185.7	75.8	(1.4)	11.2	66.0	–
Total assets	24,601.5	44,707.1	3,302.4	1,461.1	5,993.5	33,950.1

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[1]	16,603.1	16,644.9	8,712.7	5,325.8	2,606.4	–
Amounts owed to credit institutions[1]	3,570.2	3,585.8	86.0	1,037.7	2,462.1	–
Amounts owed to other customers[1]	72.9	73.0	34.4	38.6	–	–
Derivative liabilities	163.6	157.7	11.0	41.4	103.8	1.5
Debt securities in issue[1]	421.9	426.4	17.8	53.1	355.5	–
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	–
PSBs	37.6	39.8	0.7	0.3	1.8	37.0
Total liabilities	20,891.5	20,953.9	8,863.5	6,498.6	5,548.2	43.6
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

1. The 2020 comparatives have been restated following a misallocation of cash flows between time buckets in the prior year.

The actual repayment profile of retail deposits may differ from the analysis above due to the option of early withdrawal with a penalty.

Cash flows on PSBs are disclosed up to the next interest rate reset date.

The actual repayment profile of loans and advances to customers may differ from the analysis above since many mortgage loans are repaid prior to the contractual end date.

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:

	2021				
	Encumbered		Unencumbered		
	Pledged as collateral £m	Other[1] £m	Available as collateral £m	Other[2] £m	Total £m
Cash in hand	–	–	0.5	–	0.5
Loans and advances to credit institutions	99.9	107.5	2,496.4	139.8	2,843.6
Investment securities	121.8	–	369.6	–	491.4
Loans and advances to customers	6,373.7	–	2,746.3	11,960.3	21,080.3
Derivative assets	–	–	–	185.7	185.7
Non-financial assets	–	–	–	(69.6)	(69.6)
	6,595.4	107.5	5,612.8	12,216.2	24,531.9

	2020				
	Encumbered		Unencumbered		
	Pledged as collateral £m	Other[1] £m	Available as collateral £m	Other[2] £m	Total £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

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.

Liquidity risk – liquidity reserves

The tables below analyse the Group's liquidity reserves, where carrying value is considered to be equal to fair value:

	2021 £m	2020 £m
Unencumbered balances with central banks	2,496.4	2,256.5
Unencumbered cash and balances with other banks	139.8	113.6
Other cash and cash equivalents	0.5	0.5
Unencumbered investment securities	369.6	310.2
	3,006.3	2,680.8

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:

	2021 £m	2020 £m
OSB	**9.9**	5.6
CCFS	**1.1**	0.7
	11.0	6.3

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. The table below shows the maximum decreases after taking into account the derivatives:

	2021 £m	2020 £m
OSB[1]	**0.5**	(0.1)
CCFS[1]	**(0.4)**	2.2
	0.1	2.1

1. Increases for OSB 2020 and CCFS 2021 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 2021 and 2020:

	2021 £m	2020 £m
OSB	**3.2**	5.4
CCFS	**3.8**	8.0
	7.0	13.4

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 (2020: £0.4m) effect in profit or loss and £0.5m (2020: £0.5m) in equity.

Structured entities
The structured entities consolidated within the Group at 31 December 2021 were Canterbury Finance No. 2 plc, Canterbury Finance No. 3 plc, Canterbury Finance No. 4 plc and CMF 2020-1 plc. 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 2020 were Canterbury Finance No. 2 plc, Canterbury Finance No. 3 plc and CMF 2020-1 plc.

46. Risk management (Continued)

Unconsolidated structured entities

Structured entities, which were sponsored by the Group include Precise Mortgage Funding 2017-1B plc, Charter Mortgage Funding 2017-1 plc, Precise Mortgage Funding 2018-1B plc, Charter Mortgage Funding 2018-1 plc, Precise Mortgage Funding 2019-1B plc, Canterbury Finance No.1 plc and Precise Mortgage Funding 2020-1B plc.

These structured entities are not consolidated by the Group, as the Group does not control the entities and is not exposed to the risks and rewards of ownership from the securitised mortgages. The Group has no contractual arrangements with the unconsolidated structured entities other than the investments disclosed in note 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 2021 the Group received £1.8m interest income (2020: £5.0m) and £4.4m servicing income (2020: £4.6m) 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:

		2021				
	Note	Designated FVTPL £m	Mandatorily FVTPL £m	FVOCI £m	Amortised cost £m	Total carrying amount £m
Assets						
Cash in hand		–	–	–	0.5	0.5
Loans and advances to credit institutions	19	–	–	–	2,843.6	2,843.6
Investment securities	20	0.7	–	167.6	323.1	491.4
Loans and advances to customers	21	17.7	–	–	21,062.6	21,080.3
Derivative assets	26	–	185.7	–	–	185.7
		18.4	185.7	167.6	24,229.8	24,601.5
Liabilities						
Amounts owed to retail depositors	33	–	–	–	17,526.4	17,526.4
Amounts owed to credit institutions	32	–	–	–	4,319.6	4,319.6
Amounts owed to other customers	34	–	–	–	92.6	92.6
Debt securities in issue	35	–	–	–	460.3	460.3
Derivative liabilities	26	–	19.7	–	–	19.7
Subordinated liabilities	40	–	–	–	10.3	10.3
PSBs	41	–	–	–	15.2	15.2
		–	19.7	–	22,424.4	22,444.1

