OneSavings Bank plc

Annual Report and Financial Statements
For the Year Ended 31 December 2023
Company Number: 07312896

OneSavings Bank plc
Company Information

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DIRECTORS	Kalvinder Atwal Andrew Golding Noël Harwerth Sarah Hedger Rajan Kapoor April Talintyre Simon Walker David Weymouth
COMPANY SECRETARY	Jason Elphick
REGISTERED OFFICE	Reliance House Sun Pier Chatham Kent ME4 4ET United Kingdom
REGISTERED NUMBER	07312896 (England and Wales)
AUDITOR	Deloitte LLP Statutory Auditor Birmingham United Kingdom

The Directors present their Annual Report, including the Strategic Report, Directors' Report and Statement of Directors' Responsibilities, together with the audited Consolidated Financial Statements and Auditor's Report for the year ended 31 December 2023.

OneSavings Bank plc (the Company or OSB) is a wholly-owned subsidiary of OSB GROUP PLC (OSBG). The Group comprises OSB and its subsidiaries; the OSB Group comprises OSBG and its subsidiaries.

Our business model

The Group is a leading specialist mortgage lender, primarily focused on carefully selected sub-segments of the UK mortgage market. Our specialist lending is predominantly supported by our Kent Reliance and Charter Savings Bank (CSB) retail savings franchises. 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 segments of the mortgage market which are underserved by large UK banking institutions. We have well-established savings franchises through Kent Reliance, with its 160-year heritage, and the CSB brand.

Colleagues

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 subsidiaries, OSB India, as well as credit expertise and mortgage administration services provided by Charter Court Financial Services (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 common equity tier one (CET1) ratio and capability to generate capital through profitability.

Our business model explained

The Group operates its lending business through two segments: OSB and CCFS.

OneSavings Bank

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 customer needs.

Buy-to-Let/Small and Medium Enterprises (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-segment

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.

Our business model explained (continued)

Charter Court Financial Services

Specialist lending business

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. It allows for 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 and complex prime borrowers, including self-employed, as well as near-prime borrowers.

Bridging

We focus on lending to customers with 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

Second charge products under the Precise Mortgage brand were withdrawn in the first half of 2022 and are no longer available to new customers.

Retail savings

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

Kent Reliance is an award-winning retail savings franchise with over 160 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.

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 with a range of products offered, including easy access, longer term bonds and non-retail deposits.

In 2023, our savings products received industry recognition: Charter Savings Bank won Best Overall Savings Provider for the sixth year running from Personal Finance Awards and ISA Provider of the Year from Moneyfacts Consumer Awards. Moneynet Personal Finance Awards named Kent Reliance as Best Fixed Rate Savings Provider.

Our business model explained (continued)

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.

Our securitisation platforms

The Group accesses the securitisation market to provide attractive long-term wholesale funding to complement its retail deposit franchise and to optimise its funding mix. Securitisations also 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. This enables it to maximise opportunities with repeat issuances during periods of buoyant market activity and to use other funding when the market is less favourable.

The Group is a programmatic issuer of high-quality prime residential mortgage-backed securities through the Precise Mortgage Funding (PMF), Charter Mortgage Funding (CMF) and Canterbury Finance securitisation programmes. OSB has also issued three deals of owner-occupied and Buy-to-Let acquired mortgages via Rochester Financing since 2013.

In 2023, the Group issued its second Simple, Transparent and Standardised securitisation, CMF 2023-1, a publicly marketed transaction that securitised c.£330m of mortgage loans, and issued c.£300m of AAA rated senior bonds. In total, the Group has completed 23 securitisations worth more than £11.4bn since 2013.

The Group also uses a secured warehouse facility which provides access to funding on a contingent basis secured on a portfolio of residential mortgages. £250m of this facility was drawn at the year end.

Unique operating model

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.

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 strong data analytical capabilities.

We deliver cost efficiencies through excellent process design and management. We have strong IT security and continue to invest in enhancing our digital offering as customer demand changes.

Our business model explained (continued)

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 colleagues based on the quality of service they provide to customers, demonstrated by our excellent customer Net Promoter Score (NPS).

At OSBI, we employ highly talented and motivated colleagues 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. The employee turnover in India improved considerably in the year with the regretted attrition rate to 12% for 2023 demonstrating strong culture and the Company's compelling employee proposition.

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

Environmental, social and governance (ESG)

We operate in a sustainable way with relevant ESG matters at the heart of all everything we do.

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 will be publishing our Climate Transition Plan with the annual report where we laid foundations for progressing towards Net Zero by the 2050 target. The Company strives to create a more diverse and inclusive workplace, and in the year, we reached our target of having 33% women in senior management roles in the UK and made enhancements to maternity and family benefits. We also donated over £288k to charitable causes in the year.

Relationships with our key stakeholders

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 the Group and its Directors engaged with key stakeholders, and in doing so, discharged their duties under section 172 of the Companies Act 2006.

Relationships with our key stakeholders (continued)

Colleagues

Our colleagues are our key asset and our success to date have been driven by the 2,459 talented individuals we employ.

We have always favoured interactive communication between management and our colleagues 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, including enhancements to UK Family Benefits.

Board engagement with colleagues
The Group has adopted a combination of methods for engaging with its workforce, including the establishment of a formal Workforce Advisory Forum (Our Voice) and a designated Non-Executive Director (NED) for the people. In May 2023, Sarah Hedger replaced Mary McNamara as the Chair of the Group Remuneration and People Committee and the Board appointed People Champion, responsible for representing the workforce at Board and Committee level. Sarah is a permanent member of Our Voice where she engages directly with employee representatives and gains an insight into employee concerns, morale and culture.

Our Voice is represented by a broad range of employees. Their views support the Board's decision-making and provides additional points of reflection when determining metrics around strategic performance and the Executive Director remuneration, culture and governance. The areas of discussion at Our Voice meetings in 2023 focused on employee end of year ratings and policies, UK employee benefits, employee share schemes, employee morale and updates from the OSB India team. Employee are encouraged to be open and honest in their feedback at each meeting.

The Board also reviewed the results of the annual Best Companies to Work For survey. 86.4% of UK employees responded to the survey in 2023 demonstrating a high level of engagement. Following the results of the survey, the Group received a 2-star accreditation which means that it was recognised as an 'Outstanding' company to work for. The Board and Group Executive Committee reviewed the results, considered the key themes that had emerged from the responses and discussed what steps could be taken to capitalise on the positive themes and also address areas for improvement. The Board is also exploring opportunities for receiving more diverse metrics in relation to employee engagement surveys. OSB India participates in a separate engagement survey and was officially certified a 'Great Place to Work' for a seventh consecutive year in 2023.

The Board and its Committees also received regular updates on matters impacting employees from senior management and the Group's HR function. The Group Nomination and Governance Committee oversees the Group's talent management initiatives and senior management succession planning.

Relationships with our key stakeholders (continued)

Finally, the Board, through the Group Audit Committee has oversight of the Group's whistleblowing activity, and the Group Remuneration and People Committee 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.

Outcomes following engagement

- Completed an extensive review of the UK family benefits package including significant enhancements to the Maternity, Adoption and Parental leave policies.
- The Board approved the new People and Culture Strategy which sets out a range of initiatives to be progressed over the next three years.
- The Board explored opportunities to receive a more diverse range of metrics around employee engagement.
- Approved a higher salary increase for over 80% of employees in 2023 in light of the high rate of inflation. This was focused towards less senior employees.

Customers

We pride ourselves on building strong, long-term relationships with our customers. Our continued commitment to providing excellent service to borrowers and savers and delivering good outcomes for our customers remained a priority in 2023.

We offered our savers an opportunity to let us know how we are doing whenever they call or interact with the Banks by listening to their views and acting upon what they tell us. Customer feedback is collected throughout the year and satisfaction scores produced as a result. During 2023, there was an increase in the savings and broker NPS compared to 2022.

Board engagement with 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' experiences. Customer satisfaction scores and customer outcomes are also used as part of the Executive remuneration assessment, and form the basis of new initiatives and actions which continually improve customer experience.

During 2023, the Board had its annual deep dive on the customer experience focusing on customer performance, vulnerable customers and customer complaints.

Relationships with our key stakeholders (continued)

A key focus for the Board was ensuring that the new Financial Conduct Authority (FCA) Consumer Duty requirements were embedded across the Group. Simon Walker as our Consumer Duty Champion and the Board received regular updates and assurance around the implementation of the Consumer Duty Programme throughout 2023, the embedding of which will continue in 2024.

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

Outcomes following engagement with customers

- A Customer and Product Committee was established to ensure customer outcomes remain at the heart of the Group's product proposition.
- Simon Walker, Group Risk Committee chair, was appointed the Board's Consumer Duty Champion.
- Conducted all-employee training and Consumer Duty roadshows to support with embedding the Group's Consumer Duty programme.

The savings NPS for Kent Reliance in 2023 was +71 (2022: +64), for Charter Savings Bank was 62 (2022: +61) and for OSB and CCFS broker NPS +57 (2022: OSB +37, CCFS +39).

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; it is important for us to understand the challenges they face and what they are trying to achieve in terms of serving their customers, so we can adapt the way in which we support them, to provide an even better service.

How the Board has engaged with intermediaries
The Board's engagement with intermediaries is indirect and Directors are kept informed of intermediary-related matters through regular updates at Board meetings. 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 monthly.

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 working closely with intermediaries to discuss cases and help to obtain swift and reliable decisions.

The Group's Sales teams participated in 259 physical and virtual intermediary events during 2023 and 44 hospitality events. The events are an opportunity for the Sales team to interact with brokers, discuss their requirements and keep up to date with industry developments.

Outcomes following engagement with intermediaries

- The Board reviewed the trends in NPS scores for intermediary brokers.
- Early exposure to the development of our digitalisation platform.

In 2023, the Group's representatives participated in over 259 physical and virtual events with brokers to understand their evolving requirements and to keep up to date with industry developments. We used this understanding to continue to improve our customer propositions and the Group's efforts were recognised in the improved broker NPS of +57 for both OSB and CCFS in 2023 (2022: OSB +37 and CCFS +39).

Relationships with our key stakeholders (continued)

Suppliers

Our business is supported by a large number of suppliers, which allows the Group to provide high standards of service to our customers.

Board engagement with suppliers
The Board does not interact directly with the Group's suppliers; however, during the year the Board maintained oversight of key supplier relationships, including engagement between the Group Audit Committee and the external auditor. The Board also considered the risks associated with suppliers and the framework for assurance and oversight of key supplier relationships.

Supplier payment practice reports are published on a six-monthly basis and approved and signed by the CFO and Chief Operating Officer on behalf of 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 97% of all invoices are paid within 30 days in line with the standard payment period for qualifying contracts. The average time taken to pay invoices ranges from five to nine 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.

We are committed to complying with both the law and best practice in respect of Modern Slavery, workforce rights and the environment. We expect our suppliers to share that commitment by complying with our Vendor Code of Conduct and Ethics.

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.

ESG is being embedded into every aspect of our business and part of doing so is to ensure that our suppliers share similar values and aspirations to our own.

During 2023, our suppliers and business partners were asked to complete a questionnaire in order for us to understand how they are addressing topics such as climate change, Diversity, Equity and Inclusion and Modern Slavery and to identify areas of focus in the future. We understand that organisations will be at various stages of their own ESG and sustainability journey and we continue to encourage and support our suppliers with their transition to an ESG strategy that aligns to the Group's ambitions.

Outcomes following engagement with suppliers
- The Group engaged with suppliers to understand their aspirations ad approach towards ESG and to ensure that they are aligned with the Group's ESG Strategy.

Relationships with our key stakeholders (continued)

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.

Board engagement with Regulators
The Board and Group Executive Committee maintains a proactive dialogue with the Prudential Regulation Authority (PRA) and FCA. Engagement typically takes the form of regular and ad hoc meetings attended by both members of the Board and Group Executives, as well as subject matter experts.

The Board and its Committees receive regular updates in respect of the broader regulatory developments and compliance considerations. The PRA was invited to and attended one Board meeting during 2023, presenting their Periodic Summary for the year. The regulator is also given the opportunity to discuss thematic areas with the Board including operational resilience and integration of IT related matters in the overall risk management framework.

The Group regularly interacts with the Bank of England and His Majesty's Revenue & Customs (HMRC), amongst others, helping the Group's alignment with the relevant regulatory frameworks and developments in the financial services industry.

Outcomes following engagement
- Meetings held with regulators during the year covered, amongst other topics, operational resilience, integration of IT related matters in the overall risk management framework and the Group's strategic plans. These are all areas that have been considered by the Board in its meetings.
- Agreed the Group/s approach to future engagement with the regulator.

Communities

The Group partners with national and local charities, which offer employees the chance to make a difference both nationwide and closer to home.

The Board engagement with communities
The Board and management actively encourage and fully support engagement with our local communities to make a positive impact. 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 with the aim of making a meaningful impact to these charities and to the lives of those that the charities help.

Outcomes following engagement with communities
- Charities, organisations and good causes benefitted by £288k from donations, employee fundraising, and the annual donation linked to the Demelza Children's Savings Account offered under the Kent Reliance brand.

Relationships with our key stakeholders (continued)

Environment

Sustainability remains an important topic for 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 mindful of the impact of social and environmental change on our business and stakeholders and regularly promote awareness of such 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 approving the Group's ESG Strategy and ESG Operating Framework which sets out how the Group will monitor ESG matters that are material to the Group's Purpose, Vision, Values and Stakeholder expectations. The Board oversees an environmentally friendly culture and ensures 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.

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 shareholders as a whole.

Pages 119 to 125 in the Corporate Governance Report in the OSB Group's Annual Report demonstrates how the Board has engaged with the Group's key stakeholders (customers, intermediaries, colleagues, shareholders, suppliers, regulators and the local communities in which we are located). Examples of strategic decisions which have impacted the Group's key stakeholders are set out below. Pages 7 to 12 and those that follow, set out examples of 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 is essential to achieving our purpose of helping our customers, colleagues and communities prosper.

Section 172 statement (continued)

Key strategic decisions in the year

People and Culture Strategy

During the year the Board approved the People and Culture Strategy which sets out the Group's ambition to be a number one employer of choice. The strategy includes a range of initiatives to be progressed over the course of the next three years and aims to develop a culture of embracing change and new ways of working.

Employees are able to engage directly with the CEO via the "Ask Andy" online portal and a key theme this year was improving the employee family benefits package. Following consideration of employee views, the Group Executive Committee approved enhancements to the UK employee family benefits offering which have received positive feedback from colleagues.

Effective Interest Rate (EIR) adjustment

The Board supported the adverse effective interest rate adjustment in the first half of the year on the Precise Brand which reflected the mortgages product design, impact on customer behaviour and the IFRS 9 accounting treatment.

Customer Experience and Consumer Duty

During the year the Board oversaw the embedding of the Consumer Duty programme across the Group. The Group Risk Committee Chair was appointed as the Consumer Duty Champion to support the Board's oversight in relation to delivering good outcomes for customers, particularly, those who require additional support.

As part of the embedding process a number of enhancements have been made across the Group including all-employee training and Consumer Duty roadshows.

The Board continued to monitor the evolution of customer reporting and enhancements to the management information presented to the Board to ensure it has the appropriate information in order to assess performance against the Consumer Duty principles, as well as the ongoing monitoring of good customer outcomes.

Digitalisation Programme

The Board received regular updates in relation to the Group's digitisation journey and enhancing digital solutions to enable us to meet the needs of our customers, brokers and wider stakeholders, whilst delivering further operational efficiencies. Enhancing the customer proposition through digitisation will be a key focus for the Board in the coming years.

Market review

The UK housing and mortgage market

Housing market activity was constrained during 2023, primarily by affordability pressures generated through the higher cost of living and borrowing. As a result, property transactions and mortgage completions both fell. However product transfers increased, as borrowers reaching the end of their initial term sought to lock in their monthly repayments to protect against further interest rate rises.

Inflationary prices which began in 2022 carried on into 2023 with prices rising by 10.1% in 12 months to January 2023.

The Bank of England implemented five successive increases in the base rate in 2023, with the objective of reducing inflation towards its 2.0% target. Overall, the base rate rose to 5.25% by August 2023 an increase of 1.75% from the start of the year.

The BOE's response contributed to an easing of CPI inflation which fell steadily throughout 2023, leading the Monetary Policy Committee to vote to hold rates steady at the final three meetings of the year in September, November and December, with CPI of 4.0% at the end of the year.

Mortgage interest rates increased significantly following the Government's mini-budget in September 2022 and higher rates persisted throughout 2023 with some moderation through the early part of the year. The average rate on a new two-year fixed rate mortgage at 75% loan to value fell from 5.14% in January 2023 to 4.60% in April according to the Bank of England, before rising again during a period of volatile interest rate swap pricing, hitting a peak of 6.22% in July. Mortgage rates then eased to the end of the year, with the average two-year fixed rate product offered at 5.03% in December 2023.House prices also continued to increase in the first half of the year, despite weakening demand, before turning negative from July onwards. UK house prices fell by 1.4% in the 12 months to December 2023.

The combination of these factors greatly suppressed overall activity in the housing and mortgage markets, with the number of residential property transactions in the UK falling by 19% to 1.02m in 2023 (2022: 1.26m).

The number of approvals for new mortgages falling by 30%to 1.02m (2022: 1.46m) and total UK gross mortgage lending falling by 29% to £224bn in 2023 (2022: £313bn).

The UK savings market

Savings balances in the UK reduced by 0.9% in 2023 to close the year at £2,182.2bn, compared to growth of 3.1% a year earlier, as cost of living pressures weighed on households' disposable income.
Consumer preference pivoted in favour of term savings accounts over instant access and current accounts, with term deposits and cash ISA balances increasing by 36.3% and 16.3% respectively during the year. This performance is a marked shift to the declining balances reported in these product types in 2022, as higher interest rates motivated consumers to lock into term savings in 2023.

Pricing on one-year fixed term accounts increased from an average of 3.64% in 2022 to a peak of 5.45% in 2023, reflecting a higher SONIA yield curve and signs of increasing competition in the second half of the year. At the end of December 2023, 1,918 savings products were promoted in the market, which represented a step-up from the 1,690 accounts advertised a year earlier.

The Bank of England base rate increased by 175bps during the year. The majority of this benefit was passed through to savers with interest rates on instant access savings products increasing by an average of 161bps in 2023.

Market review (continued)

The Group's lending sub-segments

Buy-to-Let

Buy-to-Let gross advances totalled £29.0bn in 2023, a 49% decrease from £57.2bn in 2022, reflecting affordability concerns, with rising borrowing costs and pressures stemming from higher energy prices and increasing maintenance costs. UK Buy-to-Let mortgage balances outstanding fell by 0.2% to £301bn during the year, and it is evident that a limited number of landlords have chosen to exit the market. However, it is likely that this activity was more concentrated towards amateur landlords with single properties or small portfolios. Research conducted by BVA BDRC on behalf of the Group showed that single property landlords were the least likely to make a profit, the least likely to acquire new properties and the most likely to exit the private rented sector in the next 12 months. The research also showed that of all landlords who planned to purchase new properties in the next 12 months, the majority (63%) planned to do so within a limited company structure. This illustrates that professional, multi-property landlords that form the Group's customer base will play an increasing role in the sector's future.

Data collected by RICS shows that the private rented sector still has a critical role to play in the provision of housing in the UK. RICS members reported increasing tenant demand in every survey since mid-2020, with supply remaining weak. This was also the case in 2023, as evidenced by a decline in landlord instructions coming to market, further magnifying supply and demand imbalance.

This imbalance exerted growing pressure on rents during 2023. The ONS reports that rents on the existing rental stock increased by 6.2% in the 12 months to December 2023, while Rightmove reported that asking rents for newly let properties increased by 9.2% in Q4 2023 compared to a year earlier. Research conducted by BVA BDRC suggests that over half (51%) of landlords plan to increase rents in the next six months, with most suggesting an increase is necessary to cover the running costs of the property.

Residential

According to UK Finance, total Residential loans to homeowners reached £186bn in 2023, a decrease of 26% from £250bn in 2022. Within this total, purchase activity declined by 28% to £121bn (2022: £168bn) while remortgaging fared slightly better, down 21% to £65bn (2022: £82bn).

Refinancing volumes during the year were likely dampened by the growing popularity of product transfers within an existing lender which are not included in gross lending totals. This trend was in part driven by the Mortgage Charter, under which signatory lenders agreed to allow customers who are approaching the end of their fixed rate term the opportunity to lock in a new fixed rate product up to six months in advance. Product transfers totalled £240bn in 2023, a 21% year-on-year increase (2022: £198bn), and represented 78% of all regulated refinancing activity during the year (2022: 69%).

Commercial

There was a sense of confidence in commercial property during the first half of 2023, supported by stable of slightly increasing capital and rental values. This positive momentum reversed in some segments during the second half of the year, with declines becoming more pronounced in the fourth quarter. Data for 'all property' showed capital values fell by 3.9% in 2023, with varying degrees of impact across commercial property sub-categories.

Market review (continued)

UK office investment remained at low levels throughout 2023 and the traditional end-of-year surge in activity did not materialise. According to CoStar Research, annual office investment stood at £8.8bn, a 14-year low and less than half the ten-year annual average of £23.7bn. The reduction in trading was most pronounced for higher-value properties. Prices fell as a result of weak investor sentiment, higher borrowing costs and rising vacancies as hybrid working continued. In response to this, cash-rich investors have been entering the market seeking high quality offices in desirable locations or, in some cases, seeing an opportunity to capitalise on the increasing occupier preference for energy efficient offices by retrofitting older buildings.

Investor sentiment towards the retail sector has generally deteriorated in recent years amid multiple lockdowns and a wave of store closures and company administrations. There were however, some pockets in good high street locations in affluent commuter towns and established market towns that are bucking this trend. Average yields increased at the end of 2023, with retail property trading at a big discount to industrial properties in a complete reversal from a decade earlier. Rising interest rates, inflationary pressures and faltering retail sales made retail property appear less attractive and financing more difficult to secure, with the last two quarters of the year representing the weakest for investment in the last three years. Overall, retail leasing demand continued to decline in the second half of 2023.

The strong levels of occupier and investor demand for industrial property, witnessed through the height of the pandemic, faded in 2023, amid higher inflation and interest rates. However, the sector continued to benefit from structural factors such as e-commerce, supply chain reconfiguration and the push towards net zero carbon emissions. Although occupiers scaled back growth plans which weighed on take up, vacancies remained relatively low at 4.1% nationally. Industrial properties with the highest energy-efficiency ratings posted stronger rental growth than their lower rated or unrated counterparts. Sector-wide rental growth rates eased from record levels as vacancies increased and occupiers faced growing cost pressures.

Residential development

A lower level of activity in the residential development sector reflected the subdued wider housing market as developers reduced the number and scale of projects in response to the higher cost of financing and lower demand from homebuyers. New build completions were 9% lower in Q3 2023 than Q3 2022, whilst new build starts were down 47%.

Demand for new properties remained relatively resilient for housing that was affordable to local populations, in contrast to the broader market. However, as mortgage pricing began to fall towards the end of the year there was anecdotal evidence of increased activity in the new build sector.

Key performance indicators (KPIs)

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

Management believes that the underlying results and the underlying KPIs provide a more consistent basis for comparing the Group's performance between financial periods. Underlying KPIs exclude integration costs and other acquisition-related items.

For a reconciliation of statutory results to underlying results, see page 28.

1. Gross new lending

Statutory £4.7bn (2022: £5.8bn)

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

2023 performance:
Gross new lending decreased 20% in the year and reflecting subdued mortgage market due to rising interest rates and affordability pressures.

2. Loan loss ratio

Statutory 20bps (2022: 13bps)
Underlying 20bps (2022: 14bps)

Definition - Loan loss ratio is defined as impairment losses expressed 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.

2023 performance:
Statutory and underlying loan loss ratios increased in the year largely due to updated macroeconomic scenarios, changes in the risk profile of borrowers as they transitioned through modelled IFRS 9 impairment stages, loan book growth and an increase in balances in arrears of three months or more.

3. Net interest margin (NIM)

Statutory 231bps (2022: 278bps)
Underlying 251bps (2022: 303bps)

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.

2023 performance:
Both statutory and underlying NIM reduced in 2023, largely due to the adverse EIR adjustment and as the benefit of the lower cost of retail funding was partially offset by the impact of lower mortgage lending during a period of extreme swap spread volatility.

Key performance indicators (continued)

4. Cost to income ratio

Statutory 36% (2022: 27%)
Underlying 33% (2022: 25%)

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

2023 performance:
Statutory and underlying cost to income ratios increased in 2023 primarily as a result of lower income due to the adverse EIR adjustment and a net fair value loss on financial instruments compared with a gain in the prior year.

5. Management expense ratio

Statutory 82bps (2022: 81bps)
Underlying 81bps (2022: 80bps)

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.

2023 performance:
Statutory and underlying management expense ratios remained broadly flat in the year demonstrating the Group's focus on cost discipline and efficiency.

6. Return on equity

Statutory 19% (2022: 20%)
Underlying 20% (2022: 23%)

Definition - Return on equity (RoE) is defined as profit attributable to ordinary shareholders, which is profit after tax and after deducting coupons on AT1 securities, gross of tax, as a percentage of a 13 point average of shareholders' equity (excluding £150m of AT1 securities).

2023 performance:
The lower statutory and underlying return on equity reflected the reduction in profitability due to the adverse EIR adjustment.

7. OSB solo CRD IV Common Equity Tier 1 capital ratio

The PRA has granted the Company a waiver to comply with the Capital Requirements Regulation (CRR) as an individual consolidation which includes the Company and subsidiaries except for the offshore servicing entity OSBI, Special Purpose Vehicles (SPVs) relating to securitisations and the CCFS entities acquired in October 2019, defined as OSB solo.

OSB solo 16.9% (2022: 18.4%)

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

2023 performance:
The CET1 ratio remained strong, although reduced marginally as capital generation from profitability in the year as a result of the adverse EIR adjustment loan book growth, foreseeable and paid dividends and the impact of the £150m share repurchase programme completed in 2023.

Key performance indicators (continued)

8. Savings customer satisfaction – Net Promoter Score

OSB +71 (2022: +64)
CCFS +62 (2022: +61)

Definition - The NPS measures customers' satisfaction with services and products. It is based on customer responses to the question of whether they would recommend us to a friend. The response scale is 0 for absolutely not to 10 for definitely yes. Based on the score, a customer is 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 promoters gives an NPS of between -100 and +100.

2023 performance:
Savings customer NPS increased due to fair savings products offering and excellent customer service.

Financial review

Summary statutory results for 2023 and 2022

Summary Profit or Loss	For the year ended 31 December 2023 £m	For the year ended 31 December 2022 £m
Net interest income	658.9	709.9
Net fair value gain on financial instruments	(4.4)	58.9
Gain on sale of financial instruments	-	–
Other operating income	3.9	6.6
Administrative expenses	(233.8)	(206.5)
Provisions	(0.4)	1.6
Impairment of financial assets	(48.8)	(29.8)
Impairment of intangible assets	-	–
Integration costs	-	(7.9)
Exceptional items	-	–
Profit before taxation	375.4	532.8
Profit after taxation	283.6	411.3
Key ratios		
Net interest margin	231bps	278bps
Cost to income ratio	36%	27%
Management expense ratio	82bps	81bps
Loan loss ratio	20bps	13bps
Return on equity	19%	20%

Extracts from the Statement of Financial Position	As at 31 December 2023 £m	As at 31 December 2022 £m
Loans and advances to customers	25,765.0	23,612.7
Retail deposits	22,126.6	19,755.8
Total assets	29,594.2	27,567.5

Financial Review (continued)

Statutory Profit

The Group's statutory profit before tax decreased by 30% to £375.4m (2022: £532.8m) after acquisition-related items of £51.7m (2022: £59.6m). The benefit of net loan book growth was more than offset by the total net adverse statutory effective interest rate adjustment of £210.7m. The decrease in statutory profit before tax was also due to a net fair value loss on financial instruments compared with a gain in the prior year, higher administration costs and a higher impairment charge.

Statutory profit after tax was £283.6m in 2023, a decrease of 31% from £411.3m in the prior year, and included acquisition related items of £37.1m (2022: £38.7m).

The Group's effective tax rate increased to 24.6% due to higher corporation tax rates, partially offset by a lower proportion of the profits being subject to the bank surcharge (2022: 24.0%).

Statutory return on equity for 2023 was 19% (2022: 20%).

Net Interest Income

Statutory net interest income decreased by 7% in 2023 to £658.9m (2022: £709.9m), as the benefit of the net loan book growth was more than offset by the adverse EIR adjustment of £210.7m on a statutory basis.

Statutory net interest margin (NIM) was 231bps compared to 278bps in the prior year, down 47bps, largely due to the adverse EIR adjustment and as the benefit of the lower cost of retail funding was partially offset by the impact of some lower margin lending during a period of extreme swap spread volatility. The total net adverse EIR adjustment accounted for 72bps of statutory NIM for the year ended 31 December 2023.

Net fair value gain on financial instruments

Statutory net fair value loss on financial instruments of £4.4m in 2023 (2022: £58.9m gain) included a £11.1m net loss on unmatched swaps (2022: £57.1m gain) following a reduction in swap prices in the fourth quarter and a gain of £2.0m (2022: £8.1m loss) in respect of the ineffective portion of hedges.

The Group also recorded a £6.4m net gain (2022: £10.2m gain) from the unwind of acquisition-related inception adjustments, a £4.3m loss (2022: £1.2m gain) from the amortisation of hedge accounting inception adjustments and a gain of £2.6m from other items (2022: £1.5m loss).

The net loss on unmatched swaps related primarily to fair value movements on mortgage pipeline swaps prior to them being matched against completed mortgages, and was caused by a reduction in the interest rate outlook on the SONIA forward curve in the fourth quarter. Conversely, the net gain recognised in the prior year reflected a step up in interest rate outlook on the SONIA yield curve largely in response to the actions announced in the September 2022 mini budget. The Group economically hedges its committed pipeline of mortgages and this unrealised gain unwinds over the life of the swaps through hedge accounting inception adjustments.

Financial review (continued)

Other operating income

Statutory other operating income of £3.9m (2022: £6.6m) mainly comprised CCFS' commissions and servicing fees, including those from servicing securitised loans that have been derecognised from the Group's balance sheet.

Administrative expenses

Statutory administrative expenses increased by 13% to £233.8m in 2023 (2022: £206.5m) largely due to the balance sheet growth and the anticipated impact of inflation and planned investment in people and operations, including digital solutions and enhancing our customer propositions.

The statutory management expense ratio was unchanged at 82bps in 2023 (2022: 81bps) reflecting the Group's focus on cost discipline and efficiency.

The Group's statutory cost to income ratio increased to 36% (2022: 27%) primarily as a result of lower income following the adverse EIR adjustment and a net fair value loss on financial instruments compared with a gain in the prior year.

Impairment of financial assets

The Group recorded a statutory impairment charge of £48.8m in 2023 (2022: £29.8m) representing a statutory loan loss ratio of 20bps (2022: 13bps).

The updated forward-looking macroeconomic scenarios used in the Group's IFRS 9 models accounted for a £6.4m charge, while enhancements to models and post model adjustments resulted in a net release of £1.0m. Changes in the risk profile of borrowers as they transitioned through modelled IFRS 9 impairment stages and loan book growth amounted to a charge of £21.9m and an increase in provisions relating to accounts with arrears of three months or more amounted to a charge of £14.1m. The increase in individually assessed provisions and other items amounted to a charge of £7.4m.

As at 31 December 2023, the Group's balance sheet provisions were further reduced by write-offs of £33.6m, where loans are written off against the related provision when the underlying security is sold. This amount did not form part of the year end impairment charge as it was expensed to the profit and loss when the provisions were raised.

In the prior year, the impairment charge was largely due to the Group's adoption of more severe forward-looking macroeconomic scenarios in its IFRS 9 models and post model adjustments to account for the rising cost of living and borrowing concerns.

Financial review (continued)

Integration costs

The Group ceased recognising expenses as the integration costs on the third anniversary of combination with CCFS in October 2022. In the prior year, £7.9m of integration costs largely related to redundancy costs and advice on the Group's future operating structure.

Balance sheet growth

On a statutory basis, net loans and advances to customers grew by 9% to £25,765.0m in 2023 (2022: £23,612.7m), supported by originations of £4.7bn in the year and strong retention.

Total assets also grew by 7% to £29,594.2m (2022: £27,567.5m), largely due to the growth in loans and advances to customers.

On a statutory basis, retail deposits increased by 12% to £22,126.6m as at 31 December 2023 from £19,755.8m in the prior year, as the savers continued to choose the Group's consistently fair and attractively priced products.

The Group complemented its retail deposits funding with drawings under the Bank of England's schemes. Drawings under the Term Funding Scheme for SMEs as at 31 December 2023 reduced to £3.3bn as at 31 December 2023 as the Group repaid £900m of the funding using retail deposits and wholesale funding in the second half of the year (31 December 2022: £4.2bn). The company repaid £450m. Drawings under the Index Long-Term Repo scheme were £10.1m (2022: £300.9m).

Liquidity

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

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

As at 31 December 2023, OSB had £1,155.7m and CCFS had £1,514.0m of HQLA (2022: £1,494.1m and £1,522.8m, respectively).

Financial review (continued)

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

As at 31 December 2023, OSB had an LCR of 208% and CCFS 139% (31 December 2022: 229% and 148%, respectively) and the Group LCR was 168% (31 December 2022: 185%), all significantly in excess of the regulatory minimum of 100% plus Individual Liquidity Guidance.

Capital

The OSB solo capital position remained strong with a CET1 capital ratio of 16.9% as at 31 December 2023 (2022: 18.4%).

Summary cash flow statement

	For the year ended 31 December 2023	For the year ended 31 December 2022
Profit before tax	**375.4**	532.8
Net cash generated/(used in):		
Operating activities	**421.3**	428.2
Investing activities	**(301.2)**	63.2
Financing activities	**(650.2)**	(184.0)
Net increase in cash and cash equivalents	**(530.1)**	307.4
Cash and cash equivalents at the beginning of the period	**3,044.1**	2,736.7
Cash and cash equivalents at the end of the period	**2,514.0**	3,044.1

Cash flow statement

The Group's cash and cash equivalents decreased by £530.1m during the year to £2,514.0m as at 31 December 2023.

In 2023, loans and advances to customers increased by £2,200.5m, primarily funded by £2,370.8m of deposits from retail customers. The Group repaid £336.9m of cash collateral on derivative exposures and received £38.8m of initial margin, reflecting a reduction in swap pricing in the fourth quarter. Cash used from financing activities of £650.2m included finance repaid: TFSME scheme repayments of £450m and repayments of the ILTR scheme of £290.8m. It also included interest on financing of £205.4m and distributions to shareholders of £185.0m of dividend payments and £335.0m of share repurchase which were partially offset by funding through securitisations, senior notes and subordinated liability issuances raising £1,141.6m. Cash used in investing activities was £301.2m.

In 2022, loans and advances to customers increased by £2,563.1m during the year, partially funded by £2,229.4m of deposits from retail customers. The Group received £434.3m of cash collateral on derivative exposures and paid £137.5m of initial margin, reflecting new derivatives during the year. Cash used from financing activities of £184.0m included £300.9m drawings under the ILTR scheme offset by £193.6m repayment of debt securities, £102.0m share repurchases, £133.1m dividend payments and £45.3m interest on financing liabilities. Total drawings under the Bank of England's TFSME scheme remained unchanged at £4.2bn. Cash generated from investing activities was £63.2m.

Financial review (continued)

Summary of underlying results for 2023 and 2022

Summary Profit or Loss	**For the year ended 31 December 2023 £m**	For the year ended 31 December 2022 £m
Net interest income	**715.0**	769.1
Net fair value (loss)/gain on financial instruments	**(10.8)**	48.5
Gain on sale of financial instruments	**–**	–
Other operating income	**3.9**	6.6
Administrative expenses	**(232.1)**	(202.7)
Provisions	**(0.4)**	1.6
Impairment of financial assets	**(48.5)**	(30.7)
Profit before taxation	**427.1**	592.4
Profit after taxation	**320.7**	450.0
Key ratios		
Net interest margin	**251bps**	303bps
Cost to income ratio	**33%**	25%
Management expense ratio	**81bps**	80bps
Loan loss ratio	**20bps**	14bps
Return on equity	**20%**	23%

Extracts from the Statement of Financial Position	**As at 31 December 2023 £m**	As at 31 December 2022 £m
Loans and advances	**25,739.6**	23,529.8
Retail deposits	**22,126.6**	19,755.2
Total assets	**29,570.0**	27,488.4

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 2023 and 2022 exclude integration costs and other acquisition-related items. A reconciliation of statutory to underlying results is disclosed on page 28.

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.

Financial review (continued)

Underlying profit

The Group’s underlying profit before tax decreased by 28% to £427.1m from £592.4m in 2022. The benefit of net loan book growth was more than offset by the adverse underlying effective interest rate adjustment of £181.6m. The decrease in underlying profit before tax was also due to a net fair value loss on financial instruments compared to a gain in the prior year, higher administration costs and a higher impairment charge.

Underlying profit after tax was £320.7m, down 29% (2022: £450.0m), broadly in line with the decrease in profit before tax. The Group’s effective tax rate on an underlying basis increased to 25.0% for the year due to higher corporation tax rates, partially offset by a lower proportion of the profits being subject to the bank surcharge (2022: 24.3%).

