OneSavings Bank plc

Annual Report and Financial Statements
For the Year Ended 31 December 2022
Company Number: 07312896

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Company Information

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

The Directors present their Annual Report, including the Strategic Report, Directors' Report and Statement of Directors' Responsibilities, together with the audited Consolidated Financial Statements and Auditor's Report for the year ended 31 December 2022.

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

Our business model

The Group is a leading specialist mortgage lender, primarily focused on carefully selected sub-segments of the UK mortgage market. Our specialist lending is supported by our Kent Reliance and Charter Savings Bank retail savings franchises. Our purpose is to help our customers, colleagues and communities prosper.

Resources and relationships

Brands and heritage

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

Colleagues

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

Infrastructure

We benefit from cost and efficiency advantages provided by our wholly-owned subsidiaries, OSB India, as well as credit expertise and mortgage administration services provided by Charter Court Financial Services (CCFS).

Relationships with intermediaries and customers

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

Capital strength

We have a strong common equity tier one (CET1) ratio and capability to generate capital through profitability.

Our business model explained

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

OneSavings Bank

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

Buy-to-let/SME sub-segments

Buy-to-Let

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

Commercial mortgages

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

Residential development

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

Funding lines

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

Asset finance

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

Residential sub-segment

First charge

We provide loans to individuals, secured by a first charge against their residential home. Our target customers include those with a high net worth and complex income streams, and near-prime borrowers. We are also experts in shared ownership, lending to first-time buyers and key workers buying a property in conjunction with a housing association.

Our business model explained (continued)

Charter Court Financial Services

Specialist lending business

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

Buy-to-Let

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

Residential

We provide a range of competitive products to prime borrowers and complex prime borrowers, including self-employed, as well as near-prime borrowers.

Bridging

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

Second charge

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

Our business model explained (continued)

Retail savings

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

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

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

In 2022, both Banks won industry awards, including the prestigious Moneyfacts Consumer Awards for Best Bank Savings Provider, Best Cash ISA Provider and ISA Provider of the Year for CSB and Best Cash ISA Provider from Yourmoney.com Personal Finance Awards for Kent Reliance.

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

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

Our securitisation platforms

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

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

CCFS is a programmatic issuer of high-quality residential mortgage-backed securities (RMBS) through the Precise Mortgage Funding and Charter Mortgage Funding (CMF) franchises, completing 14 securitisations worth more than £4.5bn to 31 December 2022.

In 2019, OSB established its Canterbury Finance securitisation programme, to enable it to issue high-quality RMBS. It has since issued five securitisations of organically originated mortgages totalling £5.6bn to 31 December 2022.

OSB also issued three deals totalling £971m of owner-occupied and Buy-to-Let acquired mortgages via Rochester Financing since 2013.

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

The Group also takes advantage of the Bank of England's funding schemes. Drawings under the Term Funding Scheme for SMEs remained at £4.2bn and the drawings under Index Long-Term Repo were £301m as at 31 December 2022 (2021: £4.2bn and £nil, respectively).

Our business model explained (continued)

Unique operating model

Customer service

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

The Group has proven collections capabilities and expertise in case management and supporting customers in financial difficulty.

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

We deliver cost efficiencies through excellent process design and management. We have an efficient, scalable and resilient infrastructure supported by strong IT security and continue to invest in enhancing our digital offering as customer demand changes.

OSB India

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

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

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

Various functions are also supported by OSBI, including Support Services, Operations, IT, Finance and Human Resources. We have a one team approach between the UK and India. The employee turnover in India compares favourably to local industry averages, despite an increase in the regretted attrition rate to 24% in 2022 as a result of an extremely buoyant recruitment market.

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

Environmental, social and governance (ESG)

We operate in a sustainable way with relevant Environmental, Social and Governance matters at the heart of all everything we do.

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

In 2022, we made progress on our path to achieve our commitment to net zero greenhouse gas emissions by 2050. We also launched our first of a range of mortgage products to improve the energy efficiency of a property.

We also renewed our commitment to have 33% women in senior management roles in the UK by 2023 and donated nearly £225k to charitable causes in the year.

Relationships with our key stakeholders

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

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

Colleagues

Our colleagues are our key asset and our success depends on the 2,021 talented individuals we employ.

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

How the Board has engaged with colleagues
The Group has adopted a combination of methods for engaging with its workforce, including the establishment of a formal workforce advisory panel and a designated Non-Executive Director (NED).
During 2022, Mary McNamara was the NED appointed by the Board with responsibility for representing employees at Board level and she is a permanent member of the Workforce Advisory Forum (known internally as OurVoice). Mary has direct engagement with the workforce by attending OurVoice meetings and other events organised by the Diversity and Inclusion Working Group. This provides her with an insight into the culture and concerns of the workforce, which she is able to bring to the attention of the Board. Sarah Hedger will become a permanent member of OurVoice and will replace Mary McNamara as the designated NED with responsibility for OurVoice on 11 May 2023.

OurVoice gives the Board and management insight into a broadly representative range of employee views to guide strategic decisions for the future of the Group and oversee their alignment to the Values. OurVoice has its own Terms of Reference which outlines the objectives and composition of the Forum. Members of the workforce are invited to apply to become an employee representative.

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

Engagement also took place via the annual Best Companies to Work For survey. 82.5% of UK employees responded to the survey in 2022 demonstrating a high level of engagement. Following the results of the survey, the Group received a 2 star accreditation which means that it was recognised as an 'Outstanding' company to work for. The Group Executive Committee and the Board reviewed the results, considered the key themes that had emerged from the responses and discussed what steps could be taken to capitalise on the positive themes and also address areas for improvement. OSB India participates in a separate engagement survey and was officially certified a 'Great Place to Work' for a sixth consecutive year in 2022.

The Board and its Committees also received regular updates on matters impacting employees from senior management and the Group's HR function. Members of the Board oversee the Group's talent management initiatives and senior management succession planning.

Relationships with our key stakeholders (continued)

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

The Board monitors the effectiveness of its methods of engaging with employees and adapts them where necessary.

Areas of continued focus include developing a broader people and culture strategy for the Group and continuing to improve in the areas that have been identified as lower scoring in the results of employee surveys.

Outcomes following engagement

- a key topic of discussion at Board level was the impact of continuing interest rate rises and the cost of living and cost of borrowing on our colleagues, both professionally and personally, their well-being and mental health.
- a one-off cost of living payment of £1,200 was made to lower paid employees and two further payments of £600 have been approved for payment in 2023 to the same population.
- the Group became formally accredited as a Living Wage Employer.
- refreshed the Group's Homeworking Policy to formalise employee hybrid working arrangements.
- approved a higher than usual salary increase arrangement for over 80% of employees in light of the high rate of inflation.

Customers

We pride ourselves on building strong, long-term relationships with our customers. Our continued commitment to providing excellent service to borrowers and savers remained a priority in 2022 in light of the rise in cost of living and borrowing.

We offer our savers an opportunity to let us know how we are doing whenever they call or interact with the Banks by listening to their views and acting upon what they tell us. Customer feedback is collected throughout the year and satisfaction scores produced as a result.

During 2022, as the interest rates continued to rise, we saw a significant increase in the volume of calls from our savers wishing to benefit from attractively priced savings products and our borrowers who were concerned about the rising cost of borrowing. As a result, there was a decrease in the savings and the broker NPS compared to 2021. Service levels have since improved and they remain our key focus.

How the Board has engaged with customers

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

In addition, each year, the Board allocates additional time at one Board meeting for dedicated deep dives on a range of matters related to how customers are treated.

Relationships with our key stakeholders (continued)

The Board was kept informed about progress in embedding the new FCA Consumer Duty requirements as well as the support for customers who require additional assistance.

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

Outcomes following engagement with customers

- ensured that additional support was available to customers who need it.
- a pledge of £50m to the newly-established Landlord Leader Fund to help landords enhance energy efficiency.
- introduced the first of a range of products for landlords wishing to improve the energy efficiency of their properties.

The savings NPS for Kent Reliance in 2022 was +64 (2021: +70) and for Charter Savings Bank was +61 (2021: +71).

Intermediaries

Our lending products, with the exception of funding lines and residential development loans, are distributed via mortgage brokers. Mortgage brokers are vital to our success; it is important for us to understand the challenges they face and what they are trying to achieve in terms of serving their customers, so we can adapt the way in which we support them, to provide an even better service.

How the Board has engaged with intermediaries

The Board's engagement with intermediaries is indirect and Directors are kept informed of customer-related matters through regular updates at Board meetings. Broker and borrower satisfaction scores are tracked on a regular basis, along with details of all complaints, and are reviewed by the Board and management within monthly reporting packs.

Towards the end of 2022, research was commissioned with the aim of supporting our brokers and landlords with improving the sustainability of their investment properties. A number of key findings were identified which included the creation of a Landlord Leaders community to bring brokers, landlords and other industry members together. The Board received updates and reviewed the progress of this initiative. Further information on this can be found on page 14.

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

The Group's Sales teams participated in 330 physical and virtual intermediary events during 2022. The events are an opportunity for the Sales team to interact with brokers, discuss their requirements and keep up to date with industry developments.

Outcomes following engagement with intermediaries

- launch of the Landlord Leaders thought leadership report and the creation of a landlord leaders community, bringing brokers, landlords and other industry members together.

The broker NPS for OSB in 2022 was +37 (2021: +55) and for CCFS was +39 (2021: +42), both impacted by high application and completion volumes as a result of the market disruption following September's mini budget.

Relationships with our key stakeholders (continued)

Suppliers

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

How the Board engages with suppliers
The members of the Board do not interact directly with the Group's suppliers; however, they are involved in overseeing the Group's supplier relationships and are kept up to date by management on supplier considerations and developments.

Supplier payment practice reports are published on a six-monthly basis and approved and signed by the CFO and Chief Operating Officer on behalf of the main operating entities. The Group enters into standard terms with suppliers, which include terms requiring payment within 30 days of the invoice date following receipt of a valid invoice. Over 95% of all invoices are paid within 30 days in line with the standard payment period for qualifying contracts. The average time taken to pay invoices ranges from five to 11 days across the Group. The maximum contractual payment period agreed varies between 30 days to 45 days. There have been no changes to the standard payment terms in the reporting period.

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

In 2022, the Board was also involved with the following aspects of supplier relationships: consideration of the risks associated with suppliers and the framework for assurance; oversight of key supplier relationships including engagement between the Group Audit Committee and the external auditor; and oversight of all levels of insurance in place for the Group.

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

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

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

During 2022, our suppliers and business partners were asked to complete a questionnaire in order for us to understand how they are addressing topics such as climate change, Diversity, Equity and Inclusion and Modern Slavery and to identify areas of focus in the future. We understand that organisations will be at various stages of their own ESG and sustainability journey and we are committed to encouraging and supporting our suppliers with their transition to an ESG strategy that aligns to the Group's ambitions.

Outcomes following engagement with suppliers
- enhanced understanding of suppliers' ESG and sustainability strategies to ensure that they are in alignment with the Group's ESG ambitions.

Relationships with our key stakeholders (continued)

Regulators

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

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

Even though the Directors do not participate in all meetings, Executives, including the Group Chief Risk Officer and Group Chief Credit and Compliance Officer, provide the Board and its Committees with feedback and regular updates in respect of the broader regulatory developments and compliance considerations. The PRA was invited to and attended one Board meeting during 2022.

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

Outcomes following engagement

- Meetings held with regulators during the year covered, amongst other topics, operational resilience, operational continuity in resolution, resolvability assessment framework, business continuity, capital management and the optimisation of our capital structure. These are all areas that have been considered by the Board in its meetings.

Communities

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

How the Board engages with communities
The Board and management actively encourage and fully support engagement with our local communities to make a positive impact.

Outcomes following engagement with communities

- The total amount donated to charity partners and good causes by the Group and colleagues in the year was nearly £225k.

Relationships with our key stakeholders (continued)

Environment

Sustainability is becoming increasingly important to the Board and management. The Group operates under the highest governance and ethical standards and is focused on reducing its impact on the environment.

The Board and management are cognisant of the impact of social and environmental change on our business and stakeholders and regularly promote awareness of environmental issues among our employees, as well as adhering to our plan to become a greener organisation and comply with enhanced regulation and disclosures.

The Board is responsible for encouraging and overseeing an environmentally friendly culture and ensuring that the business is ready to respond to the growing impact of climate change on the Group's activities in line with its Stewardship value.

Section 172 statement

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

The preceding pages 8 to 12 demonstrate how the Board has engaged with the Group's key stakeholders (customers, intermediaries, colleagues, shareholders, suppliers, regulators and the local communities in which we are located). Examples of strategic decisions which have impacted the Group's key stakeholders are set out below. Pages 8 to 12 and those that follow, set out examples of how Directors complied with the requirements of section 172 during the year.

Decision making

The Board recognises that considering our stakeholders in key business decisions is fundamental to our ability to deliver the Group's strategy in line with our long-term values and operating the business in a sustainable way. Balancing the needs and expectations of our key stakeholders has been at the forefront of the Board's thinking and has been more important than ever during 2022, as a result of the economic environment and the rising cost of living. The Board acknowledges that some decisions will result in different outcomes for each stakeholder.

Section 172 statement (continued)

Key strategic decisions in the year

Employee remuneration

The Board has considered the impact of ongoing interest rate rises and the rising cost of living and cost of borrowing in the UK on its employees, in terms of their financial and mental health well-being.

The increase in the cost of living and its impact on employees was discussed at the Workforce Advisory Forum (OurVoice), which includes attendance from members of the Board and the Group Executive Committee. In line with the Group's commitment to ensuring that employees receive a fair deal, the Board supported the decision approved by the Group Executive Committee in respect of a one-off payment of £1,200 to all qualifying UK employees on lower salary grades representing approximately 80% of the employee population. The Board also supported the decision to increase salaries of the Group's lowest paid employees in the UK to £19,250 in line with the Living Wage Foundation. The Board recognises the ongoing challenges faced by employees in the current economic environment. In January 2023, the Group Remuneration and People Committee discussed and approved the payment of two further cost of living payments of £600 each for all qualifying UK employees.

Landlord Leaders

The Board received updates on progress in relation to the Landlord Leaders initiative. Following engagement with landlords and brokers, and as part of its commitment to helping customers prosper, the Group has committed to delivering a number of initiatives to support the building of a future-focused sustainable industry. The Group has pledged £50m of funding to the newly established Landlord Leader Fund to help landlords enhance energy efficiency. Other initiatives include the launch of new products to support landlords with refurbishing their properties, redesigning the underwriting process and partnering with tax specialists to provide advice and guidance on tax planning for parttime landlords looking to professionalise. As part of this commitment, the Group will create a new Landlord Leaders community to bring brokers, landlords and other industry members together.

Customer Experience

The Board was kept informed of a number of enhancements made to the customer journey. In particular, the launch of a new, simplified product range which was proactively communicated to customers to ensure that they had sufficient time to take action prior to the end of their fixed period. Additional resource was allocated to improve the customer experience, including following up with customers who had not taken action upon entering the reversion period. In addition, enhancements were made to the Group's eligibility criteria to enable more customers to take advantage of the revised rates in order to minimise payment shocks and redemptions.

Market review

The UK housing and mortgage market

The last 12 months were defined by changing market conditions brought about by the war in Ukraine, continuing supply chain issues, high inflation, rising cost of living and borrowing and the disruption following September's mini-budget. Despite these developments, the housing and mortgage markets were resilient and activity levels remained strong.

Inflation gathered pace following the invasion of Ukraine, exacerbating supply chain issues and leading to large increases in energy and food prices. Data from the Office of National Statistics (ONS) estimated that prices had seen a year on year increase of 10.5% at the end of December 2022, down slightly from a peak of 11.1% at the end of October.

The Bank of England implemented eight successive increases in the base rate in 2022 to reduce inflation towards its 2.0% target. Overall, the base rate rose to 3.5% in December 2022 from 0.25% in December 2021.

Mortgage interest rates increased significantly over the course of 2022, with rising cost of funds for lenders and volatile swap spreads. According to the Bank of England, the average rate on a new two-year fixed rate mortgage at 75% loan to value rose from 1.64% in January 2022 to 5.43% in December 2022, an increase of +3.79%.

The most significant increase in mortgage rates during the year was observed following September's mini-budget, which saw mortgage lenders withdrawing products and increasing rates as a result of volatile swap spreads.

Overall, the number of residential property transactions in the UK fell by 14% to 1.3m in 2022 from a record high of 1.5m in 2021, however activity levels in 2021 were inflated by the Stamp Duty Land Tax holiday which saw a large number of property purchases brought forward to benefit from lower transactional costs. Beyond this year-on-year comparison, 2022 saw more property transactions than any other year since 2007

UK gross mortgage lending increased by 4% to £322bn in 2022, reflecting a resilient market that was buoyed by rising property prices, with an average house price increasing by 9.8% in 2022, stimulated by high levels of demand and a lack of supply.

The UK savings market

2022 marked the end to the 'accidental savings' brought about by pandemic lockdowns, as the rising cost of living saw many customers withdrawing from their savings, or not being able to add to them. There was more competition in the savings market as providers passed on a proportion of the base rate rises to savers via attractively priced savings products, despite the significant delays in doing so during the first half of the year. The Bank of England reported that savings balances in the UK grew by £67bn from £2,135.3bn at the start of the year to £2,202.4bn in December 2022.

There were also more providers and more savings accounts on offer in the year, with 1,690 savings products promoted in December 2022 compared to 1,646 in December 2021.

According to the ONS, the household savings ratio that peaked at 26.8% in 2020, as a result of 'accidental savings', reduced to 9.0% by the fourth quarter of 2022.

The base rate rises introduced by the Bank of England led to higher rates across all types of savings accounts. By the end of 2022, fixed rate bonds had increased by 293bps over the year.

Market review (continued)

Easy access accounts held by financial institutions continued to exceed fixed term accounts. This was driven in part by increased rates on traditionally lower-earning easy access accounts, and a likely desire by customers to remain nimble, according to the Household Sector Deposits report.

The UK mortgage market and climate change

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

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

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

These changes could have a significant impact on the private rented sector in the UK. The industry eagerly anticipates the publication of the final outcomes from each of these consultations, however discussion as well as action from lenders have already taken place, with the emergence of a 'green finance sector'. The Green Finance Institute reported that 19 Buy-to-Let lenders had launched dedicated green finance products by the end of May 2022, a notable increase from nine lenders at the end of 2021.

The Group's lending sub-segments

Buy-to-Let

According to UK Finance, Buy-to-Let gross advances reached £55.7bn in 2022, a 17% increase from £47.4bn in 2021. This was supported by strong refinancing activity in the year, with Buy-to-Let remortgages increasing by 33% to £37.0bn as the early wave of five-year fixed rate products taken post the PRA's changes to the underwriting standards reached the end of their initial term.

Research conducted by BVA BDRC on behalf of the Group showed that the number of landlords planning to purchase new properties fell to 9% in the fourth quarter of 2022 from 14% in 2021, and the proportion of landlords looking to sell increased to 30% from 24% in 2021. The Landlords Panel survey suggested that landlords with larger portfolios were more likely to make changes to their portfolio over the next year with 16% looking to buy and 44% looking to sell. It also showed that of those who planned to purchase new properties in the next 12 months, the majority (57%) planned to do so within a limited company structure, further supporting the market-wide trend towards professionalisation.

Market review (continued)

Tenant demand remained strong, with RICS reporting that demand was still rising at the time of its December report, with supply remaining weak as evidenced by a decline in landlord instructions coming to market during that month. This imbalance between demand and supply continued to exert upwards pressure on rents in support of the fundamentals underpinning the Private Rented Sector. Rightmove reported that the average asking rent increased by 15.7% in Greater London during 2022 and rose by 9.7% across the rest of the country.

Residential

According to UK Finance, total Residential loans to home owners reached £251bn in 2022, a minor decrease from £255bn in 2021. However this stability in overall lending volumes masked a shift in the type of business written, with a buoyant refinancing market compensating for a declining purchase market during the year.

Purchase completions decreased by 9% to £193bn in 2022 (2021: £213bn) as the prior year benefitted from a spike in purchase completions while the stamp duty holiday was in effect. Despite this, annual purchase completions were still considerably higher than the pre-pandemic period in 2019 (£158bn). Remortgage completions increased by 30% to £107bn (2021: £83bn) as borrowers sought to lock in to the best deals before mortgage affordability deteriorated and rates increased further, with remortgages representing 36% of the market total (2021: 28%).

Commercial

Throughout the first half of the year, there was a strong sense of confidence in commercial property, supported by improving valuations and rising rents. In the first quarter capital values increased by 3.9% and by a further 3.0% in the second quarter, with rents rising 1.5% and 1.0% respectively. However, wider geopolitical and macroeconomic challenges began to impact in late summer, reversing the value growth recorded in the first half, although some property types were affected more significantly than others.

Retail rents remained broadly static in 2022 according to CBRE, with some insulation from further declines provided by pandemic-induced price corrections throughout 2020 and 2021. Mixed-use asset classes such as semi-commercial property, which offer a diverse income stream underpinned by residential lettings, remained attractive to investors. This property type demonstrated more resilience due to the residential rentals outperforming expectations. Overall, CBRE reported that capital values for 'all retail' decreased by 8.1% during the year whilst rents increased by approximately 0.7%.

During 2022, all commercial segments saw a 10% increase in demand since 2021. The volume of transactions in commercial property investment reached £50.4bn in 2022, just 8% below the five-year average.

Residential development

Despite the withdrawal of the government's pandemic support, housing demand remained strong throughout most of 2022, although tailed off at the end of the year as a result of the uncertainty in future economic conditions and increasing interest rates.

Demand remained strongest for houses that were affordable to local populations. It was notable that sales rates for the few apartment schemes funded in London were also high, seemingly bucking that trend.

Key performance indicators (KPIs)

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

Management believes that the underlying results and the underlying KPIs provide a more consistent basis for comparing the Group's performance between financial periods. Underlying results for 2022 and 2021 exclude exceptional items, integration costs and other acquisition-related items.

For a reconciliation of statutory results to underlying results, see page 29.

1. Gross new lending

Statutory £5.8bn (2021: £4.5bn)

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

2022 performance:
Gross new lending increased 29% in the year and reflected a return to pre-pandemic criteria in our core sub-segments including the reintroduction of lending at higher LTVs for higher credit quality customers.

2. Loan loss ratio

Statutory 13bps (2021: -2bps)
Underlying 14bps (2021: -2bps)

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

2022 performance:
Statutory and underlying loan loss ratios increased in the year as the Group adopted more severe forward-looking macroeconomic scenarios and post model adjustments to account for the potential impact of rising cost of living and borrowing concerns. Loan book growth and changes in the observed risk profile also added to the charge and were partially offset by a release of pandemic-related adjustments and house price appreciation.

3. Net interest margin (NIM)

Statutory 278bps (2021: 253bps)
Underlying 303bps (2021: 282bps)

Definition - NIM is defined as net interest income as a percentage of a 13 point average of interest earning assets (cash, investment securities, loans and advances to customers and credit institutions). It represents the margin earned on loans and advances and liquid assets after swap expense/income and cost of funds.

2022 performance:
Both statutory and underlying NIM improved in 2022, primarily due to the benefit of delays in the market passing on base rate rises to savers in full, especially in the first half of the year, partially offset by a net effective interest rate loss as higher reversionary income was more than offset by customers refinancing earlier.

Key performance indicators (continued)

4. Cost to income ratio

Statutory 27% (2021: 26%)
Underlying 25% (2021: 24%)

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

2022 performance:
Statutory and underlying cost to income ratios increased in 2022 as a result of the growth in administrative expenses due primarily to a more normalised level of post-pandemic spend, inflationary headwinds and planned investment in the business, including refreshing and upgrading our technology infrastructure post-integration. These costs were moderated by strong income generation in the year, including fair value gains on hedging activities.

5. Management expense ratio

Statutory 81bps (2021: 71bps)
Underlying 80bps (2021: 70bps)

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

2022 performance:
Statutory and underlying management expense ratios increased in 2022 largely due to higher administrative costs that reflected a more normalised level post-pandemic spend, inflationary headwinds and planned investment in the business, including refreshing and upgrading our technology infrastructure post-integration.

6. Return on equity

Statutory 20% (2021: 20%)
Underlying 23% (2021: 24%)

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

2022 performance:
Statutory and underlying return on equity remained strong in 2022 due to strong profitability in the year.

Key performance indicators (continued)

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

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

OSB solo 18.4% (2021: 19.4%)

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

2022 performance:
The CET1 ratio remained strong, although reduced marginally as capital generation from profitability in the year was offset by loan book growth and payments of dividends.

8. Savings customer satisfaction – Net Promoter Score (NPS)

OSB 64 (2021: 70)
CCFS 61 (2020: 71)

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

2022 performance:
Savings customer NPS declined slightly due to very strong demand in the year which temporarily impacted the service response times and performance levels.

Financial review

Summary statutory results for 2022 and 2021

Summary Profit or Loss	For the year ended 31 December 2022 £m	For the year ended 31 December 2021 £m
Net interest income	**709.9**	587.6
Net fair value gain on financial instruments	**58.9**	29.5
Gain on sale of financial instruments	**–**	4.0
Other operating income	**6.6**	7.9
Administrative expenses	**(206.5)**	(166.5)
Provisions	**1.6**	(0.2)
Impairment of financial assets	**(29.8)**	4.4
Impairment of intangible assets	**–**	3.1
Integration costs	**(7.9)**	(5.0)
Exceptional items	**–**	(0.2)
Profit before taxation	**532.8**	464.6
Profit after taxation	**411.3**	345.0
Key ratios		
Net interest margin	**278bps**	253bps
Cost to income ratio	**27%**	26%
Management expense ratio	**81bps**	71bps
Loan loss ratio	**13bps**	-2bps
Return on equity	**20%**	20%

Extracts from the Statement of Financial Position	As at 31 December 2022 £m	As at 31 December 2021 £m
Loans and advances to customers	23,612.7	21,080.3
Retail deposits	19,755.8	17,526.4
Total assets	27,567.5	24,532.5

Financial review (continued)

Statutory profit

Group's statutory profit before tax increased by 15% to £532.8m (2021: £464.6m) after exceptional items, integration costs and other acquisition-related items of £59.6m (2021: £57.6m). The increase was primarily due to growth in the loan book, an improved net interest margin and net fair value gains on financial instruments resulting from rising swap rates, partially offset by higher administration costs and an impairment charge compared to an impairment credit in 2021.

Statutory profit after tax was £411.3m in 2022, an increase of 19% from £345.0m in the prior year, and included after-tax exceptional items, integration costs and other acquisition related items of £38.7m (2021: £47.8m).

The Group's effective tax rate reduced to 22.8% compared to 25.7% in the prior year, primarily due to a reduction in the deferred tax provision following the enactment of the expected decrease in the bank surcharge from 8% to 3% from April 2023.

Statutory return on equity for 2022 was 20% (2021: 20%).

Net interest income

Statutory net interest income increased by 21% in 2022 to £709.9m (2021: £587.6m), largely reflecting growth in the loan book and an improved net interest margin.

Statutory net interest margin (NIM) was 278bps compared to 253bps in the prior year, up 25bps, primarily due to the benefit of base rate rises. There were delays, especially in the first half of the year, in the market passing base rate rises on to savers in full. In addition, as rates rose, mortgage interest income benefitted from higher expected reversionary income following the end of the fixed product term. This benefit was partially offset by an expectation that customers would on average spend less time on the higher reversionary rate before refinancing. The impact of this, together with other behavioural changes, resulted in a net effective interest rate (EIR) reset loss of £31.6m (2021: £11.5m gain).

Net fair value gain on financial instruments

Statutory net fair value gain on financial instruments of £58.9m in 2022 (2021: £29.5m) included a £57.1m net gain on unmatched swaps (2021: £10.3m) following the significant rise in swap prices in the fourth quarter and a net loss of £8.1m (2021: £2.4m gain) in respect of the ineffective portion of hedges.

The Group also recorded a £10.2m net gain (2021: £13.4m gain) from the unwind of acquisition-related inception adjustments, a £1.2m gain (2021: £3.0m) from the amortisation of hedge accounting inception adjustments and a loss of £1.5m from other items (2021: £0.4m gain).

The net gain on unmatched swaps related primarily to fair value movements on mortgage pipeline swaps prior to them being matched against completed mortgages. This benefitted from a step up in interest rate outlook on the SONIA yield curve largely in response to the actions announced in the September 'mini budget'. The Group economically hedges its committed pipeline of mortgages and this unrealised gain unwinds over the life of the swaps through hedge accounting inception adjustments.

Financial review (continued)

Gain on sale of financial instruments

There were no sales of financial instruments in 2022.

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

Other operating income

Statutory other operating income of £6.6m (2021: £7.9m) 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 24% to £206.5m in 2022 (2021: £166.5m), due primarily to spend returning to a more normalised level post-pandemic, inflationary headwinds and planned investment in the business, including refreshing and upgrading our technology infrastructure post-integration.

The Group's statutory cost to income ratio increased to 27% (2021: 26%) as a result of the growth in administrative expenses, moderated by strong income generation in the year, including the fair value gains on hedging activities.

The statutory management expense ratio increased to 81bps in 2022 (2021: 71bps) reflecting the higher administrative expenses.

Impairment of financial assets

The Group recorded a statutory impairment charge of £29.8m in 2022 (2021: £4.4m credit) representing a statutory loan loss ratio of 13bps (2021: -2bps).

The Group adopted more severe macroeconomic scenarios in its IFRS 9 models as the outlook deteriorated, which led to a charge of £11.6m. Post-model adjustments, to account for rising cost of living and borrowing concerns amounted to a charge of £13.3m and the strong loan book growth and changes in the risk profile in the year resulted in a charge of £15.2m. These were partially offset by a release of £10.3m due to house price appreciation in the year and a £8.3m release from a reduction in pandemic-related post-model adjustments and modelling enhancements. Other charges amounted to £8.3m.

In the prior year, the impairment credit was largely due to the Group's adoption of less severe forward-looking macroeconomic scenarios in its IFRS 9 models, reflecting an improved outlook together with the benefit of strong house price performance in the year.

Financial review (continued)

Impairment of intangible assets

There were no intangible asset impairments in 2022.

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

Integration costs

The Group recorded £7.9m of integration costs in 2022 (2021: £5.0m), which largely related to redundancy costs and consultant fees for advice on the Group's future operating structure.

Exceptional items

There were no exceptional costs in 2022.

In the prior year, exceptional costs of £0.2m related to the insertion of OSB GROUP PLC as the new holding company and listed entity of the Group.

Balance sheet growth

On a statutory basis, net loans and advances to customers grew by 12% to £23,612.7m in 2022 (31 December 2021: £21,080.3m), supported by originations of £5.8bn in the year.

Total assets also grew by 12% to £27,567.5m (31 December 2021: £24,532.5m), largely due to the growth in loans and advances to customers and an increase in liquid assets.

On a statutory basis, retail deposits increased by 13% to £19,755.8m as at 31 December 2022 from £17,526.4m in the prior year, as the Group's attractively priced savings products proved popular with customers.

The Group complemented its retail deposits funding with drawings under the Bank of England's schemes. Drawings under the Term Funding Scheme for SMEs as at 31 December 2022 remained unchanged from £4.2bn at the end of 2021 and drawings under the Index Long-Term Repo scheme were £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 2022, OSB had £1,494.1m and CCFS had £1,522.8m of HQLA (31 December 2021: £1,322.8m and £1,318.0m, respectively).

Financial review (continued)

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

As at 31 December 2022, OSB had an LCR of 229% and CCFS 148% (31 December 2021: 240% and 158%, respectively) and the Group LCR was 185% (31 December 2021: 196%), all significantly in excess of the regulatory minimum of 100% plus Individual Liquidity Guidance.

Capital

The OSB solo capital position remained strong with a CET1 capital ratio of 18.4% as at 31 December 2022 (31 December 2021: 19.4%).

Summary cash flow statement

	For the year ended 31 December 2022	For the year ended 31 December 2021[1]
Profit before tax	**532.8**	464.6
Net cash generated/(used in):		
Operating activities	**428.2**	(347.1)
Investing activities	**63.2**	80.6
Financing activities	**(184.0)**	632.6
Net increase in cash and cash equivalents	**307.4**	366.1
Cash and cash equivalents at the beginning of the period	**2,736.7**	2,370.6
Cash and cash equivalents at the end of the period	**3,044.1**	2,736.7

1. 2021 figures were restated, see note 1 b) in the Group's Consolidated Financial Statements for further details.

Cash flow statement

The Group's cash and cash equivalents increased by £307.4m during the year to £3,044.1m as at 31 December 2022.

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 £184.0m included £300.9m drawings under the ILTR scheme offset by £193.6m repayment of debt securities, £233.1m 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.

In 2021, loans and advances to customers increased by £1,844.0m during the year, partially funded by £923.3m of deposits from retail customers and a decrease in loans and advances to credit institutions (primarily the Bank of England call account) of £167.4m. Additional funding was provided by cash generated from financing activities of £632.6m included £633.9m of net drawings under the Bank of England's TFS and TFSME schemes and £36.1m of net proceeds from securitisation of mortgages offset by £86.7m dividend payments and £8.4m interest on financing liabilities during the year. Cash generated from investing activities was £80.6m.

Financial review (continued)

Summary of underlying results for 2022 and 2021

Summary Profit or Loss	**For the year ended 31 December 2022 £m**	**For the year ended 31 December 2021 £m**
Net interest income	**769.1**	650.5
Net fair value loss on financial instruments	**48.5**	18.5
Gain on sale of financial instruments	**–**	2.3
Other operating income	**6.6**	7.9
Administrative expenses	**(202.7)**	(161.7)
Provisions	**1.6**	(0.2)
Impairment of financial assets	**(30.7)**	4.9
Profit before taxation	**592.4**	522.2
Profit after taxation	**450.0**	392.8
Key ratios		
Net interest margin	**303bps**	282bps
Cost to income ratio	**25%**	24%
Management expense ratio	**80bps**	70bps
Loan loss ratio	**14bps**	-2bps
Return on equity	**23%**	24%

Extracts from the Statement of Financial Position	**As at 31 December 2022 £m**	**As at 31 December 2021 £m**
Loans and advances	**23,529.8**	20,936.9
Retail deposits	**19,755.2**	17,524.8
Total assets	**27,488.4**	24,404.2

Alternative performance measures

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

Underlying results for 2022 and 2021 exclude exceptional items, integration costs and other acquisition-related items. A reconciliation of statutory to underlying results is disclosed on page 29.

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

Financial review (continued)

Underlying profit

The Group's underlying profit before tax increased by 13% to £592.4m from £522.2m in 2021. The increase was primarily due to growth in the loan book, an improved net interest margin and net fair value gains on financial instruments resulting from rising swap rates, partially offset by higher administration costs and an impairment charge compared to an impairment credit in 2021.

Underlying profit after tax was £450.0m, up 15% (2021: £392.8m), broadly in line with the increase in profit before tax. The Group's effective tax rate on an underlying basis reduced to 24.0% for 2022 (2021: 24.8%).

On an underlying basis, return on equity for 2022 was 23% (2021: 24%).

Net interest income

Underlying net interest income increased by 18% to £769.1m in 2022 (2021: £650.5m), largely reflecting growth in the loan book and an improved net interest margin.

The underlying net interest margin increased to 303bps from 282bps in 2021, primarily due to the benefit of base rate rises. There were delays, especially in the first half of the year, in the market passing base rate rises on to savers in full. In addition, as rates rose, mortgage interest income benefitted from higher expected reversionary income following the end of the fixed product term. This benefit was partially offset by an expectation that customers would on average spend less time on the higher reversionary rate before refinancing. The impact of this, together with other behavioural changes, resulted in a net effective interest rate (EIR) reset loss of £23.1m (2021: £18.6m gain).

Net fair value gain on financial instruments

Underlying net fair value gain on financial instruments of £48.5m in 2022 compared to a gain of £18.5m in 2021. This included a gain on unmatched swaps of £57.1m (2021: £10.3m) following the significant rise in swap prices in the fourth quarter, a loss of £8.1m (2021: £2.4m gain) from hedge ineffectiveness. The Group also recorded a £1.2m gain (2021: £5.4m) from the amortisation of hedge accounting inception adjustments and a loss of £1.7m (2021: £0.4m gain) from other items.

The net gain on unmatched swaps related primarily to fair value movements on mortgage pipeline swaps prior to them being matched against completed mortgages. This benefitted from a step up in interest rate outlook on the SONIA yield curve largely in response to the actions announced in the September mini budget. The Group economically hedges its committed pipeline of mortgages and this unrealised gain unwinds over the life of the swaps through hedge accounting inception adjustments.

Gain on sale of financial instruments

There were no sales of financial instruments in 2022.

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

Financial review (continued)

Other operating income

On an underlying basis, other operating income was £6.6m in 2022 (2021: £7.9m) 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 were up 25% to £202.7m in 2022 (2021: £161.7m), due primarily to spend returning to a more normalised level post pandemic, inflationary headwinds and planned investment in the business, including refreshing and upgrading our technology infrastructure post-integration.

The Group's underlying cost to income ratio increased to 25% (2021: 24%) as a result of the growth in administrative expenses, moderated by strong income generation in the year, including the fair value gains on hedging activities.

The underlying management expense ratio increased to 80bps in 2022 (2021: 70bps) reflecting the higher administrative expenses.

Impairment of financial assets

The Group recorded an underlying impairment charge of £30.7m in 2022 (2021: £4.9m credit) representing an underlying loan loss ratio of 14bps (2021: -2bps).

The Group adopted more severe macroeconomic scenarios in its IFRS 9 models as the outlook deteriorated, which led to a charge of £11.6m. Post-model adjustments to account for rising cost of living and borrowing concerns, amounted to a charge of £13.3m and the strong loan book growth and changes in the risk profile in the year resulted in a charge of £15.2m. These were partially offset by a release of £10.3m due to house price appreciation in the year and a £8.3m release from a reduction in pandemic-related post-model adjustments and modelling enhancements. Other charges amounted to £9.2m.

In the prior year, the impairment credit was largely due the Group's adoption of less severe forward-looking macroeconomic scenarios in its IFRS 9 models, reflecting an improved outlook together with the benefit of strong house price performance in the year.