		2020				
	Note	Designated FVTPL £m	Mandatorily FVTPL £m	FVOCI £m	Amortised cost £m	Total carrying amount £m
Assets						
Cash in hand		–	–	–	0.5	0.5
Loans and advances to credit institutions	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
		19.1	12.3	285.0	22,074.5	22,390.9
Liabilities						
Amounts owed to retail depositors	33	–	–	–	16,603.1	16,603.1
Amounts owed to credit institutions	32	–	–	–	3,570.2	3,570.2
Amounts owed to other customers	34	–	–	–	72.9	72.9
Debt securities in issue	35	–	–	–	421.9	421.9
Derivative liabilities	26	–	163.6	–	–	163.6
Subordinated liabilities	40	–	–	–	10.5	10.5
PSBs	41	–	–	–	37.6	37.6
		–	163.6	–	20,716.2	20,879.8

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

47. Financial instruments and fair values (Continued)

ii. Fair values

The following tables summarise the carrying value and estimated fair value of financial instruments not measured at fair value in the Consolidated Statement of Financial Position:

	2021		2020	
	Carrying value £m	Estimated fair value £m	Carrying value £m	Estimated fair value £m
Assets				
Cash in hand	**0.5**	**0.5**	0.5	0.5
Loans and advances to credit institutions	**2,843.6**	**2,843.6**	2,676.2	2,676.2
Investment securities	**323.1**	**323.8**	186.2	186.6
Loans and advances to customers	**21,062.6**	**21,079.5**	19,211.6	19,352.0
	24,229.8	**24,247.4**	22,074.5	22,215.3
Liabilities				
Amounts owed to retail depositors	**17,526.4**	**17,524.9**	16,603.1	16,666.1
Amounts owed to credit institutions	**4,319.6**	**4,319.6**	3,570.2	3,570.2
Amounts owed to other customers	**92.6**	**92.6**	72.9	72.9
Debt securities in issue	**460.3**	**460.3**	421.9	421.9
Subordinated liabilities	**10.3**	**10.6**	10.5	10.7
PSBs	**15.2**	**14.7**	37.6	32.3
	22,424.4	**22,422.7**	20,716.2	20,774.1

The fair values in these tables are estimated using the valuation techniques below. The estimated fair value is stated as at 31 December and may be significantly different from the amounts which will actually be paid on the maturity or settlement dates of each financial instrument.

Cash in hand

This represents physical cash across the Group's branch network where fair value is considered to be equal to carrying value.

Loans and advances to credit institutions

This mainly represents the Group's working capital current accounts and call accounts with central governments and other banks with an original maturity of less than three months. Fair value is not considered to be materially different to carrying value.

Investment securities

Investment securities' fair values are provided by a third party and are based on the market values of similar financial instruments. The fair value of investment securities held at FVTPL is measured using a discounted cash flow model.

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.

Amounts owed to credit institutions

This mainly represents amounts drawn down under the BoE TFS and TFSME and commercial repos. Fair value is considered to be equal to carrying value.

Amounts owed to other customers

This represents saving products to corporations and local authorities. The fair value of fixed rate deposits is estimated by discounting future cash flows at current market rates of interest. Deposits at variable rates are considered to be at current market rates and the fair value is estimated to be equal to carrying value.

Debt securities in issue

While the Group's debt securities in issue are listed, the quoted prices for an individual note may not be indicative of the fair value of the issue as a whole, due to the specialised nature of the market in such instruments and the limited number of investors participating in it. Fair value is not considered to be materially different to carrying value.

Subordinated liabilities and PSBs

The fair value of subordinated liabilities is estimated by using quoted market prices of similar instruments at the reporting date. The PSBs are listed on the London Stock Exchange with fair value being the quoted market price at the reporting date.

47. Financial instruments and fair values (Continued)

iii. Fair value classification

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

2021	Carrying amount £m	Principal amount £m	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial assets						
Investment securities	**168.3**	**166.2**	**152.1**	**15.5**	**0.7**	**168.3**
Loans and advances to customers	**17.7**	**19.7**	**–**	**–**	**17.7**	**17.7**
Derivative assets	**185.7**	**12,968.3**	**–**	**185.7**	**–**	**185.7**
	371.7	**13,154.2**	**152.1**	**201.2**	**18.4**	**371.7**
Financial liabilities						
Derivative liabilities	**19.7**	**7,378.0**	**–**	**19.7**	**–**	**19.7**

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

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.

47. Financial instruments and fair values (Continued)

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

2021	Carrying amount £m	Principal amount £m	Estimated fair value Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial assets						
Cash in hand	**0.5**	**0.5**	**–**	**0.5**	**–**	**0.5**
Loans and advances to credit institutions	**2,843.6**	**2,843.6**	**–**	**2,843.6**	**–**	**2,843.6**
Investment securities	**323.1**	**322.9**	**–**	**323.8**	**–**	**323.8**
Loans and advances to customers	**21,062.6**	**21,076.7**	**–**	**3,323.0**	**17,756.5**	**21,079.5**
	24,229.8	**24,243.7**	**–**	**6,490.9**	**17,756.5**	**24,247.4**
Financial liabilities						
Amounts owed to retail depositors	**17,526.4**	**17,469.0**	**–**	**6,601.3**	**10,923.6**	**17,524.9**
Amounts owed to credit institutions	**4,319.6**	**4,318.5**	**–**	**4,319.6**	**–**	**4,319.6**
Amounts owed to other customers	**92.6**	**92.5**	**–**	**–**	**92.6**	**92.6**
Debt securities in issue	**460.3**	**460.2**	**–**	**460.3**	**–**	**460.3**
Subordinated liabilities	**10.3**	**10.1**	**–**	**–**	**10.6**	**10.6**
PSBs	**15.2**	**15.0**	**14.7**	**–**	**–**	**14.7**
	22,424.4	**22,365.3**	**14.7**	**11,381.2**	**11,026.8**	**22,422.7**

2020	Carrying amount £m	Principal amount £m	Estimated fair value Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial assets						
Cash in hand	0.5	0.5	–	0.5	–	0.5
Loans and advances to credit institutions	2,676.2	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
PSBs	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

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 £5.2m (2020: £4.3m).