On an underlying basis, return on equity for 2023 was 20% (2022: 23%).

Net interest income

Underlying net interest income decreased by 7% to £715.0m in 2023 (2022: £769.1m), as the benefit of net loan book growth was more than offset by the adverse EIR adjustment of £181.6m on an underlying basis. The adverse EIR adjustment primarily related to the expectation that Precise Mortgages borrowers would spend less time on the higher reversionary rate before refinancing based on observed customer behavioural trends.

The underlying net interest was 251bps compared to 303bps in the prior year, down 52bps, largely due to the adverse EIR adjustment and as a benefit of the lower cost of retail funding was partially offset by the impact of tighter mortgage margins due to the volatile mortgage swap spreads. The adverse EIR adjustment accounted for 63bps of underlying NIM for the year ended 31 December 2023.

Net fair value gain on financial instruments

Underlying net fair value loss on financial instruments of £10.8m in 2023 (2022: £48.5m gain) and included a loss on unmatched swaps of £11.1m (2022: £57.1m gain) following a fall in swap prices in the fourth quarter, a gain of £2.0m (2023: £8.1m loss) in respect of the ineffective portion of hedges.

The Group also recorded a £4.3m loss (2022: £1.2m gain) from the amortisation of hedge accounting inception adjustments and a gain of £2.6m (2022: £1.7m loss) from other items.

The net loss on unmatched swaps related primarily to fair value movements on mortgage pipeline swaps prior to them being matched against completed mortgages, and was caused by a reduction in the interest rate outlook on the SONIA forward curve in the fourth quarter. Conversely the net gain recognised in the prior year reflected a step up in interest rate outlook on the SONIA yield curve largely in response to the actions announced in the September 2022 mini budget. The Group economically hedges its committed pipeline of mortgages and this unrealised movement unwinds over the life of the swaps through hedge accounting inception adjustments.

Other operating income

On an underlying basis, other operating income was £3.9m in 2023 (2022: £6.6m) and mainly comprised CCFS’ commissions and servicing fees, including those from servicing securitised loans that have been derecognised from the Group’s balance sheet.

Financial review (continued)

Administrative expenses

Underlying administrative expenses were up 15% to £232.1m in 2023 (2022: £202.7m), largely due to the balance sheet growth and anticipated impact of inflation and planned investment in people and operations, including digital solutions and enhancing our customer propositions.

The Group's underlying cost to income ratio increased to 33% (2022: 25%) primarily as a result of lower income following the adverse EIR adjustment and a net fair value loss on financial instruments compared with a gain in the prior year.

The underlying management expense ratio remained broadly flat at 81bps in 2023 (2022: 80bps) reflecting the Group's focus on cost discipline and efficiency.

Impairment of financial assets

The Group recorded an underlying impairment charge of £48.5m in 2023 (2022: £30.7m) representing an underlying loan loss ratio of 20bps (2022: 14bps).

The updated forward-looking macroeconomic scenarios used in the Group's IFRS 9 models accounted for a £6.4m charge, while enhancements to models and post-model resulted in a net release of £1.0m. Changes in the risk profile of borrowers as they transitioned through modelled IFRS 9 impairment stages and loan book growth amounted to a charge of £21.9m and an increase in the provisions relating to accounts with arrears of three months or more amounted to a charge of £14.1m. The increase in individually assessed provisions and other items amounted to a charge of £7.1m.

As at 31 December 2023, the Group's balance sheet provisions were further reduced by £33.6m, where loans are written off against the related provision when the underlying security is sold. This amount did not form part of the year end impairment charge as it was expensed to the profit and loss when the provisions were raised.

In the prior year, the impairment charge was largely due the Group's adoption of more severe forward-looking macroeconomic scenarios in its IFRS 9 models and post model adjustments to account for the rising cost of living and borrowing concerns.

Balance sheet growth

On an underlying basis, net loans and advances to customers were £25,739.6m (31 December 2022: £23,529.8m) an increase of 9%, supported by gross originations of £4.7bn in the year.

Total underlying assets grew by 8% to £29,570.0m (31 December 2022: £27,488.4m), largely due to the growth in loans and advances to customers.

On an underlying basis, retail deposits increased by 12% to £22,126.6m (31 December 2022: £19,755.2m) as savers continued to choose the Group's consistently fair and attractively priced products.

The Group complemented its retail deposits funding with drawings under the Bank of England's schemes. Drawings under the Term Funding Scheme for SMEs (TFSME) reduced to £3.3bn as at 31 December 2023 as the Group repaid £900m of the funding using retail deposits and wholesale funding in the second half of the year (2022: £4.2bn). The company repaid £450m. Drawings under the Index Long-Term Repo scheme were £10.1m (2022: £300.9m).

Financial review (continued)

Reconciliation of statutory to underlying results

	2023			2022		
	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	**658.9**	**56.1**	**715.0**	709.9	59.2[1]	769.1
Net fair value gain/(loss) on financial instruments	**(4.4)**	**(6.4)**	**(10.8)**	58.9	(10.4)[2]	48.5
Other operating income	**3.9**	**-**	**3.9**	6.6	–	6.6
Total income	**658.4**	**49.7**	**708.1**	775.4	48.8	824.2
Administrative expenses	**(233.8)**	**1.7**	**(232.1)**	(206.5)	3.8[4]	(202.7)
Provisions	**(0.4)**	**-**	**(0.4)**	1.6	–	1.6
Impairment of financial assets	**(48.8)**	**0.3**	**(48.5)**	(29.8)	(0.9)[5]	(30.7)
Integration costs	**-**	**-**	**-**	(7.9)	7.9[7]	–
Profit before tax	**375.4**	**51.7**	**427.1**	532.8	59.6	592.4
Profit after tax	**283.6**	**37.1**	**320.7**	411.3	38.7	450.0
Summary Balance Sheet					Summary Balance Sheet	
Loans and advances to customers	**25,765.0**	**(25.4)**	**25,739.6**	23,612.7	(82.9)[9]	23,529.8
Other financial assets	**3,722.8**	**1.3**	**3,724.1**	3,878.9	9.1[10]	3,888.0
Other non-financial assets	**106.4**	**(0.1)**	**106.3**	75.9	(5.3)[11]	70.6
Total assets	**29,594.2**	**(24.2)**	**29,570.0**	27,567.5	(79.1)	27,488.4
Amounts owed to retail depositors	**22,126.6**	**-**	**22,126.6**	19,755.8	(0.6)[12]	19,755.2
Other financial liabilities	**5,274.6**	**-**	**5,274.6**	5,548.5	0.8[13]	5,549.3
Other non-financial liabilities	**46.7**	**(6.3)**	**40.4**	61.4	(30.2)[14]	31.2
Total liabilities	**27,447.9**	**(6.3)**	**27,441.6**	25,365.7	(30.0)	25,335.7
Net assets	**2,146.3**	**(17.9)**	**2,128.4**	2,201.8	(49.1)	2,152.7

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

Risk review

Executive summary

Progress was made in 2023 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 2022.

The Group's primary focus during 2023 has been to navigate the uncertainties and risks arising from macroeconomic headwinds, geopolitical uncertainties, continued cost of living and borrowing challenges and changing customer and competitor behaviours. Despite the heightened levels of uncertainty and change, the Group has broadly maintained its risk profile within the confines of the Board approved risk appetite.

The Group's financial performance was impacted by the adverse EIR adjustment which related to the expectation that Precise Mortgages borrowers would spend less time on the higher reversionary rate before refinancing based on observed customer behavioural trends. Over the course of the first half of 2023, the Group observed a step change in how long these customers were spending on the reversion rate, in particular the attrition rate of borrowers who historically stayed on the reversion rate for several months. Precise customers generally contractually revert to a margin over BBR at the end of their fixed rate term. As BBR continued to rise, customers saw steep increases in the BBR linked reversion rate, and as the Group continued to develop its Precise retention programme, customers were choosing to refinance earlier and spent less time on the higher reversion rate compared to previously observed behavioural trends. The Group has significantly enhanced its approach to modelling and monitoring customer repayment behaviours.

During 2023, the Group observed an increase in arrears driven by rising cost of borrowing and living, whilst the timelines for repossessing and selling properties continued to be elongated due to ongoing delays in court hearings process, which also contributed to elevated levels of late-stage arrear balances. The Group observed lower levels of Buy-to-Let balances greater than three months in arrears, versus UK Finance trends, with year-on-year growth marginally lower than the UK Finance trend observed during the year. Residential mortgage arrears trends remained higher than UK Finance data, driven by a higher portfolio mix of near prime customers.

The Group continued to focus on supporting customers who experienced financial difficulties, as evidenced by the observed year-on-year increase in forbearance measures granted. The LTV profile of the existing loan book and accounts in arrears remains appropriate, providing loss protection if required. Arrears levels remain below expectations and prudent IFRS9 provision coverage levels have been maintained to cover for forecasted future losses.

The Group has established a robust framework of assessing the nature and drivers of its credit risk profile which are captured within its Expected Credit Loss (ECL) methodology. The Group has maintained a prudent levels of credit provisions which are driven by forward looking macroeconomic forecasts. PMAs are primarily designed to capture the risk arising from the heightened cost of living and borrowing by moving some accounts to into Stage 2 even when the account is performing.

The Group remains cognisant of the impact of the cost of living and borrowing challenges on customers experiencing financial distress and customers with vulnerabilities. The Group have undertaken an extensive review and enhanced activities to further improve its approach to early assessment and management of customers subject to financial distress or vulnerabilities to ensure good outcomes. These enhancements are being made against the backdrop of Consumer Duty disciplines.

Risk review (continued)

The Group's wider Enterprise Risk Management Framework (ERMF) ensures that principal risks are subject to common good practice standards across all phases of the risk life cycle, including identification, assessment, management, monitoring and reporting. The ERMF continuously evolves to reflect the Group's underlying risk profile. An example of this is the introduction of a focused approach to risk disciplines in the area of model and end-user computing, data and change risk management. The ERMF and its sub-components are subject to continuous review and independent assurance, as well as being leveraged to demonstrate effective compliance with prudential and conduct regulatory requirements.

Given the challenging and uncertain operating environment, the Group's performance against its Board approved risk appetite was subject to close scrutiny by the Board and management. In particular, the Group remains very focused on ensuring that underlying risk trends were actively monitored and that timely actions were taken to minimise risk and ensure that a sufficient level of financial contingency and buffers are held. This approach has ensured that the Group has maintained prudent levels of provisions, funding and capital buffers.

The Group made good progress against several important regulatory initiatives, including compliance with the Resolution Assessment Framework (including meeting MREL requirements) and Consumer Duty. This has been achieved through collaborative engagement with its supervisory authorities, key functional areas and the Board. OSBG successfully issued its first £300m of MREL qualifying debt securities plus £250m Tier 2 debt securities in 2023 followed by a further £400m MREL issuance in January 2024, following which the Group has met its interim MREL requirement in advance of the July 2024 deadline. These issuances were supported by a credit rating upgrade during the course of the year.

The ongoing delivery of planned enhancements to the Group's operational resilience and continuity capabilities remains a key area of focus. The Group's programme of work to ensure appropriate capabilities and processes are in place to facilitate an orderly resolution of the Group completed as planned, including the successful completion of a resolution scenario fire drill which walked selected Board members and senior management through the core steps of the resolution timeline.

The Group has undertaken an extensive review of Basel 3.1 consultation documents and assessed its impact whilst being cognisant that it is not yet finalised for UK adoption. Based on various permutations of how the new regulation will be adopted in the UK, the Group endeavoured to reflect its impact within its business and capital planning processes, including within its MREL issuance plans.

The Group continues to enhance its approach to compliance with Internal Ratings-Based (IRB) disciplines underpinned by ongoing self-assessment reviews against regulatory standards and emerging guidelines. The Group has strengthened its compliance with the IRB requirements and has reflected upon the PRAs feedback to the industry. The Group continues to engage with the regulator ahead of commencing the formal application process. Underlying IRB capabilities and disciplines have become progressively integrated into the Group's business planning, risk, capital, IT and data management disciplines. In particular, enhanced IRB capabilities have played a vital role in informing and shaping the Group's response to the rising costs of living and borrowing.

As the Group has embarked on an extensive programme of digitalisation for its systems architecture and underlying business processes, the Group has leveraged its risk and governance framework to ensure the programme of activities are subject to active identification, monitoring and escalation of risks. Active engagement with key stakeholders based on defined outcomes, plans and deliverables is central to the risk and governance disciplines. In particular, the Group is assessing the risks in the context of various change programmes, impact on business-as-usual activities and transition from development into production.

Risk review (continued)

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

Priority areas for 2024

A heightened level of uncertainty remains around the UK economic outlook and the operating environment for 2024 and beyond. Therefore, continued close monitoring of the Group's risk profile and operating effectiveness remains a key priority for the Risk and Compliance function. Other priorities include:

- Continue to leverage the Group's Enterprise Risk Management Framework and existing capabilities to actively identify, assess and manage risks in line with approved risk appetite.
- Leverage enhancements made across the Group's portfolio analytical capabilities, including utilising the Group's new stress testing capability and wider analytical tools to improve risk-based pricing, balance sheet management, capital planning and stress testing
- Continue to embed the operational risk framework across the Group and further enhance controls testing and assurance activity
- Continue to enhance and embed Resolvability Assessment Framework capabilities and carry out a master fire drill to test those.
- Provide assurance to ensure the FCA's Consumer Duty rules and requirements are further embedded as planned
- Provide oversight across the embedding of the Group's project to enhance the Group's arrears management processes
- Maintain oversight of capital management including the impact of MREL and Basel 3.1, including the implications for capital planning and asset pricing decisions
- Further embed IRB capabilities and disciplines within wider risk management processes
- Continue to provide second line oversight of the funding strategy and drive enhancements to sensitivity analysis around key liquidity drivers
- Continue to provide second line oversight of the Group's key change programmes, including the digitalisation of the Group

Enterprise Risk Management Framework

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

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

The ERMF provides a structured mechanism to align critical components of an effective approach to risk management, linking overarching risk principles to day-to-day risk identification, assessment, mitigation and monitoring activities.

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

Risk review (continued)

The key components of the ERMF structure are as follows:

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

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

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

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

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

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

7. Risk 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.

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

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

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

Group organisational structure

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

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

Risk review (continued)

Risk appetite

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

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

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

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

Management of climate change risk

There was further embedding of the Group's approach to climate risk during 2023, with the Climate Risk Management Framework and ESG governance structures now established.

The Group is exposed to the following climate related risks:

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

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

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

Risk review (continued)

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. EPC ratings are based on a Standard Energy Procedure (SAP) calculation which uses a methodology to determine the energy performance of properties by considering factors such as construction materials, heating systems, insulation and air leakage.

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

- Flood risk
  By the 2030's, at the Group level, the percentage of properties predicted to experience a flood is expected to increase from 0.51% in the least severe scenario to 0.55% in the most severe scenario. Both scenarios represent a low proportion of the Group's loan portfolios.

- Subsidence
  In the 2030's, at the Group level the percentage of properties predicted to experience subsidence is expected to increase from 0.42% in the least severe scenario to 0.46% 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.

Risk review (continued)

Both Banks have over 92% of their portfolios more than 1000 metres from the coastline, indicating a very low coastal erosion risk across the Group.

The OSB bank entity and CCFS bank entity has 31 properties within 100 metres of the coastline likely to experience erosion in the future.

c) Energy Performance Certificate profile
The EPC profile of both bank entities follows a similar trend to the national average. At the Group level 41% of properties have an EPC of C or better, 46% have an EPC of D, 12% with an EPC of E and negligible percentages in F or G. Over 95% of the properties supporting the Group's loan portfolios have the potential to have at least an EPC rating of C.

Value at Risk assessment

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

Climate change scenarios

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

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

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

Methodology – physical risks

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

Methodology – transitional risks

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

d) Analysis outcome
The physical risks currently present an immaterial ECL or capital risk to the Group. The sensitivity to transitional risk is larger than that of physical risk, although still very small.

Principal risks and uncertainties

<u>1. Strategic and business risk</u>

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 and regulatory changes.

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

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

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

Direction: increased
The ongoing macroeconomic uncertainty and its potential impact on net interest income, affordability levels, house prices and expected credit losses continue to present risk to the Group's performance in 2024.

<u>1.2 Economic environment</u>
The economic environment in the UK is an important factor impacting the strategic and business risk profile.

A macroeconomic downturn may impact the credit quality of the Group's existing loan portfolios and may influence future business strategy as the Group's new business proposition becomes less attractive due to lower returns.

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

Direction: unchanged
Macroeconomic uncertainty will continue into 2024 with an ongoing risk to the Group's credit risk profile, including the possibility of further falls in house prices, and an ongoing risk that changes to the macroeconomic environment result in changes to customer behaviours.

Principal risks and uncertainties (continued)

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

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

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

2. Reputational risk

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

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

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

2. 1 Deterioration of reputation
Potential loss of trust and confidence that our stakeholders place in us as a responsible and fair provider of financial services.

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

Direction: increased
The challenging macroeconomic environment in 2023 resulted in shifts within both the UK's lending and savings markets. This has brought about the need for all banks to become increasingly agile with products offered in order to ensure that all core targets continued to be met. Operational scalability and efficiency challenges continue to influence the Group's reputational risk profile.

Principal risks and uncertainties (continued)

3. Credit risk

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

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

3.1 Individual borrower defaults

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

While in most cases of default the Group's lending is secured, some borrowers may fail to maintain the value of the security, which may result in a loss being incurred.

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

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

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

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

Direction: increased
The drivers of borrower default risk have shifted with higher inflation and higher interest rates impacting affordability for accounts and increasing the risk of borrower default.

Principal risks and uncertainties (continued)

3.2 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.

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

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

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

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

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

Principal risks and uncertainties (continued)

4. Market risk

Potential loss due to changes in market prices or values.

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

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

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

Direction: unchanged
Interest rate risk remained unchanged in 2023 was influenced by the backdrop of rapidly rising interest rates and the potential for changing customer behaviour. The macroeconomic outlook remains uncertain.

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

Mitigation
The Group did not require active management of basis risk in 2023 due to its balance sheet structure.

Direction: unchanged
Basis risk exposures were unchanged in 2023 as the Group's exposures are broadly SONIA linked assets funded by Bank of England Base Rate liabilities.

Principal risks and uncertainties (continued)

5. Liquidity and funding risk

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

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

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

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

Mitigation
The Group's funding strategy is focused on a highly stable retail deposit franchise. The Group's large number of depositors provides diversification, where a high proportion of balances are covered by the FSCS protection scheme, largely mitigating the risk of a retail run.

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

The Group has further diversified its retail channels by the use of deposit aggregators.

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 Retail Mortgage Backed Security (RMBS) programme.

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

In 2023, OSB and CCFS were able to attract significant flows of new deposits and depositors, despite the volatile interest rate environment and competitive savings market. Both banks were able to proactively manage retail flows around peak maturity periods without any reliance on unplanned wholesale actions.

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

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

Principal risks and uncertainties (continued)

The Group completed one securitisation in 2023 and two capital issuances in 2023 and has a range of wholesale funding options available outside retained securitisation, including Bank of England facilities, for which collateral has been prepositioned.

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

5. 3 Refinancing of TFSME
Current Term Funding Scheme for Small and Medium-sized Enterprises (TFSME) borrowing by the Group reduced to £3.3bn at the end of 2023 from £4.2bn in 2022, with £900m of funding repaid during the year with the remainder due to be repaid by October 2025.

Mitigation
The Group has other wholesale options available to it, including securitisation programmes and repo or sale of held notes, as well as retail funding via its strong franchises, to replace the TFSME borrowing gradually over the next 18 months ahead of the maturity of this funding.

Direction: decreased
TFSME borrowing decreased during the year; however, the current funding plan to refinance TFSME requires significant securitisation issuance. These markets have seen remained open during 2023 despite volatility seen in 2022, however additional refinancing options are being considered.

6. Solvency risk

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

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

6.1 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 Group is required to meet its interim MREL requirement from July 2024 which ensures the Group must consider its total loss absorbing capacity requirement in addition to its existing capital requirements.

The regulatory capital regime is subject to change and could lead to increases in the level and quality of capital that the Group needs to hold to meet regulatory requirements. In particular, we await confirmation of the final rules in relation to the implementation of Basel 3.1 standards.

Mitigation
The Group operates from a strong capital position and has a consistent record of strong profitability.

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

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

Principal risks and uncertainties (continued)

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

Direction: unchanged
The stable credit profile and ongoing profitability mean that the Group's capital resources remain strong.

Risks remain around adverse credit profile performance resulting from higher inflation and higher interest rates.

7. Operational risk

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

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

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

Mitigation
The Group operates with a suite of detective controls to ensure services between the business and its customers operate securely with potential threats identified and mitigated as part of its IT risk and control assessment. This is further supported by documented and tested procedures intended to ensure the effective response to a security breach.

The Group programme of IT and cyber improvements continued with the aim of enhancing its protection against IT security threats, deploying a series of tools designed to identify and prevent network/system intrusions.

Direction: unchanged
The Group has processes in place to allow it to operate effectively when employees work from home and manage the cyber risks related to working remotely.

Whilst IT security risks continue to evolve, work continues to enhance the level of maturity of the Group's controls and defences, supported by dedicated IT security experts.

The Group has an ongoing programme of penetration testing in place to drive enhancements by identifying potential areas of risk.

7. 2 Data quality and completeness
The risks resulting from data of a poor quality being captured or data not being maintained to a good standard.

Mitigation
The Group has a suite of data governance policies and procedures along with dedicated resources to ensure the quality of data is maintained at an appropriate standard.

Principal risks and uncertainties (continued)

Direction: unchanged
Progress was made in 2023 to embed Group-wide governance frameworks With further work planned for 2024 to move closer to the Group's target end state.

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

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

Direction: increased
The Group continued to adopt an ambitious change agenda, which was monitored and managed well in 2023. The Group made good progress on its digitalisation journey, which will enable it to meet the future needs of customers, brokers, and wider stakeholders, whilst delivering further operational efficiencies.

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

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

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

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

8. Conduct risk

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

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

Principal risks and uncertainties (continued)

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

Mitigation
The Group's culture is clearly defined and monitored via its Purpose, Vision and Values driven behaviours.

The Group has a strategic commitment to provide simple, customer-centric products. In addition, a Product Governance framework is established to oversee the products are designed and maintained to deliver good customer outcomes throughout the product lifecycle.

The Group has an embedded Conduct Risk Management Framework which clearly define roles and responsibilities for conduct risk management and oversight across the Group's three lines of defence.

Direction: increased
During 2023, as a result of the cost of living and cost of borrowing crisis and changing customer and competitor behaviours, the Group's operations experienced high volumes of customer contact.

Throughout 2023, the Group continued to review and evolve its approach to supporting customers, particularly those that are vulnerable and experiencing financial difficulty, to ensure they continue to receive the level of tailored support needed to deliver good customer outcomes.

Conduct losses have remained stable with no breaches of risk appetite reported during the last 12 months.

9. Regulatory risk

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

Risk appetite statement: The Group views ongoing conformance with regulatory rules and standards across all the jurisdictions in which it operates as a critical facet of its risk culture. The Group has a very low appetite to assume regulatory risk, which could result in poor customer outcomes, customer detriment, regulatory sanctions, financial loss or damage to its reputation. The Group will proactively monitor for and will not tolerate any systemic failure to comply with applicable laws, regulations or codes of conduct relevant to its business.

The Group acknowledges that regulatory rules and standards are subject to interpretation and subsequent translation into internal policies and procedures. The Group interprets requirements to ensure adherence with the intended purpose and spirit of the regulation whilst being cognisant of commercial considerations and good customer outcomes. To minimise regulatory risk, the Group proactively engages with its regulators in a transparent manner, participates in industry forums and seeks external advice to validate its interpretations, where appropriate.

9.1 Prudential regulatory changes
The Group continues to see a high volume of key compliance regulatory changes that impact its business activities. These include the consumer duty requirements and increased Resolvability Assessment Framework requirements.

Principal risks and uncertainties (continued)

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

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

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

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

<u>9.2 Conduct regulation</u>
Regulatory changes focused on the conduct of business could force changes in the way the Group carries out business and impose substantial compliance costs.

This includes the risk that product design, underwriting, arrears and forbearance and vulnerable customer policies are misaligned to regulatory expectations which result in customer harm, particularly those experiencing financial hardship or vulnerable customers, with the potential for reputational damage, redress and other regulatory actions.

Mitigation
The Group has a programme of regulatory horizon scanning linking into a formal regulatory change management programme. In addition, the focus on simple products and customer-oriented culture means that current practice may not have to change significantly to meet new conduct regulations. The Group implemented the FCA’s Consumer Duty requirements within the required timelines.

All Group entities utilise underwriting, arrears and forbearance and vulnerable customer policies, which are designed to comply with regulatory principles, rules and expectations. These policies articulate the Group’s commitment to ensuring that all customers, including those who are vulnerable or experiencing financial hardship, are treated fairly, consistently and in a way that considers their individual needs and circumstances.

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

Direction: increased
The retail banking sector continues to be subject to heightened levels of regulatory focus and change, particularly in relation to conduct and customer outcomes. The Group actively assesses its approach and exposure to meeting current and emerging regulatory frameworks and remains cognisant of the potential risk of legacy decisions being subject to future supervisory focus and attention.

The Group continues to proactively interact with regulatory bodies to take part in thematic reviews and information requests, as required.

Identifying, monitoring and supporting vulnerable customers continues to be a key area of focus.

The Group continues to review its approach to supporting customers experiencing financial difficulty to ensure they continue to receive the level of tailored support needed to deliver good customer outcomes.

Principal risks and uncertainties (continued)

10. Financial crime risk

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

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

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

Mitigation
The Group operates in a low-risk environment providing relatively simple products to UK domiciled customers serviced through a UK registered bank account. The Group has an established screening programme that is deployed at the point of origination and on a regular basis throughout the customer lifecycle. Where applicable, enhanced due diligence is applied to ensure that any increase in risk is appropriately managed and any activity remains within risk appetite.

The Group has a horizon scanning programme that identifies changes to money laundering regulations and any other financial crime related legislation to ensure that we comply with all regulatory obligations.

The Group screens its customers on a regular basis against sanctions listings acting swiftly to react to any updates released in relation to the financial sanctions regime. Given the Group's customer target market, it has negligible exposure to any of the affected jurisdictions and no exposure to any specific individual or entity contained within revised sanctions listings.

The Group's programme of cyber improvements continued with the aim of enhancing its protection against IT security threats, deploying a series of tools designed to identify and prevent network/ system intrusions.

Direction: Unchanged
The Group continues to focus primarily on the UK market with accounts serviced from UK bank accounts.

IT security risks continue to evolve, the level of maturity of the Group's controls and defences continue to be enhanced whilst being supported by dedicated IT security experts.

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

Mitigation
The Group continues to invest in a range of systems and controls that are deployed across its product range in order to detect and prevent the exposure to fraud through the customer lifecycle. At the point of origination, all new applications are subject to a range of controls to identify and mitigate fraud. Customer behavioural and transactional activity is monitored to identify potential suspicious behaviours or trends that may be indicative of fraud.

Principal risks and uncertainties (continued)

All controls are supported by documented fraud related policies and procedures that are managed by experienced employees in a dedicated Financial Crime function.

The Group continually monitors its detection capability with periodic reviews of the rules and parameters within its systems and control framework to ensure that these remain fit for purpose and aligned to mitigate any emerging risks.

Direction: Increased
The Group remains aware cognisant of the external fraud environment in which it operates and, in particular, the rise in the number of customers falling victims to elaborate scams. Whilst the Group's product functionality restricts the level of direct exposure to these types of events, the Group continues to look at options where it can educate and support its customers and help prevent them from becoming victims of this growing threat.

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:

Political and macroeconomic uncertainty
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. Higher inflation and changing interest rates pose risks to the Group's loan portfolio performance.

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

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

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

Mitigation
During 2023, the Group further embedded its approach to climate risk management, which included enhancing its Task Force on Climate-related Financial Disclosures (TCFD).

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

Principal risks and uncertainties (continued)

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 including a PRA Supervisory Statement, 'Model risk management principles for banks', containing proposed expectations regarding banks' management of model risk.

Mitigation
The Group has IRB compliant model risk management capabilities in place. The Group conducted an initial self-assessment against the new rules and has plans in place to ensure alignment even though compliance is not compulsory. The Group has extended model risk management disciplines across End User Developed Applications.

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.

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 Basel 3.1 regulation. The Group is therefore required to respond to prudential and conduct-related regulatory changes, taking part in thematic reviews, as required.

There is also residual uncertainty in relation to the regulatory landscape post the United Kingdom's exit from the European Union.

Mitigation
The Group has established horizon scanning capabilities, coupled with dedicated prudential and conduct regulatory experts in place to ensure the Group manages future regulatory changes effectively.

The Group also has strong relationships with regulatory bodies, and through membership of UK Finance, inputs into upcoming regulatory consultations.

Credit risk

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

The Group delivered 9% net loan book growth in 2023 despite difficult mortgage market conditions and subdued purchase activity.

Weighted average LTV of the loan book increased for OSB and CCFS to 63% and 65% respectively as at 31 December 2023 (31 December 2022: OSB 58% and CCFS 63%). The weighted average LTV profile remains prudent for the Group at 64%, an increase from 60% at the end of 2022. The Group maintains a low level of high LTV accounts with the percentage of loans above 90% LTV at 4% for OSB Buy-to-Let and at 2% for OSB residential (31 December 2022: 3% for Buy-to-Let and 1% for residential).

The Group's net loan balances being greater than three months in arrears increased to 1.4% as at 31 December 2023 (31 December 2022: 1.1%).

Risk profile performance overview (continued)

Solo bank interest coverage ratios for Buy-to-Let loans remained strong during 2023 at 176% for OSB and 154% for CCFS (2022: 207% OSB and 191% CCFS).

Expected Credit Losses
Balance sheet expected credit losses increased from £130m to £145.8m as at 31 December 2023. The full year statutory impairment charge of £48.8m represented a loan loss ratio of 20bps (2022: £29.8m charge, 13bps loan loss ratio, respectively).

A summary of the key impairment charge drivers for 2023 included:

a. Macroeconomic outlook ‐ the Group regularly updates the collateral values of properties which act as security against the loans extended to customers and, in 2023, the Group observed a reduction in property values. The Group continued to receive regular macroeconomic scenario updates from its advisers, which were reviewed and discussed by management and the Board, along with the probability weightings applied to each scenario. As a result, the cumulative impact of updated collateral values and revised scenarios was a charge of £6.4m.
b. Model and staging enhancements – enhancements were made to the Group's models to ensure that estimates continued to reflect actual credit profile performance. Prior to each reporting period the Group's Significant Increase in Credit Risk (SICR) logic which determines whether accounts not in arrears should be moved to stage 2 is reviewed. These model adjustments made to reflect recent behaviour had a cumulative charge of £2.1m.
c. Post model adjustments – the Group continued to utilise post model adjustments (PMAs) to ensure risks not captured by the Group's models were assessed and appropriate provisions continued to be held. PMA adjustments made within the reporting period resulted in an impairment release of £3.1m driven by updated views on the cost of living and borrowing as inflation levels continued to decrease and interest rates are forecast to have peaked.
d. Arrears flow – growth in stage 3 balances resulted in a charge of £14.1m which in part was driven by (i) accounts waiting to clear the twelve-month probation period (ii) cross contingent defaults, where a borrower has multiple facilities and, once a minimum proportion of exposure in default has been exceeded, all accounts are brought into default and (iii) late stage arrears levels continuing to be elevated due to ongoing challenges with the process of repossessing and selling properties.
e. Changes in risk profile – as the Group's loan book continued to grow, provisions had to be raised against the incremental stage 1 balances resulting in a £7.8m impairment charge. Other changes to the Group's credit profile, including new accounts entering stage 2, resulted in a further charge of £14.1m.
f. Individually assessed provisions – the Group's specialist real estate management and collections servicing teams maintain watchlists of loans where objective evidence of impairment exists over a given exposure. For these specific loans, a detailed assessment of the collateral and circumstances of the arrears are assessed. When required, an individual impairment provision will be raised using this updated information which replaces any modelled provisions held. During 2023, the Group raised a number of additional individual provisions against a small number of counterparties which in aggregate resulted in an impairment charge of £7.4m.
g. Write off and recoveries – write-offs were elevated in 2023 due to the write-off of the funding line receivable associated with the 2020 fraud case, following the successful sale of the remaining security in line with our write-off policy. Write-offs did not form part of the impairment charge for the year, as they were expensed to the profit and loss in the periods when the provisions were raised.

Risk profile performance overview (continued)

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

Impairment coverage levels were broadly flat from 31 December 2023, with cost of living and cost of borrowing further embedded within the Group's framework and models. The Group's Risk function conducted top-down analysis, assessing portfolio-specific risks, which confirmed the appropriateness of provision levels after taking into account the post-model adjustments.

Coverage ratios table

As at 31 December 2023	Gross carrying amount £m	Expected credit losses £m	Coverage ratio
Stage 1	**20,576.8**	**22.4**	**0.11%**
Stage 2	**4,537.9**	**54.3**	**1.20%**
Stage 3 (+ POCI)	**782.4**	**69.1**	**8.83%**
Total	**25,897.1**	**145.8**	**0.56%**
As at 31 December 2022			
Stage 1	18,722.3	7.2	0.04%
Stage 2	4,417.1	50.9	1.15%
Stage 3 (+ POCI)	588.7	71.9	12.21%
Total	23,728.1	130.0	0.55%

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 provisions 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
As part of the IFRS 9 modelling process, the relationship between macroeconomic drivers and arrears, default rates and collateral values is established. The Group adopted an approach which utilises four macroeconomic scenarios. These scenarios are provided by an industry-leading economics advisory firm, that advises management and the Board.

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

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

Risk profile performance overview (continued)

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

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

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

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

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

iv. Changes made during 2023
Throughout 2023, the scenario suite was monitored and updated as UK political and geopolitical developments occurred.

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

The Board reflected on the ongoing appropriateness of probabilities attached to the suite of IFRS 9 scenarios as the macroeconomic outlook evolved throughout the year. Scenarios remain symmetrical where the upside and downside scenarios carry equal weightings, and the base case has the highest probability.

Details relating to the scenarios utilised to set the 31 December 2023 IFRS 9 provision levels are provided in the table below.

Forecast macroeconomic variables over a five-year period

			Scenario %				
Scenario	**Probability weighting (%)**	Economic measure	Year end 2023	Year end 2024	Year end 2025	Year end 2026	Year end 2027
Base case	40	GDP	0.4	0.4	1.5	2.3	1.5
		Unemployment	4.4	4.6	4.2	3.9	3.8
		House price growth	-2.8	-7.0	-0.8	5.7	7.0
		CPI	4.6	2.1	1.6	1.2	1.8
		Bank Base Rate	5.3	4.9	3.8	2.8	1.8
Upside	30	GDP	0.4	3.1	2.5	2.9	1.6
		Unemployment	4.4	4.2	3.9	3.8	3.7
		House price growth	-2.5	-4.7	1.3	7.1	6.8
		CPI	4.6	3.4	2.2	1.2	1.7
		Bank Base Rate	5.3	6.0	5.1	4.1	3.1
Downside	20	GDP	0.4	-3.2	0.6	1.9	1.6
		Unemployment	4.4	6.3	7.0	7.0	6.7
		House price growth	-2.5	-12.3	-5.6	3.4	7.3
		CPI	4.6	0.5	0.9	1.1	1.7
		Bank Base Rate	5.3	3.6	2.6	1.6	1.3
Severe downside **downside**	10	GDP	0.4	-6.3	-0.3	1.4	1.6
		Unemployment	4.4	6.7	7.5	7.6	7.3
		House price growth	-2.5	-16.4	-9.9	1.1	7.7
		CPI	4.6	-0.1	0.5	1.3	1.2
		Bank Base Rate	5.3	2.6	1.5	0.5	0.5

Risk profile performance overview (continued)

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.

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

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

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

Risk profile performance overview (continued)

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

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

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

The Group's interim MREL requirements will apply from July 2024 and total loss absorbing capacity will be subject to a Board approved risk appetite. All solvency planning and reporting will consider this new loss absorbing capacity requirement along with the Group's existing capital requirements.

Solvency risk is a function of balance sheet growth, profitability, access to capital markets and regulatory changes. The Group actively monitors all key drivers of solvency risk and takes prompt action to maintain its solvency ratios at acceptable levels. The Board and management also assess solvency when reviewing the Group's business plans and inorganic growth opportunities. The OSB solo fully-loaded CET1 and total capital ratios under CRD IV reduced to 16.9% and 20.3%, respectively as at 31 December 2023 (31 December 2022: 18.4% and 20.0%, respectively).

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

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

In 2023, both Banks actively managed their respective liquidity and funding profiles within the confines of their risk appetites as set out in the Group's ILAAP.

Risk profile performance overview (continued)

Retail funding rates increased throughout the year due to further increases in the Bank of England Base Rate. There were delays in the market passing base rate rises on to savers in full and the cost of new retail funding also benefitted from widening swap spreads in the first half, although retail savings spreads normalised in the second half.