Balance sheet growth

On an underlying basis, net loans and advances to customers were £23,529.8m (31 December 2021: £20,936.9m) an increase of 12%, supported by gross originations of £5.8bn in the year.

Total underlying assets grew by 13% to £27,488.4m (31 December 2021: £24,404.2m), largely due to the growth in loans and advances to customers and an increase in liquid assets.

On an underlying basis, retail deposits increased by 13% to £19,755.2m (31 December 2021: £17,524.8m) as the Group's attractively priced savings products proved popular with customers in 2022.

The Group complemented its retail deposits funding with drawings under the Bank of England's schemes. Drawings under the Term Funding Scheme for SMEs (TFSME) at 31 December 2022 remained unchanged from £4.2bn at the end of 2021 and drawings under the Index Long-Term Repo scheme were £300.9m.

Financial review (continued)

Reconciliation of statutory to underlying results

	2022			2021		
	Statutory results £m	Reverse acquisition-related and exceptional items £m	Underlying results £m	Statutory results £m	Reverse acquisition-related and exceptional items £m	Underlying results £m
Net interest income	**709.9**	**59.2**[1]	**769.1**	587.6	62.9[1]	650.5
Net fair value gain/(loss) on financial instruments	**58.9**	**(10.4)**[2]	**48.5**	29.5	(11.0)[2]	18.5
Gain on sale of financial instruments	**–**	**–**	**–**	4.0	(1.7)[3]	2.3
Other operating income	**6.6**	**–**	**6.6**	7.9	-	7.9
Total income	**775.4**	**48.8**	**824.2**	629.0	50.2	679.2
Administrative expenses	**(206.5)**	**3.8**[4]	**(202.7)**	(166.5)	4.8[4]	(161.7)
Provisions	**1.6**	**–**	**1.6**	(0.2)	-	(0.2)
Impairment of financial assets	**(29.8)**	**(0.9)**[5]	**(30.7)**	4.4	0.5[5]	4.9
Impairment of intangible assets	**–**	**–**	**–**	3.1	(3.1)	-
Integration costs	**(7.9)**	**7.9**[7]	**–**	(5.0)	5.0[6]	-
Exceptional items	**–**	**–**	**–**	(0.2)	0.2[7]	-
Profit before tax	**532.8**	**59.6**	**592.4**	464.6	57.6	522.2
Profit after tax	**411.3**	**38.7**	**450.0**	345.0	47.8	392.8
Summary Balance Sheet						
Loans and advances to customers	**23,612.7**	**(82.9)**[9]	**23,529.8**	21,080.3	(143.4)[8]	20,936.9
Other financial assets	**3,878.9**	**9.1**[10]	**3,888.0**	3,382.3	22.0[9]	3,404.3
Other non-financial assets	**75.9**	**(5.3)**[11]	**70.6**	69.9	(6.9)[10]	63.0
Total assets	**27,567.5**	**(79.1)**	**27,488.4**	24,532.5	(128.3)	24,404.2
Amounts owed to retail depositors	**19,755.8**	**(0.6)**[12]	**19,755.2**	17,526.4	(1.6)[11]	17,524.8
Other financial liabilities	**5,548.5**	**0.8**[13]	**5,549.3**	4,908.7	2.3[12]	4,911.0
Other non-financial liabilities	**61.4**	**(30.2)**[14]	**31.2**	72.6	(45.0)[13]	27.6
Total liabilities	**25,365.7**	**(30.0)**	**25,335.7**	22,507.7	(44.3)	22,463.4
Net assets	**2,201.8**	**(49.1)**	**2,152.7**	2,024.8	(84.0)	1,940.8

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

Risk review

Executive summary

Progress was made in 2022 against the Group's strategic risk management objectives for the year, including the priority areas set out in the Annual Report and Accounts for the year ended 31 December 2021.

The Group delivered strong financial performance against the backdrop of the United Kingdom's uncertain macroeconomic outlook resulting from the high levels of inflation and the ongoing conflict in Ukraine. The strong performance was delivered within the confines of a prudent risk appetite. The Group operated within the boundaries of its risk appetite limits during 2022.

The impact of the rising cost of living, the rising cost of borrowing and the prospect of further increases in the Bank of England base rate were key areas of focus for the Group in 2022. The Group conducted additional analysis and made adjustments to the macroeconomic scenarios used in its modelling and provisioning to ensure the impacts on customer affordability were covered.

The Group remained alert to the heightened cyber risk environment driven by the situation in Ukraine and the embedding of the hybrid working model for colleagues across the Group. Our cyber security capabilities were maintained through continued investment and frequent penetration testing.

The Group's overall asset quality remained stable with respect to customer behaviour and affordability levels, whilst collateral values improved during the year. Arrears levels remained broadly stable. The Group has a negligible exposure to Ukrainian, Russian and Belorussian customers and closely monitored and managed these customers as required.

The Group's risk management framework ensures risks continued to be identified, monitored and managed effectively, which in turn supported the strong operational and financial performance in the year. A full review of the risk appetite statements and limits across all principal risk types was undertaken in 2022, which informed the management of the Group's lending and retail savings businesses in an uncertain and competitive operating environment. Group risk appetite statements and limits were designed and implemented, based on aligned approaches calibrated for anticipated financial forecasts and stress test analysis. Risk appetite is monitored and managed at the Group and at the individual Bank levels.

The Group also maintained strong levels of capital and funding throughout 2022, being mindful of the heightened levels of future uncertainty. Capital and funding levels were assessed against the impacts of extreme but plausible economic, business and operational shocks and reflected in the Group's solvency and liquidity risk appetites. A number of reverse stress tests were performed to identify what severity of macroeconomic scenario could result in the Group and its entities breaching minimum regulatory requirements, which were utilised in the going concern and viability assessments.

The Group experienced some operational challenges during 2022. The number of base rate rises was responsible for strong demand for savings accounts and the number of product rate changes required was operationally challenging. In the second half, the market saw an increasing level of borrowers looking to refinance with their existing lender and in some cases refinance early to avoid anticipated future interest rate rises. This caused a spike in enquiries and application timelines which also resulted in elongated call wait times.

Risk review (continued)

The Group continues to focus on enhancing forecasting and stress testing capabilities, with a particular focus on Internal Ratings Based (IRB) stress testing and stress testing using Basel 3.1 scenarios.

The Group continues to advance towards IRB accreditation, with progress made throughout the year. The Group has undertaken a comprehensive self-assessment exercise to validate its level of compliance, in conjunction with drafting all required module 1 submission documentation, which has passed through internal governance. The Group has noted the PRA's industry level feedback to ensure effective adherence to regulatory expectation. Pre-application discussions have been held with the PRA to outline the Group's approach to integrating IRB capabilities and compliance. The Group is now actively engaging with the PRA regarding a module 1 submission date. The programme continues to integrate IRB capabilities informing the Group's business, key risk and capital management disciplines.

Active monitoring and assessment of the Group's credit risk portfolio drivers is a critical risk management discipline. This was achieved through the active monitoring of credit portfolio performance indicators, sensitivity and stress test analysis and thematic deep dives.

Cross-functional expertise was leveraged to review emerging trends and take pre-emptive actions in accordance with the defined risk appetite and governance standards. The Group's investment in advanced credit analytics greatly enhanced monitoring capabilities, improved forward-looking assessments and supported stress testing and capacity planning analysis. This in turn allowed the Board to make more informed decisions in the uncertain macroeconomic and political environment.

Ensuring that the Group continued to maintain appropriate expected credit loss provisions was an important consideration of the Board and senior management. The Group undertook detailed analysis to assess portfolio risks and consider if these were adequately accounted for in IFRS 9 models and frameworks. The Group 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 an increase in provisions and a more pronounced increase in the balances of accounts in stage 2, which was expected given the mechanics of the IFRS 9 framework. In addition, a new suite of IFRS 9 models were implemented, which further increased alignment across the Group. Expected credit loss provisions were assessed using the Group's revised IFRS 9 methodologies, individually assessed provisioning approaches and portfolio segment based stress and sensitivity analysis. Benchmarking analysis was provided to the Board and senior management, enabling review and challenge of provision coverage levels and underlying macroeconomic scenarios.

Significant investment continues to be made across the Group's risk management capabilities and resources, to ensure that all categories of risk continue to be managed effectively. An independent third-party review was undertaken during the year which indicated that the Group's risk management framework was well-designed and embedded to support the Group's current and future strategic plans. The review's recommended actions confirmed management's existing plans and will drive further enhancements ensuring that the Group continues to meet emerging regulatory expectations, whilst supporting shareholder returns via the management of financial risks.

A number of deep dive thematic reviews across all core loan portfolios were conducted to ensure that credit risk strategies and operational capabilities remained appropriate. As a secured lender, the Group has prudent credit risk appetite limits in place which, together with well-established management capabilities, position the Group well to manage the impact of any potential affordability stress from the ongoing rising cost of living or further increases in interest rates. The Group continues to conduct sensitivity and stress testing analysis to understand the financial and operational impact of differing scenarios on arrears levels, financial performance metrics and prudential requirements. These scenarios also support operational capacity planning to help ensure that the correct level of resourcing is in place within the Servicing and Collections function. During the pandemic, the Group demonstrated the effectiveness of its capabilities in managing and supporting customers during a period of stress.

Risk review (continued)

The ongoing delivery of planned enhancements to the Group's operational resilience capabilities remains a key area of focus. The Group's programme of work to ensure appropriate capabilities and processes are in place to facilitate an orderly resolution of the Group completed as planned, including the successful completion of a resolution scenario fire drill which walked selected Board members and senior management through the core steps of the resolution timeline. The Group has put in place arrangements designed to ensure that it is able to continue to serve customers through resolution and any post-stabilisation restructuring.

The Group continues to implement a programme of work to further embed the operational risk management framework across the Group, including the completion of an enhanced risk and controls selfassessment process and delivery of a more aligned approach to the setting of operational risk appetite. The Group's Risk and Control Self-Assessment (RCSA) process was integrated into a Group-wide risk system which will ensure more dynamic and continuous assessment, adherence to common standards, an improved user interface and increased review and challenge.

The Group views fair customer outcomes and provision of timely and effective support to customers in distress as a central pillar supporting its Purpose, Vision and Values. The Group has customer-centric policies and procedures in place which are subject to ongoing reviews and benchmarking. The Group was also appropriately attuned to the emerging industry and regulatory focus on customer vulnerability recognising that Consumer Duty regulations set higher expectations for the Group in terms of demonstrating that good outcomes for its customers is at the heart of the Group's strategy and business objectives.

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 2023

A significant level of uncertainty remains around the UK economic outlook and the operating environment for 2023 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 the implementation of an enhanced stress testing capability to improve riskbased pricing, balance sheet management, capital planning and stress testing.
- Make continued progress in obtaining IRB accreditation and further leverage capabilities within wider risk management disciplines such as IFRS 9 Expected Credit Loss (ECL) calculations, underwriting, existing customer management and collections to drive portfolio performance benefits and improvements in shareholder returns.
- Implement and embed the FCA's Consumer Duty rules and requirements, via 5 key pillars of activity, to ensure that the Group complies with the new Consumer Principle, cross-cutting rules and the four Consumer Duty outcomes by 31 July 2023 for new and existing products and 31 July 2024 for closed products.
- Continue to strengthen engagement and support with the first line of defence to enhance conduct, regulatory and financial crime risk awareness and key preventative and detective controls.
- Further enhance and embed the Group's resolution framework, including testing valuation and funding in resolution capabilities and testing interactions between other resolution barriers.
- Maintain oversight of capital management including the impact of MREL, Basel 3.1 and IRB.

- Continue the optimisation of funding strategy and enhancement of sensitivity analysis around key liquidity drivers.

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

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

The key modules 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 via an integrated and effective enterprise strategic risk management framework.

4. Risk definitions and categorisation – the Group sets out its principal risks which represent the primary risks to which the Group is exposed.

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

Risk review (continued)

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

7. 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.

8. 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.

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

10. 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.

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

Group organisational structure

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

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

Risk 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.

Risk review (continued)

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 2022, 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 asset values and increased credit exposures for banks and other lenders as the costs and opportunities arising from climate change become apparent. Reputational risk arises from a failure to meet changing and more demanding societal, investor and regulatory expectations.

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

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

Emissions scenario

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

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

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

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

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

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

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

In addition to the physical perils, the current Energy Performance Certificate (EPC) of each property was considered to allow for an assessment of transitional risk due to policy change. EPC ratings are based on a Standard Energy Procedure (SAP) calculation which uses a methodology to determine the energy performance of properties by considering factors such as construction materials, heating systems, insulation and air leakage.

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

- Flood risk
  By the 2030's, at the Group level, the percentage of properties predicted to experience a flood is expected to increase from 0.49% in the least severe scenario to 0.51% in the most severe scenario. Both scenarios represent a low proportion of the Group's loan portfolios.

- Subsidence
  In the 2030's, at the Group level the percentage of properties predicted to experience subsidence is expected to increase from 0.42% in the least severe scenario to 0.45% in the most severe scenario. The outcome of both scenarios represents a low proportion of the Group's loan portfolios.

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

Risk review (continued)

Both Banks have over 93% of their portfolios more than 1000 metres from the coastline, indicating a very low coastal erosion risk across the Group.

The CCFS bank entity has 32 properties within 100 metres of the coastline, whilst the OSB bank entity has 34.

c) Energy Performance Certificate profile
The EPC profile of both bank entities follows a similar trend to the national average. At the Group level 40% of properties have an EPC of C or better, 45% have an EPC of D, 13% with an EPC of E and negligible percentages in F or G. Over 90% of the properties supporting the Group's loan portfolios have the potential to have at least an EPC rating of C.

Value at Risk assessment
The Value at Risk to 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 EPC A, B and C grades where possible. We considered this risk for Buy-to-Let accounts only.

d) Analysis outcome
The physical risks currently present an immaterial ECL or capital risk to the Group. The sensitivity to transitional risk is larger than that of physical risk, although still very small, particularly when considering the aggressive time frames on government policy relating to minimum EPC requirements.

e) Planned enhancements during 2023
In the future, the Group's climate risk data and scenario analysis capabilities will continue to be enhanced.

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 changes.

Risk appetite statement: The Group's strategic and business risk appetite states that the Group does not intend to undertake any medium- to long-term strategic actions that would put at risk its vision of being a leading specialist lender, backed by strong and dependable savings franchises. The Group adopts a long-term sustainable business model which, while focused on niche sub-sectors, is capable of adapting 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 Group delivered strong performance against targets during 2022 despite the continued impact of inflation, increasing interest rates and the conflict in Ukraine. The ongoing macroeconomic uncertainty and its potential impact on net interest margin, affordability levels and house prices present an increased risk to the Group's performance in 2023.

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: increased
The increase in macroeconomic environment risk in 2022 related to inflation and increasing interest rates creating a squeeze on borrowers' affordability levels. The ongoing macroeconomic uncertainty will continue into 2023 with an increased risk to the Group's credit risk profile, including the possibility of a fall in house prices.

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.

Principal risks and uncertainties (continued)

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

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

2. Reputational risk

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

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

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

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

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

Direction: increased
The challenging macroeconomic environment in 2022 resulted in significant 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 have impacted the Group's reputational risk profile.

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.

Principal risks and uncertainties (continued)

<u>3.1 Individual borrower defaults</u>
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 Collections and Recoveries team works with customers who are unable to meet their loan service obligations to reach a satisfactory conclusion while adhering to the principle of treating customers fairly.

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

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

Direction: increased
The drivers of borrower default risk have shifted to rising inflation and the consequential increases in interest rates which impact affordability for accounts which revert onto higher interest rates and increase the risk of borrower default.

<u>3.2 Macroeconomic downturn</u>
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.

Principal risks and uncertainties (continued)

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 remained unchanged in 2022 due to the Group's simple asset and liability structure and ongoing careful management.

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 2022 due to its balance sheet structure.

Direction: decreased
Basis risk exposures reduced year on year as a result of the LIBOR Transition at the end of 2021.

Principal risks and uncertainties (continued)

5. Liquidity and funding risk

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

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

5.1 Retail funding stress

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

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

Mitigation

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

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

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

The Group proactively manages its savings proposition through both the Liquidity Working Group and the Group Assets and Liabilities Committee. Finally, the Group has prepositioned mortgage collateral and securitised notes with the Bank of England, which allows it to consider alternative funding sources to ensure it is not solely reliant on retail savings. The Group also has a mature Retail Mortgage Backed Security (RMBS) programme.

Direction: increased

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

In 2022, OSB and CCFS were able to attract significant flows of new deposits and depositors, despite the volatile interest rate environment and competitive savings market. During periods of exceptionally high volatility, funding was drawn from the Bank of England using the Index Long-term Repo scheme to support retail funding and customer operations.

5.2 Wholesale funding stress

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

Mitigation

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

Principal risks and uncertainties (continued)

The Group issued one securitisation in 2022 and has a range of wholesale funding options available outside retained securitisation, including Bank of England facilities, for which collateral has been prepositioned.

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

5. 3 Refinancing of TFSME
Current Term Funding Scheme for Small and Medium-sized Enterprises (TFSME) borrowing by the Group remained at £4.2bn at the end of 2022, with 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 via its strong franchises, to replace the TFSME borrowing gradually over the next few years ahead of the maturity of this funding.

Direction: unchanged
TFSME borrowing remained unchanged during the year; however, the current funding plan to refinance TFSME requires significant securitisation issuance. These markets have seen increased volatility during 2022, which could continue into 2023 so 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. We manage our capital resources in a manner which avoids excessive leverage and allows us flexibility in raising capital.

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

The 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 note the PRA's recently published consultation paper (CP) on the implementation of Basel 3.1.

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

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

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

Principal risks and uncertainties (continued)

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

Direction: increased
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 rising inflation and interest rates.

We have estimated the impact of Basel 3.1 on our 31 December 2022 CET1 ratio to be a reduction of up to 2% points, should the proposed rules be implemented as drafted in the CP and prior to the Group receiving Internal Ratings Based (IRB) accreditation.

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 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. This is further supported by documented and tested procedures intended to ensure the effective response to a security breach.

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

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

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

7. 2 Data quality and completeness
The risks resulting from data being either inaccurate or incomplete.

Mitigation
The Group previously established a dedicated Data Strategy Programme, involving the recruitment of a Chief Data Officer and a Data Governance Director, designed to ensure a consistent approach to the maintenance and use of data. This includes both documented procedures and frameworks and also tools intended to improve the consistency of data use.

Principal risks and uncertainties (continued)

Direction: unchanged
Progress was made in 2022 to embed Group-wide governance frameworks in part driven by the Group's IRB project. Further work is planned for 2023, to move closer to the Group's target end state.

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

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

Direction: increased
The Group continued to adopt an ambitious change agenda, which was monitored and managed well in 2022. We are now turning our attention towards identifying opportunities to further digitise our business operations, to deliver additional efficiencies and invest in the Group to ensure it remains well-positioned to meet the changing needs of our customers, brokers and wider stakeholders.

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

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

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

Direction: unchanged
Whilst progress was made in reducing both the likelihood and impact of an IT failure, the risks remain, in particular due to new hybrid working arrangement. Further work is planned during 2023.

8. Conduct risk

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

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

Principal risks and uncertainties (continued)

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

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

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

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

Direction: increased
The conduct risk level increased due to macroeconomic uncertainty. Some customers, particularly those who are vulnerable, may experience financial difficulty as a result of the rising cost of living and cost of borrowing. Volatile lending and savings markets led to unprecedented high volumes of new business adversely impacting customer service level agreements and leading to increased complaints and reputational risk.

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

9. Regulatory risk

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

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

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

9.1 Prudential regulatory changes
The Group continues to see a high volume of key compliance regulatory changes that impact its business activities. These include the implementation of Basel 3.1 capital rules and increased Resolvability Assessment Framework requirements, including updated minimum requirements for own funds and eligible liabilities (MREL).

Principal risks and uncertainties (continued)

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

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

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

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

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

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

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

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

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

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

The Group continues to 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.

Ongoing reviews of long term arrears and forbearance customers, continues to ensure that payment terms still remain appropriate.

The Group has instigated a formal project to implement the FCA's new Consumer Duty requirements within the required timelines.

Principal risks and uncertainties (continued)

10. Financial crime risk

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

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

10.1 Financial crime risk

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

Mitigation

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

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

The Group reacted swiftly to the events in Ukraine and the regular updates released in relation to the Russia and Belarus financial sanctions regimes. The Group has negligible exposure to the affected jurisdictions and no exposure to any specific individual or entity contained within the 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. The Group's Financial Crime team will support the Information Security Team, where appropriate, to ensure that there are robust and effective controls in place and sufficient training and awareness for all colleagues.

Direction: Unchanged

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

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

Principal risks and uncertainties (continued)

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

Mitigation
The Group continues to invest in a range of systems and controls that are deployed across its product range in order to detect and prevent the exposure to fraud through the customer lifecycle. All new 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.

These controls are further supported by documented 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 parameters within its systems and control framework to ensure that these remain fit for purpose and aligned to mitigate any emerging risks.

Direction:Increased
The Group remains aware that any potential downturn in the wider economic environment may increase the risk of fraud activity across its product range and will closely monitor changes in trends that may be indicative of any new or emerging risks.

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

Political and macroeconomic uncertainty
The Group's lending activity is predominantly focused in the United Kingdom (with a legacy back-book of mortgages in the Channel Islands) and, as such, will be impacted by any risks emerging from changes in the macroeconomic environment. Rising inflation and interest rates pose risks to the Group's loan portfolio performance.

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

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

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

Principal risks and uncertainties (continued)

Mitigation

During 2022, the Group further embedded its approach to climate risk management, which included the development of a climate risk appetite. Further detail are set out in the OSBG annual report and accounts Task Force on Climate-related Financial Disclosures (TCFD) report.

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 a PRA consultation paper containing proposed expectations regarding banks' management of model risk.

Mitigation

The Group has well-established model risk governance arrangements in place, with Board and Executive Committees in place to ensure robust oversight of the Group's model risk profile. Dedicated resources are in place to ensure that model governance arrangements continue to meet any changes in industry and regulatory expectations.

Regulatory change

The Group remains subject to high levels of regulatory oversight and an extensive and broad ranging regulatory change agenda, including meeting the requirements of the Resolvability Assessment Framework and Operational Continuity in Resolution. The Group is therefore required to respond to prudential and conduct-related regulatory changes, taking part in thematic reviews, as required.

There is also 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 via membership of UK Finance, inputs into upcoming regulatory consultations.

Risk review

Risk profile performance overview

Credit risk
Group's loan portfolios performed robustly during 2022. Prudent criteria for new originations delivered strong new business quality, whilst the back book also outperformed forecast expectations. In particular, the Group saw lower arrears levels than forecast and better than expected house price inflation.

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

The Group delivered 12% net loan book growth in 2022 with strong originations in the Group's core Buy-to-Let and residential owner-occupier sub-segments, which more than offset reductions in the second charge and funding lines sub-segments. New lending also improved in semi-commercial and commercial as well as in the Group's development finance sub-segments.

Favourable property price indexing resulted in a reduction in the weighted average stock LTV for OSB and CCFS to 58% and 63% respectively as at 31 December 2022 (31 December 2021: OSB 60% and CCFS 65%), and a prudent weighted average LTV profile of 60% for the Group, down from 62% at the end of 2021.

A low and stable level of arrears continued to be observed, with just 1.1% of the Group's net loan balances being greater than three months in arrears as at 31 December 2022, unchanged from the prior year. Increasing arrears levels were observed across a small number of portfolios as payment deferrals expired; however, these increases were partially offset by improving performance across other loan portfolios.

Solo bank interest coverage ratios for Buy-to-Let loans remained strong during 2022 at 207% for OSB and 191% for CCFS (2021: 199% OSB and 188% CCFS).

During 2022, forward-looking external credit bureau probability of default and customer indebtedness scores remained strong, with some reversion back to pre-pandemic levels as customers returned to spending, once lockdown restrictions were relaxed.

Risk profile performance overview (continued)

Expected Credit Losses (ECL)
Balance sheet expected credit losses increased from £101.5m to £130.0m as at 31 December 2022. Other non-material items further contributed to the increase and resulted in a full year statutory impairment charge of £29.8m representing a loan loss ratio of 13bps (2021: £4.4m release, -2bps, respectively), with the provision charge primarily driven by post-model adjustments to account for the rising cost of living and cost of borrowing concerns, as well as the strong growth in the loan book in the year.

A summary of the key impairment charge drivers for 2022 included:

a. Macroeconomic outlook - positive House Price Index (HPI) movements and continued low unemployment were observed throughout 2022, however, the outlook deteriorated throughout the year due to the war between Russia and Ukraine and the fallout from the mini budget. The economic outlook at the end of 2022 was driven by rising interest rates, higher than target inflation and most notably a decrease in house prices. The change in economic outlook contributed £11.6m of impairment charge in 2022, whilst the improvement in house prices drove a release of £10.3m.

b. Model and staging enhancements – enhancements were made to the Group's underlying models to ensure that estimates continued to reflect actual credit profile performance. Most notably, the Group's enhancements to models, as part of the IRB programme, were incorporated into the Group's IFRS 9 framework. In addition, the Group enhanced its Significant Increase in Credit Risk (SICR) framework to adopt a default risk trigger, sensitive to the economic outlook. The cumulative impact of these modelling and staging enhancements was an £8.3m release for 2022.

c. Post model adjustments – the Group adopted a number of post-model adjustments, predominantly to account for external risks that were not sufficiently addressed in the model and staging framework. The most significant adjustments were made to the stage 2 approach to account for cost of borrowing and cost of living stresses due to the sharp increase in interest rates and the historically high inflation. In total, the postmodel adjustments contributed £13.3m of impairment charge in 2022.

d. Credit profile provision charges - impairment charges driven by changes in the credit profile such as portfolio growth, portfolio product mix and changes in staging mix totalled £15.2m. Other charges, including changes to individually assessed provisions and write offs, totalled £8.3m.

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

Impairment coverage levels were strengthened due to both the observed cost of living and cost of borrowing drivers, and the renewed uncertainty surrounding the macroeconomic outlook, with coverage levels approaching those held at the peak of the pandemic. 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.

Risk profile performance overview (continued)

Coverage ratios table

As at 31 December 2022	Gross carrying amount £m	Expected credit losses £m	Coverage ratio
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%**

As at 31 December 2021			
Stage 1	18,188.4	12.1	0.07%
Stage 2	2,413.6	25.0	1.04%
Stage 3 (+ POCI)	562.1	64.4	11.46%
Total	21,164.1	101.5	0.48%

Macroeconomic scenarios

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

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

i. How macroeconomic variables and scenarios are selected

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

The Group adopted an approach which utilises four macroeconomic scenarios. These scenarios are provided by an industry-leading economics advisory firm, that provides management and the Board with advice.

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.

Risk profile performance overview (continued)

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 2022
Throughout 2022, the scenario suite was monitored and updated as UK political and geopolitical developments occurred.

The Group's Risk and Audit Committees focused on assessing whether specific risks had been captured within externally provided forward-looking forecasts. Of particular focus were the risks relating to rising costs of living and subsequent rising interest rates to control inflation levels. The Group undertook a detailed analysis to assess the portfolio risks and consider whether these were adequately accounted for in the IFRS 9 models and frameworks, and identified a number of areas requiring post-model adjustments, most notably to account for the increased credit risk from the heightened cost of living and cost of borrowing resulting in an increase in the balance 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 were adjusted to a symmetrical probability, where the upside and downside scenarios carry equal weightings, as a result of separate post-model adjustments being raised to ensure that the current IFRS 9 framework adequately provisioned the underlying portfolio risk.

Details relating to the scenarios utilised to set the 31 December 2022 IFRS 9 provision levels are provided in the table below.

Forecast macroeconomic variables over a five-year period

			Scenario %				
Scenario	Probability weighting (%)	Economic measure	Year end 2022	Year end 2023	Year end 2024	Year end 2025	Year end 2026
Base case	40	GDP	4.3	(0.7)	1.8	2.7	2.1
		Unemployment	3.7	4.7	4.2	3.9	3.8
		House Price growth	9.0	(9.0)	(3.4)	2.8	5.8
		CPI	10.7	3.4	2.0	1.6	1.2
		Bank Base Rate	2.8	4.0	3.6	2.6	1.8
Upside	30	GDP	4.6	1.9	2.9	3.4	2.2
		Unemployment	3.6	4.2	4.0	3.7	3.7
		House Price growth	10.6	(6.7)	(1.3)	4.4	5.6
		CPI	11.0	4.7	2.9	1.4	1.1
		Bank Base Rate	3.0	5.3	4.8	3.4	2.3
Downside	20	GDP	3.7	(4.4)	1.0	2.4	2.1
		Unemployment	4.2	6.3	7.0	7.0	6.7
		House Price growth	6.8	(14.4)	(8.0)	(1.2)	6.1
		CPI	10.2	1.6	1.5	1.8	0.8
		Bank Base Rate	2.9	3.8	3.1	1.9	1.3
Severe downside	10	GDP	3.2	(7.5)	0.1	1.9	2.1
		Unemployment	4.3	6.8	7.6	7.6	7.2
		House Price growth	5.0	(18.6)	(12.1)	(5.0)	6.5
		CPI	9.5	0.7	0.9	2.1	0.5
		Bank Base Rate	2.6	2.8	2.0	0.6	0.5

Risk profile performance overview (continued)

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

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

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

- Temporary switch to interest only: a temporary account change to assist customers through periods of financial difficulty where the contractual monthly payment is reduced to the amount of interest owed in the month for the duration of the account change. Any arrears existing at the commencement of the arrangement are retained.

- Interest rate reduction: the Group may, in certain circumstances, where the borrower meets the required eligibility criteria, transfer the mortgage to a lower contractual rate. Where this is a formal contractual change, the borrower will be requested to obtain independent financial advice as part of the process.

- Loan term extension: a permanent account change for customers in financial distress where the overall term of the mortgage is extended, resulting in a lower contractual monthly payment.

- Payment holiday: a temporary account change to assist customers through periods of financial difficulty where capital and interest accruals during the payment holiday period are repaid from the end of the payment holiday over the remaining term. Any arrears existing at the commencement of the arrangement are retained.

- Voluntary-assisted sale: a period of time is given to allow borrowers to sell the property and arrears accrue based on the contractual monthly payment.

- Reduced monthly payments: a temporary arrangement for customers in financial distress. For example, a short-term arrangement to pay less than the contractual monthly payment. Arrears continue to accrue based on the contractual monthly payment.

- Capitalisation of interest: arrears are added to the loan balance and are repaid over the remaining term of the facility or at maturity for interest only products. A new payment is calculated, which will be higher than the previous payment.

- Full or partial debt forgiveness: where appropriate, the Group will consider writing-off part of the debt. This may occur where the borrower has an agreed sale and there will be a shortfall in the amount required to redeem the Group's charge, in which case repayment of the shortfall may be agreed over a period of time, subject to an affordability assessment; or where possession has been taken by the Group, and on the subsequent sale where there has been a shortfall loss.

Risk profile performance overview (continued)

- 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 prearrears watch-list reports. Watch-list cases are in turn carefully monitored and managed as appropriate.

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

Solvency risk
The Group maintains an appropriate level and quality of capital to support its prudential requirements with sufficient contingency to withstand a severe but plausible stress scenario. The solvency risk appetite is based on a stacking approach, whereby the various capital requirements (Pillar 1, CRD IV buffers, Board and management buffers) are incrementally aggregated as a percentage of available capital (CET1 and total capital). Solvency risk is a function of balance sheet growth, profitability, access to capital markets and regulatory changes. The Group actively monitors all key drivers of solvency risk and takes prompt action to maintain its solvency ratios at acceptable levels. The Board and management also assess solvency when reviewing the Group’s business plans and inorganic growth opportunities. The OSB solo fully-loaded CET1 and total capital ratios under CRD IV reduced to 18.4% and 20.0%, respectively as at 31 December 2022 (31 December 2021: 19.4% and 21.3%, respectively).

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

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

In 2022, both Banks actively managed their respective liquidity and funding profiles within the confines of their risk appetites as set out in the Group’s ILAAP.

Risk profile performance overview (continued)

Retail funding rates increased throughout the year due to the significant increase in the Bank of England Base Rate. However, swap rate increases during the year allowed both Banks to retain more margin on savings rates offered to customers. There was a short period towards the end of the first quarter where retail funding was volatile as the first of the larger Base Rate increases pushed competitor savings rates higher and increased competition; however, both Banks were able to attract new depositors with competitive rates.

Swap rate increases in 2022 also led to the Group receiving a high level of variation margin collateral on the Group's interest rate swaps. The Group has increased internal buffers to ensure that sufficient funds are held at the Bank of England to meet any swap margin calls that may arise if swap rates reduce.

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 2022, OSB had a liquidity coverage ratio of 229% (2021: 240%) and CCFS 148% (2021: 158%), and the Group LCR was 185%, all significantly above regulatory requirements.

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

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

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

Operational risk
The Group continues to adopt a proactive approach to the management of operational risks. The operational risk management framework has been designed to ensure a robust approach to the identification, measurement and mitigation of operational risks, utilising a combination of both qualitative and quantitative evaluations. The Group's operational processes, systems and controls are designed to minimise disruption to customers, damage to the Group's reputation and any detrimental impact on financial performance. The Group actively promotes the continual evolution of its operating environment.

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

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

Risk profile performance overview (continued)

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

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

Regulatory and compliance risk

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

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

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

Conduct risk

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

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

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

Financial crime risk

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

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

Risk profile performance overview (continued)

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

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

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

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

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

Non-Financial Information Statement
The requirements of sections 414CA and 414CB of the Companies Act 2006 relating to non-financial reporting are addressed in this section.

We have a range of policies and guidance that support key outcomes for all our stakeholders. Performance against our strategic non-financial performance measures is one indicator of the effectiveness and outcomes of policies and statements. The Group's policies and statements include, but are not limited to, those summarised in the table below.

Non-Financial Information Statement

Description of policies/statement	Due diligence undertaken	Outcomes/Impacts/Risks
Environmental matters		
Our Environmental Policy embodies our Stewardship value, outlining our commitment to taking responsibility for the environment. The policy commits to respecting the environment, minimising environmental impact and maintaining resilience to environmental risks and impacts and helping to limit the speed of climate change and resource depletion. The policy articulates the Group's ambition to achieve net zero value chain Greenhouse Gas Emissions by no later than 2050 in line with the ambitions of the Paris Climate Accord 2015.	The Environmental Policy was reviewed by the Environmental Working Group, ESG Technical Committee and ESG Committee and approved by the Board. Importantly the policy scope was expanded to explicitly include operations within OSB India and the Group's alignment to the Paris Climate Accord ambitions. The policy focuses on: – meeting or exceeding all applicable legal and regulatory environmental obligations, stakeholders' expectations and obligations; – aligning with the Paris Climate Accord ambitions of achieving net zero value chain Greenhouse gas emissions no later than 2050; – aligning policy objectives with the Group's commitments to the Net Zero Banking Alliance, Partnership for Carbon Accounting Financials and the Science Based Targets initiative.	The focus of actions in 2022 has been on establishing the Group's carbon reduction plans in order to deliver on the commitments set out within the Policy. Key highlights for the year include: – defining the Group's high level carbon reduction plan towards net zero direct emissions by 2030; – initiating work on defining the Group's climate transition plan for financed emissions (Scope 3, category 15); – approval of the Group's Climate Risk Management Framework; – completing a materiality assessment of emission sources associated with Scope 3 categories 1-14 of the Greenhouse gas protocol; – continuing to procure electricity from renewable energy tariffs where the Group is responsible for utilities procurement; – completing feasibility studies on the installation of Solar panels to owned real estate in the UK; – increasing the number of electric vehicle charging points across our UK real estate; – increasing management information reporting including climate risk, utilities consumption and carbon emissions; – key greenhouse gas metrics subject to independent assurance; and – completing environmental initiatives in the UK and India to raise awareness of environmental issues.
Our Environmental, Social and Governance (ESG) Metrics Policy sets out the non-financial performance indicators which include ethical, sustainability and corporate governance considerations that are reported to relevant Committees. These metrics have been determined to be important to the Group's stakeholders and ESG strategy and commitments.	The ESG Metrics Policy is reviewed by the ESG team and approved by the Group Audit Committee. Non-financial metrics are subject to the ESG metrics lifecycle and principles of the Group's Data Quality Policy. This is monitored by the ESG team on a monthly basis. Functional providers of information and data are responsible for the management and reporting of the ESG metrics. Second line review and monitoring is provided by Risk and Compliance. Internal Audit provide a third line review and challenge on an annual basis.	Through the compilation and reporting of non-financial metrics, performance towards achieving the Group's ESG strategy and commitments and management of risk is monitored. The ESG Technical Committee review and challenge the reported metrics. Suitability of metrics is reviewed annually and updates presented through the governance process for approval. Accuracy of reported metrics is a risk that is managed through data quality processes and controls.