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:

2021	OSB £m	CCFS £m	Combination £m	Total £m
Balances at the reporting date				
Gross loans and advances to customers	12,057.3	8,981.4	143.1	21,181.8
Expected credit losses	(82.2)	(19.6)	0.3	(101.5)
Loans and advances to customers	11,975.1	8,961.8	143.4	21,080.3
Capital expenditure	5.0	1.8	–	6.8
Depreciation and amortisation	6.5	3.2	4.8	14.5
Profit or loss for the year				
Net interest income/(expense)	414.8	235.7	(62.9)	587.6
Other income	8.7	20.0	12.7	41.4
Total income/(expense)	423.5	255.7	(50.2)	629.0
Administrative expenses	(97.9)	(63.8)	(4.8)	(166.5)
Provisions	(0.3)	0.1	–	(0.2)
Impairment of financial assets	(3.5)	8.4	(0.5)	4.4
Impairment of intangible assets	–	–	3.1	3.1
Integration costs	(4.0)	(1.0)	–	(5.0)
Exceptional items	(0.2)	–	–	(0.2)
Profit/(loss) before taxation	317.6	199.4	(52.4)	464.6
Taxation[1]	(76.0)	(51.8)	8.5	(119.3)
Profit/(loss) for the year	241.6	147.6	(43.9)	345.3

1. The taxation on Combination credit includes a credit of £14.1m relating to the unwind of the deferred tax liabilities recognised on the fair value adjustments of the CCFS assets and liabilities at the acquisition date, offset by a £5.6m deferred tax charge due to the 6% increase in the main rate of the corporation tax liability from 1 April 2023.

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[1]	(46.9)	(32.0)	14.8	(64.1)
Profit/(loss) for the year	148.0	106.2	(57.9)	196.3

1. The taxation on Combination credit of £14.8m includes a £4.8m charge due to a 2% increase in the rate for the deferred tax liability following the Government cancellation of the corporation tax rate reduction on 19 March 2020.

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	
UK	England	Canterbury Finance No. 2 plc	Special purpose vehicle
		Canterbury Finance No. 3 plc	
		Canterbury Finance No. 4 plc	
		CMF 2020-1 plc	
		CML Warehouse Number 2 Limited	
India	India	OSB India Private Limited	Back office processing

1. Guernsey Home Loans Limited (Guernsey) and Jersey Home Loans Limited (Jersey) are incorporated in Guernsey and Jersey respectively, but are considered to be located in the UK as they are managed and controlled in the UK with no permanent establishments in Guernsey or Jersey.

50. Country by country reporting (Continued)

Other disclosures required by the CBCR directive are provided below:

2021	UK	India	Consolidation[2]	Total
Average number of employees	**1,220**	**535**	**–**	**1,755**
Turnover[1], £m	**628.9**	**9.6**	**(9.5)**	**629.0**
Profit/(loss) before tax, £m	**464.4**	**1.2**	**(1.0)**	**464.6**
Corporation tax paid, £m	**117.0**	**0.3**	**–**	**117.3**

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

1. Turnover represents total income before impairment of financial and intangible assets, regulatory provisions and operating costs, but after net interest income, gains and losses on financial instruments and other operating income.
2. Relates to a management fee from Indian subsidiaries to OneSavings Bank plc for providing back office processing.

The tables below reconcile tax charged and tax paid during the year.

2021	UK £m	India £m	Total £m
Tax charge	**118.9**	**0.4**	**119.3**
Effects of:			
Other timing differences	**9.6**	**(0.1)**	**9.5**
Tax outside of profit or loss	**(1.3)**	**–**	**(1.3)**
Current period tax paid in prior years	**(9.1)**	**–**	**(9.1)**
Tax in relation to future periods prepaid	**(1.1)**	**–**	**(1.1)**
Tax paid	**117.0**	**0.3**	**117.3**

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

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

	2021 £m	2020 £m
Adjustments for non-cash items:		
Depreciation and amortisation	**14.5**	13.8
Interest on investment securities	**(2.5)**	(7.5)
Integration cost	**0.6**	–
Interest on subordinated liabilities	**0.8**	0.8
Interest on PSBs	**1.2**	1.7
Interest on securitised debt	**3.9**	3.4
Interest on financing debt	**5.3**	10.9
Impairment (credit)/charge on loans	**(4.4)**	71.0
Impairment (credit)/charge on intangible assets acquired on Combination	**(3.1)**	7.0
Gains on sale of financial instruments	**(4.0)**	(20.0)
Provisions	**0.2**	0.1
Interest on lease liabilities	**0.3**	0.3
Fair value gains on financial instruments	**(29.5)**	(7.4)
Share-based payments	**6.7**	5.1
Total adjustments for non-cash items	**(10.0)**	79.2
Changes in operating assets and liabilities:		
Decrease/(increase) in loans and advances to credit institutions	**98.7**	(154.0)
Increase in loans and advances to customers	**(1,844.0)**	(1,705.0)
Increase in amounts owed to retail depositors	**923.3**	348.1
Net (increase)/decrease in other assets	**(1.1)**	1.3
Net increase/(decrease) in derivatives and hedged items	**3.6**	(64.3)
Net increase in amounts owed to other customers	**18.9**	43.2
Net increase/(decrease) in other liabilities	**1.7**	(6.5)
Exchange differences on working capital	**(0.1)**	–
Total changes in operating assets and liabilities	**(799.0)**	(1,537.2)