Swap rate increases in 2023 also led to the Group receiving a high level of variation margin collateral on the Group's interest rate swaps during the year. The Group has increased internal buffers to ensure that sufficient funds were held at the Bank of England to meet any swap margin calls that may arise if swap rates reduce. By the end of 2023, a significant proportion of the swap collateral movement had reversed.

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. As at 31 December 2023, OSB had a liquidity coverage ratio of 208% (2022: 229%) and CCFS 139% (2022: 148%), and the Group LCR was 168% (2022: 185%), all significantly above regulatory requirements.

Market risk
The Group proactively is exposed to adverse movements in interest rates, foreign exchange rates and counterparty exposures.

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

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

Operational risk
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.

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

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

Risk profile performance overview (continued)

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

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

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

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

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

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

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

Throughout 2023, the Group continued to review and evolve its approach to supporting customers, particularly those that are vulnerable and experiencing financial difficulty, to ensure they continue to receive the level of tailored support needed to deliver good customer outcomes. The Group implemented the FCA's Consumer Duty requirements within the required timelines.

Conduct losses have remained stable with no breaches of risk appetite reported during the last 12 months.

Financial crime risk

The Group provides relatively simple products to UK domiciled customers serviced through a UK-registered bank account. The Group has an established screening programme that is deployed at the point of origination and on a regular basis throughout the customer lifecycle.

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

Risk profile performance overview (continued)

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

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

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

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

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

Non-Financial and Sustainability Information Statement
The requirements of sections 414CA and 414CB of the Companies Act 2006 relating to non-financial and sustainability reporting are addressed in this section and further details can be found in OSBG's annual report and accounts.

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.

Environmental matters

Environmental policy

Our Environmental policy embodies the Group's commitment to meeting or exceeding all relevant environmental obligations, reducing our impact and achieving our ambition of net zero greenhouse gas emissions (GHG) no later than 2050.

The policy is supported by our Environmental Management System (EMS) which is certified to ISO14001:2015 and covers our UK corporate real estate and, in 2023, extended to the Kent Reliance branch network. The EMS ensures the Group knows where it impacts the environment and that effective controls are in place to manage risk and drive improvement, covering topics such as legislation, energy use, waste management and water use.

Our Environmental, Social and Governance Metrics Policy

The policy sets out the non-financial performance indicators which include ethical, sustainability and corporate governance considerations that are reported to relevant Committees. These metrics have been determined to be important to the Group's stakeholders and ESG strategy and commitments.

The Board recognises its responsibility for providing oversight of the ESG Strategy (see Three Lines of Defence table) and for setting the vision on how we conduct business, enhance stakeholder value and fulfil our regulatory obligations.

Non-Financial and Sustainability Information Statement (continued)

Employee Matters

Our Group Diversity, Equity and Inclusion Policy

The policy sets out the Group's commitment to promoting equality of opportunity, providing an inclusive workplace and eliminating any unfair treatment or unlawful discrimination.

We recognise the benefits that diversity brings to the business. 2023 saw a significant uplift in diversity, equity and inclusion (DE&I) activity across the Group, with an increased level of employee communications and events enhancing awareness and celebrating our differences. These events were often aligned with the dates of national events such as Pride, Black History Month, National Inclusion Week and International Women's Day, with related activities being coordinated by the internal Our Diversity Network made up of passionate volunteers.

We continued to capture diversity data about our UK colleagues within the Group's HR system and c.80% of colleagues submitted some or all of their data across the broad range of diversity categories, enabling us to build an increasingly clear picture of the diverse nature of our UK workforce and areas which are under-represented.

Just over 9% of our UK employees work under a formal flexible working arrangement relating to part-time hours and over 100 additional employees compress their full-time working hours. At the end of 2023, around 56% of our UK workforce was female as were 47% of employees who joined during the year. In OSB India, females constituted just over 40% of all employees, with around 45% of starters being female. In addition, 27% of our Group Executive Committee were female.

Group Whistleblowing policy

Our Group Whistleblowing policy aims to foster an environment where all employees and concerned parties feel encouraged to report any serious wrongdoing promptly.

Whistleblowing cases are handled with fairness and consistency, prioritising the protection of individual whistleblowers. Regular Whistleblowing Reports are presented to the Group Audit Committee, and an Annual Whistleblowing Report is provided to the Board. There is a designated Non-Executive Director whistleblowing champion.

Group Health and Safety policy

Our Group Health and Safety policy delineates our approach and statutory responsibilities, ensuring compliance with legislation to safeguard employees, customers and all impacted by our operations. It prioritises providing a secure environment for everyone involved. We uphold a stringent stance on compliance, regularly testing a range of controls to ensure their efficiency, all subject to independent oversight. The health and safety working group convenes biannually to review policy objectives, reporting any pertinent issues to operational risk.

Non-Financial Information Statement (continued)

Social Matters

Modern Slavery Statement and Code of Ethics

Our Modern Slavery Statement and Vendor Code of Conduct and Ethics articulate our actions to combat modern slavery and human trafficking risks within our operations and supply chains.

The UK Vendor Code of Conduct and Ethics (UK VCCE) is distributed at new vendor engagements and annually to existing vendors, encompassing provisions on our values, diversity and inclusion, human rights and breach reporting procedures.

To address the highest modern slavery risks in our supply chain, Indian operations, and employment processes, our Vendor Management team rigorously tests key controls within the Vendor Management Risk Assessment Matrix.

Robust breach reporting procedures are in place, with no reportable incidents in this financial year.

Group Vendor Management and Outsourcing policy

Our Group Vendor Management and Outsourcing policy establishes essential requirements, enabling efficient management of third-party relationships whilst ensuring compliance with regulatory obligations. It provides a framework for diligent engagement and due diligence in overseeing potential and contracted third parties.

The monthly Vendor Management Committee ensures compliance with the policy and assesses the performance of key third parties. Regular reporting to the Group Risk Committee and annual updates to the Board provide assurance. Recognising the significance of robust relationships with third parties and potential reputational risks, we actively monitor their adherence to our standards to fulfil our obligations to stakeholders.

The Vendor Management Team engage with vendors identified as carrying an increased inherent ESG risk through surveys.

The surveys seek to determine awareness of ESG issues and the controls in place to manage them.

Lending policy

The Lending policy establishes responsible lending parameters aligned with our credit risk appetite and set criteria. Approval for policy changes rests with the Group Credit Committee, escalating material changes to the Group Risk Committee. Credit Quality Assurance acts as a second line of defence, monitoring policy adherence through risk-based sampling.

Control mechanisms, including system parameters and underwriting processes, prevent breaches of lending parameters. Our affordability approach reflects recent cost of living changes, ensuring an updated assessment of a customer's creditworthiness.

Group Complaint Handling policy

The Group Complaint Handling policy aligns with regulatory expectations, emphasising a customer-centric approach. We investigate complaints diligently and impartially, supported by adequately trained employees. The process ensures accessibility for all customers, including those in vulnerable circumstances, offering a tailored service and equal opportunities to raise concerns.

Complaint performance data is integrated into management information for Management Committees and the Board, supporting informed decision-making.

Non-Financial Information Statement (continued)

Group Customer Vulnerability policy

Our Group Customer Vulnerability policy establishes standards and an approach for identifying and supporting vulnerable customers, ensuring consistently fair outcomes throughout the Group.

Regular reviews by the Vulnerable Customer Review Committee involve case studies, monitoring best practices across diverse customer journeys and sharing insights with various customer-facing and second line functions.

Group Arrears Management and Forbearance policy

The Group Arrears Management and Forbearance policy prioritises fair treatment of customers facing financial difficulties, proactively engaging with those showing signs of potential distress.

Monitoring arrears rates occurs monthly through the Group Credit Committee, ensuring senior management oversight of trends and mitigating credit risk associated with potential losses from ineffective customer account management. Reviewing the forbearance and collection toolkit ensures adequate support for customers facing financial strain due to increased mortgage payments.

Group Data Protection policy

Our Group Data Protection policy establishes adequate policies and procedures for compliance with the UK General Data Protection Regulation (GDPR) and the Data Protection Act 2018. It delineates necessary steps for processing personal data.

Respecting and safeguarding the privacy and security of personal information is fundamental, and we consider robust privacy practices integral to corporate governance and accountability.

The Group Data Protection Officer reports biannually to the Group Executive Committee and the Board, ensuring compliance with legal requirements and the Data protection policy.

Group Anti-Bribery and Corruption policy

Our Anti-Bribery and Corruption policy dictates our commitment to conducting business honestly and ethically, maintaining a zero-tolerance stance against bribery and corruption. It serves as a guideline for employees, contractors, and third-party service providers to ensure ethical conduct in compliance with local laws across our operational jurisdictions.

This policy is an integral part of our Group Financial Crime Risk Management Framework, subject to an annual review and approval by the Group Audit Committee. Mandatory anti-bribery and corruption training is part of the broader financial crime training for all employees, whilst its requirements are integrated into our Vendor management and outsourcing policy.

Conflicts of Interest policy

Our Conflicts of Interest policy prioritises identifying and managing conflicts whilst striving to prevent them where feasible. It undergoes an annual review by the Group Executive Committee and is integrated into mandatory financial crime training for all employees, and is woven into our Vendor Management and Outsourcing Policy, ensuring a comprehensive approach.

Group Compliance function oversees the conflicts of interest register, reviewed quarterly by the Group Conduct Risk Management Committee and annually by the Group Nomination and Governance Committee for Executives and Directors.

No material issues or breaches of this policy occurred in 2023.

Non-Financial Information Statement (continued)

Fraud policy

Our Fraud policy ensures compliance with legal requirements, establishing controls to mitigate fraud risk. It fosters a zero-tolerance approach to fraud whilst acknowledging its possibility in business operations.

Mandatory fraud awareness training is part of our annual financial crime training for employees.

A dedicated Group financial crime team investigates potential fraud incidents and takes recovery actions, when necessary, with various committees regularly monitoring and reviewing fraud reporting.

Anti-money Laundering and Counter Terrorist and Financing policy

The Group's Anti-money Laundering and Counter Terrorist Financing policy outlines the responsibilities of senior management, the Money Laundering and Reporting Officer (MLRO) and all colleagues. It mandates integrity from every individual, with zero tolerance for breaches of anti-money laundering or counter terrorist financing legislation.

Mandatory anti-money laundering and counter terrorist financing training for all employees aligns with our broader financial crime risk management approach.

Acknowledging inherent risk exposure as a financial services provider, senior management reviews key risk and performance indicators, providing management information for visibility into our exposure to financial crime.

Group Operational Resilience policy

Our Group Operational Resilience policy outlines the approach and expectations of the Group in establishing and enhancing resilience levels, recognising operational resilience as a focal point.

The policy details the Group's adherence to relevant UK regulatory requirements (e.g. the Financial Conduct Authority and Prudential Regulation Authority) and alignment with industry standards. This includes the March 2021 published FCA and PRA policies on operational resilience, mandating firms to adopt a proactive approach to preventing service disruption and ensuring robust planning and testing for effective response to disruptive incidents.

This Strategic report was approved by the Board and signed on its behalf by:

J Elphick

Jason Elphick
Group General Counsel and Company Secretary
09 April 2024

The Directors present their Report, together with the audited Financial Statements and Auditor's Report, for the year ended 31 December 2023.

Information presented in other sections

Information relating to future developments, principal risks and uncertainties and engagement with suppliers, customers and others has been included in the Strategic Report.

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 29 to 58.

Details on how the Company has complied with section 172 can be found throughout the Strategic and Directors' Reports and on pages 13 and 14.

Results

The results for the year are set out in the Statement of Comprehensive Income on page 85.

Directors

The Directors who served during the year and to the date of this report were as follows:

Graham Allatt (resigned 11 May 2023)
Kalvinder Atwal (appointed on 7 February 2023)
Andrew Golding
Noël Harwerth
Sarah Hedger
Rajan Kapoor
Mary McNamara (resigned 11 May 2023)
April Talintyre
Simon Walker
David Weymouth

April Talintyre will be retiring and step down from the Board on the 9th May 2024.

None of the Directors had any interest either during or at the end of the year in any material contract or arrangement with the Company.

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 for all Directors and Officers.

Equal opportunities

The Group is committed to applying its Group Diversity, Equity and Inclusion Policy at all stages of recruitment and selection. Short-listing, interviewing and selection will always be conducted 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 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 three 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 three-year schemes 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.

The Workforce Advisory Forum (known as OurVoice) 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. OurVoice consists of volunteer representatives (of which there are 33 in total) from each of the various business areas and locations, as well as permanent members including a designated NED, Sarah Hedger (with effect from 11 May 2023); 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 and do so on a regular basis. Mary McNamara was the previous designated NED with responsibility for OurVoice until her retirement from the Board on 11 May 2023.

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.

Four OurVoice meetings were held during 2023, with employee representatives encouraged to engage with employees within their nominated business areas and across all Group locations in advance of each meeting in order to identify topics impacting the workforce and 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 OurVoice, including the 2023 Bonus and Salary increase, 2023 Best Companies survey results and the governance of pay within the Group. Updates on the employee engagement networks were also considered including ESG and Diversity, Equity and Inclusion initiatives. The permanent members of OurVoice were particularly interested in feedback from the workforce in respect of employee morale, employee engagement.

The Group is committed to creating a great place to work, by fostering a truly inclusive culture where everyone can bring their true selves to work. Our Diversity, Equity and Inclusion Specialist has developed the Group's Diversity and Inclusion Strategy in line with the Respect Others value in 2023. Our Employee Engagement Network, Our Diversity, brings together a broad mix of colleagues from the UK and India, with a passion for driving our DE&I agenda.

The 2023 Diversity, Equity and Inclusion calendar has enabled the network to create and host a range of activities, aimed at raising awareness and providing resources, to support conversations relating to gender, ethnicity, faith/religion, disability, sexual orientation, identity, socio-economic background, and health and wellbeing. This year has seen a range of activity delivered with Group-wide contribution and engagement, such as colleague storytelling. Q&A panel discussions, face to face/online interactive sessions, external speaker and e-learning modules, that elevate the conversation around DE&I across the Group.

Political donations

Neither the Company nor any of its subsidiaries made any political donations this year.

Going concern statement

The Board undertakes regular rigorous assessments of whether the Group remains a going concern considering current and potential future 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 levels 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 utilising a range of stress scenarios, which have been compared to the latest economic scenarios provided by the Group's external economic advisors, as well as reverse stress tests.

The assessments include the following:

- Financial and capital forecasts were prepared utilising the latest economic forecasts provided by the Group's external economic advisers. Reverse stress tests were run to identify combinations of adverse movements in house prices and unemployment levels which would result in the Group breaching its minimum regulatory and total loss absorbing capital requirements. The reverse stress testing also considered what macroeconomic scenarios would be required for the Group to breach its interim 18% MREL requirement in July 2024. 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 the provision of the Group's Important Business Services, minimising the impact of any service disruptions on the firm's customers or the wider financial services industry. The Group recognises the need to continually invest in the resilience of its services, with specific focus in 2023 on ensuring that the third parties on which it depends have the appropriate levels of resilience and in further automating those processes that are sensitive to increases in volume. The Group produced it's 2023 self-assessment report, which confirmed compliance with regulatory expectations, and that there were no items identified that could threaten the Group's viability over the going concern assessment time horizon.

The Group's financial projections demonstrate that the Group has sufficient capital and liquidity to continue to meet its regulatory capital requirements as set out by the PRA.

The Board has therefore concluded that the Group has sufficient financial resources and expected operational resilience 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.

The role and structure of the Board

The Board of Directors (the Board) is responsible for the long-term success of the Company for the benefit of its shareholders Through its leadership and effective corporate governance, the Board focuses on setting Group strategy generating value for shareholders and maintaining a sustainable and profitable business, underpinned by a robust risk management framework.

The Board is responsible for setting the tone from the top in relation to conduct, culture and values, for ensuring continuing commitment to treating customers fairly, carrying out business honestly and openly and preventing bribery, corruption, fraud or the facilitation of tax evasion.

The Board operates in accordance with the Company's Articles of Association (the Articles) and its own written terms of reference. The Board has established an Audit and a Risk Committee, which each have their own terms of reference and are reviewed at least annually. Details of each Committee's activities during 2023 are shown below.

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.

The Board met 9 times during the year. 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.

Roles of the Chairman, Chief Executive Officer and Senior Independent Director

The roles of Board Chair and CEO are distinct and held by David Weymouth and Andy Golding respectively. 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 Senior Independent Director and the Non-Executives role and responsibilities have also been clearly established.

The Chair, who was independent on appointment, leads the Board's overall effectiveness and direction of the Group by ensuring the appropriate balance of skills, experience and development so that it can focus on the key issues affecting the business. He also leads the Board to ensure that it acts effectively. Noël Harwerth assumes the role of Senior Independent Director (SID). The SID's role is to act as a sounding board for the Chair, another point of contact for other non-executive directors and an alternative route of communication to shareholders when other channels of engagement have not been successful. She also leads the annual appraisal on Chair performance.

Balance and independence

The effectiveness of the Board and its Committees in discharging their duties is essential for the success of the Company. In order to operate effectively, the Board and its Committees comprise a balance of skills, experience, independence and knowledge to encourage constructive debate and challenge to the decision-making process.

Audit Committee

The primary role of the Committee is to assist the Board in overseeing the systems of internal control and external financial reporting. The Committee's specific responsibilities are set out in its terms of reference, which are reviewed at least annually. The Audit Committee is chaired by Rajan Kapoor, the other members are Noël Harwerth, Sarah Hedger and Simon Walker. The Committee met eight times during 2023; all members attended these meetings, except Graham Allatt who attended two meetings. Graham Allatt ceased to be a member of the Committee on 11 May 2023. The Committee considered, on behalf of the Board, whether the 2023 Annual Report and Accounts taken as a whole are fair, balanced and understandable and, whether the disclosures are appropriate. Further details on the activities of the Committee are set out in OSBG annual report and accounts.

Risk Committee

The primary objective of the Committee is to support the Board in discharging its risk oversight and governance responsibilities. The Committee's specific responsibilities are set out in its terms of reference, which are reviewed at least annually. The Committee is chaired by Simon Walker, the other members are Noël Harwerth and Rajan Kapoor. The Committee met seven times during 2023. Noël Harwerth attended six meetings. Further details on the activities of the Committee are set out in the OSBG annual report and accounts.

Environment

Environmental matters are considered in the Strategic report above.

Internal Control

The Board retains ultimate responsibility for setting the Company's risk appetite and ensuring that there is an effective Risk Management Framework 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.

Key information in respect of the Group's ERMF and objectives and processes for mitigating risks, including liquidity risk, are set out in detail on pages 29 to 35.

Auditor

Deloitte LLP was appointed as auditor for the year and has indicated its willingness to continue in office as auditor. A resolution to re-appoint Deloitte as external auditor will be presented at the Company's Annual General Meeting.

Each of the persons who is a director at the date of approval of this Annual Report confirms 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 and 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.
- so far as the Director is aware, there is no relevant audit information of which the Company's auditor is unaware; and
- the Director has taken all the steps that 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 auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

This report was approved by the Board on 09 April 2024 and signed on its behalf by:

Jason Elphick
Group General Counsel and Company Secretary
OneSavings Bank plc
Registered number: 07312896

OneSavings Bank plc
Statement of Directors’ Responsibilities in respect of the Strategic Report, the Directors’ Report and the Financial Statements

For the Year Ended 31 December 2023

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

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

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

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

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

Under applicable law and regulations, the Directors are also responsible for preparing a Strategic Report and Directors’ Report 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.

Approved by the Board and signed on its behalf by:

Jason Elphick
Group General Counsel and Company Secretary
09 April 2024

Independent Auditor's Report to the Members of OneSavings Bank plc

For the Year Ended 31 December 2023

Report on the audit of the Financial Statements

1. Opinion

In our opinion:

- the financial statements of OneSavings Bank 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 2023 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; and
- the related notes 1 to 52.

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. The non-audit services provided to the Group and parent company for the year are disclosed in note 7 to the financial statements. 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 £20.3m 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 98% of the Group's interest receivable and similar income, 95% of the Group's profit before tax, 97% of the Group's total assets and 99% of the Group's total liabilities. All audit work was performed by the Group engagement team.
Significant changes in our approach	In the prior year, our key audit matter in respect of effective interest rate (EIR) income recognition included estimating EIRs in respect of the Kent Reliance portfolios. The Group's income recognition on these portfolios is less sensitive to changes in customer prepayment behaviour relative to our audit materiality. This area no longer features in our EIR income recognition key audit matter which focuses on the Charter Court Financial Services Limited Precise portfolios.

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 assessed key assumptions, including climate risk considerations, for reasonableness 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, evaluated 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 regulator, the Prudential Regulation Authority, and discussed their views on existing and emerging risks to the Group and considered whether these were reflected appropriately in management’s forecasts and stress tests;
- We assessed the historical accuracy of forecasts prepared by management;
- We assessed the impact of the ongoing economic uncertainty, including how further rises in living and borrowing costs may impact potential credit losses; and
- We evaluated the Group’s disclosures on going concern against the requirements of IFRS and 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.

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 106 and Note 19 on page 129.

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 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 provisions. ECL provisions as at 31 December 2023 were £145.8m (2022: £130.0m), which represented 0.56% (2022: 0.54%) of loans and advances to customers. ECL provisions are calculated both for individually assessed loans and collectively on a portfolio basis which require the use of statistical models incorporating forward looking macroeconomic scenarios, probabilities of default (PD), exposures at default and assumptions on the recoverability of customers' outstanding balances.

The uncertain economic environment continues to increase the complexity in estimating ECL, particularly with regards to determining appropriate forward looking macroeconomic scenarios and identifying customers who have experienced significant increases in credit risk. Additionally, higher cost of living, rising borrowing costs and increasing arrears have increased the degree of subjectivity in estimating PDs.

We identified four specific areas in relation to ECL that require significant 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 initial recognition of the exposure and 31 December 2023. There is a risk that the Group's staging criteria does not capture SICR or are applied incorrectly.
- Macroeconomic scenarios: As set out on page 51, 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 used within the macroeconomics model were determined to be the house price index (HPI) and unemployment. The estimation of these variables involves a high degree of subjectivity and estimation uncertainty.
- Post model adjustment (PMA):As set out on page 50, the Group has assessed how costs of living and rising interest rates may impact customers' behaviour in the future and has continued to recognise a cost of living and cost of borrowing PMA to reflect the impact on the customers' affordability. The calculation of this PMA is inherently judgemental as it requires assessment of the extent of risks not captured in the expected credit loss provision models.
- 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 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; • On a sample basis, tested the completeness and accuracy of the 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, performed a review of changes to the computer codes used to perform the SICR assessment compared to the prior year; • 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 the Group'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 the third-party economics expert; • Assessed the competence, capability and objectivity of the third-party economics expert; • Supported by our economic specialists, assessed and challenged the scenarios considered and the probability weightings assigned to them in light of the economic environment as at 31 December 2023; • With the involvement of our economic specialists challenged the Group's economic outlook by reference to other available economic outlook data; • Compared the appropriateness of selected macroeconomic variables (HPI and unemployment) and the four probability weightings used in the macroeconomics model to those used by peer lenders; • Supported by our credit risk specialists, assessed the model methodology and performed a review of changes to the computer code used in the macroeconomics model which applies the scenarios to the relevant ECL components compared to the prior year; and • Supported by our credit risk specialists, assessed the performance of the macroeconomic model to confirm whether the economic variables previously selected were still appropriate through considering the modelled macroeconomic results relative to those observed in historical recessions.

To challenge the Group's cost of living and cost of borrowing PMA, we:

- Supported by our credit risk specialists, assessed whether the risks were already captured within the ECL models and determined the extent of risks to be captured by the PMA;
- Evaluated the methodology , including key assumptions and reviewed the computer codes used to determine the PMA; and
- Tested the completeness, accuracy and relevance of the data used on a sample basis.

To challenge the Group's PPD and FSD assumptions, we:

- Supported by our credit risk specialists, performed a full review of the computer codes in the LGD models compared to the prior year;
- Recalculated the PPD rates observed on defaulted loans and compared them to the rates used by the Group in the ECL models;
- Recalculated the FSD observed on recent property sales on defaulted loans and compared them to the rates used by the Group in the ECL models;
- Considered the findings raised in the Group's model monitoring and validation exercise and assessed the impact on the year-end provision; and
- Performed a stand back test to consider potential contradictory evidence and assessed the appropriateness of PPD and FSD assumptions by comparison to industry peers.

Key observations	We are satisfied that the SICR criteria and PPD and FSD assumptions in determining the ECL provision were reasonable. We observed that the macroeconomic scenarios selected by the directors and the probability weightings applied generate an appropriate portfolio loss distribution. We determined that the methodology assumptions used in determining the Group's cost of living and cost of borrowing PMA were reasonable. Overall, we determined that the loan impairment provisions were appropriately stated as at 31 December 2023.

5.2. Effective interest rate income recognition

Refer to the judgements in applying accounting policies and critical accounting estimates on page 106, the accounting policy on page 92 and Notes 3 and 4 on page 109 and 110.

Key audit matter description	In accordance with the requirements of IFRS 9, directly attributable fees, discounts, incentives and commissions on a constant yield basis (effective interest rate, EIR) are required to be spread 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 2023 was £658.6m (2022: £709.9m). 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 is increased where there is limited availability of historical repayment information. For the Precise loan portfolios, the EIR adjustments are sensitive to changes in the behavioural life curves. As set out on page 108, changes in the modelled behavioural life of these portfolios during the year resulted in an interest income loss of £208.5m (2022: £38.8M loss). The EIR adjustments have increased as a result of the rising interest rate environment in 2023 which accelerated customer prepayments of Precise loans compared to those originally modelled. The current economic environment continues to increase uncertainty with regards to forecasting expected behavioural lives and prepayment rates. We therefore considered there to be an increased level of risk in respect of this key audit matter in the current year.

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 Precise portfolio, where the EIR adjustments were most significant and sensitive to changes in behavioural life, with the involvement of our analytics and modelling specialists, we ran the 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 the Group. A number of key assumptions are made to estimate the expected future behaviour of customers including consideration of recently observed behaviour. For these assumptions, we independently challenged the appropriateness of the assumptions considering the rising rate environment that has been experienced in the UK over the last year, economic forecasts

	of future interest rates and trends in customer behaviour observed in recent months. With the involvement of our analytics and modelling specialists, we independently derived a behavioural life curve using the Group's actual loan data over recent years, incorporating those assumptions that we considered reasonable. We used these curves in our own independent EIR model to calculate the EIR adjustments. We compared this output to the amounts recorded by the Group. We also tested the completeness and accuracy of a sample of inputs into the EIR model for originated loans.
Key observations	We determined that the EIR models and assumptions used are 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	£20.3m (2022: £21.6m)	£17.9m (2022: £15.8m)
Basis for determining materiality	We determined materiality for the Group to be approximately 1% of net assets of £2,146.3m which equates to 5.4% of statutory profit before tax of £375.4m. The basis of materiality is consistent with prior year.	We determined materiality for the parent company by reference to 1% of net assets. This is consistent with prior year.
Rationale for the benchmark applied	Consistent with the prior year, we considered both net assets and a profit before tax based measure as benchmarks for determining materiality. We determined net assets to be the most relevant and stable benchmark to determine materiality.	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% (2022: 70%) of Group materiality	60% (2022: 60%) of parent company materiality
Basis and rationale for determining performance materiality	Group performance materiality was set at 60% of Group materiality (2022: 70%). In determining performance materiality, we considered a number of factors, including: our understanding of the control environment; our understanding of the business; and the number of uncorrected misstatements identified in the prior year.	

6.3. Error reporting threshold

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £1.0m (2022: £1.1m), 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.

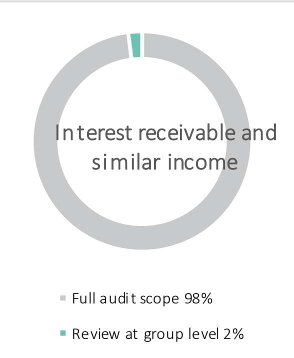
7. An overview of the scope of our audit

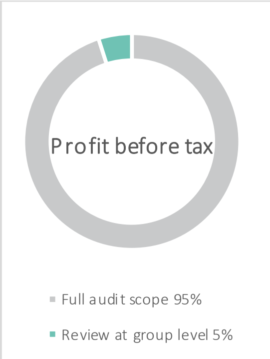
7.1. Identification and scoping of components

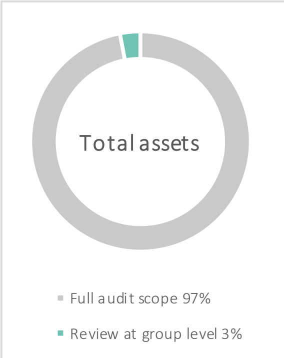
Our Group audit was scoped by obtaining an understanding of the Group and its environment, including Group-wide controls and assessing the risks of material misstatement at the Group level.

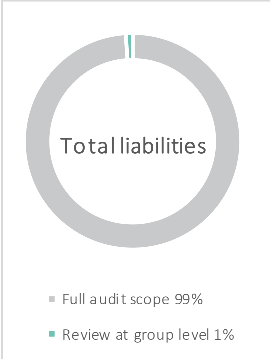
Our Group audit scope focused primarily on three subsidiaries: the two main banking entities OneSavings Bank plc and Charter Court Financial Services Limited, as well as Interbay ML Ltd, another significant lending subsidiary. These three subsidiaries were significant components and subject to a full scope audit (2022: three significant components subject to a full scope audit). They represent 98% (2022: 97%) of the Group's interest receivable and similar income, 95% (2022: 94%) of profit before tax, 97% (2022: 98%) of total assets and 99% (2022: 99%) 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 materialities used for each subsidiary audit ranged from £3.8m to £17.9m (2022: £6.6m to £17.9m).

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 financial reporting, lending and savings areas. For these systems, with the involvement of our IT specialists, we obtained a understanding of relevant general IT controls.

Where deficiencies were identified in the control environment, including deficiencies in IT controls, our risk assessment procedures included an assessment of those deficiencies to determine the impact on our audit plan. Where we were unable to identify or test mitigating controls, we adopted a non-controls reliance approach and performed additional substantive procedures. As a result of deficiencies identified in internal IT access controls across the Group, we amended our planned audit procedures to adopt a non-controls reliance approach over lending and related interest income, and deposit balances and related interest expense.

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 7. The Group sets out its assessment of the potential impact of climate change on ECL on page 49 of the Risk Management section of the Annual Report and the potential impact on the financial statements in note 19 on page 129.

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;
- with the involvement of our credit risk specialists, assessing management's approach to the incorporation and quantification of climate change risks within a PMA in the ECL provision, which included:

- assessing management’s selected climate pathway used in order to quantify the potential impact of physical risks on the Group’s loan book and in particular how the underlying property may be impacted as a result; and
- assessing the relevance of the data used in the assessment.
- assessing disclosures in the Annual Report, and challenging the consistency between the financial statements and the remainder of the Annual Report.

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, the directors and the Audit Committee about their own identification and assessment of the risks of irregularities, including those that are specific to the Group's sector;
- 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;
  - the internal controls established to mitigate risks of fraud or non-compliance with laws and regulations;
- the matters discussed among the audit engagement team and relevant internal specialists, including tax, valuations, real estate, IT, climate risk, prudential risk, economics, financial instruments, share based payments, 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 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 significant component audit teams, 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, 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. Matters on which we are required to report by exception

13.1. 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.

13.2. 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.

We have nothing to report in respect of these matters.

14. Other matters which we are required to address

14.1. Auditor tenure

Following the recommendation of the Audit Committee, we were appointed by the shareholders of the Group on 9 May 2019 to audit the Group Financial Statements for the year ending 31 December 2019 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is five years, covering the years ending 31 December 2019 to 31 December 2023.

14.2. 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).

15. 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) 4.1.15R – DTR 4.1.18R, these financial statements will form part of the Electronic Format Annual Financial Report filed on the National Storage Mechanism of the FCA in accordance with DTR 4.1.15R- DTR 4.1.18R. This auditor’s report provides no assurance over whether the Electronic Format Annual Financial Report has been prepared in compliance with DTR 4.1.15R – DTR 4.1.18R. We have been engaged to provide assurance on whether the Electronic Format Annual Financial Report has been prepared in compliance with DTR 4.1.15R- DTR 4.1.18R and will publicly report separately to the members on this.

Alexander Morton, FCA (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
London, United Kingdom
09 April 2024

OneSavings Bank plc
Statement of Comprehensive Income
For the Year Ended 31 December 2023

	Note	**Group 2023 £m**	Group 2022 £m
Interest receivable and similar income	3	**1,767.0**	1,069.3
Interest payable and similar charges	4	**(1,108.1)**	(359.4)
Net interest income		**658.9**	709.9
Fair value (losses)/gains on financial instruments	5	**(4.4)**	58.9
Other operating income	6	**3.9**	6.6
Total income		**658.4**	775.4
Administrative expenses	7	**(233.8)**	(206.5)
Provisions	34	**(0.4)**	1.6
Impairment of financial assets	20	**(48.8)**	(29.8)
Integration costs	10	**-**	(7.9)
Profit before taxation		**375.4**	532.8
Taxation	11	**(91.8)**	(121.5)
Profit for the year		**283.6**	411.3
Other comprehensive expense			
Items which may be reclassified to profit or loss:			
Fair value changes on financial instruments measured at fair value through other comprehensive income (FVOCI):			
Arising in the year	15	**(0.2)**	0.3
Amounts reclassified to profit or loss for investment securities at FVOCI		**-**	(0.7)
Tax on items in other comprehensive expense		**0.1**	0.1
Revaluation of foreign operations		**(0.8)**	(0.2)
Other comprehensive expense		**(0.9)**	(0.5)
Total comprehensive income for the year		**282.7**	410.8

The above results are derived wholly from continuing operations.

The notes on pages 90 to 214 form part of these accounts.

The financial statements on pages 85 to 214 were approved by the Board of Directors on 09 April 2024.

OneSavings Bank plc
Statement of Financial Position
As at 31 December 2023

	Note	Group 2023 £m	Group 2022 £m	Company 2023 £m	Company 2022 £m
Assets					
Cash in hand		**0.4**	0.4	**0.4**	0.4
Loans and advances to credit institutions	14	**2,813.6**	3,365.7	**1,002.7**	1,506.1
Investment securities	15	**621.7**	412.9	**396.2**	211.4
Loans and advances to customers	16	**25,765.0**	23,612.7	**11,432.2**	10,531.9
Fair value adjustments on hedged assets	22	**(243.5)**	(789.0)	**(11.6)**	(200.8)
Derivative assets	21	**530.6**	888.1	**180.8**	234.0
Other assets	23	**27.6**	15.0	**19.4**	13.1
Current taxation asset		**0.5**	1.7	**-**	2.6
Deferred taxation asset	24	**3.9**	6.3	**3.8**	4.1
Deemed loan assets	17	**-**	-	**-**	31.2
Property, plant and equipment	25	**43.8**	40.9	**22.6**	20.9
Intangible assets	26	**26.1**	12.0	**23.8**	6.5
Investments in subsidiaries and intercompany loans	27	**4.5**	0.8	**3,667.7**	3,242.5
Total assets		**29,594.2**	27,567.5	**16,738.0**	15,603.9
Liabilities					
Amounts owed to credit institutions	28	**3,575.0**	5,092.9	**2,018.3**	2,568.5
Amounts owed to retail depositors	29	**22,126.6**	19,755.8	**12,246.5**	11,132.2
Fair value adjustments on hedged liabilities	22	**21.9**	(55.1)	**11.8**	(33.7)
Amounts owed to other customers	30	**63.3**	113.1	**0.5**	0.5
Debt securities in issue	31	**818.5**	265.9	**-**	-
Derivative liabilities	21	**199.9**	106.6	**123.8**	63.8
Lease liabilities	32	**11.2**	9.9	**3.4**	3.6
Other liabilities	33	**39.6**	38.7	**25.8**	23.9
Provisions	34	**0.8**	0.4	**0.4**	0.1
Current taxation liability		**-**	-	**10.9**	-
Deferred taxation liability	35	**6.3**	22.3	**-**	-
Deemed loan liabilities	17	**-**	-	**25.3**	-
Intercompany loans	27	**-**	-	**24.7**	33.3
Senior notes	36	**309.0**	-	**226.6**	-
Subordinated liabilities	37	**260.6**	-	**156.4**	-
Perpetual subordinated bonds	38	**15.2**	15.2	**15.2**	15.2
		27,447.9	25,365.7	**14,889.6**	13,807.4
Equity					
Share capital	40	**4.5**	4.5	**4.5**	4.5
Other equity instruments	41	**150.0**	150.0	**90.0**	90.0
Retained earnings		**1,979.5**	2,035.0	**1,741.6**	1,690.9
Other reserves	42	**12.3**	12.3	**12.3**	11.1
		2,146.3	2,201.8	**1,848.4**	1,796.5
Total equity and liabilities		**29,594.2**	27,567.5	**16,738.0**	15,603.9

The profit after tax for the year ended 31 December 2023 of OneSavings Bank plc as a company was £386.8m (2022: £335.9m). 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 90 to 214 form part of these accounts. The financial statements on pages 85 to 214 were approved by the Board of Directors on 09 April 2024 and signed on its behalf by

Andy Golding
Chief Executive Officer
Company number: 07312896

A.C. Talintyre

April Talintyre
Chief Financial Officer

OneSavings Bank plc
Statement of Changes in Equity
For the Year Ended 31 December 2023

Group	Share capital £m	Capital contribution £m	Foreign exchange reserve £m	FVOCI reserve £m	Share-based payment reserve £m	Retained earnings £m	Other equity instruments £m	Total £m
At 1 January 2022	4.5	1.7	(1.1)	0.6	11.7	1,857.4	150.0	2,024.8
Profit for the year	-	-	-	-	-	411.3	-	411.3
Other comprehensive expense	-	-	(0.2)	(0.4)	-	-	-	(0.6)
Tax on items in other comprehensive expense	-	-	-	0.1	-	-	-	0.1
Total comprehensive (expense)/income	-	-	(0.2)	(0.3)	-	411.3	-	410.8
Coupon paid on Additional Tier 1 (AT1) securities	-	-	-	-	-	(9.0)	-	(9.0)
Dividends paid	-	-	-	-	-	(233.1)	-	(233.1)
Share-based payments	-	(1.7)	-	-	1.6	8.4	-	8.3
At 31 December 2022	4.5	-	(1.3)	0.3	13.3	2,035.0	150.0	2,201.8
Profit for the year	**-**	**-**	**-**	**-**	**-**	**283.6**	**-**	**283.6**
Other comprehensive expense	**-**	**-**	**(0.8)**	**(0.2)**	**-**	**-**	**-**	**(1.0)**
Tax on items in other comprehensive expense	**-**	**-**	**-**	**0.1**	**-**	**-**	**-**	**0.1**
Total comprehensive (expense)/income	**-**	**-**	**(0.8)**	**(0.1)**	**-**	**283.6**	**-**	**282.7**
Coupon paid on AT1 securities	**-**	**-**	**-**	**-**	**-**	**(9.0)**	**-**	**(9.0)**
Dividends paid	**-**	**-**	**-**	**-**	**-**	**(335.0)**	**-**	**(335.0)**
Share-based payments	**-**	**-**	**-**	**-**	**0.5**	**4.9**	**-**	**5.4**
Tax recognised in equity	**-**	**-**	**-**	**-**	**0.4**	**-**	**-**	**0.4**
At 31 December 2023	**4.5**	**-**	**(2.1)**	**0.2**	**14.2**	**1,979.5**	**150.0**	**2,146.3**

Share capital is disclosed in note 40 and the reserves are further analysed in note 42.

