OSB GROUP PLC
Preliminary results

For the year ended 31 December 2023

LEI: 213800ZBKL9BHSL2K459

THIS ANNOUNCEMENT CONTAINS INSIDE INFORMATION

14 March 2024

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

OSB GROUP PLC (OSBG or the Group), the specialist lending and retail savings group, announces today its results for the year ended 31 December 2023.

Financial and operational highlights

The below results and KPIs reflect the impact of the adverse effective interest rate (EIR) adjustment

- Underlying profit before tax reduced by 28% to £426.0m (2022: £591.1m) and statutory profit before tax reduced by 30% to £374.3m (2022: £531.5m)

- Underlying and statutory net loan book increased by 9% to £25.7bn and £25.8bn, respectively (2022: £23.5bn and £23.6bn) supported by organic originations of £4.7bn (2022: £5.8bn)

- Underlying and statutory net interest margin (NIM) reduced to 251bps and 231bps (2022: 303bps and 278bps respectively)

- Underlying and statutory cost to income ratios increased to 33% and 36% (2022: 25% and 27%, respectively)

- Underlying and statutory loan loss ratios were 20bps (2022: 14bps and 13bps, respectively) largely due to the transition of borrowers through modelled IFRS 9 impairment stages as well as a marginal increase in arrears to 1.4% for balances greater than three months (31 December 2022: 1.1%)

- Underlying and statutory return on equity reduced to 16% and 14% (2022: 24% and 21%, respectively) due to reduction in profitability

- Basic earnings per share (EPS) reduced to 75.0 pence and 66.1 pence on an underlying and statutory basis (2022: 99.6 pence 90.8 pence) in line with the lower profitability

- *Excluding the impact of the adverse EIR adjustment, the underlying net loan book grew by 10%, underlying NIM would have increased to 314bps, underlying cost to income would have been 26%, underlying return on equity would have been 22% and underlying EPS would have increased to 106.7 pence*

- The Common Equity Tier 1 capital ratio of 16.1% and total capital ratio of 19.5% remained strong (2022: 18.3% and 19.7%, respectively)

- The Group issued £250m of Tier 2 notes and £300m of senior debt in 2023, both MREL qualifying. In January 2024, the Group met its interim MREL requirement of 22.5%, including regulatory buffers, which comes into force in July 2024, following a further £400m issuance of senior debt

- A new share repurchase programme of £50m over the next six months to commence on 15 March 2024

- Total dividend of 32.0 pence (2022: 30.5 pence) including a recommended final dividend of 21.8 pence per share, in line with our stated desire to provide a progressive dividend per share

- April Talintyre has advised the Board that she will not be seeking re-election at the Group Annual General Meeting on 9 May 2024 and will retire as Chief Financial Officer and Executive Director on that date

- Victoria Hyde, the Deputy CFO will become the acting CFO, subject to regulatory approval, whilst the ongoing process to appoint a permanent replacement for April is completed

The table below presents KPIs on a statutory and underlying basis including and excluding the adverse EIR adjustment:

	Statutory			Underlying		
FY 2023	**as reported**	**excl. EIR**	**difference**	**as reported**	**excl. EIR**	**difference**
Net loan book growth	9%	9%	-	9%	10%	(1)ppt
NIM	231bps	303bps	(72)bps	251bps	314bps	(63)bps
Cost to income ratio	36%	27%	9ppt	33%	26%	7ppt
Manex ratio	82bps	81bps	(1)bp	81bps	81bps	-
Pre-tax profit	£374.3m	£585.0m	£(210.7)m	£426.0m	£607.6m	£(181.6)m
EPS	66.1p	102.8p	(36.7)p	75.0p	106.7p	(31.7)p
RoE	14%	22%	(8)ppt	16%	22%	(6)ppt
CET1 ratio	16.1%	17.3%	(1.2)bps	-	-	-

Andy Golding, Group CEO, said:

"The Group performed well in its core market segments in 2023, growing its share of the Buy-to-Let sub-segment to deliver 9% net loan book growth against a backdrop of a subdued wider mortgage market. The Group's target professional landlords continue to demonstrate resilience, supported by high levels of demand in the Private Rented Sector, long-term income improvement and a reduction in the cost of borrowing towards the end of the year. Our fair and attractively priced savings products were popular and we grew our retail deposits by 12% in the year.

As reported at the half-year, our financial results were significantly impacted by the adverse effective interest rate (EIR) adjustment, relating primarily to a shorter time spent on the reversion rate by our Precise Mortgages customers. Since then, their behaviour has remained broadly consistent with the c.5 months spent on reversion rate assumption.

The Board has recommended a final dividend of 21.8 pence per share, which together with the interim dividend of 10.2 pence per share, results in a total ordinary dividend for the year of 32.0 pence per share in line with our stated desire to provide a progressive dividend per share. The Group issued £250m of Tier 2 notes and £300m of senior debt in 2023, both MREL qualifying. In January 2024, the

Group met its interim MREL requirement of 22.5%, including regulatory buffers, which comes into force in July 2024, following a further £400m issuance of senior debt. We have also announced a new £50m share buyback over the next six months and the Board will consider additional shareholder returns later in the year, subject to regulatory approval and further MREL issuance to support growth opportunities and to meet the final Basel 3.1 requirements when known.

April Talintyre, our Chief Financial Officer, will retire at the Group Annual General Meeting on 9 May 2024. April has been instrumental in shaping and delivering OSB's strategy over the last 11 years, helping steward OSB through private equity ownership into a successful FTSE 250 listed business. She has been an excellent and trusted support to me through the years, and I wish her well for her retirement. The process to appoint a permanent replacement for April, considering both external and internal candidates, is progressing well and Victoria Hyde, the Deputy Chief Financial Officer will become acting CFO whilst the process is completed, subject to regulatory approval.

Our specialist market sub-segments continue to perform well and the Group's target professional landlords provide much needed homes with exceptional support to the Private Rented Sector. Our specialist residential and commercial brands have good levels of demand as customer confidence improves.

Based on current application volumes and against the backdrop of the subdued mortgage market, the Group expects to deliver underlying net loan book growth of c.5% for 2024. The underlying net interest margin is expected to be broadly flat to the 2023 underlying NIM of 251bps, reflecting the impact of a higher cost of funds and the full year impact of some lower margin lending in 2023, due primarily to delays in mortgage pricing reflecting the rate rises and higher swap costs. The cost of funding is expected to increase in 2024, primarily due to the normalisation of retail deposit spreads, the impact of planned TFSME repayment and the cost of MREL qualifying debt issuance. We will maintain our cost discipline and efficiency, however the underlying cost to income ratio is expected to be broadly flat to the 2023 underlying ratio of 33%, commensurate with the NIM guidance.

The Group remains well capitalised, with strong liquidity and a high-quality secured loan book. We have demonstrated the strength of our customer franchises and intermediary relationships and continue to focus on delivering good outcomes for our stakeholders and strong returns for our shareholders."

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Results presentation

A webcast presentation for analysts will be held at 9:30am on Thursday 14 March.

The presentation will be webcast or call only and will be available on the OSB Group website at www.osb.co.uk/investors/results-reports-presentations.

The UK dial in number is 020 3936 2999 and the password is 672091. Registration is open immediately.

About OSB GROUP PLC

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

by the Financial Conduct Authority and Prudential Regulation Authority. The Group reports under two segments, OneSavings Bank and Charter Court Financial Services.

OneSavings Bank (OSB)

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

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

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

Charter Court Financial Services Group (CCFS)

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

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

CCFS is predominantly funded by retail savings originated through its Charter Savings Bank brand. Diversification of funding is currently provided by securitisation programmes and the Bank of England's Term Funding Scheme with additional incentives for SMEs.

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OSBG believes that any non-IFRS performance measures included in this document provide a more consistent basis for comparing the business' performance between financial periods, and provide more detail concerning the elements of performance which OSBG is most directly able to influence or which are relevant for an assessment of OSBG. They also reflect an important aspect of the way in which operating targets are defined and performance is monitored by the Board. However, any non-IFRS performance measures in this document are not a substitute for IFRS measures and readers should consider the IFRS measures as well. For further details, refer to the Alternative performance measures section in the OSBG Annual Report and Accounts 2023. Copies of this are available at www.osb.co.uk and on request from OSBG.

OSB GROUP PLC

Preliminary results

For the year ended 31 December 2023

Chief Executive's Statement

The Group reported strong performance in its core lending and savings franchises during 2023, with robust demand for its specialist mortgages delivering 9% net loan book growth, despite a challenging interest rate environment that subdued demand in the wider mortgage market.

We grew market share in our core Buy-to-Let sub-segment and I am proud that we remain a trusted partner for professional multi-property landlords who provide homes in the Private Rented Sector.

Our fair and attractively priced savings products were popular, and we grew our retail deposits book by 12% in the year. Our debt issuance programme was well-received by investors, and following the January issuance of £400m of MREL qualifying debt securities, we met the interim MREL requirement, including regulatory buffers.

As reported at the half-year, the Group's 2023 results were significantly impacted by the total net adverse effective interest rate (EIR) adjustment of £181.6m on an underlying basis. This related to the reduction in expected time spent on reversion rates for Precise Mortgages customers in response to rapid base rate rises and fluctuating interest rate expectations during the first half of the year. I am pleased that since then, there has been no material change in borrowers' behaviour and we continue to observe a trend consistent with our EIR assumption of c.5 months on the reversion rate for Precise customers.

The credit quality of the book remained robust, and our strong origination, capital and liquidity positions allow us to announce further capital distributions. The Board has recommended a final dividend of 21.8 pence per share, which together with the interim dividend of 10.2 pence per share, results in a total ordinary dividend for the year of 32.0 pence per share. In addition we have announced a new £50m share repurchase over the next six months.

April Talintyre, our long-serving CFO will retire at the Group Annual General Meeting on 9 May 2024. She has been instrumental in shaping and delivering OSB's strategy over the last 11 years, helping steward OSB through private equity ownership into a successful FTSE 250 listed business, as well as playing a key role in the Group's combination with Charter Court Financial Services in 2019. She has been an excellent and trusted support to me through the years, helping to build one of the UK's leading specialist lenders. I wish her well for her retirement.

Financial performance

The Group delivered an underlying pre-tax profit of £426.0m in 2023, down 28% from £591.1m in 2022, primarily due to the adverse EIR adjustment. The underlying basic earnings per share was 75.0 pence (2022: 99.6 pence). The underlying pre-tax profit would have increased to £607.6m and the underlying basic earnings per share would have improved to 106.7 pence, excluding the adverse EIR adjustment. On a statutory basis, profit before tax decreased to £374.3m and basic earnings per share was 66.1 pence (2022: £531.5m and 90.8 pence, respectively).

The underlying and statutory net interest margins reduced to 251bps and 231bps respectively (2022: 303bps and 278bps), largely due to the adverse EIR adjustment and as the benefit of the lower cost of retail funding was offset by the impact of some lower margin lending due primarily to delays in mortgage pricing reflecting the rate rises and higher swap costs. The underlying net interest margin would have been 314bps, excluding the adverse EIR adjustment.

The Group maintained its focus on cost discipline and efficiency during the year with the underlying and statutory management expense ratios remaining broadly unchanged at 81bps and 82bps respectively (2022: 80bps and 81bps, respectively). The anticipated impact of balance sheet growth, inflation and planned investment in people and digital solutions to enhance our customer propositions were reflected in a 14% increase in underlying administrative expenses to £232.9m. The underlying and statutory cost to income ratios of 33% and 36% respectively, were impacted by the reduction in income due to the adverse EIR adjustment and a loss on the Group's hedging activities compared to a

gain in the prior year (2022: 25% and 27%, respectively). Underlying cost to income would have been 26% excluding the adverse EIR adjustment.

The Group delivered an underlying return on equity of 16% for 2023 (2022: 24%) and 14% on a statutory basis (2022: 21%), which reflected the impact of the adverse EIR adjustment on the profit for the year. Underlying return on equity would have been 22% excluding the adverse EIR adjustment.

Our lending franchises
Strong demand for the Group's lending products delivered underlying and statutory net loan book growth of 9% in the year to £25.7bn and £25.8bn, respectively (31 December 2022: £23.5bn and £23.6bn). Organic originations were £4.7bn in the year (2022: £5.8bn), despite difficult mortgage market conditions and subdued purchase activity, demonstrating the strength of our relationships with intermediaries, the continued professionalisation of Buy-to-Let landlords and our long-term positioning in specialist mortgage market sub-sectors. I am particularly pleased that our renewed focus on lending on smaller commercial properties through the InterBay brand led to originations of £406m, a 46% increase from 2022.

The rising costs of living and borrowing were reflected in subdued purchase activity across all mortgage market sectors and I am proud that the Group's relationship managers and underwriters continued to work hand in hand with their broker partners, fully utilising our bespoke capabilities to find solutions for our borrowers. Refinancing was particularly strong in the year as borrowers sought to lock in lower monthly repayments to avoid further base rate rises, and as a result the proportion of Buy-to-Let completions due to refinancing were 62% for Kent Reliance and 48% for Precise Mortgages. There was also an improvement in retention as we continued to engage proactively with our borrowers offering new products, with 78% of Kent Reliance and 66% of Precise Mortgages customers choosing to refinance with the Group within three months of their fixed rate product ending.

The Group's mortgage propositions continued to win industry awards and in 2023 Kent Reliance for Intermediaries won Best Specialist Lender from L&G Mortgage Club Awards, Precise Mortgages was awarded Best Specialist Lender from TMA Club and the Group was recognised as the Best Specialist Bank at the Bridging and Commercial Awards. During the year we became signatories to the Government's Mortgage Charter, underlining our commitment to provide support to residential customers.

We continued to demonstrate our leadership and commitment to the Buy-to-Let sector through our Landlord Leaders initiative. In 2023, we set up the Landlord Leaders Community with 31 founding members, and in December we published the second research report that looked at tenants' experiences and most frequent challenges.

Credit and risk management
The high quality of the Group's loan book was demonstrated by a strong credit performance, with balances over three months in arrears at 1.4% of the loan book at the end of December (31 December 2022: 1.1%). The increase in arrears was largely due to the impact of the rising costs of living and borrowing on a small group of borrowers, and we continue to work closely with those needing assistance.

The Group recorded an impairment charge of £48.5m on an underlying basis, which represented an underlying loan loss ratio of 20bps for the year (2022: £30.7m and 14bps, respectively). The impairment charge principally reflected changes in the risk profile of borrowers as they transitioned through modelled IFRS 9 impairment stages and an increase in provisions for accounts with arrears of three months or more. The statutory impairment charge was £48.8m, equivalent to a loan loss ratio of 20bps (2022: £29.8m and 13bps, respectively).

The weighted average loan to value (LTV) of the Group's loan book increased to 64% as at 31 December 2023, from 60% at the end of 2022, largely due to negative house price inflation in the year. The weighted average LTV of new business written by the Group reduced to 68% from 71% in 2022,

and interest coverage ratios remained strong at 176% for OSB and 154% for CCFS, despite higher mortgage rates, reflecting the long-term income improvement enjoyed by professional landlords.

Multi-channel funding model
Retail deposits remained the primary source of funding for the Group and the deposit book grew by 12% to £22.1bn by the end of 2023 (31 December 2022: £19.8bn), as we continued to offer fair and attractively priced savings products to our customers.

We opened more than 210,000 new savings accounts in the year, and retention rates remained very high at 91% for customers with maturing fixed rate bonds and ISAs at Kent Reliance and 85% for Charter Savings Bank. To supplement our savings propositions, we maintained a strong focus on customer service, which was reflected in Net Promoter Scores for the year of +71 for Kent Reliance and +62 for Charter Savings Bank.

We complement retail deposits funding with our expertise in the wholesale markets and in June we completed a £330m securitisation of owner-occupied prime mortgages, originated by Precise Mortgages under the CMF programme. In February 2024, we completed another transaction, securitising £509m of Buy-to-Let mortgages under the PMF programme. We saw an exceptional level of demand from our growing investor base and this allowed us to achieve very attractive pricing. We will continue to access the wholesale markets when conditions are favourable, to benefit from diversification of funding and support a smooth transition as we repay drawings under the Term Funding Scheme for SMEs (TFSME). In the year, we repaid £900m of TFSME funding with the remainder due to be repaid by October 2025. As at 31 December 2023, the Group’s drawings under this Bank of England facility reduced to £3.3bn (31 December 2022: £4.2bn). We have repaid a further £600m so far in 2024.

Capital management
The Group’s capital position, which reflects the £150m share repurchase programme announced in March 2023 and the post-tax impact of the adverse EIR adjustment, remained strong with a CET1 ratio of 16.1% as at 31 December 2023 (31 December 2022: 18.3%). We expect to continue to operate above our 14% CET target as we wait for clarity on the final Basel 3.1 rules, which are expected to be published in the second quarter of 2024.

Following the January issuance of £400m of MREL qualifying debt securities, we met the interim MREL requirement, plus regulatory buffers, of 22.5% of risk weighted assets, under the current standardised rules.

OSB 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 more 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.

The Board has recommended a final dividend per share of 21.8 pence (2022: 21.8 pence), which together with the interim dividend per share of 10.2 pence (2022: 8.7 pence), results in a total ordinary dividend per share for the year of 32.0 pence (2022: 30.5 pence), in line with our stated desire to deliver a progressive dividend per share.

The Board remains committed to returning excess capital to shareholders and has today announced a new £50m share repurchase programme over the next six months. When combined with the ordinary dividend, the announced share repurchase represents a total return to shareholders of £177m and demonstrates the Board’s intention to use multiple levers to deliver shareholder returns. The Board will consider the potential for additional capital returns later in the year, subject to further MREL issuance to support growth opportunities and meet the final Basel 3.1 requirements once published, subject to regulatory approval.

Investing in our future
The Group is recognised for its efficiency and excellent customer service, and throughout 2023 we continued to invest to remain agile and nimble. We made progress on our digitalisation journey, which will enable us to meet the future needs of our customers, brokers and wider stakeholders, whilst delivering further operational efficiencies. This investment will be a key focus going forward as we deliver digital solutions to enhance our customer propositions.

Our success is dependent on our 2,459 employees across the UK and India, and we took further actions in the year to become a more diverse and inclusive organisation. By the end of the year, we reached our target to have 33% of women in senior management roles in the UK and we set a new target of 40% by the end of 2026. We also made major upgrades to all policies relating to maternity and family benefits in the UK to support our employees who are parents and carers.