52. Events after the reporting date

On 17 January 2022, the Group announced that the FCA had approved the base prospectus (dated 14 January 2022) in relation to the establishment of the Group's £3.0bn Euro Medium Term Note Programme. Under the programme, (the Company), subject to compliance with all relevant laws, regulations and directives, may from time to time issue notes. The aggregate principal amount of notes issued by the Company outstanding under the programme will not at any time exceed £3.0bn. Additional information can be found on the Group's website.

The Board has authorised a share repurchase of up to £100m of shares in the market from 18 March 2022. The Company has authority to make such purchases under a resolution approved by shareholders at the AGM on 27 May 2021. Any purchases made under this programme will be announced to the market each day in line with regulatory requirements.

53. Controlling party

As at 31 December 2021 there was no controlling party of the ultimate parent company of the Group, OSB GROUP PLC.

54. Transactions with key management personnel

All related party transactions were made on terms equivalent to those that prevail in arm's length transactions. During the year there were no related party transactions between the key management personnel and the Group other than as described below.

Directors' remuneration is disclosed in note 11 and in the Directors' Remuneration Report on page 144. The Executive team are all employees of OSB, the table below shows their aggregate remuneration:

	2021 £'000	2020 £'000
Short-term employee benefits	**5,144**	3,743
Post-employment benefits	**44**	49
Share-based payments	**2,414**	501
	7,602	4,293

Key management personnel and connected persons held deposits with the Group of £0.9m (2020: £1.4m).

55. Capital management

The Group's capital management approach is to provide a sufficient capital base to cover business risks and support future business development. The Group remained, throughout the year, compliant with its capital requirements as set out by the PRA, the Group's primary prudential supervisor.

The Group manages and reports its capital at a number of levels including Group level and for the two regulated banking entities within the Group, on an individual consolidation and on an individual basis. The capital position of the two regulated banking entities are not separately disclosed.

The Group's capital management is based on the three 'pillars' of Basel II.

Under Pillar 1, the Group calculates its minimum capital requirements based on 8% of risk-weighted assets.

Under Pillar 2, the Group, and its regulated entities, complete an annual self-assessment of risks known as the ICAAP. The PRA applies additional requirements to this assessment amount to cover risks under Pillar 2 to generate a Total Capital Requirement. Further, the PRA sets capital buffers and the Group applies for imposition of the requirements and modification of rules incorporating the capital buffers and Pillar 2 pursuant to the Financial Services and Markets Act 2000.

Pillar 3 requires firms to publish a set of disclosures which allow market participants to assess information on the Group's capital, risk exposures and risk assessment process. The Group's Pillar 3 disclosures can be found on the Group's website.

Basel III came into force through CRD IV. Basel III complements and enhances Basel I and II with additional safety measures. Basel III changed definitions of regulatory capital, introduced new capital buffers, a non-risk adjusted leverage ratio, liquidity ratios and modified the way regulatory capital is calculated.

The ultimate responsibility for capital adequacy rests with the Board of Directors. The Group's ALCO is responsible for the management of the capital process within the risk appetite defined by the Board, including approving policy, overseeing internal controls and setting internal limits over capital ratios.

The Group actively manages its capital position and reports this on a regular basis to the Board and senior management via the ALCO and other governance committees. Capital requirements are included within budgets, forecasts and strategic plans with initiatives being executed against this plan.

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

	(Unaudited) 2021 £m	(Unaudited) 2020 £m
CET1 capital		
Called up share capital	**4.5**	1,359.8
Share premium, capital contribution and share-based payment reserve	**14.1**	7.8
Retained earnings	**3,215.1**	1,608.6
Transfer reserve	**(1,355.3)**	(1,355.3)
Other reserves	**(4.0)**	(4.0)
Total equity attributable to ordinary shareholders	**1,874.4**	1,616.9
Foreseeable dividends	**(94.7)**	(64.9)
IFRS 9 transitional adjustment[1]	**2.9**	4.9
COVID-19 ECL transitional adjustment[2]	**19.0**	31.0
Deductions from CET1 capital		
Prudent valuation adjustment[3]	**(1.0)**	(0.4)
Intangible assets[4]	**(18.4)**	(20.6)
Deferred tax asset	**(0.5)**	(0.9)
CET1 capital	**1,781.7**	1,566.0
AT1 capital		
AT1 securities	**150.0**	–
Total Tier 1 capital	**1,931.7**	1,566.0
Total regulatory capital	**1,931.7**	1,566.0
Risk-weighted assets (unaudited)	**9,101.6**	8,565.7

1. The regulatory capital includes a £2.9m add-back under IFRS 9 transitional arrangements. This represents 50.0% of the IFRS 9 transitional adjustment booked directly to retained earnings of £5.9m.
2. The COVID-19 ECL transitional adjustment relates to the Group's increase in stage 1 and stage 2 ECL following the impacts of COVID-19 and for which transitional rules are being adopted for regulatory capital purposes.
3. The Group has adopted the simplified approach under the Prudent Valuation rules, recognising a deduction equal to 0.1% of fair value assets and liabilities after adjusting for hedge accounting.
4. All software assets continue to be fully deducted from capital in light of the pending intention of the PRA to consult on the CRR 'Quick Fix' package in this area.