Description of policies/statement	Due diligence undertaken	Outcomes/Impacts/Risks
Employee matters		
Our Group Flexible Working Policy sets out a range of flexible working arrangements and the approach that the Group will take in reviewing formal Flexible Working Requests from employees. Our **Group Homeworking Policy** is applicable to all UK employees and provides clarity in respect of the Group's approach regarding formal homeworking arrangements (i.e. following a Flexible Working Request being agreed), informal arrangements and enforced arrangements (e.g. COVID-19).	The Group Flexible Working Policy was initially drafted by HR Management and reviewed by the Group's Legal and Company Secretariat function. It was most recently updated and approved by the Group Executive Committee in August 2022. A similar process, as outlined above, was followed for the Group Homeworking Policy which, in line with policy review requirements, was last updated and subsequently approved by the Group Executive Committee in May 2022.	We seek to accommodate, where possible, all requests for flexible working, with the majority of requests being agreed. The Group Homeworking Policy contains an attestation for those working from home (formally, informally and on an enforced basis), with this requiring employees who work from home to confirm that they are aware of and can appropriately mitigate risks presented by working from home in respect of data protection, information security and health and safety.
Our **Group Diversity, Equity and Inclusion Policy** sets out the Group's commitment to promoting equality of opportunity, providing an inclusive workplace and eliminating any unfair treatment or unlawful discrimination.	In order to ensure appropriate Board oversight of matters relating to diversity and inclusion, updates are regularly provided to the Group Remuneration and People Committee. In addition, the Group General Counsel and Company Secretary, who is the Executive responsible for diversity and inclusion, issues regular updates to all employees in order to drive awareness of ongoing internal initiatives and progress relating to diversity and inclusion. The current version of the Group Diversity, Equity and Inclusion Policy has been reviewed in line with the governance and approval processes detailed above and will be subject to a detailed review by the Group's newly appointed Diversity, Equity and Inclusion Specialist.	Our Group-wide Diversity and Inclusion Working Group has progressed a number of initiatives and activities, some of which supported gender related focus areas, such as progressing towards our published Women in Finance Charter target and reducing our gender pay gap. The Diversity and Inclusion Working Group has ensured a far broader focus on other areas of diversity, which will be further enhanced given the appointment of a Diversity, Equity and Inclusion Specialist. In 2022 we commenced the process of collating diversity data from our UK employee base across the broad range of diversity categories which align with regulatory guidance. This will enable us to build a picture of the diverse nature of our workforce and understand areas of under representation.
Our Group Whistleblowing Policy – Raising a Concern aims to encourage all employees, and others who have serious concerns about wrongdoing in the workplace, to raise their concerns at the earliest opportunity. The Group's whistleblowing arrangements endeavour to manage whistleblowing cases fairly, consistently and in a way which protects individual whistleblowers.	A Whistleblowing Report is presented to the Group Audit Committee on a regular basis, whilst the Annual Whistleblowing Report is presented to the Board. The Chair of the Group Audit Committee is the designated Whistleblowers' Champion.	The Group Audit Committee is responsible for overseeing the effective operation of the policy; this aims to mitigate the risk of undetected wrongdoing and unwanted exposure for the Group.

Non-Financial Information Statement (continued)

Description of policies/statement	Due diligence undertaken	Outcomes/Impacts/Risks
Employee matters (continued)		
Our Group Health and Safety Policy outlines our approach and responsibilities under statutory legislation. We recognise our duty and responsibility and the Health and Safety Policy ensures that the Group complies with legislation to protect its employees and customers, and provides a suitable and safe environment for employees, customers and anyone affected by the Group's operations.	The Group adopts a robust approach to ensuring compliance with its internal policies and all legislative requirements. A range of controls are in place and tested regularly to ensure their effectiveness. All controls are subject to independent oversight. The Health and Safety Working Group meets twice per annum to review the objectives of the Health and Safety Policy. Any relevant matters arising from these meetings are reported to Operational Risk. An accountable Executive is responsible for the Health and Safety Policy and a third party adviser reviews it annually prior to it being approved by the Board.	Health and safety statistics are provided on a dashboard shared monthly with the Board along with an annual Health and Safety Report. Risk assessments are completed across the Group annually. Annual health and safety training is completed by all employees. Health and Safety awareness in the workplace has increased with updates provided on the Group intranet to reduce the possibility of injury to employees and customers.
Social matters		
Our Modern Slavery Statement and Vendor Code of Conduct and Ethics outlines the measures we have taken to combat the risks of modern slavery and human trafficking in our businesses and supply chains.	The Modern Slavery Statement is updated in line with the requirements. In addition, as part of an annual review, the Group has updated both of its Vendor Codes of Conduct and Ethics. The UK Vendor Code of Conduct and Ethics (UK VCCE) is issued at the start of any new vendor relationship and on an annual basis to existing categorised and identified vendors. The UK Code includes provisions on the Group's Values, Diversity and Inclusion and Human Rights. It also provides details of breach reporting procedures. OSB India also has a Vendor Code of Conduct which receives external assurances from Indian qualified legal professionals and issued for all new third parties and annually to all existing arrangements in India. We perform relevant checks via the Organisation for Economic Co-operation and Development (OECD) Watch at the onboarding stage and, where required, as part of our ongoing due diligence checks. In addition, we continue to ensure that our standard contractual terms include references to modern slavery, where relevant.	The greatest modern slavery risks to the Group are its supply chain, its Indian operations and employment processes. To sufficiently mitigate the risks, our Vendor Management team includes specific testing of key controls within the Vendor Management Risk Assessment Matrix in line with the Vendor Management Framework. The Group ensures that appropriate contractual wording is included in its recruitment related contractual documentation where appropriate. The Group also ensures that suppliers are paid in sufficiently reasonable timescales. There are breach reporting procedures in place and there were no reportable incidents in this financial year.

Non-Financial Information Statement (continued)

Description of policies/statement	Due diligence undertaken	Outcomes/Impacts/Risks
Social matters (continued)		
	The Group remains cognizant of policies potentially impacted by modern slavery and human trafficking and continues to ensure that modern slavery is referenced, where appropriate. All employees are required to complete mandatory training to raise awareness with additional targeted training provided to our Branch Network in recognition of their face-to-face interactions with our customers.	
Our Group Vendor Management and Outsourcing Policy sets out the core requirements which we must meet and provides a structure to efficiently manage potential and contracted third party relationships ensuring the right level of engagement and due diligence, in compliance with our regulatory obligations.	All third parties are classified according to the nature of the services provided and the associated risk. Due diligence relating to issues such as data security, financial stability, legal and reputational risks is undertaken when onboarding, monitoring and exiting all third parties. The monthly Vendor Management Committee reviews compliance with our Group Vendor Management and Outsourcing Policy and the performance of our key third parties. There is regular reporting to the Group Risk Committee and an annual assurance update is provided to the Board.	We recognise the importance of building strong relationships and governance with our third parties and of the possible reputational risk this can impose. We actively monitor our third parties to ensure that they are adhering to our requirements and standards, so that we can in turn meet our obligations to stakeholders.
Our Lending Policy sets out the parameters within which we are willing to lend money responsibly within our set criteria and credit risk appetite.	All changes to the Lending Policy require approval from the Group Credit Committee, with material changes escalated to the Group Risk Committee. As a second line of defence, the Credit Quality Assurance process monitors adherence to the policy through a riskbased sampling approach. System parameters and underwriting processes act as an additional control to ensure that lending parameters are not breached. The affordability approach is calibrated to ensure the recent cost of living changes are reflected in the assessment of a customer's creditworthiness. The Group applies interest rate stress tests to ensure that customers will still be able to afford their mortgages during a rising interest rates market environment. In line with policy, the Compliance function conducts risk-based second line assurance reviews across the Group to test regulatory adherence and customer outcomes, in accordance with its annual Compliance Assurance Plan.	The Group Risk Committee challenges how the Lending Policy is applied to ensure that the right outcomes are achieved. The credit risk appetite of the Group provides a benchmark against preagreed trigger limits and therefore is a measure of the overall performance of the Lending Policy. Non-adherence to the credit risk appetite could lead to business being written outside the agreed risk appetite. The recent rise in the cost of certain commodities (e.g. energy and fuel) has been reflected within the Group's assessment of customers' affordability. The interest rate stress tests have been formally reviewed to ensure that the Group continues to lend responsibly during this volatile rate environment.

Non-Financial Information Statement (continued)

Description of policies/statement	Due diligence undertaken	Outcomes/Impacts/Risks
Social matters (continued)		
Our Group Complaint Handling Policy outlines, at a high level, our regulatory expectations for complaint handling from a customer-centric perspective.	We investigate complaints competently, diligently and impartially, supported by appropriately trained employees. Our complaints processes are designed to be easily accessible by all customers and ensure that those in vulnerable circumstances experience the same opportunities to complain and a service that is tailored to individual needs. Root cause analysis is used to identify and solve underlying issues rather than apply quick fixes. Complaint performance forms part of the management information provided to Management Committees and to the Board. Analysis of complaints outcomes and potential business and customer impact is an integral part of the Group's processes. In line with policy, the Compliance function conducts risk-based second line assurance reviews across the Group to test regulatory adherence and customer outcomes, in accordance with its annual Compliance Assurance Plan.	Complaints are also a component of Executive bonus scheme metrics affecting remuneration outcomes. Complaints may be an early warning of not treating customers fairly, which has regulatory consequences for the Group.
Our Group Customer Vulnerability Policy sets the standards and approach for the identification and treatment of vulnerable customers and provides guidance to all areas of the Group to ensure that vulnerable customers consistently receive fair outcomes.	Regular case study reviews through the Vulnerable Customer Review Committee ensure that best practice processes across the different customer journeys are monitored and shared with representatives from differing customerfacing and second line functions. In line with policy, the Compliance function conducts risk-based second line assurance reviews across the Group to test regulatory adherence and customer outcomes, in accordance with its annual Compliance Assurance Plan.	An enhanced training programme has been developed to focus on more complex customer scenarios including identifying vulnerable customers and how best to serve them and their changing needs. There is a potential impact to our reputation and regulatory risks for not treating customers fairly. Customer complaint data shows that there were no systemic issues in vulnerability processes and outcomes for the year.
Our Group Data Protection Policy ensures that there are adequate policies and procedures in place to enable compliance with the UK General Data Protection Regulation (GDPR) and the Data Protection Act 2018; and sets out the necessary steps that should be taken when processing personal data.	The Group Data Protection Officer reports twice each year, to the Group Executive Committee and the Board, regarding compliance with legal requirements and the Data Protection Policy and reports on any data incidents and data subject access requests.	The privacy and security of personal information is respected and protected. We regard sound privacy practices as a key element of corporate governance and accountability. Non-compliance would expose the Group to the potential breach of UK GDPR provisions and fines.

Non-Financial Information Statement (continued)

Description of policies/statement	Due diligence undertaken	Outcomes/Impacts/Risks
Social matters (continued)		
Our Group Arrears Management and Forbearance Policy ensures that we address the need for internal systems and processes to treat customers in financial difficulties fairly, including being proactive with customers who display characteristics of being on the cusp of financial difficulty.	As the second line of defence, the Credit Quality Assurance process monitors adherence to the policy through a riskbased sampling approach. Due consideration has been given to the implications of customers reverting from fixed rates to a variable rate in the face of the rising interest rate market environment. In line with policy, the Compliance function conducts risk-based second line assurance reviews across the Group to test regulatory adherence and customer outcomes in accordance with its annual Compliance Assurance Plan.	Our arrears rates are monitored through the Group Credit Committee on a monthly basis to ensure senior management oversight of arrears trends. There is credit risk associated with credit losses following the ineffective management of customer accounts. The existing forbearance and collection toolkit and mandates have been reviewed to ensure that the sufficient level of support is available to customers experiencing financial difficulties due to increased mortgage payments.
Our Anti-Bribery and Corruption Policy outlines our stance to conduct all of our business in an honest and ethical manner. We take a zero-tolerance approach to bribery and corruption and are committed to acting professionally, fairly and with integrity in all of our business dealings and relationships. The purpose of the policy is to provide employees, contractors and third party service providers with clear guidelines to ensure that we conduct our activity in an ethical and appropriate manner including complying with the laws and regulations of each jurisdiction in which we operate. The policy forms an integral part of the Group Financial Crime Risk Management Framework.	The policy is subject to an annual review process with approval provided by the Group Audit Committee. Anti-Bribery and Corruption training forms part of the wider Financial Crime training package that is mandatory for each employee to complete on an annual basis. In addition, the requirements set out in the Anti-Bribery and Corruption Policy are incorporated into the Group's Vendor Management and Outsourcing Policy. Gifts, hospitality and donations are closely monitored through a log maintained by the Group Financial Crime function in accordance with our associated policy and procedures.	No material issues or breaches have arisen from the Group's adherence to the existing Anti-Bribery and Corruption Policy and processes. We recognise that there may be instances where an employee may be exposed to the risk of bribery or corruption and, as result, provide numerous channels in which an employee can report such an event, including via the whistleblowing process. During the tender process for a new supplier, all employees involved in the process must ensure compliance with the Anti-Bribery and Corruption Policy and requirements. This approach also applies to the Conflicts of Interest Policy.
Our Conflicts of Interest Policy aims to identify, maintain and operate effective organisational and administrative arrangements to identify and take all reasonable steps in order to avoid conflicts where possible.	The policy is subject to an annual review process with approval provided by the Group Executive Committee. Conflicts of interest training forms part of the wider Financial Crime training package that is mandatory for each employee to complete on an annual basis. Conflicts of interest disclosures are typically made as part of the recruitment process, as part of the annual attestation process and/or when there is a change to circumstances, such as a new potential conflict arising.	No material issues or breaches have arisen from the Group's adherence to the existing Conflicts of Interest Policy and processes. As a financial services provider, we face the risk of actual and potential conflicts of interest periodically. We recognise that there may be instances where conflicts of interest are unavoidable and that a conflict may exist even if no unethical or improper act or outcome results from it. Where it is not possible to avoid a potential conflict of interest, we are

Non-Financial Information Statement (continued)

Description of policies/statement	Due diligence undertaken	Outcomes/Impacts/Risks
Social matters (continued)		
	In addition, conflicts of interest requirements are incorporated into the Group's Vendor Management and Outsourcing Policy. Group Compliance maintains the conflicts of interest register, which is reviewed quarterly by the Group Conduct Risk Management Committee and escalated to the Group Risk Management Committee, as required. In addition, the Group Nomination and Governance Committee annually reviews Executive and Director conflicts.	committed to ensuring that any conflicts of interest that arise are managed fairly and in the best interests of our customers.
Our Fraud Policy outlines our duty to comply with prevailing legal and regulatory requirements and to have appropriate systems and controls in place to mitigate the risk of fraud. This includes ensuring that appropriate monitoring and escalation procedures are in place and are operating effectively. Our strategy for managing fraud risk is to adopt a zero-tolerance approach towards any form of fraud; however, we accept that incidents of fraud will occur as a result of doing business. The purpose of the policy and supporting procedures is to provide a consistent approach throughout the Group to the prevention, detection and investigation of fraud. The policy forms an integral part of the Group Financial Crime Framework.	The policy is subject to an annual review with approval provided by the Group Audit Committee. Fraud awareness training forms part of the wider Financial Crime training package that is mandatory for each employee to complete on an annual basis. External stakeholders, customers, clients and relevant third parties are made aware of our robust stance towards fraud management through literature or similar communication channels. All potential fraud incidents are investigated by a dedicated Group Financial Crime team that is specifically trained in identifying and reporting fraudulent behaviour. The Group will seek to recover all losses arising from fraud-related activities and to take necessary action, as appropriate. The Group Conduct Risk Management Committee, Group Operational Risk Management Committee, Group Risk Management Committee and Group Risk Committee regularly review and monitor fraud reporting.	As a financial services provider, we recognise that we are inherently exposed to the risk of fraud and that losses may occur as a result of doing business. In order to deter, detect and disrupt those who would seek to use the Group to facilitate any form of financial crime we have appropriate systems and controls in place. Key risk and performance indicators are agreed by senior management and reviewed on a regular basis. Management information on fraud related activity is presented on a regular basis to senior management in order to provide visibility of our fraud exposure and any associated loss.
Our Anti-Money Laundering and Counter Terrorist Financing Policy seeks to explain the responsibility of senior managers, the Money Laundering and Reporting Officer (MLRO) and all employees. The policy requires that the highest ethical standards are met and requires all employees to act with integrity at all times. We have no appetite for breaching legislation or regulation regarding anti-moneylaundering or counter terrorist financing.	The policy is subject to an annual review with approval provided by the Group Audit Committee. Anti-money laundering and counter terrorist financing forms part of the wider Financial Crime training package that is mandatory for each employee to complete on an annual basis.	No material issues or breaches have arisen from the Group's adherence to the existing Anti-Money Laundering and Counter Terrorist Financing Policy and processes. As a financial services provider, the Group recognises that it is inherently exposed to the risk of financial crime.

Non-Financial Information Statement (continued)

Description of policies/statement	Due diligence undertaken	Outcomes/Impacts/Risks
Social matters (continued)		
The policy provides a consistent approach to the deterrence and detection of those suspected of laundering the proceeds of crime or those involved in the funding of terrorism and the relevant disclosure to the necessary authorities. The policy forms an integral part of the Group Financial Crime Risk Management Framework.	We have documented processes and procedures in place to identify the Group's customers prior to entering into a relationship. Systems and controls have been adopted to identify and report activity deemed to be suspicious. All suspicious activity is investigated by a dedicated Group Financial Crime team who are specifically trained in identifying and reporting suspicious behaviour.	Key risk and performance indicators are agreed by senior management and reviewed on a regular basis. Management information on financial crime-related activity is presented to senior management in order to provide visibility of our exposure to financial crime.
Our Group Operational Resilience Policy documents the approach and expectations of the Group in establishing and enhancing its levels of resilience and recognises Operational Resilience as a key area of focus for the Group. The implementation and ongoing compliance with the requirements of this Policy is achieved through the Group's existing governance arrangements and overseen by the Group Operational Resilience function. The policy references how the Group complies with all relevant UK regulatory requirements (e.g. the Financial Conduct Authority (FCA) and Prudential Regulation Authority (PRA)) and aligns to industry good practice and standards. This includes the March 2021 published FCA and PRA policies on Operational Resilience. These policies require all firms to adopt a proactive approach to preventing a disruption to its services, whilst also ensuring that sufficient planning and testing is established in order to respond effectively to a disruptive incident. The Group continues to make progress in implementing the requirements of the two regulatory policies.	The Group's response throughout the COVID-19 pandemic was proportionate and pragmatic, and was designed to consider both the needs of our employees and our customers and the services we provide. The widespread and prolonged period of the pandemic required the Group to adapt its approach reflecting both the local challenges of our business and the historical legacy differences in respect of governance; however, where a common Group-wide approach was required, it was applied. Whilst COVID-19 brought operational resilience into sharp focus, we recognize there are a number of threats that will not be as slow to impact or as prolonged and we plan for these against a range of severe but plausible scenarios. In the event of a disruptive incident, the Group is well-placed to respond and deliver our Important Business Services. By assessing the level of risk our businesses face when exposed to a range of possible scenarios, developing the appropriate plans and then testing those plans; the Group is well positioned to respond to disruptive events.	The Group continues to invest in improving its infrastructure and is committed to delivering a number of enhancements in 2023 and beyond, with the aim of re-engineering how technology enables services provided by the Group. Enhancing Operational Resilience remains a key consideration when setting the change management agenda. The Group continues to maintain strong relationships with our key third parties and validates that they are able to recover services in line with our expectations and standards.

Description of the business model

A description of the business model is set out on pages 4 to 7 and includes non-financial KPIs relating to broker and customer satisfaction scores, customer retention, greenhouse gas emissions, sponsorship and donations and women in senior management roles.

Principal risks and uncertainties

A description of the principal risks and uncertainties is set out on pages 38 to 50.

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

Jason Elphick
Group General Counsel and Company Secretary
30 March 2023

OneSavings Bank plc
Directors' Report

For the Year Ended 31 December 2022

The Directors present their Report, together with the audited Financial Statements and Auditor's Report, for the year ended 31 December 2022.

Information presented in other sections

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

Information on financial instruments including financial risk management objectives and policies including, the policy for hedging the exposure of the Group to price risk, credit risk, liquidity risk and cash flow risk can be found in the Risk review on pages 30 to 60.

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

Results

The results for the year are set out in the Statement of Comprehensive Income on page 92.

Directors

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

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

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

Directors' indemnities

The Articles provide, subject to the provisions of UK legislation, an indemnity for Directors and Officers of the Group in respect of liabilities they may incur in the discharge of their duties or in the exercise of their powers, including any liabilities relating to the defence of any proceedings brought against them, which relate to anything done or omitted, or alleged to have been done or omitted, by them as Officers or employees of the Group. Directors' and Officers' Liability Insurance cover is in place for all Directors and Officers.

Equal opportunities

The Group is committed to applying its Group Diversity, Equity and Inclusion Policy at all stages of recruitment and selection. Short-listing, interviewing and selection will always be conducted without regard to gender, gender reassignment, sexual orientation, marital or civil partnership status, colour, race, nationality, ethnic or national origins, religion or belief, age, pregnancy or maternity leave or trade union membership. Any candidate with a disability will not be excluded unless it is clear that the candidate is unable to perform a duty that is intrinsic to the role, having taken into account reasonable adjustments. Reasonable adjustments to the recruitment process will be made to ensure that no applicant is disadvantaged because of disability. Line Managers conducting recruitment interviews will ensure that the questions they ask job applicants are not in any way discriminatory or unnecessarily intrusive. This commitment also applies to existing employees, with the necessary adjustments made, where there is a change in circumstances.

Employee engagement

Employees are kept informed of developments within the business and in respect of their employment through a variety of means, such as employee meetings, briefings and the intranet. Employee involvement is encouraged and views and suggestions are taken into account when planning new products and projects.

The Sharesave 'save as you earn' Scheme is an all-employee share option scheme which is open to all UK-based employees. The Sharesave Scheme allows employees to purchase options by saving a fixed amount of between £10 and £500 per month over a period of three years, at the end of which the options, subject to leaver provisions, are usually exercisable (options granted prior to 2021 have a lower limit of £5 and only three-year schemes will be offered from 2021 onwards). The Sharesave Scheme has been in operation since June 2014 and options are granted annually, with the exercise price set at a 20% discount of the share price on the date of grant.

The Workforce Advisory Forum (known as OurVoice) is in place to gather the views of the workforce to enable the Board and Group Executive Committee to consider a broadly representative range of stakeholder perspectives to guide strategic decisions for the future of the Group. OurVoice consists of volunteer representatives (of which there are 33 in total) from each of the various business areas and locations, as well as permanent members including a designated NED, Mary McNamara; a member of the Group Executive Committee, Jason Elphick; and a representative from HR Management. Other NEDs and members of the Group Executive Committee are invited to attend meetings throughout the year and do so on a regular basis. Sarah Hedger will become a permanent member of OurVoice and will replace Mary McNamara as the designated NED with responsibility for OurVoice with effect from 11 May 2023.

Members of the Board are keen to engage with our employees across all locations and find the experience of visiting our branches and offices within the UK and India invaluable.

Three OurVoice meetings were held during 2022, with employee representatives encouraged to engage with employees within their nominated business areas and across all Group locations in advance of each meeting in order to identify topics impacting the workforce and which it is felt should be brought to the attention of the Board and Group Executive Committee. A number of items were considered and discussed by OurVoice, including 2021 Bonus and Salary increase, Best Companies survey results and Mental Health First Aiders, as well as topics relating to ESG matters such as community activities, culture, diversity and inclusion and the governance of pay within the Group. The permanent members of OurVoice were particularly interested in feedback from the workforce in respect of employee morale, employee engagement and hybrid working/working from home.

The Group is committed to diversity and to making sure everyone in our business feels included. The Diversity and Inclusion Working Group continued to develop the Group's Diversity and Inclusion Strategy in line with the Respect Others value throughout 2022. The Diversity and Inclusion Working Group brings together a broad mix of employees from across the UK business, as well as representation from OSB India, to drive our diversity and inclusion agenda to appreciate differences in age, gender, ethnicity, religion, disability, sexual orientation, education, socio-economic background and national origin and ensure that all employees are treated fairly, with respect and given equal opportunities. Jason Elphick, our Diversity Champion, along with the Diversity and Inclusion Working Group, hosted a number of activities throughout the year including International Women's Day with senior females from across the business taking part in a Q&A panel, launching the Group's menopause statement and National Inclusion Week 2022, which included a range of daily activities under the annual theme of 'Time to Act: the Power of Now' with a number of personal stories from our employees. The 2022 annual calendar provided a number of national days for our employees to celebrate.

Political donations

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

Going concern statement

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

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

The assessments include the following:

• Financial and capital forecasts were prepared under stress scenarios which were assessed against the latest economic forecasts provided by the Group's external economic advisors. Reverse stress tests were also run, to assess what combinations of House Price Index (HPI), unemployment, default rates and consumer price index variables would result in the Group utilising its regulatory capital buffers in full and breaching the Group's minimum prudential requirements along with analysis and insight from the Group's Internal Capital Adequacy Assessment Process (ICAAP). The Directors assessed the likelihood of those reverse stress scenarios occurring within the next 12 months and concluded that the likelihood is remote.

• The latest liquidity and contingent liquidity positions and forecasts were assessed against the Internal Liquidity Adequacy Assessment Process (ILAAP) stress scenarios, with the Group maintaining sufficient liquidity throughout the going concern assessment period.

• 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 continues to be on the provision of the Group's Important Business Services, minimising the impact of any service disruptions on the Group's customers or the wider financial services industry. The Group's response to the COVID-19 pandemic demonstrated the inherent resilience of its critical processes and infrastructure and its agility in responding to changing operational demands. 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's financial projections demonstrate that the Group has sufficient capital and liquidity to continue to meet its regulatory capital requirements as set out by the Prudential Regulation Authority (PRA).

The Board has therefore concluded that the Group has sufficient resources to continue in operational existence for a period in excess of 12 months and as a result, it is appropriate to prepare these financial statements on a going concern basis.

The role and structure of the Board

The Board of Directors (the Board) is responsible for the long-term sustainable success of the Company and provides leadership to the Group. The Board focuses on generating value for shareholders by setting strategy, monitoring performance and ensuring that appropriate systems, controls and resources are in place to enable the Company to meet its objectives whilst safeguarding the interests of stakeholders and maintaining effective corporate governance.

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

The Board operates in accordance with the Company's Articles of Association (the Articles) and its own written terms of reference. The Board has established an Audit and a Risk Committee, which each have their own terms of reference and are reviewed at least annually. Details of each Committee's activities during 2022 are shown below.

The Board retains specific powers in relation to the approval of the Group's strategic aims, policies and other matters, which must be approved by it under legislation or the Articles. These powers are set out in the Board's written terms of reference and Matters Reserved to the Board which are reviewed at least annually.

The Board met 10 times during the year. The Board has a formal meeting schedule with ad hoc meetings called as and when circumstances require. There is an annual calendar of agenda items to ensure that all matters are given due consideration and are reviewed at the appropriate point in the regulatory and financial cycle.

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

The roles of Chairman and Chief Executive Officer (CEO) are distinct and held by different people. There is a clear division of responsibilities, which has been agreed by the Board and is formalised in a schedule of responsibilities for each.

The Chairman, David Weymouth, leads the Board and is responsible for its overall effectiveness and for directing the Group. He ensures that the Board has the right mix of skills, experience and development so that it can focus on the key issues affecting the business and for leading the Board and ensuring that it acts effectively. Andy Golding, as CEO, has overall responsibility for managing the Group and implementing the strategies and policies agreed by the Board.

Noël Harwerth is the Senior Independent Director (SID). The SID's role is to act as a sounding board for the Chairman and to support him in the delivery of his objectives. This includes ensuring that the views of all other Directors are communicated to, and given due consideration by, the Chairman.

Balance and independence

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

Audit Committee

The primary role of the Committee is to assist the Board in overseeing the systems of internal control and external financial reporting. The Committee's specific responsibilities are set out in its terms of reference, which are reviewed at least annually. The Audit Committee is chaired by Rajan Kapoor, the other members are Graham Allatt, Noël Harwerth, Sarah Hedger and Simon Walker. The Committee met seven times during 2022; all members attended these meetings, except Noel Harwerth who attended six times. Graham Allatt will cease to be a member of the Committee on 11 May 2023. The Committee considered, on behalf of the Board, whether the 2022 Annual Report and Accounts taken as a whole are fair, balanced and understandable and, whether the disclosures are appropriate. Further details on the activities of the Committee are set out in the OSB Group's annual report and accounts.

Risk Committee

The primary objective of the Committee is to support the Board in discharging its risk oversight and governance responsibilities. The Committee's specific responsibilities are set out in its terms of reference, which are reviewed at least annually. The Committee is chaired by Graham Allatt, the other members are Noël Harwerth, Rajan Kapoor and Simon Walker. The Committee met seven times during 2022. All members attended these meetings. Further details on the activities of the Committee are set out in the OSB Group's annual report and accounts.

Environment

Environmental matters are considered in the Strategic report above.

Internal Control

The Board retains ultimate responsibility for setting the Company's risk appetite and ensuring that there is an effective Risk Management Framework to maintain levels of risk within the risk appetite. The Board regularly reviews its procedures for identifying, evaluating and managing risk, acknowledging that a sound system of internal control should be designed to manage rather than eliminate the risk of failure to achieve business objectives.

Key information in respect of the Group's ERMF and objectives and processes for mitigating risks, including liquidity risk, are set out in detail on pages 30 to 37.

Auditor

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

Each of the persons who is a director at the date of approval of this Annual Report confirms that:

- the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole; and
- the Strategic Report and Directors' Report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.
- so far as the Director is aware, there is no relevant audit information of which the Company's auditor is unaware; and
- the Director has taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

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

This report was approved by the Board on 30 March 2023 and signed on its behalf by:

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

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

For the Year Ended 31 December 2022

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

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

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

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

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

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

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

Approved by the Board and signed on its behalf by:

Jason Elphick
Group General Counsel and Company Secretary
30 March 2023

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

For the Year Ended 31 December 2022

Report on the audit of the Financial Statements

1. Opinion

In our opinion:

- the financial statements of OneSavings Bank plc (the parent company) and its subsidiaries (the Group) give a true and fair view of the state of the Group's and of the parent company's affairs as at 31 December 2022 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with United Kingdom adopted international accounting standards;
- the parent company financial statements have been properly prepared in accordance with United Kingdom adopted international accounting standards and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the Consolidated Statement of Comprehensive Income;
- the consolidated and parent company Statements of Financial Position;
- the consolidated and parent company Statements of Changes in Equity;
- the consolidated and parent company Statements of Cash Flow; and
- the related notes 1 to 53.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom adopted international accounting standards and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

2. Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the Group and the parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the FRC's) Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. The non-audit services provided to the Group and parent company for the year are disclosed in note 8 to the financial statements. We confirm that we have not provided any non-audit services prohibited by the FRC's Ethical Standard to the Group or the parent company.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

3. Summary of our audit approach

Key audit matters	The key audit matters that we identified in the current year were: • loan impairment provisions; and • effective interest rate income recognition. Within this report, key audit matters are identified as follows: Newly identified Increased level of risk Similar level of risk Decreased level of risk
Materiality	The materiality that we used for the Group financial statements was £21.6m which was determined by reference to profit before tax and net assets.
Scoping	Our Group audit scope focused primarily on three subsidiaries subject to a full scope audit. The subsidiaries selected for a full scope audit were OneSavings Bank plc, Charter Court Financial Services Limited and Interbay ML Ltd. These three subsidiaries account for 97% of the Group's interest receivable and similar income, 94% of the Group's profit before tax, 98% of the Group's total assets and 99% of the Group's total liabilities. All audit work was performed by the Group engagement team.
Significant changes in our approach	In the current year, the Group has assessed how increases in inflation and interest rates may impact customers, and has recognised separate cost of living and cost of borrowing post model adjustments (PMAs) in estimating provisions for expected credit losses on loans to address these emerging risks. The calculation of these PMAs is inherently judgemental because there is limited recent data available to estimate how increases in inflation and interest rates may impact customers. We have considered these PMAs in our loan impairment provisions key audit matter. In the prior year, our key audit matter in respect of effective interest rate (EIR) income recognition included estimating EIRs in respect of the Group's legacy acquired portfolios. The legacy acquired portfolios continue to reduce in size and the Group's income recognition on the acquired portfolios is less sensitive to changes in customer prepayment behaviour relative to our audit materiality. This area no longer features in our EIR income recognition key audit matter.

4. Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Our evaluation of the directors' assessment of the Group's and parent company's ability to continue to adopt the going concern basis of accounting included:

- We obtained and read management's going concern assessment, which included consideration of the Group's operational resilience, in order to understand, challenge and evidence the key judgements made by management;
- We obtained an understanding of relevant controls around management's going concern assessment;
- We obtained management's income statement, balance sheet and capital and liquidity forecasts and assessed key assumptions, including climate risk considerations, for reasonableness and their projected impact on capital and liquidity ratios, particularly with respect to loan book growth and potential credit losses;
- Supported by our in-house prudential risk specialists, we read the most recent ICAAP and ILAAP submissions, assessed management's capital and liquidity projections, assessed the results of management's capital reverse stress testing, evaluated key assumptions and methods used in the capital reverse stress testing model and tested the mechanical accuracy of the capital reverse stress testing model;
- We read correspondence with regulators to understand the capital and liquidity requirements imposed by the Group's regulators, and evidence any changes to those requirements;
- We met with the Group's lead regulator, the Prudential Regulation Authority, and discussed their views on existing and emerging risks to the Group and considered whether these were reflected appropriately in management's forecasts and stress tests;
- We assessed the historical accuracy of forecasts prepared by management;
- We assessed the impact of the ongoing economic uncertainty, including how further rises in living and borrowing costs may impact potential credit losses; and
- We evaluated the Group's disclosures on going concern against the requirements of IFRS and in view of the FRC guidance.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Group's and parent company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

5. Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

5.1. Loan impairment provisions

Refer to the judgements in applying accounting policies and critical accounting estimates on page 115 and Note 22 on page 137.

Key audit matter description	IFRS 9 requires loan impairment provisions to be recognised on an expected credit loss (ECL) basis. The estimation of ECL provisions in the Group's loan portfolios is inherently uncertain and requires significant judgements and estimates. We therefore consider this to be a key audit matter due to the risk of fraud or error in respect of the Group's ECL provision. ECL provisions as at 31 December 2022 were £130.0m (2021: £101.5m), which represented 0.54% (2021: 0.48%) of loans and advances to customers. ECLs are calculated both for individually significant loans and collectively on a portfolio basis which require the use of statistical models incorporating loss data and assumptions on the recoverability of customers' outstanding balances. As set out on page 51 the Group has implemented various model and staging enhancements during the year as well as updating the IFRS 9 models as part of the Internal Ratings Based (IRB) programme. The uncertain economic environment continues to increase the complexity in estimating ECLs, particularly with regards to determining appropriate forward looking macroeconomic scenarios and identifying customers who have experienced significant increases in credit risk. Additionally, rising living and borrowing costs observed over the past year have increased the degree of subjectivity in estimating an appropriate probability of default (PD) for customers. We identified four specific areas in relation to ECL that require significant judgement or relate to assumptions to which the overall ECL provision is particularly sensitive. • Significant increase in credit risk (SICR): The assessment of whether there has been a significant increase in credit risk between the date of origination of the exposure and 31 December 2022. There is a risk that the Group's staging criteria does not capture SICR or are applied incorrectly. • Macroeconomic scenarios: As set out on page 53, the Group sources economic forecasts from a third-party economics expert and then applies judgement to determine which scenarios to select and the probability weightings to assign. The Group considered four probability weighted scenarios, including base, upside, downside and severe downside scenarios. The key economic variables used within the macroeconomics model were determined to be the house price index (HPI) and unemployment. The estimation of these variables involves a high degree of subjectivity and estimation uncertainty. • Post model adjustments (PMAs): The Group has assessed how increases in inflation and interest rates may impact customers, and has recognised separate cost of living and cost of borrowing PMAs to reflect these emerging risks. The calculation of these PMAs is inherently judgemental because there is limited recent data available to estimate how increases in inflation and interest rates may impact customers. • Propensity to go into possession following default (PPD) and forced sale discount (FSD) assumptions: PPD measures the likelihood that a defaulted loan will progress into repossession. FSD measures the difference in sale proceeds between a sale under normal conditions and sale at auction. The loss given default (LGD) by loan assumed in the ECL provision calculation is highly sensitive to the PPD and FSD assumptions.

How the scope of our audit	We obtained an understanding of the relevant financial controls over the ECL provision with particular focus on controls over significant assumptions and

responded to the key audit matter	judgements used in the ECL determination. To challenge the Group's SICR criteria, we: • Evaluated the Group's SICR policy and assessed whether it complies with IFRS 9; • Assessed the quantitative and qualitative thresholds used in the SICR assessment by reference to standard validation metrics including the proportion of transfers to stage two driven solely by being 30 days past due, the volatility of loans in stage two and the proportion of loans that spend little or no time in stage two before moving to stage three; • Tested the completeness and accuracy of the data used in applying the quantitative and qualitative criteria in the SICR assessment to assess whether loans were assigned to the correct stage; • Supported by our credit risk specialists, performed a full review of the computer codes used to perform the SICR assessment; • As part of our testing of the application of the SICR criteria within the ECL model and with support from our credit risk specialists, we independently reperformed the Group's staging assessment across all three stages using our in-house analytics tool; and • Performed an independent assessment for a sample of loan accounts which exited forbearance, to determine whether they had been appropriately allocated to the correct stage. To challenge the Group's macroeconomic scenarios and the probability weightings applied we: • Agreed the macroeconomics scenarios used in the ECL model to reports prepared by the third-party economics expert; • Assessed the competence, capability and objectivity of the third-party economics expert, which included making specific inquiries to understand their approach and modelling assumptions to derive the scenarios; • Supported by our economic specialists, assessed and challenged the scenarios considered and the probability weightings assigned to them in light of the economic environment as at 31 December 2022; • With the involvement of our economic specialists challenged the Group's economic outlook by reference to other available economic outlook data; • Supported by our credit risk specialists, assessed the model methodology and performed a full review of the computer code used in the macroeconomics model which applies the scenarios to the relevant ECL components; • Compared the appropriateness of selected macroeconomic variables (HPI and unemployment) and the four probability weightings used in the macroeconomics model to those used by peer lenders; • Supported by our credit risk specialists, assessed the performance of the macroeconomic model to confirm whether the economic variables previously selected were still appropriate through considering the modelled macroeconomic results relative to those observed in historical recessions; and • For a sample of loans, we independently recalculated the ECL using the macroeconomic variables to check they were being applied appropriately. To challenge the Group's cost of living and cost of borrowing PMAs we: • Supported by our credit risk specialists, we assessed whether the risks were already captured within the existing macroeconomics models; • Evaluated the methodology , including key assumptions and reviewed the computer codes used to determine the PMAs; and • Tested the completeness, accuracy and relevance of the data used.

To challenge the Group’s PPD and FSD assumptions we:

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

Key observations	We determined that the methodology used, and the SICR criteria and PPD and FSD assumptions in determining the ECL provision as at 31 December 2022 are reasonable. We observed that the macroeconomic scenarios selected by the directors and the probability weightings applied generate an appropriate portfolio loss distribution, and we determined the Group’s cost of living and cost of borrowing PMAs are reasonable. We therefore determined that loan impairment provisions are appropriately stated.