I am pleased that in 2023, we also laid solid foundations for achieving our 2050 net zero emissions target in our inaugural Climate Transition Plan that will be published with the annual report. It outlines actionable steps in reducing our operational emissions as well as those from the housing stock we finance.

Looking forward
Our specialist market sub-segments continue to perform well, despite the subdued mortgage market. The Group's target professional landlords demonstrate resilience and provide much needed homes with exceptional support to the Private Rented Sector, and our specialist residential and commercial brands have good levels of demand as customer confidence improves. Our savers remain loyal to the Group, as we offer them good value, with improving customer NPS results. We are confident this will continue as proposition enhancing digital solutions are delivered.

Based on current application volumes and against the backdrop of the subdued mortgage market, the Group expects to deliver underlying net loan book growth of c.5% for 2024.

The underlying net interest margin is expected to be broadly flat to the 2023 underlying NIM of 251bps, reflecting the impact of a higher cost of funds and the full year impact of some lower margin lending in 2023, due primarily to delays in mortgage pricing reflecting the rate rises and higher swap costs. The cost of funding is expected to increase in 2024, primarily due to the normalisation of retail deposit spreads, the impact of planned TFSME repayment, and the cost of MREL qualifying debt issuance.

We will maintain our cost discipline and efficiency, however the underlying cost to income ratio is expected to be broadly flat to the 2023 underlying ratio of 33%, commensurate with the NIM guidance.

The Group remains well capitalised, with strong liquidity and a high-quality secured loan book. We have demonstrated the strength of our customer franchises and intermediary relationships and continue to focus on delivering good outcomes for our stakeholders and strong returns for our shareholders.

Andy Golding

Chief Executive Officer

14 March 2024

Segment review

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

OneSavings Bank (OSB) segment

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

Year ended 31-Dec-2023	BTL/SME £m	Residential £m	Total £m
Gross loans and advances to customers	**12,175.1**	**2,334.2**	**14,509.3**
Expected credit losses	**(102.4)**	**(8.7)**	**(111.1)**
Net loans and advances to customers	**12,072.7**	**2,325.5**	**14,398.2**
Risk-weighted assets	**6,117.9**	**1,068.4**	**7,186.3**
Profit or loss for the year			
Net interest income	**394.4**	**79.4**	**473.8**
Other expense	**(2.5)**	**(0.6)**	**(3.1)**
Total income	**391.9**	**78.8**	**470.7**
Impairment of financial assets	**(36.9)**	**(4.7)**	**(41.6)**
Contribution to profit	**355.0**	**74.1**	**429.1**

Year ended 31-Dec-2022	BTL/SME £m	Residential £m	Total £m
Gross loans and advances to customers	10,920.0	2,324.7	13,244.7
Expected credit losses	(95.2)	(8.0)	(103.2)
Net loans and advances to customers	10,824.8	2,316.7	13,141.5
Risk-weighted assets	5,258.8	1,033.7	6,292.5
Profit or loss for the year			
Net interest income	383.1	77.6	460.7
Other income	7.1	1.8	8.9
Total income	390.2	79.4	469.6
Impairment of financial assets	(23.5)	1.2	(22.3)
Contribution to profit	366.7	80.6	447.3

OSB Buy-to-Let/SME sub-segment

Loans and advances to customers	31-Dec-2023 £m	31-Dec-2022 £m
Buy-to-Let	**10,764.5**	9,755.0
Commercial	**1,095.7**	881.3
Residential development	**280.8**	184.5
Funding lines	**34.1**	99.2
Gross loans and advances to customers	**12,175.1**	10,920.0
Expected credit losses	**(102.4)**	(95.2)
Net loans and advances to customers	**12,072.7**	10,824.8

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

The Buy-to-Let/SME net loan book increased supported by strong retention and organic originations of £2,163.7m, which reduced by 5% from £2,283.8m in 2022 in a subdued mortgage market.

Net interest income in this sub-segment increased by 3% to £394.4m (2022: £383.1m), largely reflecting growth in the loan book and an adverse effective interest rate (EIR) adjustment of £0.1m was recognised for the year (2022: £20.0m gain).

Other expenses were £2.5m and related to losses from the Group's hedging activities (2022: £7.1m gain). The impairment charge increased to £36.9m (2022: £23.5m) primarily due to changes in the macroeconomic outlook, model and post-model enhancements, modelled IFRS 9 stage migration and increased arrears. Overall, the Buy-to-Let/SME sub-segment made a contribution to profit of £355.0m, a decrease of 3% compared with £366.7m in 2022.

The Group remained highly focused on the risk assessment of new lending, as demonstrated by the average loan to value (LTV) for Buy-to-Let/SME originations of 70% (2022: 73%).[1] The average book LTV in the Buy-to-Let/SME sub-segment increased to 67% (31 December 2022: 63%)[1] as a result of negative house price inflation in the year. Only 4.0% of loans in this sub-segment exceeded 90% LTV (31 December 2022: 3.2%).

Buy-to-Let
The Buy-to-Let gross loan book increased by 10% to £10,764.5m at the end of December 2023 (31 December 2022: £9,755.0m) benefitting from an increase in refinance activity, as borrowers sought to lock in lower monthly repayments in expectation of further base rate rises. During the year, the Group's originations decreased by 13% in the Buy-to-Let sub-segment to £1,575.4m from £1,804.6m at the end of 2022 as overall market segment volumes reduced significantly.

The proportion of Kent Reliance Buy-to-Let completions represented by refinance increased to 62% from 61% in 2022 as purchase activity fell. In addition, there was also an upward trend in product transfers, with 78% of existing borrowers choosing a new product, under the Choices retention programme, within three months of their initial rate mortgage coming to an end (2022: 72%).

The Group's borrowers continued to favour five-year fixed rate mortgages, which represented 74% of Kent Reliance completions in 2023 (2022: 83%), however an increasing proportion of customers elected to take shorter-term mortgages in anticipation of falling interest rates.

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

Landlords continued to optimise their businesses from a tax perspective, with 87% of Kent Reliance mortgage applications for purchases coming from landlords borrowing via a limited company (2022: 78%), and overall professional, multi-property landlords represented 91% of completions by value for the Kent Reliance brand in 2023 (2022: 86%).

Research conducted by BVA BDRC on behalf of the Group, showed that the proportion of landlords planning to purchase properties was low relative to historical averages, reflecting wider macroeconomic conditions, although this increased modestly year-on-year to 11% in the fourth quarter (Q4 2022: 9%). There was positivity in the Group's Landlord Leaders research which found that 42% are optimistic about operating as a landlord in the future while 24% have a neutral outlook. The research also found that 65% of of landlords are considering or have already transitioned to become incorporated entities, reflecting ongoing landlord professionalisation.

The weighted average LTV of the Buy-to-Let book as at 31 December 2023 was 66% with an average loan size of £255k (31 December 2022: 62% and £255k). The weighted average interest coverage ratio for Buy-to-Let originations during 2023 were 176% (2022: 207%).

Commercial
Through its InterBay brand, the Group lends to borrowers investing in commercial and semi-commercial property, reported in the Commercial total, and more complex Buy-to-Let properties and portfolios, reported in the Buy-to-Let total.

The Group experienced an increased level of business following the launch of new products in February and March. The refreshed range of InterBay products included the reintroduction of two-year fixed rate mortgages, lower LTV mortgages and a reduced minimum loan size. Organic originations increased by 46% to £405.6m in 2023 (2022: £278.7m) supporting a 24% increase in the gross loan book to £1,095.7m as at 31 December 2023 (2022: £881.3m). The Group also expanded its bridging finance range offered by the InterBay brand in July, relaunching products to support landlords seeking to purchase or renovate commercial and semi-commercial properties.

The weighted average LTV of the commercial book increased to 73%, largely due to a reduction in commercial property values. The average loan size was £410k in 2023 (2022: 69% and £375k).

InterBay Asset Finance, which predominantly targets UK SMEs and small corporates financing business critical assets, continued to grow adding to its high-quality portfolio with the gross carrying amount under finance leases increasing by 36% to £222.7m as at 31 December 2023 (31 December 2022: £163.2m).

Residential development
Our Heritable residential development business provides development finance to small and medium-sized residential property developers. The preference is to fund house builders which operate outside of central London and provide relatively affordable family housing, as opposed to complex city centre schemes where affordability and construction cost control can be more challenging. New applications represented repeat business from the team's extensive existing relationships and Heritable continued to take an exacting approach to approving funding for new customers.

The residential development finance gross loan book at the end of 2023 was £280.8m, with a further £120.9m committed (31 December 2022: £184.5m and £162.2m, respectively). Total approved limits were £566.8m, exceeding drawn and committed funds due to the revolving nature of the facility, where construction is phased and facilities are redrawn as sales on the initially developed properties occur (31 December 2022: £502.6m).

At the end of 2023, Heritable had commitments to finance the development of 2,709 residential units, the majority of which are houses located outside of central London or other major cities in England.

Funding lines
OSB continued to provide secured funding lines to non-bank lenders which operate in certain high-yielding, specialist sub-segments, primarily secured against property-related mortgages. Total credit approved limits as at the end of 2023 were £197.1m with total gross loans outstanding of £34.1m (31 December 2022: £274.0m and £99.2m, respectively). During the year, the Group maintained a cautious risk approach focusing on servicing existing customers.

OSB Residential sub-segment

	31-Dec-2023 £m	31-Dec-2022 £m
First charge	**2,199.1**	2,152.9
Second charge	**135.1**	171.8
Gross loans and advances to customers	**2,334.2**	2,324.7
Expected credit losses	**(8.7)**	(8.0)
Net loans and advances to customers	**2,325.5**	2,316.7

This sub-segment comprises first charge mortgages to owner-occupiers, secured against a residential home and under shared ownership schemes.

The Residential sub-segment net loan book was £2,325.5m as at 31 December 2023, broadly flat compared with £2,316.7m in the prior year and organic originations reduced to £342.2m in the year (2022: £575.9m) reflecting reduced customer demand in a subdued market.

Net interest income in the Residential sub-segment increased by 2% to £79.4m (2022: £77.6m) and this sub-segment recognised a favourable EIR adjustment of £1.0m based on updated customer behavioural trends (2022: £1.6m loss). Other expenses of £0.6m (2022: £1.8m other income) related to losses from the Group's hedging activities and the impairment charge was £4.7m (2022: £1.2m credit). The impairment charge was largely due to modelled IFRS 9 stage migration and increased arrears. Overall, contribution to profit from this sub-segment reduced by 8% to £74.1m for the year compared with £80.6m in 2022.

The average book LTV increased to 48% (31 December 2022: 45%)1 as a result of negative house price inflation, with only 2.2% of loans with LTVs exceeding 90% (31 December 2022: 0.8%). The average LTV of new residential origination during 2023 decreased to 62% (2022: 64%)1 as a result of an increase in lower LTV owner-occupied originations.

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

The first charge gross loan book increased 2% in the year to £2,199.1m from £2,152.9m at the end of 2022.

Second charge
The OSB second charge mortgage book is in run-off and managed by Precise Mortgages. Total gross loans were £135.1m at the end of 2023 (31 December 2022: £171.8m).

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

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Charter Court Financial Services (CCFS) segment

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

As at 31-Dec-2023	Buy-to-Let £m	Residential £m	Bridging £m	Second charge £m	Other[1,2] £m	Total underlying £m	Acquisition-related Items[3] £m	Total statutory £m
Gross loans and advances to customers	**7,921.5**	**3,026.0**	**333.1**	**83.0**	**13.6**	**11,377.2**	**24.3**	**11,401.5**
Expected credit losses	**(29.0)**	**(5.4)**	**(1.2)**	**(0.2)**	**-**	**(35.8)**	**1.1**	**(34.7)**
Loans and advances to customers	**7,892.5**	**3,020.6**	**331.9**	**82.8**	**13.6**	**11,341.4**	**25.4**	**11,366.8**
Risk-weighted assets	**3,138.9**	**1,263.0**	**167.5**	**35.8**	**5.4**	**4,610.6**	**48.7**	**4,659.3**
Profit or loss account for the year ended 31-Dec-2023								
Net interest income	**127.4**	**75.2**	**8.8**	**4.8**	**24.7**	**240.9**	**(56.1)**	**184.8**
Other income	**-**	**-**	**-**	**-**	**(3.8)**	**(3.8)**	**6.4**	**(2.6)**
Total income	**127.4**	**75.2**	**8.8**	**4.8**	**20.9**	**237.1**	**(49.7)**	**187.4**
Impairment of financial assets	**(5.0)**	**(1.2)**	**(0.7)**	**-**	**-**	**(6.9)**	**(0.3)**	**(7.2)**
Contribution to profit	**122.4**	**74.0**	**8.1**	**4.8**	**20.9**	**230.2**	**(50.0)**	**180.2**

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

As at 31-Dec-2022	Buy-to-Let £m	Residential £m	Bridging £m	Second charge £m	Other[1, 2] £m	Total underlying £m	Acquisition-related Items[3] £m	Total statutory £m
Gross loans and advances to customers	7,468.8	2,671.3	149.7	111.9	14.6	10,416.3	81.7	10,498.0
Expected credit losses	(23.5)	(3.8)	(0.5)	(0.2)	-	(28.0)	1.2	(26.8)
Loans and advances to customers	7,445.3	2,667.5	149.2	111.7	14.6	10,388.3	82.9	10,471.2
Risk-weighted assets	2,927.1	1,107.3	70.9	45.4	5.5	4,156.2	46.0	4,202.2
Profit or loss account for the year ended 31-Dec-2022								
Net interest income	206.0	96.0	5.0	5.9	(4.5)	308.4	(59.2)	249.2
Other income	-	-	-	-	46.2	46.2	10.4	56.6
Total income	206.0	96.0	5.0	5.9	41.7	354.6	(48.8)	305.8
Impairment of financial assets	(9.5)	1.2	(0.2)	0.1	-	(8.4)	0.9	(7.5)
Contribution to profit	196.5	97.2	4.8	6.0	41.7	346.2	(47.9)	298.3

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

	31-Dec-2023 £m	31-Dec-2022 £m
Buy-to-Let	**7,921.5**	7,468.8
Residential	**3,026.0**	2,671.3
Bridging	**333.1**	149.7
Second charge	**83.0**	111.9
Other[1]	**13.6**	14.6
Gross loans and advances to customers	**11,377.2**	10,416.3
Expected credit losses	**(35.8)**	(28.0)
Net loans and advances to customers	**11,341.4**	10,388.3

1. Other relates to acquired loan portfolios

CCFS segment comprises Buy-to-Let mortgages secured on residential property held for investment purposes by both non-professional and professional landlords, residential mortgages to owner-occupiers secured against residential properties including those unsupported by the high street banks, short-term bridging secured against residential property in both the regulated and unregulated sectors and the second charge loan book which is in run-off.

The CCFS underlying net loan book grew by 9% to £11,341.4m at the end of 2023 (31 December 2022: £10,388.3m) supported by strong retention and organic originations of £2,186.8m, which decreased by 26% from £2,969.4m of new business written in 2022 reflecting a subdued mortgage market.

CCFS Buy-to-Let sub-segment

Organic originations in the Buy-to-Let sub-segment through the Precise Mortgages brand decreased in 2023 to £1,006.0m (2022: £1,998.7m) reflecting the impact of the higher interest rate environment on smaller portfolio and individual landlords. The underlying gross Buy-to-Let loan book grew by 6% in the year to £7,921.5m from £7,468.8m at the end of 2022 supported by strong refinance activity.

Underlying net interest income in this sub-segment reduced to £127.4m compared with £206.0m in the prior year, as the benefit of loan book growth was more than offset by the underlying adverse EIR adjustment of £139.5m (2022: £37.5m loss). The EIR adjustment related to the expectation that Precise Mortgages customers would spend less time on the higher reversion rate before refinancing, based on observed customer behavioural trends.

This sub-segment recognised an impairment charge of £5.0m (2022: £9.5m) largely due to changes in the macroeconomic outlook, modelled IFRS 9 stage migration and increased arrears. On an underlying basis, Buy-to-Let made a contribution to profit of £122.4m, compared with £196.5m in the prior year, with the decline largely due to the impact of the adverse EIR adjustment.

On a statutory basis, the Buy-to-Let sub-segment made a contribution to profit of £82.1m (2022: £154.8m).

Refinance activity continued to represent nearly half of Precise Mortgages completions, at 48%, as landlords sought to lock in lower monthly repayments in expectation of further base rate rises (2022: 50%). Under the Precise Mortgages retention programme, 66% of existing borrowers chose a new product within three months of their initial rate mortgage coming to an end in the year (2022: 35%).

Five-year fixed rate products accounted for 67% of Precise Mortgages completions, down from 74% in 2022, as an increasing proportion of customers elected to take shorter-term mortgages in anticipation of falling interest rates. Borrowing via a limited company made up 68% of Buy-to-Let completions in 2023 (2022: 65%) and the proportion of completions for loans for specialist property types, including houses of multiple occupation and multi-unit properties remained at 21%.

Research conducted by BVA BDRC in the fourth quarter of 2023 on behalf of the Group found that over six in ten landlords that intended to acquire new properties planned to do so within a limited company

structure, in line with an upward trend that has been observed over a number of years, reflecting ongoing landlord professionalisation.

The weighted average LTV of the loan book in this segment increased to 68% due to negative house price inflation in 2023 (2022: 66%). The new lending average LTV was 71% with an average loan size of £190k (2022: 73% and £191k, respectively). The weighted average interest coverage ratio for Buy-to-Let origination was 154% in 2023 (2022: 191%).

CCFS Residential sub-segment
The underlying gross loan book in CCFS' Residential sub-segment reached £3,026.0m by 31 December 2023, an increase of 13% from £2,671.3m as at 31 December 2022, supported by organic originations of £743.6m (2022: £749.4m). The Group continued to benefit from CCFS' expertise, with a strong focus on self-employed individuals and those with minor adverse credit records.

Underlying net interest income reduced to £75.2m (2022: £96.0m) as the benefit of loan book growth was more than offset by the underlying adverse EIR adjustment of £43.0m (2022: £4.0m loss). The EIR adjustment related to the expectation that Precise Mortgages borrowers would spend less time on the higher reversion rate before refinancing, based on observed customer behavioural trends. The Residential sub-segment recorded an impairment charge of £1.2m (2022: £1.2m credit) largely due to changes in the macroeconomic outlook, modelled IFRS 9 stage migration and increased arrears. Overall, on an underlying basis, the Residential sub-segment made a contribution to profit of £74.0m, compared with £97.2m in 2022 and £59.5m on a statutory basis (2022: £81.9m).