OneSavings Bank plc
Statement of Changes in Equity (continued)
For the Year Ended 31 December 2023

Company	Share capital £m	FVOCI reserve £m	Share-based payment reserve £m	Retained earnings £m	Other equity instruments £m	Total £m
At 1 January 2022	4.5	-	9.4	1,587.6	90.0	1,691.5
Profit for the year	-	-	-	335.9	-	335.9
Other comprehensive income	-	0.3	-	-	-	0.3
Tax on items in other comprehensive income	-	(0.1)	-	-	-	(0.1)
Total comprehensive income	-	0.2	-	335.9	-	336.1
Coupon paid on AT1 securities	-	-	-	(5.4)	-	(5.4)
Dividends paid	-	-	-	(233.1)	-	(233.1)
Share-based payments	-	-	1.5	5.9	-	7.4
At 31 December 2022	4.5	0.2	10.9	1,690.9	90.0	1,796.5
Profit for the year	**-**	**-**	**-**	**386.8**	**-**	**386.8**
Other comprehensive expense	**-**	**(0.2)**	**-**	**-**	**-**	**(0.2)**
Tax on items in other comprehensive expense	**-**	**0.1**	**-**	**-**	**-**	**0.1**
Total comprehensive (expense)/income	**-**	**(0.1)**	**-**	**386.8**	**-**	**386.7**
Coupon paid on AT1 securities	**-**	**-**	**-**	**(5.4)**	**-**	**(5.4)**
Dividends paid	**-**	**-**	**-**	**(335.0)**	**-**	**(335.0)**
Share-based payments	**-**	**-**	**0.9**	**4.3**	**-**	**5.2**
Tax recognised in equity	**-**	**-**	**0.4**	**-**	**-**	**0.4**
At 31 December 2023	**4.5**	**0.1**	**12.2**	**1,741.6**	**90.0**	**1,848.4**

Share capital is disclosed in note 40 and the reserves are further analysed in note 42.

OneSavings Bank plc
Statement of Cash Flows
For the Year Ended 31 December 2023

	Note	**Group 2023 £m**	Group 2022 £m	**Company 2023 £m**	Company 2022 £m
Cash flows from operating activities					
Profit before taxation		**375.4**	532.8	**446.9**	387.3
Adjustments for non-cash and other items	48	**292.9**	62.4	**153.1**	68.6
Changes in operating assets and liabilities	48	**(143.4)**	(24.5)	**(402.4)**	276.6
Cash generated in operating activities		**524.9**	570.7	**197.6**	732.5
Net tax paid		**(103.6)**	(142.5)	**(46.3)**	(54.0)
Net cash generated in operating activities		**421.3**	428.2	**151.3**	678.5
Cash flows from investing activities					
Maturity and sales of investment securities		**366.3**	663.7	**317.5**	451.0
Purchases of investment securities		**(664.3)**	(596.5)	**(592.0)**	(556.4)
Interest received on investment securities		**22.6**	7.7	**16.3**	3.0
Investments in subsidiaries		**-**	-	**-**	(3.2)
Purchases of property, plant and equipment and intangible assets	25,26	**(25.8)**	(11.7)	**(24.4)**	(7.2)
Net cash from investing activities		**(301.2)**	63.2	**(282.6)**	(112.8)
Cash flows from financing activities					
Financing received	39	**1,331.5**	429.5	**578.7**	120.0
Financing repaid	39	**(1,430.3)**	(324.2)	**(597.2)**	(304.1)
Interest paid on financing	39	**(205.4)**	(45.3)	**(107.7)**	(25.5)
Coupon paid on AT1 securities		**(9.0)**	(9.0)	**(5.4)**	(5.4)
Dividends paid	12	**(335.0)**	(233.1)	**(335.0)**	(233.1)
Repayments of principal portion of lease liabilities	32	**(2.0)**	(1.9)	**(0.7)**	(0.8)
Net cash from financing activities		**(650.2)**	(184.0)	**(467.3)**	(448.9)
Net (decrease)/increase in cash and cash equivalents		**(530.1)**	307.4	**(598.6)**	116.8
Cash and cash equivalents at the beginning of the year	13	**3,044.1**	2,736.7	**1,449.1**	1,332.3
Cash and cash equivalents at the end of the year	13	**2,514.0**	3,044.1	**850.5**	1,449.1
Movement in cash and cash equivalents		**(530.1)**	307.4	**(598.6)**	116.8

1. Accounting policies

The principal accounting policies applied in the preparation of the financial statements for the Group and the Company are set out below.

a) Basis of preparation

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

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

The financial statements are presented in pounds sterling. All amounts in the financial statements have been rounded to the nearest £0.1m (£m).

b) Going concern

The Board undertakes regular rigorous assessments of whether the Group remains a going concern considering current and potential future 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 levels 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 utilising a range of stress scenarios, which have been compared to the latest economic scenarios provided by the Group's external economic advisors, as well as reverse stress tests.

The assessments include the following:

- Financial and capital forecasts were prepared utilising the latest economic forecasts provided by the Group's external economic advisers. Reverse stress tests were run to identify combinations of adverse movements in house prices and unemployment levels which would result in the Group breaching its minimum regulatory and total loss absorbing capital requirements. The reverse stress testing also considered what macroeconomic scenarios would be required for the Group to breach its interim 18% MREL requirement in July 2024. 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 the provision of the Group's Important Business Services, minimising the impact of any service disruptions on the firm's customers or the wider financial services industry. The Group recognises the need to continually invest in the resilience of its services, with specific focus in 2023 on ensuring that the third parties on which it depends have the appropriate levels of resilience and in further automating those processes that are sensitive to increases in volume. The Group produced it's 2023 self-assessment report, which confirmed compliance with regulatory expectations, and that there were no items identified that could threaten the Group's viability over the going concern assessment time horizon.

1. Accounting policies (continued)

The Group's financial projections demonstrate that the Group has sufficient capital and liquidity to continue to meet its regulatory capital requirements as set out by the Prudential Regulation Authority (PRA).

The Board has therefore concluded that the Group has sufficient financial resources and expected operational resilience 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 all its subsidiary undertakings. 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.

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.

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.

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, the Group 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 Group 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.

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.

d) Foreign currency translation

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.

1. Accounting policies (continued)

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 44 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). For purchased or credit-impaired assets (see note 1 n) vii.), interest income is calculated by applying the credit-adjusted EIR to the amortised cost of the asset. The calculation of interest income does not revert to a gross basis even if the credit risk of the asset improves. See note 1 n) ii.) for further information on IFRS 9 stage classifications.

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

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

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

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 AT1 securities are recognised directly in equity in the period in which they are paid.

1. Accounting policies (continued)

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 accrual basis as services are provided or on the performance of a significant act, net of VAT and similar taxes.

h) Integration costs

Integration costs are items of income or expense arising from the merger of OSB and CCFS (the Combination) 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 costs 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 (OCI) or directly in equity, consistent with the recognition of items it relates to. The Group recognises tax on coupons paid on AT1 securities directly in profit or loss.

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 asset is mainly dependent on the projections of future taxable profits and future reversals of temporary differences. The current projections of future taxable income indicate that the Group will be able to utilise its deferred tax asset within the foreseeable future.

Deferred tax liabilities are recognised for all taxable temporary differences.

The Company and its tax-paying UK subsidiaries are in a group payment arrangement for corporation tax and show a net corporation tax liability and deferred tax liability accordingly.

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.

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established.

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, subject to an insignificant risk of changes in their fair value and are used by the Group in the management of its short-term commitments.

1. Accounting policies (continued)

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.

An intangible asset is only recognised if:

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

The costs of configuring or customising supplier application software in a Software-as-a-service (SaaS) arrangement that is determined to be a service contract is recognised as an expense or prepayment. SaaS is an arrangement that provides the Group with the right to receive access to the supplier's application software in the future which is treated as a service contract, rather than a software lease or the acquisition of a software intangible asset. 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 at least 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 licence	3-5 year straight line
Brand	4 year straight line
Broker relationships	5 year profile
Bank licence	3 year straight line

1. Accounting policies (continued)

For development costs of assets that are under construction, no amortisation is 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 an asset 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
Fixtures & fittings, computer hardware and vehicles	5 years
Leasehold improvements	Shorter of useful life or lease term

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

n) Financial instruments

i. Recognition

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

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

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

ii. Classification

The Group classifies financial instruments based on the business model and the contractual cash flow characteristics of the financial instruments. In accordance with 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.

1. Accounting policies (continued)

- **FVTPL** – assets not measured at amortised cost or FVOCI. The Group measures derivatives, an acquired mortgage portfolio and an investment security under this category.

The Group reassesses its business models each reporting period.

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

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.

The Group's sources of debt funding are deposits from retail customers and credit institutions, including collateralised loan advances from the Bank of England (BoE) under the Term Funding Scheme with additional incentives for SMEs (TFSME), asset-backed loan notes issued through the Group's securitisation programmes, subordinated liabilities and senior notes. Cash received under the TFSME is recorded in amounts owed to credit institutions. Financial liabilities including the Sterling Perpetual Subordinated Bonds (PSBs) and Tier 2 instruments where the terms allow no absolute discretion over the payment of interest.

During the year equity financial instruments comprised own shares and AT1 securities. 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. Accordingly, the coupons paid on AT1 securities are recognised directly in retained earnings when paid.

iii. Derecognition

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

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

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

1. Accounting policies (continued)

iv. Offsetting

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

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

v. Amortised cost measurement

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

vi. Fair value measurement

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

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

1. Accounting policies (continued)

vii. Identification and measurement of impairment of financial assets

The Group assesses all financial assets for impairment.

Loans and advances to customers

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

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

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

Individual assessment

The Group's provisioning process requires individual assessment for high exposure or higher risk loans, where Law of Property Act (LPA) receivers have been appointed, the property is taken into possession or there are other events that suggest a high probability of credit loss. The individual assessments are carried out for all the loans associated with one counterparty.

The Group estimates cash flows from these loans, including expected interest and principal payments, rental or sale proceeds, selling and other costs.

For all individually assessed loans, 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.

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.

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

1. 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 analyse relative and absolute changes in PD versus the PD assigned at the point of origination, together with qualitative triggers using both internal indicators, such as forbearance, and external information, such as changes in income and adverse credit information to assess for SICR. In the event that given early warning triggers have not already identified SICR, an account more than 30 days past due is considered to have experienced a SICR.

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

Definition of default (movement to stage 3)

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

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

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

Forward-looking macroeconomic scenarios

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

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

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

The Group sources economic forecast information from an appropriately qualified third party when determining scenarios. The Group considers four probability-weighted scenarios, base, upside, downside and severe downside scenarios. The expected scenarios, management actions and results are discussed and approved by the Board.

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.

1. Accounting policies (continued)

Period over which ECL is measured

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

Purchased or originated credit impaired (POCI)

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

Write-off

Loans are written off against the related provision when the underlying security is sold and there is a shortfall amount remaining. Subsequent recoveries of amounts previously written off are taken through profit and loss. Accounts that are derecognised for accounting purposes will continue to be serviced and corresponding collection procedures are only discontinued following approval from the Group Chief Credit Officer.

Intercompany loans

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

Other financial assets

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

o) Loans and advances to customers

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

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

1. Accounting policies (continued)

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

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

Loans and advances to customers include 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.

p) Deemed loan

Mortgage assets remain on the Company’s balance sheet for securitisation transactions where the Company retains substantially all the risks and rewards of the assets. The Company recognises a deemed loan position for consideration received or transferred. In each subsequent reporting period the deemed loan position is updated to incorporate repayments of principal on notes held by third parties, movements in liquidity and other cash reserves held by the securitisation vehicle, and expenses incurred on the securitisation arrangement. The expense recognised includes interest payments on notes held by external parties, interest payments paid/received on the swap, and servicing and other third party costs as they are incurred.

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 classified on an individual basis as amortised cost, FVOCI or FVTPL.

r) Sale and repurchase agreements

Financial assets sold subject to repurchase agreements (repo) continue to be recognised in the financial statements if they fail the derecognition criteria of IFRS 9 described in paragraph n(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.

1. Accounting policies (continued)

s) Derivative financial instruments

The Group uses derivative financial instruments (interest rate swaps) to manage its exposure to interest rate risk. The Group does not hold or issue derivative financial instruments for proprietary trading.

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.

t) 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.

The hedging strategy of the Group is divided into portfolio hedges, where the hedged item is a homogenous portfolio of assets (mortgage lending) or liabilities (savings products), and micro hedges, where the hedged item is a distinctly identifiable asset or liability (debt issuance). The Group applies fair value hedge accounting for both its portfolio and micro hedges.

i. Portfolio hedges
Portfolio hedge accounting allows for hedge effectiveness testing and accounting over an entire portfolio of financial assets or liabilities. The Group applies fair value portfolio hedge accounting to its fixed rate portfolio of mortgages and saving accounts. The hedged portfolio is analysed into repricing time periods based on expected repricing dates, utilising the Group Assets and Liabilities Committee (ALCO) approved prepayment curve. Interest rate swaps are designated against the repricing time periods to establish the hedge relationship.

ii. Micro hedges
The Group's micro hedging strategy entails hedge accounting on an individual instrument-by-instrument basis, which in some instances may be implemented through partial term fair value hedging where the instrument may be exercised early. The Group applies fair value micro hedge accounting to manage its exposure to the interest rate risk arising from some of its fixed rate debt issuances. Interest rate swaps are assigned to specific issuances of fixed rate notes with terms that closely align with the hedged item.

iii. Hedge effectiveness
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 mismatch in the swap interest rate and rate used to value the hedged item where the swap rate is higher than the contractual rate of the hedged item.

1. Accounting policies (continued)

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

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

If a derivative no longer meets the criteria for hedge accounting or is cancelled whilst still effective, 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 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.

u) 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 credit rating of the swap counterparty, time to maturity, the fair value of the swap and any collateral arrangements.

v) 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.

1. Accounting policies (continued)

w) 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.

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

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

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

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.

1. Accounting policies (continued)

y) Leases

The Group's leases are predominantly for offices and Kent Reliance branches where the Group is a lessee. At lease commencement date, the Group recognises the right-of-use asset and lease liability on the statement of financial position, except for leases of low-value assets and short-term leases of 12 month or less are recognised directly in profit or loss on a straight-line basis over the lease term.

Lease liability payments are recognised within financing activities in the 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 profit or loss.

z) Adoption of new standards

International financial reporting standards issued and adopted for the first time in the year ended 31 December 2023

The 2023 financial statements incorporate the guidance set out in *Disclosure of Accounting Policies (Amendments to IAS 1)* which requires entities to disclose 'material' rather than 'significant' accounting policies. Accordingly, Note 1 has been amended to remove general IFRS guidance so that disclosures focus on entity-specific accounting, areas of significant judgement or assumptions and material transactions where the accounting required is complex.

The Group has applied the temporary exception issued by the International Accounting Standards Board (IASB) in May 2023 from the accounting requirements for deferred taxes in IAS 12 'Income Taxes'. Accordingly, the Group neither recognises nor discloses information about deferred tax assets and liabilities related to Pillar 2 income taxes. There were a number of other minor amendments to financial reporting standards that are effective for the current year. There has been no material impact on the financial statements of the Group from the adoption of these financial reporting standard amendments and interpretations.

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

Certain amendments to accounting standards and interpretations that were not effective on 31 December 2023 have not been early adopted by the Group. The adoption of these amendments is not expected to have a material impact on the financial statements of the Group in future periods.

2. Judgements in applying accounting policies and critical accounting estimates

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

As set out in Strategic report on page 48, climate change is a global challenge and an emerging risk to businesses, people and the environment. Therefore, in preparing the financial statements, the Group has considered the impact of climate-related risks on its financial position and performance, including the impact on ECL and redemption profiles included in EIR. While the effects of climate change represent a source of uncertainty, the Group does not consider there to be a material impact on its judgements and estimates from the physical or transition risks in the short term. As part of the Group's recognition of climate risk and overall ESG agenda, the Group considers the physical risks of climate change with the removal of the transitional risk to reflect Government's decision to postpone the EPC Climate Bill. The transitional risk was the most significant component of the PMA that considered properties with lower energy efficiency likely to require investment to reach minimum energy efficiency standards, and has such resulted in the reduction in the PMA where the Group held £0.5m (2022: £4.4m).

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

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

(i) Loan book impairments

Significant increase in credit risk for classification in stage 2
The Group's SICR rules considers changes in default risk, internal impairment measures, changes in customer credit bureau files, or whether forbearance measures had been applied.

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

The Group considers whether the contractual terms of a financial asset give rise on specified dates to cash flows that are SPPI on the principal amount outstanding when applying the classification criteria of IFRS 9. The majority of the Group's assets being loans and advances to customers which have been accounted for under amortised cost with the exception of one acquired mortgage book of £13.7m (2022: £14.6m) that is recognised at FVTPL.

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

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 £145.8m (2022: £130.0m) at the reporting date as disclosed in note 19.

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

Loss given default model
The Group has a number of LGD models, which include estimates regarding propensity to go to possession given default (PPD), forced sale discount, time to sale and sale costs. The LGD is sensitive to the application of the HPI, with an 8% haircut (2022: a 10% haircut) seen to be a reasonable percentage change when reviewing historical and expected 12 month outcomes. The table below shows the resulting incremental provision required in an 8% house price haircut (2022: a 10% house price haircut) being directly applied to all exposures which not only adjust the sale discount but the propensity to go to possession.

	2023	2022
	£m	£m
OSB	**25.6**	28.0
CCFS	**11.6**	10.7
Group	**37.2**	38.7

The Group's forecasts of HPI movements used in the impairment models are disclosed in the Risk profile performance review on page 50.

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

The Group has adopted an approach which utilises four macroeconomic scenarios. These scenarios are provided by a reputable economics advisory firm, providing management and the Board with advice on which scenarios to utilise and the probability weightings to attach to each scenario. A base case forecast is provided, together with a plausible upside scenario. Two downside scenarios are also provided (downside and a severe downside). The Group's macroeconomic scenarios can be found in the Credit Risk section of the Risk profile performance overview on page 51.

The following tables detail the ECL scenario sensitivity analysis with each scenario weighted at 100% probability. The sensitivity analysis is performed without considering the staging shifts driven by relative or absolute PD thresholds. The purpose of using multiple economic scenarios is to model the non-linear impact of assumptions surrounding macroeconomic factors and ECL calculated:

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

As at 31-Dec-23	Weighted (see note 19)	100% Base case scenario	100% Upside scenario	100% Downside scenario	100% Severe downside scenario
Total loans before provisions, £m	**25,897.1**	**25,897.1**	**25,897.1**	**25,897.1**	**25,897.1**
Modelled ECL, £m	**97.2**	**76.8**	**60.5**	**138.1**	**206.8**
Individually assessed provisions ECL, £m	**25.1**	**25.1**	**25.1**	**25.1**	**25.1**
Post Model Adjustments ECL, £m	**23.5**	**18.3**	**12.9**	**34.4**	**55.0**
Total ECL, £m	**145.8**	**120.2**	**98.5**	**197.6**	**286.9**
ECL coverage, %	**0.56**	**0.46**	**0.38**	**0.76**	**1.11**
As at 31-Dec-22					
Total loans before provisions, £m	23,728.1	23,728.1	23,728.1	23,728.1	23,728.1
Modelled ECL, £m	54.4	41.7	32.8	79.3	120.0
Individually assessed provisions ECL[1], £m	45.8	45.8	45.8	45.8	45.8
Post Model Adjustments ECL[1], £m	29.8	20.9	15.5	46.4	75.2
Total ECL, £m	130.0	108.4	94.1	171.5	241.0
ECL coverage, %	0.55	0.46	0.40	0.72	1.02

1. Individually assessed provisions and post model adjustments are split out in the current year with the related sensitivity reflected for the post model adjustments under each scenario. In the prior year, this was included collectively as 'Non-modelled ECL'.

(ii) Effective interest rate on lending

Estimates are made when calculating the EIR for newly-originated loan assets. These include the likely customer redemption profiles. Mortgage products offered by the Group include directly attributable net fee income and a period on reversion rates after the fixed/discount period.

Products revert to the standard variable rate (SVR) or Base rate plus a margin for the Kent Reliance brand, a SONIA/Base rate plus a margin for the Precise brand and a LIBOR replacement rate/Base rate for the Interbay brand. Subsequent to origination, changes in actual and expected customer prepayment rates are reflected as increases or decreases in the carrying value of loan assets with a corresponding increase or decrease in interest income. The Group uses historical customer behaviours, expected take-up rate of retention products and macroeconomic forecasts in its assessment of expected prepayment rates. Customer prepayments in a fixed rate or incentive period can give rise to Early Repayment Charge (ERC) income.

Judgement is used in estimating the expected average life of a mortgage, to determine the quantum and timing of prepayments that incur ERCs, the period over which net fee income is recognised and the time customers spend on reversion. Estimates are reviewed regularly, and over the first half of 2023 the Group observed a step change in how long Precise customers were spending on the reversion rate. As the Bank of England base rate (BBR) continued to rise, customers saw steep increases in the BBR-linked reversion rate. As the Group has continued to develop its Precise retention programme, customers chose to refinance earlier and spend less time on the higher reversion rate, compared to previously observed behavioural trends. There was no further material change in behaviour observed in the second half of 2023 and the total adverse Group statutory adjustment for 2023 was £210.7m (2022: £31.6m adverse) decreasing net interest income and loans and advances to customers.

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

A three months' movement in the weighted average time spent in the reversion period for Precise is considered to be a reasonably possible change in assumption in a sustained high interest rate environment and an uncertain macroeconomic outlook. The impact of a -/+ 3 months movement in time spent on reversion by Precise Mortgages customers is -/+ c.£82m.

As the BBR increased during 2023, the additional monthly net interest income arising from following the effective interest rate approach increased as the impact of time spent on a reversion rate became greater. If BBR decreases this will lead to a decrease in monthly net interest income. Based on the loans and advances to customers balance as at 31 December 2023, if BBR were to reduce by 50bps it is estimated that this would decrease monthly net interest income by £1.2m across Precise and Kent Reliance Mortgages.

3. Interest receivable and similar income

	Group 2023 £m	Group 2022 £m
At amortised cost:		
On OSB mortgages[1]	**757.6**	591.6
On CCFS mortgages[2]	**431.1**	411.2
On finance leases	**12.3**	9.4
On investment securities	**12.5**	4.7
On other liquid assets	**159.6**	39.3
Amortisation of fair value adjustments on CCFS loan book at Combination	**(57.4)**	(61.5)
Amortisation of fair value adjustments on hedged assets[3]	**(2.6)**	(34.1)
	1,313.1	960.6
At FVTPL:		
Net income on derivative financial instruments - lending activities	**442.8**	106.6
At FVOCI:		
On investment securities	**11.1**	2.1
	1,767.0	1,069.3

1. Includes EIR behavioural related reset gains of £1.0m (2022: £18.5m gains).
2. Includes EIR behavioural related reset losses of £182.5m (2022: £41.7m losses).
3. The amortisation relates to hedged assets where the hedges were terminated before maturity and were effective at the point of termination.

4. Interest payable and similar charges

	Group 2023 £m	Group 2022 £m
At amortised cost:		
On retail deposits	**762.3**	257.7
On BoE borrowings	**196.5**	64.8
On wholesale borrowings	**29.9**	3.9
On debt securities in issue	**21.5**	7.7
On subordinated liabilities	**16.9**	1.1
On senior notes	**9.0**	-
On PSBs	**0.7**	0.7
On lease liabilities	**0.2**	0.2
Amortisation of fair value adjustments on CCFS customer deposits at Combination	**(0.5)**	(1.0)
Amortisation of fair value adjustments on hedged liabilities[1]	**(0.6)**	(0.8)
	1,035.9	334.3
At FVTPL:		
Net expense on derivative financial instruments - savings activities	**71.5**	25.1
Net expense on derivative financial instruments - subordinated liabilities and senior notes	**0.7**	-
	1,108.1	359.4

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

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

	Group 2023 £m	Group 2022 £m
Fair value changes in hedged assets	**580.3**	(620.6)
Hedging of assets	**(590.2)**	621.9
Fair value changes in hedged liabilities	**(82.7)**	33.0
Hedging of liabilities	**94.6**	(42.4)
Ineffective portion of hedges	**2.0**	(8.1)
Net (losses)/gains on unmatched swaps	**(11.1)**	57.1
Amortisation of inception adjustments[1]	**(4.3)**	1.2
Amortisation of acquisition-related inception adjustments[2]	**6.4**	10.2
Amortisation of de-designated hedge relationships[3]	**-**	(0.1)
Fair value movements on mortgages at FVTPL	**0.6**	(0.9)
Fair value movements on loans and advances to credit institutions at FVTPL	**0.5**	-
Debit and credit valuation adjustment	**1.5**	(0.5)
	(4.4)	58.9

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

6. Other operating income

	Group 2023 £m	Group 2022 £m
Interest received on mortgages held at FVTPL	**0.9**	0.6
Fees and commissions receivable	**3.0**	6.0
	3.9	6.6

7. Administrative expenses

	Group 2023 £m	Group 2022 £m
Staff costs	**122.2**	109.3
Facilities costs	**7.9**	6.4
Marketing costs	**5.8**	4.5
Support costs	**43.0**	31.2
Professional fees	**32.1**	28.9
Other costs	**10.9**	12.8
Depreciation (see note 25)	**6.2**	5.2
Amortisation (see note 26)	**5.7**	8.2
	233.8	206.5

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

	Group 2023 £'000	Group 2022 £'000
Fees payable to the Company's auditor for the audit of the Company's annual accounts[1]	**1,589**	1,405
Fees payable to the Company's auditor for the audit of the accounts of subsidiaries[1]	**2,199**	1,936
Total audit fees	**3,788**	3,341
Audit-related assurance services[2]	**487**	254
Other assurance services[3]	**102**	70
Other non-audit services[4]	**42**	33
Total non-audit fees	**631**	357
Total fees payable to the Company's auditor	**4,419**	3,698

Fees payable to the Company's auditor for the audit of the Company's annual accounts has been re-categorised to £1,405k from £669k with fees payable to the Company's auditor for the audit of the accounts of subsidiaries re-categorised to £1,936k from £2,672k.

1. Includes review of interim financial information and profit verifications.
2. Costs comprise assurance reviews of European Single Electronic Format (ESEF) tagging and Q3 validation (2022: assurance reviews of ESEF tagging).
3. Costs in 2023 and 2022 primarily comprise work related to the Euro Medium Term Note (EMTN) programme.

7. Administrative expenses (continued)

Staff costs comprise the following:

	Group 2023 £m	Group 2022 £m	Company 2023 £m	Company 2022 £m
Salaries, incentive pay and other benefits	**101.2**	87.3	**64.9**	53.4
Share-based payments	**5.6**	8.1	**5.0**	7.3
Social security costs	**10.5**	9.5	**7.9**	6.6
Other pension costs	**4.9**	4.4	**3.5**	3.0
	122.2	109.3	**81.3**	70.3

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

	Group 2023	Group 2022	Company 2023	Company 2022
UK	**1,461**	1,274	**1,012**	777
India	**811**	622	**-**	-
	2,272	1,896	**1,012**	777

8. Directors' emoluments and transactions

	Company 2023 £'000	Company 2022 £'000
Short-term employee benefits[1]	**3,207**	3,213
Post-employment benefits	**114**	109
Share-based payments[2]	**1,421**	2,291
	4,742	5,613

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

In addition to the total Directors' emoluments above, the Executive Directors were granted deferred bonuses of £642k (2022: £642k) in the form of shares.

The Executive Directors received a further share award under the Performance Share Plan (PSP) with a grant date fair value of £1,592k (2022: £1,516k) using a share price of £4.98 (2022: £5.58) (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 9 and the OSB GROUP PLC Annual Report on Remuneration.

No compensation was paid for loss of office during 2023 and 2022.

There were no outstanding loans granted in the ordinary course of business to Directors and their connected persons as at 31 December 2023 and 2022.

The highest paid Director employed by the Company received emoluments of £2,181k (2022: £2,991k) and payments in respect of personal pension plans of £70k (2022: £67k) in the year.

The OSB GROUP PLC Annual Report on Remuneration and note 9 Share-based payments provide further details on Directors' emoluments.

9. Share-based payments

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 7 Administrative expenses.

A summary of the share-based schemes operated by the Group is set out below.

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

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

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

Performance Share Plan
PSP awards are typically made annually at the discretion of the Group Remuneration and People Committee with Executive Directors and certain senior managers being eligible for awards. The vesting of PSP awards is determined based on a mixture of internal financial performance targets, risk based measures, and relative total shareholder returns (TSR) with awards vesting in tranches up to three to seven years.

The performance conditions that apply to PSP awards from 2020 are based on a combination of weighting earnings per share (EPS) at 35%, TSR at 35%, risk-based at 15% and return on equity (ROE) at 15%. Prior to 2020, PSP awards were based on a combination weighting of EPS at 40%, TSR at 40% and ROE at 20%. The PSP conditions are assessed independently. The EPS element assesses the EPS growth rate over the performance period. For the TSR element, the performance of the Company's ordinary shares is measured against the constituents of the FTSE 250 (excluding investment trusts). The risk-based measure is assessed against the risk management performance with regard to all relevant risks. For the ROE element, performance is assessed based on the Group's underlying profit after taxation as a percentage of average shareholders' equity.

9. Share-based payments (continued)

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

	Group 2023 £m	Group 2022 £m
Sharesave Scheme	**0.9**	0.6
Deferred Share Bonus Plan	**3.0**	4.2
Performance Share Plan	**1.7**	3.3
	5.6	8.1

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 2023	**2,147,972**	**3.08**	**763,390**	**5,391,269**
Granted	**1,851,510**	**2.72**	**652,227**	**2,381,500**
Exercised/Vested	**(729,619)**	**2.31**	**(518,524)**	**(568,782)**
Forfeited	**(468,276)**	**3.90**	**(1,931)**	**(456,719)**
At 31 December 2023	**2,801,587**	**2.91**	**895,162**	**6,747,268**
Exercisable at:				
31 December 2023	**200,676**	**2.31**	**-**	**-**
At 1 January 2022	2,421,260	2.65	797,116	5,225,080
Granted	596,692	4.29	478,901	1,761,174
Exercised/Vested	(624,664)	2.67	(511,034)	(1,181,949)
Forfeited	(245,316)	2.82	(1,593)	(413,036)
At 31 December 2022	2,147,972	3.08	763,390	5,391,269
Exercisable at:				
31 December 2022	35,015	2.85	-	-

For the share-based awards granted during the year, the weighted average grant date fair value was 275 pence (2022: 396 pence).

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

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

	2023		2022	
Exercise price	**Number**	**Weighted average remaining contractual life (years)**	Number	Weighted average remaining contractual life (years)
Sharesave Scheme				
229 - 429 pence (2022: 229 - 429 pence)	**2,801,587**	**2.3**	2,147,972	1.8
Deferred Share Bonus Plan				
Nil	**895,162**	**1.1**	763,390	0.9
Performance Share Plan				
Nil	**6,747,268**	**2.5**	5,391,269	2.7
	10,444,017	**2.3**	8,302,631	2.3

Sharesave Scheme

	2023	2022	2021	2020		2019		2018	2017
Contractual life, years	**3**	3	3	3	5	3	5	5	5
Share price at issue, £	**3.40**	5.36	5.13	2.86	2.86	3.32	3.32	4.19	3.93
Exercise price, £	**2.72**	4.29	3.96	2.29	2.29	2.65	2.65	3.35	3.15
Expected volatility, %	**46.5**	31.4	37.9	57.6	57.6	31.9	31.9	16.5	17.3
Risk-free rate, %	**4.8**	5.3	1.3	0.1	0.2	0.8	0.8	1.4	1.2
Dividend yield, %	**9.9**	7.3	4.5	3.3	3.3	4.8	4.8	4.4	4.1
Grant date fair value, £	**0.85**	0.68	1.46	1.22	1.34	0.90	0.91	0.43	0.70

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

- Expected volatility - from 2019, the expected volatility is based on OSBG's share price post insertion, and the OSB share price prior to insertion. Prior to this the Group used the FTSE 350 diversified financials volatility as insufficient history was available for the OSBG's share price.
- Risk-free rate – based on long-term Government bonds.
- Dividend yield – based on the average dividend yield across external analyst reports for the quarter prior to scheme grant date.

Deferred Share Bonus Plan

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

9. Share-based payments (continued)

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

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

Performance Share Plan

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

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

The fair value of the portion of awards that is subject to market conditions (i.e. the relative TSR element of the PSP) is determined at the grant date using a Monte Carlo model.

The inputs into the models are as follows:

	2023	2022	2021	2020	2019
Contractual life, years	**3-7**	3-7	3-7	3-7	3
Mid-market share price, £	**5.01**	5.58	4.94	2.58	3.96
Attrition rate, %	**6**	6.9	12.8	7.3	8.4
Expected volatility, %	**35.4**	37.4	59.5	43.9	26.8
Dividend yield, %	**8.7**	4.7	3.8	5.6	4.7
Vesting rate - TSR %	**62.7**	32.3	40.8	27.8	44.9
Grant date fair value, £	**3.08**	4.64	4.26	2.06	3.47

10. Integration costs

	Group 2023 £m	Group 2022 £m
Consultant fees	-	4.9
Staff costs	-	3.0
	-	7.9

At Combination in October 2019, the Group announced a quantified financial benefits statement for meaningful cost synergies to be achieved by the third anniversary of the Combination. Following the third anniversary in October 2022, the Group ceased recognising expenses as integration related.

The 2022 consultant fees related to advice on the Group's future operating structure and staff costs related to personnel who had left the Group through the transition of operations to the new operating model.

11. 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:

	Group 2023 £m	Group 2022 £m
Corporation tax	105.8	141.4
Corporation taxation - prior year adjustments	(0.4)	(0.9)
Total current tax	105.4	140.5
Deferred tax		
Deferred taxation	0.7	(1.2)
Deferred taxation - prior year adjustments	-	(0.3)
Release of deferred tax on CCFS Combination[1]	(14.3)	(17.5)
Total deferred tax	(13.6)	(19.0)
Total tax charge	91.8	121.5

1. Release of deferred tax on CCFS Combination relates to the unwind of the deferred tax liabilities recognised on the fair value adjustments of the CCFS assets and liabilities at the acquisition date £(14.3)m (2022: £(17.5)m which included £(4.7)m from the bank surcharge decrease).