5.2. Effective interest rate income recognition

Refer to the judgements in applying accounting policies and critical accounting estimates on page 117, the accounting policy on page 100 and Notes 3 and 4 on pages 118 and 119.

Key audit matter description	In accordance with the requirements of IFRS 9, directly attributable fees, discounts, incentives and commissions on a constant yield basis (effective interest rate, EIR) are required to be spread over the expected life of the loan assets. EIR is complex and the Group's approach to determining the EIR involves the use of models and significant estimation in determining the behavioural life of loan assets. Given the complexity and judgement involved in accounting for EIR and given that revenue recognition is an area susceptible to fraud, there is an opportunity for management to manipulate the amount of interest income reported in the financial statements. The Group's net interest income for the year ended 31 December 2022 was £709.9m (2021: £587.6m). EIR adjustments arise from revisions to estimated cash receipts or payments for loan assets that occur for reasons other than a movement in market interest rates or credit losses. They result in an adjustment to the carrying amount of the loan asset, with the adjustment recognised in the income statement in interest receivable and similar income. As the EIR adjustments reflect changes to the timing and volume of forecast customer redemptions, they are inherently judgemental. The level of judgement exercised is increased where there is limited availability of historical repayment information. For two of the loan portfolios, Kent Reliance and Precise, the EIR adjustments are sensitive to changes in the behavioural life curves. As set out on page 117, changes in the modelled behavioural life of these portfolios during the year resulted in an interest income loss of £31.6m (2021: £11.0m gain). The EIR adjustments have increased as a result of the rising interest rate environment. The current economic environment brings additional uncertainty with regards to forecasting expected behavioural lives and prepayment rates. We therefore considered there to be an increased level of risk in respect of this key audit matter in the current year.

How the scope of our audit responded to the key audit matter	We obtained an understanding of the relevant controls over EIR, focusing on the calculation and review of EIR adjustments and the determination of prepayment curves. For the two portfolios where the EIR adjustments were most significant and sensitive to changes in behavioural life, Kent Reliance and Precise, with the involvement of our in-house analytics and modelling specialists we run the loan data for all products through our own independent EIR model, using the behavioural life curves derived by the Group. We compared our calculation of the EIR adjustment required to the amount recorded by the Group. A number of assumptions are made to adjust actual behavioural data over recent years to reflect the Group's best estimate of expected future behaviour. For material assumptions, we independently challenged the reasonableness of the assumptions considering the context of the rising rate environment that has been experienced over the last year. For the same portfolios referenced above, with the involvement of our in-house analytics and modelling specialists we independently derived a behavioural life curve using the Group's actual loan data over recent years and incorporating those assumptions that we considered reasonable. We used

	these curves in our own independent EIR model to calculate the EIR adjustments. We compared this output to the amounts recorded by the Group. We also tested the completeness and accuracy of a sample of inputs into the EIR model for originated loans.
Key observations	We determined that the EIR models and assumptions used are appropriate and that net interest income for the period is appropriately stated.

6. Our application of materiality

6.1. Materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Group financial statements	**Parent company financial statements**
Materiality	£21.6m (2021: £20.1m)	£17.9m (2021: £16.7m)
Basis for determining materiality	We determined materiality for the Group to be approximately 1% of net assets of £2,201.8m (£21.6m) which equates to 4% of statutory profit before tax of £532.8m. The basis of materiality is consistent with prior year.	We determined materiality for the parent company by reference to 1% of net assets. This is consistent with prior year.
Rationale for the benchmark applied	Consistent with the prior year, we considered both net assets and a profit before tax based measure as benchmarks for determining materiality. We determined net assets to be the most relevant and stable benchmark to determine materiality.	The parent company is principally a holding company and we have therefore determined net assets to be the most relevant benchmark to determine materiality.

6.2. Performance materiality

We set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the financial statements as a whole.

	Group financial statements	Parent company financial statements
Performance materiality	70% (2021: 60%) of Group materiality	70% (2021: 60%) of parent company materiality
Basis and rationale for determining performance materiality	Group performance materiality was set at 70% of Group materiality (2021: 60%). In determining performance materiality, we considered a number of factors, including: our understanding of the control environment; our understanding of the business; and the low number of uncorrected misstatements identified in the prior year. In the prior year we maintained a reduced level of performance materiality to reflect the continued uncertainty arising as a result of the Covid-19 pandemic. Given that the impact of Covid-19 has now reduced, we have increased performance materiality for the current year.	

6.3. Error reporting threshold

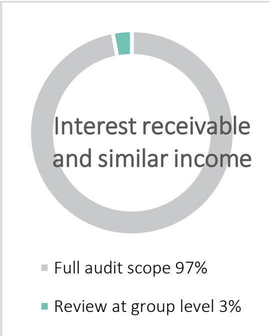
We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £1.1m (2021: £1.0m), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

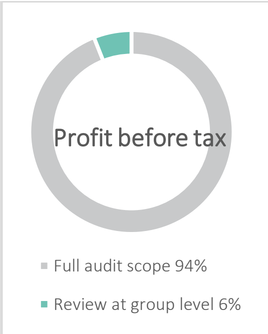
7. An overview of the scope of our audit

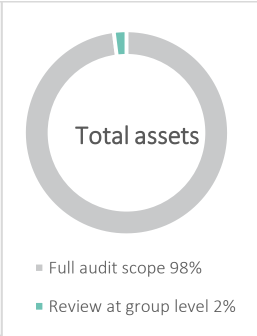
7.1. Identification and scoping of components

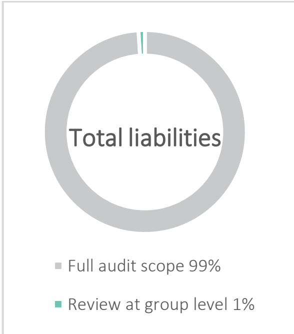
Our Group audit was scoped by obtaining an understanding of the Group and its environment, including Group-wide controls and assessing the risks of material misstatement at the Group level.

Our Group audit scope focused primarily on three subsidiaries: the two main banking entities OneSavings Bank plc and Charter Court Financial Services Limited, as well as Interbay ML Ltd, another significant lending subsidiary. These three subsidiaries were significant components and subject to a full scope audit (2021: three significant components subject to a full scope audit). They represent 97% (2021: 98%) of the Group's interest receivable and similar income, 94% (2021: 96%) of profit before tax, 98% (2021: 97%) of total assets and 99% (2021: 99%) of total liabilities. The subsidiaries were selected to provide an appropriate basis of undertaking audit work to address the risks of material misstatement including those identified as key audit matters above. Our audits of each of the subsidiaries were performed using lower levels of materiality based on their size relative to the Group. The materiality for each subsidiary audit ranged from £6.6m to £17.9m (2021: £5.5m to £16.7m).









We tested the Group's consolidation process and carried out analytical procedures to confirm that there were no significant risks of material misstatement in the aggregated financial information of the remaining subsidiaries not subject to a full scope audit or specified audit procedures.

7.2. Our consideration of the control environment

We identified the key IT systems relevant to the audit to be those used in financial reporting, lending and savings areas. For these controls with the involvement of our IT specialists we performed testing over the general IT controls, including testing of user access and change management systems.

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

7.3. Our consideration of climate-related risks

In planning our audit, we have considered the impact of climate change on the Group's operations and impact on its financial statements. The Group has set out its commitments, aligned with the goals of the Paris Climate Accord, to be a net zero bank by 2050. Further information is provided in the Group's Environment, Social and Governance report on page 7. The Group sets out its assessment of the potential impact of climate change on ECL on page 51 of the Risk Management section of the Annual Report and the potential impact on the financial statements in note 22 on page 137.

In conjunction with our climate risk specialists, we have held discussions with the Group to understand:

• the process for identifying affected operations, including the governance and controls over this process, and the subsequent effect on the financial reporting for the Group; and
• the long-term strategy to respond to climate change risks as they evolve.

Our audit work has involved:

• challenging the completeness of the physical and transition risks identified and considered in the Group's climate risk assessment and the conclusion that there is no material impact of climate change risk on current year financial reporting;
• with the involvement of our credit risk specialists, assessing management's approach to the incorporation and quantification of climate change risks within a PMA in the ECL provision, which included:

    - assessing management's selected climate pathway used in order to quantify the potential impact of physical risks on the Group's loan book and in particular how the underlying property may be impacted as a result;

- assessing how different lending segments may be impacted by transition risks and in particular how the buy-to-let portfolio may be impacted by more stringent EPC criteria; and
- assessing the relevance of the data used in the assessment.

• assessing disclosures in the Annual Report, and challenging the consistency between the financial statements and the remainder of the Annual Report.

8. Other information

The other information comprises the information included in the Annual Report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the Annual Report.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated.

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

9. Responsibilities of directors

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Group's and the parent company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or the parent company or to cease operations, or have no realistic alternative but to do so.

10. Auditor's responsibilities for the audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

11. Extent to which the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

11.1. Identifying and assessing potential risks related to irregularities

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, we considered the following:

- the nature of the industry and sector, control environment and business performance including the design of the Group's remuneration policies, key drivers for directors' remuneration, bonus levels and performance targets;
- the Group's own assessment of the risks that irregularities may occur either as a result of fraud or error that was approved by the Board;
- results of our enquiries of management, internal audit and the Audit Committee about their own identification and assessment of the risks of irregularities;
- any matters we identified having obtained and reviewed the Group's documentation of their policies and procedures relating to:
  - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
  - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud;
  - the internal controls established to mitigate risks of fraud or non-compliance with laws and regulations; and
- the matters discussed among the audit engagement team and relevant internal specialists, including tax, valuations, real estate, IT, climate risk, prudential risk, economics, credit risk and analytics and modelling specialists regarding how and where fraud might occur in the financial statements and any potential indicators of fraud.

As a result of these procedures, we considered the opportunities and incentives that may exist within the organisation for fraud and identified the greatest potential for fraud in the following areas: loan impairment provisions and effective interest rate income recognition. In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override.

We also obtained an understanding of the legal and regulatory frameworks that the Group operates in, focusing on provisions of those laws and regulations that had a direct effect on the determination of material amounts and disclosures in the financial statements. The key laws and regulations we considered in this context included the UK Companies Act, Listing Rules and tax legislation.

In addition, we considered provisions of other laws and regulations that do not have a direct effect on the financial statements but compliance with which may be fundamental to the Group's ability to operate or to avoid a material penalty. These included the Group's prudential regulatory requirements and capital, liquidity and conduct requirements.

11.2. Audit response to risks identified

As a result of performing the above, we identified loan impairment provisions and effective interest rate income recognition as key audit matters related to the potential risk of fraud. The key audit matters section of our report explains the matters in more detail and also describes the specific procedures we performed in response to those key audit matters.

In addition to the above, our procedures to respond to risks identified included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- enquiring of management, the Audit Committee and in-house and external legal counsel concerning actual and potential litigation and claims;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- reading minutes of meetings of those charged with governance, reviewing internal audit reports and reviewing correspondence with the Prudential Regulation Authority, the Financial Conduct Authority and HMRC; and
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members, including internal specialists, and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

Report on other legal and regulatory requirements

12. Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the Group and the parent company and their environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

13. Matters on which we are required to report by exception

13.1. Adequacy of explanations received and accounting records

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

13.2. Directors' remuneration

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of directors' remuneration have not been made.

We have nothing to report in respect of this matter.

14. Other matters which we are required to address

14.1. Auditor tenure

Following the recommendation of the Audit Committee, we were appointed by the shareholders of the Group on 9 May 2019 to audit the Group Financial Statements for the year ending 31 December 2019 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is four years, covering the years ending 31 December 2019 to 31 December 2022.

14.2. Consistency of the audit report with the additional report to the audit committee

Our audit opinion is consistent with the additional report to the Audit Committee we are required to provide in accordance with ISAs (UK).

15. Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

As required by the Financial Conduct Authority (FCA) Disclosure Guidance and Transparency Rule (DTR) 4.1.14R, these financial statements will form part of the European Single Electronic Format (ESEF) prepared Annual Financial Report filed on the National Storage Mechanism of the UK FCA in accordance with the ESEF Regulatory Technical Standard ('ESEF RTS'). This auditor's report provides no assurance over whether the annual financial report has been prepared using the single electronic format specified in the ESEF RTS. We have been engaged to provide assurance on whether the annual financial report has been prepared using the single electronic format specified in the ESEF RTS and will publicly report separately to the members on this.

Neel Reed, FCA (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
Birmingham, United Kingdom
30 March 2023

OneSavings Bank plc
Statement of Comprehensive Income
For the Year Ended 31 December 2022

	Note	**Group 2022 £m**	Group 2021 £m
Interest receivable and similar income	3	**1,069.3**	746.8
Interest payable and similar charges	4	**(359.4)**	(159.2)
Net interest income		**709.9**	587.6
Fair value gains on financial instruments	5	**58.9**	29.5
Gain on sale of financial instruments	6	**-**	4.0
Other operating income	7	**6.6**	7.9
Total income		**775.4**	629.0
Administrative expenses	8	**(206.5)**	(166.5)
Provisions	37	**1.6**	(0.2)
Impairment of financial assets	23	**(29.8)**	4.4
Impairment of intangible assets	9	**-**	3.1
Integration costs	12	**(7.9)**	(5.0)
Exceptional items	13	**-**	(0.2)
Profit before taxation		**532.8**	464.6
Taxation	14	**(121.5)**	(119.6)
Profit for the year		**411.3**	345.0
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	18	**0.3**	1.1
Amounts reclassified to profit or loss for investment securities at FVOCI		**(0.7)**	(2.0)
Tax on items in other comprehensive expense		**0.1**	0.5
Revaluation of foreign operations		**(0.2)**	(0.1)
Other comprehensive expense		**(0.5)**	(0.5)
Total comprehensive income for the year		**410.8**	344.5

The above results are derived wholly from continuing operations.

The notes on pages 97 to 219 form part of these accounts.

The financial statements on pages 92 to 219 were approved by the Board of Directors on 30 March 2023.

OneSavings Bank plc
Statement of Financial Position
As at 31 December 2022

	Note	**Group 2022 £m**	Group 2021 £m	**Company 2022 £m**	Company 2021 £m
Assets					
Cash in hand		**0.4**	0.5	**0.4**	0.5
Loans and advances to credit institutions	17	**3,365.7**	2,843.6	**1,506.1**	1,405.0
Investment securities	18	**412.9**	491.4	**211.4**	16.2
Loans and advances to customers	19	**23,612.7**	21,080.3	**10,531.9**	9,476.4
Fair value adjustments on hedged assets	25	**(789.0)**	(138.9)	**(200.8)**	1.3
Derivative assets	24	**888.1**	185.7	**234.0**	50.5
Other assets	26	**15.0**	10.2	**13.1**	8.3
Current taxation asset		**1.7**	-	**2.6**	-
Deferred taxation asset	27	**6.3**	5.6	**4.1**	4.9
Deemed loan assets	20	**-**	-	**31.2**	-
Property, plant and equipment	28	**40.9**	35.1	**20.9**	17.3
Intangible assets	29	**12.0**	18.4	**6.5**	7.7
Investments in subsidiaries and intercompany loans	30	**0.8**	0.6	**3,242.5**	3,096.4
Total assets		**27,567.5**	24,532.5	**15,603.9**	14,084.5
Liabilities					
Amounts owed to credit institutions	31	**5,092.9**	4,319.6	**2,568.5**	2,420.7
Amounts owed to retail depositors	32	**19,755.8**	17,526.4	**11,132.2**	9,739.4
Fair value adjustments on hedged liabilities	25	**(55.1)**	(19.7)	**(33.7)**	(8.8)
Amounts owed to other customers	33	**113.1**	92.6	**0.5**	5.7
Debt securities in issue	34	**265.9**	460.3	**-**	-
Derivative liabilities	24	**106.6**	19.7	**63.8**	8.7
Lease liabilities	35	**9.9**	10.7	**3.6**	3.9
Other liabilities	36	**38.7**	29.5	**23.9**	17.3
Provisions	37	**0.4**	2.0	**0.1**	1.9
Current taxation liability		**-**	1.3	**-**	2.7
Deferred taxation liability	38	**22.3**	39.8	**-**	-
Deemed loan liabilities	20	**-**	-	**-**	142.8
Intercompany loans	30	**-**	-	**33.3**	33.2
Subordinated liabilities	39	**-**	10.3	**-**	10.3
Perpetual subordinated bonds	40	**15.2**	15.2	**15.2**	15.2
		25,365.7	22,507.7	**13,807.4**	12,393.0
Equity					
Share capital	42	**4.5**	4.5	**4.5**	4.5
Retained earnings		**2,035.0**	1,857.4	**1,690.9**	1,587.6
Other reserves	43	**162.3**	162.9	**101.1**	99.4
		2,201.8	2,024.8	**1,796.5**	1,691.5
Total equity and liabilities		**27,567.5**	24,532.5	**15,603.9**	14,084.5

The profit after tax for the year ended 31 December 2022 of OneSavings Bank plc as a company was £335.9m (2021: £255.1m). As permitted by section 408 of the Companies Act 2006, no separate Statement of Comprehensive Income is presented in respect of the Company.

The notes on pages 97 to 219 form part of these accounts. The financial statements on pages 92 to 219 were approved by the Board of Directors on 30 March 2023 and signed on its behalf by:

Andy Golding
Chief Executive Officer
Company number: 07312896

April Talintyre
Chief Financial Officer

OneSavings Bank plc

Statement of Changes in Equity

For the Year Ended 31 December 2022

Group	Share capital £m	Capital contribution £m	Foreign exchange reserve £m	FVOCI reserve £m	Share-based payment reserve £m	Retained earnings £m	Additional Tier 1 (AT1) securities £m	Total £m
At 1 January 2021	4.5	-	(1.0)	1.0	7.8	1,604.6	60.0	1,676.9
Profit for the year	-	-	-	-	-	345.0	-	345.0
Other comprehensive expense	-	-	(0.1)	(0.9)	-	-	-	(1.0)
Tax on items in other comprehensive expense	-	-	-	0.5	-	-	-	0.5
Total comprehensive (expense)/income	-	-	(0.1)	(0.4)	-	345.0	-	344.5
Coupon paid on AT1 securities	-	-	-	-	-	(4.7)	-	(4.7)
Dividends paid	-	-	-	-	-	(86.7)	-	(86.7)
Share-based payments	-	1.7	-	-	2.3	2.7	-	6.7
Redemption of AT1 securities	-	-	-	-	-	-	(60.0)	(60.0)
Transactions costs on redemption of AT1 securities	-	-	-	-	-	(3.5)	-	(3.5)
Issuance of AT1 securities	-	-	-	-	-	-	150.0	150.0
Tax recognised in equity	-	-	-	-	1.6	-	-	1.6
At 31 December 2021	4.5	1.7	(1.1)	0.6	11.7	1,857.4	150.0	2,024.8
Profit for the year	**-**	**-**	**-**	**-**	**-**	**411.3**	**-**	**411.3**
Other comprehensive expense	**-**	**-**	**(0.2)**	**(0.4)**	**-**	**-**	**-**	**(0.6)**
Tax on items in other comprehensive expense	**-**	**-**	**-**	**0.1**	**-**	**-**	**-**	**0.1**
Total comprehensive (expense)/income	**-**	**-**	**(0.2)**	**(0.3)**	**-**	**411.3**	**-**	**410.8**
Coupon paid on AT1 securities	**-**	**-**	**-**	**-**	**-**	**(9.0)**	**-**	**(9.0)**
Dividends paid	**-**	**-**	**-**	**-**	**-**	**(233.1)**	**-**	**(233.1)**
Share-based payments	**-**	**(1.7)**	**-**	**-**	**1.6**	**8.4**	**-**	**8.3**
At 31 December 2022	**4.5**	**-**	**(1.3)**	**0.3**	**13.3**	**2,035.0**	**150.0**	**2,201.8**

Share capital is disclosed in note 42 and the reserves are further disclosed in note 43.

OneSavings Bank plc

Statement of Changes in Equity (continued)

For the Year Ended 31 December 2022

Company	Share capital £m	FVOCI reserve £m	Share-based payment reserve £m	Retained earnings £m	AT1 securities £m	Total £m
At 1 January 2021	4.5	(0.1)	6.7	1,423.7	60.0	1,494.8
Profit for the year	-	-	-	255.1	-	255.1
Other comprehensive income	-	0.1	-	-	-	0.1
Total comprehensive income	-	0.1	-	255.1	-	255.2
Coupon paid on AT1 securities	-	-	-	(4.7)	-	(4.7)
Dividends paid	-	-	-	(86.7)	-	(86.7)
Share-based payments	-	-	1.1	3.7	-	4.8
Redemption of AT1 securities	-	-	-	-	(60.0)	(60.0)
Transactions costs on redemption of AT1 securities	-	-	-	(3.5)	-	(3.5)
Issuance of AT1 securities	-	-	-	-	90.0	90.0
Tax recognised in equity	-	-	1.6	-	-	**1.6**
At 31 December 2021	4.5	-	9.4	1,587.6	90.0	1,691.5
Profit for the year	**-**	**-**	**-**	**335.9**	**-**	**335.9**
Other comprehensive income	**-**	**0.3**	**-**	**-**	**-**	**0.3**
Tax on items in other comprehensive income	**-**	**(0.1)**	**-**	**-**	**-**	**(0.1)**
Total comprehensive income	**-**	**0.2**	**-**	**335.9**	**-**	**336.1**
Coupon paid on AT1 securities	**-**	**-**	**-**	**(5.4)**	**-**	**(5.4)**
Dividends paid	**-**	**-**	**-**	**(233.1)**	**-**	**(233.1)**
Share-based payments	**-**	**-**	**1.5**	**5.9**	**-**	**7.4**
At 31 December 2022	**4.5**	**0.2**	**10.9**	**1,690.9**	**90.0**	**1,796.5**

Share capital is disclosed in note 42 and the reserves are further disclosed in note 43.

OneSavings Bank plc
Statement of Cash Flows
For the Year Ended 31 December 2022

	Note	**Group 2022 £m**	Group 2021 £m (Restated)[1]	**Company 2022 £m**	Company 2021 £m (Restated)[1]
Cash flows from operating activities					
Profit before taxation		**532.8**	464.6	**387.3**	314.5
Adjustments for non-cash items	49	**62.4**	(10.0)	**68.6**	12.2
Changes in operating assets and liabilities[1]	49	**(24.5)**	(684.4)	**276.6**	(775.3)
Cash generated/(used) in operating activities		**570.7**	(229.8)	**732.5**	(448.6)
Net tax paid		**(142.5)**	(117.3)	**(54.0)**	(53.2)
Net cash generated/(used) in operating activities[1]		**428.2**	(347.1)	**678.5**	(501.8)
Cash flows from investing activities					
Maturity and sales of investment securities		**663.7**	547.7	**451.0**	215.4
Purchases of investment securities		**(596.5)**	(468.2)	**(556.4)**	(216.6)
Interest received on investment securities		**7.7**	1.9	**3.0**	0.2
Investments in subsidiaries		**-**	-	**(3.2)**	-
Sales of financial instruments	6	**-**	4.0	**-**	0.3
Proceeds from sale of property, plant and equipment	28	**-**	2.0	**-**	2.0
Purchases of property, plant and equipment and intangible assets	28,29	**(11.7)**	(6.8)	**(7.2)**	(5.0)
Cash generated/(used) from investing activities		**63.2**	80.6	**(112.8)**	(3.7)
Cash flows from financing activities					
Financing received[1]	41	**429.5**	4,943.2	**120.0**	3,121.5
Financing repaid	41	**(324.2)**	(4,295.4)	**(304.1)**	(2,589.1)
Interest paid on financing	41	**(45.3)**	(8.4)	**(25.5)**	(6.6)
Coupon paid on AT1 securities		**(9.0)**	(4.7)	**(5.4)**	(4.7)
Dividends paid	15	**(233.1)**	(86.7)	**(233.1)**	(86.7)
Redemption of AT1 securities		**-**	(63.5)	**-**	(63.5)
Issuance of AT1 securities		**-**	150.0	**-**	90.0
Cash payments on lease liabilities	35	**(1.9)**	(1.9)	**(0.8)**	(0.7)
Cash (used)/generated from financing activities		**(184.0)**	632.6	**(448.9)**	460.2
Net increase/(decrease) in cash and cash equivalents		**307.4**	366.1	**116.8**	(45.3)
Cash and cash equivalents at the beginning of the year	16	**2,736.7**	2,370.6	**1,332.3**	1,377.6
Cash and cash equivalents at the end of the year	16	**3,044.1**	2,736.7	**1,449.1**	1,332.3
Movement in cash and cash equivalents		**307.4**	366.1	**116.8**	(45.3)

1. 2021 figures restated see note 1 b) for further details.

OneSavings Bank plc
Notes to the Financial Statements
For the Year Ended 31 December 2022

1. Accounting policies

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

a) Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards (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.

b) Restatement

In the prior year, cash collateral and margin received on interest rate swaps of £115.4m for the Group and £42.1m for the Company was included in financing cash flows in the Statement of Cash Flows. As the cash flows arise on hedging activities related to items classified as operating assets and liabilities within the Statement of Cash Flows, the cash flows should be included within operating cash flows. In the current year, cash collateral and margin received on interest rate swaps has been classified as an operating cash flow and the 2021 Statement of Cash Flows restated to reclassify a cash inflow of £115.4m for the Group and £42.1m for the Company from financing activities to operating activities.

c) Going concern

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

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

The assessments include the following:

• Financial and capital forecasts were prepared under stress scenarios which were assessed against the latest economic forecasts provided by the Group's external economic advisors. Reverse stress tests were also run, to assess what combinations of House Price Index (HPI), unemployment, default rates and consumer price index variables would result in the Group utilising its regulatory capital buffers in full and breaching the Group's minimum prudential requirements along with analysis and insight from the Group's Internal Capital Adequacy Assessment Process (ICAAP). The Directors assessed the likelihood of those reverse stress scenarios occurring within the next 12 months and concluded that the likelihood is remote.

• The latest liquidity and contingent liquidity positions and forecasts were assessed against the Internal Liquidity Adequacy Assessment Process (ILAAP) stress scenarios with the Group maintaining sufficient liquidity throughout the going concern assessment period.

1. Accounting policies (continued)

• 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 continues to be on the provision of the Group's Important Business Services, minimising the impact of any service disruptions on the Group's customers or the wider financial services industry. The Group's response to the COVID-19 pandemic demonstrated the inherent resilience of its critical processes and infrastructure and its agility in responding to changing operational demands. 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's financial projections demonstrate that the Group has sufficient capital and liquidity to continue to meet its regulatory capital requirements as set out by the Prudential Regulation Authority (PRA).

The Board has therefore concluded that the Group has sufficient resources to continue in operational existence for a period in excess of 12 months and as a result, it is appropriate to prepare these financial statements on a going concern basis.

d) Basis of consolidation

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

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

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

1. Accounting policies (continued)

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

e) Foreign currency translation

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

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

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

f) Segmental reporting

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

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

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

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

The Group has disclosed relevant risk management tables in note 45 at a sub-segment level to provide detailed analysis of the Group's core lending business.

1. Accounting policies (continued)

g) 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 p) 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 p) 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 book and resets cash flows on a monthly basis, discounted at the EIR to derive a new carrying value, with changes taken to profit or loss as interest income.

The EIR is adjusted where there is a movement in the reference interest rate (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.

When the contractual terms of non-derivative financial instruments have been amended as a direct consequence of IBOR reform during 2021 and the new basis for determining the contractual cash flows is economically equivalent to the previous basis, the Group changes the basis for determining the contractual cash flows prospectively by revising the EIR.

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

Coupons paid on Additional Tier 1 (AT1) securities are recognised directly in equity in the period in which they are paid.

h) Fees and commissions

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

Fees received on mortgage administration services and mortgage origination activities, which are not an integral part of the EIR, are 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.

1. Accounting policies (continued)

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

i) Integration costs and exceptional items

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

j) Taxation

Income tax comprises current and deferred tax. It is recognised in profit or loss, 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.

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

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

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

Deferred tax liabilities are recognised for all taxable temporary differences.

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, with the exception of WSE Bourton Road Limited which is applying to join the arrangement.

The Company and its UK subsidiaries are in the same VAT group.

k) Dividends

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

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

l) Cash and cash equivalents

For the purposes of the Consolidated Statement of Cash Flows, cash and cash equivalents comprise cash, non-restricted balances with credit institutions, highly liquid financial assets with maturities of less than three months from date of acquisition and subject to an insignificant risk of changes in their fair value and are used by the Group in the management of its short-term commitments.

1. Accounting policies (continued)

m) Intangible assets

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

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

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

Software-as-a-service (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.

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 SaaS arrangement that is determined to be a service contract is recognised as an expense or prepayment. Where the configuration and customisation services are not distinct from the right to receive access to the software, then the costs are recognised as an expense over the term of the arrangement.

Intangible assets are reviewed for impairment semi-annually, and if they are considered to be impaired, are written down immediately to their recoverable amounts. Impairment losses previously recognised for intangible assets, other than goodwill, are reversed when there has been a change in the estimates used to determine the asset’s recoverable amount. An impairment loss reversal is recognised in the Consolidated Statement of Comprehensive Income and the carrying amount of the asset is increased to its recoverable amount.

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

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

1. Accounting policies (continued)

For development costs that are under construction, no amortisation will be applied until the asset is available for use and is calculated using a full month when available for use.

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

n) Property, plant and equipment

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

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

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

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

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

o) Investment in subsidiaries

In the Company's financial statements, investments in subsidiary undertakings are stated at cost less provision for any impairment. A full list of the Company's subsidiaries which are included in the Group's consolidated financial statements can be found in note 30.

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

1. **Accounting policies** (continued)

p) 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 relating to the acquisition or issue of a financial instrument at FVTPL are recognised in the profit or loss as incurred.

AT1 securities are designated as equity instruments and recognised at fair value on the date of issuance in equity along with incremental costs directly attributable to the issuance of equity instruments.

ii. Classification

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

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

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

The Group has no non-derivative financial assets or liabilities classified as held for trading.

The Group reassesses its business models each reporting period.

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

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

1. **Accounting policies** (continued)

During the year equity financial instruments comprised own shares and AT1 securities (2021: and non-controlling interest securities). Accordingly, the coupons paid on the AT1 securities are recognised directly in retained earnings when paid.

iii. Derecognition

The Group derecognises financial assets when the contractual rights to the cash flows expire or the Group transfers substantially all risks and rewards of ownership of the financial asset.

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

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

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

iv. Offsetting

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

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

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

v. Amortised cost measurement

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

1. **Accounting policies** (continued)

vi. Fair value measurement

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

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

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

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

The fair value of investment securities held at FVTPL is measured using a discounted cash flow model.

vii. Identification and measurement of impairment of financial assets

The Group assesses all financial assets for impairment.

Loans and advances to customers

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

- **Stage 1** – a 12 month ECL allowance is recognised where there is no significant increase in credit risk (SICR) since initial recognition.
- **Stage 2** – a lifetime ECL allowance is 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.

1. Accounting policies (continued)

Individual assessment

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

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

For all individually assessed loans with a confirmed sale, should the present value of estimated future cash flows discounted at the original EIR be less than the carrying value of the loan, a provision is recognised for the difference with such loans being classified as impaired. However, should the present value of the estimated future cash flows exceed the carrying value, no provision is recognised. For all remaining individually assessed loans, should a full loss be expected, the provision is set to the carrying value, with all other individually assessed loans applying the greater of either the modelled or individual assessment.

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

IFRS 9 modelled impairment

Measurement of ECL

The assessment of credit risk and the estimation of ECL are unbiased and probability weighted.

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 PD thresholds and a suite of qualitative triggers.

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

Significant increase in credit risk (movement to stage 2)

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

At the point of initial recognition, a loan is assigned a PD estimate. For each monthly reporting date thereafter, an updated PD estimate is computed. The Group's transfer criteria analyses relative changes in PD versus the PD assigned at the point of origination, together with qualitative triggers using both internal indicators, 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.

1. Accounting policies (continued)

Definition of default (movement to stage 3)

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

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

A borrower will move out of stage 3 when its credit risk improves such that it no longer meets the 90 days past due and 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 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 base case is also utilised within the Group's impairment forecasting process which in turn feeds the wider business planning processes. The ECL models are also used to set the Group's credit risk appetite thresholds and limits.

Period over which ECL is measured

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.

1. Accounting policies (continued)

Intercompany loans

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

Other financial assets

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

q) Loans and advances to customers

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

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

Loans and advances to customers over which the Group transfers its rights to the collateral thereon to the BoE under the Term Funding Scheme with additional incentives for SMEs (TFSME) and Index Long-Term Repo (ILTR) are not derecognised from the Statement of Financial Position, as the Group retains substantially all the risks and rewards of ownership, including all cash flows arising from the loans and advances and exposure to credit risk. The Group classifies TFSME 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 contain the Group’s asset finance lease lending. Finance leases are initially measured at an amount equal to the net investment in the lease, using the interest rate implicit in the finance lease. Direct costs are included in the initial measurement of the net investment in the lease and reduce the amount of income recognised over the lease term. Finance income is recognised over the lease term, based on a pattern reflecting a constant periodic rate of return on the net investment in the lease.

r) Deemed loan

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

1. Accounting policies (continued)

s) Investment securities

Investment securities include securities held for liquidity purposes (UK treasury bills, UK Gilts and Residential Mortgage-Backed Securities (RMBS)). These assets are non-derivatives that are designated on an individual basis as amortised cost, FVOCI or FVTPL.

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

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

Assets held at FVTPL are measured at fair value with movements taken to the Statement of Comprehensive Income.

t) Deposits, debt securities in issue and subordinated liabilities

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

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

u) Sale and repurchase agreements

Financial assets sold subject to repurchase agreements (repo) are retained in the financial statements if they fail derecognition criteria of IFRS 9 described in paragraph p(iii) above. The financial assets that are retained in the financial statements are reflected as loans and advances to customers or investment securities and the counterparty liability is included in amounts owed to credit institutions or other customers. Financial assets purchased under agreements to resell at a predetermined price where the transaction is financing in nature (reverse repo) are accounted for as loans and advances to credit institutions. The difference between the sale and repurchase price is treated as interest and accrued over the life of the agreement using the EIR method.

1. **Accounting policies** (continued)

v) Derivative financial instruments

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

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

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

w) Hedge accounting

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

Portfolio hedge accounting allows for hedge effectiveness testing and accounting over an entire portfolio of financial assets or liabilities. To qualify for hedge accounting at inception, hedge relationships are clearly documented and derivatives must be expected to be highly effective in offsetting the hedged risks. In addition, effectiveness must be tested throughout the life of the hedge relationship. This applies to all derivatives including SONIA-linked derivatives entered into to replace LIBOR-linked derivatives, as a result of IBOR reforms during 2021.

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

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

- the mismatch in maturity date of the swap and hedged item, as swaps with a given maturity date cover a portfolio of hedged items which may mature throughout the month;
- the actual behaviour of the hedged item differing from expectations, such as early repayments or withdrawals and arrears;
- minimal movements in the yield curve leading to ineffectiveness where hedge relationships are sensitive to small value changes; and
- the transition relating to LIBOR reforms during 2021 whereby some hedged instruments and hedged items are based on different benchmark rates.

1. Accounting policies (continued)

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

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

If a derivative no longer meets the criteria for hedge accounting or is cancelled whilst still effective, including LIBOR-linked derivatives cancelled as a result of IBOR reforms during 2021, the fair value adjustment relating to the hedged assets or liabilities within the hedge relationship prior to the derivative becoming ineffective or being cancelled remains on the Statement of Financial Position and is amortised over the remaining life of the hedged assets or liabilities. The rate of amortisation over the remaining life is in line with expected income or cost generated from the hedged assets or liabilities. Each reporting period, the expectation is compared to actual with an accelerated run-off applied where the two diverge by more than set parameters.

x) Debit and credit valuation adjustments

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

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

- the one-year PD;
- the expected EAD;
- the expected LGD; and
- the average maturity of the swaps.

y) Provisions and contingent liabilities

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

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

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

1. **Accounting policies** (continued)

z) 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.

aa) Share-based payments

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

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

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

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

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

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

1. Accounting policies (continued)

bb) Leases

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

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

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

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

cc) Adoption of new standards

International financial reporting standards issued and adopted for the first time in the year ended 31 December 2022

There were a number of 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 2022 have not been early adopted by the Group. The adoption of these amendments are 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.

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. Accordingly there is no significant risk of material adjustment of the carrying amounts of assets and liabilities within the next financial year as a result of climate change. As set out on page 52, whilst not material we have recognised a post model adjustment (PMA) within the ECL provision of £4.4m in relation to climate change.

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. As the COVID-19 payment deferrals initiative has ceased, newly granted payment holidays are considered a SICR event.

Other SICR adjustments made during the pandemic to account for high risk accounts have since been removed with SICR adjustments updated as the Group identified increases in credit risk as a result of the Cost of Living and Cost of Borrowing stresses in the UK, caused by high inflation and increases in interest rates.

(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 assess 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 in order 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 £14.6m (2021: £17.7m) 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 £130.0m (2021: £101.5m) at the reporting date as disclosed in note 23.

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 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 a 10% house price haircut being directly applied to all exposures which not only adjust the sale discount but the propensity to go to PPD.

	OSB segment	CCFS segment	Group
31 December 2022	**£28.0m**	**£10.7m**	**£38.7m**
31 December 2021	£22.7m	£8.3m	£31.0m

The Group's forecasts of HPI movements used in the impairment models are disclosed in the Risk profile performance review on page 51.