The average loan size in this sub-segment was £160k (31 December 2022: £147k) with an average LTV for new lending of 63% (2022: 66%) and an increase in book LTV to 59% as a result of negative house price inflation in the year (31 December 2022: 57%).

CCFS Bridging sub-segment
The Group's short-term lending offering saw continued success in 2023 as borrowers made use of its regulated and non-regulated products to assist with chain-break finance, refurbishment works and property conversions, while the Group's refurbishment Buy-to-Let proposition also remained popular. This sub-segment saw originations of £437.2m, double the amount of £217.5m recorded in 2022 and a growth in the underlying gross loan book to £333.1m as at 31 December 2023 (31 December 2022: £149.7m).

Underlying net interest income increased by 76% to £8.8m (2022: £5.0m), and the impairment charge was £0.7m (2022: £0.2m) largely due to balance sheet growth. The bridging sub-segment made a contribution to profit of £8.1m in 2023 on an underlying basis compared with £4.8m in 2022 and £6.9m on a statutory basis (2022: £4.2m).

CCFS Second charge sub-segment
The second charge gross loan book reduced to £83.0m compared with £111.9m as at 31 December 2022, as the Group no longer offers second charge products under the Precise Mortgages brand and the book is in run-off.

Effective interest rate adjustment overview

2023 results included a total net adverse effective interest rate (EIR) adjustment of £210.7m on a statutory basis and £181.6m on an underlying basis which was included in Net Interest Income. This adjustment was equivalent to 72bps of statutory net interest margin (NIM) and 63bps of underlying NIM.

Interest rates and volatile outlook

The Bank of England raised the UK's Bank Base Rate (BBR) 13 times from the start of 2022 through to 31 December 2023, as summarised in Table 1. The interest rate outlook was also volatile across the same period and Table 2 shows the futures implied BBR peak since 30 June 2021 by quarter.

Table 1

Date changed	Base rate %
December 2021	0.25
February 2022	0.50
March 2022	0.75
May 2022	1.00
June 2022	1.25
August 2022	1.75
September 2022	2.25
November 2022	3.00
December 2022	3.50
February 2023	4.00
March 2023	4.25
May 2023	4.50
June 2023	5.00
August 2023	5.25

Table 2

Date	Implied BBR peak[1] %
30 June 2021	0.70
30 September 2021	0.99
31 December 2021	1.37
31 March 2022	2.52
30 June 2022	3.09
30 September 2022	5.88
31 December 2022	4.74
31 March 2023	4.65
30 June 2023	6.29
30 September	5.45
31 December 2023	5.28

1.Bloomberg, implied peak interest rate futures pricing at the applicable date

Impact on customer behaviour

These rapid BBR rises and fluctuating interest rate expectations led to customer behavioural changes. Precise Mortgages (Precise) fixed rate products were designed to revert to a rate which was similar to the initial fixed rate and open market rates. This encouraged borrowers to spend significant time on the variable reversion rate before choosing a new fixed rate product or refinancing with another lender.

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 chose to refinance earlier and spent less time on the higher reversion rate compared to previously observed behavioural trends.

In contrast, the Kent Reliance brand has historically had a higher reversion rate, its managed standard variable rate (SVR), resulting in a significant rate step-up in reversion versus both the fixed rate and open market rates. Due to this step up, Kent Reliance has a long and well-established broker led retention programme, Choices, to encourage borrowers to switch to a new product quickly. Kent Reliance customers have therefore spent less time on reversion historically than Precise customers and their behaviour is therefore less sensitive to increasing interest rates.

Table 3 illustrates the different way in which Precise and Kent Reliance mortgages have reverted since 2020, by showing the difference between the average fixed and reversion rates for five-year fixed Buy-to-Let products when they reached the end of their initial fixed rate term.

The table shows that the Precise Buy-to-Let five-year fixed rate products on average reverted to a variable rate broadly consistent with the fixed rate prior to the rapid rise in BBR. Conversely, the Kent Reliance five-year fixed rate products have consistently had a higher step-up in reversion providing an incentive to refinance quickly.

Table 3

	5 Year fixed Buy-to-Let step up in reversion	
	Precise ppt	Kent Reliance ppt
2020	0.1	1.3
2021	(0.1)	1.7
2022 Q1	0.4	2.2
2022 Q2	1.1	3.0
2022 Q3	2.1	3.6
2022 Q4	3.7	4.5
2023 Q1	4.7	5.7
2023 Q2	5.6	6.4
2023 Q3	6.3	7.3
2023 Q4	6.8	7.4

The step-change in customer behavioural trends, observed over the course of the first half of 2023, led to a decrease in the weighted average number of months that Precise Mortgages borrowers who reach the end of their fixed term were expected to spend on the reversion rate before refinancing from c.17 months to c.5 months. The weighted average number of c.5 months remained unchanged as at 31 December 2023.

Kent Reliance borrowers, who reach the end of their fixed term were expected to spend on average 1-2 months on the reversion rate as at 31 December 2023.

Impact of the step-change in behaviour in reversion for Precise customers

The reduction in the expected time spent on reversion by Precise customers from c.17 to c.5 months, resulted in an adverse underlying EIR adjustment to the carrying value of Loans and Advances to Customers through Net Interest Income of £182.5m in 2023, of which £178.0m was recognised in the first half.

This moved the Precise EIR asset to an EIR liability. Other Group EIR adjustments totalled £0.9m as at 31 December 2023.

Table 4 details Precise Mortgages' underlying EIR assets and liabilities, with the movement in the balance sheet recognised in Net Interest Income in each year:

Table 4

Precise Mortgages EIR	Movement recognised through Net Interest Income £m	Net £m	Underlying EIR asset/(liability) £m
As at 31 December 2019			**5.6**
Recognition of interest income	16.8		
Behavioural adjustment	(2.0)		
As at 31 December 2020		**14.8**	**20.4**
Recognition of interest income	12.6		
Behavioural adjustment	(14.7)		
As at 31 December 2021		**(2.1)**	**18.3**
Recognition of interest income	70.6		
Behavioural adjustment	(41.7)		
As at 31 December 2022		**28.9**	**47.3**
Recognition of interest income	106.9		
Behavioural adjustment	(182.5)		
As at 31 December 2023		**75.6**	**(28.4)**

Precise has historically had an EIR asset, primarily reflecting the expected time spent in reversion and early repayment charges (ERC) income which moved to a liability of £28.4m as at 31 December 2023 following the adverse EIR adjustment. This liability will unwind over the remaining life of the mortgages.

Kent Reliance had a net EIR liability of £2.6m as at 31 December 2023 (31 December 2022: £17.2m liability) due to the deferral of net fee income outweighing the impact of expected ERC income and time spent in reversion.

The Group's commercial brand, InterBay, had an EIR asset of £5.7m as at 31 December 2023 (31 December 2022: £8.8m asset) in relation to expected ERC income and time spent in reversion. InterBay products did not change in reversion versus the initial fixed rate until 2022 when BBR and LIBOR replacement first exceeded the interest rate floors used in the reversion periods for these products.

Behavioural sensitivities
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. Applying a +/- 3 months movement in the time spent on reversion would lead to a +/- c.£77m impact on the underlying Net Interest Income and +/- c.£82m impact on the statutory Net Interest Income.

This sensitivity will increase/decrease as BBR rises/falls.

Sensitivity to changes in base rate
As the BBR increased throughout 2022 and 2023, using the effective interest rate approach resulted in additional monthly net interest income as the benefit of time spent on a reversion rate became greater. If BBR decreases this will lead to a decrease in monthly net interest income. If BBR were to reduce by 50bps it is estimated that this will decrease monthly net interest income by £1.2m across Precise and Kent Reliance Mortgages.

EIR accounting overview

In accordance with IFRS 9, the Group recognises interest income from mortgages using the effective interest method, which aims to recognise interest income at a consistent effective interest rate (EIR) over the expected life of the mortgages.

The effective interest method requires that an EIR% is calculated at origination that considers all contractual and behavioural cash flows associated with the mortgage including fees, early redemption charges (ERCs) and the average time the customer spends on the reversion rate after the initial fixed rate period. This has the effect of bringing forward expected income from the reversion period. An EIR asset is built up over time from origination in respect of expected ERC income and reversion income. An EIR liability is recognised at origination in respect of deferred net fee income.

The Group uses the latest observable trends to predict future behaviour in reversion and assumes current interest rates for reversion cash flows when calculating the EIR.

For Precise Mortgages products the reversion rate is generally linked to BBR and if this remains static, there is no change to the EIR% calculated at origination. If BBR increases, the EIR methodology prescribes that the EIR% is recalculated immediately to reflect the higher anticipated income in the reversion period, which leads to higher revenue recognition over the expected remaining life of the mortgage.

A change in customer behaviour, which emerges over time, for example customers spending less time on the reversion rate before refinancing, can also lead to a change in expected cash flows and the revenue to be recognised. Generally, such a change would cause a reduction in the anticipated total amount of interest received from the customer over the revised expected life of the mortgage. Similarly, an expectation of a longer period spent on the reversion rate would lead to an increase in the anticipated total amount of interest received over the revised, longer life of a mortgage.

The EIR% for a loan is not adjusted for behavioural changes where a trend in customer behaviour is observed. Instead IFRS 9 requires an immediate adjustment to the carrying value of Loans and Advances to Customers, with a corresponding gain or loss recognised in the income statement. This maintains the EIR% for the loan over its remaining behavioural life.

In a rapidly rising rate environment, changes in BBR are observable immediately and are reflected in revisions to the EIR, applied prospectively, whereas trends in customer behaviour take more time to emerge. This leads to use of an EIR% calculated based on cash flows in reversion that are no longer expected, resulting in a dynamic where a behavioural-driven adjustment, due to customers spending less time on the reversion rate, can create an EIR liability. This liability unwinds over the remaining expected life of the mortgages to adjust interest accruals to actual cash receipts.

The Group's retention programmes

Kent Reliance has a long and well-established broker led retention programme, Choices, to encourage borrowers to switch to a new product quickly rather than refinance away from the Group after a period on the higher reversion rate. This programme has been successful in retaining borrowers by engaging with them before the end of their fixed rate term and offering preferential terms compared to new customer offers to reflect the Group's lower processing costs. In 2023, 78% (2022: 72%) of existing borrowers chose a new KR product within 3 months of their initial rate mortgage coming to an end.

The Group introduced a similar proactive retention programme for Precise borrowers in October 2022 in reaction to the BBR increases and the resulting step-up in rates on reversion. There was a steady improvement in retention with 66% (2022: 35%) of existing Precise borrowers choosing a new product within 3 months of their initial rate mortgage coming to an end in 2023.

OSB GROUP PLC
Preliminary results
for the year ended 31 December 2023

Financial review

Review of the Group's performance on a statutory basis for 2023 and 2022.

Summary Profit or Loss	FY 2023 £m	FY 2022 £m
Net interest income	**658.6**	709.9
Net fair value (loss)/gain on financial instruments	**(4.4)**	58.9
Other operating income	**3.9**	6.6
Administrative expenses	**(234.6)**	(207.8)
Provisions	**(0.4)**	1.6
Impairment of financial assets	**(48.8)**	(29.8)
Integration costs	**-**	(7.9)
Profit before tax	**374.3**	531.5
Profit after tax	**282.6**	410.0

Key ratios[1]	FY 2023	FY 2022
Net interest margin	**231bps**	278bps
Cost to income ratio	**36%**	27%
Management expense ratio	**82bps**	81bps
Loan loss ratio	**20bps**	13bps
Return on equity	**14%**	21%
Basic earnings per share, pence	**66.1**	90.8
Ordinary dividend per share, pence	**32.0**	30.5
Special dividend per share, pence	**-**	11.7

	31-Dec-23 £m	31-Dec-22 £m
Extracts from the Statement of Financial Position		
Loans and advances to customers	**25,765.0**	23,612.7
Retail deposits	**22,126.6**	19,755.8
Total assets	**29,589.8**	27,566.7
Key ratios		
Common equity tier 1 ratio	**16.1%**	18.3%
Total capital ratio	**19.5%**	19.7%
Leverage ratio	**7.5%**	8.4%

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

Statutory profit
The Group's statutory profit before tax decreased by 30% to £374.3m (2022: £531.5m) after acquisition-related items of £51.7m[1] (2022: £59.6m). The benefit of net loan book growth was more than offset by the total net adverse statutory effective interest rate (EIR) 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 £282.6m in 2023, a decrease of 31% from £410.0m in the prior year and included acquisition-related items of £37.1m[1] (2022: £38.7m). The Group's effective tax rate increased to 24.6%[2] 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 reduced to 14% (2022: 21%) reflecting the reduction in profitability in the year.

Statutory basic earnings per share decreased to 66.1 pence (2022: 90.8 pence), in line with the decrease in profit after tax.

Net interest income
Statutory net interest income decreased by 7% in 2023 to £658.6m (2022: £709.9m), as the benefit of net loan book growth was more than offset by the total net adverse EIR adjustment of £210.7m on a statutory basis. The adverse EIR adjustment primarily related to the expectation that Precise Mortgages borrowers would spend less time on the higher reversion rate before refinancing based on observed customer behavioural trends.

Statutory net interest margin (NIM) was 231bps compared with 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 offset by the impact of some lower margin lending due primarily to delays in mortgage pricing reflecting the rate rises and higher swap costs.

The total net adverse EIR adjustment accounted for 72bps of statutory NIM for the year ended 31 December 2023.

Net fair value loss 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 net 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 movement unwinds over the life of the swaps through hedge accounting inception adjustments.

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 £234.6m in 2023 (2022: £207.8m) largely due to balance sheet growth and the anticipated impact of inflation and planned investment in people and operations, including digital solutions enhancing our customer propositions.

The statutory management expense ratio was broadly flat 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 were written off against the related provision when the underlying security was 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.

Integration costs
The Group ceased recognising expenses as 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.

Dividend
The Board has recommended a final dividend of 21.8 pence per share for 2023, which together with the interim dividend of 10.2 pence per share, represents a total ordinary dividend of 32.0 pence per share. See the Appendix for the calculation of the 2023 final dividend.

The recommended final dividend is subject to approval at the AGM on 9 May 2024. The final dividend will be paid on 14 May 2024, with an ex-dividend date of 4 April 2024 and a record date of 5 April 2024.

Balance sheet growth
On a statutory basis, net loans and advances to customers grew by 9% to £25,765.0m in 2023 (31 December 2022: £23,612.7m), supported by originations of £4.7bn in the year and strong retention.

Total assets grew by 7% to £29,589.8m (31 December 2022: £27,566.7m) 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 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 reduced to £3.3bn as at 31 December 2023 from £4.2bn in the prior year as the Group repaid £900m of the funding using retail deposits and wholesale funding in the second half of the year. Drawings under Indexed Long-Term Repo were £10.1m (31 December 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 (31 December 2022: £1,494.1m and £1,522.8m, respectively).

The Group 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 Group's capital position remained strong, with a CET1 ratio of 16.1% and a total capital ratio of 19.5% as at the end of 2023 (31 December 2022: 18.3% and 19.7%, respectively). Both ratios reflected the impact of lower profitability in the year due to the adverse EIR adjustment, which reduced the CET1 ratio by 1.2%, loan book growth, foreseeable and paid dividends and the impact of the £150m share repurchase programme completed in 2023.

The Group had a leverage ratio of 7.5% as at 31 December 2023 (31 December 2022: 8.4%). The combined Group had a Pillar 2a requirement of 1.27% (2022: 1.27%) of risk-weighted assets (excluding a static integration add-on of £19.5m) as at 31 December 2023.

1. See the reconciliation of statutory to underlying results
2. See note 11 to the Consolidated Financial Statements

Summary cash flow statement

	Group 31-Dec-2023 £m	Group 31-Dec-2022 £m
Profit before tax	**374.3**	531.5
Net cash generated/(used in):		
Operating activities	**425.2**	428.5
Investing activities	**(301.2)**	63.2
Financing activities	**(654.1)**	(184.3)
Net (decrease)/increase in cash and cash equivalents	**(530.1)**	307.4
Cash and cash equivalents at the beginning of the year	**3,044.1**	2,736.7
Cash and cash equivalents at the end of the year	**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 received on derivative exposures and received £38.8m of initial margin, reflecting a reduction in swap pricing in the fourth quarter. Cash used in financing activities of £654.1m included financing repaid: TFSME scheme repayments of £900m 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 £152.4m of share repurchase which were partially offset by funding through securitisations, senior notes and subordinated liability issuances raising £1,138.7m. Cash used in investing activities was £301.2m.

In 2022, loans and advances to customers increased by £2,563.1m, primarily 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 £184.3m 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.

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for the year ended 31 December 2023

Review of the Group's performance on an underlying basis for 2023 and 2022.

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

Underlying results and KPIs for 2023 and 2022 exclude integration costs and other acquisition-related items.

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

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

Summary Profit or Loss	FY 2023 £m	FY 2022 £m
Net interest income	**714.7**	769.1
Net fair value (loss)/gain on financial instruments	**(10.8)**	48.5
Other operating income	**3.9**	6.6
Administrative expenses	**(232.9)**	(204.0)
Provisions	**(0.4)**	1.6
Impairment of financial assets	**(48.5)**	(30.7)
Profit before tax	**426.0**	591.1
Profit after tax	**319.7**	448.7

Key ratios[1]	FY 2023	FY 2022
Net interest margin	**251bps**	303bps
Cost to income ratio	**33%**	25%
Management expense ratio	**81bps**	80bps
Loan loss ratio	**20bps**	14bps
Return on equity	**16%**	24%
Basic earnings per share, pence	**75.0**	99.6

Extracts from the Statement of Financial Position	31-Dec-23 £m	31-Dec-22 £m
Loans and advances to customers	**25,739.6**	23,529.8
Retail deposits	**22,126.6**	19,755.2
Total assets	**29,565.6**	27,487.6

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

Underlying profit
The Group's underlying profit before tax decreased by 28% to £426.0m from £591.1m in 2022. The benefit of net loan book growth was more than offset by the total net adverse underlying effective interest rate (EIR) 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 £319.7m, down 29% (2022: £448.7m), 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 reduced to 16% (2022: 24%), reflecting the reduction in profitability in the year.

The underlying basic earnings per share decreased to 75.0 pence (2022: 99.6 pence), in line with the decrease in profit after tax.

