



Supporting our stakeholders

Annual Report and Accounts 2020



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CEO's statement

Proven operational and financial resilience

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Market review

2020 was a demanding year

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Risk review

Responding to the pandemic

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About us

Who we are



Our purpose



Find out more online

Our investor site gives you direct access to a wide range of information about OSB:
www.osb.co.uk



“ We have shown we can produce excellent returns in challenging circumstances.

David Weymouth
Chairman

OSB Group is a leading specialist mortgage lender, primarily focused on carefully selected sub-segments of the mortgage market. Our specialist lending is supported by our Kent Reliance and Charter Savings Bank retail savings franchises.

To help our customers, colleagues and communities prosper.

To prosper means so much more than to be financially well off. It is to flourish and succeed in a myriad of ways: personally, professionally, in our relationships and in ourselves as well as enabling those people, communities and businesses around us to succeed too.





Throughout the Strategic report the KPIs are presented on a statutory and an underlying basis for 2020, and a statutory and pro forma underlying basis for 2019.

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

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

Pro forma underlying results for 2019 assume that the combination with Charter Court Financial Services Group plc (CCFS) occurred on 1 January 2019 and include 12 months of results from CCFS. They also exclude exceptional items, integration costs and other acquisition-related items.

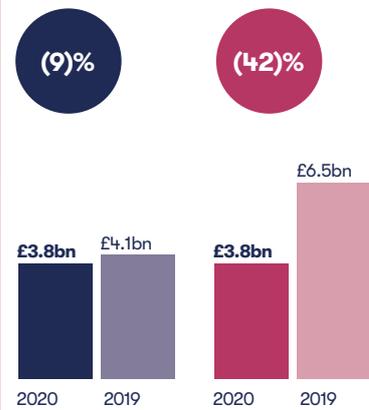
For a reconciliation of statutory results to underlying and pro forma underlying results, see page 60.

In 2020, the Group's external auditor performed an independent reasonable assurance review of certain alternative performance measures as highlighted with the symbol Δ – see the Appendix for the auditor's statement.

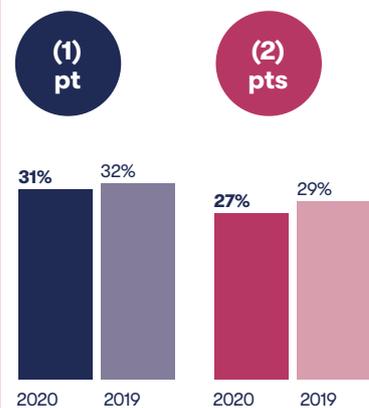
 [Read more](#)
See Financial review, page 54

-  Statutory 2020
-  Statutory 2019
-  Underlying 2020
-  Pro forma underlying 2019

Gross new lending ^Δ



Cost to income ratio ^Δ





Profit before tax

25%

(9)%



Basic EPS ^Δ (pence per share)

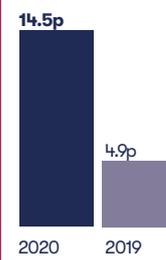
(19)%

(10)%



Full year dividend ^Δ (pence per share)

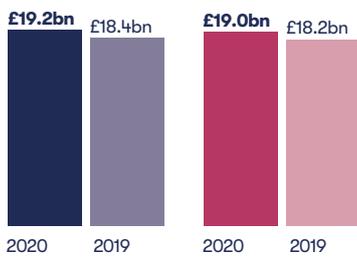
196%



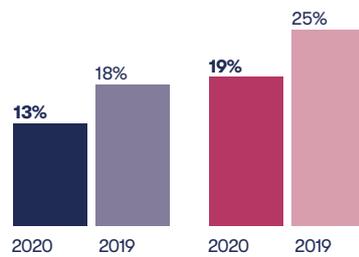
Net loan book

4%

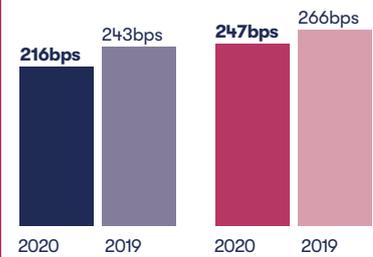
5%



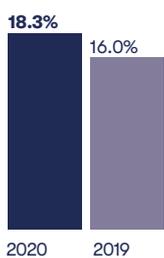
Return on equity ^Δ

(5)
pts(6)
pts

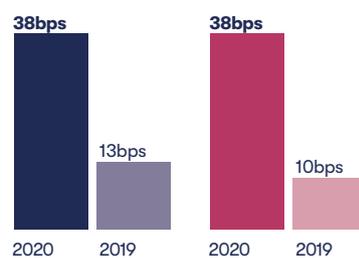
Net interest margin ^Δ

(27)
bps(19)
bps

Fully loaded Common Equity Tier 1 ratio

2.3
pts

Loan loss ratio ^Δ

25
bps28
bps



At a glance

Our specialist mortgage lending is supported by Kent Reliance and Charter Savings Bank retail savings franchises.

What we do



Specialist lending

Kent Reliance

Heritable
Development Finance

InterBay
Commercial

Precise
Mortgages

£19.2bn

Statutory net loans to customers

We primarily target market sub-sectors offering high growth potential and attractive risk-adjusted returns, in which we can take a leading position and where we have established expertise, platforms and capabilities.

These include:

- Private rented sector Buy-to-Let
- Bespoke and specialist first and second charge residential funding
- Commercial and semi-commercial mortgages
- Residential development finance
- Secured funding lines
- Bridging finance
- Asset finance

We originate mortgages organically via specialist brokers and independent financial advisers through our specialist brands.

[Read more](#)
See **Segment overview**, page 40

How we do it



Sophisticated funding platform

Kent Reliance

Charter Savings Bank

£16.6bn

Statutory retail deposits

We are predominantly funded by retail savings originated through our Kent Reliance and Charter Savings Bank franchises.

Both offer products online and Kent Reliance also has nine branches in the South East of England. Diversification of funding is provided by sophisticated securitisation platforms.



Unique operating model

osbIndia

31%

Statutory cost to income ratio

The Group has a unique and cost-efficient business model and maintains an efficient, scalable and resilient infrastructure. We are able to leverage our deep credit expertise and have combined the data analytics capability of CCFS with the skills of our wholly-owned subsidiary OSB India providing excellent support services, including operations, IT, finance and human resources.



Our vision

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

- OSB Group operates through the intermediary lending market – our brokers. We are a specialist lender and not just any specialist lender, but one of the largest. We will maintain that market-leading position by ensuring that we are the specialist lender of choice for our broker customers through our range of specialist lending brands.
- In Savings, we want to ensure that our offering supports not only the consumer market, predominantly through the Kent Reliance brand, but also the more commercial markets of pooled deposits, SMEs and public sector bodies through Charter Savings Bank.

We take a personal approach to everything we do

- We treat everyone with respect and take accountability for our actions.

We take a flexible approach to everything we do

- We ensure that we work collaboratively with our colleagues, customers and other stakeholders to achieve shared positive outcomes.

Our values

Stronger together

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

Take ownership

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

Aim high

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

Respect others

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

Stewardship

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





Why invest in OSB Group?

During 2020 OSB Group demonstrated the inherent strengths of its business model



Leader in chosen market sub-segments

OSB Group has a clear track record of above market growth and is a leader in professional Buy-to-Let and specialist Residential mortgage lending.