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

The following tables detail the ECL scenario sensitivity analysis with each scenario weighted at 100% probability. The 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-22	Weighted (see note 22)	100% Base case scenario	100% Upside scenario	100% Downside scenario	100% Severe downside scenario
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**
Non-modelled ECL, £m	**75.6**	**75.6**	**75.6**	**75.6**	**75.6**
Total ECL, £m	**130.0**	**117.3**	**108.4**	**154.9**	**195.6**
ECL coverage, %	**0.55**	**0.49**	**0.46**	**0.65**	**0.82**
As at 31-Dec-21					
Total loans before provisions, £m	21,164.1	21,164.1	21,164.1	21,164.1	21,164.1
Modelled ECL, £m	48.3	26.5	13.1	74.0	120.3
Non-modelled ECL, £m	53.2	53.2	53.2	53.2	53.2
Total ECL, £m	101.5	79.7	66.3	127.2	173.5
ECL coverage, %	0.48	0.38	0.31	0.60	0.82

(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 or a SONIA/Base rate plus a margin for the Precise 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 assessing whether and for how long mortgages that reach the end of the initial product term stay on reversion rates, and to the quantum and timing of prepayments that incur ERCs. The estimate of customer weighted average life determines the period over which net fee income and expected reversionary income is recognised. Estimates are reviewed regularly and, as a consequence of the reviews, adjustments with an adverse impact of £31.6m were made in 2022 predominantly due to reducing the time Precise customers are expected to spend on reversion rates (2021: £19.0m favourable), decreasing net interest income and loans and advances to customers.

There were a number of base rate rises in quick succession in 2022, increasing the sensitivity to changes in behavioural assumptions because higher reversion rates both increase the income earned on loans in the reversion period and can lead to higher repayment rates and therefore less time spent on reversion.

A three months’ reduction in the weighted average lives of loans in the reversion period was considered to be a reasonably possible change in assumption based on observed changes in repayment rates in reversion periods over the last two years and what could happen to repayment rates in a high interest rate environment and an uncertain macroeconomic outlook.

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

The sensitivity has been applied to both the Kent Reliance and the Precise portfolios. In previous years the Precise portfolio sensitivity was split between loans originated pre and post the combination with CCFS on 4 October 2019. The combined sensitivity reflects how the Group now assesses customer behaviour in the portfolio.

Applying a three month reduction to the expected weighted average life of the loan book in the reversion period would result in a reset loss of c.£80.8m in 2023 (2021: c.£45.9m on a six month basis in 2022).

3. Interest receivable and similar income

	Group 2022 £m	Group 2021 £m
At amortised cost:		
On OSB mortgages	**591.6**	541.3
On CCFS mortgages	**411.2**	342.9
On finance leases	**9.4**	6.3
On investment securities	**4.7**	2.1
On other liquid assets	**39.3**	2.7
Amortisation of fair value adjustments on CCFS loan book at Combination	**(61.5)**	(66.1)
Amortisation of fair value adjustments on hedged assets[1]	**(34.1)**	(39.9)
	960.6	789.3
At FVTPL:		
Net income/(expense) on derivative financial instruments - lending activities	**106.6**	(42.9)
At FVOCI:		
On investment securities	**2.1**	0.4
	1,069.3	746.8

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

4. Interest payable and similar charges

	Group 2022 £m	Group 2021 £m
At amortised cost:		
On retail deposits	**257.7**	156.7
On BoE borrowings	**64.8**	4.5
On PSBs	**0.7**	1.2
On subordinated liabilities	**1.1**	0.8
On wholesale borrowings	**3.9**	0.8
On debt securities in issue	**7.7**	3.9
On lease liabilities	**0.2**	0.3
Amortisation of fair value adjustments on CCFS customer deposits at Combination	**(1.0)**	(1.5)
Amortisation of fair value adjustments on hedged liabilities[1]	**(0.8)**	(1.1)
	334.3	165.6
At FVTPL:		
Net expense/(income) on derivative financial instruments - savings activities	**25.1**	(6.4)
	359.4	159.2

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 gains on financial instruments

	Group 2022 £m	Group 2021 £m
Fair value changes in hedged assets	**(620.6)**	(297.8)
Hedging of assets	**621.9**	298.9
Fair value changes in hedged liabilities	**33.0**	27.4
Hedging of liabilities	**(42.4)**	(26.1)
Ineffective portion of hedges	**(8.1)**	2.4
Net gains on unmatched swaps	**57.1**	10.3
Amortisation of inception adjustments[1]	**1.2**	3.0
Amortisation of acquisition-related inception adjustments[2]	**10.2**	13.4
Amortisation of de-designated hedge relationships[3]	**(0.1)**	0.2
Fair value movements on mortgages at FVTPL	**(0.9)**	1.2
Debit and credit valuation adjustment	**(0.5)**	(1.0)
	58.9	29.5

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

6. Gain on sales of financial instruments

There were no sales of financial instruments during the year ended 31 December 2022.

On 10 February 2021, the Group sold the Precise Mortgage Funding 2019-1B plc A2 notes for £287.0m, generating a gain on sale of £4.0m. Excluding the impact of the fair value adjustment on Combination of £1.7m, the underlying gain on sale was £2.3m.

7. Other operating income

	Group 2022 £m	Group 2021 £m
Interest received on mortgages held at FVTPL	**0.6**	0.5
Fees and commissions receivable	**6.0**	7.4
	6.6	7.9

8. Administrative expenses

	Group 2022 £m	Group 2021 £m
Staff costs	**109.3**	92.5
Facilities costs	**6.4**	6.0
Marketing costs	**4.5**	4.0
Support costs	**31.2**	25.3
Professional fees	**28.9**	16.9
Other costs	**12.8**	7.3
Depreciation (see note 28)	**5.2**	5.0
Amortisation (see note 29)	**8.2**	9.5
	206.5	166.5

8. Administrative expenses (continued)

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

	Group 2022 £'000	Group 2021 £'000
Fees payable to the Company's auditor for the audit of the Company's annual accounts	**669**	608
Fees payable to the Company's auditor for the audit of the accounts of subsidiaries	**2,672**	1,722
Total audit fees	**3,341**	2,330
Audit-related assurance services[1]	**254**	248
Other assurance services[2]	**70**	121
Other non-audit services[3]	**33**	240
Total non-audit fees	**357**	609
Total fees payable to the Company's auditor	**3,698**	2,939

1. Includes review of interim financial information and profit verifications.
2. Costs comprise assurance reviews of European Single Electronic Format (ESEF) tagging (2021: assurance reviews of APMs, integration costs and ESEF tagging).
3. Costs primarily comprise work related to the European Medium Term Note (EMTN) programme (2021: work related to the AT1 securities issuance, a gap analysis in relation to TCFD and the EMTN programme).

Staff costs comprise the following:

	Group 2022 £m	Group 2021 £m	**Company 2022 £m**	Company 2021 £m
Salaries, incentive pay and other benefits	**87.3**	72.9	**53.4**	37.5
Share-based payments	**8.1**	6.7	**7.3**	5.0
Social security costs	**9.5**	7.7	**6.6**	4.7
Other pension costs	**4.4**	5.2	**3.0**	3.5
	109.3	92.5	**70.3**	50.7

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

	Group 2022	Group 2021	**Company 2022**	Company 2021
UK	**1,274**	1,220	**777**	580
India	**622**	535	**-**	-
	1,896	1,755	**777**	580

9. Impairment of intangible assets

Assets arising on the Combination with CCFS in 2019 included a broker relationships intangible asset with a fair value of £17.1m on Combination. During 2020 an impairment of £7.0m was recognised arising from changes to CCFS anticipated lending volumes over three years post combination, which are a key input to the calculation of the fair value, and which were revised due to COVID-19 impacts. During 2021 an impairment assessment was performed and as actual lending volumes were higher than anticipated the Group has recognised an impairment reversal of £3.1m. The remaining carrying value of the broker relationships intangible asset at 31 December 2022 is £2.0m (2021: £5.0m).

10. Directors' emoluments and transactions

	Company 2022 £'000	Company 2021 £'000
Short-term employee benefits[1]	**3,213**	2,825
Post-employment benefits	**109**	106
Share-based payments[2]	**2,291**	1,267
	5,613	4,198

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 (2021: £633k) in the form of shares. DSBP awards granted from April 2021 have a holding period of three to seven years with no further conditions attached other than standard clawback situations. In March 2020 and prior years, the DSBP awards were subject to either a three or five year vesting period with conditions attached, notably if the Director leaves prior to vesting, the award is forfeited unless a good leaver reason applies such as redundancy, retirement or ill-health.

The Executive Directors received a further share award under the Performance Share Plan (PSP) with a grant date fair value of £1,516k (2021: £1,458k) using a share price of £5.58 (2021: £4.94) (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 11 and the OSB GROUP PLC Annual Report on Remuneration.

No compensation was paid for loss of office during 2022 and 2021.

There were no outstanding loans granted in the ordinary course of business to Directors and their connected persons as at 31 December 2022 and 2021.

The highest paid Director employed by the Company received emoluments of £2,991k (2021: £2,506k) and payments in respect of personal pension plans of £67k (2021: £65k) in the year.

The OSB GROUP PLC Annual Report on Remuneration and note 11 Share-based payments provide further details on Directors' emoluments.

11. Share-based payments

The OSB Group operates the following share-based schemes:

Sharesave Scheme

SAYE or Sharesave Scheme is a share option scheme which is available to all UK-based employees. The Sharesave Scheme allows employees to purchase options by saving a fixed amount of between £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

The DSBP applies to Executive Directors and certain senior managers with 50% of their performance bonuses to be deferred in shares for three to seven years for Executive Directors and 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

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

The performance conditions that apply to PSP awards from 2020 are based on a combination of earnings per share (EPS) weighting of 35%, total shareholder return (TSR) 35%, risk-based 15% and return on equity (ROE) 15%. Prior to 2020, PSP awards were based on a combination of EPS weighting of 40%, TSR 40% and ROE 20%. The PSP conditions are assessed independently. The EPS element assesses the compound annual growth rate over the performance period, that is, the annualised growth from a base year 0 to final year 3. For example, the 2022 Award will measure the EPS growth from 1 January 2021 to 31 December 2024. For the TSR element, the Company's ordinary shares relative performance is measured against the FTSE 250 (excluding investment trusts). The risk-based measure is assessed against the risk management performance with regard to all relevant risks including, but not limited to, an assessment of regulatory risk, operational risk, conduct risk, liquidity risk, funding risk, market risk and credit risk. For the ROE element, growth rates are assessed against the Group's underlying profit after taxation as a percentage of average shareholders' equity.

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 8 Administrative expenses.

11. Share-based payments (continued)

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

	Group 2022 £m	Group 2021 £m
Sharesave Scheme	**0.6**	0.7
Deferred Share Bonus Plan	**4.2**	3.8
Performance Share Plan	**3.3**	2.2
	8.1	6.7

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 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**	**-**	**-**
At 1 January 2021	2,745,332	2.53	1,119,757	4,986,527
Granted	339,097	3.96	363,624	1,477,111
Exercised/Vested	(270,709)	3.10	(683,456)	(513,927)
Forfeited	(392,460)	2.63	(2,809)	(724,631)
At 31 December 2021	2,421,260	2.65	797,116	5,225,080
Exercisable at:				
31 December 2021	8,480	3.37	-	-

For the share-based awards granted during the year, the weighted average grant date fair value was 396 pence (2021: 286 pence).

11. Share-based payments (continued)

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

	2022		2021	
Exercise price	**Number**	**Weighted average remaining contractual life (years)**	Number	Weighted average remaining contractual life (years)
Sharesave Scheme				
229 - 429 pence (2021: 227 - 335 pence)	**2,147,972**	**1.8**	2,421,260	2.0
Deferred Share Bonus Plan		**.**		
Nil	**763,390**	**0.9**	797,116	0.7
Performance Share Plan				
Nil	**5,391,269**	**2.7**	5,225,080	2.4
	8,302,631	**2.3**	8,443,456	2.1

Sharesave Scheme

	2022	2021	2020		2019		2018		2017
Contractual life, years	**3**	3	3	5	3	5	3	5	5
Share price at issue, £	**4.20**	5.13	2.86	2.86	3.32	3.32	4.19	4.19	3.93
Exercise price, £	**4.29**	3.96	2.29	2.29	2.65	2.65	3.35	3.35	3.15
Expected volatility, %	**31.4**	37.9	57.6	57.6	31.9	31.9	16.1	16.5	17.3
Dividend yield, %	**7.3**	4.5	3.3	3.3	4.8	4.8	4.4	4.4	4.1
Grant date fair value, £	**0.68**	1.46	1.22	1.34	0.90	0.91	0.40	0.43	0.70

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

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

Deferred Share Bonus Plan

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

11. Share-based payments (continued)

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

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

Performance Share Plan

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

Non-market performance conditions exist for the scheme notably that 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 an award that is subject to market conditions (the relative share price element of the PSP) is determined at grant date using a Monte Carlo model at the time of grant.

The inputs into the models are as follows:

	2022	2021	2020	2019	2018
Contractual life, years	**3-7**	3-7	3-7	3	3
Mid-market share price, £	**5.58**	4.94	2.58	3.96	4.11
Attrition rate, %	**6.9**	12.8	7.3	8.4	9.7
Expected volatility, %	**37.4**	59.5	43.9	26.8	29.1
Dividend yield, %	**4.7**	3.8	5.6	4.7	4.6
Vesting rate - TSR %	**32.3**	40.8	27.8	44.9	54.0
Grant date fair value, £	**4.64**	4.26	2.06	3.47	3.61

12. Integration costs

	Group 2022 £m	Group 2021 £m
Consultant fees	**4.9**	2.2
Staff costs	**3.0**	2.2
Impairment	**-**	0.6
	7.9	5.0

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

Staff costs relate to personnel who will leave or have left the Group through the transition of operations to the new operating model.

Impairment relates to a property sold during 2021.

13. Exceptional items

	Group 2022 £m	Group 2021 £m
Consultant fees	**-**	-
Legal and professional fees	**-**	0.2
	-	0.2

Exceptional items relate to the insertion of OSBG as the new holding company and listed entity of the Group.

14. Taxation

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

	Group 2022 £m	Group 2021 £m
Corporation tax - current year	**141.4**	128.3
Corporation tax - prior year	**(0.9)**	-
Deferred tax - current year	**(1.2)**	(0.2)
Deferred tax - prior year	**(0.3)**	-
Release of deferred tax on CCFS Combination[1]	**(17.5)**	(8.5)
Total tax charge	**121.5**	119.6

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 £(12.8)m (2021: £(14.1)m) and the impact of the bank surcharge decrease on these deferred tax liabilities £(4.7)m (2021: the impact of the corporation tax rate increase £5.6m).

14. Taxation (continued)

The charge for taxation on the Group's profit before taxation differs from the charge based on the standard rate of UK Corporation Tax of 19% (2021: 19%) as follows:

	Group 2022 £m	Group 2021 £m
Profit before taxation	**532.8**	464.6
Profit multiplied by the standard rate of UK Corporation Tax (19%)	**101.2**	88.3
Bank surcharge[1]	**30.2**	27.7
Taxation effects of:		
Expenses not deductible for taxation purposes	**0.3**	0.7
Securitisation profits not taxable	**(2.2)**	**-**
Impact of deferred tax rate change[2]	**(5.1)**	5.2
Adjustments in respect of earlier years	**(1.2)**	**-**
Tax adjustments in respect of share-based payments	**-**	1.2
Tax on coupon paid on AT1 securities	**(1.7)**	(2.2)
Timing differences on capital items	**-**	(1.3)
Total tax charge	**121.5**	119.6

1. Tax charge for the two banking entities of £34.3m (2021: £31.9m) offset by the tax impact of unwinding CCFS Combination items of £4.1m (2021: £4.2m).
2. Due to change in bank surcharge rate from 8% to 3% on 1 April 2023 (2021: due to change in corporation tax rate from 19% to 25% on 1 April 2023).

Factors affecting tax charge for the year

The effective tax rate for the year ended 31 December 2022, excluding the impact of adjustments in respect of earlier years and the deferred tax rate change, was 24.0% (2021: 24.6%).

The £(5.1)m credit (2021: £5.2m charge) impact of the deferred tax rate change relates predominantly to the deferred tax liability from the CCFS combination (see note 27 and 38).

A tax charge of nil (comprising a deferred tax debit of £0.9m and current tax credit of £0.9m) (2021: credit of £1.6m) has been recognised directly within equity relating to the Group's share-based payment schemes.

A tax credit of £0.1m (2021: credit of £0.5m) has been recognised within OCI relating to investment securities classified as FVOCI.

14. Taxation (continued)

Factors that may affect future tax charges

On 24 May 2021, the government substantively enacted legislation to increase the corporation tax rate from 19% to 25% from 1 April 2023. Further, on 24 February 2022, the government substantively enacted legislation to decrease the bank surcharge rate from 8% to 3% from 1 April 2023, together with an increase in the surcharge annual allowance (the level of taxable profits above which are subject to the surcharge) from £25m to £100m.

In September 2022, the government announced that the above changes would be cancelled, but then in October 2022 announced that the changes would go ahead as enacted.

Deferred tax expected to unwind after 1 April 2023 is recognised for entities that incur the bank surcharge at 28% (2021: 33%).

15. Dividends

During the year, the Company paid the following dividends:

	Company 2022		Company 2021	
	£m	**Pence per share**	£m	Pence per share
Dividends paid to fund OSBG's share repurchase programme	**100.0**	**22.4**	-	-
Interim dividend for the current year	**133.1**	**29.8**	86.7	19.4
	233.1		86.7	

The Directors do not recommend a final dividend (2021: nil).

16. Cash and cash equivalents

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

	Group 2022 £m	Group 2021 £m	**Company 2022 £m**	Company 2021 £m
Cash in hand	**0.4**	0.5	**0.4**	0.5
Unencumbered loans and advances to credit institutions	**2,953.7**	2,636.2	**1,358.7**	1,331.8
Investment securities	**90.0**	100.0	**90.0**	-
	3,044.1	2,736.7	**1,449.1**	1,332.3

17. Loans and advances to credit institutions

	Group 2022 £m	Group 2021 £m	Company 2022 £m	Company 2021 £m
Unencumbered:				
BoE call account	**2,806.5**	2,496.4	**1,328.2**	1,313.5
Call accounts	**73.2**	43.3	**29.5**	18.1
Cash held in special purpose vehicles (SPVs)[1]	**63.8**	89.6	**1.0**	0.2
Term deposits	**10.2**	6.9	**-**	-
Encumbered:				
BoE cash ratio deposit	**62.8**	59.5	**37.8**	36.5
Cash held in SPVs[1]	**111.8**	48.0	**-**	-
Cash margin given	**237.4**	99.9	**109.6**	36.7
	3,365.7	2,843.6	**1,506.1**	1,405.0

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 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.

18. Investment securities

	Group 2022 £m	Group 2021 £m	Company 2022 £m	Company 2021 £m
Held at amortised cost:				
UK Sovereign debt	**-**	100.0	**-**	-
RMBS loan notes	**262.6**	223.1	**61.1**	-
	262.6	323.1	**61.1**	-
Less: Expected credit losses	**-**	-	**-**	-
	262.6	323.1	**61.1**	-
Held at FVOCI:				
UK Sovereign debt[1]	**149.8**	152.1	**149.8**	-
RMBS loan notes	**-**	15.5	**-**	15.5
	149.8	167.6	**149.8**	15.5
Held at FVTPL:				
RMBS loan notes	**0.5**	0.7	**0.5**	0.7
	0.5	0.7	**0.5**	0.7
	412.9	491.4	**211.4**	16.2

1. Includes £90.0m of UK Treasury bills which had a maturity of less than three months from date of acquisition (2021: nil).

18. Investment securities (continued)

At 31 December 2022, the Group had no RMBS held at FVOCI or FVTPL (2021: nil) and £11.5m of RMBS held at amortised cost (2021: £119.5m) sold under repos.

The Directors consider that the primary purpose of holding investment securities is prudential. These securities are held as liquid assets with the intention of use on a continuing basis in the Group's activities and are classified as amortised cost, FVOCI and FVTPL in accordance with the Group's business model for each security.

The credit risk on investment securities held at amortised cost has not significantly increased since initial recognition and are categorised as stage 1. The ECLs are less than £0.1m.

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

	Group 2022 £m	Group 2021 £m	**Company 2022 £m**	Company 2021 £m
At 1 January	**491.4**	471.2	**16.2**	15.0
Additions[1]	**686.5**	568.2	**646.4**	216.6
Disposals and maturities[2]	**(764.4)**	(549.7)	**(451.0)**	(215.4)
Movement in accrued interest	**(0.9)**	0.6	**(0.5)**	(0.1)
Changes in fair value	**0.3**	1.1	**0.3**	0.1
At 31 December	**412.9**	491.4	**211.4**	16.2

1. Additions includes £90.0m of UK Treasury bills which had a maturity of less than three months from date of acquisition (2021: £100.0m).
2. Disposals and maturities includes £100.0m of UK Treasury bills which had a maturity of less than three months from date of acquisition (2021: nil).

At 31 December 2022, investment securities included investments in unconsolidated structured entities (see note 45) of £100.7m notes in PMF 2020-1B (2021: £100.7m notes in PMF 2020-1B and £21.0m notes in PMF 2017-1B). The investments represent the maximum exposure to loss from unconsolidated structured entities.

19. Loans and advances to customers

	Group 2022 £m	Group 2021 £m	**Company 2022 £m**	Company 2021 £m
Held at amortised cost:				
Loans and advances (see note 20)	**23,564.9**	21,047.9	**10,613.5**	9,540.2
Finance leases (see note 21)	**163.2**	116.2	**-**	-
	23,728.1	21,164.1	**10,613.5**	9,540.2
Less: Expected credit losses (see note 22)	**(130.0)**	(101.5)	**(81.6)**	(63.8)
	23,598.1	21,062.6	**10,531.9**	9,476.4
Held at FVTPL:				
Residential mortgages	**14.6**	17.7	**-**	-
	23,612.7	21,080.3	**10,531.9**	9,476.4

20. Loans and advances

	2022			2021		
	OSB	**CCFS**	**Total**	OSB	CCFS	Total
Group	**£m**	**£m**	**£m**	£m	£m	£m
Gross carrying amount						
Stage 1	**10,188.4**	**8,375.5**	**18,563.9**	10,393.2	7,685.7	18,078.9
Stage 2[1]	**2,508.9**	**1,907.4**	**4,416.3**	1,142.3	1,269.8	2,412.1
Stage 3	**345.7**	**156.0**	**501.7**	360.4	99.1	459.5
Stage 3 (POCI)	**38.5**	**44.5**	**83.0**	45.2	52.2	97.4
	13,081.5	**10,483.4**	**23,564.9**	11,941.1	9,106.8	21,047.9

1. The increase in balance of accounts in Stage 2 is due to the increased credit risk from heightened cost of living and cost of borrowing. For further detail relating to movements by stage see the risk review section on pages 30 to 60.

	2022	2021
Company	**£m**	£m
Gross carrying amount		
Stage 1	**7,939.0**	8,220.7
Stage 2[1]	**2,353.1**	984.5
Stage 3	**286.9**	294.0
Stage 3 (POCI)	**34.5**	41.0
	10,613.5	9,540.2

1. The increase in balance of accounts in Stage 2 is due to the increased credit risk from heightened cost of living and cost of borrowing. For further detail relating to movements by stage see the risk review section on pages 30 to 60.

20. Loans and advances (continued)

The mortgage loan balances pledged as collateral for liabilities are:

	Group 2022 £m	Group 2021 £m	**Company 2022 £m**	Company 2021 £m
BoE under TFSME and ILTR	**6,439.7**	5,887.2	**3,295.2**	3,390.5
Securitisation	**265.4**	486.5	**124.6**	288.4
	6,705.1	6,373.7	**3,419.8**	3,678.9

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 2022, the percentage of the Group's gross loans and advances to customers that are encumbered was 28% (2021: 30%).

The Company adopts a net accounting approach for retained interests in securitisation transactions that are consolidated into the Group, disclosing the net amount as a deemed loan asset/(liability). The table below shows the breakdown of the Company's deemed loan balance. The deemed loan balance is now an asset, due to a large portion of the externally held loan notes being repaid.

	Company 2022 £m	Company 2021 £m
General Reserve fund	**55.9**	51.7
Loan notes held externally	**(124.1)**	(260.5)
Amount owed from SPVs	**99.4**	66.0
	31.2	(142.8)

As at 31 December 2022, the Company had £1,079.6m (2021: £1,581.7m) of the retained loan notes sold under repos or pledged as collateral.

20. Loans and advances (continued)

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

Group	Stage 1 £m	Stage 2 £m	Stage 3 £m	Stage 3 (POCI) £m	Total £m
At 1 January 2021	16,060.3	2,689.6	392.6	114.6	19,257.1
Originations[1]	4,523.4	-	-	-	4,523.4
Acquisitions[2]	277.7	-	-	2.7	280.4
Disposals[2]	(214.4)	-	-	-	(214.4)
Repayments and write-offs[3]	(2,539.8)	(160.3)	(78.6)	(19.9)	(2,798.6)
Transfers:					
- To Stage 1	1,401.0	(1,370.2)	(30.8)	-	-
- To Stage 2	(1,339.7)	1,384.1	(44.4)	-	-
- To Stage 3	(89.6)	(131.1)	220.7	-	-
At 31 December 2021	18,078.9	2,412.1	459.5	97.4	21,047.9
Originations[1]	**5,829.6**	**-**	**-**	**-**	**5,829.6**
Repayments and write-offs[3]	**(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[4]	**(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**

1. Originations include further advances and drawdowns on existing commitments.
2. The Group acted as co-arranger in the re-securitisation of £229.6m of third party mortgages from the Rochester Financing No.2 PLC securitisation to the new Rochester Financing No.3 PLC securitisation on 15 June 2021. Neither securitisation is a subsidiary of the Group. Under the terms of the mortgage sale agreements, the Group recognised the mortgages as a purchase from Rochester Financing No.2 PLC and immediately derecognised them as a sale to Rochester Financing No.3 PLC. OneSavings Bank plc is the master servicer of the mortgages, and has retained 5% of these mortgages, as required under the retention rules. In addition to the Group acting as co-arranger for the re-securitisation of Rochester Financing No.2 PLC, the Group purchased an external mortgage book, a c. £55m portfolio of UK residential mortgages, at a discount to the then current balances.
3. Repayments and write-offs include customer redemptions and write-offs which are immaterial.
4. The increase in balance of accounts in Stage 2 is due to the increased credit risk from heightened cost of living and cost of borrowing. For further detail relating to movements by stage see the risk review section on pages 30 to 60.

20. Loans and advances (continued)

Company	Stage 1 £m	Stage 2 £m	Stage 3 £m	Stage 3 (POCI) £m	Total £m
At 1 January 2021	7,080.4	1,215.2	255.2	45.4	8,596.2
Originations[1]	2,104.9	-	-	-	2,104.9
Acquisitions[2]	225.7	-	-	0.9	226.6
Disposals[2]	(214.4)	-	-	-	(214.4)
Repayments and write-offs[3]	(1,006.2)	(125.4)	(36.2)	(5.3)	(1,173.1)
Transfers:					
- To Stage 1	591.8	(577.2)	(14.6)	-	-
- To Stage 2	(505.3)	536.5	(31.2)	-	-
- To Stage 3	(56.2)	(64.6)	120.8	-	-
At 31 December 2021	8,220.7	984.5	294.0	41.0	9,540.2
Originations[1]	**2,343.3**	**-**	**-**	**-**	**2,343.3**
Repayments and write-offs[3]	**(1,084.5)**	**(128.7)**	**(50.3)**	**(6.5)**	**(1,270.0)**
Transfers:					
- To Stage 1	**440.4**	**(422.6)**	**(17.8)**	**-**	**-**
- To Stage 2[4]	**(1,930.1)**	**1,969.6**	**(39.5)**	**-**	**-**
- To Stage 3	**(50.8)**	**(49.7)**	**100.5**	**-**	**-**
At 31 December 2022	**7,939.0**	**2,353.1**	**286.9**	**34.5**	**10,613.5**

1. Originations include further advances and drawdowns on existing commitments.
2. The Company acted as co-arranger in the re-securitisation of £229.6m of third party mortgages from the Rochester Financing No.2 PLC securitisation to the new Rochester Financing No.3 PLC securitisation on 15 June 2021. Neither securitisation is a subsidiary of the Company. Under the terms of the mortgage sale agreements, the Company recognised the mortgages as a purchase from Rochester Financing No.2 PLC and immediately derecognised them as a sale to Rochester Financing No.3 PLC. The Company is the master servicer of the mortgages, and has retained 5% of these mortgages, as required under the retention rules.
3. Repayments and write-offs include customer redemptions.
4. The increase in balance of accounts in Stage 2 is due to the increased credit risk from heightened cost of living and cost of borrowing. For further detail relating to movements by stage see the risk review section on pages 30 to 60.

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 £0.8m at 31 December 2022 (2021: £1.5m) for the Group and £0.6m for the Company (2021: £1.2m).

As at 31 December 2022 £110.0m of loans and advances (2021: £97.4m) for the Group and £65.3m for the Company (2021: £71.2m) are in a probation period before they can move out of Stage 3, see note 1 p) for further details.

21. Finance leases

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

	Group 2022 £m	Group 2021 £m
Gross investment in finance leases, receivable		
Less than one year	**60.7**	39.7
Between one and two years	**49.5**	27.7
Between two and three years	**36.0**	27.5
Between three and four years	**23.4**	17.2
Between four and five years	**9.9**	14.6
More than five years	**1.3**	0.9
	180.8	127.6
Unearned finance income	**(17.6)**	(11.4)
Net investment in finance leases	**163.2**	116.2
Net investment in finance leases, receivable		
Less than one year	**52.4**	34.7
Between one and two years	**44.4**	26.0
Between two and three years	**33.2**	25.5
Between three and four years	**22.3**	15.8
Between four and five years	**9.6**	13.3
More than five years	**1.3**	0.9
	163.2	116.2

The Group has recognised £4.8m of ECLs on finance leases as at 31 December 2022 (2021: £4.3m).

22. Expected credit losses

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

Group	2022 ECL provision £m	2022 Weighting %	2022 Weighted ECL provision £m	2021 ECL provision £m	2021 Weighting %	2021 Weighted ECL provision £m
Scenarios						
Upside	**32.8**	**30**	**9.8**	13.1	20	2.6
Base case	**41.7**	**40**	**16.7**	26.5	40	10.6
Downside scenario	**79.3**	**20**	**15.9**	74.0	28	20.7
Severe downside scenario	**120.0**	**10**	**12.0**	120.3	12	14.4
Total weighted provisions			**54.4**			48.3
Non-modelled provisions:						
Individually assessed provisions			**45.8**			40.4
Post model adjustments			**29.8**			12.8
Total provision			**130.0**			101.5

Company	2022 ECL provision £m	2022 Weighting %	2022 Weighted ECL provision £m	2021 ECL provision £m	2021 Weighting %	2021 Weighted ECL provision £m
Scenarios						
Upside	**17.6**	**30**	**5.3**	6.2	20	1.2
Base case	**22.9**	**40**	**9.2**	15.7	40	6.3
Downside scenario	**45.6**	**20**	**9.1**	47.8	28	13.4
Severe downside scenario	**70.5**	**10**	**7.1**	79.9	12	9.6
Total weighted provisions			**30.7**			30.5
Non-modelled provisions:						
Individually assessed provisions			**33.9**			29.8
Post model adjustments			**17.0**			3.5
Total provision			**81.6**			63.8

The Group reflected on the ongoing appropriateness of probabilities attached to the suite of IFRS 9 scenarios as the macroeconomic outlook evolved throughout the year. Scenarios were adjusted to a symmetrical probability, where the upside and downside scenarios carry equal weightings, as a result of separate post-model adjustments being raised to ensure that the current IFRS 9 framework adequately provisioned for the underlying portfolio risk.

22. Expected credit losses (continued)

As at 31 December 2022, the Group identified increases in credit risk as a result of the cost of living and cost of borrowing stresses caused by high inflation and increases in interest rates. As a result, the Group held an additional £16.0m (£7.3m for cost of living and £8.7m for cost of borrowing) and the Company £8.2m (£3.9m for cost of living and £4.3m for cost of borrowing), of ECL in PMA for risks not sufficiently accounted for in the IFRS 9 framework as at 31 December 2022. The approach to identify the PMA for the cost of living is an increase in PD through analysing the effect of the increases in living costs, such as house hold 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 borrowing PMA specifically identified those that are more at risk of default due to reverting onto variable rate in the near future, causing a payment increase and higher affordability risk, which is used both to apply an additional significant increase in credit risk SICR and stage 2 criteria and in some cases a higher default risk.

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 an additional £8.7m and the Company £6.0m, as a PMA as at 31 December 2022. Whilst the Group expects the process delays to reduce in time, a PMA was held to reflect an extended time to sale in line with most recent observations for those in default.

As part of the Group's appreciation of climate risk and overall ESG agenda, the Group recognises that properties with lower energy efficiency are likely to require investment to reach minimum energy efficiency standards in the future. As a result, to reflect the expected transition risk and physical risks of climate change, the Group held £4.4m and the Company £2.5m, of PMA as at 31 December 2022.

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 a PMA of £0.7m and the Company £0.3m, as at 31 December 2022.

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

	2022			2021		
	OSB	**CCFS**	**Total**	OSB	CCFS	Total
Group	**£m**	**£m**	**£m**	£m	£m	£m
Stage 1	**5.9**	**1.3**	**7.2**	9.3	2.8	12.1
Stage 2	**35.3**	**15.6**	**50.9**	14.2	10.8	25.0
Stage 3	**60.5**	**7.8**	**68.3**	56.6	3.8	60.4
Stage 3 (POCI)	**1.5**	**2.1**	**3.6**	2.1	1.9	4.0
	103.2	**26.8**	**130.0**	82.2	19.3	101.5

	2022	2021
Company	**£m**	£m
Stage 1	**1.8**	6.1
Stage 2	**31.7**	12.1
Stage 3	**46.8**	43.6
Stage 3 (POCI)	**1.3**	2.0
	81.6	63.8

22. 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.

Group	Stage 1 £m	Stage 2 £m	Stage 3 £m	Stage 3 (POCI) £m	Total £m
At 1 January 2021	21.2	31.0	51.7	7.1	111.0
Originations	5.7	-	-	-	5.7
Acquisitions	0.1	-	-	0.1	0.2
Repayments and write-offs	(2.8)	(3.3)	(7.4)	(1.1)	(14.6)
Re-measurement of loss allowance	(21.8)	(0.8)	12.8	(2.1)	(11.9)
Transfers:					
- To Stage 1	11.3	(10.5)	(0.8)	-	-
- To Stage 2	(2.3)	5.1	(2.8)	-	-
- To Stage 3	(0.3)	(3.1)	3.4	-	-
Changes in assumptions and model parameters	1.0	6.6	3.5	-	11.1
At 31 December 2021	12.1	25.0	60.4	4.0	101.5
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**

22. Expected credit losses (continued)

Company	Stage 1 £m	Stage 2 £m	Stage 3 £m	Stage 3 (POCI) £m	Total £m
At 1 January 2021	8.4	16.3	35.9	3.9	64.5
Originations	2.6	-	-	-	2.6
Repayments and write-offs	(0.7)	(1.6)	(3.0)	(0.2)	(5.5)
Re-measurement of loss allowance	(8.9)	2.3	9.0	(1.6)	0.8
Transfers:					
- To Stage 1	5.5	(5.0)	(0.5)	-	-
- To Stage 2	(0.7)	2.0	(1.3)	-	-
- To Stage 3	(0.1)	(2.2)	2.3	-	-
Changes in assumptions and model parameters	-	0.3	1.2	(0.1)	1.4
At 31 December 2021	6.1	12.1	43.6	2.0	63.8
Originations	**3.8**	**-**	**-**	**-**	**3.8**
Repayments and write-offs	**(0.5)**	**(1.5)**	**(3.8)**	**(0.1)**	**(5.9)**
Re-measurement of loss allowance	**(7.8)**	**13.7**	**10.4**	**(0.7)**	**15.6**
Transfers:					
- To Stage 1	**4.4**	**(3.9)**	**(0.5)**	**-**	**-**
- To Stage 2	**(1.4)**	**2.8**	**(1.4)**	**-**	**-**
- To Stage 3	**-**	**(1.1)**	**1.1**	**-**	**-**
Changes in assumptions and model parameters	**(2.8)**	**9.6**	**(2.6)**	**0.1**	**4.3**
At 31 December 2022	**1.8**	**31.7**	**46.8**	**1.3**	**81.6**

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

	2022			2021		
Group	**Carrying value £m**	**ECL £m**	**Coverage %**	Carrying value £m	ECL £m	Coverage %
Criteria:						
Relative PD movement	**3,090.2**	**42.9**	**1.39**	1,251.6	17.1	1.37
Qualitative measures	**1,277.6**	**7.5**	**0.59**	1,125.0	7.4	0.66
30 days past due backstop	**49.3**	**0.5**	**1.01**	37.0	0.5	1.35
Total	**4,417.1**	**50.9**	**1.15**	2,413.6	25.0	1.04

22. Expected credit losses (continued)

	2022			2021		
Company	**Carrying value £m**	**ECL £m**	**Coverage %**	Carrying value £m	ECL £m	Coverage %
Criteria:						
Relative PD movement	**1,692.3**	**26.9**	**1.59**	425.8	7.7	1.81
Qualitative measures	**631.2**	**4.5**	**0.71**	543.8	4.1	0.75
30 days past due backstop	**29.6**	**0.3**	**1.01**	14.9	0.3	2.01
Total	**2,353.1**	**31.7**	**1.35**	984.5	12.1	1.23

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.

23. Impairment of financial assets

The charge/(credit) for impairment of financial assets in the Statement of Comprehensive Income comprises:

	Group 2022 £m	Group 2021 £m
Write-offs in year	**2.1**	6.7
Increase/(decrease) in ECL provision	**27.7**	(11.1)
	29.8	(4.4)

24. Derivatives

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

Group	Gross amount of recognised financial assets / (liabilities) £m	Net amount of financial assets / (liabilities) presented in the Statement of Financial Position £m	Contracts subject to master netting agreements not offset in the Statement of Financial Position £m	Cash collateral paid / (received) not offset in the Statement of Financial Position £m	Net amount £m
At 31 December 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**
At 31 December 2021					
Derivative assets:					
Interest rate risk hedging	185.7	185.7	(16.9)	(115.3)	53.5
Derivative liabilities:					
Interest rate risk hedging	(19.7)	(19.7)	16.9	98.3	95.5

Derivative assets and liabilities include an initial margin of £198.6m with swap counterparties.

Included within the Group's derivative assets is £203.4m (2021: £48.7m) relating to derivative contracts not covered by master netting agreements on which no cash collateral has been paid.