Net interest income
Underlying net interest income decreased by 7% to £714.7m in 2023 (2022: £769.1m), as the benefit of net loan book growth was more than offset by the total net 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 reversion rate before refinancing based on observed customer behavioural trends.

The underlying net interest margin was 251bps compared with 303bps in the prior year, down 52bps, largely due to the adverse EIR adjustment and as the benefit of the lower cost of retail funding was offset by the impact of some lower margin lending due primarily to delays in mortgage pricing reflecting the rate rises and higher swap costs.

The total net adverse EIR adjustment accounted for 63bps of underlying NIM for the year ended 31 December 2023.

Net fair value loss on financial instruments
Underlying net fair value loss on financial instruments was £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 and a gain of £2.0m (2022: £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.

Administrative expenses
Underlying administrative expenses increased by 14% to £232.9m in 2023 (2022: £204.0m), largely due to balance sheet growth and the anticipated impact of inflation and planned investment in people and operations, including digital solutions enhancing our customer propositions.

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

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.

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 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 £7.1m.

As at 31 December 2023, the Group's balance sheet provisions were further reduced by £33.6m, where loans were written off against the related provision when the underlying security was 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.

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 £29,565.6m (31 December 2022: £27,487.6m), 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.

Reconciliation of statutory to underlying results

	FY 2023			FY 2022		
	Statutory results £m	Reverse acquisition-related items £m	Underlying results £m	Statutory results £m	Reverse acquisition-related items £m	Underlying results £m
Net interest income	**658.6**	**56.1**[1]	**714.7**	709.9	59.2	769.1
Net fair value (loss)/gain on financial instruments	**(4.4)**	**(6.4)**[2]	**(10.8)**	58.9	(10.4)	48.5
Other operating income	**3.9**	**–**	**3.9**	6.6	–	6.6
Total income	**658.1**	**49.7**	**707.8**	775.4	48.8	824.2
Administrative expenses	**(234.6)**	**1.7**[3]	**(232.9)**	(207.8)	3.8	(204.0)
Provisions	**(0.4)**	**–**	**(0.4)**	1.6	–	1.6
Impairment of financial assets	**(48.8)**	**(0.3)**[4]	**(48.5)**	(29.8)	(0.9)	(30.7)
Integration costs	**–**	**–**	**–**	(7.9)	7.9[5]	–
Profit before tax	**374.3**	**51.7**	**426.0**	531.5	59.6	591.1
Profit after tax	**282.6**	**37.1**	**319.7**	410.0	38.7	448.7
Summary Balance Sheet						
Loans and advances to customers	**25,765.0**	**(25.4)**[6]	**25,739.6**	23,612.7	(82.9)	23,529.8
Other financial assets	**3,722.8**	**1.3**[7]	**3,724.1**	3,878.1	9.1	3,887.2
Other non-financial assets	**102.0**	**(0.1)**[8]	**101.9**	75.9	(5.3)	70.6
Total assets	**29,589.8**	**(24.2)**	**29,565.6**	27,566.7	(79.1)	27,487.6
Amounts owed to retail depositors	**22,126.6**	**–**	**22,126.6**	19,755.8	(0.6)[9]	19,755.2
Other financial liabilities	**5,272.0**	**–**	**5,272.0**	5,548.5	0.8[10]	5,549.3
Other non-financial liabilities	**46.7**	**(6.3)**[11]	**40.4**	61.4	(30.2)	31.2
Total liabilities	**27,445.3**	**(6.3)**	**27,439.0**	25,365.7	(30.0)	25,335.7
Net assets	**2,144.5**	**(17.9)**	**2,126.6**	2,201.0	(49.1)	2,151.9

Notes to the reconciliation of statutory to underlying results table:
1. Amortisation of the net fair value uplift to CCFS' mortgage loans and retail deposits on Combination
2. Inception adjustment on CCFS' derivative assets and liabilities on Combination
3. Amortisation of intangible assets recognised on Combination
4. Adjustment to expected credit losses on CCFS loans on Combination
5. 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
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 levels driven by rising costs of borrowing and living, whilst the timelines for repossessing and selling properties continued to be elongated due to ongoing delays in the court hearing process, which also contributed to elevated levels of late-stage arrears 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 IFRS 9 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 level 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.

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

The Group is required to comply with Bank of England policy with respect to the Resolvability Assessment Framework (RAF) which aims to ensure qualifying firms can be resolved in an orderly fashion. During 2023 the Group made continued progress in embedding and enhancing existing resolution capabilities.

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.

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 fire drill to test those capabilities
- 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 (ERMF) 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 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. 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 ERMF.

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 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 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 Internal Capital Adequacy Assessment Process (ICAAP), the Risk function engaged with a third party to provide detailed climate change assessments at a collateral level for the Group's loan portfolios. The data was in turn utilised to conduct profiling and financial risk assessments.

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

Emissions scenario

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

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

b) Climate risk perils considered
The following three physical perils of climate change were assessed:

- Flood – wetter winters and more concentrated rainfall events will increase flooding.
- Subsidence – drier summers will increase subsidence through 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 10 years. For coastal erosion the distance of the property to the coastline is provided by scenario and decade.

All peril impacts are calculated at 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 Assessment Procedure calculation which uses a government 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 least severe (RCP 2.6) and most severe (RCP 8.5) climate scenarios.

- Flood risk
  By the 2030s, 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 2030s, 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.

  Both Banks have over 92% of their portfolios more than 1,000 metres from the coastline, indicating a low coastal erosion risk across the Group.

  The OSB bank entity and CCFS bank each have 31 properties within 100 metres of a 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 0.2% of properties have an EPC of A, 14.2% have an EPC of B, 26.4% have an EPC of C, 45.7% have an EPC of D, 12.1% with an EPC of E and negligible percentages in F or G ratings. 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 (ECL) and Standardised and IRB Risk Weighted Assets (RWAs), is assessed through the application of stress to collateral valuations as per the methodology outlined below. Impacts are assessed against the latest year end position.

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

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

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

Methodology – physical risks
For the physical risks, updated valuations are produced to reflect the impact of 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 a minimum EPC grade of C 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

1. Strategic and business risk
The risk to the Group's earnings and profitability arising from its strategic decisions, change in business conditions, improper implementation of decisions or lack of responsiveness to industry 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 specialist sub-sectors of the mortgage market, can adapt to growth objectives and external developments.

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

Mitigation
Regular monitoring by the Board and the Group Executive Committee of business and financial performance against 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.

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

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.

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 sub-segments.

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 materially 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.

Compliance and conduct risks remain elevated due to the requirements in continuing to meet Consumer Duty regulation and forecasted changes in interest rates resulting in increased numbers of customer requests.

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.

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.

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 in 2023 was influenced by the backdrop of rapidly rising interest rates and the potential for changing customer behaviour. The macroeconomic outlook remains uncertain.

A continued area of focus relates to the risks arising from downward movements in interest rates. Falling interest rates may create a risk to net interest income based on timing mismatches between issuance of long term mortgages versus shorter term savings products. In addition, this could result in early repayment charge income not offsetting early swap breakage costs.

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.

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 Internal Liquidity Adequacy Assessment Process (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 that 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 a 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.

The Group completed one securitisation deal and two capital issuances in 2023 and has a range of wholesale funding options, 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
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. The Group has a refinancing concentration scheduled for 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 through 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 securitisation issuance which is dependant on the ongoing operation of capital markets. These markets have 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 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, including MREL requirements, and undertakes stress testing analysis to subject its solvency ratios to extreme but plausible scenarios.

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

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

Following the issuance of £400m of MREL qualifying debt securities in January 2024, the Group met its interim MREL requirement, including regulatory buffers.

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
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.

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, including further enhancements to the Group's risk appetite metrics and key risk indicators.

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 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 the Group's 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 the 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.

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 through 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 that 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 defines 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 requirements that impact 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 consumer duty requirements and increased Resolvability Assessment Framework requirements.

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.

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

This includes the risk that product design, pricing, 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 any 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 customer harm 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 harm 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.

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 UK registered bank accounts. 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 and the level of maturity of the Group's controls and defences continues 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 to detect and prevent exposure to fraud throughout the customer lifecycle. At the point of origination, all new applications are subject to a range of controls to identify and mitigate the risk of fraud. Customer behavioural and transactional activity is closely monitored to identify potential suspicious behaviours or trends that may be indicative of fraud.

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 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 macro-economic uncertainty
The Group's lending activity is predominantly focused in the United Kingdom (with a legacy book of mortgages in the Channel Islands) and, as such, will be impacted by any risks emerging from changes in the UK's 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 through various stress testing activities (i.e. ad hoc, risk appetite and ICAAP) understands how the Group performs over a variety of macroeconomic stress scenarios and has developed a suite of early warning indicators, which are closely monitored to identify changes in the economic environment. The Board and management review detailed portfolio reports to identify any changes in the Group's risk profile.

Climate change
Regulatory expectations and industry best practices continue to evolve and further work is required to enhance the Group's approach to managing climate risk. 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.

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 the PRA's 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.

Risk profile performance overview

Credit risk
During 2023 the Bank of England continued to increase interest rates to moderate the ongoing elevated levels of inflation experienced across the United Kingdom, which in turn adversely impacted borrower and underlying tenant affordability levels. Increased borrowing costs resulted in subdued property purchase activity and consequent loan demand. Unemployment levels were also adversely impacted but remained at low levels. The Group's prudent risk appetite and disciplined approach to credit risk management supported robust credit profile performance during the year.

The Group observed strong demand for its loan products and delivered organic originations of £4.7bn during the year (2022: £5.8bn), despite subdued demand in the wider mortgage market. Strong levels of lending were observed across the Group's core Buy-to-Let and residential first charge products, with the Group's renewed focus on bridging and semi commercial and commercial mortgage lending resulting in higher origination levels versus 2022.

The Group actively manages three key credit risk pillars including; i) the customer's propensity to repay and (ii) the customer or tenant's ability to maintain payments and (iii) the underlying collateral or security provided to support the requested lending and its ability to absorb adverse movements in values, providing loss protection should a repayment default event occur.

The credit score profile of new lending remained broadly stable throughout the year, indicating that onboarded customers had strong ability and propensity to make payments in the future.

Buy-to-Let interest coverage ratios for new lending were impacted by the rising cost of borrowing during the year but remained strong at 176% for OSB and 154% for CCFS (2022: 207% OSB and 191% CCFS), demonstrating a healthy surplus in rental income versus the required monthly repayment amount.

Strong origination and customer retention performance resulted in underlying and statutory net loan book growth of 9% in the year to £25.7bn and £25.8bn respectively (31 December 2022: £23.5bn and £23.6bn), with the portfolio mix of lending broadly comparable year-on-year.

Credit scoring metrics for existing loan balances remained robust, with modest increases in future probability of default and affordability scores observed as more customers migrated into arrears and customers' credit profiles were adversely impacted by the increasing costs of living and borrowing.

The Group remains a fully secured lender with prudent lending policies and criteria coupled with property value appreciation in prior periods, ensuring that existing lending was well positioned to absorb observed reductions in property values during 2023. Weighted average LTV levels increased to 63% OSB and 65% CCFS respectively as of 31 December 2023 (31 December 2022: OSB 58% and CCFS 63%). The weighted average LTV profile remained 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).

During 2023 the Group observed an increase in arrears levels with balances over three months in arrears increasing to 1.4% of the loan book as at 31 December 2023 (31 December 2022: 1.1%). For OSB bank, arrears increased to 1.6% from 1.2% at the end of 2022 while for CCFS arrears increased to 1.2% from 0.9% at the end of 2022. The increased arrears were largely driven by the rising cost of living and cost of borrowing, as accounts reverted onto higher product interest rates and customers absorbed the rising costs of day-to-day living.

At the Group level Buy-to-Let arrears levels remained lower than UK Finance Buy-to-Let arrears trends, with year-on-year growth broadly inline. The growth in greater than three months in arrears residential mortgage balances remained higher than UK Finance, with arrears growth marginally higher than UK

Finance trends, reflecting the higher proportion of near prime lending versus the predominantly prime residential mortgage lending captured within the UK Finance data.

The timelines for repossessing and selling properties continued to be impacted by ongoing delays in the court hearing process.

The Group actively monitors performance against a set of internal risk appetite and early warning indicators together with wider benchmarked external data provided by third parties, including UK Finance. During 2023 the Group's arrears performance operated inside of forecasted estimates, and prudent IFRS 9 provision coverage levels continued to be held to cover for forecasted future losses.

During 2023 the Group observed a marked increase in the number of forbearance measures requested by customers experiencing financial difficulty, with 1,552 requests supported during 2023 versus 854 in the prior year. Again, this was driven by the rising costs of living and borrowing. The balance of these forbearance measures granted as of 31 December 2023 totalled £235m versus £88m as of 31 December 2022. The most common solutions provided were payment deferral, interest only switch, interest rate reduction and term extension. The largest provision of forbearance was to residential first charge mortgage holders.

Expected Credit Losses (ECL)
Balance sheet expected credit losses increased from £130.0m 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:

- 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.
- Model and staging enhancements – enhancements were made to the Group's models to ensure that estimates continued to reflect actual credit 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.
- 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. 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. 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 were forecast to have peaked.
- 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.
- Changes in risk profile – as the Group's loan book continued to grow, provisions were 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.

- Individually assessed provisions – the Group's specialist real estate management and financial support 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.
- 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.

Impairment coverage levels were broadly flat compared to 31 December 2022, with cost of living and cost of borrowing further embedded within the Group's framework and models. The reduction in stage 3 coverage ratios was driven by the write off of previously reported fraudulent activity cases which were fully provisioned.

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 £m**
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	Gross carrying amount £m	Expected credit losses £m	Coverage ratio £m
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 over 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 into their 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.

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 the subsequent rising interest rates used 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	Probability weighting (%)	Economic measure	Scenario %				
			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	(2.5)	(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	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

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 for both the borrower and the Group.

Borrowers who are experiencing financial difficulties, either 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 is 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 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.

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 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, Pillar 2A, 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 Group's CET1 and total capital ratios reduced to 16.1% and 19.5%, respectively as at 31 December 2023 (31 December 2022: 18.3% and

19.7%, respectively) but remained significantly above risk appetite. The Group's leverage ratio was 7.5% as at 31 December 2023 (31 December 2022: 8.4%).

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 the 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.

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 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 (LCR). 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 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 its OSBI subsidiary. 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
The operational risk management framework has been designed to ensure a robust approach to the identification, measurement and mitigation of operational risks, utilising a combination of both qualitative and quantitative evaluations. The Group's operational processes, systems and controls are designed to minimise disruption to customers, damage to the Group's reputation and any detrimental impact on financial performance. 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 operational risk identification and assessment processes are established across the Group in a consistent manner.

A hybrid working model has been adopted across the Group, with the exception being front-line customer-facing colleagues. 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 markets 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 good customer outcomes.

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

The Group considers effective conduct risk management to be a product of the positive behaviour of all employees, influenced by a 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.

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 Group’s share price and Net Promoter Scores.

Viability statement

The Group's long-term direction is informed by business and strategic plans which are set on an annual basis and are reviewed and refreshed quarterly. The operating and financial plans consider, among other matters, the Board's risk appetite, the macroeconomic outlook, market opportunity, the competitive landscape, and sensitivity of the financial plans to volumes, margin pressures and any changes in capital requirements.

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

The Group prepares financial forecasts over a five-year time horizon, with the Board and management focusing on the projections over the first three years. Key events which will impact the Group's capital adequacy such as the introduction of Basel 3.1, the impact of the implementation of the Group's Minimum Requirements for Own Funds and Eligible Liabilities (MREL) and the impact of the peak stress point of macroeconomic forecasts all fall within a three-year time horizon. Post consideration of these factors, the Board considers a viability assessment horizon of three years to remain appropriate.

The Banks within the Group are authorised by the PRA and regulated by the FCA and the PRA. The Group has a robust set of policies, procedures and systems to undertake a comprehensive assessment of all the principal risks and uncertainties to which it is exposed on a current and forward-looking basis.

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

The viability of the Group is assessed at both the Group and the underlying regulated bank levels, through leveraging the risk management frameworks and stress testing capabilities of both regulated banks.

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

A broad range of stress scenarios are analysed considering the potential impacts to changes in HPI, unemployment, inflation and interest rates over a range of severities. Stresses are applied to lending volumes, capital requirements, liquidity and funding mix, interest margins and credit and operational losses. Stress testing also supports key regulatory submissions such as the ICAAP, ILAAP and the Group Recovery Plan. ICAAP stress testing assesses capital resources and requirements over a five-year period.

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

In assessing the Group's long-term viability, the Directors have assumed that the Group will be able to issue MREL-eligible debt instruments to meet its MREL requirements. The Board assessed the uncertainty around the quantum and phasing of MREL issuance resulting from the ongoing Basel 3.1 consultation.

The Group successfully issued its first £300m of MREL qualifying debt securities plus £250m Tier 2 debt securities in 2023 followed by a further issuance of £400m of MREL qualifying debt securities in January 2024, following which, the Group met its interim MREL requirement, including regulatory buffers.

In addition, the Group identifies a range of catastrophic scenarios, which could result in the failure of its current business model. Business model failure scenarios (Reverse Stress Tests or RSTs) are primarily used to inform the Board of the outer limits of the Group's risk profile. RSTs play an important role in helping the Board and Executives to assess the available recovery options to revive a failing business model.

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

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

The Group has maintained strong capital and funding profiles with a view to ensuring continued financial resilience. However, the Group remains fully cognisant of the uncertain macroeconomic environment and ensures that stress testing activities consider a range of potential scenarios.

The Board has also considered the potential implications of the current macroeconomic uncertainty in its assessment of the financial and operational viability of the Group and has a reasonable belief that the Group retains adequate levels of financial resources (capital and liquidity) and operational contingency.

In line with prior years, in the viability assessment process the Board considered the latest macroeconomic forward-looking scenarios utilised for business planning and the Group's IFRS 9 calculations which consider macroeconomic risks such as rising levels of unemployment, inflation, interest rate rises and movements in house prices. Utilising analysis which identifies scenarios which would result in the Group becoming unviable, the Board considered the plausibility of these scenarios materialising. Forecasts and capital stress tests considered the impact of IFRS 9 transitional arrangements unwinding, the Group's go-forward MREL phasing in, whilst incorporating the Group's simulation of the impact of Basel 3.1 implementation.

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

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

- creating a new Group-wide stress testing tool which simulates the performance of the loan book through macroeconomic stresses including impacts on balances, income, losses and RWAs
- increasing the diversification of its funding profile, supported by an enhanced assessment of funding and liquidity risk profiles

enhancing the assessment of operational resilience through the ongoing review of priority business functions, including supporting infrastructure and dependencies through a simulated business continuity exercise.