The Combination with CCFS strengthened our position further and allowed us to provide our recognised high quality service to a wider reach of customers.

In 2020, the Group's share of new business in the Buy-to-Let segment was c. 6%, a position we are proud of, and one that has been delivered with leading returns.



Exceptional returns driven by attractive margins and sustainable growth

Throughout its history, the combined Group has consistently generated a market-leading return on equity (RoE), driven by attractive margins, significant growth in its specialist market segments and sound risk management. The Group's business model is based on a secured balance sheet, strong capital and liquidity positions. Combined with prudent and diligent risk management, it provides a solid platform for sustainable growth. For more information on the Group's risk management and Principal risks and uncertainties, see the Risk review section.

In 2020, the Group's achievements were:

- underlying RoE of 19% amidst an unprecedented global pandemic (statutory RoE 13%)
- 9% underlying net loan book growth excluding structured asset sales in the year (statutory net loan book growth 4%)
- strong cost discipline and efficiency
- prudent risk appetite through higher pricing and tighter criteria.



Competitive advantage

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

Following the Combination with CCFS, the Group provides excellent service for manual, bespoke underwriting as well as automated underwriting with faster decisions. Our greater scale and increasing ability to generate cost efficiencies from the Group's fully-owned subsidiary, OSB India, has enabled us to

deliver a consistently strong cost to income ratio, whilst still investing in the business to support our strategic priorities. OSB Group remains the most cost-efficient bank in the sector.

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



Experienced leadership team

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

Post Combination, we have taken two great cultures and combined them as one under a common purpose, to help our customers, colleagues and communities prosper. Our values are also combined and we have added more emphasis on stewardship. This will ensure we act positively with conscience and have environmental, social and governance factors front of mind when making decisions.



Cash-generative business with strong distribution potential

The Group is strongly capitalised, enabling it to support significant growth as well as our stated dividend policy of distributing at least 25% of underlying earnings attributable to ordinary shareholders.

At the end of 2020, the Group's CET1 ratio was at a historically high level of 18.3%, after providing for the Board's recommended dividend of 14.5 pence per share.



Attractive marketplace

Our core market segments are growing as the Buy-to-Let segment continues to professionalise and specialist residential opportunities, including near-prime, are increasingly attractive.

Structurally, our target market sub-segments are strong as the fundamental lack of affordable housing in the UK persists.

Both owner-occupied and private rental housing market segments have stood firm throughout 2020 with underlying customer demand supported by

further government stimulus, including the Stamp Duty Land Tax holiday.

The Group has deliberately controlled new lending volumes in its more cyclical sub-segments throughout the pandemic, through pricing and lending criteria, and is well positioned to increase lending through our strong franchises as the outlook improves. For more information on the Group's credit risk management and Principal risks and uncertainties see the Risk review section.



Supporting our stakeholders in challenging times for all of us

“

OSB Group rose to the challenge and demonstrated the inherent strengths of our business model

David Weymouth
Non-Executive Chairman



How we are supporting our stakeholders

Responding quickly to support customers and colleagues



[Read more](#)
See pages 21 to 23

Strong credit and risk management



[Read more](#)
See pages 61 to 69

Strong capital and liquidity position



[Read more](#)
See pages 56 to 57

2020 was a very demanding year with the global pandemic truly testing us all. I am particularly pleased that OSB Group rose to the challenge and demonstrated the inherent strengths of our business model. Our disciplined approach to risk, capital and liquidity was amplified by our positive culture and adaptability and I must commend the resilience, resourcefulness and responsiveness of my colleagues.



This approach produced excellent results, reflecting the strong operational performance of the Group, and we were successful in growing our loan book, keeping our employees safe and delivering an attractive return for shareholders.

We celebrated the milestone of being a combined Group for a year in October 2020 and the progress in aligning OneSavings Bank (OSB) and Charter Court Financial Services Group (CCFS) continued at pace. We achieved the synergies that we set out in our first year earlier than planned and are ahead of schedule towards delivering the three-year synergy target. We are stronger together and our success in negotiating the challenges of 2020 highlighted this.

Supporting our stakeholders

Your Board is committed to serving all of our stakeholders, including our borrowers, our colleagues, our partners and the wider communities. We explain in greater detail our stakeholder approach on pages 16 to 19, but I would like to highlight the following key areas of success:

- responding rapidly to support customers by offering self-certified payment deferrals to those who might be in financial difficulty
- building on our track record of excellent customer satisfaction, reflected in our exceptional Net Promoter Scores in the year for both OSB and CCFS
- supporting the well-being of our colleagues who have had to deal with a changed working environment and further consequences of the pandemic on their lives.

Sustainability is increasingly important to our stakeholders and the Board has the responsibility to lead the Group's efforts to support environmental and social issues alongside its already strong focus on governance and stewardship. We are embedding climate change risk in our Strategic Risk Management Framework and making good progress across a range of related activities. We are working towards having a coordinated environmental, social and governance strategy with clear targets to be in place by the end of 2021. Investors are increasingly focused on this area and we see a clear path to creating value for all stakeholders through our efforts. More details on our progress can be found throughout this Annual Report.

The recently identified potential fraud by a third party on a funding line provided by the Group, which delayed publication of the Group's 2020 results, was taken very seriously by the Board. The Board believes that this is an isolated incident following an internal review. The Board has also commissioned an external review of processes and controls in relation to the funding lines business and will make enhancements based on recommendations received.

Dividend proposal

The uncertain economic outlook at the beginning of 2020 as the pandemic took hold led the Board to take the prudent decision not to pay the 2019 final dividend. The economic outlook remains uncertain, but we have reasons to be hopeful with the roll-out of vaccinations and the housing market remaining strong. I am delighted that, as the Group performed exceptionally well during 2020 and has a very strong capital position, with a record CET1 ratio, the Board is recommending the payment of a dividend for 2020 of 14.5 pence per share.

Future prospects

We cannot avoid the wider economic impact of COVID-19 and remain cognisant of the ongoing uncertainty over the true impact of the pandemic on the economy, our customers and our business when the government support comes to an end. However, we do have control over our own operations and have shown we can produce excellent returns in challenging circumstances. We are working exceptionally well as a combined business with the greater scale serving to protect our position in the market sub-segments in which we operate. The Group is positioned well to meet the challenges ahead and to continue to deliver attractive and sustainable returns for our shareholders across the cycle.

I would like to thank all of my colleagues for their dedication and unwavering commitment in such a difficult year.

David Weymouth

Chairman

8 April 2021



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“

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



Our business model

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

Resources and relationships



Brands and heritage

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



Employees

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



Infrastructure

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



Relationships with intermediaries and customers

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



Capital strength

We have a strong CET1 ratio and the management capability to add capital through significant profitable loan book growth.