24. **Derivatives** (continued)

Company	Gross amount of recognised financial assets / (liabilities) £m	Net amount of financial assets / (liabilities) presented in the Statement of Financial Position £m	Contracts subject to master netting agreements not offset in the Statement of Financial Position £m	Cash collateral paid / (received) not offset in the Statement of Financial Position £m	Net amount £m
At 31 December 2022					
Derivative assets:					
Interest rate risk hedging	**234.0**	**234.0**	**(63.2)**	**(173.4)**	**(2.6)**
Derivative liabilities:					
Interest rate risk hedging	**(63.8)**	**(63.8)**	**63.2**	**79.4**	**78.8**
At 31 December 2021					
Derivative assets:					
Interest rate risk hedging	50.5	50.5	(6.2)	(42.1)	2.2
Derivative liabilities:					
Interest rate risk hedging	(8.7)	(8.7)	6.2	35.1	32.6

Derivative assets and liabilities include an initial margin of £79.2m with swap counterparties.

Included within the Company's derivative liabilities is nil (2021: nil) of derivative contracts not covered by master netting agreements on which no cash collateral has been paid.

24. Derivatives (continued)

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

Group	Total nominal £m	Less than 3 months £m	3 - 12 months £m	1 - 5 years £m	More than 5 years £m
At 31 December 2022					
Derivative assets	**15,662.6**	**624.1**	**4,056.6**	**10,849.9**	**132.0**
Derivative liabilities	**9,518.0**	**1,503.0**	**6,001.0**	**1,869.0**	**145.0**
	25,180.6	**2,127.1**	**10,057.6**	**12,718.9**	**277.0**
At 31 December 2021					
Derivative assets	12,968.3	245.2	2,345.4	10,235.7	142.0
Derivative liabilities	7,378.0	1,361.0	4,747.0	1,150.0	120.0
	20,346.3	1,606.2	7,092.4	11,385.7	262.0

The Group has 916 (2021: 841) derivative contracts with an average fixed rate of 1.51% (2021: 0.34%).

Company	Total nominal £m	Less than 3 months £m	3 - 12 months £m	1 - 5 years £m	More than 5 years £m
At 31 December 2022					
Derivative assets	**4,628.0**	**50.0**	**1,526.0**	**3,012.0**	**40.0**
Derivative liabilities	**5,158.0**	**650.0**	**3,270.0**	**1,198.0**	**40.0**
	9,786.0	**700.0**	**4,796.0**	**4,210.0**	**80.0**
At 31 December 2021					
Derivative assets	3,953.0	50.0	952.0	2,873.0	78.0
Derivative liabilities	3,416.0	626.0	2,340.0	350.0	100.0
	7,369.0	676.0	3,292.0	3,223.0	178.0

The Company has 123 (2021: 108) derivative contracts with an average fixed rate of 2.17% (2021: 0.34%).

25. Hedge accounting

	Group 2022 £m	Group 2021 £m	**Company 2022 £m**	Company 2021 £m
Hedged assets				
Current hedge relationships	**(827.9)**	(190.9)	**(204.0)**	(52.7)
Swap inception adjustment	**44.1**	(26.2)	**17.8**	0.9
Cancelled hedge relationships	**(5.2)**	78.2	**(14.6)**	53.1
Fair value adjustments on hedged assets	**(789.0)**	(138.9)	**(200.8)**	1.3
Hedged liabilities				
Current hedge relationships	**58.0**	19.6	**34.8**	8.5
Swap inception adjustment	**(2.3)**	3.3	**(1.1)**	0.1
Cancelled hedge relationships	**(0.6)**	(1.4)	**-**	0.2
De-designated hedge relationships	**-**	(1.8)	**-**	-
Fair value adjustments on hedged liabilities	**55.1**	19.7	**33.7**	8.8

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

De-designated hedge relationships relates to hedge accounting adjustments on failed hedge accounting relationships. These adjustments are amortised over the remaining lives of the original hedged items.

Cancelled hedge relationships predominantly represent the unamortised fair value adjustment for interest rate risk hedges that have been cancelled and replaced due to securitisation activities, legacy long-term fixed rate mortgages (c. 25 years at origination) and during 2021 IBOR transition.

25. Hedge accounting (continued)

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

	Group 2022		Group 2021	
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	**14,493.8**	**14,667.7**	12,364.3	12,550.2
Cumulative fair value adjustments of hedged item/fair value of hedging instrument	**(827.9)**	**833.2**	(190.9)	187.4
Changes in the fair value adjustment of hedged item/hedging instrument used for recognising the hedge ineffectiveness for the period	**(620.6)**	**621.9**	(297.8)	298.9
Cumulative fair value on cancelled hedge relationships	**(5.2)**	**-**	78.2	-

In the Statement of Financial Position, £854.3m (2021: £187.7m) of hedging instruments were recognised within derivative assets, and £21.1m (2021: £0.3m) within derivative liabilities.

	Company 2022		Company 2021	
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	**4,114.0**	**4,006.0**	3,211.7	3,233.0
Cumulative fair value adjustments of hedged item/fair value of hedging instrument	**(204.0)**	**199.3**	(52.7)	52.7
Changes in the fair value adjustment of hedged item/hedging instrument used for recognising the hedge ineffectiveness for the period	**(177.5)**	**177.0**	(104.1)	103.7
Cumulative fair value on cancelled hedge relationships	**(14.6)**	**-**	53.1	-

The cumulative fair value adjustments of the hedging instrument comprise £216.4m (2021: £52.8m) recognised within derivative assets, and £17.1m (2021: £0.1m) recognised within derivative liabilities.

25. Hedge accounting (continued)

The movement in cancelled hedge relationships is as follows:

Hedged assets	Group 2022 £m	Group 2021 £m	Company 2022 £m	Company 2021 £m
At 1 January	**78.2**	84.6	**53.1**	42.7
New cancellations[1]	**(49.3)**	33.5	**(49.4)**	32.9
Amortisation	**(34.1)**	(39.9)	**(18.3)**	(22.5)
At 31 December	**(5.2)**	78.2	**(14.6)**	53.1

1. Following the securitisation of mortgages during the year and LIBOR swaps transferred to SONIA swaps through the IBOR transition during 2021, the Group cancelled swaps which were effective prior to the event, with the designated hedge moved to cancelled hedge relationships to be amortised over the original life of the swap.

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

	Group 2022		Group 2021	
Customer deposits	**Hedged item £m**	**Hedging instrument £m**	Hedged item £m	Hedging instrument £m
Carrying amount of hedged item/nominal value of hedging instrument	**9,167.3**	**9,180.0**	6,386.0	6,390.0
Cumulative fair value adjustments of hedged item/fair value of hedging instrument	**58.0**	**(67.9)**	19.6	(18.5)
Changes in the fair value adjustment of hedged item/hedging instrument used for recognising the hedge ineffectiveness for the period	**33.0**	**(42.4)**	27.4	(26.1)

In the Statement of Financial Position, £2.4m (2021: £0.3m) of hedging instruments were recognised within derivative assets and £70.3m (2021: £18.8m) within derivative liabilities.

25. Hedge accounting (continued)

Customer deposits	**Company 2022**		Company 2021	
	Hedged item £m	**Hedging instrument £m**	Hedged item £m	Hedging instrument £m
Carrying amount of hedged item/nominal value of hedging instrument	**5,199.7**	**5,200.0**	3,087.9	3,090.0
Cumulative fair value adjustments of hedged item/fair value of hedging instrument	**34.8**	**(42.5)**	8.5	(8.5)
Changes in the fair value adjustment of hedged item/hedging instrument used for recognising the hedge ineffectiveness for the period	**24.7**	**(32.5)**	11.8	(11.6)

The cumulative fair value adjustments of the hedging instrument comprise £0.6m (2021: £0.2m) recognised within derivative assets and £43.1m (2021: £8.7m) recognised within derivative liabilities.

26. Other assets

	Group 2022 £m	Group 2021 £m	**Company 2022 £m**	Company 2021 £m
Falling due within one year:				
Prepayments	**7.8**	7.1	**6.1**	5.5
Other assets	**1.8**	0.9	**2.0**	0.9
Falling due more than one year:				
Prepayments	**5.4**	2.2	**5.0**	1.9
	15.0	10.2	**13.1**	8.3

27. Deferred taxation asset

Group	Losses carried forward £m	Accelerated depreciation £m	Share-based payments £m	IFRS 9 transitional adjustments £m	Others[1] £m	Total £m
At 1 January 2021	0.9	0.4	3.1	0.7	(0.4)	4.7
Profit or loss (charge)/credit	(0.4)	0.1	1.7	-	(1.2)	0.2
Transferred to corporation tax liability	-	-	(1.4)	-	-	(1.4)
Tax taken directly to OCI	-	-	-	-	0.5	0.5
Tax taken directly to equity	-	-	1.6	-	-	1.6
At 31 December 2021	0.5	0.5	5.0	0.7	(1.1)	5.6
Profit or loss (charge)/credit[2]	**-**	**(0.5)**	**0.5**	**(0.1)**	**1.6**	**1.5**
Transferred to corporation tax liability	**-**	**-**	**-**	**-**	**-**	**-**
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**

1. Others includes deferred taxation assets recognised on financial assets classified as FVOCI, derivatives and short-term timing differences.
2. Includes £0.3m in respect of prior year deferred tax.

In 2022, the profit or loss credit for deferred tax includes a credit of £0.2m from the corporation tax rate change (2021: credit of £0.4m).

As at 31 December 2022, the Group had £3.5m (2021: £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 2022, deferred tax assets of £2.3m (2021: £3.0m) are expected to be utilised within 12 months and £4.0m (2021: £2.6m) utilised after 12 months.

27. Deferred taxation asset (continued)

Company	Accelerated depreciation £m	Share-based payments £m	IFRS 9 transitional adjustments £m	Unpaid bonus £m	Others[1] £m	Total £m
At 1 January 2021	0.4	2.4	0.3	-	-	3.1
Profit or loss (charge)/credit	(0.1)	1.4	-	0.2	-	1.5
Transferred to corporation tax liability	-	(1.3)	-	-	-	(1.3)
Tax taken directly to equity	-	1.6	-	-	-	1.6
At 31 December 2021	0.3	4.1	0.3	0.2	-	4.9
Profit or loss (charge)/credit	**(0.4)**	**0.6**	**(0.1)**	**(0.2)**	**0.1**	**-**
Tax taken directly to OCI	**-**	**-**	**-**	**-**	**(0.1)**	**(0.1)**
Tax taken directly to equity	**-**	**(0.7)**	**-**	**-**	**-**	**(0.7)**
At 31 December 2022	**(0.1)**	**4.0**	**0.2**	**-**	**-**	**4.1**

1. Others includes deferred taxation assets recognised on financial assets classified as FVOCI, derivatives and short-term timing differences.

As at 31 December 2022, deferred tax assets of £1.9m (2021: £2.5m) are expected to be utilised within 12 months and £2.2m (2021: £2.4m) utilised after 12 months.

28. Property, plant and equipment

Group	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 2021	19.2	3.0	13.8	13.1	1.3	50.4
Additions[1]	-	-	2.6	0.6	0.1	3.3
Disposals and write-offs[2]	(2.8)	(0.1)	(1.3)	(0.5)	(0.2)	(4.9)
Foreign exchange difference	0.1	-	0.1	-	-	0.2
At 31 December 2021	16.5	2.9	15.2	13.2	1.2	49.0
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**
Depreciation						
At 1 January 2021	1.4	0.9	6.0	2.6	0.3	11.2
Charged in year[3]	0.9	0.2	2.9	1.5	0.1	5.6
Disposals and write-offs[2]	(0.8)	(0.1)	(1.3)	(0.5)	(0.2)	(2.9)
At 31 December 2021	1.5	1.0	7.6	3.6	0.2	13.9
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**
Net book value						
At 31 December 2022	**18.3**	**1.8**	**7.6**	**8.9**	**4.3**	**40.9**
At 31 December 2021	15.0	1.9	7.6	9.6	1.0	35.1

1. Additions include property leases modifications of £0.5m (2021: £0.4m) of right of use assets.
2. In 2022, the Group wrote off fully depreciated assets of £2.1m. During 2021 the Group disposed of a property for proceeds of £2.0m and wrote off fully depreciated assets of £2.9m.
3. 2021 includes £0.6m of impairment on property sold during the year which is included in note 12 Integration costs.

28. Property, plant and equipment (continued)

Company	Freehold land and buildings £m	Leasehold improvements £m	Equipment and fixtures £m	Right of use assets: Property leases £m	Right of use assets: Other leases £m	Total £m
Cost						
At 1 January 2021	11.5	2.5	7.8	5.5	0.1	27.4
Additions[1]	-	-	1.4	0.6	-	2.0
Disposals and write-offs[2]	(2.8)	(0.1)	(1.2)	(0.5)	-	(4.6)
At 31 December 2021	8.7	2.4	8.0	5.6	0.1	24.8
Additions[1]	**3.5**	**0.1**	**2.2**	**0.4**	**-**	**6.2**
Disposals and write-offs[2]	**-**	**-**	**(1.6)**	**(0.3)**	**(0.1)**	**(2.0)**
At 31 December 2022	**12.2**	**2.5**	**8.6**	**5.7**	**-**	**29.0**
Depreciation						
At 1 January 2021	1.1	0.6	3.7	1.5	-	6.9
Charged in year[3]	0.8	0.2	1.6	0.6	-	3.2
Disposals and write-offs[2]	(0.8)	(0.1)	(1.2)	(0.5)	-	(2.6)
At 31 December 2021	1.1	0.7	4.1	1.6	-	7.5
Charged in year	**0.1**	**0.2**	**1.6**	**0.7**	**-**	**2.6**
Disposals and write-offs	**-**	**-**	**(1.6)**	**(0.3)**	**(0.1)**	**(2.0)**
At 31 December 2022	**1.2**	**0.9**	**4.1**	**2.0**	**(0.1)**	**8.1**
Net book value						
At 31 December 2022	**11.0**	**1.6**	**4.5**	**3.7**	**0.1**	**20.9**
At 31 December 2021	7.6	1.7	3.9	4.0	0.1	17.3

1. Additions include property leases modifications of nil (2021: £0.4m) of right of use assets.
2. In 2022, the Company wrote off fully depreciated assets of £2.0m. During 2021 the Company disposed of a property for proceeds of £2.0m and wrote off fully depreciated assets of £2.6m.
3. 2021 includes £0.6m of depreciation on property sold during the year which is included in Integration cost.

29. Intangible assets

Group	Development costs £m	Computer software and licences £m	Assets arising on Combination[2] £m	Total £m
Cost				
At 1 January 2021	2.3	16.7	23.6	42.6
Additions	1.4	2.8	-	4.2
Disposals and write-offs[1]	-	(3.5)	(0.2)	(3.7)
At 31 December 2021	3.7	16.0	23.4	43.1
Additions	**0.1**	**1.7**	**-**	**1.8**
Disposals and write-offs[1]	**-**	**(3.6)**	**(1.9)**	**(5.5)**
At 31 December 2022	**3.8**	**14.1**	**21.5**	**39.4**
Amortisation				
At 1 January 2021	0.1	9.1	12.8	22.0
Charged in year	0.5	3.2	5.8	9.5
Impairment in the year	-	-	(3.1)	(3.1)
Disposals and write-offs[1]	-	(3.5)	(0.2)	(3.7)
At 31 December 2021	0.6	8.8	15.3	24.7
Charged in year	**0.7**	**3.2**	**4.3**	**8.2**
Disposals and write-offs[1]	**-**	**(3.6)**	**(1.9)**	**(5.5)**
At 31 December 2022	**1.3**	**8.4**	**17.7**	**27.4**
Net book value				
At 31 December 2022	**2.5**	**5.7**	**3.8**	**12.0**
At 31 December 2021	3.1	7.2	8.1	18.4

1. During the year the Group wrote off fully amortised assets.
2. Assets arising on Combination comprise broker relationships of £2.0m (2021: £5.0m), technology of £0.4m (2021: £1.9m), brand name of £0.3m (2021: £0.8m) and banking licence of nil (2021: £0.4m). The carrying value of the intangible assets are reviewed each reporting period, no impairment reversal (2021: £3.1m impairment reversal) was recognised in relation to broker relationships due to less severe impacts of the COVID-19 pandemic than originally estimated.

The Directors have considered the carrying value of intangible assets and determined that there are no indications of impairment at the year end.

29. Intangible assets (continued)

Company	Development costs £m	Computer software and licences £m	Total £m
Cost			
At 1 January 2021	-	14.7	14.7
Additions	1.4	2.2	3.6
Disposals and write-offs[1]	-	(2.7)	(2.7)
At 31 December 2021	1.4	14.2	15.6
Additions	**0.1**	**1.3**	**1.4**
Disposals and write-offs[1]	**-**	**(3.3)**	**(3.3)**
At 31 December 2022	**1.5**	**12.2**	**13.7**
Amortisation			
At 1 January 2021	-	7.7	7.7
Charged in year	-	2.9	2.9
Disposals and write-offs[1]	-	(2.7)	(2.7)
At 31 December 2021	-	7.9	7.9
Charged in year	**-**	**2.6**	**2.6**
Disposals and write-offs[1]	**-**	**(3.3)**	**(3.3)**
At 31 December 2022	**-**	**7.2**	**7.2**
Net book value			
At 31 December 2022	**1.5**	**5.0**	**6.5**
At 31 December 2021	**1.4**	6.3	7.7

1. During the year the Company wrote off fully amortised assets.

30. Investments in subsidiaries, intercompany loans and transactions with related parties

The Group

The balance between the Group and its ultimate parent at the reporting date is summarised in the table below:

Group	**Intercompany loans receivable 2022 £m**	Intercompany loans receivable 2021 £m
At 1 January	**0.6**	-
Additions	**2.1**	0.6
Repayments	**(1.9)**	-
At 31 December	**0.8**	**0.6**

The transactions with OSBG during the year include £2.1m of additions in relation to costs on shares repurchased funded by the Company. Repayments of £1.9m comprise £1.6m of cash received on behalf of OSBG from issuing shares under SAYE and £0.3m of tax losses surrendered to the Company (2021: additions comprised £1.4m transaction costs for the issuance of AT1 securities funded by the Company and repayments of £0.8m comprised cash received on behalf of OSBG from issuing shares under SAYE).

The Company

The balances between the Company, its parent and its subsidiaries at the reporting date are summarised in the table below:

Company	**Investment in subsidiaries £m**	**Intercompany loans receivable £m**	**Intercompany loans payable £m**
At 1 January 2021	708.9	2,428.4	(37.9)
Additions	-	85.7	(0.2)
Repayments	-	(126.6)	4.9
At 31 December 2021	708.9	2,387.5	(33.2)
Additions	**3.2**	**177.3**	**(2.7)**
Repayments	**-**	**(33.1)**	**2.6**
Impairment	**(1.3)**	**-**	**-**
At 31 December 2022	**710.8**	**2,531.7**	**(33.3)**

The Group and the Company assesses intercompany loans receivable for impairment. The Company recognised £1.3m of impairment in investment in subsidiaries during the year (2021: nil). The investment in Prestige Finance Limited (PFL) has been impaired down to PFL's share capital value following the cessation of trade in PFL. The investment in Interbay Group Holdings Limited (IGHL) impaired down to the net asset value as IGHL is being considered for dissolution.

Investments in subsidiaries are financial assets and intercompany loans are financial assets and liabilities, all carried at amortised cost.

30. Investments in subsidiaries, intercompany loans and transactions with related parties (continued)

A list of the Company's direct subsidiaries for 2022 is shown below:

At 31 December 2022 **Direct investments**	**Activity**	**Registered office**	**Ownership**
Charter Court Financial Services Group Plc	Holding company	Charter Court	**100%**
Easioption Limited	Holding company	Reliance House	**100%**
Guernsey Home Loans Limited	Mortgage provider	Reliance House	**100%**
Guernsey Home Loans Limited (Guernsey)	Mortgage provider	Guernsey	**100%**
Heritable Development Finance Limited	Mortgage originator and servicer	Reliance House	**100%**
Interbay Group Holdings Limited	Holding company	Reliance House	**100%**
Jersey Home Loans Limited	Mortgage provider	Reliance House	**100%**
Jersey Home Loans Limited (Jersey)	Mortgage provider	Jersey	**100%**
OSB India Private Limited	Back office processing	India	**100%**
Prestige Finance Limited	Mortgage originator and servicer	Reliance House	**100%**
Reliance Property Loans Limited	Mortgage provider	Reliance House	**100%**
Rochester Mortgages Limited	Mortgage provider	Reliance House	**100%**
WSE Bourton Road Limited	Land lease investment	OSB House	**100%**

The Company holds ordinary shares in all its direct subsidiaries.

OSB India Private Limited is owned 70.28% by the Company, 29.72% by Easioption Limited and 0.001% by Reliance Property Loans Limited.

30. Investments in subsidiaries, intercompany loans and transactions with related parties (continued)

A list of the Company's indirect subsidiaries for 2022 is shown below:

At 31 December 2022 Indirect investments	Activity	Registered office	Ownership
5D Finance Limited	Mortgage servicer	Reliance House	**100%**
Broadlands Finance Limited	Mortgage administration services	Charter Court	**100%**
Canterbury Finance No.2 plc	Special purpose vehicle	Churchill Place	**-**
Canterbury Finance No.3 plc	Special purpose vehicle	Churchill Place	**-**
Canterbury Finance No.4 plc	Special purpose vehicle	Churchill Place	**-**
Canterbury Finance No.5 plc	Special purpose vehicle	Churchill Place	**-**
Charter Court Financial Services Limited	Mortgage lending and deposit taking	Charter Court	**100%**
Charter Mortgages Limited	Mortgage administration and analytical services	Charter Court	**100%**
CMF 2020-1 plc	Special purpose vehicle	Churchill Place	**-**
Exact Mortgage Experts Limited	Group service company	Charter Court	**100%**
Inter Bay Financial I Limited	Holding company	Reliance House	**100%**
Inter Bay Financial II Limited	Holding company	Reliance House	**100%**
InterBay Asset Finance Limited	Asset finance and mortgage provider	Reliance House	**100%**
Interbay Funding, Ltd	Mortgage servicer	Reliance House	**100%**
Interbay Holdings Ltd	Holding company	Reliance House	**100%**
Interbay ML, Ltd	Mortgage provider	Reliance House	**100%**

All investments in subsidiaries are of ordinary shares.

Special purpose vehicles which the Group controls are treated as subsidiaries for accounting purposes.

All of the entities listed above have been consolidated into the Group's consolidated financial statements.

All of the above investments are reviewed annually for impairment. Based on assessment of the future cash flows of each entity no impairment has been recognised.

30. Investments in subsidiaries, intercompany loans and transactions with related parties (continued)

A list of the Company's direct subsidiaries for 2021 is shown below:

At 31 December 2021 Direct investments	Activity	Registered Office	Ownership
Charter Court Financial Services Group Plc	Holding company	Charter Court	100%
Easioption Limited	Holding company	Reliance House	100%
Guernsey Home Loans Limited	Mortgage provider	Reliance House	100%
Guernsey Home Loans Limited (Guernsey)	Mortgage provider	Guernsey	100%
Heritable Development Finance Limited	Mortgage originator and servicer	Reliance House	100%
Interbay Group Holdings Limited	Holding company	Reliance House	100%
Jersey Home Loans Limited	Mortgage provider	Reliance House	100%
Jersey Home Loans Limited (Jersey)	Mortgage provider	Jersey	100%
OSB India Private Limited	Back office processing	India	100%
Prestige Finance Limited	Mortgage originator and servicer	Reliance House	100%
Reliance Property Loans Limited	Mortgage provider	Reliance House	100%
Rochester Mortgages Limited	Mortgage provider	Reliance House	100%

30. Investments in subsidiaries, intercompany loans and transactions with related parties (continued)

A list of the Company's indirect subsidiaries for 2021 is shown below:

At 31 December 2021

Indirect investments	Activity	Registered office	Ownership
5D Finance Limited	Mortgage servicer	Reliance House	100%
Broadlands Finance Limited	Mortgage administration services	Charter Court	100%
Canterbury Finance No.2 plc	Special purpose vehicle	Churchill Place	-
Canterbury Finance No.3 plc	Special purpose vehicle	Churchill Place	-
Canterbury Finance No.4 plc	Special purpose vehicle	Churchill Place	-
Charter Court Financial Services Limited	Mortgage lending and deposit taking	Charter Court	100%
Charter Mortgages Limited	Mortgage administration and analytical services	Charter Court	100%
CMF 2020-1 plc	Special purpose vehicle	Churchill Place	-
CML Warehouse Number 2 Limited	Special purpose vehicle	Churchill Place	-
Exact Mortgage Experts Limited	Group service company	Charter Court	100%
Inter Bay Financial I Limited	Holding company	Reliance House	100%
Inter Bay Financial II Limited	Holding company	Reliance House	100%
InterBay Asset Finance Limited	Asset finance and mortgage provider	Reliance House	100%
Interbay Funding, Ltd	Mortgage servicer	Reliance House	100%
Interbay Holdings Ltd	Holding company	Reliance House	100%
Interbay ML, Ltd	Mortgage provider	Reliance House	100%

The following are the registered offices of the subsidiaries:

Charter Court – 2 Charter Court, Broadlands, Wolverhampton, WV10 6TD
Churchill Place – 5 Churchill Place, 10^{th} Floor, London, E14 5HU
Guernsey – 1^{st} Floor, Tudor House, Le Bordage, St Peter Port, Guernsey, GY1 1DB
Great St. Helen's, London – 35 Great St. Helen's, London, EC3A 6AP
India – Salarpuria Magnificia No. 78, 9^{th} & 10^{th} 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

30. Investments in subsidiaries, intercompany loans and transactions with related parties (continued)

In 2021, the Group issued £150.0m of Fixed Rate Resetting Perpetual Subordinated Securities to OSBG. Included within this was £90.0m of Fixed Rate Resetting Perpetual Subordinated Securities issued by the Company to OSBG. For further details see note 40.

The transactions between the Company, its parent and its subsidiaries are disclosed below:

	2022		2021	
	Charged by/(to) the Company during the year £m	**Balance due to/(by) the Company £m**	Charged by/(to) the Company during the year £m	Balance due to/(by) the Company £m
Parent Company				
OSB GROUP PLC	**-**	**0.8**	-	0.6
Direct investments				
Easioption Limited	**-**	**0.5**	-	0.5
Guernsey Home Loans Limited	**0.1**	**6.8**	0.1	7.7
Guernsey Home Loans Limited (Guernsey)	**0.2**	**12.3**	0.2	15.5
Heritable Development Finance Limited	**(1.9)**	**(1.2)**	(1.5)	(0.7)
Jersey Home Loans Limited	**-**	**1.0**	-	2.0
Jersey Home Loans Limited (Jersey)	**1.3**	**69.4**	1.2	88.6
OSB India Private Limited	**(13.3)**	**9.1**	(9.5)	4.6
Prestige Finance Limited	**-**	**(0.2)**	(0.2)	0.2
Reliance Property Loans Limited	**-**	**2.4**	-	2.8
Interbay Group Holdings Limited	**-**	**(0.9)**	-	-
Indirect investments				
Charter Court Financial Services Limited	**19.4**	**(0.7)**	9.0	1.1
Exact Mortgage Experts Limited	**(0.4)**	**2.5**	(0.5)	-
Charter Mortgages Limited	**-**	**(0.4)**	-	(0.1)
Broadlands Finance Limited	**-**	**(0.1)**	-	0.1
5D Finance Limited	**0.6**	**39.4**	0.4	46.4
Canterbury Finance No.1 plc	**-**	**-**	-	-
Inter Bay Financial I Limited	**0.3**	**20.0**	0.2	19.7
Inter Bay Financial II Limited	**-**	**(5.6)**	(0.1)	(5.6)
InterBay Asset Finance Limited	**2.8**	**169.6**	1.2	133.8
Interbay Funding, Ltd	**(0.4)**	**(24.2)**	(0.8)	(26.8)
Interbay ML, Ltd	**36.1**	**2,197.9**	24.0	2,063.9
	44.8	**2,498.4**	23.7	2,354.3

In addition to the above subsidiaries, the Company had transactions with Kent Reliance Provident Society (KRPS), one of its founding shareholders. KRPS ran member engagement forums for the Company. In exchange, the Company provided KRPS with various services including IT, finance and other support functions. KRPS was placed into liquidation on 25 July 2022. During the year the Company was charged for services provided by KRPS amounting to less than £0.1m (2021: £0.1m). As at 31 December 2022, KRPS had no deposit with the Company (2021: £0.2m).

31. Amounts owed to credit institutions

	Group 2022 £m	Group 2021 £m	Company 2022 £m	Company 2021 £m
BoE TFSME	**4,232.0**	4,203.1	**2,395.0**	2,378.6
BoE ILTR	**300.9**	-	**-**	-
Commercial repo	**10.2**	0.5	**0.1**	-
Loans from credit institutions	**0.1**	0.6	**-**	-
	4,543.2	4,204.2	**2,395.1**	2,378.6
Cash collateral and margin received	**549.7**	115.4	**173.4**	42.1
	5,092.9	4,319.6	**2,568.5**	2,420.7

32. Amounts owed to retail depositors

The table below shows the Group's retail depositors by operating segment, where the OSB segment also represents the Company's retail depositors:

	2022			2021		
	OSB £m	**CCFS £m**	**Total £m**	OSB £m	CCFS £m	Total £m
Fixed rate deposits	**8,085.9**	**5,899.6**	**13,985.5**	6,221.7	4,703.4	10,925.1
Variable rate deposits	**3,046.3**	**2,724.0**	**5,770.3**	3,517.7	3,083.6	6,601.3
	11,132.2	**8,623.6**	**19,755.8**	9,739.4	7,787.0	17,526.4

33. Amounts owed to other customers

	Group 2022 £m	Group 2021 £m	Company 2022 £m	Company 2021 £m
Fixed rate deposits	**100.9**	50.3	**0.5**	5.7
Variable rate deposits	**12.2**	42.3	**-**	-
	113.1	92.6	**0.5**	5.7

34. Debt securities in issue

	Group 2022 £m	Group 2021 £m
Asset-backed loan notes at amortised cost	**265.9**	460.3
Amount due for settlement after 12 months	**265.9**	460.3
	265.9	460.3

34. Debt securities in issue (continued)

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

Where the Group own the call rights for a transaction, they may repurchase the asset-backed loan notes on any interest payment date on or after the call dates, or on any interest payment date when the current balance of the mortgages outstanding is less than or equal to 10% of the principal amount outstanding on the loan notes on the date they were issued.

Interest is payable at fixed margins above SONIA.

As at 31 December 2022, notes were issued through the following funding vehicles:

	Group 2022 £m	Group 2021 £m
CMF 2020-1 plc	**141.8**	199.8
Canterbury Finance No.3 plc	**21.0**	76.9
Canterbury Finance No.4 plc	**103.1**	183.6
	265.9	460.3

35. Lease liabilities

	Group 2022 £m	Group 2021 £m	**Company 2022 £m**	Company 2021 £m
At 1 January	**10.7**	11.7	**3.9**	3.9
New leases	**0.9**	0.7	**0.4**	0.6
Lease termination	**-**	(0.1)	**-**	-
Lease repayments	**(1.9)**	(1.9)	**(0.8)**	(0.7)
Interest accruals	**0.2**	0.3	**0.1**	0.1
At 31 December	**9.9**	10.7	**3.6**	3.9

During the year, the Group incurred expenses of £0.3m (2021: £0.2m) in relation to short-term leases

36. Other liabilities

	Group 2022 £m	Group 2021 £m	Company 2022 £m	Company 2021 £m
Falling due within one year:				
Accruals	**28.0**	23.1	**18.6**	13.1
Deferred income	**0.6**	0.9	**0.6**	0.9
Other creditors	**10.1**	5.5	**4.7**	3.3
	38.7	29.5	**23.9**	17.3

37. Provisions and contingent liabilities

The Financial Services Compensation Scheme (FSCS) provides protection of deposits for the customers of authorised financial services firms, should a firm collapse. FSCS protects retail deposits of up to £85k for single account holders and £170k for joint holders. As OSB and CCFS both hold banking licences, the full FSCS protection is available to customers of each Bank.

The compensation paid out to consumers is initially funded through loans from the BoE and HM Treasury. In order to repay the loans and cover its costs, the FSCS charges levies on firms regulated by the PRA and the Financial Conduct Authority (FCA). The Group is among those firms and pays the FSCS a levy based on its share of total UK deposits.

The Group has reviewed its current exposure to Payment Protection Insurance (PPI) claims, following the FCA deadline for PPI claims on 29 August 2019 and has reduced its provision to less than £0.1m as at 31 December 2022 (2021: £0.3m).

The Group has released its provision for conduct related exposures of £1.2m following completion of an internal review.

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

	2022				2021			
Group	**FSCS £m**	**Other regulatory provisions £m**	**ECL on undrawn loan facilities £m**	**Total £m**	FSCS £m	Other regulatory provisions £m	ECL on undrawn loan facilities £m	Total £m
At 1 January	**0.1**	**1.5**	**0.4**	**2.0**	0.1	1.5	0.2	1.8
(Credit)/charge	**(0.1)**	**(1.5)**	**-**	**(1.6)**	-	-	0.2	0.2
At 31 December	**-**	**-**	**0.4**	**0.4**	0.1	1.5	0.4	2.0

37. Provisions and contingent liabilities (continued)

	2022				2021			
Company	**FSCS £m**	**Other regulatory provisions £m**	**ECL on undrawn loan facilities £m**	**Total £m**	FSCS £m	Other regulatory provisions £m	ECL on undrawn loan facilities £m	Total £m
At 1 January	**0.1**	**1.4**	**0.4**	**1.9**	0.1	1.4	0.1	1.6
(Credit)/charge	**(0.1)**	**(1.4)**	**(0.3)**	**(1.8)**	-	-	0.3	0.3
At 31 December	**-**	**-**	**0.1**	**0.1**	0.1	1.4	0.4	1.9

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

38. Deferred taxation liability

The deferred tax liability recognised on the Combination relates to the timing differences of the recognition of assets and liabilities at fair value, where the fair values will unwind in future periods in line with the underlying asset or liability. The deferred tax liability has been measured using the relevant rates for the expected periods of utilisation.

Group	**CCFS Combination £m**
At 1 January 2021	48.3
Profit or loss credit	(8.5)
At 31 December 2021	39.8
Profit or loss credit	**(17.5)**
At 31 December 2022	**22.3**

In 2022, the profit or loss credit includes £4.7m impact of the corporation tax rate change (2021: a debit of £5.6m).

As at 31 December 2022 deferred tax liabilities of £5.6m (2021: £17.5m) are expected to be due within 12 months and £16.7m (2021: £22.3m) due after 12 months.

39. Subordinated liabilities

The Group's and Company's outstanding subordinated liabilities are summarised below:

	Group and Company 2022 £m	Group and Company 2021 £m
Linked to LIBOR:		
Floating rate subordinated loans 2022 (LIBOR +2%)	**-**	0.1
Fixed rate:		
Subordinated liabilities 2024 (7.45%)	**-**	10.2
	-	10.3

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

	Group and Company 2022 £m	Group and Company 2021 £m
At 1 January	**10.3**	10.5
Repayment of debt	**(10.3)**	(0.2)
At 31 December	**-**	10.3

During the year the fixed rate subordinated liabilities were fully repaid at a premium of £0.7m, which is recognised in interest payable and similar charges.

The LIBOR linked subordinated liabilities were redeemed in September 2022.

40. Perpetual Subordinated Bonds

	Group and Company 2022 £m	Group and Company 2021 £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.

41. Reconciliation of cash flows for financing activities

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

Group	Amounts owed to credit institutions (see note 31) £m (Restated)[1]	Debt securities in issue (see note 34) £m	Subordinated liabilities (see note 39) £m	PSBs (see note 40) £m	Total £m
At 1 January 2021	3,570.2	421.9	10.5	37.6	4,040.2
Cash movements:					
Principal drawdowns[1]	4,747.6	195.6	-	-	4,943.2
Principal repayments	(4,113.7)	(159.5)	(0.2)	(22.0)	(4,295.4)
Interest paid	(4.4)	(1.6)	(0.8)	(1.6)	(8.4)
Non-cash movements:					
Interest charged	4.5	3.9	0.8	1.2	10.4
At 31 December 2021[1]	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**

1. 2021 figures restated see note 1 b) for further details.

41. Reconciliation of cash flows for financing activities (continued)

Company	Amounts owed to credit institutions (see note 31) £m (Restated)[1]	Deemed Loans (see note 20) £m	Subordinated liabilities (see note 39) £m	PSBs (see note 40) £m	Total £m
At 1 January 2021	1,900.5	66.2	10.5	37.6	2,014.8
Cash movements:					
Principal drawdowns[1]	2,923.1	198.4	-	-	3,121.5
Principal repayments	(2,445.1)	(121.8)	(0.2)	(22.0)	(2,589.1)
Interest paid	(2.2)	-	(0.8)	(1.6)	(4.6)
Non-cash movements:					
Interest charged	2.3	-	0.8	1.2	4.3
At 31 December 2021[1]	2,378.6	142.8	10.3	15.2	2,546.9
Cash movements:					
Principal drawdowns	**120.0**	**-**	**-**	**-**	**120.0**
Principal repayments	**(120.0)**	**(174.0)**	**(10.1)**	**-**	**(304.1)**
Interest paid	**(19.4)**	**(4.1)**	**(1.3)**	**(0.7)**	**(25.5)**
Non-cash movements:					
Interest charged	**35.9**	**4.1**	**1.1**	**0.7**	**41.8**
At 31 December 2022	**2,395.1**	**(31.2)**	**-**	**15.2**	**2,379.1**

1. 2021 figures restated see note 1 b) for further details.

42. Share capital

Ordinary shares of £0.01 each	Number of shares authorised and fully paid	Nominal value £m	Premium £m
At 31 December 2021 and 2022	**447,304,198**	**4.5**	**-**

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

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

43. Other reserves

The Group's and Company's other reserves are as follows:

	Group 2022 £m	Group 2021 £m	Company 2022 £m	Company 2021 £m
Distributable:				
Share-based payment	**13.3**	11.7	**10.9**	9.4
Capital contribution	**-**	1.7	**-**	-
FVOCI	**0.3**	0.6	**0.2**	-
Foreign exchange	**(1.3)**	(1.1)	**-**	-
AT1 securities	**150.0**	150.0	**90.0**	90.0
	162.3	162.9	**101.1**	99.4

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.