The current financial forecasts, risk profile characteristics and stress test analysis, the Group's capital, funding and operational capabilities support the Directors' assessment that they have a reasonable expectation that the Group will remain viable over the three-year horizon and will be able to continue to operate and meet its liabilities as they fall due over this period.

Statement of Directors' Responsibilities

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

Company law requires the Directors to prepare Group and parent Company financial statements for each financial year. Under that law, they are required to prepare the Group financial statements in accordance with 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 the year. In preparing each of the Group and parent Company financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable, relevant and reliable;
- state whether they have been prepared in accordance with IFRSs as adopted by the 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, Directors' Report, Directors' Remuneration Report and Corporate Governance Statement that complies with that law and those regulations.

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

Responsibility statement of the Directors in respect of the annual financial report
Each of the persons who is a Director at the date of approval of this report confirms, to the best of their knowledge, that:

- the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole; and

- the Strategic Report/Directors' Report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

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

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

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

Approved by the Board and signed on its behalf by:

Jason Elphick
Group General Counsel and Company Secretary
14 March 2024

OSB GROUP PLC

Consolidated Statement of Comprehensive Income

for the year ended 31 December 2023

	Note	2023 £m	2022 £m
Interest receivable and similar income	3	**1,767.0**	1,069.3
Interest payable and similar charges	4	**(1,108.4)**	(359.4)
Net interest income		**658.6**	709.9
Fair value (losses)/gains on financial instruments	5	**(4.4)**	58.9
Other operating income	6	**3.9**	6.6
Total income		**658.1**	775.4
Administrative expenses	7	**(234.6)**	(207.8)
Provisions	34	**(0.4)**	1.6
Impairment of financial assets	21	**(48.8)**	(29.8)
Integration costs	10	**-**	(7.9)
Profit before taxation		**374.3**	531.5
Taxation	11	**(91.7)**	(121.5)
Profit for the year		**282.6**	410.0
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	16	**(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		**281.7**	409.5
Dividend, pence per share	13	**32.0**	42.2
Earnings per share, pence per share			
Basic	12	**66.1**	90.8
Diluted	12	**65.0**	89.8

The above results are derived wholly from continuing operations.

The notes on pages 68 to 159 form part of these accounts.

The financial statements on pages 64 to 67 were approved by the Board of Directors on 14 March 2024.

OSB GROUP PLC

Consolidated Statement of Financial Position

As at 31 December 2023

	Note	**2023** **£m**	2022 £m
Assets			
Cash in hand		**0.4**	0.4
Loans and advances to credit institutions	15	**2,813.6**	3,365.7
Investment securities	16	**621.7**	412.9
Loans and advances to customers	17	**25,765.0**	23,612.7
Fair value adjustments on hedged assets	23	**(243.5)**	(789.0)
Derivative assets	22	**530.6**	888.1
Other assets	24	**27.6**	15.0
Current taxation asset		**0.6**	1.7
Deferred taxation asset	25	**3.9**	6.3
Property, plant and equipment	26	**43.8**	40.9
Intangible assets	27	**26.1**	12.0
Total assets		**29,589.8**	27,566.7
Liabilities			
Amounts owed to credit institutions	28	**3,575.0**	5,092.9
Amounts owed to retail depositors	29	**22,126.6**	19,755.8
Fair value adjustments on hedged liabilities	23	**21.9**	(55.1)
Amounts owed to other customers	30	**63.3**	113.1
Debt securities in issue	31	**818.5**	265.9
Derivative liabilities	22	**199.9**	106.6
Lease liabilities	32	**11.2**	9.9
Other liabilities	33	**39.6**	38.7
Provisions	34	**0.8**	0.4
Deferred taxation liability	35	**6.3**	22.3
Senior notes	36	**307.5**	-
Subordinated liabilities	37	**259.5**	-
Perpetual Subordinated Bonds	38	**15.2**	15.2
		27,445.3	25,365.7
Equity			
Share capital	40	**3.9**	4.3
Share premium	40	**3.8**	2.4
Other equity instruments	41	**150.0**	150.0
Retained earnings		**3,330.2**	3,389.4
Other reserves	42	**(1,343.4)**	(1,345.1)
Shareholders' funds		**2,144.5**	2,201.0
Total equity and liabilities		**29,589.8**	27,566.7

The notes on pages 68 to 159 form part of these accounts. The financial statements on pages 64 to 67 were approved by the Board of Directors on 14 March 2024 and signed on its behalf by

Andy Golding
Chief Executive Officer

April Talintyre
Chief Financial Officer

Company number: 11976839

OSB GROUP PLC

Consolidated Statement of Changes in Equity

For the year ended 31 December 2023

	Share capital £m	Share premium £m	Capital redemption and transfer reserve[1] £m	Own shares[2] £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	0.7	(1,355.3)	(3.5)	(1.1)	0.6	13.4	3,215.1	150.0	2,024.4
Profit for the year	-	-	-	-	-	-	-	410.0	-	410.0
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)	-	410.0	-	409.5
Coupon paid on Additional Tier 1 (AT1) securities	-	-	-	-	-	-	-	(9.0)	-	(9.0)
Dividends paid	-	-	-	-	-	-	-	(133.1)	-	(133.1)
Share-based payments	-	1.7	-	-	-	-	(0.2)	8.4	-	9.9
Own shares[2]	-	-	-	1.3	-	-	-	(1.3)	-	-
Share repurchase	(0.2)	-	0.2	-	-	-	-	(100.7)	-	(100.7)
At 31 December 2022	4.3	2.4	(1,355.1)	(2.2)	(1.3)	0.3	13.2	3,389.4	150.0	2,201.0
Profit for the year	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**282.6**	**-**	**282.6**
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)**	**-**	**282.6**	**-**	**281.7**
Coupon paid on AT1 securities	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(9.0)**	**-**	**(9.0)**
Dividends paid	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(185.0)**	**-**	**(185.0)**
Share-based payments	**-**	**1.4**	**-**	**-**	**-**	**-**	**0.6**	**5.0**	**-**	**7.0**
Own shares[2]	**-**	**-**	**-**	**1.2**	**-**	**-**	**-**	**(1.2)**	**-**	**-**
Share repurchase	**(0.4)**	**-**	**0.4**	**-**	**-**	**-**	**-**	**(151.6)**	**-**	**(151.6)**
Tax recognised in equity	**-**	**-**	**-**	**-**	**-**	**-**	**0.4**	**-**	**-**	**0.4**
At 31 December 2023	**3.9**	**3.8**	**(1,354.7)**	**(1.0)**	**(2.1)**	**0.2**	**14.2**	**3,330.2**	**150.0**	**2,144.5**

1. Comprises Capital redemption reserve of £0.6m (2022: £0.2m) and Transfer reserve of £(1,355.3)m (2022: £(1,355.3)m).
2. The Group has adopted look-through accounting (see note 1 c)) and recognised the Employee Benefit Trust (EBT) within OSBG.

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

OSB GROUP PLC

Consolidated Statement of Cash Flows

For the year ended 31 December 2023

	Note	**2023 £m**	2022 £m
Cash flows from operating activities			
Profit before taxation		**374.3**	531.5
Adjustments for non-cash and other items	49	**294.0**	63.7
Changes in operating assets and liabilities	49	**(139.5)**	(24.2)
Cash generated from operating activities		**528.8**	571.0
Net tax paid		**(103.6)**	(142.5)
Net cash generated from operating activities		**425.2**	428.5
Cash flows from investing activities			
Maturity and sales of investment securities		**366.3**	663.7
Purchases of investment securities		**(664.3)**	(596.5)
Interest received on investment securities		**22.6**	7.7
Purchases of property, plant and equipment and intangible assets	26,27	**(25.8)**	(11.7)
Net cash from investing activities		**(301.2)**	63.2
Cash flows from financing activities			
Financing received	39	**1,328.6**	429.5
Financing repaid	39	**(1,430.3)**	(324.2)
Interest paid on financing	39	**(205.4)**	(45.3)
Share repurchase[1]		**(152.4)**	(102.0)
Coupon paid on AT1 securities		**(9.0)**	(9.0)
Dividends paid	13	**(185.0)**	(133.1)
Proceeds from issuance of shares under employee Save As You Earn (SAYE) schemes		**1.4**	1.7
Repayments of principal portion of lease liabilities		**(2.0)**	(1.9)
Net cash from financing activities		**(654.1)**	(184.3)
Net (decrease)/increase in cash and cash equivalents		**(530.1)**	307.4
Cash and cash equivalents at the beginning of the year	14	**3,044.1**	2,736.7
Cash and cash equivalents at the end of the year	14	**2,514.0**	3,044.1
Movement in cash and cash equivalents		**(530.1)**	307.4

1. Includes £150.0m (2022: £100.0m) for shares repurchased, £0.8m (2022: £0.7m) transaction costs and £1.6m (2022: £1.3m) incentive fee.

1. Accounting policies

a) Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the United Kingdom (UK) and interpretations issued by the 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 p) vi.).

The financial statements are presented in Pounds Sterling. All amounts in the financial statements have been rounded to the nearest £0.1m (£m). Foreign operations are included in accordance with the policies set out in this note.

The figures shown for the year ended 31 December 2023 are not statutory accounts within the meaning of section 435 of the Companies Act 2006. The statutory accounts for the year ended 31 December 2023 on which the auditors have given an unqualified audit report and did not contain an adverse statement under section 498(2) or 498(3) of the Companies Act 2006 will be delivered to the Registrar of Companies after the Annual General Meeting. The figures shown for the year ended 31 December 2022 are not statutory accounts. A copy of the statutory accounts has been delivered to the Registrar of Companies, contained an unqualified audit report and did not contain an adverse statement under section 498(2) or 498(3) of the Companies Act 2006. This announcement has been agreed with the Company's auditors for release.

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.

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).

1. Accounting policies (continued)

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.

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

In the Company's financial statements, investments in subsidiary undertakings are stated at cost less impairment. A full list of the Company's subsidiaries which are included in the Group's consolidated financial statements can be found in note 2 to the Company's financial statements on page 161.

1. Accounting policies (continued)

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.

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.

1. Accounting policies (continued)

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.

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.

1. Accounting policies (continued)

j) Dividends

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

k) Cash and cash equivalents

For the purposes of the Consolidated Statement of Cash Flows, cash and cash equivalents comprise cash, non-restricted balances with credit institutions and highly liquid financial assets with maturities of less than three months from date of acquisition, 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.

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.

1. Accounting policies (continued)

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

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.

1. Accounting policies (continued)

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.
- **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.

Share repurchase

Upon Board authorisation of a share repurchase programme and signing an irrevocable agreement, a share repurchase liability is recognised in other liabilities with the offset in retained earnings. Each share repurchase reduces the provision. Upon share cancellation, share capital is debited with a credit to the capital redemption reserve equal to the nominal value of £0.01 for each share cancelled.

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.

1. Accounting policies (continued)

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.

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 Consolidated Statement of Financial Position, as the Group retains substantially all the risks and rewards of ownership, including all cash flows arising from the loans and advances and exposure to credit risk. The Group classifies 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) 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.

q) 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.

r) 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.

1. Accounting policies (continued)

s) 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 Consolidated Statement of Financial Position as fair value adjustments on hedged assets and liabilities. The fair value changes of both the derivative and the hedge substantially offset each other to reduce profit volatility.

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

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

t) 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.

u) 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.

v) 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.

w) 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.

1. Accounting policies (continued)

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.

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

x) 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 Consolidated Statement of Cash Flows.

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

For modifications that increase the length of a lease; the modified lease term is determined and the lease liability remeasured by discounting the revised lease payments using a revised discount rate, at the effective date of the lease modification; a corresponding adjustment is made to the right-of-use asset. Where modifications decrease the length of a lease, the lease liability and right-of-use asset are reduced in proportion to the reduction in the lease term, with any gain or loss recognised in profit or loss.

1. Accounting policies (continued)

y) 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 the Risk review 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 20.

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 50.

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 20)	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

	2023 £m	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

	2023 £m	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	**17.1**	1.1
On senior notes	**9.1**	-
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)
	1,036.2	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**	-
	1,108.4	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

	2023 £m	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

	2023 £m	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

	2023 £m	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	**32.9**	30.2
Other costs	**10.9**	12.8
Depreciation (see note 26)	**6.2**	5.2
Amortisation (see note 27)	**5.7**	8.2
	234.6	207.8

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

	2023 £'000	2022 £'000
Fees payable to the Company's auditor for the audit of the Company's annual accounts	**81**	75
Fees payable to the Company's auditor for the audit of the accounts of subsidiaries	**3,788**	3,340
Total audit fees	**3,869**	3,415
Audit-related assurance services[1]	**487**	254
Other assurance services[2]	**366**	259
Other non-audit services[3]	**42**	33
Total non-audit fees	**895**	546
Total fees payable to the Company's auditor	**4,764**	3,961

1. Includes review of interim financial information and profit verifications.
2. Costs comprise assurance reviews of Alternative Performance Measures (APMs), Environmental, social and governance (ESG) and European Single Electronic Format (ESEF) tagging (2022: assurance reviews of APMs, ESG and 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:

	2023 **£m**	2022 £m
Salaries, incentive pay and other benefits	**101.2**	87.3
Share-based payments	**5.6**	8.1
Social security costs	**10.5**	9.5
Other pension costs	**4.9**	4.4
	122.2	109.3

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

	2023	2022
UK	**1,461**	1,274
India	**811**	622
	2,272	1,896

8. Directors' emoluments and transactions

	2023 **£'000**	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.

8. Directors' emoluments and transactions (continued)

The Executive Directors received a further share award under the Performance Share Plan (PSP) with a grant date fair value of £1,592k (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 Annual Report on Remuneration.

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

No compensation was paid for loss of office during 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 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.

9. Share-based payments (continued)

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.

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

	2023 **£m**	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	-	-

9. Share-based payments (continued)

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

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 the Company's share price. Prior to this the Group used the FTSE 350 diversified financials volatility as insufficient history was available for the Company's share price.
- 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.

9. Share-based payments (continued)

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

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

	2023 £m	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:

	2023 £m	2022 £m
Corporation tax	105.7	141.4
Corporation taxation - prior year adjustments	(0.4)	(0.9)
Total current tax	105.3	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	91.7	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:

	2023 £m	2022 £m
Profit before taxation	**374.3**	531.5
Profit multiplied by the standard rate of UK Corporation Tax 23.5% (2022: 19%)	**88.0**	101.0
Bank surcharge[1]	**8.4**	30.2
Taxation effects of:		
Expenses not deductible for taxation purposes	**0.3**	0.5
Securitisation profits not taxable[2]	**(2.5)**	(2.2)
Timing differences on capital items	**(0.8)**	(0.4)
Utilisation of brought forward tax losses	**(0.3)**	(0.3)
Tax adjustments in respect of share based payments	**0.4**	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	**105.3**	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	**91.7**	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. Earnings per share

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

For the purpose of calculating EPS, profit attributable to ordinary shareholders is arrived at by adjusting profit for the year for the coupon on securities classified as equity:

	2023 **£m**	2022 £m
Statutory profit after tax	**282.6**	410.0
Less: Coupon on AT1 securities classified as equity	**(9.0)**	(9.0)
Statutory profit attributable to ordinary shareholders	**273.6**	401.0

	2023	2022
Weighted average number of shares, millions		
Basic	**414.2**	441.5
Dilutive impact of share-based payment schemes	**7.0**	5.1
Diluted	**421.2**	446.6
Earnings per share, pence per share		
Basic	**66.1**	90.8
Diluted	**65.0**	89.8

13. Dividends

	2023		2022	
	£m	**Pence per share**	£m	Pence per share
Final dividend for the prior year	**93.8**	**21.8**	94.8	21.1
Special dividend for the prior year	**50.3**	**11.7**	-	-
Interim dividend for the current year	**40.9**	**10.2**	38.3	8.7
	185.0		133.1	

The Directors recommend a final dividend of £85.7m, 21.8 pence per share (2022: £93.7m, 21.8 pence per share) payable on 14 May 2024 with an ex-dividend date of 4 April 2024 and a record date of 5 April 2024. This dividend is not reflected in these financial statements as it is subject to approval by shareholders at the AGM on 9 May 2024.

No special dividend has been announced (2022: £50.3m, 11.7 pence per share).

If the final dividend is approved this will make up the total dividend for 2023 of £126.6m, 32.0 pence per share (2022: £182.0m, 42.2 pence per share).

A summary of the Company's distributable reserves is shown below:

	2023	2022
	£m	£m
Retained earnings	**1,358.6**	1,359.3
Own shares[1]	**(1.0)**	(2.2)
Distributable reserves	**1,357.6**	1,357.1

1. Own Shares comprises own shares held in the Group's EBT of £1.0m (2022: £2.2m) which are recognised within OSBG under look-through accounting.

Further additional distributable reserves can be realised over time from dividend receipts from profits generated from the subsidiaries including two regulated banks within the Group.

14. Cash and cash equivalents

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

	2023	2022
	£m	£m
Cash in hand	**0.4**	0.4
Unencumbered loans and advances to credit institutions	**2,513.6**	2,953.7
Investment securities	**-**	90.0
	2,514.0	3,044.1

15. Loans and advances to credit institutions

	2023 £m	2022 £m
Unencumbered:		
BoE call account	**2,256.3**	2,806.5
Call accounts	**92.2**	73.2
Cash held in special purpose vehicles (SPVs)[1]	**147.8**	63.8
Term deposits	**17.3**	10.2
Encumbered:		
BoE cash ratio deposit	**69.6**	62.8
Cash held in SPVs[1]	**31.8**	111.8
Cash margin given	**198.6**	237.4
	2,813.6	3,365.7

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.

16. Investment securities

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

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

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.

16. Investment securities (continued)

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 are analysed as follows:

	2023	2022
	£m	£m
At 1 January	**412.9**	491.4
Additions[1]	**664.3**	686.5
Disposals and maturities[2]	**(456.3)**	(764.4)
Movement in accrued interest	**1.0**	(0.9)
Changes in fair value	**(0.2)**	0.3
At 31 December	**621.7**	412.9

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 includes £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.