What we do



Specialist lending business

Our key strengths

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

Strategic priorities

- Be a leading specialist lender in our chosen market sub-segments
- Retain focus on our complementary underwriting platforms: OSB's bespoke and manual approach and CCFS' automated risk assessment platforms
- Further deepen relationships and distribution with intermediaries



Sophisticated funding platform

Our key strengths

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

Strategic priorities

- Provide cost-efficient funding through a resilient and diversified funding platform to support our future growth
- Deliver consistently good value savings products to our customers
- Pursue sophisticated wholesale funding markets and efficient balance sheet management



Unique operating model

Our key strengths

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

Strategic priorities

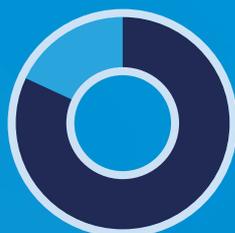
- Continue to leverage our unique and cost-efficient operating model
- Leverage deep credit expertise and data analytics
- Maintain an efficient, scalable and resilient infrastructure

**Statutory net loans to customers****£19.2bn**

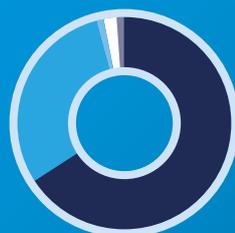
2019: £18.4bn



Read more on pages 32 to 33

OSB segment net loans

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

CCFS segment net underlying loans

- Buy-to-Let 66%
- Residential 30%
- Bridging 1%
- Second charge 2%
- Other 1%

Outcomes and value creation**For shareholders****Statutory basic EPS****42.8p****Dividend per share****14.5p****For customers****OSB savings customer NPS¹****+67****OSB customer retention²****93%****CCFS savings customer NPS¹****+72****CCFS customer retention²****77%****For intermediaries****OSB broker NPS¹****+49****CCFS broker NPS¹****+54****For employees****Number of new colleagues who joined the Group in 2020****222****Number of Group employees promoted in 2020****127****For communities****Group sponsorship and donations****£516,000**

- OSB customer score relates to Kent Reliance savings customers; CCFS customer NPS relates to Charter Savings Bank customers; OSB broker NPS relates to Kent Reliance brokers and CCFS broker NPS relates to Precise Mortgage brokers.
- Retention is defined as average maturing fixed contractual retail deposits that remain with the Bank on their maturity date.

Statutory retail deposits**£16.6bn**

2019: £16.3bn



Read more on pages 32 to 33

19
securitisations since 2013 across OSB and CCFS worth over

£7.9bn

2019: 15 securitisations worth £5.1bn

Group's funding channels as at 31 December 2020

- Retail 81%
- Bank of England 17%
- Wholesale 2%

Statutory cost to income ratio**31%**

2019: 32%



Read more on pages 32 to 33

493

colleagues employed at OSB India as at 31 December 2020

2019: 490



Our business model explained

OSB Group reports its lending business under two segments: OSB and CCFS.



Specialist mortgage lending

Gross loan book¹

£11.1bn
2019: £10.8bn

Organic originations¹

£1.9bn
2019: £3.4bn

Net interest income¹

£333m
2019: £316m

1. Statutory.

Gross loan book²

£8.0bn
2019: £7.4bn

Organic originations²

£1.9bn
2019: £3.1bn

Net interest income²

£201m
2019: £202m

2. Underlying.

OneSavings Bank

Kent Reliance

Heritable
Development Finance

InterBay
Commercial

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 and leases.

Asset finance

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

Residential sub-segments

First charge

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

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

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

Funding lines

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



Read more on pages 42 to 45

Charter Court Financial Services

Precise Mortgages

Buy-to-Let

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

Residential

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

Bridging

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

Second charge

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



Read more on pages 46 to 48



Sophisticated funding platform

Statutory retail deposits

£16.6bn
2019: £16.3bn

19
securitisations since 2013, across OSB and CCFS, worth over

£7.9bn
2019: £5.1bn

Kent Reliance



Retail savings

Online

Kent Reliance is our award-winning retail savings franchise with over 150 years of heritage, attracting retail savings deposits via the internet.

Charter Savings Bank is a multi-award-winning online bank providing a range of competitive savings products.

Direct

The direct channel sources savings products via telephone (Kent Reliance) and post (Kent Reliance and Charter Savings Bank).

High street branches

Our Kent Reliance branded network operates in the South East of England and offers a variety of fixed, notice, easy access and regular savings products, including ISAs.

Kent Reliance and Charter Savings Bank offer accounts to SMEs and Charter Savings Bank is also present in the pooled deposits market.

Our securitisation platforms

CCFS has been a programmatic issuer of high-quality residential mortgage-backed securities through the Precise Mortgage Funding and Charter Mortgage Funding franchises, completing 14 securitisations worth more than £4.5bn to 31 December 2020.

OSB issued two additional securitisations under Canterbury Finance in 2020, the majority of which have been fully retained, completing three transactions in total under this programme worth more than £2.6bn to 31 December 2020.



Read more on pages 50 to 51



Unique operating model

Statutory cost to income ratio

31%
2019: 32%

Colleagues employed at OSB India

493
2019: 490

osbIndia

Customer service

The Group operates customer service functions in multiple locations across the UK including its head office in 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.

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

OSB India

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

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

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.

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



Read more on page 38



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

Strong relationships, built on regular engagement and open dialogue with all our stakeholders, are fundamental to achieving this purpose. These relationships are central to the Group’s strategy and culture; and are embedded in the Board’s responsibilities.

We outline below how OSB Group and its Directors engaged with key stakeholders, and in doing so, discharged their duties under section 172. For more information on activities of the Board and its Committees, see pages 120 to 167 in the Corporate Governance Report.



Customers

We pride ourselves on building long-term, strong relationships with our customers. In 2020, we demonstrated our dedication to providing excellent service by supporting our borrowers and savers throughout the pandemic. This included responding to customers requesting mortgage payment deferrals, continuing to help those looking to finance their projects and supporting our savers, safely in branches or via telephone, post and the internet.

When our savers call or interact with our Banks, we offer them an opportunity to let us know how we did. We listen to them and act upon what they tell us. Throughout the year, we have been collecting customer feedback and despite the difficulties of the pandemic, increased volume of calls and savers’ activity, we are incredibly proud of achieving strong satisfaction metrics for both Kent Reliance and Charter Savings Bank.

Savings NPS for KR

+67

2019: +66

Savings NPS for CSB

+72

2019: +72

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

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



The following matters, which were identified as affecting our stakeholders, were of particular interest to the Board in 2020:

- the impact of COVID-19 on customers in terms of their savings behaviours, mortgage payment deferral requests and signs of repayment distress;
- industry-related conduct risk issues and the potential impact on customers; and
- management information in relation to customer complaints and complaints data from the Financial Ombudsman Service, engagement scores, satisfaction scores and retention rates.

In addition, management and the Board engaged with customers through the Kent Reliance Provident Society (KRPS) which conducts customer engagement activity studies for OSB. During 2020, KRPS conducted five such studies.

 Further information about our customers can be found in the Corporate responsibility report on [pages 90 to 91](#)

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 and we adapted the way in which we assist them to provide even better service in 2020.

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 our borrowers. Our efforts extend beyond our proposition, as we continuously enhance the service we provide and regularly engage with the broker community. Our business development managers listen and work with intermediaries, making themselves available to discuss cases and helping to obtain swift and reliable decisions.

The Board and management track broker and borrower satisfaction scores; and the details of complaints in monthly Board reporting packs.

Intermediary events were reduced during 2020, but the Group's Sales teams participated in 416 physical and virtual intermediary events, interacting with brokers and keeping abreast of industry developments and intermediary requirements.

Broker NPS for OSB

+49

2019: +27

Broker NPS for CCFS

+54

2019: +18

Colleagues

Our nearly 1,800 colleagues are our key asset and our success depends on the talented individuals we employ.