55. Capital management (Continued)

The movement in CET1 during the year was as follows:

	(Unaudited) 2021 £m	(Unaudited) 2020 £m
At 1 January	**1,566.0**	1,339.6
Movement in retained earnings	**1,606.5**	1,055.4
Share premium from Sharesave Scheme vesting	**0.7**	2.6
Movement in other reserves	**(1,349.7)**	(858.1)
Movement in foreseeable dividends	**(29.8)**	(15.0)
IFRS 9 transitional adjustment	**(2.0)**	(0.4)
COVID-19 ECL transitional adjustment	**(12.0)**	31.0
Movement in prudent valuation adjustment	**(0.6)**	0.1
Net decrease in intangible assets	**2.2**	10.8
Movement in deferred tax asset for carried forward losses	**0.4**	–
At 31 December	**1,781.7**	1,566.0

Company Statement of Financial Position
As at 31 December 2021

	Note	2021 £m	2020 £m
Assets			
Investments in subsidiaries and intercompany loans	2	**1,582.6**	1,425.9
Current taxation asset		**0.3**	–
Total assets		**1,582.9**	1,425.9
Liabilities			
Intercompany loans	2	**0.6**	–
Other liabilities		**0.2**	–
		0.8	–
Equity			
Share capital	3	**4.5**	1,359.8
Share premium	3	**0.7**	–
Retained earnings		**1,358.4**	4.0
Other reserves	4	**218.5**	62.1
		1,582.1	1,425.9
Total equity and liabilities		**1,582.9**	1,425.9

The profit after tax for the year ended 31 December 2021 of OSB GROUP PLC was £87.0m (2020: £0.1m). As permitted by section 408 of the Companies Act 2006, no separate Statement of Comprehensive Income is presented in respect of the Company.

The notes on pages 242 to 244 form an integral part of the Company financial statements.

The financial statements were approved by the Board of Directors on 17 March 2022 and were signed on its behalf by:

Andy Golding
Chief Executive Officer

April Talintyre
Chief Financial Officer

Company number: 11976839

Company Statement of Changes in Equity
For the year ended 31 December 2021

	Share capital £m	Share premium £m	Transfer reserve £m	Own shares[1] £m	Share-based payment reserve £m	Additional Tier 1 securities £m	Retained earnings £m	Total £m
At 1 January 2020	–	–	–	–	–	–	–	–
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
Profit for the year	**–**	**–**	**–**	**–**	**–**	**–**	**87.0**	**87.0**
Dividend paid	**–**	**–**	**–**	**–**	**–**	**–**	**(86.7)**	**(86.7)**
Share-based payments	**–**	**0.7**	**–**	**–**	**5.9**	**–**	**0.9**	**7.5**
Issuance of Additional Tier 1 securities	**–**	**–**	**–**	**–**	**–**	**150.0**	**–**	**150.0**
Transactions costs on issuance of Additional Tier 1 securities	**–**	**–**	**–**	**–**	**–**	**–**	**(1.6)**	**(1.6)**
Own shares[1]	**–**	**–**	**–**	**0.5**	**–**	**–**	**(0.5)**	**–**
Capital reduction	**(1,355.3)**	**–**	**–**	**–**	**–**	**–**	**1,355.3**	**–**
At 31 December 2021	**4.5**	**0.7**	**65.7**	**(3.5)**	**6.3**	**150.0**	**1,358.4**	**1,582.1**

1. The Company has adopted look-through accounting and consolidated the EBT 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 2021, the EBT had no outstanding intercompany borrowing (2020: £0.1m).

Company Statement of Cash Flows
For the year ended 31 December 2021

	2021 £m	2020 £m
Cash flows from operating activities		
Profit before taxation	**86.7**	0.1
Changes in operating assets and liabilities:		
Net increase in other liabilities	**0.2**	–
Change in intercompany loans	**0.6**	(2.2)
Cash generated/(used) in operating activities	**87.5**	(2.1)
Cash flows from investing activities		
Change in investments in subsidiaries	**(150.0)**	–
Cash used in investing activities	**(150.0)**	–
Cash flows from financing activities		
Dividend paid	**(86.7)**	–
Issuance of Additional Tier 1 securities	**148.4**	–
Proceeds from issuance of shares under employee SAYE scheme	**0.8**	2.1
Cash generated from financing activities	**62.5**	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 United Kingdom (UK), and are presented in Pounds Sterling.

The financial statements have been prepared on the historical cost basis. The financial statements are presented in Pounds Sterling. All amounts in the financial statements have been rounded to the nearest £0.1m (£m). The functional currency of the Company is Pounds Sterling, which is the currency of the primary economic environment in which the Company operates.

The principal accounting policies adopted are the same as those set out in note 2 to the Group's consolidated financial statements, aside from accounting policy 2 y), Share-based payments. For the Company, the cost of the awards are charged on a straight-line basis to investment in subsidiaries (with a corresponding increase in the share-based payment reserve within equity) over the vesting period in which the employees become unconditionally entitled to the awards.

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. Investments in subsidiaries and intercompany loans

The Company holds an investment in ordinary shares of £1,432.6m (2020: £1,425.9m) and in AT1 securities of £90.0m (2020: nil) in its direct subsidiary, OneSavings Bank plc (OSB). The Company also holds an investment in AT1 securities of £60.0m (2020: nil) in an indirect subsidiary, Charter Court Financial Services Limited.