11. Taxation (continued)

The charge for taxation on the Group's profit before taxation differs from the charge based on the weighted average standard rate of UK Corporation Tax of 23.5% (2022: 19%) as follows:

	Group 2023 £m	Group 2022 £m
Profit before taxation	**375.4**	532.8
Profit multiplied by the standard rate of UK Corporation Tax 23.5% (2022: 19%)	**88.2**	101.2
Bank surcharge[1]	**8.4**	30.2
Taxation effects of:		
Expenses not deductible for taxation purposes	**0.1**	0.3
Securitisation profits not taxable[2]	**(2.5)**	(2.2)
Timing differences on capital items	**(0.3)**	(0.1)
Utilisation of brought forward tax losses	**(0.3)**	(0.3)
Fair value adjustments on acquisition amounts[3]	**14.3**	14.0
Adjustments in respect of earlier years	**(0.4)**	(0.9)
Tax on coupon paid on AT1 securities[4]	**(2.1)**	(1.7)
Total current tax charge	**105.4**	140.5
Movements in deferred taxes	**0.7**	(0.8)
Deferred taxation - prior year adjustments	**-**	(0.3)
Release of deferred taxation on CCFS Combination[3]	**(14.3)**	(12.8)
Impact of deferred tax rate change	**-**	(5.1)
Total tax charge	**91.8**	121.5

1. Tax charge for the two banking entities of £9.6m (2022: £34.3m) offset by the tax impact of unwinding CCFS Combination items of £2.2m (2022: £4.1m).
2. Securitisation companies are taxed in accordance with the Taxation of Securitisation Companies Regulation 2006, such that they are subject to tax on their retained profits rather than their tax adjusted profit before tax.
3. The unwinding of the fair value adjustments of the CCFS assets and liabilities acquired as part of the CCFS combination are not deductible for tax purposes. A deferred tax liability has been recognised in relation to these amounts which is released as they unwind.
4. The Group has issued AT1 capital instruments that are classified as Hybrid Capital Instruments ('HCI') for tax purposes. The coupons paid under HCI are deductible under UK tax legislation despite being charged to equity.

Factors affecting tax charge for the year

From 1 April 2023, the corporation tax rate in the UK increased from 19% to 25%, the bank surcharge rate decreased from 8% to 3% and the bank surcharge allowance (the level of taxable profits above which are subject to the surcharge) increased from £25m to £100m. Therefore, for year ended 31 December 2023 the main rate of corporation tax is 23.5%, the bank surcharge rate is 4.25% and the bank surcharge allowance is £81.3m.

11. Taxation (continued)

The effective tax rate for the year ended 31 December 2023, excluding the impact of adjustments in respect of earlier years and the deferred tax rate change, was 24.6% (2022: 24.0%). This is higher than the standard rate of UK corporation tax, principally due to the impact of the bank surcharge payable by the two banking entities, offset by the impact of swap movements in securitisation companies that are not subject to tax, and deductions available for the coupon paid on AT1 instruments that are charged to equity.

Factors that may affect future tax charges

During 2022, the UK Government confirmed its intention to implement the OECD Inclusive Framework Pillar 2 rules in the UK, including a Qualified Domestic Minimum Top-Up Tax rule. This legislation, which was enacted in 2023, will seek to ensure that UK headed multinational groups pay a minimum tax rate of 15 per cent on UK and overseas profits arising after 31 December 2023. Given the headline tax rates in the countries that the Group operates in, and the nature of the Group’s business in those countries, these rules are not currently expected to have any impact on the Group.

12. Dividends

During the year, the Company paid the following dividends:

	Company 2023		Company 2022	
	£m	**Pence per share**	£m	Pence per share
Dividends paid to fund OSBG's share repurchase programme	**150.0**	**33.5**	100.0	22.4
Interim dividend for the current year	**185.0**	**41.4**	133.1	29.8
	335.0		233.1	

The Directors do not recommend a final dividend (2022: nil).

13. Cash and cash equivalents

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

	Group 2023 £m	Group 2022 £m	**Company 2023 £m**	Company 2022 £m
Cash in hand	**0.4**	0.4	**0.4**	0.4
Unencumbered loans and advances to credit institutions	**2,513.6**	2,953.7	**850.1**	1,358.7
Investment securities	**-**	90.0	**-**	90.0
	2,514.0	3,044.1	**850.5**	1,449.1

14. Loans and advances to credit institutions

	Group 2023 £m	Group 2022 £m	Company 2023 £m	Company 2022 £m
Unencumbered:				
BoE call account	**2,256.3**	2,806.5	**819.9**	1,328.2
Call accounts	**92.2**	73.2	**29.9**	29.5
Cash held in special purpose vehicles (SPVs)[1]	**147.8**	63.8	**0.3**	1.0
Term deposits	**17.3**	10.2	**-**	-
Encumbered:				
BoE cash ratio deposit	**69.6**	62.8	**41.4**	37.8
Cash held in SPVs[1]	**31.8**	111.8	**2.4**	-
Cash margin given	**198.6**	237.4	**108.8**	109.6
	2,813.6	3,365.7	**1,002.7**	1,506.1

1. Cash held in SPVs is ring-fenced for use in managing the Group's securitised debt facilities under the terms of securitisation agreements. Cash held in SPVs is treated as unencumbered in proportion to the retained interest in the SPV, based on the nominal value of the bonds held by the Group to total bonds in the securitisation, and is 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.

15. Investment securities

	Group 2023 £m	Group 2022 £m	Company 2023 £m	Company 2022 £m
Held at amortised cost:				
RMBS loan notes	**325.4**	262.6	**99.9**	61.1
Less: Expected credit losses	**-**	-	**-**	-
	325.4	262.6	**99.9**	61.1
Held at FVOCI:				
UK Sovereign debt[1]	**296.0**	149.8	**296.0**	149.8
Held at FVTPL:				
RMBS loan notes	**0.3**	0.5	**0.3**	0.5
	621.7	412.9	**396.2**	211.4

1. In 2022, includes £90.0m of UK Treasury bills which had a maturity of less than three months from date of acquisition.

15. Investment securities (continued)

At 31 December 2023, the Group had no RMBS held at FVOCI or FVTPL or at amortised cost (2022: £11.5m held at amortised cost) 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 amortised cost, FVOCI and FVTPL in accordance with the Group's business model for each security.

The credit risk on investment securities held at amortised cost has not significantly increased since initial recognition and are categorised as stage 1. At 31 December 2023, the Group had no ECL (2022: less than £0.1m).

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

	Group 2023 £m	Group 2022 £m	**Company 2023 £m**	Company 2022 £m
At 1 January	**412.9**	491.4	**211.4**	16.2
Additions[1]	**664.3**	686.5	**592.0**	646.4
Disposals and maturities[2]	**(456.3)**	(764.4)	**(407.5)**	(451.0)
Movement in accrued interest	**1.0**	(0.9)	**0.5**	(0.5)
Changes in fair value	**(0.2)**	0.3	**(0.2)**	0.3
At 31 December	**621.7**	412.9	**396.2**	211.4

1. In 2023 there were additions of £233.9m of UK Treasury bills which had a maturity of less than three months from date of acquisition (2022: £90.0m).
2. Disposals and maturities include £323.9m of UK Treasury bills which had a maturity of less than three months from date of acquisition (2022: £100.0m).

At 31 December 2023, investment securities included investments in unconsolidated structured entities (see note 44) of £100.7m notes in PMF 2020-1B (2022: £100.7m notes in PMF 2020-1B). The investments represent the maximum exposure to loss from unconsolidated structured entities.

16. Loans and advances to customers

	Group 2023 £m	Group 2022 £m	Company 2023 £m	Company 2022 £m
Held at amortised cost:				
Loans and advances (see note 17)	**25,674.4**	23,564.9	**11,512.0**	10,613.5
Finance leases (see note 18)	**222.7**	163.2	**-**	-
	25,897.1	23,728.1	**11,512.0**	10,613.5
Less: Expected credit losses (see note 19)	**(145.8)**	(130.0)	**(79.8)**	(81.6)
	25,751.3	23,598.1	**11,432.2**	10,531.9
Held at FVTPL:				
Residential mortgages	**13.7**	14.6	**-**	-
	25,765.0	23,612.7	**11,432.2**	10,531.9

17. Loans and advances

	2023			2022		
Group	**OSB £m**	**CCFS £m**	**Total £m**	OSB £m	CCFS £m	Total £m
Gross carrying amount						
Stage 1	**11,048.7**	**9,313.8**	**20,362.5**	10,188.4	8,375.5	18,563.9
Stage 2	**2,712.6**	**1,819.3**	**4,531.9**	2,508.9	1,907.4	4,416.3
Stage 3	**491.9**	**217.2**	**709.1**	345.7	156.0	501.7
Stage 3 (POCI)	**33.4**	**37.5**	**70.9**	38.5	44.5	83.0
	14,286.6	**11,387.8**	**25,674.4**	13,081.5	10,483.4	23,564.9

Company	**2023 £m**	2022 £m
Gross carrying amount		
Stage 1	**8,533.7**	7,939.0
Stage 2	**2,519.3**	2,353.1
Stage 3	**429.3**	286.9
Stage 3 (POCI)	**29.7**	34.5
	11,512.0	10,613.5

17. Loans and advances (continued)

The mortgage loan balances pledged as collateral for liabilities are:

	Group 2023 £m	Group 2022 £m	**Company 2023 £m**	Company 2022 £m
BoE under TFSME and ILTR	**6,092.4**	6,439.7	**4,095.2**	3,295.2
Securitisation	**841.7**	265.4	**168.3**	124.6
	6,934.1	6,705.1	**4,263.5**	3,419.8

The Group's securitisation programmes and use of TFSME and ILTR result in certain assets being encumbered as collateral against such funding. As at 31 December 2023, the percentage of the Group's gross loans and advances to customers that are encumbered was 27% (2022: 28%).

The Company adopts a net accounting approach for retained interests in securitisation transactions that are consolidated into the Group, disclosing the net amount as a deemed loan asset/(liability). The table below shows the breakdown of the Company's deemed loan balance.

	Company 2023 £m	Company 2022 £m
General Reserve fund	**42.3**	55.9
Loan notes held externally	**(168.3)**	(124.1)
Amount owed from SPVs	**100.7**	99.4
	(25.3)	31.2

As at 31 December 2023, the Company had £428.4m (2022: £1,079.6m) of the retained loan notes sold under repos or pledged as collateral.

17. Loans and advances (continued)

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

Group	Stage 1 £m	Stage 2 £m	Stage 3 £m	Stage 3 (POCI) £m	Total £m
At 1 January 2022	18,078.9	2,412.1	459.5	97.4	21,047.9
Originations[1]	5,829.6	-	-	-	5,829.6
Repayments and write-offs[2]	(2,855.3)	(353.6)	(89.3)	(14.4)	(3,312.6)
Transfers:					
- To Stage 1	1,121.6	(1,098.0)	(23.6)	-	-
- To Stage 2	(3,524.0)	3,574.6	(50.6)	-	-
- To Stage 3	(86.9)	(118.8)	205.7	-	-
At 31 December 2022	18,563.9	4,416.3	501.7	83.0	23,564.9
Originations[1]	**4,561.7**	**-**	**-**	**-**	**4,561.7**
Acquisitions[3]	**175.8**	**-**	**-**	**-**	**175.8**
Repayments and write-offs[2]	**(2,041.6)**	**(447.2)**	**(127.1)**	**(12.1)**	**(2,628.0)**
Transfers:					
- To Stage 1	**1,534.7**	**(1,520.4)**	**(14.3)**	**-**	**-**
- To Stage 2	**(2,299.0)**	**2,347.5**	**(48.5)**	**-**	**-**
- To Stage 3	**(133.0)**	**(264.3)**	**397.3**	**-**	**-**
At 31 December 2023	**20,362.5**	**4,531.9**	**709.1**	**70.9**	**25,674.4**

1. Originations include further advances and drawdowns on existing commitments.
2. Repayments and write-offs include customer redemptions and £33.6m (2022: £2.1m) of write-offs during the year.
3. The Group repurchased £175.8m of own originated UK residential and buy to let mortgages from deconsolidated SPVs at par.

17. Loans and advances (continued)

Company	Stage 1 £m	Stage 2 £m	Stage 3 £m	Stage 3 (POCI) £m	Total £m
At 1 January 2022	8,220.7	984.5	294.0	41.0	9,540.2
Originations[1]	2,343.3	-	-	-	2,343.3
Repayments and write-offs[2]	(1,084.5)	(128.7)	(50.3)	(6.5)	(1,270.0)
Transfers:					
- To Stage 1	440.4	(422.6)	(17.8)	-	-
- To Stage 2	(1,930.1)	1,969.6	(39.5)	-	-
- To Stage 3	(50.8)	(49.7)	100.5	-	-
At 31 December 2022	7,939.0	2,353.1	286.9	34.5	10,613.5
Originations[1]	**1,791.7**	**-**	**-**	**-**	**1,791.7**
Acquisitions[3]	**92.5**	**-**	**-**	**-**	**92.5**
Repayments and write-offs[2]	**(702.3)**	**(188.4)**	**(90.2)**	**(4.8)**	**(985.7)**
Transfers:					
- To Stage 1	**785.6**	**(775.8)**	**(9.8)**	**-**	**-**
- To Stage 2	**(1,283.4)**	**1,312.3**	**(28.9)**	**-**	**-**
- To Stage 3	**(89.4)**	**(181.9)**	**271.3**	**-**	**-**
At 31 December 2023	**8,533.7**	**2,519.3**	**429.3**	**29.7**	**11,512.0**

1. Originations include further advances and drawdowns on existing commitments.
2. Repayments and write-offs include customer redemptions and £26.8m (2022: £1.4m) of write-offs during the year.
3. The Company repurchased £92.4m of own originated UK residential and buy to let mortgages from deconsolidated SPVs at par.

The contractual amount outstanding on loans and advances that were written off during the reporting period and are still subject to collections and recovery activity is £0.3m at 31 December 2023 (2022: £0.8m) for the Group and £0.3m for the Company (2022: £0.6m).

As at 31 December 2023 £126.7m of loans and advances (2022: £110.0m) for the Group and £76.3m for the Company (2022: £65.3m) are in a probation period before they can move out of Stage 3, see note 1 n) for further details.

Where a borrower has multiple facilities, all facilities are considered in default when a minimum threshold of the borrower’s exposure has been classified as defaulted. As at 31 December 2023 £55.7m of loans and advances for the Group and £46.3m for the Company are in this category of default (2022: £32.1m).

18. Finance leases

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

	Group 2023 £m	Group 2022 £m
Gross investment in finance leases, receivable		
Less than one year	**83.6**	60.7
Between one and two years	**68.6**	49.5
Between two and three years	**51.7**	36.0
Between three and four years	**31.4**	23.4
Between four and five years	**12.0**	9.9
More than five years	**2.3**	1.3
	249.6	180.8
Unearned finance income	**(26.9)**	(17.6)
Net investment in finance leases	**222.7**	163.2
Net investment in finance leases, receivable		
Less than one year	**71.7**	52.4
Between one and two years	**60.4**	44.4
Between two and three years	**47.1**	33.2
Between three and four years	**29.7**	22.3
Between four and five years	**11.6**	9.6
More than five years	**2.2**	1.3
	222.7	163.2

The Group has recognised £3.0m of ECLs on finance leases as at 31 December 2023 (2022: £4.8m).

19. Expected credit losses

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

Group	2023 ECL provision £m	2023 Weighting %	2023 Weighted ECL provision £m	2022 ECL provision £m	2022 Weighting %	2022 Weighted ECL provision £m
Scenarios						
Upside	**60.5**	**30**	**18.2**	32.8	30	9.8
Base case	**76.8**	**40**	**30.7**	41.7	40	16.7
Downside scenario	**138.1**	**20**	**27.6**	79.3	20	15.9
Severe downside scenario	**206.8**	**10**	**20.7**	120.0	10	12.0
Total weighted provisions			**97.2**			54.4
Other Provisions:						
Individually assessed provisions			**25.1**			45.8
Post model adjustments			**23.5**			29.8
Total provision			**145.8**			130.0

Company	2023 ECL provision £m	2023 Weighting %	2023 Weighted ECL provision £m	2022 ECL provision £m	2022 Weighting %	2022 Weighted ECL provision £m
Scenarios						
Upside	**30.6**	**30**	**9.2**	17.6	30	5.3
Base case	**39.5**	**40**	**15.7**	22.9	40	9.2
Downside scenario	**73.2**	**20**	**14.6**	45.6	20	9.1
Severe downside scenario	**110.9**	**10**	**11.1**	70.5	10	7.1
Total weighted provisions			**50.6**			30.7
Non-modelled provisions:						
Individually assessed provisions			**14.0**			33.9
Post model adjustments			**15.2**			17.0
Total provision			**79.8**			81.6

19. Expected credit losses (continued)

The Group continued to recognise the increases in credit risk due to the cost of living and cost of borrowing stresses caused by high inflation and increases in interest rates. As a result, the Group held £9.4m (2022: £16.0m) and the Company £5.7m (2022: £8.2m), of ECL in PMA for risks not sufficiently accounted for in the IFRS 9 framework. The approach to quantify the PMA for the cost of living estimated an increase in PD by analysing the effect of the increases in living costs, such as household bills and groceries, on affordability, which is used to increase the default risk to all customers, with those on lower income more impacted. The cost of living PMA has reduced since 31 December 2022, reflecting the inflation peak has been observed and forecasts are for decreases in inflation.

The cost of borrowing PMA specifically identified those that are more at risk of default due to coming to the end of an initial interest rate in the near future, causing a payment increase through either a new product or reverting onto a variable rate, and becoming a higher affordability risk. This is used to apply an additional stress on the PD which in some cases results in a stage 2 criteria trigger. The PMA has reduced since 31 December 2022, reflecting that both the inflation and interest rate peaks are considered to have been observed and forecasts are for decreases.

The Group continued to observe an elongated time to sale, which was in excess of modelled expectations and observations prior to the pandemic which accounted for £10.0m (2022: £8.7m) and the Company £6.2m, as a PMA. Whilst the Group expects the process delays to reduce in time, a PMA is held against all accounts to reflect an extended time to sale in line with most recent observations whilst considering the Land Registry's strategic plan to increase automation in 2024/2025 to remove the backlog.

As part of the Group's recognition of climate risk and overall ESG agenda, the Group considers the physical risks of climate change with the removal of the transitional risk to reflect Government's decision to postpone the EPC Climate Bill. The transitional risk was the most significant component of the PMA that considered properties with lower energy efficiency likely to require investment to reach minimum energy efficiency standards, and has such resulted in the reduction in the PMA where the Group held £0.5m (2022: £4.4m) and the Company £0.4m, of PMA.

To reflect the ongoing cladding concerns, the Group identified a valuation risk to a small number of properties and accounted for a further sale discount for these properties by recognising a PMA of £1.1m (2022: £0.7m) and the Company £0.4m (2022: £0.3m).

In addition to the above PMAs, the Group has identified accounts within the OSB second charge portfolio whereby the arrears balances, fees and other charges will be written off. An ECL of £2.5m (2022: nil) for the Group and the Company has been recognised for the expected losses.

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

	2023			2022		
	OSB	**CCFS**	**Total**	OSB	CCFS	Total
Group	**£m**	**£m**	**£m**	£m	£m	£m
Stage 1	**15.8**	**6.6**	**22.4**	5.9	1.3	7.2
Stage 2	**39.2**	**15.1**	**54.3**	35.3	15.6	50.9
Stage 3	**55.1**	**11.6**	**66.7**	60.5	7.8	68.3
Stage 3 (POCI)	**1.0**	**1.4**	**2.4**	1.5	2.1	3.6
	111.1	**34.7**	**145.8**	103.2	26.8	130.0

19. Expected credit losses (continued)

Company	2023 £m	2022 £m
Stage 1	**8.5**	1.8
Stage 2	**35.3**	31.7
Stage 3	**35.2**	46.8
Stage 3 (POCI)	**0.8**	1.3
	79.8	81.6

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.

Group	Stage 1 £m	Stage 2 £m	Stage 3 £m	Stage 3 (POCI) £m	Total £m
At 1 January 2022	12.1	25.0	60.4	4.0	101.5
Originations	6.9	-	-	-	6.9
Repayments and write-offs	(1.3)	(3.0)	(6.9)	(0.3)	(11.5)
Re-measurement of loss allowance	(15.1)	26.4	17.5	(0.7)	28.1
Transfers:					
- To Stage 1	10.0	(9.2)	(0.8)	-	-
- To Stage 2	(2.0)	3.9	(1.9)	-	-
- To Stage 3	(0.1)	(2.1)	2.2	-	-
Changes in assumptions and model parameters	(3.3)	9.9	(2.2)	0.6	5.0
At 31 December 2022	7.2	50.9	68.3	3.6	130.0
Originations	**10.2**	**-**	**-**	**-**	**10.2**
Acquisitions	**1.2**	**-**	**-**	**-**	**1.2**
Repayments and write-offs	**(0.6)**	**(4.1)**	**(39.7)**	**(0.7)**	**(45.1)**
Re-measurement of loss allowance	**(9.7)**	**30.1**	**29.9**	**0.2**	**50.5**
Transfers:					
- To Stage 1	**13.0**	**(12.4)**	**(0.6)**	**-**	**-**
- To Stage 2	**(0.8)**	**2.2**	**(1.4)**	**-**	**-**
- To Stage 3	**(0.2)**	**(6.7)**	**6.9**	**-**	**-**
Changes in assumptions and model parameters	**2.1**	**(5.7)**	**3.3**	**(0.7)**	**(1.0)**
At 31 December 2023	**22.4**	**54.3**	**66.7**	**2.4**	**145.8**

19. Expected credit losses (continued)

Company	Stage 1 £m	Stage 2 £m	Stage 3 £m	Stage 3 (POCI) £m	Total £m
At 1 January 2022	6.1	12.1	43.6	2.0	63.8
Originations	3.8	-	-	-	3.8
Repayments and write-offs	(0.5)	(1.5)	(3.8)	(0.1)	(5.9)
Re-measurement of loss allowance	(7.8)	13.7	10.4	(0.7)	15.6
Transfers:					
- To Stage 1	4.4	(3.9)	(0.5)	-	-
- To Stage 2	(1.4)	2.8	(1.4)	-	-
- To Stage 3	-	(1.1)	1.1	-	-
Changes in assumptions and model parameters	(2.8)	9.6	(2.6)	0.1	4.3
At 31 December 2022	1.8	31.7	46.8	1.3	81.6
Originations	**4.2**	**-**	**-**	**-**	**4.2**
Acquisitions	**0.8**	**-**	**-**	**-**	**0.8**
Repayments and write-offs	**(0.1)**	**(2.4)**	**(32.7)**	**(0.2)**	**(35.4)**
Re-measurement of loss allowance	**(5.2)**	**18.3**	**14.9**	**0.2**	**28.2**
Transfers:					
- To Stage 1	**7.1**	**(6.6)**	**(0.5)**	**-**	**-**
- To Stage 2	**(0.4)**	**1.1**	**(0.7)**	**-**	**-**
- To Stage 3	**-**	**(4.8)**	**4.8**	**-**	**-**
Changes in assumptions and model parameters	**0.3**	**(2.0)**	**2.6**	**(0.5)**	**0.4**
At 31 December 2023	**8.5**	**35.3**	**35.2**	**0.8**	**79.8**

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

	2023			2022		
Group	**Carrying value £m**	**ECL £m**	**Coverage %**	Carrying value £m	ECL £m	Coverage %
Criteria:						
Relative/absolute PD movement	**4,343.5**	**53.2**	**1.22**	3,090.2	42.9	1.39
Qualitative measures	**139.3**	**0.8**	**0.57**	1,277.6	7.5	0.59
30 days past due backstop	**55.1**	**0.3**	**0.54**	49.3	0.5	1.01
Total	**4,537.9**	**54.3**	**1.20**	4,417.1	50.9	1.15

19. Expected credit losses (continued)

Company	2023 Carrying value £m	2023 ECL £m	2023 Coverage %	2022 Carrying value £m	2022 ECL £m	2022 Coverage %
Criteria:						
Relative/absolute PD movement	**2,430.6**	**34.9**	**1.44**	1,692.3	26.9	1.59
Qualitative measures	**54.0**	**0.2**	**0.37**	631.2	4.5	0.71
30 days past due backstop	**34.7**	**0.2**	**0.58**	29.6	0.3	1.01
Total	**2,519.3**	**35.3**	**1.40**	2,353.1	31.7	1.35

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.

20. Impairment of financial assets

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

	Group 2023 £m	Group 2022 £m
Write-offs in year	**33.6**	2.1
Increase in ECL provision	**15.2**	27.7
	48.8	29.8

The charge for provisions of £48.8m (2022: £29.8m) shown in the Statement of Comprehensive Income also includes a £4.6m credit (2022: nil) in respect of insurance recoveries.

21. Derivatives

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

Group	Gross amount of recognised financial assets / (liabilities) £m	Net amount of financial assets / (liabilities) presented in the Statement of Financial Position £m	Contracts subject to master netting agreements not offset in the Statement of Financial Position £m	Cash collateral paid / (received) not offset in the Statement of Financial Position £m	Net amount £m
At 31 December 2023					
Derivative assets:					
Interest rate risk hedging	**530.6**	**530.6**	**(45.7)**	**(212.8)**	**272.1**
Derivative liabilities:					
Interest rate risk hedging	**(199.9)**	**(199.9)**	**45.7**	**216.1**	**61.9**
At 31 December 2022					
Derivative assets:					
Interest rate risk hedging	888.1	888.1	(104.9)	(545.7)	237.5
Derivative liabilities:					
Interest rate risk hedging	(106.6)	(106.6)	104.9	206.9	205.2

Derivative assets and liabilities include an initial margin of £198.4m with swap counterparties (2022: £198.6m). Margin is posted daily in respect of derivatives transacted with swap counterparties.

Included within the Group's derivative assets is £112.0m (2022: £203.4m) relating to derivative contracts not covered by master netting agreements on which no cash collateral has been paid.

21. Derivatives (continued)

Company	Gross amount of recognised financial assets / (liabilities) £m	Net amount of financial assets / (liabilities) presented in the Statement of Financial Position £m	Contracts subject to master netting agreements not offset in the Statement of Financial Position £m	Cash collateral paid / (received) not offset in the Statement of Financial Position £m	Net amount £m
At 31 December 2023					
Derivative assets:					
Interest rate risk hedging	**180.8**	**180.8**	**(121.6)**	**(56.3)**	**2.9**
Derivative liabilities:					
Interest rate risk hedging	**(123.8)**	**(123.8)**	**121.6**	**115.8**	**113.6**
At 31 December 2022					
Derivative assets:					
Interest rate risk hedging	234.0	234.0	(63.2)	(173.4)	(2.6)
Derivative liabilities:					
Interest rate risk hedging	(63.8)	(63.8)	63.2	79.4	78.8

Derivative assets and liabilities include an initial margin of £108.7m with swap counterparties (2022:£79.2). Margin is posted daily in respect of derivatives transacted with swap counterparties.

21. Derivatives (continued)

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

Group	Total nominal £m	Less than 3 months £m	3 - 12 months £m	1 - 5 years £m	More than 5 years £m
At 31 December 2023					
Derivative assets	**17,568.6**	**812.3**	**8,181.3**	**8,560.0**	**15.0**
Derivative liabilities	**8,913.6**	**1,148.0**	**2,300.0**	**5,108.6**	**357.0**
	26,482.2	**1,960.3**	**10,481.3**	**13,668.6**	**372.0**
At 31 December 2022					
Derivative assets	15,662.6	624.1	4,056.6	10,849.9	132.0
Derivative liabilities	9,518.0	1,503.0	6,001.0	1,869.0	145.0
	25,180.6	2,127.1	10,057.6	12,718.9	277.0

The Group has 944 (2022: 916) derivative contracts with an average fixed rate of 2.70% (2022: 1.34%).

Company	Total nominal £m	Less than 3 months £m	3 - 12 months £m	1 - 5 years £m	More than 5 years £m
At 31 December 2023					
Derivative assets	**6,591.0**	**90.0**	**3,630.0**	**2,871.0**	**-**
Derivative liabilities	**4,821.0**	**440.0**	**1,320.0**	**2,766.0**	**295.0**
	11,412.0	**530.0**	**4,950.0**	**5,637.0**	**295.0**
At 31 December 2022					
Derivative assets	4,628.0	50.0	1,526.0	3,012.0	40.0
Derivative liabilities	5,158.0	650.0	3,270.0	1,198.0	40.0
	9,786.0	700.0	4,796.0	4,210.0	80.0

The Company has 201 (2022: 123) derivative contracts with an average fixed rate of 3.61% (2022: 2.17%).

22. Hedge accounting

	Group 2023 £m	Group 2022 £m	**Company 2023 £m**	Company 2022 £m
Hedged assets				
Current hedge relationships	**(253.1)**	(827.9)	**(10.0)**	(204.0)
Swap inception adjustment	**40.4**	44.1	**13.1**	17.8
Cancelled hedge relationships	**(30.8)**	(5.2)	**(14.7)**	(14.6)
Fair value adjustments on hedged assets	**(243.5)**	(789.0)	**(11.6)**	(200.8)
Hedged liabilities				
Current hedge relationships	**(22.2)**	58.0	**(12.8)**	34.8
Swap inception adjustment	**0.3**	(2.3)	**1.0**	(1.1)
Cancelled hedge relationships	**-**	(0.6)	**-**	-
Fair value adjustments on hedged liabilities	**(21.9)**	55.1	**(11.8)**	33.7

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

De-designated hedge relationships relate 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).

22. Hedge accounting (continued)

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

	Group 2023		Group 2022	
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	**15,390.4**	**15,425.6**	14,493.8	14,667.7
Cumulative fair value adjustments of hedged item/fair value of hedging instrument	**(253.1)**	**312.7**	(827.9)	833.2
Changes in the fair value adjustment of hedged item/hedging instrument used for recognising the hedge ineffectiveness for the period	**580.3**	**(590.2)**	(620.6)	621.9
Cumulative fair value on cancelled hedge relationships	**(30.8)**	**-**	(5.2)	-

In the Statement of Financial Position, £469.9m (2022: £854.3m) of hedging instruments were recognised within derivative assets, and £157.2m (2022: £21.1m) within derivative liabilities.

	Company 2023		Company 2022	
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	**5,718.3**	**5,713.0**	4,114.0	4,006.0
Cumulative fair value adjustments of hedged item/fair value of hedging instrument	**(10.0)**	**50.0**	(204.0)	199.3
Changes in the fair value adjustment of hedged item/hedging instrument used for recognising the hedge ineffectiveness for the period	**193.8**	**(194.0)**	(177.5)	177.0
Cumulative fair value on cancelled hedge relationships	**(14.7)**	**-**	(14.6)	-

The cumulative fair value adjustments of the hedging instrument comprise £152.1m (2022: £216.4m) recognised within derivative assets, and £102.1m (2022: £17.1m) recognised within derivative liabilities.

22. Hedge accounting (continued)

The movement in cancelled hedge relationships is as follows:

Hedged assets	Group 2023 £m	Group 2022 £m	Company 2023 £m	Company 2022 £m
At 1 January	**(5.2)**	78.2	**(14.6)**	53.1
New cancellations[1]	**(23.0)**	(49.3)	**-**	(49.4)
Amortisation	**(2.6)**	(34.1)	**(0.1)**	(18.3)
At 31 December	**(30.8)**	(5.2)	**(14.7)**	(14.6)

1. The new cancellations are predominately from securitisation of mortgages during the year where, the Group cancels swaps which were effective prior to the event, replacing with new swaps within SPV structures, 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 and Company's portfolio hedge accounting for fixed rate amounts owed to retail depositors:

	Group 2023		Group 2022	
Customer deposits	Hedged item £m	Hedging instrument £m	Hedged item £m	Hedging instrument £m
Carrying amount of hedged item/nominal value of hedging instrument	**8,955.5**	**8,947.0**	9,167.3	9,180.0
Cumulative fair value adjustments of hedged item/fair value of hedging instrument	**(6.7)**	**16.9**	58.0	(67.9)
Changes in the fair value adjustment of hedged item/hedging instrument used for recognising the hedge ineffectiveness for the period	**(67.2)**	**78.8**	33.0	(42.4)

In the Statement of Financial Position, £40.3m (2022: £2.4m) of hedging instruments were recognised within derivative assets; and £23.4m (2022: £70.3m) within derivative liabilities.

22. Hedge accounting (continued)

	Company 2023		Company 2022	
Customer deposits	**Hedged item £m**	**Hedging instrument £m**	Hedged item £m	Hedging instrument £m
Carrying amount of hedged item/nominal value of hedging instrument	**4,841.6**	**4,829.0**	5,199.7	5,200.0
Cumulative fair value adjustments of hedged item/fair value of hedging instrument	**(2.4)**	**7.0**	34.8	(42.5)
Changes in the fair value adjustment of hedged item/hedging instrument used for recognising the hedge ineffectiveness for the period	**(36.6)**	**45.7**	24.7	(32.5)

The cumulative fair value adjustments of the hedging instrument comprise £26.4m (2022: £0.6m) recognised within derivative assets and £19.4m (2022: £43.1m) recognised within derivative liabilities.

The tables below analyse the Group's and Company's 'micro' hedge accounting for fixed rate senior notes and subordinated liabilities:

	Group 2023		Group 2022	
Senior notes and subordinated liabilities	**Hedged item £m**	**Hedging instrument £m**	Hedged item £m	Hedging instrument £m
Carrying amount of hedged item/nominal value of hedging instrument	**365.0**	**365.0**	-	-
Cumulative fair value adjustments of hedged item/fair value of hedging instrument	**(15.5)**	**15.6**	-	-
Changes in the fair value adjustment of hedged item/hedging instrument used for recognising the hedge ineffectiveness for the period	**(15.5)**	**15.8**	-	-

The Group and the Company has elected to partially hedge the senior notes up to the optional redemption date which reflects management's expectations about the exercise of the call option. In the Statement of Financial Position, £15.6m (2022: nil) for the Group and £10.6m (2022: nil) for the Company of hedging instruments were recognised within derivative assets.

22. Hedge accounting (continued)

	Company 2023		Company 2022	
Senior notes	**Hedged item £m**	**Hedging instrument £m**	Hedged item £m	Hedging instrument £m
Carrying amount of hedged item/nominal value of hedging instrument	**220.0**	**220.0**	-	-
Cumulative fair value adjustments of hedged item/fair value of hedging instrument	**(10.4)**	**10.6**	-	-
Changes in the fair value adjustment of hedged item/hedging instrument used for recognising the hedge ineffectiveness for the period	**(10.4)**	**10.8**	-	-

23. Other assets

	Group 2023 £m	Group 2022 £m	**Company 2023 £m**	Company 2022 £m
Falling due within one year:				
Prepayments	**9.9**	7.8	**7.4**	6.1
Other assets	**11.9**	1.8	**6.4**	2.0
Falling due more than one year:				
Prepayments	**5.8**	5.4	**5.6**	5.0
	27.6	15.0	**19.4**	13.1

24. Deferred taxation asset

Group	Losses carried forward £m	Accelerated depreciation £m	Share-based payments £m	IFRS 9 transitional adjustments £m	Others[1] £m	Total £m
At 1 January 2022	0.5	0.5	5.0	0.7	(1.1)	5.6
Profit or loss (charge)/credit[2]	-	(0.5)	0.5	(0.1)	1.6	1.5
Tax taken directly to OCI	-	-	-	-	0.1	0.1
Tax taken directly to equity	-	-	(0.9)	-	-	(0.9)
At 31 December 2022	0.5	-	4.6	0.6	0.6	6.3
Profit or loss (charge)/credit	**(0.2)**	**(0.6)**	**0.2**	**(0.1)**	**-**	**(0.7)**
Transferred from deferred tax liability[3]	**-**	**-**	**-**	**-**	**(1.7)**	**(1.7)**
Tax taken directly to OCI	**-**	**-**	**-**	**-**	**0.1**	**0.1**
Tax taken directly to equity	**-**	**-**	**(0.1)**	**-**	**-**	**(0.1)**
At 31 December 2023	**0.3**	**(0.6)**	**4.7**	**0.5**	**(1.0)**	**3.9**

1. Others includes deferred taxation assets recognised on financial assets classified as FVOCI, derivatives and short-term timing differences.
2. In 2023 there was no prior year deferred tax (2022 £0.3m).
3. £1.7m relating to other deferred tax assets, and previously shown within the Deferred tax liability (see Note 35) has been transferred to the Deferred tax asset.

In 2022, the profit or loss credit for deferred tax includes a credit of £0.2m from the corporation tax rate change.

As at 31 December 2023, the Group had £3.5m (2022: £3.5m) of losses for which a deferred tax asset has not been recognised as the Group does not expect sufficient future profits to be available to utilise the losses.

As at 31 December 2023 deferred tax assets of £2.0m (2022: £2.3m) are expected to be utilised within 12 months and £1.8m (2022: £4.0m) utilised after 12 months.

24. Deferred taxation asset (continued)

Company	Accelerated depreciation £m	Share-based payments £m	IFRS 9 transitional adjustments £m	Unpaid bonus £m	Others[1] £m	Total £m
At 1 January 2022	0.3	4.1	0.3	0.2	-	4.9
Profit or loss (charge)/credit	(0.4)	0.6	(0.1)	(0.2)	0.1	-
Tax taken directly to OCI	-	-	-	-	(0.1)	(0.1)
Tax taken directly to equity	-	(0.7)	-	-	-	(0.7)
At 31 December 2022	(0.1)	4.0	0.2	-	-	4.1
Profit or loss (charge)/credit	**(0.8)**	**0.3**	**-**	**0.1**	**-**	**(0.4)**
Tax taken directly to OCI	**-**	**-**	**-**	**-**	**0.1**	**0.1**
At 31 December 2023	**(0.9)**	**4.3**	**0.2**	**0.1**	**0.1**	**3.8**

1. Others includes deferred taxation assets recognised on financial assets classified as FVOCI, derivatives and short-term timing differences.