We have always favoured two-way communication between management and our employees through regular town hall meetings, informal sessions with management and opportunities to ask questions anonymously. Even though these events were held virtually in 2020, with the majority of employees working from home, they proved popular and contributed to many initiatives that were undertaken by the business.

Engagement also took place via Group-wide surveys and the results were presented to the Board. We are proud that the Group retained its 'Two Star' rating in The Sunday Times 100 Best Companies to Work For and for the fourth consecutive year, OSB India was officially certified as a 'Great Place to Work' in 2020. The Group also participated in the Banking Standards Board Survey in 2020.

 For more detail on employee initiatives in the year, see the Corporate responsibility report on [pages 92 to 99](#)

The interests of the Group's employees were considered by the Board and its Committees during the year via regular updates provided by senior management, the Group's HR function and the feedback from meetings of working groups. One of the key topics at the forefront of the Board's mind in 2020 was the impact of the pandemic on our employees' lives, both professionally and personally, their well-being and mental health.



Mary McNamara is the Non-Executive Director appointed by the Board with responsibility for employee engagement and is a permanent member of the Workforce Advisory Forum (known internally as OneVoice). Members of the Board and senior management are also encouraged to attend OneVoice meetings in order to understand and discuss employee-related issues directly from representatives across the entire business. Employee feedback from each meeting is shared and discussed with members of the Board and it forms the basis of new policies, benefits and any other employee-related projects.

 Further information on OneVoice can be found in the Directors' Report on page 169

Another key area of Director engagement was their oversight of the decision to harmonise grades, benefits and terms and conditions across the Group as part of the integration programme.

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

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



In 2020, the Board, through the Chair of the Group Remuneration Committee, engaged with shareholders in relation to the Executive Directors' Remuneration Policy. The process, which included listening to shareholders and amending some parts of the policy, resulted in a strong endorsement of the policy at the AGM. During the year, shareholder approval was sought in relation to the insertion of the new holding company in November 2020, which shareholders overwhelmingly voted in favour of.

Shareholders

Our approach to investor engagement has remained straightforward as we favour an open dialogue. Despite the restrictions on physical meetings, 2020 was a year of dynamic and active engagement with our shareholders and the Investor Relations team met 113 individual investors via virtual one-to-one meetings, industry conferences and roadshows.

The Board ensures that all shareholders have equal access to information through regulatory announcements, general meetings and publications on our website. The Board's primary engagement with investors comes through the Group's Chief Executive Officer (CEO) and Chief Financial Officer (CFO) who meet with investors and sell-side analysts and present the Group's results to the market. The Board receives regular updates from the Investor Relations function which include investor feedback, analysts' recommendations and market views. The Group's Chairman is also available for investor meetings and attended three meetings with major shareholders during 2020.

In 2020, the Board took the decision to cancel the 2019 final dividend. More information about this key strategic decision is presented on page 20.

Suppliers

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

In 2020, the Board was also involved with the following aspects of supplier relationships:

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

The Board reviews and approves the Group's Modern Slavery and Human Trafficking Statement on an annual basis, which can be found on our website at www.osb.co.uk.



Regulators

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

The Group maintains proactive dialogue with the Prudential Regulation Authority and Financial Conduct Authority. 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. The number of meetings held with regulators increased in 2020 and included, among other topics, operational resilience, the ability to respond to a financial stress, business continuity review and incident management. There was also significant interaction with our regulators with regard to the insertion and approval of the new holding company and the complexities of maintaining two banking licences within the Group.

Even though the Directors do not participate in all meetings, the senior management including the CFO and Chief Risk Officers provide the Board and its Committees with feedback and regular updates in respect of the broader regulatory developments and compliance considerations.

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

Communities

Each year, OSB engages with charitable causes in Kent and supports a national charity chosen by employees by taking part in a variety of charitable events and partnerships. CCFS is involved in the West Midlands community and every year supports a chosen local charity. OSB India is also active in the community local to the office in Bangalore, as well as in areas where there are critical needs.

Employees and the business donated c. £516,000 to its charity partners in the year and our employees also dedicated time in a variety of volunteering activities, described in the Corporate Responsibility Report on pages 102 to 105.

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

In 2020, the Board endorsed the initiative of the Group Executive Committee to forgo their potential 2020 cash bonuses. The Board decided to use some of the savings to help support charities focused on homelessness. In this vein, the Group committed to a minimum of £250,000, with £100,000 donated to Shelter, which offers support and advice to those facing housing issues or homelessness across the UK. The remainder was donated to local charities that serve homeless people and to finance the purchase of dialysis machines for the HBS Dialysis Unit in India, which provides dialysis for underprivileged patients.

Environment

The Group is committed to operating sustainably and to continually reducing our environmental impact by not only promoting awareness of environmental issues among our employees, but also by adhering to our plan to become a greener organisation.

During the year, there were multiple initiatives undertaken by the Group, which are described in more detail in the Corporate Responsibility Report on pages 100 and 101.

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 and enhanced regulation.



Section 172 Statement

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

The stakeholders which the Directors considered in this regard are customers, intermediaries, employees, shareholders, suppliers, regulators and the local communities in which we are located. These stakeholders are considered to be those the most likely to be impacted by decisions taken by the Board. The pages on 16 to 19 and those that follow, set out how Directors complied with the requirements of section 172 during the year.

Decision making

The Board recognises that considering our stakeholders in key business decisions is fundamental to our ability to deliver the Group's strategy in line with our long-term values and operating the business in a sustainable way. Balancing the needs and expectations of our key stakeholders has been at the forefront of the Board's mind and has been more important than ever during 2020, as a result of the global pandemic; whilst acknowledging that some decisions will result in different outcomes for each stakeholder.

Key strategic decision in the year

Cancellation of the 2019 final dividend

In April 2020, given the unprecedented and rapidly developing situation due to the outbreak of COVID-19 and the associated uncertainties, the Board took the difficult decision to cancel the 2019 final dividend.

The Board spent an extensive amount of time in discussions, not only internally, but also obtained advice from the Group's external advisers and communicated with the regulator. The Board also closely monitored the situation among the Group's peers and the larger systemic banks. The Board discussed the impact that a non-payment of dividend would have on investors who had become accustomed to receiving a regular dividend. The Board also considered other stakeholders and how paying a dividend may negatively impact them. The Board was aware that COVID-19 was unprecedented and that the extent of its impact remained uncertain at the time the decision was made. The Board decided that in order to help to serve the needs of businesses and households through the extraordinary challenges presented by COVID-19, the dividend would be cancelled. The decision-making process of the Board demonstrated that the best outcome for all stakeholders concerned was to preserve the Group's capital, even though the Group's regulator did not specifically disallow the payment of the Group's dividend. The Group's strong capital position also provided certainty for our employees and their jobs; to our suppliers; and demonstrated our prudent management in times of crisis.

As a result of the Group's strong performance in 2020, the Board is delighted to recommend the payment of a dividend of 14.5 pence per share for the year.



The COVID-19 pandemic dominated 2020 and had a material impact on society, businesses and the economy. Despite the unprecedented nature of the events in the year and the challenges that arose, the Group proved its ability to successfully manage through its adaptability, operational resilience and prudent management and continued to create value for all stakeholders in the year.