17. Loans and advances to customers

	2023	2022
	£m	£m
Held at amortised cost:		
Loans and advances (see note 18)	**25,674.4**	23,564.9
Finance leases (see note 19)	**222.7**	163.2
	25,897.1	23,728.1
Less: Expected credit losses (see note 20)	**(145.8)**	(130.0)
	25,751.3	23,598.1
Held at FVTPL:		
Residential mortgages	**13.7**	14.6
	25,765.0	23,612.7

18. Loans and advances

	2023			2022		
	OSB	**CCFS**	**Total**	OSB	CCFS	Total
	£m	**£m**	**£m**	£m	£m	£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

The mortgage loan balances pledged as collateral for liabilities are:

	2023	2022
	£m	£m
BoE under TFSME and ILTR	**6,092.4**	6,439.7
Securitisation	**841.7**	265.4
	6,934.1	6,705.1

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%).

18. Loans and advances (continued)

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

	Stage 1 £m	Stage 2 £m	Stage 3 £m	Stage 3 (POCI) £m	Total £m
At 1 January 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.

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).

As at 31 December 2023 £126.7m of loans and advances (2022: £110.0m) 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 are in this category of default (2022: £32.1m).

19. Finance leases

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

	2023 £m	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).

20. Expected credit losses

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

	2023			2022		
	ECL provision £m	**Weighting %**	**Weighted ECL provision £m**	ECL provision £m	Weighting %	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

20. 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) 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) 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).

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).

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) has been recognised for the expected losses.

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

	2023			2022		
	OSB	**CCFS**	**Total**	OSB	CCFS	Total
	£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

20. Expected credit losses (continued)

The tables below show the movement in the ECL by IFRS 9 stage during the year. ECLs on originations and acquisitions reflect the IFRS 9 stage of loans originated or acquired during the year as at 31 December and not the date of origination. Re-measurement of loss allowance relates to existing loans which did not redeem during the year and includes the impact of loans moving between IFRS 9 stages.

	Stage 1 £m	Stage 2 £m	Stage 3 £m	Stage 3 (POCI) £m	Total £m
At 1 January 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**

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

	2023			2022		
	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

20. Expected credit losses (continued)

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.

21. Impairment of financial assets

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

	2023	2022
	£m	£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 Consolidated Statement of Comprehensive Income also includes a £4.6m credit (2022: nil) in respect of insurance recoveries.

22. Derivatives

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

	Gross amount of recognised financial assets / (liabilities)	**Net amount of financial assets / (liabilities) presented in the Consolidated Statement of Financial Position**	**Contracts subject to master netting agreements not offset in the Consolidated Statement of Financial Position**	**Cash collateral paid / (received) not offset in the Consolidated Statement of Financial Position**	**Net amount**
	£m	**£m**	**£m**	**£m**	**£m**
At 31 December 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

22. Derivatives (continued)

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.

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

	Total nominal £m	Less than 3 months £m	3 - 12 months £m	1 - 5 years £m	More than 5 years £m
At 31 December 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	464.8	3,400.3	11,590.5	207.0
Derivative liabilities	9,518.0	1,503.0	6,001.0	1,789.0	225.0
	25,180.6	1,967.8	9,401.3	13,379.5	432.0

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

23. Hedge accounting

	2023 £m	2022 £m
Hedged assets		
Current hedge relationships	**(253.1)**	(827.9)
Swap inception adjustment	**40.4**	44.1
Cancelled hedge relationships	**(30.8)**	(5.2)
Fair value adjustments on hedged assets	**(243.5)**	(789.0)
Hedged liabilities		
Current hedge relationships	**(22.2)**	58.0
Swap inception adjustment	**0.3**	(2.3)
Cancelled hedge relationships	**-**	(0.6)
Fair value adjustments on hedged liabilities	**(21.9)**	55.1

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.

23. Hedge accounting (continued)

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).

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

	2023		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**	**(590.5)**	(620.6)	621.9
Cumulative fair value on cancelled hedge relationships	**(30.8)**	**-**	(5.2)	-

In the Consolidated 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.

The movement in cancelled hedge relationships is as follows:

Hedged assets	**2023 £m**	2022 £m
At 1 January	**(5.2)**	78.2
New cancellations[1]	**(23.0)**	(49.3)
Amortisation	**(2.6)**	(34.1)
At 31 December	**(30.8)**	(5.2)

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.

23. Hedge accounting (continued)

The tables below analyse the Group's portfolio hedge accounting for fixed rate amounts owed to retail depositors:

Customer deposits	2023 Hedged item £m	2023 Hedging instrument £m	2022 Hedged item £m	2022 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 Consolidated 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.

The table below analyses the Group's 'micro' hedge accounting for fixed rate senior notes and subordinated liabilities:

Senior notes and subordinated liabilities	2023 Hedged item £m	2023 Hedging instrument £m	2022 Hedged item £m	2022 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 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 Consolidated Statement of Financial Position, £15.6m (2022: nil) of hedging instruments were recognised within derivative assets.

24. Other assets

	2023 £m	2022 £m
Falling due within one year:		
Prepayments	**9.9**	7.8
Other assets	**11.9**	1.8
Falling due more than one year:		
Prepayments	**5.8**	5.4
	27.6	15.0

25. Deferred taxation asset

	Losses carried forward £m	Accelerated depreciation £m	Share-based payments £m	IFRS 9 transitional adjustments £m	Others[1] £m	Total £m
At 1 January 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.

26. Property, plant and equipment

	Freehold land and buildings £m	Leasehold improvements £m	Equipment and fixtures £m	Right of use assets: Property leases £m	Right of use assets: Other leases £m	Total £m
Cost						
At 1 January 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.

27. Intangible assets

	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.

28. Amounts owed to credit institutions

	2023 £m	2022 £m
BoE TFSME	**3,352.0**	4,232.0
BoE ILTR	**10.1**	300.9
Commercial repo	**0.1**	10.2
Loans from credit institutions	**-**	0.1
	3,362.2	4,543.2
Cash collateral and margin received	**212.8**	549.7
	3,575.0	5,092.9

29. Amounts owed to 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

	2023 £m	2022 £m
Fixed rate deposits	**58.8**	100.9
Variable rate deposits	**4.5**	12.2
	63.3	113.1

31. Debt securities in issue

	2023 £m	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

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:

	2023 £m	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

	2023 £m	2022 £m
At 1 January	**9.9**	10.7
New leases	**3.3**	0.9
Lease repayments	**(2.2)**	(1.9)
Interest accruals	**0.2**	0.2
At 31 December	**11.2**	9.9

During the year, the Group incurred expenses of £0.1m (2022: £0.3m) in relation to short-term leases.

33. Other liabilities

	2023 **£m**	2022 £m
Falling due within one year:		
Accruals	**26.5**	28.0
Deferred income	**0.4**	0.6
Other creditors	**12.7**	10.1
	39.6	38.7

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 FSCS and other provisions is presented below:

	2023				2022			
	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

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.

	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 25).

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 issued senior notes amounting to £300m under the planned MREL qualifying debt issuance as follows:

	2023 £m	2022 £m
Fixed rate:		
Senior notes 2028 (9.5%)	**307.5**	-

The senior notes comprise fixed rate notes denominated in pounds sterling and are listed on the official list of the FCA and admitted to trading on the main market of the London Stock Exchange plc.

The principal terms of the senior notes 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 OSBG 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 OSBG.

36. Senior notes(continued)

The table below shows a reconciliation of the Group's senior notes during the year.

	2023 £m	2022 £m
At 1 January	-	-
Addition[1]	298.4	-
Movement in accrued interest	9.1	-
At 31 December	**307.5**	-

1. Addition includes £1.6m towards transaction costs which has been amortised through the EIR of the loan notes.

37. Subordinated liabilities

The Group's outstanding subordinated liabilities are summarised below:

	2023 £m	2022 £m
Fixed rate:		
Subordinated liabilities 2033 (9.993%)	259.5	-

All subordinated liabilities are denominated in pounds sterling and are listed on the official list of the FCA and admitted to trading on the main market of the London Stock Exchange plc.

The principal terms of the subordinated debt liabilities 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 OSBG 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 OSBG.

37. Subordinated liabilities (continued)

The table below shows a reconciliation of the Group's subordinated liabilities during the year:

	2023 **£m**	2022 £m
At 1 January	**-**	10.3
Addition[1]	**248.7**	-
Movement in accrued interest	**10.8**	-
Repayment of debt	**-**	(10.3)
At 31 December	**259.5**	-

1. Addition includes £1.3m towards transaction costs which has been amortised through the EIR of the loan notes.

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

	2023 **£m**	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 liabilities classified as financing activities within the Consolidated Statement of Cash Flows:

	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**	**298.4**	**248.7**	**-**	**1,328.6**
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**	**9.1**	**17.1**	**0.7**	**245.7**
At 31 December 2023	**3,362.2**	**818.5**	**307.5**	**259.5**	**15.2**	**4,762.9**

40. Share capital

Ordinary shares	Number of shares issued and fully paid	Nominal value £m	Premium £m
At 1 January 2022	448,627,855	4.5	0.7
Shares cancelled under repurchase programme	(20,671,224)	(0.2)	-
Shares issued under OSBG employee share plans	1,911,994	-	1.7
At 31 December 2022	429,868,625	4.3	2.4
Shares cancelled under repurchase programme	**(38,243,031)**	**(0.4)**	**-**
Shares issued under OSBG employee share plans	**1,562,087**	**-**	**1.4**
At 31 December 2023	**393,187,681**	**3.9**	**3.8**

The Group's share repurchase programme commenced on 17 March 2023 (2022: 18 March 2022), and allowed the Group to repurchase a maximum of 43,024,375 shares (2022: 44,799,505 shares), restricted by a total cost of £150.0m (2022: £100.0m). The programme completed during the year and 38,243,031 shares (2022: 20,671,224), representing 8.9% (2022: 4.6%) of the issued share capital, have been repurchased and cancelled at an average price of £3.92 (2022: £4.84) per share and a total cost of £150.0m (2022: £100.0m) excluding transaction costs.

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	2023 £m	2022 £m
6% Perpetual subordinated contingent convertible securities	**150.0**	150.0

AT1 Securities

On 5 October 2021, OSBG issued AT1 securities. AT1 securities comprise £150.0m of Fixed Rate Resetting Perpetual Subordinated Contingent Convertible Securities that qualify as AT1 capital under CRD IV. The securities will be subject to full conversion into ordinary shares of OSBG in the event that the Group's 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 other reserves are as follows:

	2023 £m	2022 £m
Share-based payment	**14.2**	13.2
Capital redemption & transfer	**(1,354.7)**	(1,355.1)
Own shares	**(1.0)**	(2.2)
FVOCI	**0.2**	0.3
Foreign exchange	**(2.1)**	(1.3)
	(1,343.4)	(1,345.1)

Capital redemption and transfer reserve
The capital redemption reserve represents the shares cancelled through the Group's share repurchase programme.

On 27 November 2020, a new ultimate parent company was inserted into the Group, being OSBG. The share capital generated from issuing 447,304,198 nominal shares at £3.04 per share, replacing the nominal shares of £0.01 in OSB previously recognised in share capital at the consolidation level, created a transfer reserve of £1,355.3m.

Own shares
The Company has adopted the look-through approach for the EBT, including the EBT within the Company. As at 31 December 2023, the EBT held 188,106 OSBG shares (2022: 442,568 OSBG shares). The Group and Company show these shares as a deduction from equity, being the cost at which the shares were acquired of £1.0m (2022: £2.2m).

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:

	2023 £m	2022 £m
Land and buildings: due within:		
One year	**0.2**	0.3
Two to five years	**0.2**	0.3
	0.4	0.6

c) Undrawn loan facilities:

	2023 £m	2022 £m
OSB mortgages	**580.2**	741.6
CCFS mortgages	**391.8**	455.1
Asset finance	**27.4**	15.5
	999.4	1,212.2

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 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.

44. Risk management (continued)

Types of derivatives and uses

The derivative instruments used by the Group in managing its risk exposures are interest rate swaps. Interest rate swaps convert fixed interest rates to floating or vice versa. As with other derivatives, the underlying product is not sold and payments are based on notional principal amounts.

Unhedged fixed rate liabilities create the risk of paying above-the-market rate if interest rates subsequently decrease. Unhedged fixed rate mortgages and liquid assets bear the opposite risk of income below-the-market rate when rates go up. While fixed rate assets and liabilities naturally hedge each other to a certain extent, this hedge is usually never perfect because of maturity mismatches and principal amounts.

The Group uses swaps to convert its instruments, such as mortgages, deposits and liquid assets, from fixed or base rate-linked rates to reference linked variable rates. This ensures a guaranteed margin between the interest income and interest expense, regardless of changes in the market rates.

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 38 to 49.

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.

44. Risk management (continued)

Credit risk – loans and advances to customers

Credit risk associated with mortgage lending is largely driven by the housing market and level of unemployment. A recession and/or high interest rates could cause pressure within the market, resulting in rising levels of arrears and repossessions.

All loan applications are assessed with reference to the Group's Lending Policy. Changes to the policy are approved by the Group Risk Committee, with mandates set for the approval of loan applications.

The Group Credit Committee and ALCO regularly monitor lending activity, taking appropriate actions to reprice products and adjust lending criteria in order to control risk and manage exposure. Where necessary and appropriate, changes to the Lending Policy are recommended to the Group Risk Committee.

The following tables show the Group’s maximum exposure to credit risk and the impact of collateral held as security, capped at the gross exposure amount, by impairment stage. Capped collateral excludes the impact of forced sale discounts and costs to sell. The collateral value is determined by indexing against House Price Index data.

	2023					
	OSB		**CCFS**		**Total**	
	Gross carrying amount £m	**Capped collateral held £m**	**Gross carrying amount £m**	**Capped collateral held £m**	**Gross carrying amount £m**	**Capped collateral held £m**
Stage 1	**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**

	2022					
	OSB		CCFS		Total	
	Gross carrying amount £m	Capped collateral held £m	Gross carrying amount £m	Capped collateral held £m	Gross carrying amount £m	Capped collateral held £m
Stage 1	10,346.8	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.

44. Risk management (continued)

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

	2023				2022			
	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

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

44. Risk management (continued)

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

OSB	2023 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**

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:

CCFS	2023 Buy-to-Let £m	2023 Residential £m	2023 Bridging £m	2023 Second charge lending £m	2023 Total £m	2023 %
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**

CCFS	2022 Buy-to-Let £m	2022 Residential £m	2022 Bridging £m	2022 Second charge lending £m	2022 Total £m	2022 %
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)

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 page 54.

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.

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)

Geographical analysis by region

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

	2023				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

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.

44. Risk management (continued)

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.

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**		

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)

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.

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**

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

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:

	2023		2022	
	£m	**%**	£m	%
BoE[1]	**2,325.9**	**68**	2,869.3	76
Other banks	**487.7**	**14**	496.4	13
Central government	**296.0**	**9**	149.8	4
Securitisation	**325.7**	**9**	263.1	7
Total	**3,435.3**	**100**	3,778.6	100

1. Balances with the BoE include £69.6m (2022: £62.8m) 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:

	2023		2022	
	£m	**%**	£m	%
United Kingdom	**3,418.0**	**99**	3,765.7	100
India	**17.3**	**1**	12.9	-
Total	**3,435.3**	**100**	3,778.6	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 page 50.

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:

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	307.5	-	9.0	-	298.5	-
Subordinated liabilities	259.5	-	10.7	-	248.8	-
PSBs	15.2	-	-	15.2	-	-
Total liabilities	27,376.7	4,220.7	6,297.2	9,174.9	7,672.6	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)	(21,338.7)	2,354.6

44. Risk management (continued)

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	-	0.4	1.3	7.6	0.6
Subordinated liabilities	-	-	-	-	-	-
PSBs	15.2	-	-	-	15.2	-
Total liabilities	25,359.4	6,770.7	2,861.7	8,242.1	7,103.0	381.9
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)	(6,082.6)	(13,825.2)	(18,512.9)	2,920.4

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:

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	**307.5**	**414.1**	**14.3**	**14.3**	**385.5**	**-**
Subordinated liabilities	**259.5**	**368.7**	**12.5**	**12.5**	**343.7**	**-**
PSBs	**15.2**	**15.6**	**0.3**	**15.3**	**-**	**-**
Total liabilities	**27,376.7**	**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)

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

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:

	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	-	-	-	(141.5)	(141.5)
	7,159.8	101.4	20,660.1	1,668.5	29,589.8

	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	-	-	-	(713.1)	(713.1)
	6,988.9	174.6	19,597.9	805.3	27,566.7

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)

Liquidity risk – liquidity reserves

The tables below analyse the Group's liquidity reserves, where carrying value is considered to be equal to fair value:

	2023	2022
	£m	£m
Unencumbered balances with central banks	**2,256.3**	2,806.5
Unencumbered cash and balances with other banks	**257.3**	147.2
Other cash and cash equivalents	**0.4**	0.4
Unencumbered investment securities	**594.6**	366.5
	3,108.6	3,320.6

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.

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:

44. Risk management (continued)

	2023	2022
	£m	£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:

	2023	2022
	£m	£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	2022
	£m	£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).

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:

	2023	2022
	£m	£m
OSB	**7.7**	5.8
CCFS	**4.8**	4.5
	12.5	10.3

44. Risk management (continued)

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.

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 16 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 Consolidated Statement of Financial Position:

		2023				
	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	15	10.7	-	-	2,802.9	2,813.6
Investment securities	16	0.3	-	296.0	325.4	621.7
Loans and advances to customers	17	13.7	-	-	25,751.3	25,765.0
Derivative assets	22	-	530.6	-	-	530.6
Other assets[1]	24	-	-	-	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	22	-	199.9	-	-	199.9
Other liabilities[2]	33	-	-	-	39.2	39.2
Senior notes	36	-	-	-	307.5	307.5
Subordinated liabilities	37	-	-	-	259.5	259.5
PSBs	38	-	-	-	15.2	15.2
		-	199.9	-	27,204.8	27,404.7

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

45. Financial instruments and fair values (continued)

		2022				
	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	15	-	-	-	3,365.7	3,365.7
Investment securities	16	0.5	-	149.8	262.6	412.9
Loans and advances to customers	17	14.6	-	-	23,598.1	23,612.7
Derivative assets	22	-	888.1	-	-	888.1
Other assets[1]	24	-	-	-	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	22	-	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.

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 Consolidated Statement of Financial Position:

	2023		2022	
	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**	**24,900.0**	23,598.1	22,746.0
Other assets[1]	**11.9**	**11.9**	1.8	1.8
	28,891.9	**28,040.4**	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	**307.5**	**309.1**	-	-
Subordinated liabilities	**259.5**	**246.0**	-	-
PSBs	**15.2**	**14.4**	15.2	14.0
	27,204.8	**27,190.9**	25,281.0	25,217.0

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.