	Investment in subsidiaries £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	–
Additions[1]	**156.7**	**(1.4)**
Repayments	**–**	**0.8**
At 31 December 2021	**1,582.6**	**(0.6)**

1. Additions include purchase of AT1 securities of £90.0m issued by OSB and £60.0m issued by Charter Court Financial Services Limited and £6.7m relating to share-based payments.

The transactions with OSB during the year comprise £1.4m transaction costs for the issuance of AT1 securities funded by OSB partially offset by £0.8m cash received in OSB on the Company's share issues.

Investments in subsidiaries are financial assets and intercompany loans are financial liabilities, all carried at amortised cost. Intercompany loans are payable on demand and no interest is charged on these loans.

A list of the Company's direct and indirect subsidiaries as at 31 December 2021 is shown below:

Direct investments	Activity	Registered office	Ownership
OneSavings Bank plc	Mortgage lending and deposit taking	Reliance House	**100%**

Indirect investments	Activity	Registered office	Ownership
5D Finance Limited	Mortgage servicer	Reliance House	**100%**
Broadlands Finance Limited	Mortgage administration services	Charter Court	**100%**
Canterbury Finance No.2 plc	Special purpose vehicle	Churchill Place	**–**
Canterbury Finance No.3 plc	Special purpose vehicle	Churchill Place	**–**
Canterbury Finance No.4 plc	Special purpose vehicle	Churchill Place	**–**
Charter Court Financial Services Group Plc	Holding company	Charter Court	**100%**
Charter Court Financial Services Limited	Mortgage lending and deposit taking	Charter Court	**100%**
Charter Mortgages Limited	Mortgage administration and analytical services	Charter Court	**100%**
CMF 2020-1 plc	Special purpose vehicle	Churchill Place	**–**
CML Warehouse Number 2 Limited	Special purpose vehicle	Churchill Place	**–**
Easioption Limited	Holding company	Reliance House	**100%**
Exact Mortgage Experts Limited	Group service company	Charter Court	**100%**
Guernsey Home Loans Limited	Mortgage provider	Reliance House	**100%**
Guernsey Home Loans Limited (Guernsey)	Mortgage provider	Guernsey	**100%**
Heritable Development Finance Limited	Mortgage originator and servicer	Reliance House	**100%**

2. Investments in subsidiaries and intercompany loans (Continued)

Indirect investments	Activity	Registered office	Ownership
Inter Bay Financial I Limited	Holding company	Reliance House	100%
Inter Bay Financial II Limited	Holding company	Reliance House	100%
InterBay Asset Finance Limited	Asset finance and mortgage provider	Reliance House	100%
Interbay Funding, Ltd	Mortgage servicer	Reliance House	100%
Interbay Group Holdings Limited	Holding company	Reliance House	100%
Interbay Holdings Ltd	Holding company	Reliance House	100%
Interbay ML, Ltd	Mortgage provider	Reliance House	100%
Jersey Home Loans Limited	Mortgage provider	Reliance House	100%
Jersey Home Loans Limited (Jersey)	Mortgage provider	Jersey	100%
OSB India Private Limited	Back office processing	India	100%
Prestige Finance Limited	Mortgage originator and servicer	Reliance House	100%
Reliance Property Loans Limited	Mortgage provider	Reliance House	100%
Rochester Mortgages Limited	Mortgage provider	Reliance House	100%

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.

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.

2. Investments in subsidiaries and intercompany loans (Continued)

All of the entities listed above have been consolidated into the Group's consolidated financial statements. The location of the entities listed above are disclosed in note 50 to the Group's consolidated financial statements.

The investment is reviewed annually for indicators of impairment. If impairment indicators are identified an impairment review of the investment is conducted which will quantify if the carry value is in excess of the recoverable amount or an impairment has occurred. In determining recoverable amount the fair value less costs to sell and the value in use are assessed, with the value in use being an estimate of the present value of future cash flows generated by the investment.

The following are the registered offices of the subsidiaries:

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

The Company received no gifts during the year (2020: £0.1m from OSB).

3. Share capital

	Number of shares issued and fully paid	Nominal value £m	Premium £m
At 1 January 2020	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)	–	–
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	–
Capital reduction of £3.04 nominal value shares to £0.01 nominal value shares	**–**	**(1,355.3)**	**–**
Shares issued under employee share plans	**1,315,075**	**–**	**0.7**
At 31 December 2021	**448,627,855**	**4.5**	**0.7**

The holders of ordinary shares are entitled to receive dividends as declared from time to time, and are entitled to one vote per share at meetings of the Company. All ordinary shares rank equally with regard to the Company's residual assets.

All ordinary shares issued in the current and prior year were fully paid.

4. Other reserves

The Company's other reserves are as follows:

	2021 £m	2020 £m
Share-based payment	**6.3**	0.4
Transfer	**65.7**	65.7
Own shares	**(3.5)**	(4.0)
AT1 securities	**150.0**	–
	218.5	62.1

Transfer reserve

The transfer reserve represents the difference between the net assets of the Group at the point of insertion of OSBG as the listed holding company and the fair value of the newly issued share capital of OSBG.

For own shares and AT1 securities see note 44 of the Group's consolidated financial statements.

5. Directors and employees

The Company has no employees. OneSavings Bank plc provides the Company with employee services and bears the costs associated with the Directors of the Company. These costs are not recharged to the Company.

6. Controlling party

As at 31 December 2021 there was no controlling party of OSB GROUP PLC.