Resilient business

The Group's business model, based on a secured balance sheet, prudent and diligent risk management and strong capital and liquidity positions, withstood the test of 2020.

Management and the Board took early decisions about the Group's risk appetite and chose to further protect the business by withdrawing most products in late March 2020. Once the situation improved, the Group returned to the market with a limited set of products with tighter underwriting criteria and higher pricing. The Group also controlled the volume of new business by pausing lending in more cyclical segments of the market, including commercial, development finance and funding lines.

To strengthen its capital position, in April 2020, the Group took the difficult but prudent decision not to pay the 2019 final dividend. Previous crises have shown that maintaining strong levels of liquidity has been critical for banks and the Group increased liquidity at the outbreak of the pandemic in March 2020 by drawing additional, attractively-priced funds, under the Bank of England's Indexed Long-Term Repo scheme, which were later replaced by the Term Funding Scheme with additional incentives for SMEs. Throughout the remainder of the year, the Group managed its capital and liquidity positions conservatively in order to maintain a suitable excess in the face of an uncertain and rapidly changing environment. A major modelling and benchmarking exercise for extreme stresses was also completed by the Group's Risk function to ensure that the Group is well positioned to withstand a severe crisis with appropriate contingency plans in place.

None of this would have been possible without the operational flexibility the Group has demonstrated both in the UK and in India. Mortgage payment deferrals meant redeployment of resources at short notice, our call centres in India had to be rapidly adapted for employees working from home and our UK offices and Kent Reliance branches were made compliant with social distancing requirements to keep our employees and customers safe.

2020 was also a time when we were able to reflect and learn from the pandemic. The Board is taking the opportunity to review some of the existing plans for the business to create an even more operationally resilient organisation, taking into account challenges presented by the crisis, not relying on single suppliers or geographical locations, but rather diversifying to protect the business.



For our customers

The Group's priority throughout the year was to offer assistance to our customers who might have been experiencing financial difficulty as a result of the pandemic, both those borrowing with the Group and those saving with Kent Reliance or Charter Savings Bank.

Within days of the mortgage payment deferral scheme being announced by the government, the Group had acted quickly and assertively, redeploying resources to respond to the spike in calls from mortgage customers. By the end of June 2020, the Group had granted payment deferrals to c.26,000 accounts, with a value equivalent to 28% of the Group's mortgage book. Research amongst customers suggested that the significant majority of requests for payment deferrals were to conserve cash and not as a result of customers facing financial difficulty. As at 31 December 2020, active payment deferrals represented only 1.3% of the Group's loan book by value.

The Group continued to process existing mortgage applications on a limited range of products and, at the same time, successfully assisting borrowers requesting mortgage payment deferrals. Due to restrictions placed on physical valuations during the first lockdown, the Group enhanced its risk assessment processes to accept alternative valuation methods for certain products from mid-April 2020, to assist borrowers further.

In October 2020, InterBay Asset Finance launched the Coronavirus Business Interruption Loan Scheme product, enabling us to finance new deals for SME customers affected by COVID-19.

To assist our savers, we kept Kent Reliance branches open throughout the pandemic with appropriate safety protocols in place. Both Kent Reliance and Charter Savings Bank encouraged the use of online access to accounts with an additional channel of contact via secure messaging and maintained postal and telephone channels. Our savings customers also received emails notifying them of alternative ways they could transact and we regularly placed COVID-specific updates as well as information about our service levels on our website.

For our intermediaries

As a result of the pandemic, we became not only more proactive in our engagement with brokers, but we also provided additional virtual ways of interaction and allowed more flexible working hours for our Sales teams to accommodate brokers' changing hours.

At the outset of the pandemic in March 2020, the Group stopped accepting new applications for a short period of time, however, we continued to process all applications already in place where we had physical valuations.

For our employees

It has been of paramount importance for the Group to ensure the physical safety and well-being of its employees throughout the pandemic. From the end of March 2020, the majority of the Group's employees in the UK and India have been working from home. For those whose roles could not be performed adequately from home, the Group offered safe working conditions in our offices. In India, the Group prepared ahead of lockdown, which enabled the majority of employees to work from home with safe and secure technology in place. In addition, we instigated business continuity plans and were granted a number of government licences for critical employees to attend offices in two additional locations as well as in the main Bangalore site.

The Group took actions to ensure that flexible working arrangements were available for our employees, across its different locations, as well as additional equipment and reliable technology. Communication between colleagues continued via online forums, team and Executive updates, virtual town halls and informal quizzes. The Group cascaded mindfulness guidance, published mental health support information and held training workshops, amongst other measures, to aid employees to better manage their new working conditions.

The OSB Group did not place any of its employees on the UK Government's furlough scheme and welcomed 222 new colleagues in 2020.



For our shareholders

Even though the Board took the difficult decision in March 2020 not to pay the 2019 final dividend, shareholders were rewarded by strong performance of the Group in 2020, despite an increase in impairment provisions and a slowdown in the UK mortgage market. The share price performance was very strong, returning to pre-pandemic levels by December 2020 and the Board has recommended the payment of a dividend of 14.5 pence per share for 2020.

For our communities

At the outbreak of the pandemic, members of the Group Executive Committee volunteered to forgo their potential entitlement to the 2020 cash bonus. The Board decided to retain half of the saving in the business and donate the other half to charities, with a minimum value of £250,000. Shelter, a charity which offers support and advice to those facing housing issues or homelessness across the UK, received a £100,000 donation. The remainder was donated to charities that serve homeless people in the communities in which the Group is based in the UK and to provide medical equipment to a local hospital in India.

Rising to the challenge

Gary Wayte, Group Operational Resilience Director



The COVID-19 global pandemic presented the Group with the unprecedented challenge of balancing the needs and safety of our customers with the welfare of our colleagues.

The combination of a dramatic increase in volumes for some of our services, such as mortgage payment deferral requests, coupled with the need to transition the majority of our colleagues to homeworking, was undoubtedly challenging. Throughout the year, we continued to meet the demands of both our savings and borrowing customers, not least by ensuring that our branch network remained open for those unable to interact with us through alternative channels.

Whilst the effectiveness of the Group's response is a result of many contributing factors, the roll-out of a Group video communication platform, together with the very high levels of reliability and stability of the Group's IT systems, were crucial factors, as was the flexibility, resilience and professionalism of our colleagues.

80%

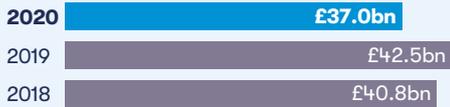
Employees working from home

During 2020, approximately 80% of the Group's employees in the UK and India were working from home, at times operating outside core business hours in order to protect the bandwidth and capacity of IT systems and to meet business demands. For those that were in the offices or branches, a range of additional safety measures were introduced in order to provide a COVID-secure operating environment.



UK Buy-to-Let gross advances

£37bn



Source: UK Finance, New and outstanding Buy-to-Let mortgages, Feb 2021.

UK average house price inflation

8.5%



Source: ONS, December UK House Price Index, Feb 2021.

The UK housing and mortgage market

According to the Bank of England, gross mortgage lending reached £243.1bn in 2020, down 9% compared to £267.9bn in 2019.¹

Mortgage transaction volumes in 2020 decreased to the lowest level since 2016¹ due to the impact of the COVID-19 pandemic and the measures introduced by the UK Government in order to limit the spread of the virus. In addition, lingering uncertainty remained for much of the year over the UK’s future relationship with the European Union, as negotiations appeared to hit an impasse until a breakthrough was made and a trade deal was agreed in December.