45. Financial instruments and fair values (continued)

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.

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 Consolidated Statement of Financial Position grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

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**

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

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 Consolidated Statement of Financial Position grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

			Estimated fair value			
2023	**Carrying amount £m**	**Principal amount £m**	**Level 1 £m**	**Level 2 £m**	**Level 3 £m**	**Total £m**
Financial assets						
Cash in hand	**0.4**	**0.4**	**-**	**0.4**	**-**	**0.4**
Loans and advances to credit institutions	**2,802.9**	**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**	**22,787.1**	**24,900.0**
Other assets[1]	**11.9**	**11.9**	**-**	**11.9**	**-**	**11.9**
	28,891.9	**29,050.0**	**-**	**5,253.3**	**22,787.1**	**28,040.4**
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	**307.5**	**300.0**	**-**	**309.1**	**-**	**309.1**
Subordinated liabilities	**259.5**	**250.0**	**-**	**246.0**	**-**	**246.0**
PSBs[3]	**15.2**	**15.0**	**-**	**14.4**	**-**	**14.4**
	27,204.8	**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)

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.

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)	473.8	240.9	(56.1)	658.6
Other (expense)/income	(3.1)	(3.8)	6.4	(0.5)
Total income/(expense)	470.7	237.1	(49.7)	658.1
Impairment of financial assets	(41.6)	(6.9)	(0.3)	(48.8)
Contribution to profit	429.1	230.2	(50.0)	609.3
Administrative expenses	(132.5)	(100.4)	(1.7)	(234.6)
Provisions	(0.3)	(0.1)	-	(0.4)
Profit/(loss) before taxation	296.3	129.7	(51.7)	374.3
Taxation[1]	(75.6)	(30.7)	14.6	(91.7)
Profit/(loss) for the year	220.7	99.0	(37.1)	282.6

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	(130.9)	(73.1)	(3.8)	(207.8)
Provisions	1.6	-	-	1.6
Integration costs	(6.8)	(1.1)	-	(7.9)
Profit/(loss) before taxation	311.2	272.0	(51.7)	531.5
Taxation[1]	(70.1)	(70.2)	18.8	(121.5)
Profit/(loss) for the year	241.1	201.8	(32.9)	410.0

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. Country by country reporting (CBCR)

CBCR was introduced through Article 89 of CRD IV, aimed at the banking and capital markets industry. The name, nature of activities and geographic location of the Group's companies are presented below:

Jurisdiction	Country	Name	Activities
UK[1]	England	OSB GROUP PLC	Holding company
		OneSavings Bank plc	Mortgage lending and deposit taking
		5D Finance Limited	Mortgage servicer and provider
		Broadlands Finance Limited	Mortgage administration services
		Charter Court Financial Services Group Plc	Intermediate holding company
		Charter Court Financial Services Limited	Mortgage lending and deposit taking
		Charter Mortgages Limited	Mortgage administration and analytical services
		Easioption Limited	Intermediate holding company
		Exact Mortgage Experts Limited	Group service company
		Guernsey Home Loans Limited	Mortgage provider
		Heritable Development Finance Limited	Mortgage originator and servicer
		Inter Bay Financial I Limited	Intermediate holding company
		InterBay Asset Finance Limited	Asset finance and mortgage provider
		Interbay Funding, Ltd	Mortgage servicer
		Interbay ML, Ltd	Mortgage provider
		Jersey Home Loans Limited	Mortgage provider
		Prestige Finance Limited	Mortgage originator and servicer
		Reliance Property Loans Limited	Mortgage provider
		Rochester Mortgages Limited	Mortgage provider
	Guernsey	Guernsey Home Loans Limited	Mortgage provider
	Jersey	Jersey Home Loans Limited	Mortgage provider
UK	England	Canterbury Finance No. 2 plc	Special purpose vehicle
		Canterbury Finance No. 3 plc	
		Canterbury Finance No. 4 plc	
		Canterbury Finance No. 5 plc	
		CMF 2020-1 plc	
		CMF 2023-1 plc	
		Keys Warehouse No.1 Limited	
UK	England	WSE Bourton Road Limited	Land lease investment
India	India	OSB India Private Limited	Back office processing

1. Guernsey Home Loans Limited (Guernsey) and Jersey Home Loans Limited (Jersey) are incorporated in Guernsey and Jersey respectively, but are considered to be located in the UK as they are managed and controlled in the UK with no permanent establishments in Guernsey or Jersey.

48. Country by country reporting (continued)

Other disclosures required by the CBCR directive are provided below:

2023	**UK**	**India**	**Consolidation[2]**	**Total**
Average number of employees	**1,461**	**811**	**-**	**2,272**
Turnover[1], £m	**657.3**	**18.7**	**(17.9)**	**658.1**
Profit/(loss) before tax, £m	**373.5**	**3.1**	**(2.3)**	**374.3**
Corporation tax paid, £m	**102.8**	**0.8**	**-**	**103.6**

2022	UK	India	Consolidation[2]	Total
Average number of employees	1,274	622	-	1,896
Turnover[1], £m	775.1	13.6	(13.3)	775.4
Profit/(loss) before tax, £m	531.2	2.2	(1.9)	531.5
Corporation tax paid, £m	142.0	0.5	-	142.5

1. Turnover represents total income before impairment of financial and intangible assets, regulatory provisions and operating costs, but after net interest income, gains and losses on financial instruments and other operating income.
2. Relates to a management fee to Indian subsidiaries from OneSavings Bank plc for providing back office processing.

The tables below reconcile tax charged and tax paid during the year.

2023	**UK £m**	**India £m**	**Total £m**
Tax charge	**90.9**	**0.8**	**91.7**
Effects of:			
Other timing differences	**13.6**	**-**	**13.6**
Tax outside of profit or loss	**(0.5)**	**-**	**(0.5)**
Prior year tax included within tax charge	**0.4**	**-**	**0.4**
Tax in relation to future periods prepaid	**(1.6)**	**-**	**(1.6)**
Tax paid	**102.8**	**0.8**	**103.6**

2022	UK £m	India £m	Total £m
Tax charge	121.0	0.5	121.5
Effects of:			
Other timing differences	19.0	-	19.0
Tax outside of profit or loss	(0.9)	-	(0.9)
Prior year tax paid during the year	1.0	-	1.0
Prior year tax included within tax charge	0.9	-	0.9
Tax in relation to future periods prepaid	1.0	-	1.0
Tax paid	142.0	0.5	142.5

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

	2023 £m	2022 £m
Adjustments for non-cash and other items:		
Depreciation and amortisation	**11.9**	13.4
Interest on investment securities	**(23.6)**	(6.8)
Interest on subordinated liabilities	**17.1**	1.1
Interest on PSBs	**0.7**	0.7
Interest on securitised debt	**21.5**	7.7
Interest on senior notes	**9.1**	-
Interest on financing debt	**197.3**	68.7
Impairment charge on loans	**48.8**	29.8
Administrative expenses	**0.8**	1.3
Provisions	**0.4**	(1.6)
Interest on lease liabilities	**-**	0.2
Fair value losses/(gains) on financial instruments	**4.4**	(58.9)
Share-based payments	**5.6**	8.1
Total adjustments for non-cash and other items	**294.0**	63.7
Changes in operating assets and liabilities:		
Decrease/(increase) in loans and advances to credit institutions	**112.5**	(204.6)
Increase in loans and advances to customers	**(2,200.5)**	(2,563.1)
Increase in amounts owed to retail depositors	**2,370.8**	2,229.4
(Decrease)/increase in cash collateral and margin received	**(336.9)**	434.3
Net increase in other assets	**(12.6)**	(4.7)
Net (decrease)/increase in derivatives and hedged items	**(23.2)**	59.1
Net (decrease)/increase in amounts owed to other customers	**(49.8)**	16.6
Net increase in other liabilities	**0.9**	9.1
Exchange differences on working capital	**(0.7)**	(0.3)
Total changes in operating assets and liabilities	**(139.5)**	(24.2)

50. Controlling party

As at 31 December 2023 there was no controlling party of the ultimate parent company of the Group, OSB GROUP PLC.

51. Transactions with key management personnel

All related party transactions were made on terms equivalent to those that prevail in arm's length transactions. During the year, there were no related party transactions between the key management personnel and the Group other than as described below.

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. The Group Executive team are all employees of OSB, the table below shows their aggregate remuneration:

	2023 **£'000**	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).

52. Capital management

The Group's capital management approach is to provide a sufficient capital base to cover business risks and support future business development. The Group remained, throughout the year, compliant with its capital requirements as set out by the PRA, the Group's primary prudential supervisor.

The Group manages and reports its capital at a number of levels including Group level and for the two regulated banking entities within the Group, on an individual consolidation and on an individual basis. The capital position of the two regulated banking entities are not separately disclosed.

The Group's capital management is based on the three 'pillars' of Basel III.

Under Pillar 1, the Group calculates its minimum capital requirements based on 8% of risk-weighted assets.

Under Pillar 2, the Group, and its regulated entities, complete an annual self-assessment of risks known as the ICAAP. The PRA applies additional requirements to this assessment amount to cover risks under Pillar 2 to generate a Total Capital Requirement and also sets capital buffers for the Group.

Pillar 3 requires firms to publish a set of disclosures which allow market participants to assess information on the Group's capital, risk exposures and risk assessment process. The Group's Pillar 3 disclosures can be found on the Group's website.

52. Capital management (continued)

On 30 November 2022, the PRA issued a consultation paper on the implementing Basel 3.1 in the UK. The Group has taken account of this in planning for future capital requirements.

The ultimate responsibility for capital adequacy rests with the Board of Directors. The Group's ALCO is responsible for the management of the capital process within the risk appetite defined by the Board, including approving policy, overseeing internal controls and setting internal limits over capital ratios.

The Group actively manages its capital position and reports this on a regular basis to the Board and senior management via the ALCO and other governance committees. Capital requirements are included within budgets, forecasts and strategic plans with initiatives being executed against this plan.

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

	(Unaudited) 2023 £m	(Unaudited) 2022 £m
CET1 capital		
Called up share capital	**3.9**	4.3
Share premium, capital contribution and share-based payment reserve	**18.0**	15.6
Retained earnings	**3,330.2**	3,389.4
Transfer reserve	**(1,354.7)**	(1,355.1)
Other reserves	**(2.9)**	(3.2)
Total equity attributable to ordinary shareholders	**1,994.5**	2,051.0
Foreseeable dividends[1]	**(85.7)**	(144.0)
IFRS 9 transitional adjustment[2]	**-**	1.4
COVID-19 ECL transitional adjustment[3]	**23.8**	25.9
Deductions from CET1 capital		
Prudent valuation adjustment[4]	**(0.5)**	(1.0)
Intangible assets	**(26.1)**	(12.0)
Deferred tax asset	**(0.3)**	(0.6)
CET1 capital	**1,905.7**	1,920.7
AT1 capital		
AT1 securities	**150.0**	150.0
Total Tier 1 capital	**2,055.7**	2,070.7
Tier 2 capital		
Tier 2 securities	**250.0**	-
Total Tier 2 capital	**250.0**	**-**
Total regulatory capital	**2,305.7**	2,070.7
Risk-weighted assets (unaudited)	**11,845.6**	10,494.7

1. 2022 includes special dividend of £50.3m (£50.0m announced by the Board rounded up on a pence per share basis totals £50.3m).
2. The IFRS 9 transitional arrangements expired at 31 December 2022.
3. The COVID-19 ECL transitional adjustment relates to 50% of the Group’s increase in stage 1 and stage 2 ECL following the impacts of COVID-19 and for which transitional rules were adopted for regulatory capital purposes.
4. The Group has adopted the simplified approach under the Prudent Valuation rules, recognising a deduction equal to sum of absolute value equal to 0.1% of relevant fair value assets and liabilities.

52. Capital management (continued)

The movement in CET1 during the year was as follows:

	(Unaudited) 2023 £m	(Unaudited) 2022 £m
At 1 January	**1,920.7**	1,781.7
Movement in retained earnings	**(59.2)**	174.3
Share premium from Sharesave Scheme vesting	**1.4**	1.7
Movement in other reserves	**1.3**	0.6
Movement in foreseeable dividends	**58.3**	(49.3)
IFRS 9 transitional adjustment	**(1.4)**	(1.5)
COVID-19 ECL transitional adjustment	**(2.1)**	6.9
Movement in prudent valuation adjustment	**0.5**	-
Net (increase)/decrease in intangible assets	**(14.1)**	6.4
Movement in deferred tax asset for carried forward losses	**0.3**	(0.1)
At 31 December	**1,905.7**	1,920.7

The Group's minimum requirements for own funds and eligible liabilities (MREL) information is presented below:

	(Unaudited) 2023 £m	(Unaudited) 2022 £m
Total regulatory capital	**2,305.7**	2,070.7
Eligible liabilities	**300.0**	-
Total own funds and eligible liabilities	**2,605.7**	2,070.7

On 7 September 2023, the Group issued £300 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.

53. Events after the reporting date

On 16 January 2024 the Group 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 Board has authorised a share repurchase of up to £50.0m of shares in the market from 15 March 2024. Any purchases made under this programme will be announced to the market each day in line with regulatory requirements.

OSB GROUP PLC
Company Statement of Financial Position
As at 31 December 2023

	Note	**2023 £m**	2022 £m
Assets			
Investments in subsidiaries and intercompany loans	2	**2,160.1**	1,590.7
Current taxation asset		**0.1**	-
Total assets		**2,160.2**	1,590.7
Liabilities			
Intercompany loans	2	**-**	0.8
Senior notes	3	**307.5**	-
Subordinated liabilities	4	**259.5**	-
		567.0	0.8
Equity			
Share capital	6	**3.9**	4.3
Share premium	6	**3.8**	2.4
Other equity instruments	7	**150.0**	150.0
Retained earnings		**1,358.6**	1,359.3
Other reserves	8	**76.9**	73.9
Shareholders' funds		**1,593.2**	1,589.9
Total equity and liabilities		**2,160.2**	1,590.7

The profit after tax for the year ended 31 December 2023 of OSBG was £343.0m (2022: £240.8m). 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 161 to 167 form an integral part of the Company financial statements.

The financial statements were approved by the Board of Directors on 14 March 2024 and were signed on its behalf by:

Andy Golding
Chief Executive Officer

April Talintyre
Chief Financial Officer

Company number: 11976839

OSB GROUP PLC

Company Statement of Changes in Equity

For the year ended 31 December 2023

	Share capital £m	Share premium £m	Capital redemption and transfer reserve[1] £m	Own shares[2] £m	Share-based payment reserve £m	Other equity instruments £m	Retained earnings £m	Total £m
At 1 January 2022	4.5	0.7	65.7	(3.5)	6.3	150.0	1,358.4	1,582.1
Profit for the year	-	-	-	-	-	-	240.8	240.8
Dividend paid	-	-	-	-	-	-	(133.1)	(133.1)
Share-based payments	-	1.7	-	-	3.9	-	4.2	9.8
Own shares[2]	-	-	-	1.3	-	-	(1.3)	-
Coupon paid on AT1 securities	-	-	-	-	-	-	(9.0)	(9.0)
Share repurchase	(0.2)	-	0.2	-	-	-	(100.7)	(100.7)
At 31 December 2022	4.3	2.4	65.9	(2.2)	10.2	150.0	1,359.3	1,589.9
Profit for the year	**-**	**-**	**-**	**-**	**-**	**-**	**343.0**	**343.0**
Dividend paid	**-**	**-**	**-**	**-**	**-**	**-**	**(185.0)**	**(185.0)**
Share-based payments	**-**	**1.4**	**-**	**-**	**1.4**	**-**	**3.1**	**5.9**
Own shares[2]	**-**	**-**	**-**	**1.2**	**-**	**-**	**(1.2)**	**-**
Coupon paid on AT1 securities	**-**	**-**	**-**	**-**	**-**	**-**	**(9.0)**	**(9.0)**
Share repurchase	**(0.4)**	**-**	**0.4**	**-**	**-**	**-**	**(151.6)**	**(151.6)**
At 31 December 2023	**3.9**	**3.8**	**66.3**	**(1.0)**	**11.6**	**150.0**	**1,358.6**	**1,593.2**

1. Includes Capital redemption reserve of £0.6m (2022: £0.2m) and Transfer reserve of £65.7m (2022: £65.7m).
2. The Company has adopted look-through accounting (see note 1 to the Group's consolidated financial statements) and recognised the EBT within OSBG.

OSB GROUP PLC
Company Statement of Cash Flows

For the year ended 31 December 2023

	Note	**2023 £m**	2022 £m
Cash flows from operating activities			
Profit before taxation		**342.9**	240.8
Adjustments for non-cash and other items:			
Interest on subordinated liabilities		**17.1**	-
Interest on senior notes		**9.1**	-
Administrative expenses		**0.8**	1.3
Changes in operating assets and liabilities:			
Net decrease in other liabilities		**-**	(0.2)
Change in intercompany loans[1]		**(565.7)**	0.5
Cash (used)/generated in operating activities		**(195.8)**	242.4
Cash flows from investing activities			
Change in investments in subsidiaries		**-**	-
Net cash from investing activities		**-**	-
Cash flows from financing activities			
Issuance of subordinated liabilities	5	**248.7**	-
Issuance of senior notes	5	**298.4**	-
Interest paid on financing	5	**(6.3)**	-
Share repurchase[2]		**(152.4)**	(102.0)
Dividend paid		**(185.0)**	(133.1)
Coupon paid on AT1 securities		**(9.0)**	(9.0)
Proceeds from issuance of shares under employee SAYE scheme		**1.4**	1.7
Net cash from financing activities		**195.8**	(242.4)
Net increase in cash and cash equivalents		**-**	**-**
Cash and cash equivalents at the beginning of the year		**-**	-
Cash and cash equivalents at the end of the year[3]		**-**	-
Movement in cash and cash equivalents		**-**	**-**
Cash flows from operating activities include:			
Dividends received from subsidiary[4]		**335.0**	233.1

1. Includes less than £0.1m (2022: £0.3m) of current taxation asset surrendered to OSB.
2. Includes £150.0m (2022: £100.0m) for shares repurchased, £0.8m (2022: £0.7m) transaction costs and £1.6m (2022: £1.3m) success fee.
3. The Company's bank balance is swept to OneSavings Bank plc daily resulting in a nil balance.
4. The Company’s principal activity is to hold the investment in its wholly-owned subsidiary, OneSavings Bank plc. Dividends received are treated as operating income.