As at 31 December 2023 deferred tax assets of £1.6m (2022: £1.9m) are expected to be utilised within 12 months and £2.1m (2022: £2.2m) utilised after 12 months.

25. Property, plant and equipment

23	11	14	12	8	7	7
				Right of use assets		
Group	**Freehold land and buildings £m**	**Leasehold improvement s £m**	**Equipment and fixtures £m**	**Property leases £m**	**Other leases £m**	**Total £m**
Cost						
At 1 January 2022	16.5	2.9	15.2	13.2	1.2	49.0
Additions[1]	3.5	0.1	2.9	0.9	3.5	10.9
Disposals and write-offs[2]	-	-	(1.7)	(0.3)	(0.1)	(2.1)
Foreign exchange difference	-	-	0.1	-	-	0.1
At 31 December 2022	20.0	3.0	16.5	13.8	4.6	57.9
Additions[1]	**0.3**	**-**	**5.7**	**2.0**	**1.2**	**9.2**
Disposals and write-offs[2]	**-**	**-**	**(3.3)**	**-**	**(0.1)**	**(3.4)**
Foreign exchange difference	**-**	**-**	**(0.1)**	**-**	**-**	**(0.1)**
At 31 December 2023	**20.3**	**3.0**	**18.8**	**15.8**	**5.7**	**63.6**
Depreciation						
At 1 January 2022	1.5	1.0	7.6	3.6	0.2	13.9
Charged in year	0.2	0.2	3.0	1.6	0.2	5.2
Disposals and write-offs[2]	-	-	(1.7)	(0.3)	(0.1)	(2.1)
At 31 December 2022	1.7	1.2	8.9	4.9	0.3	17.0
Charged in year	**0.3**	**0.3**	**3.5**	**1.9**	**0.2**	**6.2**
Disposals and write-offs[2]	**-**	**-**	**(3.3)**	**-**	**(0.1)**	**(3.4)**
At 31 December 2023	**2.0**	**1.5**	**9.1**	**6.8**	**0.4**	**19.8**
Net book value						
At 31 December 2023	**18.3**	**1.5**	**9.7**	**9.0**	**5.3**	**43.8**
At 31 December 2022	18.3	1.8	7.6	8.9	4.3	40.9

1. Additions include property leases modifications of £0.5m (2022: £0.5m) and other leases modifications of £1.5m (2022: nil) of right of use assets.
2. During the year the Group derecognised fully depreciated assets.

25. Property, plant and equipment (continued)

Company	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 2022	8.7	2.4	8.0	5.6	0.1	24.8
Additions[1]	3.5	0.1	2.2	0.4	-	6.2
Disposals and write-offs[2]	-	-	(1.6)	(0.3)	(0.1)	(2.0)
At 31 December 2022	12.2	2.5	8.6	5.7	-	29.0
Additions[1]	**0.6**	**-**	**4.1**	**0.5**	**-**	**5.2**
Disposals and write-offs[2]	**-**	**-**	**(1.8)**	**-**	**-**	**(1.8)**
At 31 December 2023	**12.8**	**2.5**	**10.9**	**6.2**	**-**	**32.4**
Depreciation						
At 1 January 2022	1.1	0.7	4.1	1.6	-	7.5
Charged in year	0.1	0.2	1.6	0.7	-	2.6
Disposals and write-offs[2]	-	-	(1.6)	(0.3)	(0.1)	(2.0)
At 31 December 2022	1.2	0.9	4.1	2.0	(0.1)	8.1
Charged in year	**0.1**	**0.3**	**2.2**	**0.8**	**0.1**	**3.5**
Disposals and write-offs[2]	**-**	**-**	**(1.8)**	**-**	**-**	**(1.8)**
At 31 December 2023	**1.3**	**1.2**	**4.5**	**2.8**	**-**	**9.8**
Net book value						
At 31 December 2023	**11.5**	**1.3**	**6.4**	**3.4**	**-**	**22.6**
At 31 December 2022	11.0	1.6	4.5	3.7	0.1	20.9

1. Additions include property leases modifications of £0.5m (2022: nil) and other leases modifications of £1.5m (2022: nil) of right of use assets.
2. During the year the Group derecognised fully depreciated assets.

26. Intangible assets

Group	Development costs[1] £m	Computer software and licences £m	Assets arising on Combination[2] £m	Total £m
Cost				
At 1 January 2022	3.7	16.0	23.4	43.1
Additions	0.1	1.7	-	1.8
Disposals and write-offs[3]	-	(3.6)	(1.9)	(5.5)
At 31 December 2022	3.8	14.1	21.5	39.4
Additions	**19.1**	**0.7**	**-**	**19.8**
Transfer during the year	**(2.2)**	**2.2**	**-**	**-**
Disposals and write-offs[3]	**-**	**(3.4)**	**(0.1)**	**(3.5)**
At 31 December 2023	**20.7**	**13.6**	**21.4**	**55.7**
Amortisation				
At 1 January 2022	0.6	8.8	15.3	24.7
Charged in year	0.7	3.2	4.3	8.2
Disposals and write-offs[3]	-	(3.6)	(1.9)	(5.5)
At 31 December 2022	1.3	8.4	17.7	27.4
Charged in year	**0.7**	**2.8**	**2.2**	**5.7**
Disposals and write-offs[3]	**-**	**(3.4)**	**(0.1)**	**(3.5)**
At 31 December 2023	**2.0**	**7.8**	**19.8**	**29.6**
Net book value				
At 31 December 2023	**18.7**	**5.8**	**1.6**	**26.1**
At 31 December 2022	2.5	5.7	3.8	12.0

1. Increase in development costs is largely due to the modernisation project.
2. Assets arising on Combination include broker relationships of £0.7m (2022: £2.0m), technology of nil (2022: £0.4m), brand names of nil (2022: £0.3m) and £0.4m development costs relating to IRB costs.
3. During the year the Group derecognised fully amortised assets.

The Directors have considered the carrying value of intangible assets and determined that there are no indications of impairment at the year end.

26. Intangible assets (continued)

Company	Development costs £m	Computer software and licences £m	Total £m
Cost			
At 1 January 2022	1.4	14.2	15.6
Additions	0.1	1.3	1.4
Disposals and write-offs[1]	-	(3.3)	(3.3)
At 31 December 2022	1.5	12.2	13.7
Additions	**19.0**	**0.7**	**19.7**
Transfer during the year	**(2.2)**	**2.2**	**-**
Disposals and write-offs[1]	**-**	**(3.1)**	**(3.1)**
At 31 December 2023	**18.3**	**12.0**	**30.3**
Amortisation			
At 1 January 2022	-	7.9	7.9
Charged in year	-	2.6	2.6
Disposals and write-offs[1]	-	(3.3)	(3.3)
At 31 December 2022	-	7.2	7.2
Charged in year	**-**	**2.4**	**2.4**
Disposals and write-offs[1]	**-**	**(3.1)**	**(3.1)**
At 31 December 2023	**-**	**6.5**	**6.5**
Net book value			
At 31 December 2023	**18.3**	**5.5**	**23.8**
At 31 December 2022	1.5	5.0	6.5

1. During the year the Company derecognised fully amortised assets.

27. Investments in subsidiaries, intercompany loans and transactions with related parties

The Group

The balance between the Group and its ultimate parent at the reporting date is summarised in the table below:

Group	**Intercompany loans receivable 2023 £m**	Intercompany loans receivable 2022 £m
At 1 January	**0.8**	0.6
Additions	**5.4**	2.1
Repayments	**(1.7)**	(1.9)
At 31 December	**4.5**	**0.8**

The transactions with OSBG during the year include additions in relation to costs on shares repurchased of £2.4m, issuance cost of £1.6m and £1.3m on senior notes and subordinated liabilities respectively funded by the Company. Repayments comprise £1.7m of cash received on behalf of OSBG from issuing shares under SAYE (2022: additions comprised £2.1m additions in relation to costs on shares repurchased funded by the Company. Repayments of £1.9m comprise £1.6m of cash received on behalf of OSBG from issuing shares under SAYE and £0.3m of tax losses surrendered to the Company).

The Company

The balances between the Company, its parent and its subsidiaries at the reporting date are summarised in the table below:

Company	Investment in subsidiaries £m	Intercompany loans receivable £m	Intercompany loans payable £m
At 1 January 2022	708.9	2,387.5	(33.2)
Additions	3.2	177.3	(2.7)
Repayments	-	(33.1)	2.6
Impairment	(1.3)	-	-
At 31 December 2022	710.8	2,531.7	(33.3)
Additions	**-**	**441.3**	**(0.1)**
Repayments	**-**	**(16.1)**	**8.7**
At 31 December 2023	**710.8**	**2,956.9**	**(24.7)**

The Group and the Company assesses intercompany loans receivable for impairment. The Company recognised no impairment in investment in subsidiaries during the year (2022: £1.3m impairment). In 2022, the investment in Prestige Finance Limited (PFL) has been impaired down to PFL's share capital value following the cessation of trade in PFL. The investment in Interbay Group Holdings Limited (IGHL) impaired down to the net asset value as IGHL is being considered for dissolution.

Investments in subsidiaries are financial assets and intercompany loans are financial assets and liabilities, all carried at amortised cost.

27. Investments in subsidiaries, intercompany loans and transactions with related parties (continued)

A list of the Company's direct subsidiaries for 2023 is shown below:

At 31 December 2023 Direct investments	Activity	Registered office	Ownership
Charter Court Financial Services Group Plc[1]	Holding company	Charter Court	**100%**
Easioption Limited	Holding company	Reliance House	**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%**
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%**
WSE Bourton Road Limited	Land lease investment	OSB House	**100%**

1. Charter Court Financial Services Group Plc name changed post year end to CCFSG Holdings Limited.

The Company holds ordinary shares in all its direct subsidiaries.

OSB India Private Limited is owned 70.28% by the Company, 29.72% by Easioption Limited and 0.001% by Reliance Property Loans Limited.

27. Investments in subsidiaries, intercompany loans and transactions with related parties (continued)

A list of the Company's indirect subsidiaries for 2023 is shown below:

At 31 December 2023 Indirect investments	Activity	Registered office	Ownership
5D Finance Limited	Mortgage servicer	Reliance House	**100%**
Broadlands Finance Limited	Mortgage administration services	Charter Court	**100%**
Canterbury Finance No.2 plc	Special purpose vehicle	Churchill Place	**-**
Canterbury Finance No.3 plc	Special purpose vehicle	Churchill Place	**-**
Canterbury Finance No.4 plc	Special purpose vehicle	Churchill Place	**-**
Canterbury Finance No.5 plc	Special purpose vehicle	Churchill Place	**-**
Charter Court Financial Services 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	**-**
CMF 2023-1 plc	Special purpose vehicle	Churchill Place	**-**
Exact Mortgage Experts Limited	Group service company	Charter Court	**100%**
Inter Bay Financial I 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 ML, Ltd	Mortgage provider	Reliance House	**100%**

All investments in subsidiaries are of ordinary shares.

Special purpose vehicles which the Group controls are treated as subsidiaries for accounting purposes.

All of the entities listed above have been consolidated into the Group's consolidated financial statements.

All of the above investments are reviewed annually for impairment. Based on assessment of the future cash flows of each entity no impairment has been recognised.

27. Investments in subsidiaries, intercompany loans and transactions with related parties (continued)

A list of the Company's direct subsidiaries for 2022 is shown below:

At 31 December 2022 Direct investments	Activity	Registered Office	Ownership
Charter Court Financial Services Group Plc	Holding company	Charter Court	100%
Easioption Limited	Holding company	Reliance House	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%
Interbay Group Holdings Limited	Holding company	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%
WSE Bourton Road Limited	Land lease investment	OSB House	100%

27. Investments in subsidiaries, intercompany loans and transactions with related parties (continued)

A list of the Company's indirect subsidiaries for 2022 is shown below:

At 31 December 2022 Indirect investments	Activity	Registered office	Ownership
5D Finance Limited	Mortgage servicer	Reliance House	100%
Broadlands Finance Limited	Mortgage administration services	Charter Court	100%
Canterbury Finance No.2 plc	Special purpose vehicle	Churchill Place	-
Canterbury Finance No.3 plc	Special purpose vehicle	Churchill Place	-
Canterbury Finance No.4 plc	Special purpose vehicle	Churchill Place	-
Canterbury Finance No.5 plc	Special purpose vehicle	Churchill Place	-
Charter Court Financial Services 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	-
Exact Mortgage Experts Limited	Group service company	Charter Court	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 Holdings Ltd	Holding company	Reliance House	100%
Interbay ML, Ltd	Mortgage provider	Reliance House	100%

The following are the registered offices of the subsidiaries:

Charter Court – 2 Charter Court, Broadlands, Wolverhampton, WV10 6TD
Churchill Place – 5 Churchill Place, 10th Floor, London, E14 5HU
Guernsey – 1st Floor, Tudor House, Le Bordage, St Peter Port, Guernsey, GY1 1DB
Great St. Helen's, London – 35 Great St. Helen's, London, EC3A 6AP
India – Salarpuria Magnificia No. 78, 9th & 10th floor, Old Madras Road, Bangalore, India, 560016.
Jersey – 26 New Street, St Helier, Jersey, JE2 3RA
OSB House – Quayside, Chatham Maritime, Chatham, England, ME4 4QZ
Reliance House – Reliance House, Sun Pier, Chatham, Kent, ME4 4ET

27. Investments in subsidiaries, intercompany loans and transactions with related parties (continued)

During the year the Group issued £250.0m of subordinated liabilities and £300m of senior notes to OSBG. Included within this was £150m of subordinated liabilities and £220m of senior notes issued by the Company to OSBG. For further details see note 36 for senior notes and 37 for subordinated liabilities.

The transactions between the Company, its parent and its subsidiaries are disclosed below:

	2023		2022	
	Charged by/(to) the Company during the year £m	**Balance due to/(by) the Company £m**	Charged by/(to) the Company during the year £m	Balance due to/(by) the Company £m
Parent Company				
OSB GROUP PLC	**-**	**4.4**	-	0.8
Direct investments				
Easioption Limited	**-**	**0.5**	-	0.5
Guernsey Home Loans Limited	**0.3**	**6.1**	0.1	6.8
Guernsey Home Loans Limited (Guernsey)	**0.5**	**11.4**	0.2	12.3
Heritable Development Finance Limited	**(2.0)**	**(0.7)**	(1.9)	(1.2)
Jersey Home Loans Limited	**-**	**0.9**	-	1.0
Jersey Home Loans Limited (Jersey)	**3.0**	**63.4**	1.3	69.4
OSB India Private Limited	**(17.9)**	**11.5**	(13.3)	9.1
Prestige Finance Limited	**-**	**0.2**	-	(0.2)
Reliance Property Loans Limited	**0.1**	**2.1**	-	2.4
Interbay Group Holdings Limited	**-**	**-**	-	(0.9)
WSE Bourton Road Limited	**-**	**0.8**	-	-
Indirect investments				
Charter Court Financial Services Limited	**50.9**	**25.1**	19.4	(0.7)
Exact Mortgage Experts Limited	**(0.3)**	**3.0**	(0.4)	2.5
Charter Mortgages Limited	**-**	**(0.3)**	-	(0.4)
Broadlands Finance Limited	**-**	**(0.2)**	-	(0.1)
5D Finance Limited	**1.6**	**33.2**	0.6	39.4
Inter Bay Financial I Limited	**0.8**	**18.1**	0.3	20.0
Inter Bay Financial II Limited	**-**	**-**	-	(5.6)
InterBay Asset Finance Limited	**9.5**	**223.0**	2.8	169.6
Interbay Funding, Ltd	**(1.0)**	**(23.5)**	(0.4)	(24.2)
Interbay ML, Ltd	**117.3**	**2,553.2**	36.1	2,197.9
	162.8	**2,932.2**	44.8	2,498.4

28. Amounts owed to credit institutions

	Group 2023 £m	Group 2022 £m	Company 2023 £m	Company 2022 £m
BoE TFSME	**3,352.0**	4,232.0	**1,957.0**	2,395.0
BoE ILTR	**10.1**	300.9	**5.0**	-
Commercial repo	**0.1**	10.2	**-**	0.1
Loans from credit institutions	**-**	0.1	**-**	-
	3,362.2	4,543.2	**1,962.0**	2,395.1
Cash collateral and margin received	**212.8**	549.7	**56.3**	173.4
	3,575.0	5,092.9	**2,018.3**	2,568.5

29. Amounts owed to retail depositors

The table below shows the Group's retail depositors by operating segment, where the OSB segment also represents the Company's retail depositors:

	2023			2022		
	OSB £m	**CCFS £m**	**Total £m**	OSB £m	CCFS £m	Total £m
Fixed rate deposits	**8,846.6**	**7,493.9**	**16,340.5**	8,085.9	5,899.6	13,985.5
Variable rate deposits	**3,399.9**	**2,386.2**	**5,786.1**	3,046.3	2,724.0	5,770.3
	12,246.5	**9,880.1**	**22,126.6**	11,132.2	8,623.6	19,755.8

30. Amounts owed to other customers

	Group 2023 £m	Group 2022 £m	Company 2023 £m	Company 2022 £m
Fixed rate deposits	**58.8**	100.9	**0.5**	0.5
Variable rate deposits	**4.5**	12.2	**-**	-
	63.3	113.1	**0.5**	0.5

31. Debt securities in issue

	Group 2023 £m	Group 2022 £m
Asset-backed loan notes at amortised cost	**818.5**	265.9
Amount due for settlement within 12 months	**109.5**	-
Amount due for settlement after 12 months	**709.0**	265.9
	818.5	265.9

31. Debt securities in issue (continued)

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

Where the Group own the call rights for a transaction, they may repurchase the asset-backed loan notes on any interest payment date on or after the call dates, or on any interest payment date when the current balance of the mortgages outstanding is less than or equal to 10% of the principal amount outstanding on the loan notes on the date they were issued.

Interest is payable at fixed margins above SONIA.

As at 31 December 2023, notes were issued through the following funding vehicles:

	Group 2023 £m	Group 2022 £m
Canterbury Finance No.3 plc	**-**	21.0
Canterbury Finance No.4 plc	**167.5**	103.1
CMF 2020-1 plc	**109.5**	141.8
CMF 2023-1 plc	**291.3**	-
Keys Warehouse No.1 Limited	**250.2**	-
	818.5	265.9

32. Lease liabilities

	Group 2023 £m	Group 2022 £m	**Company 2023 £m**	Company 2022 £m
At 1 January	**9.9**	10.7	**3.6**	3.9
New leases	**3.3**	0.9	**0.5**	0.4
Lease repayments	**(2.2)**	(1.9)	**(0.8)**	(0.8)
Interest accruals	**0.2**	0.2	**0.1**	0.1
At 31 December	**11.2**	9.9	**3.4**	3.6

During the year, the Group incurred expenses of £0.1m (2022: £0.3m) in relation to short-term leases.

33. Other liabilities

	Group 2023 £m	Group 2022 £m	Company 2023 £m	Company 2022 £m
Falling due within one year:				
Accruals	**26.5**	28.0	**16.5**	18.6
Deferred income	**0.4**	0.6	**0.4**	0.6
Other creditors	**12.7**	10.1	**8.9**	4.7
	39.6	38.7	**25.8**	23.9

34. 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 released its £1.5m provision for conduct related exposures in 2022 following completion of an internal review.

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

	2023				2022			
Group	**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	**-**	**-**	**0.4**	**0.4**	0.1	1.5	0.4	2.0
Charge/(credit)	**-**	**-**	**0.4**	**0.4**	(0.1)	(1.5)	-	(1.6)
At 31 December	**-**	**-**	**0.8**	**0.8**	-	-	0.4	0.4

34. Provisions and contingent liabilities (continued)

Company	2023 FSCS £m	2023 Other regulatory provisions £m	2023 ECL on undrawn loan facilities £m	2023 Total £m	2022 FSCS £m	2022 Other regulatory provisions £m	2022 ECL on undrawn loan facilities £m	2022 Total £m
At 1 January	**-**	**-**	**0.1**	**0.1**	0.1	1.4	0.4	1.9
Charge/(credit)	**-**	**-**	**0.3**	**0.3**	(0.1)	(1.4)	(0.3)	(1.8)
At 31 December	**-**	**-**	**0.4**	**0.4**	-	-	0.1	0.1

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. In addition, the Group has reviewed and is enhancing its collections processes and how mortgage customers in arrears are managed and undertaking a retrospective review of the Group's application of forbearance measures and associated outcomes for certain cohorts of customers. It is not possible to reliably predict or estimate the outcome of the retrospective review and therefore its financial effect, if any, on the Group.

35. 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.

Group	CCFS Combination £m
At 1 January 2022	39.8
Profit or loss credit[1]	(17.5)
At 31 December 2022	22.3
Profit or loss credit	**(14.3)**
Transfer to Deferred tax asset[2]	**(1.7)**
At 31 December 2023	**6.3**

1. In 2022, the profit or loss credit includes £4.7m impact of the corporation tax rate changes.
2. £1.7m relating to other deferred tax assets, and previously shown within the Deferred tax liability has been transferred to the Deferred tax asset (see Note 24).

As at 31 December 2023 deferred tax liabilities of £3.8m (2022: £5.6m) are expected to be due within 12 months and £2.5m (2022: £16.7m) due after 12 months.

36. Senior notes

During the current financial year, the Group and the Company issued senior notes amounting to £300m under the planned MREL qualifying debt issuance. The Group's and Company's outstanding senior notes are summarised below:

	Group 2023 £m	Group 2022 £m	**Company 2023 £m**	Company 2022 £m
Fixed rate:				
Senior notes 2028 (9.5%)	**309.0**	**-**	**226.6**	-

The senior notes are structured with identical terms to the OSB GROUP PLC (OSBG) external senior notes issuance and are as follows:

- **Interest:** Interest on the senior notes is fixed at an initial rate until the reset date (7 September 2027). If the senior notes are not redeemed prior to the reset date, the interest rate will be reset and fixed based on a benchmark gilt rate plus a spread of 4.985%.

- **Redemption:** The Issuer may redeem the senior notes in whole (but not in part) in its sole discretion on 7 September 2027. Optional redemption may also take place for certain regulatory or tax reasons. Any optional redemption requires the prior consent of the PRA.

- **Ranking:** The senior notes constitute direct, unsubordinated and unsecured obligations of the Group and rank at least *pari passu*, without any preference, among themselves as senior notes. The notes rank behind the claims of depositors, but in priority to holders of Tier 1 and Tier 2 capital as well as equity holders of Group.

The table below shows a reconciliation of the Group's and the Company's senior notes during the year.

	Group 2023 £m	Group 2022 £m	**Company 2023 £m**	Company 2022 £m
At 1 January	**-**	-	**-**	-
Addition	**300.0**	-	**220.0**	-
Movement in accrued interest	**9.0**	-	**6.6**	-
At 31 December	**309.0**	-	**226.6**	-

37. Subordinated liabilities

The Group's and Company's outstanding subordinated liabilities are summarised below:

	Group 2023 £m	Group 2022 £m	**Company 2023 £m**	Company 2022 £m
Fixed rate:				
Subordinated liabilities 2033 (9.993%)	**260.6**	-	**156.4**	-

All subordinated liabilities are denominated in pounds sterling and are unlisted.

The subordinated debt liabilities are structured with identical principal terms to the OSBG external Tier 2 debt issuance and are as follows:

- **Interest:** Interest on the notes is fixed at an initial rate until the reset date (27 July 2028). If the notes are not redeemed prior to the reset date, the interest rate will be reset and fixed based on a benchmark gilt rate plus a spread of 6.296%.
- **Redemption:** The Issuer may redeem the Tier 2 notes in whole (but not in part) in its sole discretion on any day from (and including) 27 April 2028 to (and including) 27 July 2028 (the reset date) as specified in the terms of the agreement. Optional redemption may also take place for certain regulatory or tax reasons. Any optional redemption requires the prior consent of the PRA.
- **Ranking:** The notes constitute direct, unsecured and subordinated obligations of the Group and rank at least pari passu, without any preference, among themselves as Tier 2 capital. The notes rank behind the claims of depositors and other unsecured and unsubordinated creditors, but rank in priority to holders of Tier 1 capital and of equity of the Group.

The table below shows a reconciliation of the Group's and Company's subordinated liabilities during the year:

	Group 2023 £m	Group 2022 £m	**Company 2023 £m**	Company 2022 £m
At 1 January	**-**	10.3	**-**	10.3
Addition	**250.0**	-	**150.0**	-
Movement in accrued interest	**10.6**	-	**6.4**	-
Repayment of debt	**-**	(10.3)	**-**	(10.3)
At 31 December	**260.6**	-	**156.4**	-

In 2022 the fixed rate subordinated liabilities were fully repaid at a premium of £0.7m, which was recognised in interest payable and similar charges.

The LIBOR linked subordinated liabilities were redeemed in September 2022.

38. Perpetual Subordinated Bonds

	Group and Company 2023 £m	Group and Company 2022 £m
Sterling PSBs (4.6007%)	**15.2**	15.2

The bonds are listed on the London Stock Exchange.

The 4.6007% bonds were issued with no discretion over the payment of interest and may not be settled in the Group's own equity. They are therefore classified as financial liabilities. The coupon rate is 4.6007% until the next reset date on 27 August 2024.

39. Reconciliation of cash flows from financing activities

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

Group	Amounts owed to credit institutions (see note 28) £m	Debt securities in issue (see note 31) £m	Senior notes (see note 36) £m	Subordinated liabilities (see note 37) £m	PSBs (see note 38) £m	Total £m
At 1 January 2022	4,204.2	460.3	-	10.3	15.2	4,690.0
Cash movements:						
Principal drawdowns	429.5	-	-	-	-	429.5
Principal repayments	(120.5)	(193.6)	-	(10.1)	-	(324.2)
Interest paid	(34.8)	(8.5)	-	(1.3)	(0.7)	(45.3)
Non-cash movements:			-			
Interest charged	64.8	7.7	-	1.1	0.7	74.3
At 31 December 2022	4,543.2	265.9	-	-	15.2	4,824.3
Cash movements:						
Principal drawdowns	**189.9**	**591.6**	**300.0**	**250.0**	**-**	**1,331.5**
Principal repayments	**(1,390.2)**	**(40.1)**	**-**	**-**	**-**	**(1,430.3)**
Interest paid	**(178.0)**	**(20.4)**	**-**	**(6.3)**	**(0.7)**	**(205.4)**
Non-cash movements:						
Interest charged	**197.3**	**21.5**	**9.0**	**16.9**	**0.7**	**245.4**
At 31 December 2023	**3,362.2**	**818.5**	**309.0**	**260.6**	**15.2**	**4,765.5**

39. Reconciliation of cash flows from financing activities (continued)

Company	Amounts owed to credit institutions (see note 28) £m	Deemed Loans (see note 17) £m	Senior notes (see note 36) £m	Subordinated liabilities (see note 37) £m	PSBs (see note 38) £m	Total £m
At 1 January 2022	2,378.6	142.8	-	10.3	15.2	2,546.9
Cash movements:						
Principal drawdowns	120.0	-	-	-	-	120.0
Principal repayments	(120.0)	(174.0)	-	(10.1)	-	(304.1)
Interest paid	(19.4)	(4.1)	-	(1.3)	(0.7)	(25.5)
Non-cash movements:			-			
Interest charged	35.9	4.1	-	1.1	0.7	41.8
At 31 December 2022	2,395.1	(31.2)	-	-	15.2	2,379.1
Cash movements:						
Principal drawdowns	**152.2**	**56.5**	**220.0**	**150.0**	**-**	**578.7**
Principal repayments	**(597.2)**	**-**	**-**	**-**	**-**	**(597.2)**
Interest paid	**(98.5)**	**(4.8)**	**-**	**(3.7)**	**(0.7)**	**(107.7)**
Non-cash movements:						
Interest charged	**110.4**	**4.8**	**6.6**	**10.1**	**0.7**	**132.6**
At 31 December 2023	**1,962.0**	**25.3**	**226.6**	**156.4**	**15.2**	**2,385.5**

40. Share capital

Ordinary shares of £0.01 each	Number of shares authorised and fully paid	Nominal value £m	Premium £m
At 31 December 2022 and 2023	**447,304,198**	**4.5**	**-**

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.

41. Other equity instruments

The Group's other equity instruments are as follows:

Additional Tier 1 securities	**Group 2023 £m**	Group 2022 £m	**Company 2023 £m**	Company 2022 £m
6% Perpetual subordinated contingent convertible securities	**150.0**	150.0	90.0	90.0

AT1 Securities
On 5 October 2021, OSBG issued in total £150.0m of new AT1 securities, £90.0m issued by the Company and £60.0m issued by Charter Court Financial Services Limited. AT1 securities comprise £150.0m of Fixed Rate Resetting Perpetual Subordinated Contingent Convertible Securities that qualify as AT1 capital under CRD IV. The securities will be subject to full conversion into ordinary shares of OSBG in the event that the Group's Common Equity Tier 1 (CET1) capital ratio falls below 7%.The securities will pay interest at a rate of 6% per annum until the first reset date of 7 April 2027, with the reset interest rate equal to 539.3 basis points over the 5-year Gilt Rate (benchmark gilt) for such a period. Interest is paid semi-annually in April and October.

OSBG may, at any time, cancel any interest payment at its full discretion and must cancel interest payments in certain circumstances specified in the terms and conditions of the securities. The securities are perpetual with no fixed redemption date. OSBG may, in its discretion and subject to satisfying certain conditions, redeem all (but not some) of the AT1 securities at the principal amount outstanding plus any accrued but unpaid interest from the first reset date and on any interest payment date thereafter. AT1 securities which were previously presented within 'other reserves' have been re-presented as 'other equity instruments.

42. Other reserves

The Group's and Company's other reserves are as follows:

	Group 2023 £m	Group 2022 £m	**Company 2023 £m**	Company 2022 £m
Distributable:				
Share-based payment	**14.2**	13.3	**12.2**	10.9
FVOCI	**0.2**	0.3	**0.1**	0.2
Foreign exchange	**(2.1)**	(1.3)	**-**	-
	12.3	12.3	**12.3**	11.1

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.

43. Financial commitments and guarantees

a) The Group had £0.1m of contracted capital expenditure commitments not provided for as at 31 December 2023 (2022: nil).

b) The Group's minimum lease commitments under leases for low-value assets and short-term leases of 12 months or less are summarised in the table below:

	Group 2023 £m	Group 2022 £m	**Company 2023 £m**	Company 2022 £m
Land and buildings: due within:				
One year	**0.2**	0.3	**0.1**	0.1
Two to five years	**0.2**	0.3	**-**	-
	0.4	0.6	**0.1**	0.1

c) Undrawn loan facilities:

	Group 2023 £m	Group 2022 £m	**Company 2023 £m**	Company 2022 £m
OSB mortgages	**580.2**	741.6	**504.3**	559.1
CCFS mortgages	**391.8**	455.1	**-**	-
Asset finance	**27.4**	15.5	**-**	-
	999.4	1,212.2	**504.3**	559.1

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 2023 (2022: nil).

44. Risk management

Overview

Financial instruments form the vast majority of the Group's and Company'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 instruments

Financial instruments are a broad definition which includes financial assets, financial liabilities and equity instruments. The main financial assets of the Group are loans to customers and liquid assets, which in turn consist of cash in the BoE call accounts, call accounts with other credit institutions, RMBS and UK sovereign debt. These are funded by a combination of financial liabilities and equity instruments. Financial liability funding comes predominantly from retail deposits and drawdowns under the BoE TFSME and ILTR, supported by debt securities, subordinated debts, 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. Derivatives are used by the Group solely to reduce (hedge) the risk of loss arising from changes in market rates. The Group only uses interest rate swaps. Derivatives are not used for speculative purposes.

Types of derivatives and uses

The derivative instruments used by the Group in managing its risk exposures are interest rate swaps. Interest rate swaps convert fixed interest rates to floating or vice versa. As with other derivatives, the underlying product is not sold and payments are based on notional principal amounts.

Unhedged fixed rate liabilities create the risk of paying above-the-market rate if interest rates subsequently decrease. Unhedged fixed rate mortgages and liquid assets bear the opposite risk of income below-the-market rate when rates go up. While fixed rate assets and liabilities naturally hedge each other to a certain extent, this hedge is usually never perfect because of maturity mismatches and principal amounts.

The Group uses swaps to convert its instruments, such as mortgages, deposits and liquid assets, from fixed or base rate-linked rates to reference linked variable rates. This ensures a guaranteed margin between the interest income and interest expense, regardless of changes in the market rates.

Types of risk

The principal financial risks to which the Group is exposed are credit, liquidity and market risks, the latter comprising interest and exchange rate risk. In addition to financial risks, the Group is exposed to various other risks, most notably operational, conduct and compliance/regulatory, which are covered in the Risk review on pages 29 to 58.

44. Risk management (continued)

Credit risk

Credit risk is the risk that losses may arise as a result of the Group's borrowers or market counterparties failing to meet their obligations to repay.

The Group has adopted the Standardised Approach for assessment of credit risk regulatory capital requirements. This approach considers risk weightings as defined under Basel II and Basel III principles.

The classes of financial instruments to which the Group is most exposed are loans and advances to customers, loans and advances to credit institutions, cash in the BoE call account, call and current accounts with other credit institutions and investment securities. The maximum credit risk exposure equals the total carrying amount of the above categories plus off-balance sheet undrawn committed mortgage facilities.

The change, during the period and cumulatively, in the fair value of investments in debt securities and loans and advances to customers at FVOCI and FVTPL that is attributable to changes in credit risk is not material.

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 and Company's maximum exposure to credit risk and the impact of collateral held as security, capped at the gross exposure amount, by impairment stage. Capped collateral excludes the impact of forced sale discounts and costs to sell. The collateral value is determined by indexing against House Price Index data.