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

Opinion

We have performed an independent reasonable assurance engagement on the Alternative Performance Measures (collectively, the APMs) set out below for the financial year ended 31 December 2021. The assured APMs are highlighted with the symbol Δ throughout the OSB GROUP PLC (OSB Group) 2021

Annual Report and Accounts (ARA). The definition and the basis of preparation for each of the assured APMs is described in the Appendix to the 2021 ARA on pages 246 to 248 (OSB Group's APM Definitions and Basis of Preparation).

Statutory basis

- Gross new lending
- Net interest margin
- Cost to income
- Management expense ratio
- Loan loss ratio
- Dividend per share
- Basic earnings per share
- Return on equity

Underlying basis

- Net interest margin
- Cost to income
- Management expense ratio
- Loan loss ratio
- Basic earnings per share
- Return on equity

In our opinion the assured APMs for the financial year ended 31 December 2021, have been prepared, in all material respects, in accordance with OSB Group's APM Definitions and Basis of Preparation.

Directors' responsibilities

The directors of OSB Group are responsible for:

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

Our responsibilities

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

We are required to plan and perform our procedures in order to obtain reasonable assurance as to whether the assured APMs have been prepared, in all material respects, in accordance with OSB Group's APM Definitions and Basis of Preparation.

The nature, timing and extent of the assurance procedures selected depended on our judgment, including the assessment of the risks of material misstatement, whether due to fraud or error, of the assured APMs. In making those risk assessments, we considered internal controls relevant to the preparation of the assured APMs.

Based on that assessment we carried out testing which included:

- Agreeing amounts used in the calculation of APMs which are derived or extracted from the audited financial statements of OSB Group for the year ended 31 December 2021 to the financial statements.
- For amounts used in the calculation of APMs which were not derived or extracted from the financial statements of OSB Group for the year ended 31 December 2021 testing, on a sample basis, the underlying data used in determining the assured APMs.
- Checking the mathematical accuracy of the calculations used to prepare the assured APMs and testing whether they were prepared in accordance with OSB Group's APM Definitions and Basis of Preparation;
- Reading the 2021 ARA and assessing whether the assured APMs were presented and described consistently.

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

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

Our independence and quality control

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

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

Use of our report

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

Deloitte LLP, London
17 March 2022

2. Alternative performance measures

In this Annual report, the Group used alternative performance measures (APMs) when presenting underlying results in 2021 and 2020 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.

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

Below we provide definitions and the calculation of APMs used throughout this Annual report both on a statutory basis and underlying basis for 2021 and 2020.

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.

	2021 £m	2020 £m
Net interest income – statutory A	**587.6**	472.2
Add back: acquisition-related items[2]	**62.9**	61.8
Net interest income – underlying B	**650.5**	534.0
13 point average of interest earning assets – statutory C	**23,207.7**	21,883.4
13 point average of interest earning assets – underlying D	**23,033.7**	21,663.2
NIM statutory equals A/C	**2.53%**	2.16%
NIM underlying equals B/D	**2.82%**	2.47%

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.

	2021 £m	2020 £m
Administrative expenses – statutory A	**166.5**	157.0
Add back: acquisition-related items[2]	**(4.8)**	(4.3)
Administrative expenses – underlying B	**161.7**	152.7
Total income – statutory C	**629.0**	508.6
Add back: acquisition-related items[2]	**50.2**	61.6
Total income – underlying D	**679.2**	570.2
Cost to income statutory equals A/C	**26%**	31%
Cost to income underlying equals B/D	**24%**	27%

Management expense ratio
The management expense ratio is defined as administrative expenses as a percentage of a 13-point average[1] of total assets.

	2021 £m	2020 £m
Administrative expenses – statutory (as in cost to income ratio above) A	**166.5**	157.0
Administrative expenses – underlying (as in cost to income ratio above) B	**161.7**	152.7
13 point average of total assets – statutory C	**23,382.6**	22,140.1
13 point average of total assets – underlying D	**23,231.5**	21,931.8
Management expense ratio statutory equals A/C	**0.71%**	0.71%
Management expense ratio underlying equals B/D	**0.70%**	0.70%

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.

	2021 £m	2020 £m
Impairment of financial assets – statutory A	**(4.4)**	71.0
Add back: acquisition-related items[2]	**(0.5)**	0.2
Impairment of financial assets – underlying B	**(4.9)**	71.2
13 point average of gross loans – statutory C	**20,327.5**	18,739.0
13 point average of gross loans – underlying D	**20,164.3**	18,508.5
Loan loss ratio statutory equals A/C	**(0.02)%**	0.38%
Loan loss ratio underlying equals B/D	**(0.02)%**	0.38%

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 up to September 2021 and £150m of AT1 securities from October 2021).

	2021 £m	2020 £m
Profit after tax – statutory	**345.3**	196.3
Coupons on AT1 securities	**(4.7)**	(5.5)
Profit attributable to ordinary shareholders – statutory A	**340.6**	190.8
Add back: acquisition-related items[2]	**47.8**	68.6
Profit attributable to ordinary shareholders – underlying B	**388.4**	259.4
13 point average of shareholders' equity (excluding AT1 securities) – statutory C	**1,741.1**	1,514.2
13 point average of shareholders' equity (excluding AT1 securities) – underlying D	**1,632.4**	1,363.8
Return on equity statutory equals A/C	**20%**	13%
Return on equity underlying equals B/D	**24%**	19%

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.