The first national lockdown, which began in March 2020, introduced a number of significant challenges for the housing and mortgage market:

- social distancing measures required staff across the industry to adapt to working from home, while conducting business remotely
- physical property valuations were suspended by many large surveying firms as house visits were not possible due to social distancing requirements
- furlough of staff across many industries raised concerns about job security and the potential for the unemployment rate to rise
- the government, with support from UK lenders, announced the ability for individuals to take a mortgage payment deferral. This required the prioritisation of mortgage payment deferral requests and meant that mortgage lenders had to scale back new lending activity to ensure that service levels could be maintained.

Lockdown measures remained in place throughout the second quarter of the year and continued to cause delays in property transactions, easing from April onwards. In particular, there was a large reduction in the number of products available at high loan to value (LTV) as lenders sought to limit exposure to the higher-risk segments of the market.

In May, the UK Government published guidance on how to work safely in other people’s homes during COVID-19. This announcement enabled physical valuations to resume which meant that lenders could begin to reduce the backlog of cases that had built up throughout the lockdown and gradually expand lending criteria.

New lending activity steadily recovered in the second half of the year as pent-up demand was released and the Stamp Duty Land Tax (SDLT) holiday led to a rebound in purchase transactions towards the end of the year. This surge in demand, combined with continued low mortgage interest rates, led to upwards pressure on house prices during the year.



Increasing infection rates throughout October and growing concerns regarding a second wave, led to a second national lockdown during November. The new processes and procedures put in place by mortgage professionals during the first lockdown ensured that the impact of these measures was largely mitigated.

The Bank of England noted in its Monetary Policy Report in February 2021 that markets had reacted positively to the news of successful vaccines and the delivery of the vaccine programme, which should support the removal of restrictions and a bounce back in economic activity.

The UK savings market

The UK savings market was also impacted by the COVID-19 pandemic as customers stopped spending and started saving at the highest rate in nearly 30 years. The percentage of disposable income saved rose from 9.6% to 29.1%, which was more than double the previous record of 14.4% set in 1993.²

While some of the increased savings will have come from prudence in an uncertain world, the majority came as a result of enforced saving as national lockdowns prevented discretionary spending on everything from houses and cars, to holidays and entertainment.

Over £150bn was deposited with banks and building societies in 2020 and c. £56bn was deposited in the three months between April and June alone, during the first national lockdown, compared to c. £6bn the month before.³ The NS&I increased their deposit requirement from £6bn to £35bn⁴ and competed strongly to obtain it.

Savings rates fell to historically low levels following the decision by the Bank of England to cut its base rate by 65 basis points to a record low of 0.1% by mid-March, although there was a delay in banks and other deposit takers passing the base rate cuts on to savers in full, as they prudently managed liquidity at the start of the pandemic.

Between the start of March and the start of July, the average rate paid on an easy access savings account more than halved from 0.50% to 0.23%, while the average rate on a one year fixed rate bond dropped from 1.15% to 0.66%.⁵ Many providers chose to simply exit the market altogether, with the number of savings accounts on offer reducing from 1,906 in November 2019 to 1,517 in November 2020.⁵

Rates were forced down further in the second half of the year as banks and building societies had to control savings inflows to avoid amassing unnecessary liquidity, as lending volumes reduced and NS&I announced significant rate cuts.⁶





The Group's lending segments

Buy-to-Let

In the Buy-to-Let segment of the mortgage market, the March lockdown was the main driver behind the annual decrease in volumes. According to UK Finance, Buy-to-Let gross advances reached £37bn in 2020, a 13% decrease from £42.5bn in 2019.⁷

Purchase activity was more significantly affected in the early months of the pandemic, with fewer landlords entering the market; however, this was mitigated to a degree by the SDLT holiday which supported a recovery in house purchase activity during the fourth quarter of the year.

Buy-to-Let purchases reached £9.8bn during the year, down 8% compared to 2019, while remortgage originations reached £26.3bn, down 13% year-on-year.⁷ The professionalisation of the Buy-to-Let market that has been driven by increased tax liability for private landlords and sustained regulatory change over a number of years continued. On 6 April 2020, the final phase of the Buy-to-Let tax relief changes were introduced, meaning that private landlords would no longer be able to deduct any mortgage interest payments from their rental income when calculating their tax liability. Instead, this has been replaced by a tax credit calculated at 20% of the mortgage interest payment. For some landlords, especially those that are higher rate or additional rate taxpayers, this would result in a larger tax bill.

In addition, changes to Capital Gains Tax (CGT) rules that come into force from the 2020-21 tax year, mean that landlords must now declare and pay any CGT liabilities within 30 days of selling an investment property, whereas in the past any CGT liability did not need to be declared until the next annual tax return. This provides a much shorter window for paying the tax bill and in combination with more restrictive rules around Private Residence Relief and Letting Relief could further increase the tax liability for certain landlords.

Research conducted by BVA BDRC in its Landlords Panel survey⁸ reported that in the fourth quarter of 2020, 66% of landlords believed that their lettings business will be negatively affected by the coronavirus pandemic; however, this proportion decreased compared to the first half of the year (Q1 2020: 81%) signalling negative, but improving, sentiment among landlords. This is also reflected in the landlords' confidence measure, which initially saw a sharp decline as the pandemic started then showed signs of a rebound and a greater sense of optimism towards the end of the year.

The proportion of landlords seeking to reduce the size of their portfolio (20%) remains higher than the proportion intending to buy new properties (16%); however, the gap has closed from this point last year (22% and 14% respectively).⁸ Of those landlords looking to buy new properties, a majority now intend to do so within a limited company structure, with the most desirable attribute for new properties being potential rental yield. The market is becoming increasingly dominated by professional landlords whose primary source of income is from their property portfolio.

The fundamentals underpinning the private rented sector remain strong, with continued increases in house prices stretching affordability further and the reduced availability of high LTV mortgages generating high demand for rental properties.

Residential

The UK residential mortgage market was equally affected by the outbreak of coronavirus and the measures that were introduced subsequently. The national lockdown in March was the primary driver of the reduced lending volumes in 2020 as lenders faced significant service pressures as they adapted to working from home and prioritised processing of mortgage payment deferral requests. Many of them reduced new business activity by tightening criteria and withdrawing products as they focused on low LTV, prime lending.

The purchase market was more impacted than the remortgage market, where it is easier to transact without face-to-face contact, with strong product transfer activity continuing. Purchase activity accelerated in the second half of 2020, stimulated by pent-up demand, the SDLT holiday and upcoming changes to the Help-to-Buy scheme.

House prices continued to rise, potentially increasing affordability challenges, with many buyers seeking to complete their purchases before the government incentives are withdrawn.

Commercial

The commercial property market, which was largely shut in the second quarter of 2020, due to the pandemic, experienced contrasting dynamics stemming directly from the social measures introduced to contain the virus and dividing it into sectors that were thriving or struggling.