AT1 Securities
On 5 October 2021, OSBG issued in total £150.0m of new AT1 securities, £90.0m issued by the Company and £60.0m issued by Charter Court Financial Services Limited. AT1 securities comprise £150.0m of Fixed Rate Resetting Perpetual Subordinated Contingent Convertible Securities that qualify as AT1 capital under CRD IV. The securities will be subject to full conversion into ordinary shares of OSBG in the event that the Group's Common Equity Tier 1 (CET1) capital ratio falls below 7%.The securities will pay interest at a rate of 6% per annum until the first reset date of 7 April 2027, with the reset interest rate equal to 539.3 basis points over the 5-year Gilt Rate (benchmark gilt) for such a period. Interest is paid semi-annually in April and October. OSBG may, at any time, cancel any interest payment at its full discretion and must cancel interest payments in certain circumstances specified in the terms and conditions of the securities. The securities are perpetual with no fixed redemption date.

OSBG may, in its discretion and subject to satisfying certain conditions, redeem all (but not some) of the AT1 securities at the principal amount outstanding plus any accrued but unpaid interest from the first reset date and on any interest payment date thereafter.

44. Financial commitments and guarantees

a) The Group did not have any contracted or anticipated capital expenditure commitments not provided for as at 31 December 2022 (2021: nil).

b) The Group's minimum lease commitments under operating leases not subject to IFRS 16 are summarised in the table below:

	Group 2022 £m	Group 2021 £m	**Company 2022 £m**	Company 2021 £m
Land and buildings: due within:				
One year	**0.3**	-	**0.1**	-
Two to five years	**0.3**	-	**-**	-
	0.6	-	**0.1**	-

c) Undrawn loan facilities:

	Group 2022 £m	Group 2021 £m	**Company 2022 £m**	Company 2021 £m
OSB mortgages	**741.6**	706.4	**559.1**	577.5
CCFS mortgages	**455.1**	434.5	**-**	-
Asset finance	**15.5**	14.4	**-**	-
	1,212.2	1,155.3	**559.1**	577.5

Undrawn loan facilities are approved loan applications which have not yet been exercised. They are payable on demand and are usually drawn down or expire within three months.

d) The Group did not have any issued financial guarantees as at 31 December 2022 (2021: nil).

45. Risk management

Overview

Financial instruments form the vast majority of the Group's and Company's assets and liabilities. The Group manages risk on a consolidated basis and risk disclosures that follow are provided on this basis.

Types of financial instrument

Financial instruments are a broad definition which includes financial assets, financial liabilities and equity instruments. The main financial assets of the Group are loans to customers and liquid assets, which in turn consist of cash in the BoE call accounts, call accounts with other credit institutions, RMBS and UK sovereign debt. These are funded by a combination of financial liabilities and equity instruments. Financial liability funding comes predominantly from retail deposits and drawdowns under the BoE TFSME and ILTR, supported by debt securities, wholesale and other funding. Equity instruments include own shares and AT1 securities meeting the equity classification criteria. The Group's main activity is mortgage lending; it raises funds or invests in particular types of financial assets to meet customer demand and manage the risks arising from its operations. The Group does not trade in financial instruments for speculative purposes.

The Group uses derivative instruments to manage its financial risks. Derivative financial instruments (derivatives) are financial instruments whose value changes in response to changes in underlying variables such as interest rates. The most common derivatives are futures, forwards and swaps. Of these, the Group only uses swaps.

Derivatives are used by the Group solely to reduce (hedge) the risk of loss arising from changes in market rates. Derivatives are not used for speculative purposes.

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 30 to 60.

45. Risk management (continued)

Credit risk

Credit risk is the risk that losses may arise as a result of the Group's borrowers or market counterparties failing to meet their obligations to repay.

The Group has adopted the Standardised Approach for assessment of credit risk regulatory capital requirements. This approach considers risk weightings as defined under Basel II and Basel III principles.

The classes of financial instruments to which the Group is most exposed are loans and advances to customers, loans and advances to credit institutions, cash in the BoE call account, call and current accounts with other credit institutions and investment securities. The maximum credit risk exposure equals the total carrying amount of the above categories plus off-balance sheet undrawn committed mortgage facilities.

The change, during the period and cumulatively, in the fair value of investments in debt securities and loans and advances to customers at FVOCI and FVTPL that is attributable to changes in credit risk is not material.

Credit risk – loans and advances to customers

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

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

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

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

	2022					
	OSB		CCFS		Total	
Group	**Gross carrying amount £m**	**Capped collateral held £m**	**Gross carrying amount £m**	**Capped collateral held £m**	**Gross carrying amount £m**	**Capped collateral held £m**
Stage 1	**10,346.8**	**10,320.4**	**8,375.5**	**8,374.4**	**18,722.3**	**18,694.8**
Stage 2[1]	**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**

1. The increase in balance of accounts in Stage 2 is due to the increased credit risk from heightened cost of living and cost of borrowing. For further detail relating to movements by stage see the risk review section on pages 30 to 60.

45. Risk management (continued)

Group	2021					
	OSB		CCFS		Total	
	Gross carrying amount £m	Capped collateral held £m	Gross carrying amount £m	Capped collateral held £m	Gross carrying amount £m	Capped collateral held £m
Stage 1	10,502.7	10,478.1	7,685.7	7,684.6	18,188.4	18,162.7
Stage 2	1,143.8	1,141.9	1,269.8	1,269.7	2,413.6	2,411.6
Stage 3	365.6	337.9	99.1	99.1	464.7	437.0
Stage 3 (POCI)	45.2	43.6	52.2	52.2	97.4	95.8
	12,057.3	12,001.5	9,106.8	9,105.6	21,164.1	21,107.1

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

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

Group	**2022**				2021			
	OSB £m	**CCFS £m**	**Total £m**	**%**	OSB £m	CCFS £m	Total £m	%
Band								
0% - 50%	**2,768.8**	**914.7**	**3,683.5**	**16**	2,293.3	428.2	2,721.5	13
50% - 60%	**2,770.7**	**1,361.1**	**4,131.8**	**17**	1,935.3	490.1	2,425.4	11
60% - 70%	**4,647.5**	**3,561.7**	**8,209.2**	**35**	4,179.0	1,241.9	5,420.9	26
70% - 80%	**2,150.7**	**4,277.3**	**6,428.0**	**26**	2,887.7	6,100.7	8,988.4	43
80% - 90%	**548.3**	**365.5**	**913.8**	**4**	513.2	844.4	1,357.6	6
90% - 100%	**181.3**	**2.5**	**183.8**	**1**	77.8	1.5	79.3	-
>100%	**177.4**	**0.6**	**178.0**	**1**	171.0	-	171.0	1
Total loans before provisions	**13,244.7**	**10,483.4**	**23,728.1**	**100**	12,057.3	9,106.8	21,164.1	100

45. Risk management (continued)

The table below shows the LTV banding for the OSB segments' two major lending streams:

	2022				2021			
OSB	**BTL/SME £m**	**Residential £m**	**Total £m**	**%**	BTL/SME £m	Residential £m	Total £m	%
Band								
0% - 50%	**1,301.4**	**1,467.4**	**2,768.8**	**21**	1,007.6	1,285.7	2,293.3	19
50% - 60%	**2,497.2**	**273.5**	**2,770.7**	**21**	1,693.7	241.6	1,935.3	16
60% - 70%	**4,386.0**	**261.5**	**4,647.5**	**36**	3,903.0	276.0	4,179.0	35
70% - 80%	**1,977.1**	**173.6**	**2,150.7**	**16**	2,647.7	240.0	2,887.7	24
80% - 90%	**418.1**	**130.2**	**548.3**	**4**	452.8	60.4	513.2	4
90% - 100%	**167.3**	**14.0**	**181.3**	**1**	66.2	11.6	77.8	1
>100%	**172.9**	**4.5**	**177.4**	**1**	165.1	5.9	171.0	1
Total loans before provisions	**10,920.0**	**2,324.7**	**13,244.7**	**100**	9,936.1	2,121.2	12,057.3	100

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

	2022				
OSB	**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**

45. Risk management (continued)

	2021				
OSB	Buy-to-Let £m	Commercial £m	Residential development £m	Funding lines £m	Total £m
Band					
0% - 50%	804.0	118.9	19.0	65.7	1,007.6
50% - 60%	1,532.0	105.1	40.1	16.5	1,693.7
60% - 70%	3,708.1	130.1	61.6	3.2	3,903.0
70% - 80%	2,423.7	224.0	-	-	2,647.7
80% - 90%	249.5	165.9	-	37.4	452.8
90% - 100%	46.4	19.8	-	-	66.2
>100%	104.0	30.6	-	30.5	165.1
Total loans before provisions	8,867.7	794.4	120.7	153.3	9,936.1

The tables below show the LTV analysis of the OSB Residential sub-segment:

	2022				2021			
OSB	**First charge £m**	**Second charge £m**	**Funding lines £m**	**Total £m**	First charge £m	Second charge £m	Funding lines £m	Total £m
Band								
0% - 50%	**1,357.6**	**109.8**	**-**	**1,467.4**	1,173.3	111.8	0.6	1,285.7
50% - 60%	**238.1**	**35.4**	**-**	**273.5**	189.8	51.8	-	241.6
60% - 70%	**242.9**	**18.6**	**-**	**261.5**	240.2	35.8	-	276.0
70% - 80%	**168.3**	**5.3**	**-**	**173.6**	221.3	18.7	-	240.0
80% - 90%	**128.8**	**1.4**	**-**	**130.2**	56.5	3.9	-	60.4
90% - 100%	**13.4**	**0.6**	**-**	**14.0**	10.3	1.3	-	11.6
>100%	**3.8**	**0.7**	**-**	**4.5**	4.5	1.4	-	5.9
Total loans before provisions	**2,152.9**	**171.8**	**-**	**2,324.7**	1,895.9	224.7	0.6	2,121.2

45. Risk management (continued)

The table below shows the LTV analysis of the four CCFS sub-segment:

	2022					
CCFS	**Buy-to-Let £m**	**Residential £m**	**Bridging £m**	**Second charge lending £m**	**Total £m**	**%**
Band						
0% - 50%	**308.6**	**498.3**	**62.9**	**44.9**	**914.7**	**9**
50% - 60%	**799.5**	**501.8**	**29.9**	**29.9**	**1,361.1**	**13**
60% - 70%	**2,587.6**	**924.2**	**25.6**	**24.3**	**3,561.7**	**34**
70% - 80%	**3,613.8**	**622.9**	**26.9**	**13.7**	**4,277.3**	**41**
80% - 90%	**215.1**	**146.8**	**2.4**	**1.2**	**365.5**	**3**
90% - 100%	**0.2**	**0.8**	**1.5**	**-**	**2.5**	**-**
>100%	**-**	**0.1**	**0.5**	**-**	**0.6**	**-**
Total loans before provisions	**7,524.8**	**2,694.9**	**149.7**	**114.0**	**10,483.4**	**100**

	2021					
CCFS	Buy-to-Let £m	Residential £m	Bridging £m	Second charge lending £m	Total £m	%
Band						
0% - 50%	104.8	261.0	30.2	32.2	428.2	5
50% - 60%	205.4	246.8	9.3	28.6	490.1	5
60% - 70%	702.4	480.1	14.9	44.5	1,241.9	14
70% - 80%	4,827.7	1,234.5	1.4	37.1	6,100.7	67
80% - 90%	560.5	268.9	0.5	14.5	844.4	9
90% - 100%	0.1	1.4	-	-	1.5	-
Total loans before provisions	6,400.9	2,492.7	56.3	156.9	9,106.8	100

45. Risk management (continued)

The table below shows the LTV banding for the Company's segments' two major lending streams:

Company	**2022** BTL/SME £m	**2022** Residential £m	**2022** Total £m	**2022** %	2021 BTL/SME £m	2021 Residential £m	2021 Total £m	2021 %
Band								
0% - 50%	**919.9**	**1,398.4**	**2,318.3**	**22**	708.3	1,213.9	1,922.2	20
50% - 60%	**1,978.5**	**267.2**	**2,245.7**	**21**	1,244.1	220.6	1,464.7	15
60% - 70%	**3,695.1**	**259.7**	**3,954.8**	**37**	3,167.5	273.4	3,440.9	37
70% - 80%	**1,485.8**	**172.3**	**1,658.1**	**16**	2,083.4	239.2	2,322.6	25
80% - 90%	**224.9**	**130.2**	**355.1**	**3**	249.0	59.8	308.8	3
90% - 100%	**47.4**	**13.8**	**61.2**	**1**	24.2	11.3	35.5	-
>100%	**19.3**	**1.0**	**20.3**	**-**	42.5	3.0	45.5	-
Total loans before provisions	**8,370.9**	**2,242.6**	**10,613.5**	**100**	7,519.0	2,021.2	9,540.2	100

The tables below show the LTV analysis of the Company's BTL/SME sub-segment:

Company	**2022** Buy-to-Let £m	**2022** Commercial £m	**2022** Residential development £m	**2022** Funding lines £m	**2022** Total £m
Band					
0% - 50%	**861.9**	**8.9**	**16.1**	**33.0**	**919.9**
50% - 60%	**1,916.8**	**1.4**	**57.2**	**3.1**	**1,978.5**
60% - 70%	**3,585.4**	**-**	**109.7**	**-**	**3,695.1**
70% - 80%	**1,485.8**	**-**	**-**	**-**	**1,485.8**
80% - 90%	**191.2**	**-**	**-**	**33.7**	**224.9**
90% - 100%	**21.0**	**-**	**-**	**26.4**	**47.4**
>100%	**11.8**	**3.5**	**1.0**	**3.0**	**19.3**
Total loans before provisions	**8,073.9**	**13.8**	**184.0**	**99.2**	**8,370.9**

45. **Risk management** (continued)

Company	2021 Buy-to-Let £m	Commercial £m	Residential development £m	Funding lines £m	Total £m
Band					
0% - 50%	616.8	6.8	19.0	65.7	708.3
50% - 60%	1,183.6	3.9	40.1	16.5	1,244.1
60% - 70%	3,102.7	-	61.6	3.2	3,167.5
70% - 80%	2,083.4	-	-	-	2,083.4
80% - 90%	211.6	-	-	37.4	249.0
90% - 100%	24.2	-	-	-	24.2
>100%	8.5	3.5	-	30.5	42.5
Total loans before provisions	7,230.8	14.2	120.7	153.3	7,519.0

The tables below show the LTV analysis of the Company's Residential sub-segment:

	2022				2021			
Company	**First charge £m**	**Second charge £m**	**Funding lines £m**	**Total £m**	First charge £m	Second charge £m	Funding lines £m	Total £m
Band								
0% - 50%	**1,288.6**	**109.8**	**-**	**1,398.4**	1,101.5	111.8	0.6	1,213.9
50% - 60%	**231.8**	**35.4**	**-**	**267.2**	168.8	51.8	-	220.6
60% - 70%	**241.1**	**18.6**	**-**	**259.7**	237.6	35.8	-	273.4
70% - 80%	**167.0**	**5.3**	**-**	**172.3**	220.6	18.6	-	239.2
80% - 90%	**128.8**	**1.4**	**-**	**130.2**	55.9	3.9	-	59.8
90% - 100%	**13.2**	**0.6**	**-**	**13.8**	10.0	1.3	-	11.3
>100%	**0.3**	**0.7**	**-**	**1.0**	1.6	1.4	-	3.0
Total loans before provisions	**2,070.8**	**171.8**	**-**	**2,242.6**	1,796.0	224.6	0.6	2,021.2

45. **Risk management** (continued)

Forbearance measures undertaken

The Group has a range of options available where borrowers experience financial difficulties that impact their ability to service their financial commitments under the loan agreement. These options are explained in the Risk review on pages 30 to 60.

A summary of the forbearance measures undertaken (excluding COVID-19 related payment deferrals) during the year is shown below. The balances disclosed reflect the year end balance of the accounts where a forbearance measure was undertaken during the year.

Group Forbearance type	**Number of accounts 2022**	**At 31 December 2022 £m**	Number of accounts 2021	At 31 December 2021 £m
Interest-only switch	**70**	**12.2**	159	18.6
Interest rate reduction	**91**	**7.5**	437	8.1
Term extension	**53**	**2.9**	271	16.6
Payment deferral	**194**	**34.0**	499	43.0
Voluntary-assisted sale	**5**	**1.2**	7	0.8
Payment concession (reduced monthly payments)	**55**	**12.0**	51	12.1
Capitalisation of interest	**27**	**9.0**	65	1.1
Full or partial debt forgiveness	**359**	**9.6**	1,078	22.6
Total	**854**	**88.4**	2,567	122.9
Loan type				
First charge owner-occupier	**217**	**27.8**	424	34.8
Second charge owner-occupier[1]	**460**	**8.9**	1,931	38.7
Buy-to-Let	**107**	**37.1**	160	34.6
Commercial	**70**	**14.6**	52	14.8
Total	**854**	**88.4**	2,567	122.9

1. Through 2021 and the first quarter of 2022, the Group undertook an exercise and provided a series of forbearance solutions and options to long-term arrears customers on our Second charge portfolio to support and remedy the accrued delinquency.

45. Risk management (continued)

Company Forbearance type	Number of accounts 2022	At 31 December 2022 £m	Number of accounts 2021	At 31 December 2021 £m
Interest-only switch	**43**	**4.8**	128	14.4
Interest rate reduction	**83**	**6.5**	435	7.6
Term extension	**2**	**-**	76	8.2
Payment deferral	**92**	**15.5**	346	18.0
Voluntary-assisted sale	**5**	**1.3**	3	0.4
Payment concession (reduced monthly payments)	**24**	**5.9**	38	6.4
Capitalisation	**26**	**1.3**	65	1.1
Full or partial debt forgiveness	**351**	**8.6**	1,077	22.6
Total	**626**	**43.9**	2,168	78.7
Loan type				
First charge owner-occupier	**110**	**13.5**	148	16.5
Second charge owner-occupier[1]	**452**	**8.5**	1,892	38.0
Buy-to-Let	**64**	**21.9**	128	24.2
Total	**626**	**43.9**	2,168	78.7

1. Through 2021 and the first quarter of 2022, the Company undertook an exercise and provided a series of forbearance solutions and options to long term arrears customers on our Second charge portfolio to support and remedy the accrued delinquency.

45. Risk management (continued)

Geographical analysis by region

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

	Group 2022				Group 2021			
	OSB	**CCFS**	**Total**		OSB	CCFS	Total	
Region	**£m**	**£m**	**£m**	**%**	£m	£m	£m	%
East Anglia	**453.5**	**1,136.4**	**1,589.9**	**7**	361.8	967.1	1,328.9	6
East Midlands	**609.9**	**691.6**	**1,301.5**	**6**	543.8	555.8	1,099.6	5
Greater London	**5,559.3**	**3,293.0**	**8,852.3**	**38**	4,983.7	3,052.6	8,036.3	39
Guernsey	**21.5**	**-**	**21.5**	**-**	26.3	-	26.3	-
Jersey	**75.6**	**-**	**75.6**	**-**	99.3	-	99.3	-
North East	**169.8**	**274.5**	**444.3**	**2**	153.9	244.4	398.3	2
North West	**906.6**	**921.8**	**1,828.4**	**7**	762.3	755.0	1,517.3	7
Northern Ireland	**10.0**	**-**	**10.0**	**-**	10.9	-	10.9	-
Scotland	**36.9**	**261.3**	**298.2**	**1**	35.2	226.0	261.2	1
South East	**2,802.8**	**1,681.5**	**4,484.3**	**19**	2,792.6	1,452.4	4,245.0	20
South West	**893.7**	**659.6**	**1,553.3**	**7**	825.5	544.3	1,369.8	7
Wales	**297.5**	**284.7**	**582.2**	**2**	272.1	240.6	512.7	2
West Midlands	**908.9**	**761.3**	**1,670.2**	**7**	706.9	629.8	1,336.7	7
Yorks and Humberside	**335.5**	**517.7**	**853.2**	**4**	366.8	438.8	805.6	4
Total loans before provisions	**13,081.5**	**10,483.4**	**23,564.9**	**100**	11,941.1	9,106.8	21,047.9	100

45. **Risk management** (continued)

Region	Company 2022 £m	Company 2022 %	Company 2021 £m	Company 2021 %
East Anglia	**375.6**	**4**	301.3	3
East Midlands	**501.4**	**5**	439.4	5
Greater London	**4,491.2**	**42**	3,989.0	43
North East	**137.0**	**1**	123.9	1
North West	**702.4**	**7**	586.4	6
Northern Ireland	**10.0**	**-**	10.8	-
Scotland	**31.8**	**-**	29.0	-
South East	**2,353.2**	**22**	2,300.4	24
South West	**740.2**	**7**	688.5	7
Wales	**237.9**	**2**	218.8	2
West Midlands	**760.4**	**7**	570.6	6
Yorks and Humberside	**272.4**	**3**	282.1	3
Total loans before provisions	**10,613.5**	**100**	9,540.2	100

Approach to measurement of credit quality

The Group categorises the credit quality of loans and advances to customers into internal risk grades based on the 12 month PD calculated at the reporting date. The PDs include a combination of internal behavioural and credit bureau characteristics and are aligned with Capital models to generate the risk grades which are then further grouped into the following credit quality segments:

- Excellent quality – where there is a very high likelihood the asset will be recovered in full with a negligible or very low risk of default.
- Good quality – where there is a high likelihood the asset will be recovered in full with a low risk of default.
- Satisfactory quality – where the assets demonstrate a moderate default risk.
- Lower quality – where the assets require closer monitoring and the risk of default is of greater concern.

The following tables disclose the credit risk quality ratings of loans and advances to customers by IFRS 9 stage. The assessment of whether credit risk has increased significantly since initial recognition is performed for each reporting period for the life of the loan. Loans and advances to customers initially booked on very low PDs and graded as excellent quality loans can experience a SICR and therefore be moved to Stage 2. Such loans may still be graded as excellent quality, if they meet the overall criteria.

45. Risk management (continued)

During 2022, the Group developed Capital models as part of the IRB programme. As a result, the disclosures provided below are now aligned to internal Capital models and Rating systems.

The 2021 Group figures have been updated to reflect the revised alignment with Capital models which, compared to 2021 annual report disclosures, has resulted in a reduction of 11% from OSB segment's Excellent quality, a 6% increase in Good, a 3% increase in Satisfactory and a 2% increase in Lower. CCFS segment figures remain largely aligned with minor movements across segments.

Group 2022	**Stage 1 £m**	**Stage 2 £m**	**Stage 3 £m**	**Stage 3 (POCI) £m**	**Total £m**	**PD lower range %**	**PD upper range %**
OSB							
Excellent	**4,136.6**	**470.6**	**-**	**-**	**4,607.2**	**-**	**0.3**
Good	**5,848.5**	**1,248.4**	**-**	**-**	**7,096.9**	**0.3**	**2.0**
Satisfactory	**331.8**	**374.2**	**-**	**-**	**706.0**	**2.0**	**7.4**
Lower	**29.9**	**416.5**	**-**	**-**	**446.4**	**7.4**	**100.0**
Impaired	**-**	**-**	**349.7**	**-**	**349.7**	**100.0**	**100.0**
POCI	**-**	**-**	**-**	**38.5**	**38.5**	**100.0**	**100.0**
CCFS							
Excellent	**5,800.2**	**910.1**	**-**	**-**	**6,710.3**	**-**	**0.3**
Good	**2,394.2**	**668.2**	**-**	**-**	**3,062.4**	**0.3**	**2.0**
Satisfactory	**151.4**	**143.9**	**-**	**-**	**295.3**	**2.0**	**7.4**
Lower	**29.7**	**185.2**	**-**	**-**	**214.9**	**7.4**	**100.0**
Impaired	**-**	**-**	**156.0**	**-**	**156.0**	**100.0**	**100.0**
POCI	**-**	**-**	**-**	**44.5**	**44.5**	**100.0**	**100.0**
	18,722.3	**4,417.1**	**505.7**	**83.0**	**23,728.1**		

Group 2021	Stage 1 £m	Stage 2 £m	Stage 3 £m	Stage 3 (POCI) £m	Total £m	PD lower range %	PD upper range %
OSB							
Excellent	3,949.2	159.6	-	-	4,108.8	-	0.3
Good	6,045.0	486.8	-	-	6,531.8	0.3	2.0
Satisfactory	435.9	237.2	-	-	673.1	2.0	7.4
Lower	72.6	260.2	-	-	332.8	7.4	100.0
Impaired	-	-	365.6	-	365.6	100.0	100.0
POCI	-	-	-	45.2	45.2	100.0	100.0
CCFS							
Excellent	5,102.2	443.2	-	-	5,545.4	-	0.3
Good	2,468.5	487.5	-	-	2,956.0	0.3	2.0
Satisfactory	96.2	171.5	-	-	267.7	2.0	7.4
Lower	18.8	167.6	-	-	186.4	7.4	100.0
Impaired	-	-	99.1	-	99.1	100.0	100.0
POCI	-	-	-	52.2	52.2	100.0	100.0
	18,188.4	2,413.6	464.7	97.4	21,164.1		

45. Risk management (continued)

The 2021 Company figures have been updated to reflect the revised alignment with Capital models which, compared to 2021 annual report disclosures, has resulted in a increase of 2% from OSB segment's Excellent quality, a 7% decrease in Good, a 3% increase in Satisfactory and a 3% increase in Lower.

Company 2022	**Stage 1 £m**	**Stage 2 £m**	**Stage 3 £m**	**Stage 3 (POCI) £m**	**Total £m**	**PD lower range %**	**PD upper range %**
Excellent	**3,936.9**	**470.6**	**-**	**-**	**4,407.5**	**-**	**0.3**
Good	**3,686.0**	**1,146.2**	**-**	**-**	**4,832.2**	**0.3**	**2.0**
Satisfactory	**287.1**	**342.8**	**-**	**-**	**629.9**	**2.0**	**7.4**
Lower	**29.0**	**393.5**	**-**	**-**	**422.5**	**7.4**	**100.0**
Impaired	**-**	**-**	**286.9**	**-**	**286.9**	**100.0**	**100.0**
POCI	**-**	**-**	**-**	**34.5**	**34.5**	**100.0**	**100.0**
	7,939.0	**2,353.1**	**286.9**	**34.5**	**10,613.5**		
Company 2021							
Excellent	3,777.2	159.6	-	-	3,936.8	-	0.3
Good	3,985.4	363.7	-	-	4,349.1	0.3	2.0
Satisfactory	387.6	220.2	-	-	607.8	2.0	7.4
Lower	70.5	241.0	-	-	311.5	7.4	100.0
Impaired	-	-	294.0	-	294.0	100.0	100.0
POCI	-	-	-	41.0	41.0	100.0	100.0
	8,220.7	984.5	294.0	41.0	9,540.2		

The tables below show the Group's other financial assets and derivatives by credit risk rating grade. The credit grade is based on the external credit rating of the counterparty; AAA to AA- are rated Excellent; A+ to A- are rated Good; and BBB+ to BBB- are rated Satisfactory.

Group 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**

Group 2021	Excellent £m	Good £m	Satisfactory £m	Total £m
Investment securities	491.4	-	-	491.4
Loans and advances to credit institutions	2,688.9	151.8	2.9	2,843.6
Derivative assets	43.0	142.7	-	185.7
	3,223.3	294.5	2.9	3,520.7

45. Risk management (continued)

Company 2022	**Excellent £m**	**Good £m**	**Satisfactory £m**	**Total £m**
Investment securities	**211.4**	**-**	**-**	**211.4**
Loans and advances to credit institutions	**1,409.6**	**96.5**	**-**	**1,506.1**
Derivative assets	**114.9**	**119.1**	**-**	**234.0**
	1,735.9	**215.6**	**-**	**1,951.5**

Company 2021	Excellent £m	Good £m	Satisfactory £m	Total £m
Investment securities	16.2	-	-	16.2
Loans and advances to credit institutions	1,373.6	31.4	-	1,405.0
Derivative assets	9.7	40.8	-	50.5
	1,399.5	72.2	-	1,471.7

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 £3,496.9m (2021: £2,926.0m).

The tables below show the industry sector of the Group's loans and advances to credit institutions and investment securities:

	Group 2022		Group 2021		**Company 2022**		Company 2021	
	£m	**%**	£m	%	**£m**	**%**	£m	%
BoE[1]	**2,869.3**	**76**	2,555.9	76	**1,366.0**	**80**	1,350.0	95
Other banks	**496.4**	**13**	287.7	9	**140.1**	**8**	55.0	4
Central government	**149.8**	**4**	252.1	8	**149.8**	**8**	-	-
Securitisation	**263.1**	**7**	239.3	7	**61.6**	**4**	16.2	1
Total	**3,778.6**	**100**	3,335.0	100	**1,717.5**	**100**	1,421.2	100

1. Balances with the BoE include £62.8m (2021: £59.5m) of Group and £37.8m (2021: £36.5m) of the Company held in the cash ratio deposit.

45. Risk management (continued)

The tables below show the geographical exposure of the Group's loans and advances to credit institutions and investment securities:

	Group 2022		Group 2021		**Company 2022**		Company 2021	
	£m	**%**	£m	%	**£m**	**%**	£m	%
United Kingdom	**3,765.7**	**100**	3,328.0	100	**1,717.5**	**100**	1,421.2	100
India	**12.9**	**-**	7.0	-	**-**	**-**	-	-
Total	**3,778.6**	**100**	3,335.0	100	**1,717.5**	**100**	1,421.2	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 see page 51.

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 tables below analyse the financial assets and liabilities of the Group based on the contractual maturity on the remaining period at balance sheet date.

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.

45. Risk management (continued)

The tables below show the maturity profile for the Group's financial assets and liabilities based on contractual maturities at the reporting date:

Group 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)**	**(6,082.5)**	**(13,825.2)**	**(18,512.9)**	**2,920.4**

45. Risk management (continued)

Group 2021	Carrying amount £m	On demand £m	Less than 3 months £m	3 - 12 months £m	1 - 5 years £m	More than 5 years £m
Financial liability by type						
Amounts owed to retail depositors	17,526.4	5,004.6	2,350.3	7,458.5	2,713.0	-
Amounts owed to credit institutions	4,319.6	42.1	1.0	-	4,203.2	73.3
Amounts owed to other customers	92.6	14.8	8.1	45.0	24.7	-
Derivative liabilities	19.7	-	0.7	10.4	8.6	-
Debt securities in issue	460.3	-	-	-	460.3	-
Lease liabilities	10.7	-	0.3	0.6	3.7	6.1
Subordinated liabilities	10.3	-	-	0.1	10.2	-
PSBs	15.2	-	-	-	15.2	-
Total liabilities	22,454.8	5,061.5	2,360.4	7,514.6	7,438.9	79.4
Financial asset by type						
Cash in hand	0.5	0.5	-	-	-	-
Loans and advances to credit institutions	2,843.6	2,667.8	52.0	10.1	-	113.7
Investment securities	491.4	-	172.7	6.1	312.6	-
Loans and advances to customers	21,080.3	3.3	163.8	383.5	1,327.4	19,202.3
Derivative assets	185.7	-	0.1	5.4	179.9	0.3
Total assets	24,601.5	2,671.6	388.6	405.1	1,819.9	19,316.3
Cumulative liquidity gap		(2,389.9)	(4,361.7)	(11,471.2)	(17,090.2)	2,146.7

45. Risk management (continued)

Company 2022	Carrying amount £m	On demand £m	Less than 3 months £m	3 - 12 months £m	1 - 5 years £m	More than 5 years £m
Financial liability by type						
Amounts owed to retail depositors	**11,132.2**	**5,319.1**	**955.8**	**3,695.8**	**1,161.5**	**-**
Amounts owed to credit institutions	**2,568.5**	**-**	**173.4**	**0.3**	**2,394.8**	**-**
Amounts owed to other customers	**0.5**	**-**	**0.5**	**-**	**-**	**-**
Derivative liabilities	**63.8**	**-**	**4.1**	**24.0**	**29.8**	**5.9**
Lease liabilities	**3.6**	**-**	**0.2**	**0.5**	**2.8**	**0.1**
Subordinated liabilities	**-**	**-**	**-**	**-**	**-**	**-**
PSBs	**15.2**	**-**	**-**	**-**	**15.2**	**-**
Total liabilities	**13,783.8**	**5,319.1**	**1,134.0**	**3,720.6**	**3,604.1**	**6.0**
Financial asset by type						
Cash in hand	**0.4**	**0.4**	**-**	**-**	**-**	**-**
Loans and advances to credit institutions	**1,506.1**	**1,468.3**	**-**	**-**	**-**	**37.8**
Investment securities	**211.4**	**0.5**	**139.9**	**9.9**	**61.1**	**-**
Loans and advances to customers	**10,531.9**	**-**	**98.0**	**99.9**	**362.7**	**9,971.3**
Derivative assets	**234.0**	**-**	**0.8**	**22.5**	**210.2**	**0.5**
Total assets	**12,483.8**	**1,469.2**	**238.7**	**132.3**	**634.0**	**10,009.6**
Cumulative liquidity gap		**(3,849.9)**	**(4,745.2)**	**(8,333.5)**	**(11,303.6)**	**(1,300.0)**

45. Risk management (continued)

Company 2021	Carrying amount £m	On demand £m	Less than 3 months £m	3 - 12 months £m	1 - 5 years £m	More than 5 years £m
Financial liability by type						
Amounts owed to retail depositors	9,739.4	3,157.5	1,361.7	3,889.5	1,330.7	-
Amounts owed to credit institutions	2,420.7	42.1	-	-	2,378.6	-
Amounts owed to other customers	5.7	-	0.5	5.2	-	-
Derivative liabilities	8.7	-	0.3	4.6	3.8	-
Lease liabilities	3.9	-	-	-	0.3	3.6
Subordinated liabilities	10.3	-	-	0.1	10.2	-
PSBs	15.2	-	-	-	15.2	-
Total liabilities	12,203.9	3,199.6	1,362.5	3,899.4	3,738.8	3.6
Financial asset by type						
Cash in hand	0.5	0.5	-	-	-	-
Loans and advances to credit institutions	1,405.0	1,368.5	-	-	-	36.5
Investment securities	16.2	-	-	-	16.2	-
Loans and advances to customers	9,476.4	-	40.8	126.8	337.1	8,971.7
Derivative assets	50.5	-	-	1.9	48.4	0.2
Total assets	10,948.6	1,369.0	40.8	128.7	401.7	9,008.4
Cumulative liquidity gap		(1,830.6)	(3,152.3)	(6,923.0)	(10,260.1)	(1,255.3)

45. Risk management (continued)

Liquidity risk – undiscounted contractual cash flows

The following tables provide an analysis of the Group's gross contractual undiscounted cash flows, derived using interest rates and contractual maturities at the reporting date and excluding impacts of early payments or non-payments:

Group 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

45. Risk management (continued)

Group 2021	Carrying amount £m	Gross inflow/ outflow £m	Up to 3 months £m	3 - 12 months £m	1 - 5 years £m	More than 5 years £m
Financial liability by type						
Amounts owed to retail depositors	17,526.4	17,554.7	9,305.7	5,883.7	2,365.3	-
Amounts owed to credit institutions	4,319.6	4,359.8	45.2	5.2	4,236.1	73.3
Amounts owed to other customers	92.6	92.6	22.9	45.0	24.7	-
Derivative liabilities	19.7	6.0	(0.4)	5.1	1.2	0.1
Debt securities in issue	460.3	473.2	25.1	75.0	373.1	-
Lease liabilities	10.7	13.1	0.6	1.6	7.7	3.2
Subordinated liabilities	10.3	12.2	0.2	0.7	11.3	-
PSBs	15.2	16.8	0.2	0.5	16.1	-
Total liabilities	22,454.8	22,528.4	9,399.5	6,016.8	7,035.5	76.6
Off-balance sheet loan commitments	1,155.3	1,155.3	1,155.3	-	-	-
Financial asset by type						
Cash in hand	0.5	0.5	0.5	-	-	-
Loans and advances to credit institutions	2,843.6	2,843.6	2,756.3	10.1	-	77.2
Investment securities	491.4	497.0	172.6	108.8	215.6	-
Loans and advances to customers	21,080.3	41,290.2	374.4	1,331.0	5,711.9	33,872.9
Derivative assets	185.7	75.8	(1.4)	11.2	66.0	-
Total assets	24,601.5	44,707.1	3,302.4	1,461.1	5,993.5	33,950.1

45. Risk management (continued)

Company **2022**	**Carrying amount** **£m**	**Gross inflow/ outflow** **£m**	**Up to 3 months** **£m**	**3 - 12 months** **£m**	**1 - 5 years** **£m**	**More than 5 years** **£m**
Financial liability by type						
Amounts owed to retail depositors	**11,132.2**	**11,326.5**	**6,431.9**	**3,712.8**	**1,181.8**	**-**
Amounts owed to credit institutions	**2,568.5**	**2,751.0**	**190.4**	**50.9**	**2,509.7**	**-**
Amounts owed to other customers	**0.5**	**0.5**	**0.5**	**-**	**-**	**-**
Derivative liabilities	**63.8**	**67.3**	**3.9**	**30.5**	**31.0**	**1.9**
Lease liabilities	**3.6**	**3.9**	**0.2**	**0.6**	**3.0**	**0.1**
Subordinated liabilities	**-**	**-**	**-**	**-**	**-**	**-**
PSBs	**15.2**	**16.1**	**0.3**	**0.3**	**15.5**	**-**
Total liabilities	**13,783.8**	**14,165.3**	**6,627.2**	**3,795.1**	**3,741.0**	**2.0**
Off-balance sheet loan commitments	**559.1**	**559.1**	**559.1**	**-**	**-**	**-**
Financial asset by type						
Cash in hand	**0.4**	**0.4**	**0.4**	**-**	**-**	**-**
Loans and advances to credit institutions	**1,506.1**	**1,506.1**	**1,468.3**	**-**	**-**	**37.8**
Investment securities	**211.4**	**211.7**	**140.7**	**10.0**	**61.0**	**-**
Loans and advances to customers	**10,531.9**	**26,949.1**	**158.8**	**764.1**	**3,457.4**	**22,568.8**
Derivative assets	**234.0**	**252.7**	**4.4**	**72.9**	**175.8**	**(0.4)**
Total assets	**12,483.8**	**28,920.0**	**1,772.6**	**847.0**	**3,694.2**	**22,606.2**

45. Risk management (continued)

Company 2021	Carrying amount £m	Gross inflow/ outflow £m	Up to 3 months £m	3 - 12 months £m	1 - 5 years £m	More than 5 years £m
Financial liability by type						
Amounts owed to retail depositors	9,739.4	9,720.5	6,467.9	2,288.6	964.0	-
Amounts owed to credit institutions	2,420.7	2,443.3	43.3	1.8	2,398.2	-
Amounts owed to other customers	5.7	5.7	0.5	5.2	-	-
Derivative liabilities	8.7	8.2	0.1	5.0	3.0	0.1
Lease liabilities	3.9	4.4	0.2	0.5	2.4	1.3
Subordinated liabilities	10.3	10.3	0.2	0.1	10.0	-
PSBs	15.2	15.2	0.2	-	15.0	-
Total liabilities	12,203.9	12,207.6	6,512.4	2,301.2	3,392.6	1.4
Off-balance sheet loan commitments	577.5	577.5	577.5	-	-	-
Financial asset by type						
Cash in hand	0.5	0.5	0.5	-	-	-
Loans and advances to credit institutions	1,405.0	1,405.0	1,405.0	-	-	-
Investment securities	16.2	16.3	0.7	0.1	15.5	-
Loans and advances to customers	9,476.4	19,793.6	129.0	659.0	2,531.0	16,474.6
Derivative assets	50.5	50.5	(0.6)	3.3	47.8	-
Total assets	10,948.6	21,265.9	1,534.6	662.4	2,594.3	16,474.6

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.