	2023					
	OSB		CCFS		Total	
Group	**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	11,263.0	11,228.7	9,313.8	9,313.8	20,576.8	20,542.5
Stage 2	2,718.6	2,717.0	1,819.3	1,818.6	4,537.9	4,535.6
Stage 3	494.3	488.8	217.2	217.2	711.5	706.0
Stage 3 (POCI)	33.4	33.0	37.5	37.4	70.9	70.4
	14,509.3	14,467.5	11,387.8	11,387.0	25,897.1	25,854.5

44. Risk management (continued)

	2022					
	OSB		CCFS		Total	
Group	Gross carrying amount £m	Capped collateral held £m	Gross carrying amount £m	Capped collateral held £m	Gross carrying amount £m	Capped collateral held £m
Stage 1	10,346.8	10,320.4	8,375.5	8,374.4	18,722.3	18,694.8
Stage 2	2,509.7	2,508.5	1,907.4	1,907.1	4,417.1	4,415.6
Stage 3	349.7	319.2	156.0	156.0	505.7	475.2
Stage 3 (POCI)	38.5	37.5	44.5	44.4	83.0	81.9
	13,244.7	13,185.6	10,483.4	10,481.9	23,728.1	23,667.5

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

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

	2023				2022			
Group	**OSB £m**	**CCFS £m**	**Total £m**	%	OSB £m	CCFS £m	Total £m	%
Band								
0% - 50%	**2,454.7**	**1,105.5**	**3,560.2**	**14**	2,768.8	914.7	3,683.5	16
50% - 60%	**2,275.8**	**1,454.5**	**3,730.3**	**14**	2,770.7	1,361.1	4,131.8	17
60% - 70%	**4,414.4**	**3,244.0**	**7,658.4**	**30**	4,647.5	3,561.7	8,209.2	35
70% - 80%	**3,822.1**	**5,000.9**	**8,823.0**	**34**	2,150.7	4,277.3	6,428.0	26
80% - 90%	**1,045.7**	**573.2**	**1,618.9**	**6**	548.3	365.5	913.8	4
90% - 100%	**222.0**	**8.8**	**230.8**	**1**	181.3	2.5	183.8	1
>100%	**274.6**	**0.9**	**275.5**	**1**	177.4	0.6	178.0	1
Total loans before provisions	**14,509.3**	**11,387.8**	**25,897.1**	**100**	13,244.7	10,483.4	23,728.1	100

44. Risk management (continued)

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

	2023				2022			
OSB	**BTL/SME £m**	**Residential £m**	**Total £m**	**%**	BTL/SME £m	Residential £m	Total £m	%
Band								
0% - 50%	**1,078.1**	**1,376.6**	**2,454.7**	**17**	1,301.4	1,467.4	2,768.8	21
50% - 60%	**2,027.5**	**248.3**	**2,275.8**	**16**	2,497.2	273.5	2,770.7	21
60% - 70%	**4,181.4**	**233.0**	**4,414.4**	**30**	4,386.0	261.5	4,647.5	36
70% - 80%	**3,616.9**	**205.2**	**3,822.1**	**26**	1,977.1	173.6	2,150.7	16
80% - 90%	**826.3**	**219.4**	**1,045.7**	**7**	418.1	130.2	548.3	4
90% - 100%	**174.8**	**47.2**	**222.0**	**2**	167.3	14.0	181.3	1
>100%	**270.1**	**4.5**	**274.6**	**2**	172.9	4.5	177.4	1
Total loans before provisions	**12,175.1**	**2,334.2**	**14,509.3**	**100**	10,920.0	2,324.7	13,244.7	100

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

	2023				
OSB	**Buy-to-Let £m**	**Commercial £m**	**Residential development £m**	**Funding lines £m**	**Total £m**
Band					
0% - 50%	**968.1**	**93.4**	**8.2**	**8.4**	**1,078.1**
50% - 60%	**1,857.3**	**106.6**	**61.1**	**2.5**	**2,027.5**
60% - 70%	**3,800.3**	**169.7**	**210.5**	**0.9**	**4,181.4**
70% - 80%	**3,271.4**	**323.6**	**-**	**21.9**	**3,616.9**
80% - 90%	**596.0**	**230.3**	**-**	**-**	**826.3**
90% - 100%	**68.7**	**106.1**	**-**	**-**	**174.8**
>100%	**202.7**	**66.0**	**1.0**	**0.4**	**270.1**
Total loans before provisions	**10,764.5**	**1,095.7**	**280.8**	**34.1**	**12,175.1**

44. Risk management (continued)

OSB	2022 Buy-to-Let £m	Commercial £m	Residential development £m	Funding lines £m	Total £m
Band					
0% - 50%	1,137.6	114.7	16.1	33.0	1,301.4
50% - 60%	2,324.1	112.8	57.2	3.1	2,497.2
60% - 70%	4,111.4	164.4	110.2	-	4,386.0
70% - 80%	1,741.5	235.6	-	-	1,977.1
80% - 90%	232.8	151.6	-	33.7	418.1
90% - 100%	77.1	63.8	-	26.4	167.3
>100%	130.5	38.4	1.0	3.0	172.9
Total loans before provisions	9,755.0	881.3	184.5	99.2	10,920.0

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

	2023			2022		
OSB	**First charge £m**	**Second charge £m**	**Total £m**	First charge £m	Second charge £m	Total £m
Band						
0% - 50%	**1,292.6**	**84.0**	**1,376.6**	1,357.6	109.8	1,467.4
50% - 60%	**219.9**	**28.4**	**248.3**	238.1	35.4	273.5
60% - 70%	**218.3**	**14.7**	**233.0**	242.9	18.6	261.5
70% - 80%	**199.5**	**5.7**	**205.2**	168.3	5.3	173.6
80% - 90%	**218.1**	**1.3**	**219.4**	128.8	1.4	130.2
90% - 100%	**46.8**	**0.4**	**47.2**	13.4	0.6	14.0
>100%	**3.9**	**0.6**	**4.5**	3.8	0.7	4.5
Total loans before provisions	**2,199.1**	**135.1**	**2,334.2**	2,152.9	171.8	2,324.7

44. Risk management (continued)

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

	2023					
CCFS	**Buy-to-Let £m**	**Residential £m**	**Bridging £m**	**Second charge lending £m**	**Total £m**	**%**
Band						
0% - 50%	**360.3**	**573.9**	**138.1**	**33.2**	**1,105.5**	**10**
50% - 60%	**838.1**	**527.7**	**66.8**	**21.9**	**1,454.5**	**13**
60% - 70%	**2,365.6**	**782.7**	**79.9**	**15.8**	**3,244.0**	**28**
70% - 80%	**4,098.0**	**849.2**	**43.4**	**10.3**	**5,000.9**	**44**
80% - 90%	**271.7**	**296.0**	**2.3**	**3.2**	**573.2**	**5**
90% - 100%	**3.5**	**3.3**	**2.0**	**-**	**8.8**	**-**
>100%	**-**	**0.3**	**0.6**	**-**	**0.9**	**-**
Total loans before provisions	**7,937.2**	**3,033.1**	**333.1**	**84.4**	**11,387.8**	**100**

	2022					
CCFS	Buy-to-Let £m	Residential £m	Bridging £m	Second charge lending £m	Total £m	%
Band						
0% - 50%	308.6	498.3	62.9	44.9	914.7	9
50% - 60%	799.5	501.8	29.9	29.9	1,361.1	13
60% - 70%	2,587.6	924.2	25.6	24.3	3,561.7	34
70% - 80%	3,613.8	622.9	26.9	13.7	4,277.3	41
80% - 90%	215.1	146.8	2.4	1.2	365.5	3
90% - 100%	0.2	0.8	1.5	-	2.5	-
>100%	-	0.1	0.5	-	0.6	-
Total loans before provisions	7,524.8	2,694.9	149.7	114.0	10,483.4	100

44. Risk management (continued)

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

Company	2023 BTL/SME £m	2023 Residential £m	2023 Total £m	2023 %	2022 BTL/SME £m	2022 Residential £m	2022 Total £m	2022 %
Band								
0% - 50%	**771.2**	**1,321.5**	**2,092.7**	**18**	919.9	1,398.4	2,318.3	22
50% - 60%	**1,630.0**	**241.9**	**1,871.9**	**16**	1,978.5	267.2	2,245.7	21
60% - 70%	**3,484.8**	**230.0**	**3,714.8**	**33**	3,695.1	259.7	3,954.8	37
70% - 80%	**2,842.1**	**202.5**	**3,044.6**	**26**	1,485.8	172.3	1,658.1	16
80% - 90%	**469.6**	**215.6**	**685.2**	**6**	224.9	130.2	355.1	3
90% - 100%	**34.5**	**46.2**	**80.7**	**1**	47.4	13.8	61.2	1
>100%	**20.3**	**1.8**	**22.1**	**-**	19.3	1.0	20.3	-
Total loans before provisions	**9,252.5**	**2,259.5**	**11,512.0**	**100**	8,370.9	2,242.6	10,613.5	100

The tables below show the LTV analysis of the Company's BTL/SME sub-segment:

Company	2023 Buy-to-Let £m	2023 Commercial £m	2023 Residential development £m	2023 Funding lines £m	2023 Total £m
Band					
0% - 50%	**747.2**	**7.4**	**8.2**	**8.4**	**771.2**
50% - 60%	**1,565.2**	**1.2**	**61.1**	**2.5**	**1,630.0**
60% - 70%	**3,275.6**	**0.5**	**207.8**	**0.9**	**3,484.8**
70% - 80%	**2,820.2**	**-**	**-**	**21.9**	**2,842.1**
80% - 90%	**469.6**	**-**	**-**	**-**	**469.6**
90% - 100%	**34.5**	**-**	**-**	**-**	**34.5**
>100%	**15.4**	**3.5**	**1.0**	**0.4**	**20.3**
Total loans before provisions	**8,927.7**	**12.6**	**278.1**	**34.1**	**9,252.5**

44. Risk management (continued)

	2022				
Company	Buy-to-Let £m	Commercial £m	Residential development £m	Funding lines £m	Total £m
Band					
0% - 50%	861.9	8.9	16.1	33.0	919.9
50% - 60%	1,916.8	1.4	57.2	3.1	1,978.5
60% - 70%	3,585.4	-	109.7	-	3,695.1
70% - 80%	1,485.8	-	-	-	1,485.8
80% - 90%	191.2	-	-	33.7	224.9
90% - 100%	21.0	-	-	26.4	47.4
>100%	11.8	3.5	1.0	3.0	19.3
Total loans before provisions	8,073.9	13.8	184.0	99.2	8,370.9

The tables below show the LTV analysis of the Company's Residential sub-segment:

	2023			2022		
Company	**First charge £m**	**Second charge £m**	**Total £m**	First charge £m	Second charge £m	Total £m
Band						
0% - 50%	**1,237.5**	**84.0**	**1,321.5**	1,288.6	109.8	1,398.4
50% - 60%	**213.5**	**28.4**	**241.9**	231.8	35.4	267.2
60% - 70%	**215.3**	**14.7**	**230.0**	241.1	18.6	259.7
70% - 80%	**196.8**	**5.7**	**202.5**	167.0	5.3	172.3
80% - 90%	**214.3**	**1.3**	**215.6**	128.8	1.4	130.2
90% - 100%	**45.8**	**0.4**	**46.2**	13.2	0.6	13.8
>100%	**1.2**	**0.6**	**1.8**	0.3	0.7	1.0
Total loans before provisions	**2,124.4**	**135.1**	**2,259.5**	2,070.8	171.8	2,242.6

44. Risk management (continued)

Forbearance measures undertaken

The Group has a range of options available where borrowers experience financial difficulties that impact their ability to service their financial commitments under the loan agreement. These options are explained in the Risk review on pages 29 to 58.

A summary of the forbearance measures undertaken 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.

Group **Forbearance type**	**Number of accounts 2023**	**At 31 December 2023 £m**	Number of accounts 2022	At 31 December 2022 £m
Interest-only switch	**384**	**62.9**	70	12.2
Interest rate reduction	**290**	**36.5**	91	7.5
Term extension	**164**	**15.6**	53	2.9
Payment deferral	**459**	**89.9**	194	34.0
Voluntary-assisted sale	**-**	**-**	5	1.2
Payment concession (reduced monthly payments)	**112**	**22.9**	55	12.0
Capitalisation of interest	**17**	**2.4**	27	9.0
Full or partial debt forgiveness	**126**	**4.5**	359	9.6
Total	**1,552**	**234.7**	854	88.4
Loan type				
First charge owner-occupier	**880**	**116.5**	217	27.8
Second charge owner-occupier	**252**	**6.9**	460	8.9
Buy-to-Let	**279**	**79.2**	107	37.1
Commercial	**141**	**32.1**	70	14.6
Total	**1,552**	**234.7**	854	88.4

44. Risk management (continued)

Company Forbearance type	Number of accounts 2023	At 31 December 2023 £m	Number of accounts 2022	At 31 December 2022 £m
Interest-only switch	**103**	**17.5**	43	4.8
Interest rate reduction	**177**	**19.2**	83	6.5
Term extension	**3**	**0.2**	2	-
Payment deferral	**186**	**40.6**	92	15.5
Voluntary-assisted sale	**-**	**-**	5	1.3
Payment concession (reduced monthly payments)	**44**	**7.5**	24	5.9
Capitalisation	**14**	**0.7**	26	1.3
Full or partial debt forgiveness	**122**	**4.0**	351	8.6
Total	**649**	**89.7**	626	43.9
Loan type				
First charge owner-occupier	**292**	**38.9**	110	13.5
Second charge owner-occupier	**230**	**5.6**	452	8.5
Buy-to-Let	**127**	**45.2**	64	21.9
Total	**649**	**89.7**	626	43.9

44. **Risk management** (continued)

Geographical analysis by region

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

	Group 2023				Group 2022			
	OSB	**CCFS**	**Total**		OSB	CCFS	Total	
Region	**£m**	**£m**	**£m**	**%**	£m	£m	£m	%
East Anglia	**480.1**	**1,236.2**	**1,716.3**	**7**	453.5	1,136.4	1,589.9	7
East Midlands	**723.4**	**774.7**	**1,498.1**	**6**	609.9	691.6	1,301.5	6
Greater London	**6,185.6**	**3,416.4**	**9,602.0**	**37**	5,559.3	3,293.0	8,852.3	38
Guernsey	**18.2**	**-**	**18.2**	**-**	21.5	-	21.5	-
Jersey	**67.8**	**-**	**67.8**	**-**	75.6	-	75.6	-
North East	**195.7**	**299.6**	**495.3**	**2**	169.8	274.5	444.3	2
North West	**983.4**	**1,031.0**	**2,014.4**	**8**	906.6	921.8	1,828.4	7
Northern Ireland	**9.4**	**-**	**9.4**	**-**	10.0	-	10.0	-
Scotland	**61.1**	**298.1**	**359.2**	**1**	36.9	261.3	298.2	1
South East	**2,907.8**	**1,834.0**	**4,741.8**	**18**	2,802.8	1,681.5	4,484.3	19
South West	**959.4**	**751.2**	**1,710.6**	**7**	893.7	659.6	1,553.3	7
Wales	**327.4**	**315.0**	**642.4**	**3**	297.5	284.7	582.2	2
West Midlands	**992.6**	**851.0**	**1,843.6**	**7**	908.9	761.3	1,670.2	7
Yorks and Humberside	**374.7**	**580.6**	**955.3**	**4**	335.5	517.7	853.2	4
Total loans before provisions	**14,286.6**	**11,387.8**	**25,674.4**	**100**	13,081.5	10,483.4	23,564.9	100

44. Risk management (continued)

	Company 2023		Company 2022	
Region	£m	%	£m	%
East Anglia	398.9	3	375.6	4
East Midlands	596.9	5	501.4	5
Greater London	4,949.6	44	4,491.2	42
North East	165.1	1	137.0	1
North West	768.3	7	702.4	7
Northern Ireland	9.3	-	10.0	-
Scotland	52.4	-	31.8	-
South East	2,400.4	21	2,353.2	22
South West	798.1	7	740.2	7
Wales	265.7	2	237.9	2
West Midlands	803.0	7	760.4	7
Yorks and Humberside	304.3	3	272.4	3
Total loans before provisions	**11,512.0**	**100**	10,613.5	100

Approach to measurement of credit quality

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

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

The following tables disclose the credit risk quality ratings of loans and advances to customers by IFRS 9 stage. The assessment of whether credit risk has increased significantly since initial recognition is performed for each reporting period for the life of the loan. Loans and advances to customers initially booked on very low PDs and graded as excellent quality loans can experience a SICR and therefore be moved to Stage 2. Such loans may still be graded as excellent quality, if they meet the overall criteria.

44. Risk management (continued)

Group 2023	**Stage 1 £m**	**Stage 2 £m**	**Stage 3 £m**	**Stage 3 (POCI) £m**	**Total £m**	**PD lower range %**	**PD upper range %**
OSB							
Excellent	**4,609.0**	**257.1**	**-**	**-**	**4,866.1**	**-**	**0.3**
Good	**6,062.0**	**1,397.6**	**-**	**-**	**7,459.6**	**0.3**	**2.0**
Satisfactory	**543.1**	**505.9**	**-**	**-**	**1,049.0**	**2.0**	**7.4**
Lower	**48.9**	**558.0**	**-**	**-**	**606.9**	**7.4**	**100.0**
Impaired	**-**	**-**	**494.3**	**-**	**494.3**	**100.0**	**100.0**
POCI	**-**	**-**	**-**	**33.4**	**33.4**	**100.0**	**100.0**
CCFS							
Excellent	**6,204.6**	**633.1**	**-**	**-**	**6,837.7**	**-**	**0.3**
Good	**2,934.3**	**653.7**	**-**	**-**	**3,588.0**	**0.3**	**2.0**
Satisfactory	**168.2**	**213.5**	**-**	**-**	**381.7**	**2.0**	**7.4**
Lower	**6.7**	**319.0**	**-**	**-**	**325.7**	**7.4**	**100.0**
Impaired	**-**	**-**	**217.2**	**-**	**217.2**	**100.0**	**100.0**
POCI	**-**	**-**	**-**	**37.5**	**37.5**	**100.0**	**100.0**
	20,576.8	**4,537.9**	**711.5**	**70.9**	**25,897.1**		

Group 2022	Stage 1 £m	Stage 2 £m	Stage 3 £m	Stage 3 (POCI) £m	Total £m	PD lower range %	PD upper range %
OSB							
Excellent	4,136.6	470.6	-	-	4,607.2	-	0.3
Good	5,848.5	1,248.4	-	-	7,096.9	0.3	2.0
Satisfactory	331.8	374.2	-	-	706.0	2.0	7.4
Lower	29.9	416.5	-	-	446.4	7.4	100.0
Impaired	-	-	349.7	-	349.7	100.0	100.0
POCI	-	-	-	38.5	38.5	100.0	100.0
CCFS							
Excellent	5,800.2	910.1	-	-	6,710.3	-	0.3
Good	2,394.2	668.2	-	-	3,062.4	0.3	2.0
Satisfactory	151.4	143.9	-	-	295.3	2.0	7.4
Lower	29.7	185.2	-	-	214.9	7.4	100.0
Impaired	-	-	156.0	-	156.0	100.0	100.0
POCI	-	-	-	44.5	44.5	100.0	100.0
	18,722.3	4,417.1	505.7	83.0	23,728.1		

44. Risk management (continued)

Company 2023	Stage 1 £m	Stage 2 £m	Stage 3 £m	Stage 3 (POCI) £m	Total £m	PD lower range %	PD upper range %
Excellent	**4,364.0**	**257.1**	**-**	**-**	**4,621.1**	**-**	**0.3**
Good	**3,787.1**	**1,332.0**	**-**	**-**	**5,119.1**	**0.3**	**2.0**
Satisfactory	**335.3**	**425.1**	**-**	**-**	**760.4**	**2.0**	**7.4**
Lower	**47.3**	**505.1**	**-**	**-**	**552.4**	**7.4**	**100.0**
Impaired	**-**	**-**	**429.3**	**-**	**429.3**	**100.0**	**100.0**
POCI	**-**	**-**	**-**	**29.7**	**29.7**	**100.0**	**100.0**
	8,533.7	**2,519.3**	**429.3**	**29.7**	**11,512.0**		

Company 2022							
Excellent	3,936.9	470.6	-	-	4,407.5	-	0.3
Good	3,686.0	1,146.2	-	-	4,832.2	0.3	2.0
Satisfactory	287.1	342.8	-	-	629.9	2.0	7.4
Lower	29.0	393.5	-	-	422.5	7.4	100.0
Impaired	-	-	286.9	-	286.9	100.0	100.0
POCI	-	-	-	34.5	34.5	100.0	100.0
	7,939.0	2,353.1	286.9	34.5	10,613.5		

The tables below show the Group's other financial assets and derivatives by credit risk rating grade. The credit grade is based on the external credit rating of the counterparty; AAA to AA- are rated Excellent; A+ to A- are rated Good; and BBB+ to BBB- are rated Satisfactory.

Group 2023	Excellent £m	Good £m	Satisfactory £m	Total £m
Investment securities	**621.7**	**-**	**-**	**621.7**
Loans and advances to credit institutions	**2,446.7**	**357.7**	**9.2**	**2,813.6**
Derivative assets	**239.7**	**290.9**	**-**	**530.6**
	3,308.1	**648.6**	**9.2**	**3,965.9**

Group 2022	Excellent £m	Good £m	Satisfactory £m	Total £m
Investment securities	412.9	-	-	412.9
Loans and advances to credit institutions	2,923.2	435.4	7.1	3,365.7
Derivative assets	400.1	488.0	-	888.1
	3,736.2	923.4	7.1	4,666.7

44. Risk management (continued)

Company 2023	**Excellent £m**	**Good £m**	**Satisfactory £m**	**Total £m**
Investment securities	**396.2**	**-**	**-**	**396.2**
Loans and advances to credit institutions	**925.3**	**77.4**	**-**	**1,002.7**
Derivative assets	**77.0**	**103.8**	**-**	**180.8**
	1,398.5	**181.2**	**-**	**1,579.7**

Company 2022	Excellent £m	Good £m	Satisfactory £m	Total £m
Investment securities	211.4	-	-	211.4
Loans and advances to credit institutions	1,409.6	96.5	-	1,506.1
Derivative assets	114.9	119.1	-	234.0
	1,735.9	215.6	-	1,951.5

Credit risk – loans and advances to credit institutions and investment securities

The Group holds treasury instruments in order to meet liquidity requirements and for general business purposes. The credit risk arising from these investments is closely monitored and managed by the Group's Treasury function. In managing these assets, Group Treasury operates within guidelines laid down in the Group Market and Liquidity Risk Policy approved by ALCO and performance is monitored and reported to ALCO monthly, including through the use of an internally developed rating model based on counterparty credit default swap spreads.

The Group has limited exposure to emerging markets (Indian operations) and non-investment grade debt. ALCO is responsible for approving treasury counterparties.

During the year, the average balance of cash in hand, loans and advances to credit institutions and investment securities on a monthly basis was £3,848.3m (2022: £3,496.9m).

The tables below show the industry sector of the Group's loans and advances to credit institutions and investment securities:

	Group 2023		Group 2022		**Company 2023**		Company 2022	
	£m	**%**	£m	%	**£m**	**%**	£m	%
BoE[1]	**2,325.9**	**68**	2,869.3	76	**861.3**	**62**	1,366.0	80
Other banks	**487.7**	**14**	496.4	13	**141.4**	**10**	140.1	8
Central government	**296.0**	**9**	149.8	4	**296.0**	**21**	149.8	8
Securitisation	**325.7**	**9**	263.1	7	**100.2**	**7**	61.6	4
Total	**3,435.3**	**100**	3,778.6	100	**1,398.9**	**100**	1,717.5	100

1. Balances with the BoE include £69.6m (2022: £62.8m) of Group and £41.4m (2022: £37.8m) of the Company held in the cash ratio deposit.

44. Risk management (continued)

The tables below show the geographical exposure of the Group's loans and advances to credit institutions and investment securities:

	Group 2023		Group 2022		**Company 2023**		Company 2022	
	£m	**%**	£m	%	**£m**	**%**	£m	%
United Kingdom	**3,418.0**	**99**	3,765.7	100	**1,398.9**	**100**	1,717.5	100
India	**17.3**	**1**	12.9	-	**-**	**-**	-	-
Total	**3,435.3**	**100**	3,778.6	100	**1,398.9**	**100**	1,717.5	100

The Group monitors exposure concentrations against a variety of criteria, including asset class, sector and geography. To avoid refinancing risks associated with any one counterparty, sector or geographical region, the Board has set appropriate limits.

For further information on Credit risk please refer to pages 38 to 39.

Liquidity risk
Liquidity risk is the risk of having insufficient liquid assets to fulfil obligations as they become due or the cost of raising liquid funds becoming too expensive.

The Group's approach to managing liquidity risk is to maintain sufficient liquid resources to cover cash flow imbalances and fluctuations in funding in order to retain full public confidence in the solvency of the Group and to enable the Group to meet its financial obligations as they fall due. This is achieved through maintaining a prudent level of liquid assets and control of the growth of the business. The Group has established call accounts with the BoE and has access to its contingent liquidity facilities.

The Board has delegated the responsibility for liquidity management to the Chief Executive Officer, assisted by ALCO, with day-to-day management delegated to Treasury as detailed in the Group Market and Liquidity Risk Policy. The Board is responsible for setting risk appetite limits over the level and maturity profile of funding and for monitoring the composition of the Group financial position.

The 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.

44. Risk management (continued)

The tables below show the maturity profile for the Group's financial assets and liabilities based on contractual maturities at the reporting date:

Group 2023	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	22,126.6	4,220.7	6,119.6	9,110.9	2,675.4	-
Amounts owed to credit institutions	3,575.0	-	106.4	10.0	3,458.6	-
Amounts owed to other customers	63.3	-	45.1	18.2	-	-
Derivative liabilities	199.9	-	6.0	18.9	164.9	10.1
Debt securities in issue	818.5	-	-	-	818.5	-
Lease liabilities	11.2	-	0.4	1.7	7.9	1.2
Senior notes	309.0	-	9.0	-	300.0	-
Subordinated liabilities	260.6	-	10.7	-	249.9	-
PSBs	15.2	-	-	15.2	-	-
Total liabilities	27,379.3	4,220.7	6,297.2	9,174.9	7,675.2	11.3
Financial asset by type						
Cash in hand	0.4	0.4	-	-	-	-
Loans and advances to credit institutions	2,813.6	2,623.7	19.7	-	128.8	41.4
Investment securities	621.7	-	101.2	301.7	218.8	-
Loans and advances to customers	25,765.0	-	249.6	469.1	1,383.1	23,663.2
Derivative assets	530.6	-	6.6	79.4	444.6	-
Total assets	29,731.3	2,624.1	377.1	850.2	2,175.3	23,704.6
Cumulative liquidity gap		(1,596.6)	(7,516.7)	(15,841.4)	(21,341.3)	2,352.0

44. Risk management (continued)

Group 2022	Carrying amount £m	On demand £m	Less than 3 months £m	3 - 12 months £m	1 - 5 years £m	More than 5 years £m
Financial liability by type						
Amounts owed to retail depositors	19,755.8	6,770.7	2,632.4	7,807.7	2,545.0	-
Amounts owed to credit institutions	5,092.9	-	191.4	310.3	4,218.9	372.3
Amounts owed to other customers	113.1	-	29.7	76.5	6.9	-
Derivative liabilities	106.6	-	7.5	46.3	43.8	9.0
Debt securities in issue	265.9	-	0.3	-	265.6	-
Lease liabilities	9.9	-	-	-	0.9	9.0
Subordinated liabilities	-	-	-	-	-	-
PSBs	15.2	-	-	-	15.2	-
Total liabilities	25,359.4	6,770.7	2,861.3	8,240.8	7,096.3	390.3
Financial asset by type						
Cash in hand	0.4	0.4	-	-	-	-
Loans and advances to credit institutions	3,365.7	3,104.0	71.4	-	-	190.3
Investment securities	412.9	0.5	144.8	22.1	245.5	-
Loans and advances to customers	23,612.7	2.3	223.8	421.8	1,341.6	21,623.2
Derivative assets	888.1	-	2.7	55.5	828.2	1.7
Total assets	28,279.8	3,107.2	442.7	499.4	2,415.3	21,815.2
Cumulative liquidity gap		(3,663.5)	(6,082.1)	(13,823.5)	(18,504.5)	2,920.4

44. Risk management (continued)

Company 2023	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	12,246.5	3,116.0	4,087.9	3,946.1	1,096.5	-
Amounts owed to credit institutions	2,018.3	-	85.2	5.0	1,928.1	-
Amounts owed to other customers	0.5	-	0.5	-	-	-
Derivative liabilities	123.8	-	5.0	14.4	94.3	10.1
Lease liabilities	3.4	-	0.1	0.4	2.9	-
Senior notes	226.6	-	6.6	-	220.0	-
Subordinated liabilities	156.4	-	6.4	-	150.0	-
PSBs	15.2	-	-	15.2	-	-
Total liabilities	14,790.7	3,116.0	4,191.7	3,981.1	3,491.8	10.1
Financial asset by type						
Cash in hand	0.4	0.4	-	-	-	-
Loans and advances to credit institutions	1,002.7	958.8	2.5	-	-	41.4
Investment securities	396.2	-	100.1	196.6	99.5	-
Loans and advances to customers	11,432.2	-	112.0	135.6	410.2	10,774.4
Derivative assets	180.8	-	4.2	41.5	135.1	-
Total assets	13,012.3	959.2	218.8	373.7	644.8	10,815.8
Cumulative liquidity gap		(2,156.8)	(6,129.7)	(9,737.1)	(12,584.1)	(1,778.4)

44. Risk management (continued)

Company 2022	Carrying amount £m	On demand £m	Less than 3 months £m	3 - 12 months £m	1 - 5 years £m	More than 5 years £m
Financial liability by type						
Amounts owed to retail depositors	11,132.2	5,319.1	955.8	3,695.8	1,161.5	-
Amounts owed to credit institutions	2,568.5	-	173.4	0.3	2,394.8	-
Amounts owed to other customers	0.5	-	0.5	-	-	-
Derivative liabilities	63.8	-	4.1	24.0	29.8	5.9
Lease liabilities	3.6	-	0.2	0.5	2.8	0.1
Subordinated liabilities	-	-	-	-	-	-
PSBs	15.2	-	-	-	15.2	-
Total liabilities	13,783.8	5,319.1	1,134.0	3,720.6	3,604.1	6.0
Financial asset by type						
Cash in hand	0.4	0.4	-	-	-	-
Loans and advances to credit institutions	1,506.1	1,468.3	-	-	-	37.8
Investment securities	211.4	0.5	139.9	9.9	61.1	-
Loans and advances to customers	10,531.9	-	98.0	99.9	362.7	9,971.3
Derivative assets	234.0	-	0.8	22.5	210.2	0.5
Total assets	12,483.8	1,469.2	238.7	132.3	634.0	10,009.6
Cumulative liquidity gap		(3,849.9)	(4,745.2)	(8,333.5)	(11,303.6)	(1,300.0)

44. Risk management (continued)

Liquidity risk – undiscounted contractual cash flows

The following tables provide an analysis of the Group's gross contractual undiscounted cash flows, derived using interest rates and contractual maturities at the reporting date and excluding impacts of early payments or non-payments:

Group 2023	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	22,126.6	22,453.2	10,385.4	9,313.9	2,753.9	-
Amounts owed to credit institutions	3,575.0	3,888.6	106.4	122.1	3,660.1	-
Amounts owed to other customers	63.3	63.3	45.1	18.2	-	-
Derivative liabilities	199.9	195.7	2.3	4.7	186.1	2.6
Debt securities in issue	818.5	1,048.4	151.5	103.4	793.5	-
Lease liabilities	11.2	12.6	0.4	1.7	8.3	2.2
Senior notes	309.0	414.1	14.3	14.3	385.5	-
Subordinated liabilities	260.6	368.7	12.5	12.5	343.7	-
PSBs	15.2	15.6	0.3	15.3	-	-
Total liabilities	**27,379.3**	**28,460.2**	**10,718.2**	**9,606.1**	**8,131.1**	**4.8**
Off-balance sheet loan commitments	999.4	999.4	999.4	-	-	-
Financial asset by type						
Cash in hand	0.4	0.4	0.4	-	-	-
Loans and advances to credit institutions	2,813.6	2,813.6	2,643.4	-	128.8	41.4
Investment securities	621.7	678.9	106.4	320.0	252.5	-
Loans and advances to customers	25,765.0	66,593.7	561.8	1,931.8	9,532.1	54,568.0
Derivative assets	530.6	540.7	99.1	247.5	193.6	0.5
Total assets	**29,731.3**	**70,627.3**	**3,411.1**	**2,499.3**	**10,107.0**	**54,609.9**

44. Risk management (continued)

Group 2022	Carrying amount £m	Gross inflow/ outflow £m	Up to 3 months £m	3 - 12 months £m	1 - 5 years £m	More than 5 years £m
Financial liability by type						
Amounts owed to retail depositors	19,755.8	20,083.0	9,566.2	7,911.0	2,605.8	-
Amounts owed to credit institutions	5,092.9	5,459.8	227.1	410.9	4,449.5	372.3
Amounts owed to other customers	113.1	113.1	29.7	76.5	6.9	-
Derivative liabilities	106.6	103.9	16.2	39.1	46.7	1.9
Debt securities in issue	265.9	277.3	34.4	64.5	178.4	-
Lease liabilities	9.9	11.4	0.5	1.5	8.8	0.6
Subordinated liabilities	-	-	-	-	-	-
PSBs	15.2	16.1	0.3	0.3	15.5	-
Total liabilities	25,359.4	26,064.6	9,874.4	8,503.8	7,311.6	374.8
Off-balance sheet loan commitments	1,212.2	1,212.2	1,212.2	-	-	-
Financial asset by type						
Cash in hand	0.4	0.4	0.4	-	-	-
Loans and advances to credit institutions	3,365.7	3,365.7	3,175.4	-	-	190.3
Investment securities	412.9	444.3	148.2	30.2	265.9	-
Loans and advances to customers	23,612.7	57,940.1	430.7	1,657.2	8,028.9	47,823.3
Derivative assets	888.1	820.5	76.9	259.4	484.6	(0.4)
Total assets	28,279.8	62,571.0	3,831.6	1,946.8	8,779.4	48,013.2

44. Risk management (continued)

Company 2023	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	12,246.5	12,317.9	7,222.5	3,988.9	1,106.5	-
Amounts owed to credit institutions	2,018.3	2,201.1	85.2	81.1	2,034.8	-
Amounts owed to other customers	0.5	0.5	0.5	-	-	-
Derivative liabilities	123.8	133.0	5.1	4.3	121.0	2.6
Lease liabilities	3.4	3.2	0.2	0.5	2.2	0.3
Senior notes	226.6	303.7	10.5	10.5	282.7	-
Subordinated liabilities	156.4	221.2	7.5	7.5	206.2	-
PSBs	15.2	15.6	0.3	15.3	-	-
Total liabilities	14,790.7	15,196.2	7,331.8	4,108.1	3,753.4	2.9
Off-balance sheet loan commitments	504.3	504.3	504.3	-	-	-
Financial asset by type						
Cash in hand	0.4	0.4	0.4	-	-	-
Loans and advances to credit institutions	1,002.7	1,002.6	961.2	-	-	41.4
Investment securities	396.2	421.6	101.9	204.4	115.3	-
Loans and advances to customers	11,432.2	33,403.7	199.3	882.1	4,516.0	27,806.3
Derivative assets	180.8	191.0	25.2	87.6	78.2	-
Total assets	13,012.3	35,019.3	1,288.0	1,174.1	4,709.5	27,847.7

44. **Risk management** (continued)

Company 2022	Carrying amount £m	Gross inflow/ outflow £m	Up to 3 months £m	3 - 12 months £m	1 - 5 years £m	More than 5 years £m
Financial liability by type						
Amounts owed to retail depositors	11,132.2	11,326.5	6,431.9	3,712.8	1,181.8	-
Amounts owed to credit institutions	2,568.5	2,751.0	190.4	50.9	2,509.7	-
Amounts owed to other customers	0.5	0.5	0.5	-	-	-
Derivative liabilities	63.8	67.3	3.9	30.5	31.0	1.9
Lease liabilities	3.6	3.9	0.2	0.6	3.0	0.1
Subordinated liabilities	-	-	-	-	-	-
PSBs	15.2	16.1	0.3	0.3	15.5	-
Total liabilities	13,783.8	14,165.3	6,627.2	3,795.1	3,741.0	2.0
Off-balance sheet loan commitments	559.1	559.1	559.1	-	-	-
Financial asset by type						
Cash in hand	0.4	0.4	0.4	-	-	-
Loans and advances to credit institutions	1,506.1	1,506.1	1,468.3	-	-	37.8
Investment securities	211.4	211.7	140.7	10.0	61.0	-
Loans and advances to customers	10,531.9	26,949.1	158.8	764.1	3,457.4	22,568.8
Derivative assets	234.0	252.7	4.4	72.9	175.8	(0.4)
Total assets	12,483.8	28,920.0	1,772.6	847.0	3,694.2	22,606.2

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.

44. 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:

	Group 2023				
	Encumbered		**Unencumbered**		
	Pledged as collateral £m	**Other[1] £m**	**Available as collateral £m**	**Other £m**	**Total £m**
Cash in hand	**-**	**-**	**0.4**	**-**	**0.4**
Loans and advances to credit institutions	**198.6**	**101.4**	**2,256.3**	**257.3**	**2,813.6**
Investment securities	**27.1**	**-**	**594.6**	**-**	**621.7**
Loans and advances to customers[2]	**6,934.1**	**-**	**17,808.8**	**1,022.1**	**25,765.0**
Derivative assets	**-**	**-**	**-**	**530.6**	**530.6**
Non-financial assets	**-**	**-**	**-**	**(137.1)**	**(137.1)**
	7,159.8	**101.4**	**20,660.1**	**1,672.9**	**29,594.2**

	Group 2022				
	Encumbered		Unencumbered		
	Pledged as collateral £m	Other[1] £m	Available as collateral £m	Other £m	Total £m
Cash in hand	-	-	0.4	-	0.4
Loans and advances to credit institutions	237.4	174.6	2,806.5	147.2	3,365.7
Investment securities	46.4	-	366.5	-	412.9
Loans and advances to customers[2]	6,705.1	-	16,424.5	483.1	23,612.7
Derivative assets	-	-	-	888.1	888.1
Non-financial assets	-	-	-	(712.3)	(712.3)
	6,988.9	174.6	19,597.9	806.1	27,567.5

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. Unencumbered loans and advances to customers classified as other are restricted for use as collateral as they are; registered outside of UK (Jersey and Guernsey), not secured by immovable property or are non-performing.

44. **Risk management** (continued)

	Company 2023				
	Encumbered		Unencumbered		
	Pledged as collateral £m	**Other[1] £m**	**Available as collateral £m**	**Other £m**	**Total £m**
Cash in hand	**-**	**-**	**0.4**	**-**	**0.4**
Loans and advances to credit institutions	**108.8**	**43.8**	**819.9**	**30.2**	**1,002.7**
Investment securities	**27.1**	**-**	**369.1**	**-**	**396.2**
Loans and advances to customers[2]	**4,263.5**	**-**	**6,757.7**	**411.0**	**11,432.2**
Derivative assets	**-**	**-**	**-**	**180.8**	**180.8**
Non-financial assets	**-**	**-**	**-**	**3,725.7**	**3,725.7**
	4,399.4	**43.8**	**7,947.1**	**4,347.7**	**16,738.0**

	Company 2022				
	Encumbered		Unencumbered		
	Pledged as collateral £m	Other[1] £m	Available as collateral £m	Other £m	Total £m
Cash in hand	-	-	0.4	-	0.4
Loans and advances to credit institutions	109.6	37.8	1,328.2	30.5	1,506.1
Investment securities	34.8	-	176.6	-	211.4
Loans and advances to customers[2]	3,419.8	-	6,989.2	122.9	10,531.9
Derivative assets	-	-	-	234.0	234.0
Non-financial assets	-	-	-	3,120.1	3,120.1
	3,564.2	37.8	8,494.4	3,507.5	15,603.9

1. Represents assets that are not pledged but that the Company believes it is restricted from using to secure funding for legal or other reasons.
2. Unencumbered loans and advances to customers classified as other are restricted for use as collateral as they are; not secured by immovable property or are non-performing.