	2021 £m	2020 £m
Profit attributable to ordinary shareholders – statutory (as in RoE ratio above) A	**340.6**	190.8
Profit attributable to ordinary shareholders – underlying (as in RoE ratio above) B	**388.4**	259.4
Weighted average number of ordinary shares in issue – statutory C	**448.1**	446.2
Weighted average number of ordinary shares in issue – underlying D	**448.1**	446.2
Basic earnings per share statutory equals A/C	**76.0**	42.8
Basic earnings per share underlying equals B/D	**86.7**	58.1

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 results in the Financial review.

Calculation of 2021 final dividend

The table below shows the basis of calculation of the Company's recommended final dividend for 2021:

	2021 £m	2020 £m
Statutory profit after tax	**345.3**	196.3
Less: coupons on non-controlling interest securities classified as equity	**(4.7)**	(5.5)
Statutory profit attributable to ordinary shareholders	**340.6**	190.8
Add back: Group's integration costs	**5.0**	9.8
Tax on Group's integration costs	**(1.3)**	(2.4)
Add back: Group's exceptional items	**0.2**	3.3
Add back: amortisation of fair value adjustment	**64.5**	64.5
Add back: amortisation of inception adjustment	**(11.0)**	(13.3)
Add back: amortisation of cancelled swaps	**(1.6)**	(2.7)
Add back: amortisation of intangible assets acquired	**4.8**	11.3
Less: impairment reversal of intangible assets recognised on Combination	**(3.1)**	–
Release of deferred taxation on the above amortisation adjustments	**(8.5)**	(14.8)
Gain on sale of financial assets	**(1.7)**	13.1
Add back: ECL on Combination	**0.5**	(0.2)
Underlying profit attributable to ordinary shareholders	**388.4**	259.4
Total dividend: 30% (2020: 25%) of underlying profit attributable to ordinary shareholders	**116.6**	64.9
Less: interim dividends paid	**(21.9)**	–
Recommended final dividend	**94.7**	64.9
Number of ordinary shares in issue	**448,627,855**	447,312,780
Recommended final dividend per share (pence)	**21.1**	14.5

Glossary

AGM	Annual General Meeting
ALCO	Group Assets and Liabilities Committee
BoE	Bank of England
CCFS	Charter Court Financial Services
CEO	Chief Executive Officer
CET1	Common Equity Tier 1
CFO	Chief Financial Officer
CRD IV	Capital Requirements Directive and Regulation
CRO	Chief Risk Officer
DSBP	Deferred Share Bonus Plan
EAD	Exposure at Default
ECL	Expected Credit Loss
EIR	Effective Interest Rate
EPS	Earnings Per Share
EU	European Union
FCA	Financial Conduct Authority
FRC	Financial Reporting Council
FSCS	Financial Services Compensation Scheme
FSD	Forced Sale Discount
FTSE	Financial Times Stock Exchange
HMRC	Her Majesty's Revenue and Customs
HPI	House Price Index
IAS	International Accounting Standards
IBOR	Interbank Offered Rate
ICAAP	Internal Capital Adequacy Assessment Process
ICR	Interest Coverage Ratio
IFRS	International Financial Reporting Standards
ILAAP	Internal Liquidity Adequacy Assessment Process
ILTR	Indexed Long-Term Repo
IPO	Initial Public Offering
IRB	Internal Ratings-Based approach to credit risk
ISA	Individual Savings Account
KRFI	Kent Reliance for Intermediaries
KRPS	Kent Reliance Provident Society Limited
LCR	Liquidity Coverage Ratio
LGD	Loss Given Default
LIBOR	London Interbank Offered Rate
LTIP	Long-Term Incentive Plan
LTV	Loan to value
NIM	Net Interest Margin
NPS	Net Promoter Score
OSB	OneSavings Bank plc
OSBG	OSB GROUP PLC
PD	Probability of Default
PPD	Propensity to go to Possession Given Default
PRA	Prudential Regulation Authority
PSBs	Perpetual Subordinated Bonds
PSP	Performance Share Plan
RMBS	Residential Mortgage-Backed Securities
RoE	Return on equity
RWA	Risk weighted assets
SAYE	Save As You Earn or Sharesave
SDLT	Stamp Duty Land Tax
SICR	Significant Increase in Credit Risk
SID	Senior Independent Director
SME	Small and Medium Enterprises
SONIA	Sterling Overnight Index Average
SRMF	Strategic Risk Management Framework
TFS	Term Funding Scheme
TFSME	Term Funding Scheme with additional incentives for SMEs

Company information

Registered office and head office

OSB House
Quayside
Chatham Maritime
Chatham
Kent, ME4 4QZ
United Kingdom

Registered in England no: 11976839

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Registrars

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United Kingdom

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Investor relations

Email: osbrelations@osb.co.uk
Telephone: 01634 838973

Private shareholders are welcome to contact the Company Secretary if they have any questions or concerns they wish to be raised with the Board.

Notes

Notes

FSC
www.fsc.org
MIX
Paper from responsible sources
FSC® C022913

Printed by Pureprint, a CarbonNeutral® Company certified to ISO 14001 environmental management system. 100% of all dry waste associated with this production has been recycled. This publication is printed on Revive an FSC® certified paper produced mix sourced material, manufactured at a mill that has ISO 14001 environmental standard accreditation. The paper is Carbon Balanced with World Land Trust, an international conservation charity, who offset carbon emissions through the purchase and preservation of high conservation value land. Through protecting standing forests, under threat of clearance, carbon is locked-in, that would otherwise be released.

Designed and produced by emperor
Visit us at emperor.works

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