OSB GROUP PLC

Notes to the Company Financial Statements

For the year ended 31 December 2023

1. Basis of preparation

The separate financial statements of the Company are presented as required by the Companies Act 2006. As permitted by that Act, the separate financial statements have been prepared in accordance with IFRS as adopted by the UK, and are presented in pounds sterling.

The financial statements have been prepared on the historical cost basis. The financial statements are presented in pounds sterling. All amounts in the financial statements have been rounded to the nearest £0.1m (£m). The functional currency of the Company is pounds sterling, which is the currency of the primary economic environment in which the Company operates.

The principal accounting policies adopted are the same as those set out in note 1 to the Group's consolidated financial statements, aside from accounting policy 1 w), Share-based payments. For the Company, the cost of the awards are recognised on a straight-line basis to investment in subsidiaries (with a corresponding increase in the share-based payment reserve within equity) over the vesting period in which the employees become unconditionally entitled to the awards.

There are no critical judgements and estimates that apply to the Company.

2. Investments in subsidiaries and intercompany loans

The Company holds an investment in ordinary shares of £1,445.0m (2022: £1,440.7m) and in AT1 securities of £90.0m (2022: £90.0m) in its direct subsidiary, OneSavings Bank plc (OSB). The Company also holds an investment in AT1 securities of £60.0m (2022: £60.0m) in an indirect subsidiary, Charter Court Financial Services Limited. The investment in shares and AT1 securities are carried at cost.

	Investment in subsidiaries £m	Intercompany loans (payable)/ receivable £m
At 1 January 2022	1,582.6	(0.6)
Additions[1]	8.1	(2.1)
Repayments	-	1.9
At 31 December 2022	1,590.7	(0.8)
Additions[1]	**4.3**	**571.3**
Repayments	**-**	**(5.4)**
At 31 December 2023	**1,595.0**	**565.1**

1. Additions in investment in subsidiaries include £4.3m relating to share-based payments (2022: includes £8.1m relating to share-based payments).

The transactions with subsidiaries comprise a subordinated liabilities issuance of £250m, a senior notes issuance of £300m, £19.6m of accrued interest movement on subordinated liabilities and senior notes and £1.7m of cash received from issuing shares under SAYE. Repayments include £2.4m of share repurchase costs, issuance cost of £1.6m and £1.3m on senior notes and subordinated liabilities respectively funded by OSB (2022: £2.1m of additions in relation to costs on shares repurchased funded by OSB and repayments of £1.9m comprised £1.6m cash received from issuing shares under SAYE and £0.3m of tax losses surrendered to OSB).

2. Investments in subsidiaries and intercompany loans (continued)

Investments in AT1 securities are financial assets and intercompany loans are financial liabilities. Intercompany loans payable are payable on demand and no interest is charged on these loans. Intercompany loans receivable includes subordinated liabilities and senior notes issued by subsidiaries. The rates and other terms and conditions are same as the Company's external issued senior notes and subordinated liabilities. For details refer note 3 and note 4.

A list of the Company's direct and indirect subsidiaries as at 31 December 2023 is shown below:

Direct investments	Activity	Registered office	Ownership
OneSavings Bank plc	Mortgage lending and deposit taking	Reliance House	**100%**
Indirect investments	**Activity**	**Registered office**	**Ownership**
5D Finance Limited	Mortgage servicer and provider	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	**-**
Keys Warehouse No.1 Limited	Special purpose vehicle	Churchill Place	**-**
Charter Court Financial Services Group Plc	Holding company	Charter Court	**100%**
Charter Court Financial Services Limited	Mortgage lending and deposit taking	Charter Court	**100%**
Charter Mortgages Limited	Mortgage administration and analytical services	Charter Court	**100%**
CMF 2020-1 plc	Special purpose vehicle	Churchill Place	**-**
CMF 2023-1 plc	Special purpose vehicle	Churchill Place	**-**
Easioption Limited	Holding company	Reliance House	**100%**
Exact Mortgage Experts Limited	Group service company	Charter Court	**100%**
Guernsey Home Loans Limited	Mortgage provider	Reliance House	**100%**
Guernsey Home Loans Limited (Guernsey)	Mortgage provider	Guernsey	**100%**
Heritable Development Finance Limited	Mortgage originator and servicer	Reliance House	**100%**
Inter Bay Financial I Limited	Holding company	Reliance House	**100%**
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%**
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%**

2. Investments in subsidiaries and intercompany loans (continued)

A list of the Company's direct and indirect subsidiaries as at 31 December 2022 is shown below:

Direct investments	Activity	Registered office	Ownership
OneSavings Bank plc	Mortgage lending and deposit taking	Reliance House	**100%**
Indirect investments	**Activity**	**Registered office**	**Ownership**
5D Finance Limited	Mortgage servicer	Reliance House	**100%**
Broadlands Finance Limited	Mortgage administration services	Charter Court	**100%**
Canterbury Finance No.2 plc	Special purpose vehicle	Churchill Place	**-**
Canterbury Finance No.3 plc	Special purpose vehicle	Churchill Place	**-**
Canterbury Finance No.4 plc	Special purpose vehicle	Churchill Place	**-**
Canterbury Finance No.5 plc	Special purpose vehicle	Churchill Place	**-**
Charter Court Financial Services Group Plc	Holding company	Charter Court	**100%**
Charter Court Financial Services Limited	Mortgage lending and deposit taking	Charter Court	**100%**
Charter Mortgages Limited	Mortgage administration and analytical services	Charter Court	**100%**
CMF 2020-1 plc	Special purpose vehicle	Churchill Place	**-**
Easioption Limited	Holding company	Reliance House	**100%**
Exact Mortgage Experts Limited	Group service company	Charter Court	**100%**
Guernsey Home Loans Limited	Mortgage provider	Reliance House	**100%**
Guernsey Home Loans Limited (Guernsey)	Mortgage provider	Guernsey	**100%**
Heritable Development Finance Limited	Mortgage originator and servicer	Reliance House	**100%**
Inter Bay Financial I Limited	Holding company	Reliance House	**100%**
Inter Bay Financial II Limited	Holding company	Reliance House	**100%**
InterBay Asset Finance Limited	Asset finance and mortgage provider	Reliance House	**100%**
Interbay Funding, Ltd	Mortgage servicer	Reliance House	**100%**
Interbay Group Holdings Limited	Holding company	Reliance House	**100%**
Interbay Holdings Ltd	Holding company	Reliance House	**100%**
Interbay ML, Ltd	Mortgage provider	Reliance House	**100%**
Jersey Home Loans Limited	Mortgage provider	Reliance House	**100%**
Jersey Home Loans Limited (Jersey)	Mortgage provider	Jersey	**100%**
OSB India Private Limited	Back office processing	India	**100%**
Prestige Finance Limited	Mortgage originator and servicer	Reliance House	**100%**
Reliance Property Loans Limited	Mortgage provider	Reliance House	**100%**
WSE Bourton Road Limited	Land lease investment	OSB House	**100%**
Rochester Mortgages Limited	Mortgage provider	Reliance House	**100%**

All investments are in the ordinary share capital of each subsidiary.

2. Investments in subsidiaries and intercompany loans (continued)

OSB India Private Limited is owned 70.28% by OneSavings Bank plc, 29.72% by Easioption Limited and 0.001% by Reliance Property Loans Limited.

SPVs which the Group controls are treated as subsidiaries for accounting purposes.

All of the entities listed above have been consolidated into the Group's consolidated financial statements. The location of the entities listed above are disclosed in note 48 to the Group's consolidated financial statements.

The investment is reviewed annually for indicators of impairment. If impairment indicators are identified an impairment review of the investment is conducted which will quantify if the carrying value is in excess of the recoverable amount or an impairment has occurred. In determining recoverable amount, the fair value less costs to sell and the value in use are assessed, with the value in use being an estimate of the present value of future cash flows generated by the investment.

The following are the registered offices of the subsidiaries:

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
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

3. Senior notes

During the current financial year, the Company issued senior notes amounting to £300m under the planned MREL qualifying debt issuance as follows

	2023 **£m**	2022 £m
Fixed rate:		
Senior notes 2028 (9.5%)	**307.5**	-

The senior notes comprise fixed rate notes denominated in pounds sterling and are listed on the official list of the FCA and admitted to trading on the main market of the London Stock Exchange plc.

The principal terms of the senior notes 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.

3. Senior notes (continued)

- **Ranking:** The senior notes constitute direct, unsubordinated and unsecured obligations of OSBG 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 OSBG.

The table below shows a reconciliation of the Company's senior notes during the year.

	2023 **£m**	2022 £m
At 1 January	**-**	-
Addition[1]	**298.4**	-
Movement in accrued interest	**9.1**	-
At 31 December	**307.5**	-

1. Addition includes £1.6m towards transaction costs which has been amortised through the EIR of the loan notes.

4. Subordinated liabilities

The Company's outstanding subordinated liabilities are summarised below:

	2023 **£m**	2022 £m
Fixed rate:		
Subordinated liabilities 2033 (9.993%)	**259.5**	-

All subordinated liabilities are denominated in pounds sterling and are listed on the official list of the FCA and admitted to trading on the main market of the London Stock Exchange plc.

The principal terms of the subordinated debt liabilities 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 OSBG 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 OSBG.

4. Subordinated liabilities (continued)

The table below shows a reconciliation of the Company's subordinated liabilities during the year:

	2023 £m	2022 £m
At 1 January	-	-
Addition[1]	248.7	-
Movement in accrued interest	10.8	-
At 31 December	**259.5**	-

1. Addition includes £1.3m towards transaction costs which has been amortised through the EIR of the loan notes.

5. Reconciliation of cash flows from financing activities

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

	Senior notes (see note 3) £m	Subordinated liabilities (see note 4) £m	Total £m
At 1 January 2023	-	-	-
Cash movements:			
Principal drawdowns	298.4	248.7	547.1
Interest paid	-	(6.3)	(6.3)
Non-cash movements:			
Interest charged	9.1	17.1	26.2
At 31 December 2023	**307.5**	**259.5**	**567.0**

6. Share capital

	Number of shares issued and fully paid	Nominal value £m	Premium £m
At 1 January 2022	448,627,855	4.5	0.7
Share cancelled under repurchase programme	(20,671,224)	(0.2)	-
Shares issued under employee share plans	1,911,994	-	1.7
At 31 December 2022	429,868,625	4.3	2.4
Share cancelled under repurchase programme	(38,243,031)	(0.4)	-
Shares issued under employee share plans	1,562,087	-	1.4
At 31 December 2023	**393,187,681**	**3.9**	**3.8**

The holders of ordinary shares are entitled to receive dividends as declared from time to time, and are entitled to one vote per share at meetings of the Company. All ordinary shares rank equally with regard to the Company's residual assets.

All ordinary shares issued in the current and prior year were fully paid.

7. Other equity instruments

The Company's other equity instruments are as follows:

Additional Tier 1 securities	**2023 £m**	2022 £m
6% Perpetual subordinated contingent convertible securities	**150.0**	150.0

For AT1 securities see note 41 of the Group's consolidated financial statements.

8. Other reserves

The Company's other reserves are as follows:

	2023 £m	2022 £m
Share-based payment	**11.6**	10.2
Capital redemption and transfer	**66.3**	65.9
Own shares	**(1.0)**	(2.2)
	76.9	73.9

Capital redemption and transfer reserve

The capital redemption reserve represents the shares cancelled through the Group's share repurchase programme.

The transfer reserve represents the difference between the net assets of the Group at the point of insertion of OSBG as the listed holding company and the fair value of the newly issued share capital of OSBG.

For own shares see note 42 of the Group's consolidated financial statements.

9. Directors and employees

The Company has no employees. OneSavings Bank plc provides the Company with employee services and bears the costs, along with other subsidiaries in the Group, associated with the Directors of the Company. These costs are not recharged to the Company.

10. Risk management

The principal financial risks that the Company is exposed to, as a holding company for its subsidiaries, are those that its subsidiaries are exposed to. These risks are managed at Group level, through the Group's risk governance framework reporting to the Group Risk Committee. For further information see note 44 of the Group's consolidated financial statements.

11. Controlling party

As at 31 December 2023 there was no controlling party of OSB GROUP PLC.

OSB GROUP PLC
Appendix
For the year ended 31 December 2023

Key performance indicators

Underlying results for the year to 31 December 2023 and 31 December 2022 exclude integration costs and other acquisition-related items. The underlying results provide a more consistent basis for comparing the Group's performance between financial periods.

Net interest margin (NIM)
NIM is defined as net interest income as a percentage of a 13 point average[1] of interest earning assets (cash, investment securities, loans and advances to customers and credit institutions).

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

	2023 £m	2022 £m
Net interest income – statutory	658.6	709.9
Add back: acquisition-related items[2]	56.1	59.2
Net interest income – underlying	714.7	769.1
13 point average of interest earning assets – statutory C	28,549.4	25,518.8
13 point average of interest earning assets – underlying D	28,498.3	25,403.2
NIM statutory equals A/C	2.31%	2.78%
NIM underlying equals B/D	2.51%	3.03%

Cost to income ratio
The cost to income ratio is defined as administrative expenses as a percentage of total income.

It is a measure of operational efficiency.

	2023 £m	2022 £m
Administrative expenses – statutory A	234.6	207.8
Add back: acquisition-related items[2]	(1.7)	(3.8)
Administrative expenses – underlying B	232.9	204.0
Total income – statutory C	658.1	775.4
Add back: acquisition-related items[2]	49.7	48.8
Total income underlying D	707.8	824.2
Cost to income statutory equals A/C	36%	27%
Cost to income underlying equals B/D	33%	25%

OSB GROUP PLC

Appendix

For the year ended 31 December 2023

Management expense ratio

The management expense ratio is defined as administrative expenses as a percentage of a 13 point average[1] of total assets.

	2023 £m	2022 £m
Administrative expenses – statutory (as in cost to income ratio above) A	234.6	207.8
Administrative expenses – underlying (as in cost to income ratio above) B	232.9	204.0
13 point average of total assets – statutory C	28,767.1	25,641.5
13 point average of total assets – underlying D	28,719.7	25,537.4
Management expense ratio statutory equals A/C on an annualised basis	0.82%	0.81%
Management expense ratio underlying equals B/D on an annualised basis	0.81%	0.80%

Loan loss ratio

The loan loss ratio is defined as impairment losses as a percentage of a 13 point average[1] of gross loans and advances. It is a measure of the credit performance of the loan book.

	2023 £m	2022 £m
Impairment losses – statutory A	48.8	29.8
Add back: acquisition-related items[2]	(0.3)	0.9
Impairment losses – underlying B	48.5	30.7
13 point average of gross loans – statutory C	24,855.0	22,120.4
13 point average of gross loans – underlying D	24,804.9	22,005.4
Loan loss ratio statutory equals A/C on an annualised basis	0.20%	0.13%
Loan loss ratio underlying equals B/D on an annualised basis	0.20%	0.14%

OSB GROUP PLC

Appendix

For the year ended 31 December 2023

Return on equity (RoE)

RoE is defined as profit attributable to ordinary shareholders, which is profit after tax and after deducting coupons on AT1 securities, gross of tax, as a percentage of a 13 point average[1] of shareholders' equity (excluding £150m of AT1 securities).

	2023 £m	2022 £m
Profit after tax - statutory	282.6	410.0
Coupons on AT1 securities	(9.0)	(9.0)
Profit attributable to ordinary shareholders – statutory A	273.6	401.0
Add back: acquisition related items[2]	37.1	38.7
Profit attributable to ordinary shareholders – underlying B	310.7	439.7
13 point average of shareholders' equity (excluding AT1 interest securities) – statutory C	1,964.1	1,943.4
13 point average of shareholders' equity (excluding AT1 interest securities) – underlying D	1,929.9	1,869.9
Return on equity statutory equals A/C on an annualised basis	14%	21%
Return on equity underlying equals B/D on an annualised basis	16%	24%

Basic earnings per share

Basic earnings per share is defined as profit attributable to ordinary shareholders, which is profit after tax and after deducting coupons on AT1 securities, gross of tax, divided by the weighted average number of ordinary shares in issue.

	2023 £m	2022 £m
Profit attributable to ordinary shareholders – statutory (as in RoE ratio above) A	273.6	401.0
Profit attributable to ordinary shareholders – underlying (as in RoE ratio above) B	310.7	439.7
Weighted average number of ordinary shares in issue – statutory C	414.2	441.5
Weighted average number of ordinary shares in issue – underlying D	414.2	441.5
Basic earnings per share statutory equals A/C	66.1	90.8
Basic earnings per share underlying equals B/D	75.0	99.6

1. 13 point average is calculated as an average of opening balance and closing balances for the year ended 31 December
2. The acquisition-related items are detailed in the reconciliation of statutory to underlying results in the Financial review

OSB GROUP PLC

Appendix

For the year ended 31 December 2023

Calculation of 2023 final dividend

The table below shows the basis of calculation of the Company's recommended final dividend for 2023:

	2023 £m	2022 £m
Statutory profit after tax	**282.6**	410.0
Less: coupons on AT1 securities classified as equity	**(9.0)**	(9.0)
Statutory profit attributable to ordinary shareholders	**273.6**	401.0
Add back: Group's integration costs	**-**	7.9
Tax on Group's integration costs	**-**	(2.1)
Add back: amortisation of fair value adjustment	**56.8**	60.4
Add back: amortisation of inception adjustment	**(6.4)**	(10.4)
Add back: amortisation of cancelled swaps	**(0.7)**	(1.2)
Add back: amortisation of intangible assets acquired	**1.7**	3.8
Release of deferred taxation on the above amortisation adjustments	**(14.6)**	(18.8)
Add back: ECL on Combination	**0.3**	(0.9)
Underlying profit attributable to ordinary shareholders	**310.7**	439.7
Total dividend: 41% (2022: 30%) of underlying profit attributable to ordinary shareholders	**126.6**	131.9
Less: interim dividends paid	**(40.9)**	(38.3)
Recommended final dividend	**85.7**	93.6
Number of ordinary shares in issue	**393,187,681**	429,868,625
Recommended final dividend per share (pence)	**21.8**	21.8

OSB GROUP PLC

Appendix

For the year ended 31 December 2023

Company information

Registered office
OSB House
Quayside, Chatham Maritime
Chatham
Kent, ME4 4QZ

Registered in England, company number: 11976839

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