The hospitality and leisure sectors of the commercial market were severely impacted by coronavirus restrictions, which have also further exacerbated the difficult situation shopping centres and the High Street were already experiencing pre-pandemic. As consumers moved online, traditional retailers struggled to pay rents and therefore shut shops. Many pubs, bars and restaurants also remaining closed, contributing to retail tenant demand and rents on the High Street falling in all but the most prime locations, with CBRE Group reporting an annual decline of 8.3% in rent for 'all retail'.⁹ However, convenience retail showed growth in 2020, as shopping for essentials became even more local.¹⁰ In addition, mixed use asset classes such as semi-commercial property, which offers a diverse income stream underpinned by the residential lettings, continued to be attractive to investors.

In contrast, the industrial sector, especially warehouse and distribution, saw greater occupier and investor demand, resulting in an increase in rents and capital values, with CBRE reporting annual rental value and capital value growth of 2.8% and 4.7% respectively for 'all industrial'.⁹ Finally, office space was impacted by lower occupancy rates as office workers were working from home for the majority of 2020. This trend



has also created some uncertainty around future occupier requirements for office space, as many businesses may not be renewing their leases or may be choosing smaller office spaces and adopting flexible and agile working post pandemic.¹⁰

Overall, in 2020, there was £41.8bn invested into UK commercial property, a fall of 22% from 2019.¹¹

Residential development

The UK has experienced a long period of house price growth, creating affordability problems, as demand for housing outstripped both supply and real wage growth. Transaction volumes for new build sales were affected by the national lockdown in March, as they were for the second hand market. However, the furlough scheme, mortgage payment deferrals and, to a lesser extent, the suspension on lenders and landlords taking possessions, as well as other government schemes supporting lending and house purchases, protected both housing markets from the effects of the pandemic and boosted the demand for housing throughout 2020.

The strongest demand experienced by Heritable's customers was for houses that were affordable to local populations in the regions, which the business has concentrated on funding. It was notable that sales rates for the few apartment schemes funded in London were also high, seemingly bucking the trend of that particular market. These have resulted in high levels of repayments for the Heritable business through 2020.

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

Second charge lending

Second charge lending was severely disrupted by the measures introduced to slow the spread of coronavirus, as lenders scaled back their appetite for new business with lower maximum LTVs and stricter lending criteria. According to the FLA, second charge mortgage lending reached £728m in 2020, down 42% compared to 2019.¹²



Funding lines

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

OSB Group is an active provider of secured funding lines to these specialty finance providers, primarily focusing on short-term real estate finance and development finance. Through these activities, the Group has achieved senior secured exposure at attractive returns to asset classes that it knows well primarily secured against property-related mortgages. OSB Group sees a regular flow of opportunities; however, given the COVID-19 pandemic and economic uncertainty, in 2020 the Group did not consider any new client facilities, choosing to focus on servicing the existing borrowers and applying amended, restricted lending criteria.

1. UK Finance, New mortgage lending by purpose of loan, UK (BOE), Feb 2021.
 2. House of Commons Library, Research Briefing, Coronavirus: Impact on Household Saving and Debt, Jan 2021.
 3. Bank of England Database, LPMVHS, Dec 2020.
 4. NS&I press release 16 July 2020.
 5. Moneyfacts Treasury Reports 2020.
 6. NS&I press release 21 Sept 2020.

7. UK Finance, New and outstanding Buy-to-Let mortgages, Feb 2021.
 8. BVA BDRC Landlords Panel, Q4 2020, Jan 2021.
 9. CBRE UK Monthly Index, Dec 2020.
 10. Commercial Auction 2020 Annual review, Allsops.
 11. https://www.savills.co.uk/research_articles/229130/310162-0
 12. FLA, Feb 2021.



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Our track record in generating attractive and sustainable returns continued and we delivered strong financial results amidst the turmoil, whilst ensuring we protected our colleagues, customers and other stakeholders.

Andy Golding
Chief Executive Officer



I am incredibly proud of how the Group responded in 2020 to the unprecedented and sobering events caused by COVID-19.

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

As the year evolved, we continued to adapt all areas of the business, to ensure our colleagues could safely and confidently deliver the service our customers have come to expect. Quick and clear decision making at the start of the pandemic positioned us well to manage subsequent lockdowns. I am particularly pleased that we continue to deliver a class-leading return on equity despite

taking significant impairment charges in the year under IFRS 9, with an underlying return on equity of 19% and 13% on a statutory basis (2019: 25% and 18% respectively).

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

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



Underlying return on equity

19%

2019: 25%

Statutory return on equity

13%

2019: 18%

Financial performance

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

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

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

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

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

Adapting to COVID-19

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

I continue to be very grateful to each and every colleague for the effort, perseverance and dedication that they have shown throughout this difficult time, displaying excellent adaptability as government rules changed in line with fluctuating infection rates. To enable our colleagues to assist our customers to the best of their ability, it was important to ensure that they were supported and kept safe, which we managed whilst everyone did a fantastic job of keeping operations running effectively. I am particularly pleased with the operational performance and resilience shown by our wholly-owned subsidiary OSB India. The majority of our colleagues, both in the UK and India, are currently working from home and we are responsibly helping those who are unable to work from home by operating under appropriate protocols in our offices. We recognise the additional strains that the changed circumstances can cause and made emotional well-being support available for all our colleagues. The Group did not participate in any of the government COVID-related business support schemes nor did we place any of our employees on the furlough scheme.

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

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



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

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

Lending through the pandemic

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

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

The Group recognised an impairment provision of £20m in 2020 in relation to potential fraudulent activity by a third party on a funding line of £28.6m provided by the Group, secured against lease receivables and the underlying hard assets. The Group's funding line business is primarily secured against property-related mortgages¹ and the Board believes that this is an isolated incident. The Board has commissioned an external review of processes and controls in relation to the funding lines business and will make enhancements based on recommendations received.

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

Sophisticated funding model

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

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

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

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



Building our business

The integration of OSB and CCFS has progressed very well, with the synergies set out for the first year of the Combination achieved earlier than anticipated, and by the end of the first year we had achieved more than 65% of our end of year three synergy target. We are currently ahead of schedule towards delivering our year two synergy target and expect to marginally exceed our run-rate pledge by the end of the final year. We streamlined the Board and de-duplicated a significant proportion of senior management roles early and also achieved efficiencies from combining various central and support functions. Our costs to date are lower than originally expected. Operational resilience has had an increased focus in light of the pandemic and the Board is taking the opportunity to review whether some planned consolidation of locations and suppliers is still the best way forward. Any decision is not expected to have a material impact on the quantum of synergies.

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

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

In July 2020, the Group received its Annual Resolution Letter from the Bank of England setting out its preferred resolution strategy. As anticipated, the Group is subject to a single point of entry bail-in requirement which, from July 2023, is expected to be equal to 18% of risk-weighted assets, rising to a final requirement of two times Pillar 1 and Pillar 2a from July 2025. The Group intends to fulfil its minimum requirement for own funds and eligible liabilities through senior debt issued by OSB GROUP PLC, which became the Group's holding company in November 2020, with the first anticipated debt issue during the first half of 2022, subject to market conditions.