45. **Risk management** (continued)

Liquidity risk – asset encumbrance

Asset encumbrance levels are monitored by ALCO. The following tables provide an analysis of the Group's encumbered and unencumbered assets:

	Group 2022				
	Encumbered		Unencumbered		
	Pledged as collateral £m	Other[1] £m	Available as collateral £m	Other £m	Total £m
Cash in hand	**-**	**-**	**0.4**	**-**	**0.4**
Loans and advances to credit institutions	**237.4**	**174.6**	**2,806.5**	**147.2**	**3,365.7**
Investment securities	**46.4**	**-**	**366.5**	**-**	**412.9**
Loans and advances to customers[2]	**6,705.1**	**-**	**16,424.5**	**483.1**	**23,612.7**
Derivative assets	**-**	**-**	**-**	**888.1**	**888.1**
Non-financial assets	**-**	**-**	**-**	**(712.3)**	**(712.3)**
	6,988.9	**174.6**	**19,597.9**	**806.1**	**27,567.5**

	Group 2021				
	Encumbered		Unencumbered		
	Pledged as collateral £m	Other[1] £m	Available as collateral £m	Other £m	Total £m
Cash in hand	-	-	0.5	-	0.5
Loans and advances to credit institutions	99.9	107.5	2,496.4	139.8	2,843.6
Investment securities	121.8	-	369.6	-	491.4
Loans and advances to customers[2]	6,373.7	-	2,746.3	11,960.3	21,080.3
Derivative assets	-	-	-	185.7	185.7
Non-financial assets	-	-	-	(69.0)	(69.0)
	6,595.4	107.5	5,612.8	12,216.8	24,532.5

1. Represents assets that are not pledged but that the Group believes it is restricted from using to secure funding for legal or other reasons.
2. Unencumbered loans and advances to customers classified as other are restricted for use as collateral as they are; registered outside of UK (Jersey and Guernsey), not secured by immovable property or are non-performing.

45. Risk management (continued)

	Company 2022				
	Encumbered		Unencumbered		
	Pledged as collateral	**Other[1]**	**Available as collateral**	**Other**	**Total**
	£m	**£m**	**£m**	**£m**	**£m**
Cash in hand	**-**	**-**	**0.4**	**-**	**0.4**
Loans and advances to credit institutions	**109.6**	**37.8**	**1,328.2**	**30.5**	**1,506.1**
Investment securities	**34.8**	**-**	**176.6**	**-**	**211.4**
Loans and advances to customers[2]	**3,419.8**	**-**	**6,989.2**	**122.9**	**10,531.9**
Derivative assets	**-**	**-**	**-**	**234.0**	**234.0**
Non-financial assets	**-**	**-**	**-**	**3,120.1**	**3,120.1**
	3,564.2	**37.8**	**8,494.4**	**3,507.5**	**15,603.9**

	Company 2021				
	Encumbered		Unencumbered		
	Pledged as collateral	Other[1]	Available as collateral	Other	Total
	£m	£m	£m	£m	£m
Cash in hand	-	-	0.5	-	0.5
Loans and advances to credit institutions	36.7	36.5	1,313.5	18.3	1,405.0
Investment securities	-	-	16.2	-	16.2
Loans and advances to customers[2]	3,678.9	-	-	5,797.5	9,476.4
Derivative assets	-	-	-	50.5	50.5
Non-financial assets	-	-	-	3,135.9	3,135.9
	3,715.6	36.5	1,330.2	9,002.2	14,084.5

1. Represents assets that are not pledged but that the Group believes it is restricted from using to secure funding for legal or other reasons.
2. Unencumbered loans and advances to customers classified as other are restricted for use as collateral as they are; not secured by immovable property or are non-performing.

45. Risk management (continued)

Liquidity risk – liquidity reserves

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

	Group 2022 £m	Group 2021 £m	**Company 2022 £m**	Company 2021 £m
Unencumbered balances with central banks	**2,806.5**	2,496.4	**1,328.2**	1,313.5
Unencumbered cash and balances with other banks	**147.2**	139.8	**30.5**	18.3
Other cash and cash equivalents	**0.4**	0.5	**0.4**	0.5
Unencumbered investment securities	**366.5**	369.6	**176.6**	16.2
	3,320.6	3,006.3	**1,535.7**	1,348.5

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 tenor, 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.

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.

45. Risk management (continued)

The table below shows the maximum decreases to net interest income under these scenarios after taking into account the derivatives:

Group	2022 £m	2021 £m
OSB	**13.5**	9.9
CCFS	**1.9**	1.1
	15.4	11.0

Exposure for earnings at risk as at 31 December 2022 is measured by the impact of a +/-100bps parallel shift in interest rates on the expected profitability of the Group in the next 12 months The risk appetite limit is 4% of full year net interest income. The table below shows the maximum decreases after taking into account the derivatives:

Group	2022 £m	2021 £m
OSB[1]	**7.5**	0.5
CCFS[1,2]	**8.8**	(0.4)
	16.3	0.1

1. Exposure for earnings at risk as at 31 December 2021 was measured by the impact of a +/-50bps parallel shift in interest rates on the expected profitability of the Group in the next 12 months. The risk appetite limit was 2% of full year net interest income.
2. Increases for CCFS 2021 due to product floors earnings increases in both the +50bps and -50bps scenarios.

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.

	2022 £m	2021[1] £m
OSB	**26.2**	-
CCFS	**24.1**	-
	50.3	-

1. Not measured during 2021.

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).

45. Risk management (continued)

The Group measures basis risk using the impact of four scenarios on net interest income over a one-year period including movements such as diverging base, overnight and term SONIA rates. Historical data is used to calibrate the severity of the scenarios to the Group's risk appetite. The Board has set a limit on basis risk exposure of 2.5% of full year net interest income. The table below shows the maximum decreases to net interest income at 31 December 2022 and 2021:

Group	**2022 £m**	2021 £m
OSB	**5.8**	3.2
CCFS	**4.5**	3.8
	10.3	7.0

Foreign exchange rate risk

The Group has limited exposure to foreign exchange risk in respect of its Indian operations. A 5% increase in exchange rates would result in a £0.7m (2021: £0.4m) effect in profit or loss and £0.5m (2021: £0.5m) in equity.

Structured entities

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. 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 2021 were Canterbury Finance No.2 plc, Canterbury Finance No.3 plc, Canterbury Finance No.4 plc and CMF 2020-1 plc.

45. Risk management (continued)

Unconsolidated structured entities

Structured entities, which were sponsored by the Group include Precise Mortgage Funding 2017-1B plc, Charter Mortgage Funding 2017-1 plc, Precise Mortgage Funding 2018-1B plc, Charter Mortgage Funding 2018-1 plc, Precise Mortgage Funding 2019-1B plc, Canterbury Finance No.1 plc and Precise Mortgage Funding 2020-1B plc.

These structured entities are not consolidated by the Group, as the Group does not control the entities and is not exposed to the risks and rewards of ownership from the securitised mortgages. The Group has no contractual arrangements with the unconsolidated structured entities other than the investments disclosed in note 18 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 2022 the Group received £2.6m interest income (2021: £1.8m) and £4.3m servicing income (2021: £4.4m) from unconsolidated structured entities.

46. Financial instruments and fair values

i. Financial assets and financial liabilities

The following table sets out the classification of financial instruments in the Statement of Financial Position:

		2022				
Group	Note	**Designated FVTPL £m**	**Mandatorily FVTPL £m**	**FVOCI £m**	**Amortised cost £m**	**Total carrying amount £m**
Assets						
Cash in hand		**-**	**-**	**-**	**0.4**	**0.4**
Loans and advances to credit institutions	17	**-**	**-**	**-**	**3,365.7**	**3,365.7**
Investment securities	18	**0.5**	**-**	**149.8**	**262.6**	**412.9**
Loans and advances to customers	19	**14.6**	**-**	**-**	**23,598.1**	**23,612.7**
Derivative assets	24	**-**	**888.1**	**-**	**-**	**888.1**
Other assets[1]	26	**-**	**-**	**-**	**1.8**	**1.8**
		15.1	**888.1**	**149.8**	**27,228.6**	**28,281.6**
Liabilities						
Amounts owed to retail depositors	32	**-**	**-**	**-**	**19,755.8**	**19,755.8**
Amounts owed to credit institutions	31	**-**	**-**	**-**	**5,092.9**	**5,092.9**
Amounts owed to other customers	33	**-**	**-**	**-**	**113.1**	**113.1**
Debt securities in issue	34	**-**	**-**	**-**	**265.9**	**265.9**
Derivative liabilities	24	**-**	**106.6**	**-**	**-**	**106.6**
Other liabilities[2]	36	**-**	**-**	**-**	**38.1**	**38.1**
Subordinated liabilities	39	**-**	**-**	**-**	**-**	**-**
PSBs	40	**-**	**-**	**-**	**15.2**	**15.2**
		-	**106.6**	**-**	**25,281.0**	**25,387.6**

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

46. Financial instruments and fair values (continued)

		2021				
Group	Note	Designated FVTPL £m	Mandatorily FVTPL £m	FVOCI £m	Amortised cost £m	Total carrying amount £m
Assets						
Cash in hand		-	-	-	0.5	0.5
Loans and advances to credit institutions	17	-	-	-	2,843.6	2,843.6
Investment securities	18	0.7	-	167.6	323.1	491.4
Loans and advances to customers	19	17.7	-	-	21,062.6	21,080.3
Derivative assets	24	-	185.7	-	-	185.7
Other assets[1]	26	-	-	-	0.9	0.9
		18.4	185.7	167.6	24,230.7	24,602.4
Liabilities						
Amounts owed to retail depositors	32	-	-	-	17,526.4	17,526.4
Amounts owed to credit institutions	31	-	-	-	4,319.6	4,319.6
Amounts owed to other customers	33	-	-	-	92.6	92.6
Debt securities in issue	34	-	-	-	460.3	460.3
Derivative liabilities	24	-	19.7	-	-	19.7
Other liabilities[2]	36	-	-	-	28.6	28.6
Subordinated liabilities	39	-	-	-	10.3	10.3
PSBs	40	-	-	-	15.2	15.2
		-	19.7	-	22,453.0	22,472.7

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

46. Financial instruments and fair values (continued)

Company	Note	2022 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	17	**-**	**-**	**-**	**1,506.1**	**1,506.1**
Investment securities	18	**0.5**	**-**	**149.8**	**61.1**	**211.4**
Loans and advances to customers	19	**-**	**-**	**-**	**10,531.9**	**10,531.9**
Derivative assets	24	**-**	**234.0**	**-**	**-**	**234.0**
Other assets[1]	26	**-**	**-**	**-**	**2.0**	**2.0**
		0.5	**234.0**	**149.8**	**12,101.5**	**12,485.8**
Liabilities						
Amounts owed to retail depositors	32	**-**	**-**	**-**	**11,132.2**	**11,132.2**
Amounts owed to credit institutions	31	**-**	**-**	**-**	**2,568.5**	**2,568.5**
Amounts owed to other customers	33	**-**	**-**	**-**	**0.5**	**0.5**
Derivative liabilities	24	**-**	**63.8**	**-**	**-**	**63.8**
Other liabilities[2]	36	**-**	**-**	**-**	**23.3**	**23.3**
Subordinated liabilities	39	**-**	**-**	**-**	**-**	**-**
PSBs	40	**-**	**-**	**-**	**15.2**	**15.2**
		-	**63.8**	**-**	**13,739.7**	**13,803.5**

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

46. Financial instruments and fair values (continued)

		2021				
		Designated FVTPL	Mandatorily FVTPL	FVOCI	Amortised cost	Total carrying amount
Company	Note	£m	£m	£m	£m	£m
Assets						
Cash in hand		-	-	-	0.5	0.5
Loans and advances to credit institutions	17	-	-	-	1,405.0	1,405.0
Investment securities	18	0.7	-	15.5	-	16.2
Loans and advances to customers	19	-	-	-	9,476.4	9,476.4
Derivative assets	24	-	50.5	-	-	50.5
Other assets[1]	26	-	-	-	-	-
		0.7	50.5	15.5	10,881.9	10,948.6
Liabilities						
Amounts owed to retail depositors	32	-	-	-	9,739.4	9,739.4
Amounts owed to credit institutions	31	-	-	-	2,420.7	2,420.7
Amounts owed to other customers	33	-	-	-	5.7	5.7
Derivative liabilities	24	-	8.7	-	-	8.7
Other liabilities[2]	36	-	-	-	16.4	16.4
Subordinated liabilities	39	-	-	-	10.3	10.3
PSBs	40	-	-	-	15.2	15.2
		-	8.7	-	12,207.7	12,216.4

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.

46. Financial instruments and fair values (continued)

ii. Fair values

The following tables summarise the carrying value and estimated fair value of financial instruments not measured at fair value in the Statement of Financial Position:

	2022		2021	
	Carrying value	**Estimated fair value**	Carrying value	Estimated fair value
Group	**£m**	**£m**	£m	£m
Assets				
Cash in hand	**0.4**	**0.4**	0.5	0.5
Loans and advances to credit institutions	**3,365.7**	**3,365.7**	2,843.6	2,843.6
Investment securities	**262.6**	**260.5**	323.1	323.8
Loans and advances to customers	**23,598.1**	**22,746.0**	21,062.6	21,079.5
Other assets[1]	**1.8**	**1.8**	0.9	0.9
	27,228.6	**26,374.4**	24,230.7	24,248.3
Liabilities				
Amounts owed to retail depositors	**19,755.8**	**19,693.0**	17,526.4	17,524.9
Amounts owed to credit institutions	**5,092.9**	**5,092.9**	4,319.6	4,319.6
Amounts owed to other customers	**113.1**	**113.1**	92.6	92.6
Debt securities in issue	**265.9**	**265.9**	460.3	460.3
Other liabilities[2]	**38.1**	**38.1**	28.6	28.6
Subordinated liabilities	**-**	**-**	10.3	10.6
PSBs	**15.2**	**14.0**	15.2	14.7
	25,281.0	**25,217.0**	22,453.0	22,451.3

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

46. Financial instruments and fair values (continued)

Company	2022 Carrying value £m	2022 Estimated fair value £m	2021 Carrying value £m	2021 Estimated fair value £m
Assets				
Cash in hand	**0.4**	**0.4**	0.5	0.5
Loans and advances to credit institutions	**1,506.1**	**1,506.1**	1,405.0	1,405.0
Loans and advances to customers	**10,531.9**	**10,170.4**	9,476.4	9,448.4
Other assets[1]	**2.0**	**2.0**	-	-
	12,040.4	**11,678.9**	10,881.9	10,853.9
Liabilities				
Amounts owed to retail depositors	**11,132.2**	**11,095.3**	9,739.4	9,737.3
Amounts owed to credit institutions	**2,568.5**	**2,568.5**	2,420.7	2,420.7
Amounts owed to other customers	**0.5**	**0.5**	5.7	5.7
Other liabilities[2]	**23.3**	**23.3**	16.4	16.4
Subordinated liabilities	**-**	**-**	10.3	10.6
PSBs	**15.2**	**14.0**	15.2	14.7
	13,739.7	**13,701.6**	12,207.7	12,205.4

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

The fair values in these tables are estimated using the valuation techniques below. The estimated fair value is stated as at 31 December and may be significantly different from the amounts which will actually be paid on the maturity or settlement dates of each financial instrument.

Cash in hand
This represents physical cash across the Group's branch network where fair value is considered to be equal to carrying value.

Loans and advances to credit institutions
This mainly represents the Group's working capital current accounts and call accounts with central governments and other banks with an original maturity of less than three months. Fair value is not considered to be materially different to carrying value.

Investment securities
Investment securities' fair values are provided by a third party and are based on the market values of similar financial instruments. The fair value of investment securities held at FVTPL is measured using a discounted cash flow model.

Loans and advances to customers
This mainly represents secured mortgage lending to customers. The fair value of fixed rate mortgages has been estimated by discounting future cash flows at current market rates of interest. Future cash flows include the impact of ECL. The interest rate on variable rate mortgages is considered to be equal to current market product rates and as such fair value is estimated to be equal to carrying value.

46. Financial instruments and fair values (continued)

Other assets
Other assets disclosed in the table above exclude prepayments and the fair value is considered to be equal to carrying value.

Amounts owed to retail depositors
The fair value of fixed rate retail deposits has been estimated by discounting future cash flows at current market rates of interest. Retail deposits at variable rates and deposits payable on demand are considered to be at current market rates and as such fair value is estimated to be equal to carrying value.

Amounts owed to credit institutions
This mainly represents amounts drawn down under the BoE TFSME 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.

Subordinated liabilities and PSBs
The fair value of subordinated liabilities is estimated by using quoted market prices of similar instruments at the reporting date. The PSBs are listed on the London Stock Exchange with fair value being the quoted market price at the reporting date.

46. Financial instruments and fair values (continued)

iii. Fair value classification

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

Group 2022	**Carrying amount £m**	**Principal amount £m**	**Level 1 £m**	**Level 2 £m**	**Level 3 £m**	**Total £m**
Financial assets						
Investment securities	**150.3**	**150.5**	**149.8**	**-**	**0.5**	**150.3**
Loans and advances to customers	**14.6**	**17.7**	**-**	**-**	**14.6**	**14.6**
Derivative assets	**888.1**	**15,662.6**	**-**	**888.1**	**-**	**888.1**
	1,053.0	**15,830.8**	**149.8**	**888.1**	**15.1**	**1,053.0**
Financial liabilities						
Derivative liabilities	**106.6**	**9,518.0**	**-**	**106.6**	**-**	**106.6**

Group 2021	Carrying amount £m	Principal amount £m	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial assets						
Investment securities	168.3	166.2	152.1	15.5	0.7	168.3
Loans and advances to customers	17.7	19.7	-	-	17.7	17.7
Derivative assets	185.7	12,968.3	-	185.7	-	185.7
	371.7	13,154.2	152.1	201.2	18.4	371.7
Financial liabilities						
Derivative liabilities	19.7	7,378.0	-	19.7	-	19.7

Company 2022	**Carrying amount £m**	**Principal amount £m**	**Level 1 £m**	**Level 2 £m**	**Level 3 £m**	**Total £m**
Financial assets						
Investment securities	**150.3**	**150.5**	**149.8**	**-**	**0.5**	**150.3**
Derivative assets	**234.0**	**4,628.0**	**-**	**234.0**	**-**	**234.0**
	384.3	**4,778.5**	**149.8**	**234.0**	**0.5**	**384.3**
Derivative liabilities	**63.8**	**5,158.0**	**-**	**63.8**	**-**	**63.8**

46. Financial instruments and fair values (continued)

Company 2021	Carrying amount £m	Principal amount £m	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial assets						
Investment securities	16.2	16.2	-	15.5	0.7	16.2
Derivative assets	50.5	3,953.0	-	50.5	-	50.5
	66.7	3,969.2	-	66.0	0.7	66.7
Financial liabilities						
Derivative liabilities	8.7	3,416.0	-	8.7	-	8.7

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.

46. Financial instruments and fair values (continued)

The following tables provide an analysis of financial assets and financial liabilities not measured at fair value in the Statement of Financial Position grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

Group 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. Financial instruments and fair values (continued)

Group 2021	Carrying amount £m	Principal amount £m	Estimated fair value Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial assets						
Cash in hand	0.5	0.5	-	0.5	-	0.5
Loans and advances to credit institutions	2,843.6	2,843.6	-	2,843.6	-	2,843.6
Investment securities	323.1	322.9	-	323.8	-	323.8
Loans and advances to customers	21,062.6	21,076.7	-	3,323.0	17,756.5	21,079.5
Other assets[1]	0.9	0.9	-	0.9	-	0.9
	24,230.7	24,244.6	-	6,491.8	17,756.5	24,248.3
Financial liabilities						
Amounts owed to retail depositors	17,526.4	17,469.0	-	6,601.3	10,923.6	17,524.9
Amounts owed to credit institutions	4,319.6	4,318.5	-	4,319.6	-	4,319.6
Amounts owed to other customers	92.6	92.5	-	-	92.6	92.6
Debt securities in issue	460.3	460.2	-	460.3	-	460.3
Other liabilities[2]	28.6	28.6	-	28.6	-	28.6
Subordinated liabilities	10.3	10.1	-	-	10.6	10.6
PSBs	15.2	15.0	14.7	-	-	14.7
	22,453.0	22,393.9	14.7	11,409.8	11,026.8	22,451.3

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

46. Financial instruments and fair values (continued)

Company 2022	Carrying amount £m	Principal amount £m	Estimated fair value Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial assets						
Cash in hand	**0.4**	**0.4**	**-**	**0.4**	**-**	**0.4**
Loans and advances to credit institutions	**1,506.1**	**1,504.0**	**-**	**1,506.1**	**-**	**1,506.1**
Loans and advances to customers	**10,531.9**	**10,668.1**	**-**	**1,740.9**	**8,429.5**	**10,170.4**
Other assets[1]	**2.0**	**2.0**	**-**	**2.0**	**-**	**2.0**
	12,040.4	**12,174.5**	**-**	**3,249.4**	**8,429.5**	**11,678.9**
Financial liabilities						
Amounts owed to retail depositors	**11,132.2**	**11,052.0**	**-**	**3,046.3**	**8,049.0**	**11,095.3**
Amounts owed to credit institutions	**2,568.5**	**2,551.4**	**-**	**2,568.5**	**-**	**2,568.5**
Amounts owed to other customers	**0.5**	**0.5**	**-**	**-**	**0.5**	**0.5**
Other liabilities[2]	**23.3**	**23.3**	**-**	**23.3**	**-**	**23.3**
Subordinated liabilities	**-**	**-**	**-**	**-**	**-**	**-**
PSBs	**15.2**	**15.0**	**14.0**	**-**	**-**	**14.0**
	13,739.7	**13,642.2**	**14.0**	**5,638.1**	**8,049.5**	**13,701.6**

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

47. Financial instruments and fair values (continued)

Company 2021	Carrying amount £m	Principal amount £m	Estimated fair value Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial assets						
Cash in hand	0.5	0.5	-	0.5	-	0.5
Loans and advances to credit institutions	1,405.0	1,405.0	-	1,405.0	-	1,405.0
Loans and advances to customers	9,476.4	9,611.8	-	2,402.8	7,045.6	9,448.4
Other assets[1]	-	-	-	-	-	-
	10,881.9	11,017.3	-	3,808.3	7,045.6	10,853.9
Financial liabilities						
Amounts owed to retail depositors	9,739.4	9,704.9	-	3,517.7	6,219.6	9,737.3
Amounts owed to credit institutions	2,420.7	2,420.1	-	2,420.7	-	2,420.7
Amounts owed to other customers	5.7	5.7	-	-	5.7	5.7
Other liabilities[2]	16.4	16.4	-	16.4	-	16.4
Subordinated liabilities	10.3	10.1	-	-	10.6	10.6
PSBs	15.2	15.0	14.7	-	-	14.7
	12,207.7	12,172.2	14.7	5,954.8	6,235.9	12,205.4

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

47. 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 £4.4m (2021: £5.2m).

48. 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:

2022	OSB £m	CCFS £m	Combination £m	Total £m
Balances at the reporting date				
Gross loans and advances to customers	**13,244.7**	**10,416.3**	**81.7**	**23,742.7**
Expected credit losses	**(103.2)**	**(28.0)**	**1.2**	**(130.0)**
Loans and advances to customers	**13,141.5**	**10,388.3**	**82.9**	**23,612.7**
Capital expenditure	**7.6**	**0.7**	**-**	**8.3**
Depreciation and amortisation	**6.2**	**3.4**	**3.8**	**13.4**
Profit or loss for the year				
Net interest income/(expense)	**460.7**	**308.4**	**(59.2)**	**709.9**
Other income	**8.9**	**46.2**	**10.4**	**65.5**
Total income/(expense)	**469.6**	**354.6**	**(48.8)**	**775.4**
Impairment of financial assets	**(22.3)**	**(8.4)**	**0.9**	**(29.8)**
Contribution to profit	**447.3**	**346.2**	**(47.9)**	**745.6**
Administrative expenses	**(129.6)**	**(73.1)**	**(3.8)**	**(206.5)**
Provisions	**1.6**	**-**	**-**	**1.6**
Integration costs	**(6.8)**	**(1.1)**	**-**	**(7.9)**
Profit/(loss) before taxation	**312.5**	**272.0**	**(51.7)**	**532.8**
Taxation[1]	**(70.1)**	**(70.2)**	**18.8**	**(121.5)**
Profit/(loss) for the year	**242.4**	**201.8**	**(32.9)**	**411.3**

1. The taxation on Combination credit includes release of deferred taxation on CCFS Combination relating to the unwind of the deferred tax liabilities recognised on the fair value adjustments of the CCFS assets and liabilities at the acquisition date of £17.5m and the release of other deferred tax assets on Combination adjustments of £1.3m.

48. Operating segments (continued)

2021	OSB £m	CCFS £m	Combination £m	Total £m
Balances at the reporting date				
Gross loans and advances to customers	12,057.3	8,981.4	143.1	21,181.8
Expected credit losses	(82.2)	(19.6)	0.3	(101.5)
Loans and advances to customers	11,975.1	8,961.8	143.4	21,080.3
Capital expenditure	5.0	1.8	-	6.8
Depreciation and amortisation	6.5	3.2	4.8	14.5
Profit or loss for the year				
Net interest income/(expense)	414.8	235.7	(62.9)	587.6
Other income	8.7	20.0	12.7	41.4
Total income/(expense)	423.5	255.7	(50.2)	629.0
Impairment of financial assets	(3.5)	8.4	(0.5)	4.4
Contribution to profit	420.0	264.1	(50.7)	633.4
Administrative expenses	(97.9)	(63.8)	(4.8)	(166.5)
Provisions	(0.3)	0.1	-	(0.2)
Impairment of intangible assets	-	-	3.1	3.1
Integration costs	(4.0)	(1.0)	-	(5.0)
Exceptional items	(0.2)	-	-	(0.2)
Profit/(loss) before taxation	317.6	199.4	(52.4)	464.6
Taxation[1]	(76.3)	(51.8)	8.5	(119.6)
Profit/(loss) for the year	241.3	147.6	(43.9)	345.0

1. The tax on Combination credit includes a credit of £14.1m relating to the unwind of the deferred tax liabilities recognised on the fair value adjustments of the CCFS assets and liabilities at the acquisition date, offset by a £5.6m deferred tax charge due to the 6% increase in the main rate of the corporation tax liability from 1 April 2023.

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

	Group 2022 £m	Group 2021 £m (Restated)[1]	**Company 2022 £m**	Company 2021 £m (Restated)[1]
Adjustments for non-cash items:				
Depreciation and amortisation	**13.4**	14.5	**5.2**	5.5
Interest on investment securities	**(6.8)**	(2.5)	**(2.5)**	(0.1)
Integration cost	**-**	0.6	**-**	0.6
Interest on subordinated liabilities	**1.1**	0.8	**1.1**	0.8
Interest on PSBs	**0.7**	1.2	**0.7**	1.2
Interest on securitised debt	**7.7**	3.9	**4.1**	-
Interest on financing debt	**68.7**	5.3	**38.4**	3.3
Impairment charge/(credit) on loans	**29.8**	(4.4)	**19.1**	0.2
Impairment credit on intangible assets acquired on Combination	**-**	(3.1)	**-**	-
Impairment on investment in subsidiaries	**-**	-	**1.3**	-
Gain on sale of financial instruments	**-**	(4.0)	**-**	(0.3)
Provisions	**(1.6)**	0.2	**(1.8)**	0.3
Interest on lease liabilities	**0.2**	0.3	**0.1**	0.1
Fair value gains on financial instruments	**(58.9)**	(29.5)	**(4.4)**	(4.4)
Share-based payments	**8.1**	6.7	**7.3**	5.0
Total adjustments for non-cash items	**62.4**	(10.0)	**68.6**	12.2
Changes in operating assets and liabilities:				
(Increase)/decrease in loans and advances to credit institutions	**(204.6)**	98.7	**(74.2)**	67.8
Increase in loans and advances to customers	**(2,563.1)**	(1,844.0)	**(1,074.6)**	(944.9)
(Increase)/decrease in intercompany balances	**(0.2)**	(0.6)	**(146.0)**	36.2
Increase in amounts owed to retail depositors	**2,229.4**	923.3	**1,392.8**	34.1
Increase in cash collateral and margin received[1]	**434.3**	115.4	**131.3**	42.1
Net increase in other assets	**(4.7)**	(1.1)	**(4.8)**	(2.6)
Net increase/(decrease) in derivatives and hedged items	**59.1**	3.6	**53.2**	(12.3)
Net increase/(decrease) in amounts owed to other customers	**16.6**	18.9	**(7.7)**	0.9
Net increase in other liabilities	**9.0**	1.5	**6.6**	3.4
Exchange differences on working capital	**(0.3)**	(0.1)	**-**	-
Total changes in operating assets and liabilities[1]	**(24.5)**	(684.4)	**276.6**	(775.3)

1. 2021 figures restated see note 1 b) for further details.

50. Events after the reporting date

The Directors have proposed an interim dividend of £93.7m in relation to profits for the year ended 31 December 2022 and a special dividend of £50.3m as its contribution to the proposed OSBG dividends. There is no final dividend proposed.

51. Controlling party

OSB GROUP PLC is the ultimate parent and controlling party preparing consolidated financial statements as the largest group of which the Company is a member. Copies of OSBG's financial statements may be obtained from the Company Secretary at the registered office: OSB House, Quayside, Chatham Maritime, Chatham, Kent, ME4 4QZ.

52. Transactions with key management personnel

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

The Directors and Group Executive team are considered to be key management personnel.

Directors' remuneration is disclosed in note 10 and in the OSB GROUP PLC Annual Report on Remuneration. The table below shows the Executive team's aggregate remuneration:

	Group 2022 £'000	Group 2021 £'000
Short-term employee benefits	**4,000**	5,144
Post-employment benefits	**62**	44
Share-based payments	**2,667**	2,414
	6,729	7,602

Key management personnel and connected persons held deposits with the Group of £2.1m (2021: £0.9m).

53. Capital management

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

The Company manages and reports on an individual consolidation basis (OSB solo) which includes the Company and subsidiaries except for the offshore servicing entity OSBI, SPVs relating to securitisations and the CCFS entities acquired in October 2019.

The capital management position is based on the three ‘pillars’ of Basel II.

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

Under Pillar 2, the regulated entities complete an annual self-assessment of risks known as ICAAP. The PRA applies additional requirements to this assessment amount to cover risks under Pillar 2 to generate a Total Capital Requirement. Further, the PRA sets capital buffers and the regulated entities apply for imposition of the requirements and modification of rules incorporating the capital buffers and Pillar 2 pursuant to the Financial Services and Markets Act 2000.

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

Basel III came into force through CRD IV. Basel III complements and enhances Basel I and II with additional safety measures. Basel III changed definitions of regulatory capital, introduced new capital buffers, a non-risk adjusted leverage ratio, liquidity ratios and modified the way regulatory capital is calculated.

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

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

The regulated entities actively manage their capital position and report 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.

53. Capital management (continued)

The OSB solo Pillar 1 capital information is presented below:

	(Unaudited) 2022 £m	(Unaudited) 2021 £m
CET1 capital		
Called up share capital	**4.5**	4.5
Share premium, capital contribution and share-based payment reserve	**12.2**	10.6
Retained earnings	**1,826.0**	1,739.5
Other reserves	**(1.1)**	(0.9)
Total equity attributable to ordinary shareholders	**1,841.6**	1,753.7
Foreseeable dividends[1]	**(79.1)**	(73.1)
IFRS 9 transitional adjustment[2]	**0.7**	1.4
COVID-19 ECL transitional adjustment[3]	**18.9**	12.1
Solo consolidation adjustments	**(13.6)**	(6.8)
Deductions from CET1 capital		
Investment in subsidiary	**(533.0)**	(538.5)
Prudent valuation adjustment[4]	**(0.3)**	-
Intangible assets	**(6.6)**	(7.9)
Deferred tax asset	**(0.6)**	(0.5)
CET1 capital	**1,228.0**	1,140.4
AT1 capital		
AT1 securities	**90.0**	90.0
Total Tier 1 capital	**1,318.0**	1,230.4
Tier 2 capital		
Subordinated debt and PSBs	**15.0**	25.1
Deductions from Tier 2 capital	**-**	(4.6)
Total Tier 2 capital	**15.0**	20.5
Total regulatory capital	**1,333.0**	1,250.9
Risk-weighted assets (unaudited)	**6,660.5**	5,863.4

1. 2022 includes a special dividend of £30.3m (in support of the £50.0m announced by the OSBG Board rounded up on a pence per share basis to £50.3m).
2. The regulatory capital includes a £0.7m add-back under IFRS 9 transitional arrangements, being 25.0% remaining of the IFRS 9 transitional adjustment.
3. The COVID-19 ECL transitional adjustment relates to 75% of OSB solo's increase in stage 1 and stage 2 ECL following the impacts of COVID-19 and for which transitional rules are being adopted for regulatory capital purposes.
4. OSB solo has adopted the simplified approach under the Prudent Valuation rules, recognising a deduction equal to sum of absolute value to 0.1% of fair value assets and liabilities excluding fair-valued assets and liabilities.

53. **Capital management** (continued)

The movement in CET1 during the year was as follows:

	(Unaudited) 2022 £m	(Unaudited) 2021 £m
At 1 January	**1,140.4**	966.9
Movement in retained earnings	**86.5**	171.5
Movement in other reserves	**1.4**	2.8
Movement in investment in subsidiary	**5.5**	41.6
Movement in foreseeable dividends	**(6.0)**	(34.1)
Movement in solo consolidation adjustment	**(6.8)**	1.0
IFRS 9 transitional adjustment	**(0.7)**	(0.6)
COVID-19 ECL transitional adjustment	**6.8**	(8.6)
Movement in prudent valuation adjustment	**(0.3)**	0.1
Net decrease/(increase) in intangible assets	**1.3**	(0.6)
Movement in deferred tax asset for carried forward losses	**(0.1)**	0.4
At 31 December	**1,228.0**	1,140.4

OneSavings Bank plc
Appendices
Glossary

AGM	Annual General Meeting
ALCO	Group Assets and Liabilities Committee
BoE	Bank of England
CCFS	Charter Court Financial Services
CEO	Chief Executive Officer
CET1	Common Equity Tier 1
CFO	Chief Financial Officer
CRD IV	Capital Requirements Directive and Regulation
CRO	Chief Risk Officer
DSBP	Deferred Share Bonus Plan
EAD	Exposure at Default
ECL	Expected Credit Loss
EIR	Effective Interest Rate
EPS	Earnings Per Share
EU	European Union
FCA	Financial Conduct Authority
FRC	Financial Reporting Council
FSCS	Financial Services Compensation Scheme
FSD	Forced Sale Discount
FTSE	Financial Times Stock Exchange
HMRC	Her Majesty's Revenue and Customs
HPI	House Price Index
IAS	International Accounting Standards
IBOR	Interbank Offered Rate
ICAAP	Internal Capital Adequacy Assessment Process
ICR	Interest Coverage Ratio
IFRS	International Financial Reporting Standards
ILAAP	Internal Liquidity Adequacy Assessment Process
ILTR	Index Long-Term Repo
IPO	Initial Public Offering
IRB	Internal Ratings-Based approach to credit risk
ISA	Individual Savings Account
KRFI	Kent Reliance for Intermediaries
KRPS	Kent Reliance Provident Society Limited
LCR	Liquidity Coverage Ratio
LGD	Loss Given Default
LIBOR	London Interbank Offered Rate
LTIP	Long-Term Incentive Plan
LTV	Loan to value
NIM	Net Interest Margin
NPS	Net Promoter Score
OSB	OneSavings Bank plc
OSBG	OSB GROUP PLC
PD	Probability of Default
PPD	Propensity to go to Possession Given Default
PRA	Prudential Regulation Authority
PSBs	Perpetual Subordinated Bonds
PSP	Performance Share Plan
RMBS	Residential Mortgage-Backed Securities
RoE	Return on equity
RWA	Risk weighted assets
SAYE	Save As You Earn or Sharesave
SDLT	Stamp Duty Land Tax
SICR	Significant Increase in Credit Risk
SID	Senior Independent Director
SME	Small and Medium Enterprises
SONIA	Sterling Overnight Index Average
SRMF	Strategic Risk Management Framework
TFS	Term Funding Scheme
TFSME	Term Funding Scheme with additional incentives for SMEs