44. Risk management (continued)

Liquidity risk – liquidity reserves

The tables below analyse the Group's liquidity reserves, where carrying value is considered to be equal to fair value:

	Group 2023 £m	Group 2022 £m	**Company 2023 £m**	Company 2022 £m
Unencumbered balances with central banks	**2,256.3**	2,806.5	**819.9**	1,328.2
Unencumbered cash and balances with other banks	**257.3**	147.2	**30.2**	30.5
Other cash and cash equivalents	**0.4**	0.4	**0.4**	0.4
Unencumbered investment securities	**594.6**	366.5	**369.1**	176.6
	3,108.6	3,320.6	**1,219.6**	1,535.7

Market risk

Market risk is the risk of an adverse change in the Group's income or the Group's net worth arising from movement in interest rates, exchange rates or other market prices. Market risk exists, to some extent, in all the Group's businesses. The Group recognises that the effective management of market risk is essential to the maintenance of stable earnings and preservation of shareholder value.

Interest rate risk

The primary market risk faced by the Group is interest rate risk. Interest rate risk is the risk of loss from adverse movement in the overall level of interest rates. It arises from mismatches in the timing of repricing of assets and liabilities, both on and off-balance sheet. The Group does not run a trading book or take speculative interest rate positions and therefore all interest rate risk resides in the banking book (interest rate risk in the banking book (IRRBB)). IRRBB is most prevalent in mortgage lending and in fixed rate retail deposits. Exposure is mitigated on a continuous basis through the use of natural offsets between mortgages and savings with a similar tenure, interest rate derivatives and reserve allocations.

Currently interest rate risk is managed separately for OSB and CCFS due to the use of different treasury management and asset and liability management (ALM) systems. However, the methodology applied to the setting of risk appetites was aligned across the Group in 2020. Both Banks apply an economic value at risk approach as well as an earnings at risk approach for interest rate risk and basis risk. The interest rate sensitivity is impacted by behavioural assumptions used by the Group; the most significant of which are prepayments and pipeline take up. Expected prepayments are monitored and modelled on a regular basis based upon historical analysis. The reserve allocation strategy is approved by ALCO and set to reflect the current balance sheet and future plans. The earnings at risk excludes the EIR accounting impact of lower base rates in reversion that is shown as a separate sensitivity in note 2: Judgements in applying accounting policies and critical accounting estimates.

44. 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:

Group	**2023 £m**	2022 £m
OSB	**2.3**	13.5
CCFS	**1.8**	1.9
	4.1	15.4

Exposure for earnings at risk as at 31 December 2023 is measured by the impact of a +/-100bps parallel shift in interest rates on the expected profitability of the Group in the next 12 months. The risk appetite limit is 4% of full year net interest income. The table below shows the maximum decreases after taking into account the derivatives:

Group	**2023 £m**	2022 £m
OSB	**6.5**	7.5
CCFS	**9.2**	8.8
	15.7	16.3

Exposure for earnings at risk measured by the impact of a +/-100bps parallel shift in interest rates on the expected profitability of the Group in the next 3 years. The risk appetite limit is 4% of full year net interest income.

	2023 £m	2022 £m
OSB	**24.6**	26.2
CCFS	**25.6**	24.1
	50.2	50.3

The Group is also exposed to basis risk. Basis risk is the risk of loss from an adverse divergence in interest rates. It arises where assets and liabilities reprice from different variable rate indices. These indices may be market rates (e.g. bank base rate or SONIA) or administered (e.g. the Group’s SVR, other discretionary variable rates, or that received on call accounts with other banks).

44. Risk management (continued)

The Group measures basis risk using the impact of four scenarios on net interest income over a one-year period including movements such as diverging base, overnight and term SONIA rates. Historical data is used to calibrate the severity of the scenarios to the Group's risk appetite. The Board has set a limit on basis risk exposure of 2.5% of full year net interest income. The table below shows the maximum decreases to net interest income at 31 December 2023 and 2022:

Group	**2023 £m**	2022 £m
OSB	**7.7**	5.8
CCFS	**4.8**	4.5
	12.5	10.3

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 £0.9m (2022: £0.7m) effect in profit or loss and £0.6m (2022: £0.5m) in equity.

Structured entities

The structured entities consolidated within the Group at 31 December 2023 were Canterbury Finance No.2 plc, Canterbury Finance No.3 plc, Canterbury Finance No.4 plc, Canterbury Finance No.5 plc, CMF 2020-1 plc, CMF 2023-1 plc and Keys Warehouse No.1 Limited. 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 2022 were Canterbury Finance No.2 plc, Canterbury Finance No.3 plc, Canterbury Finance No.4 plc, Canterbury Finance No. 5 plc and CMF 2020-1 plc.

44. 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 15 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 2023 the Group received £5.3m interest income (2022: £2.6m) and £2.6m servicing income (2022: £4.3m) from unconsolidated structured entities.

45. Financial instruments and fair values

i. Financial assets and financial liabilities

The following table sets out the classification of financial instruments in the Statement of Financial Position:

		2023				
Group	Note	**Designated FVTPL £m**	**Mandatorily FVTPL £m**	**FVOCI £m**	**Amortised cost £m**	**Total carrying amount £m**
Assets						
Cash in hand		**-**	**-**	**-**	**0.4**	**0.4**
Loans and advances to credit institutions	14	**10.7**	**-**	**-**	**2,802.9**	**2,813.6**
Investment securities	15	**0.3**	**-**	**296.0**	**325.4**	**621.7**
Loans and advances to customers	16	**13.7**	**-**	**-**	**25,751.3**	**25,765.0**
Derivative assets	21	**-**	**530.6**	**-**	**-**	**530.6**
Other assets[1]	23	**-**	**-**	**-**	**11.9**	**11.9**
		24.7	**530.6**	**296.0**	**28,891.9**	**29,743.2**
Liabilities						
Amounts owed to retail depositors	29	**-**	**-**	**-**	**22,126.6**	**22,126.6**
Amounts owed to credit institutions	28	**-**	**-**	**-**	**3,575.0**	**3,575.0**
Amounts owed to other customers	30	**-**	**-**	**-**	**63.3**	**63.3**
Debt securities in issue	31	**-**	**-**	**-**	**818.5**	**818.5**
Derivative liabilities	21	**-**	**199.9**	**-**	**-**	**199.9**
Other liabilities[2]	33	**-**	**-**	**-**	**39.2**	**39.2**
Senior notes	36	**-**	**-**	**-**	**309.0**	**309.0**
Subordinated liabilities	37	**-**	**-**	**-**	**260.6**	**260.6**
PSBs	38	**-**	**-**	**-**	**15.2**	**15.2**
		-	**199.9**	**-**	**27,207.4**	**27,407.3**

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

45. Financial instruments and fair values (continued)

		2022				
Group	Note	Designated FVTPL £m	Mandatorily FVTPL £m	FVOCI £m	Amortised cost £m	Total carrying amount £m
Assets						
Cash in hand		-	-	-	0.4	0.4
Loans and advances to credit institutions	14	-	-	-	3,365.7	3,365.7
Investment securities	15	0.5	-	149.8	262.6	412.9
Loans and advances to customers	16	14.6	-	-	23,598.1	23,612.7
Derivative assets	21	-	888.1	-	-	888.1
Other assets[1]	23	-	-	-	1.8	1.8
		15.1	888.1	149.8	27,228.6	28,281.6
Liabilities						
Amounts owed to retail depositors	29	-	-	-	19,755.8	19,755.8
Amounts owed to credit institutions	28	-	-	-	5,092.9	5,092.9
Amounts owed to other customers	30	-	-	-	113.1	113.1
Debt securities in issue	31	-	-	-	265.9	265.9
Derivative liabilities	21	-	106.6	-	-	106.6
Other liabilities[2]	33	-	-	-	38.1	38.1
Subordinated liabilities	37	-	-	-	-	-
PSBs	38	-	-	-	15.2	15.2
		-	106.6	-	25,281.0	25,387.6

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

45. Financial instruments and fair values (continued)

		2023				
Company	Note	Designated FVTPL £m	Mandatorily FVTPL £m	FVOCI £m	Amortised cost £m	Total carrying amount £m
Assets						
Cash in hand		-	-	-	0.4	0.4
Loans and advances to credit institutions	14	-	-	-	1,002.7	1,002.7
Investment securities	15	0.3	-	296.0	99.9	396.2
Loans and advances to customers	16	-	-	-	11,432.2	11,432.2
Derivative assets	21	-	180.8	-	-	180.8
Other assets[1]	23	-	-	-	6.4	6.4
		0.3	180.8	296.0	12,541.6	13,018.7
Liabilities						
Amounts owed to retail depositors	29	-	-	-	12,246.5	12,246.5
Amounts owed to credit institutions	28	-	-	-	2,018.3	2,018.3
Amounts owed to other customers	30	-	-	-	0.5	0.5
Derivative liabilities	21	-	123.8	-	-	123.8
Other liabilities[2]	33	-	-	-	25.4	25.4
Senior notes	36	-	-	-	226.6	226.6
Subordinated liabilities	37	-	-	-	156.4	156.4
PSBs	38	-	-	-	15.2	15.2
		-	123.8	-	14,688.9	14,812.7

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

45. Financial instruments and fair values (continued)

		2022				
		Designated FVTPL	Mandatorily FVTPL	FVOCI	Amortised cost	Total carrying amount
Company	Note	£m	£m	£m	£m	£m
Assets						
Cash in hand		-	-	-	0.4	0.4
Loans and advances to credit institutions	14	-	-	-	1,506.1	1,506.1
Investment securities	15	0.5	-	149.8	61.1	211.4
Loans and advances to customers	16	-	-	-	10,531.9	10,531.9
Derivative assets	21	-	234.0	-	-	234.0
Other assets[1]	23	-	-	-	2.0	2.0
		0.5	234.0	149.8	12,101.5	12,485.8
Liabilities						
Amounts owed to retail depositors	29	-	-	-	11,132.2	11,132.2
Amounts owed to credit institutions	28	-	-	-	2,568.5	2,568.5
Amounts owed to other customers	30	-	-	-	0.5	0.5
Derivative liabilities	21	-	63.8	-	-	63.8
Other liabilities[2]	33	-	-	-	23.3	23.3
Subordinated liabilities	37	-	-	-	-	-
PSBs	38	-	-	-	15.2	15.2
		-	63.8	-	13,739.7	13,803.5

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

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

45. 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 Statement of Financial Position:

	2023		2022	
Group	Carrying value £m	Estimated fair value £m	Carrying value £m	Estimated fair value £m
Assets				
Cash in hand	**0.4**	**0.4**	0.4	0.4
Loans and advances to credit institutions	**2,802.9**	**2,802.9**	3,365.7	3,365.7
Investment securities	**325.4**	**325.2**	262.6	260.5
Loans and advances to customers	**25,751.3**	**24,836.6**	23,598.1	22,746.0
Other assets[1]	**11.9**	**11.9**	1.8	1.8
	28,891.9	**27,977.0**	27,228.6	26,374.4
Liabilities				
Amounts owed to retail depositors	**22,126.6**	**22,125.4**	19,755.8	19,693.0
Amounts owed to credit institutions	**3,575.0**	**3,575.0**	5,092.9	5,092.9
Amounts owed to other customers	**63.3**	**63.3**	113.1	113.1
Debt securities in issue	**818.5**	**818.5**	265.9	265.9
Other liabilities[2]	**39.2**	**39.2**	38.1	38.1
Senior notes	**309.0**	**309.1**	-	-
Subordinated liabilities	**260.6**	**246.0**	-	-
PSBs	**15.2**	**14.4**	15.2	14.0
	27,207.4	**27,190.9**	25,281.0	25,217.0

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

45. Financial instruments and fair values (continued)

	2023		2022	
Company	**Carrying value £m**	**Estimated fair value £m**	Carrying value £m	Estimated fair value £m
Assets				
Cash in hand	**0.4**	**0.4**	0.4	0.4
Loans and advances to credit institutions	**1,002.7**	**1,002.7**	1,506.1	1,506.1
Investment securities	**99.9**	**100.4**	61.1	60.9
Loans and advances to customers	**11,432.2**	**11,106.8**	10,531.9	10,170.4
Other assets[1]	**6.4**	**6.4**	2.0	2.0
	12,541.6	**12,216.7**	12,101.5	11,739.8
Liabilities				
Amounts owed to retail depositors	**12,246.5**	**12,251.3**	11,132.2	11,095.3
Amounts owed to credit institutions	**2,018.3**	**2,018.3**	2,568.5	2,568.5
Amounts owed to other customers	**0.5**	**0.5**	0.5	0.5
Other liabilities[2]	**25.4**	**25.4**	23.3	23.3
Senior notes	**226.6**	**226.7**	-	-
Subordinated liabilities	**156.4**	**147.6**	-	-
PSBs	**15.2**	**14.4**	15.2	14.0
	14,688.9	**14,684.2**	13,739.7	13,701.6

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

The fair values in these tables are estimated using the valuation techniques below. The estimated fair value is stated as at 31 December and may be significantly different from the amounts which will actually be paid on the maturity or settlement dates of each financial instrument.

Cash in hand
This represents physical cash across the Group's branch network where fair value is considered to be equal to carrying value.

Loans and advances to credit institutions
This mainly represents the Group's working capital current accounts and call accounts with central governments and other banks with an original maturity of less than three months. Fair value is not considered to be materially different to carrying value.

Investment securities
Investment securities' fair values are provided by a third party and are based on the market values of similar financial instruments. The fair value of investment securities held at FVTPL is measured using a discounted cash flow model.

Loans and advances to customers
This mainly represents secured mortgage lending to customers. The fair value of fixed rate mortgages has been estimated by discounting future cash flows at current market rates of interest. Future cash flows include the impact of ECL. The interest rate on variable rate mortgages is considered to be equal to current market product rates and as such fair value is estimated to be equal to carrying value.

45. Financial instruments and fair values (continued)

Other assets
Other assets disclosed in the table above exclude prepayments and the fair value is considered to be equal to carrying value.

Amounts owed to retail depositors
The fair value of fixed rate retail deposits has been estimated by discounting future cash flows at current market rates of interest. Retail deposits at variable rates and deposits payable on demand are considered to be at current market rates and as such fair value is estimated to be equal to carrying value.

Amounts owed to credit institutions
This mainly represents amounts drawn down under the BoE TFSME, ILTR and commercial repos. Fair value is considered to be equal to carrying value.

Amounts owed to other customers
This represents saving products to corporations and local authorities. The fair value of fixed rate deposits is estimated by discounting future cash flows at current market rates of interest. Deposits at variable rates are considered to be at current market rates and the fair value is estimated to be equal to carrying value.

Debt securities in issue
While the Group's debt securities in issue are listed, the quoted prices for an individual note may not be indicative of the fair value of the issue as a whole, due to the specialised nature of the market in such instruments and the limited number of investors participating in it. Fair value is not considered to be materially different to carrying value.

Other liabilities
Other liabilities disclosed in the table above exclude deferred income and the fair value is considered to be equal to carrying value.

Senior notes, Subordinated liabilities and PSBs
The senior notes, subordinated liabilities and PSBs are listed on the London Stock Exchange with fair value being the quoted market price at the reporting date.

45. Financial instruments and fair values (continued)

iii. Fair value classification

The Group classifies fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The following tables provide an analysis of financial assets and financial liabilities measured at fair value in the Statement of Financial Position grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

Group 2023	**Carrying amount £m**	**Principal amount £m**	**Level 1 £m**	**Level 2 £m**	**Level 3 £m**	**Total £m**
Financial assets						
Loans and advances to credit institutions	**10.7**	**10.1**	**-**	**10.7**	**-**	**10.7**
Investment securities	**296.3**	**300.3**	**296.0**	**-**	**0.3**	**296.3**
Loans and advances to customers	**13.7**	**16.3**	**-**	**-**	**13.7**	**13.7**
Derivative assets	**530.6**	**17,568.6**	**-**	**530.6**	**-**	**530.6**
	851.3	**17,895.3**	**296.0**	**541.3**	**14.0**	**851.3**
Financial liabilities						
Derivative liabilities	**199.9**	**8,913.6**	**-**	**199.9**	**-**	**199.9**

Group 2022	Carrying amount £m	Principal amount £m	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial assets						
Investment securities	150.3	150.5	149.8	-	0.5	150.3
Loans and advances to customers	14.6	17.7	-	-	14.6	14.6
Derivative assets	888.1	15,662.6	-	888.1	-	888.1
	1,053.0	15,830.8	149.8	888.1	15.1	1,053.0
Financial liabilities						
Derivative liabilities	106.6	9,518.0	-	106.6	-	106.6

Company 2023	**Carrying amount £m**	**Principal amount £m**	**Level 1 £m**	**Level 2 £m**	**Level 3 £m**	**Total £m**
Financial assets						
Investment securities	**296.3**	**300.3**	**296.0**	**-**	**0.3**	**296.3**
Derivative assets	**180.8**	**6,591.0**	**-**	**180.8**	**-**	**180.8**
	477.1	**6,891.3**	**296.0**	**180.8**	**0.3**	**477.1**
Derivative liabilities	**123.8**	**4,821.0**	**-**	**123.8**	**-**	**123.8**

45. Financial instruments and fair values (continued)

Company 2022	Carrying amount £m	Principal amount £m	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial assets						
Investment securities	150.3	150.5	149.8	-	0.5	150.3
Derivative assets	234.0	4,628.0	-	234.0	-	234.0
	384.3	4,778.5	149.8	234.0	0.5	384.3
Financial liabilities						
Derivative liabilities	63.8	5,158.0	-	63.8	-	63.8

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.

45. Financial instruments and fair values (continued)

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

Group 2023	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	0.4	0.4	-	0.4	-	0.4
Loans and advances to credit institutions	2,802.9	2,785.8	-	2,802.9	-	2,802.9
Investment securities	325.4	323.7	-	325.2	-	325.2
Loans and advances to customers	25,751.3	25,928.2	-	2,112.9	22,723.7	24,836.6
Other assets[1]	11.9	11.9	-	11.9	-	11.9
	28,891.9	29,050.0	-	5,253.3	22,723.7	27,977.0
Financial liabilities						
Amounts owed to retail depositors	22,126.6	21,766.3	-	5,786.2	16,339.2	22,125.4
Amounts owed to credit institutions	3,575.0	3,524.8	-	3,575.0	-	3,575.0
Amounts owed to other customers	63.3	61.6	-	-	63.3	63.3
Debt securities in issue	818.5	818.2	-	818.5	-	818.5
Other liabilities[2]	39.2	39.2	-	39.2	-	39.2
Senior notes	309.0	300.0	-	309.1	-	309.1
Subordinated liabilities	260.6	250.0	-	246.0	-	246.0
PSBs[3]	15.2	15.0	-	14.4	-	14.4
	27,207.4	26,775.1	-	10,788.4	16,402.5	27,190.9

1. Balance excludes prepayments.
2. Balance excludes deferred income.
3. The Group has reviewed the trading frequency of the PSBs and determined there is insufficient frequency and volume to provide pricing information on an ongoing basis in the market and have therefore categorised as level 2 fair value (2022: level 1).

45. Financial instruments and fair values (continued)

Group 2022	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	0.4	0.4	-	0.4	-	0.4
Loans and advances to credit institutions	3,365.7	3,360.9	-	3,365.7	-	3,365.7
Investment securities	262.6	262.1	-	260.5	-	260.5
Loans and advances to customers	23,598.1	23,646.2	-	2,515.0	20,231.0	22,746.0
Other assets[1]	1.8	1.8	-	1.8	-	1.8
	27,228.6	27,271.4	-	6,143.4	20,231.0	26,374.4
Financial liabilities						
Amounts owed to retail depositors	19,755.8	19,620.8	-	5,770.3	13,922.7	19,693.0
Amounts owed to credit institutions	5,092.9	5,057.8	-	5,092.9	-	5,092.9
Amounts owed to other customers	113.1	112.1	-	-	113.1	113.1
Debt securities in issue	265.9	265.4	-	265.9	-	265.9
Other liabilities[2]	38.1	38.1	-	38.1	-	38.1
Subordinated liabilities	-	-	-	-	-	-
PSBs	15.2	15.0	14.0	-	-	14.0
	25,281.0	25,109.2	14.0	11,167.2	14,035.8	25,217.0

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

45. Financial instruments and fair values (continued)

Company 2023	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	**0.4**	**0.4**	**-**	**0.4**	**-**	**0.4**
Loans and advances to credit institutions	**1,002.7**	**1,000.1**	**-**	**1,002.7**	**-**	**1,002.7**
Investment securities	**99.9**	**99.3**	**-**	**100.4**	**-**	**100.4**
Loans and advances to customers	**11,432.2**	**11,544.3**	**-**	**1,507.2**	**9,599.6**	**11,106.8**
Other assets[1]	**6.4**	**6.4**	**-**	**6.4**	**-**	**6.4**
	12,541.6	**12,650.5**	**-**	**2,617.1**	**9,599.6**	**12,216.7**
Financial liabilities						
Amounts owed to retail depositors	**12,246.5**	**12,037.6**	**-**	**3,400.0**	**8,851.3**	**12,251.3**
Amounts owed to credit institutions	**2,018.3**	**1,989.3**	**-**	**2,018.3**	**-**	**2,018.3**
Amounts owed to other customers	**0.5**	**0.5**	**-**	**-**	**0.5**	**0.5**
Other liabilities[2]	**25.4**	**25.4**	**-**	**25.4**	**-**	**25.4**
Senior notes	**226.6**	**220.0**	**-**	**226.7**	**-**	**226.7**
Subordinated liabilities	**156.4**	**150.0**	**-**	**147.6**	**-**	**147.6**
PSBs[3]	**15.2**	**15.0**	**-**	**14.4**	**-**	**14.4**
	14,688.9	**14,437.8**	**-**	**5,832.4**	**8,851.8**	**14,684.2**

1. Balance excludes prepayments.
2. Balance excludes deferred income.
3. The Company has reviewed the trading frequency of the PSBs and determined there is insufficient frequency and volume to provide pricing information on an ongoing basis in the market and have therefore categorised as level 2 fair value (2022: level 1).

45. Financial instruments and fair values (continued)

Company 2022	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	0.4	0.4	-	0.4	-	0.4
Loans and advances to credit institutions	1,506.1	1,504.0	-	1,506.1	-	1,506.1
Investment securities	61.1	61.0	-	60.9	-	60.9
Loans and advances to customers	10,531.9	10,668.1	-	1,740.9	8,429.5	10,170.4
Other assets[1]	2.0	2.0	-	2.0	-	2.0
	12,101.5	12,235.5	-	3,310.3	8,429.5	11,739.8
Financial liabilities						
Amounts owed to retail depositors	11,132.2	11,052.0	-	3,046.3	8,049.0	11,095.3
Amounts owed to credit institutions	2,568.5	2,551.4	-	2,568.5	-	2,568.5
Amounts owed to other customers	0.5	0.5	-	-	0.5	0.5
Other liabilities[2]	23.3	23.3	-	23.3	-	23.3
Subordinated liabilities	-	-	-	-	-	-
PSBs	15.2	15.0	14.0	-	-	14.0
	13,739.7	13,642.2	14.0	5,638.1	8,049.5	13,701.6

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

46. Pension scheme

Defined contribution scheme

The amount charged to profit or loss in respect of contributions to the Group's defined contribution and stakeholder pension arrangements is the contribution payable in the period. The total pension cost in the year amounted to £4.9m (2022: £4.4m).

47. 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:

2023	OSB £m	CCFS £m	Combination £m	Total £m
Balances at the reporting date				
Gross loans and advances to customers	14,509.3	11,377.2	24.3	25,910.8
Expected credit losses	(111.1)	(35.8)	1.1	(145.8)
Loans and advances to customers	14,398.2	11,341.4	25.4	25,765.0
Capital expenditure	25.6	0.2	-	25.8
Depreciation and amortisation	6.9	3.3	1.7	11.9
Profit or loss for the year				
Net interest income/(expense)	474.1	240.9	(56.1)	658.9
Other (expense)/income	(3.1)	(3.8)	6.4	(0.5)
Total income/(expense)	471.0	237.1	(49.7)	658.4
Impairment of financial assets	(41.6)	(6.9)	(0.3)	(48.8)
Contribution to profit	429.4	230.2	(50.0)	609.6
Administrative expenses	(131.7)	(100.4)	(1.7)	(233.8)
Provisions	(0.3)	(0.1)	-	(0.4)
Profit/(loss) before taxation	297.4	129.7	(51.7)	375.4
Taxation[1]	(75.7)	(30.7)	14.6	(91.8)
Profit/(loss) for the year	221.7	99.0	(37.1)	283.6

1. The taxation on Combination credit includes release of deferred taxation on CCFS Combination relating to the unwind of the deferred tax liabilities recognised on the fair value adjustments of the CCFS assets and liabilities at the acquisition date of £14.3m and the release of other deferred tax assets on Combination adjustments of £0.3m.

47. Operating segments (continued)

2022	OSB £m	CCFS £m	Combination £m	Total £m
Balances at the reporting date				
Gross loans and advances to customers	13,244.7	10,416.3	81.7	23,742.7
Expected credit losses	(103.2)	(28.0)	1.2	(130.0)
Loans and advances to customers	13,141.5	10,388.3	82.9	23,612.7
Capital expenditure	7.6	0.7	-	8.3
Depreciation and amortisation	6.2	3.4	3.8	13.4
Profit or loss for the year				
Net interest income/(expense)	460.7	308.4	(59.2)	709.9
Other income	8.9	46.2	10.4	65.5
Total income/(expense)	469.6	354.6	(48.8)	775.4
Impairment of financial assets	(22.3)	(8.4)	0.9	(29.8)
Contribution to profit	447.3	346.2	(47.9)	745.6
Administrative expenses	(129.6)	(73.1)	(3.8)	(206.5)
Provisions	1.6	-	-	1.6
Integration costs	(6.8)	(1.1)	-	(7.9)
Profit/(loss) before taxation	312.5	272.0	(51.7)	532.8
Taxation[1]	(70.1)	(70.2)	18.8	(121.5)
Profit/(loss) for the year	242.4	201.8	(32.9)	411.3

1. The taxation on Combination credit includes release of deferred taxation on CCFS Combination relating to the unwind of the deferred tax liabilities recognised on the fair value adjustments of the CCFS assets and liabilities at the acquisition date of £17.5m and the release of other deferred tax assets on Combination adjustments of £1.3m.

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

	Group 2023 £m	Group 2022 £m	**Company 2023 £m**	Company 2022 £m
Adjustments for non-cash and other items:				
Depreciation and amortisation	**11.9**	13.4	**5.9**	5.2
Interest on investment securities	**(23.6)**	(6.8)	**(16.8)**	(2.5)
Interest on subordinated liabilities	**16.9**	1.1	**10.1**	1.1
Interest on PSBs	**0.7**	0.7	**0.7**	0.7
Interest on securitised debt	**21.5**	7.7	**4.8**	4.1
Interest on senior notes	**9.0**	-	**6.6**	-
Interest on financing debt	**197.3**	68.7	**110.4**	38.4
Impairment charge on loans	**48.8**	29.8	**26.1**	19.1
Impairment on investment in subsidiaries	**-**	-	**-**	1.3
Provisions	**0.4**	(1.6)	**0.3**	(1.8)
Interest on lease liabilities	**-**	0.2	**-**	0.1
Fair value losses/(gains) on financial instruments	**4.4**	(58.9)	**-**	(4.4)
Share-based payments	**5.6**	8.1	**5.0**	7.3
Total adjustments for non-cash and other items	**292.9**	62.4	**153.1**	68.6
Changes in operating assets and liabilities:				
Decrease/(increase) in loans and advances to credit institutions	**112.5**	(204.6)	**(5.2)**	(74.2)
Increase in loans and advances to customers	**(2,200.5)**	(2,563.1)	**(926.4)**	(1,074.6)
Increase in intercompany balances	**(4.0)**	(0.2)	**(433.2)**	(146.0)
Increase in amounts owed to retail depositors	**2,370.8**	2,229.4	**1,114.3**	1,392.8
(Decrease)/increase in cash collateral and margin received	**(336.9)**	434.3	**(117.1)**	131.3
Net increase in other assets	**(12.5)**	(4.7)	**(6.2)**	(4.8)
Net (decrease)/increase in derivatives and hedged items	**(23.2)**	59.1	**(30.5)**	53.2
Net (decrease)/increase in amounts owed to other customers	**(49.8)**	16.6	**-**	(7.7)
Net increase in other liabilities	**0.9**	9.0	**1.9**	6.6
Exchange differences on working capital	**(0.7)**	(0.3)	**-**	-
Total changes in operating assets and liabilities	**(143.4)**	(24.5)	**(402.4)**	276.6

49. Controlling party

OSB GROUP PLC is the ultimate parent and controlling party preparing consolidated financial statements as the largest group of which the Company is a member. Copies of OSBG's financial statements may be obtained from the Company Secretary at the registered office: OSB House, Quayside, Chatham Maritime, Chatham, Kent, ME4 4QZ.

50. 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 Company other than as described below.

The Directors and Group Executive team are considered to be key management personnel.

Directors' remuneration is disclosed in note 8 and in the Directors' Remuneration Report on page 147 of the OSB Group's Annual Report. The Group Executive team are all employees of OSB, the table below shows their aggregate remuneration:

	Group 2023 £'000	Group 2022 £'000
Short-term employee benefits	**4,451**	4,000
Post-employment benefits	**62**	62
Share-based payments	**1,291**	2,667
	5,804	6,729

Key management personnel and connected persons held deposits with the Group of £2.3m (2022: £2.1m).

51. Capital management

The Company's capital management approach is to provide a sufficient capital base to cover business risks and support future business development. The Company remained, throughout the year, compliant with its capital requirements as set out by the PRA, the Group's primary prudential supervisor.

The Company manages and reports its capital on an individual consolidation basis (OSB solo) which includes the Company and subsidiaries except for the offshore servicing entity OSBI, SPVs relating to securitisations and the CCFS entities acquired in October 2019.

The Company’s capital management is based on the three ‘pillars’ of Basel III.

Under Pillar 1, the Company calculates its minimum capital requirements based on 8% of risk-weighted assets.

Under Pillar 2, the Company, 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 and also sets capital buffers for the Company.

Pillar 3 requires firms to publish a set of disclosures which allow market participants to assess information on the Company’s capital, risk exposures and risk assessment process. The Company’s Pillar 3 disclosures can be found on the Company’s website.

On 30 November 2022, the PRA issued a consultation paper on the implementing Basel 3.1 in the UK. The Company has taken account of this in planning for future capital requirements.

The ultimate responsibility for capital adequacy rests with the Board of Directors. 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 regulated entities actively manage their 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.

51. Capital management (continued)

The OSB solo Pillar 1 capital information is presented below:

	(Unaudited) 2023 £m	(Unaudited) 2022 £m
CET1 capital		
Called up share capital	**4.5**	4.5
Share premium, capital contribution and share-based payment reserve	**13.1**	12.2
Retained earnings	**1,836.7**	1,826.0
Other reserves	**(1.9)**	(1.1)
Total equity attributable to ordinary shareholders	**1,852.4**	1,841.6
Foreseeable dividends[1]	**(46.8)**	(79.1)
IFRS 9 transitional adjustment[2]	**-**	0.7
COVID-19 ECL transitional adjustment[3]	**17.5**	18.9
Solo consolidation adjustments	**(12.2)**	(13.6)
Deductions from CET1 capital	**-**	
Investment in subsidiary	**(528.9)**	(533.0)
Prudent valuation adjustment[4]	**(0.3)**	(0.3)
Intangible assets	**(23.9)**	(6.6)
Deferred tax asset	**(0.3)**	(0.6)
CET1 capital	**1,257.5**	1,228.0
AT1 capital		
AT1 securities	**90.0**	90.0
Total Tier 1 capital	**1,347.5**	1,318.0
Tier 2 capital		
Subordinated debt and PSBs	**165.0**	15.0
Total Tier 2 capital	**165.0**	15.0
Total regulatory capital	**1,512.5**	1,333.0
Risk-weighted assets (unaudited)	**7,452.8**	6,660.5

1. 2022 includes a special dividend of £30.3m (in support of the £50.0m announced by the OSBG Board rounded up on a pence per share basis to £50.3m). .
2. The IFRS 9 transitional arrangements expired 31 December 2022.
3. The COVID-19 ECL transitional adjustment relates to 50% of OSB solo's increase in stage 1 and stage 2 ECL following the impacts of COVID-19 and for which transitional rules are being adopted for regulatory capital purposes.
4. OSB solo has adopted the simplified approach under the Prudent Valuation rules, recognising a deduction equal to sum of absolute value to 0.1% of fair value assets and liabilities excluding fair-valued assets and liabilities.

51. Capital management (continued)

The movement in CET1 during the year was as follows:

	(Unaudited) 2023 £m	(Unaudited) 2022 £m
At 1 January	**1,228.0**	1,140.4
Movement in retained earnings	**10.7**	86.5
Movement in other reserves	**0.1**	1.4
Movement in investment in subsidiary	**4.1**	5.5
Movement in foreseeable dividends	**32.3**	(6.0)
Movement in solo consolidation adjustment	**1.4**	(6.8)
IFRS 9 transitional adjustment	**(0.7)**	(0.7)
COVID-19 ECL transitional adjustment	**(1.4)**	6.8
Movement in prudent valuation adjustment	**-**	(0.3)
Net (increase)/decrease in intangible assets	**(17.3)**	1.3
Movement in deferred tax asset for carried forward losses	**0.3**	(0.1)
At 31 December	**1,257.5**	1,228.0

The OSB solo minimum requirements for own funds and eligible liabilities (MREL) information is presented below:

	(Unaudited) 2023 £m	(Unaudited) 2022 £m
Total regulatory capital	**1,512.5**	1,333.0
Eligible liabilities	**200.0**	-
Total own funds and eligible liabilities	**1,712.5**	1,333.0

On 7 September 2023, the Group issued £300.0 million of senior unsecured callable notes through OSB Group PLC which, while not included in total regulatory capital, is eligible to meet MREL.

The Group has been granted a preferred resolution strategy of a single point of entry bail-in at the holding company level by the PRA and was initially given an interim MREL requirement of 18% of RWAs plus regulatory buffers, and an end-state MREL of the higher of:

(i) two times the sum of Pillar 1 and Pillar 2A plus regulatory buffers; or
(ii) if subject to a leverage ratio, two times the applicable requirement plus regulatory buffers.

The interim and end-state deadlines for the requirements are July 2024 and July 2026 respectively.

52. Events after the reporting date

On 16 January 2024 OSBG issued senior notes amounting to £400m under the £3bn EMTN programme of OSBG. The EMTN programme is used as part of the Group's capital management and funding activities.

The OSBG Board has authorised a share repurchase of up to £50.0m of shares in the market from 15 March 2024 supported by the Group. Any purchases made under this programme will be announced to the market each day in line with regulatory requirements.

The Directors of OneSavings Bank plc have proposed an interim dividend of £85.7m in relation to profits for the year ended 31 December 2023 as its contribution to the proposed OSBG dividends. There is no final dividend proposed.

Victoria Hyde is appointed to the board of OSB as Chief Financial Officer (CFO) and Executive Director, subject to regulatory approval, with effect from 10 May 2024. Victoria will succeed April Talintyre. April will step down from the board at the OSBG Group's Annual General Meeting on 9 May 2024.

OneSavings Bank plc
Appendices
Glossary

AGM	Annual General Meeting	IRB	Internal Ratings-Based approach to credit risk
ALCO	Group Assets and Liabilities Committee	ISA	Individual Savings Account
BoE	Bank of England	KRFI	Kent Reliance for Intermediaries
CCFS	Charter Court Financial Services	KRPS	Kent Reliance Provident Society Limited
CEO	Chief Executive Officer	LCR	Liquidity Coverage Ratio
CET1	Common Equity Tier 1	LGD	Loss Given Default
CFO	Chief Financial Officer	LIBOR	London Interbank Offered Rate
CRD IV	Capital Requirements Directive and Regulation	LTIP	Long-Term Incentive Plan
CRO	Chief Risk Officer	LTV	Loan to value
DSBP	Deferred Share Bonus Plan	NIM	Net Interest Margin
EAD	Exposure at Default	NPS	Net Promoter Score
ECL	Expected Credit Loss	OSB	OneSavings Bank plc
EIR	Effective Interest Rate	OSBG	OSB GROUP PLC
EPS	Earnings Per Share	PD	Probability of Default
EU	European Union	PPD	Propensity to go to Possession Given Default
FCA	Financial Conduct Authority	PRA	Prudential Regulation Authority
FRC	Financial Reporting Council	PSBs	Perpetual Subordinated Bonds
FSCS	Financial Services Compensation Scheme	PSP	Performance Share Plan
FSD	Forced Sale Discount	RMBS	Residential Mortgage-Backed Securities
FTSE	Financial Times Stock Exchange	RoE	Return on equity
HMRC	Her Majesty's Revenue and Customs	RWA	Risk weighted assets
HPI	House Price Index	SAYE	Save As You Earn or Sharesave
IAS	International Accounting Standards	SDLT	Stamp Duty Land Tax
IBOR	Interbank Offered Rate	SICR	Significant Increase in Credit Risk
ICAAP	Internal Capital Adequacy Assessment Process	SID	Senior Independent Director
ICR	Interest Coverage Ratio	SME	Small and Medium Enterprises
IFRS	International Financial Reporting Standards	SONIA	Sterling Overnight Index Average
ILAAP	Internal Liquidity Adequacy Assessment Process	SRMF	Strategic Risk Management Framework
ILTR	Index Long-Term Repo	TFS	Term Funding Scheme
IPO	Initial Public Offering	TFSME	Term Funding Scheme with additional incentives for SMEs