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

Looking forward to 2021

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

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

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

Andy Golding
Chief Executive Officer
8 April 2021

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



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

Specialist mortgage lending

Priorities

Be a leading specialist lender in our chosen market segments

Focus on automated and bespoke manual underwriting

Our goals

Grow loan originations at attractive margins in our chosen market segments

- Target market sub-segments which offer attractive returns on a risk-adjusted basis
- Deliver incremental, non-organic business
- Invest in a highly responsive, customer-focused culture
- Innovate to secure sustainable long-term market leadership

High-quality decisions protecting the business

- Use deep credit experience to deliver high-quality lending decisions
- Leverage CCFS' automated approach in conjunction with OSB's skilled manual underwriting capabilities and in-house real estate expertise
- Deliver a quality, differentiated service supported by highly responsive decision-making
- Clear decisions recognised by intermediaries for their quality and fairness

2020

- Organic originations were £3.8bn, down 42% from pro forma underlying £6.5bn in 2019 due to the impact of the pandemic
- OSB's Buy-to-Let gross loan book was up 4% in 2020 and CCFS' gross underlying Buy-to-Let loan book was up 11%
- For the first time, both Kent Reliance and Precise Mortgages were awarded a five star rating at the Financial Adviser Services Awards 2020

- Controlled risk appetite in light of COVID-19 with tightened lending criteria and reduced LTV limits as core market segment lending returned after the first lockdown
- The OSB Transactional Credit Committee met twice each week in 2020 to assist with more complex or larger new mortgage applications
- Increased stress testing in specialist sub-segments
- Continued to help customers through the pandemic by flexible working whilst maintaining high underwriting standards

Looking forward

- Maintain our strong credit and return requirements and assess the attractiveness of growth opportunities in our current market sub-segments when macroeconomic conditions improve
- Deploy scale and resources on organic growth opportunities
- Identify new market sub-segments with high returns on a risk-adjusted basis
- Identify additional potential revenue synergies

- Using OSB's and CCFS' credit experience in a best-of-both approach
- Leverage differentiated but complementary underwriting capabilities to enhance customer propositions
- Increase underwriting efficiency to better serve borrower needs across complementary brands
- Use enhanced data insight and analysis of the combined OSB and CCFS data sets and analytic capabilities

Key risks*

- Unknown long-term impact of COVID-19 on employment, house prices and the wider economy
- Political and economic uncertainty affecting long-term demand for specialist mortgages
- Potential regulatory and tax changes on Buy-to-Let
- New specialist lenders entering the market

- Changing regulation for underwriting
- More complex underwriting requirements
- Difficulty in recruiting experienced employees
- Increasing intermediary demands
- Demands of ever-changing technology

Key performance indicators

Organic originations

£3.8bn

2019: £6.5bn pro forma underlying

Underlying loan loss ratio

38bps

2019: 10bps pro forma underlying



Priorities

Further deepen relationships and reputation for delivery with intermediaries

Our goals

Increase partner reach in response to demand

- Access to specialist products developed by listening to intermediary partners
- Be accessible and available to intermediaries
- Complementary propositions for OSB and CCFS brands
- Gain intermediary recognition for delivering sustainable propositions
- Deliver bespoke solutions to meet intermediary and customer needs

2020

- OSB's Choices programme had another successful year with 75% of borrowers choosing a new product with the Bank within three months of their existing product ending
- CCFS enhanced service standards
- CCFS' and OSB's Sales teams attended 416 physical and virtual intermediary events in 2020

Looking forward

- Continue to build direct relationships with intermediaries
- Leverage best practice of CCFS and OSB across the combined Group to maintain and further enhance best-in-class service performance to brokers
- Increase the breadth of sales support to intermediaries during the application process

Key risks*

- Loss of key broker relationships
- Competition reducing pricing below the Group's risk-adjusted return appetite
- More complex underwriting requirements slowing the process

Key performance indicators

OSB broker NPS

+49

2019: +27

CCFS broker NPS

+54

2019: +18

Sophisticated funding platform

Maintain a stable, high-quality, diversified funding platform

Expertise in funding options

- Maintain a resilient and diversified funding platform to support future growth and ensure liquidity requirements are met through the economic cycle and cost of funds is optimised
- Be primarily funded through attracting and retaining a loyal retail savings customer base
- Deliver a proposition offering transparent, straightforward savings products, providing long-term value combined with excellent service levels
- Maintain a sophisticated securitisation funding programme and balance sheet management capability

- Opened nearly 47,000 new savings accounts across both Banks in 2020
- Achieved 93% customer retention for Kent Reliance and 77% for Charter Savings Bank
- Received multiple awards for savings products, including Best Bank Savings Provider from the Moneyfacts Awards for Charter Savings Bank and Best Easy Access Savings provider in the Money.net Awards for Kent Reliance
- Delivered securitisation transactions with a combined value of £2.8bn in 2020

- Continue to invest in both Kent Reliance and Charter Savings Bank retail deposit franchises
- Benefit from the ability to execute structured balance sheet management transactions across the combined Group's balance sheet
- Utilise in-house expertise to enable efficient access to capital markets
- Increase the Group's encumbrance efficiency: access to more wholesale funding for each pound of assets encumbered

- Increased competition for retail funds
- Increased customer expectation for technology
- Volatility of capital markets on demand and price
- Increased burden of regulatory compliance – for example, Open Banking (which currently does not apply to the Group)

19

securitisations since 2013 across OSB and CCFS worth over

£7.9bn

Unique operating model

Leverage our unique and cost-efficient operating model

Best-in-class customer service

- Have customer service at the heart of everything that we do
- Maintain centres of excellence across OSB's and CCFS' existing locations in Chatham, Wolverhampton and Bangalore, India
- Extend activity in OSB India (OSBI) to develop high-quality areas of excellence
- Deliver cost efficiencies through excellent process design and management
- Deliver flexible and resilient operating processes

- Investments in training and process development contributed to strong savings customer NPS of +67 for Kent Reliance and +72 for Charter Savings Bank
- Continued to develop deep credit know-how through proprietary data analytics
- 493 employees at OSB India at the end of 2020
- Demonstrated outstanding operational resilience and flexibility during the pandemic

- Use greater scale to deliver efficient, scalable and resilient infrastructure including IT security
- Deliver cost efficiencies and operational enhancements by leveraging OSBI's lending, savings and support operations and capabilities
- Deliver efficiencies and enhanced capabilities in centres of excellence
- Use robotics technology and improve workflows to further enhance primary servicing

- Difficulty in continuous service improvement as the Group grows
- Increasing costs in India
- Increasing complexity from compliance with changing regulation
- Maintaining operational resilience as the Group grows

Underlying cost to income ratio

27%

2019: 29% pro forma underlying

* For more information on the Group's risk management and principal risks and uncertainties see the Risk review section on pages 61 to 87.



Creating a leading specialist lender in our chosen market segments

Our scale, complementary strengths and enhanced customer propositions following the Combination support our goal to become a leading specialist lender in the UK.

Leading lender in our chosen market segments

Our market coverage is strong and we attract customers who want an automated approach to underwriting in addition to those who need a bespoke manual solution.

Through the Group’s substantial scale and resources, we:

- are leaders and experts in our chosen specialist, secured market segments
- offer both bespoke and automated underwriting capability
- have strong relationships with intermediaries which provide us with rapid and widespread distribution, supporting stronger origination volumes.

Our market segments

Through our lending brands we target specialist mortgage market segments that are underserved by UK retail banks and building societies, and are underpinned by positive long-term market dynamics. We continually evaluate the attractiveness of and growth opportunities within our current market segments, together with assessing opportunities to move into new specialist segments. We concentrate on areas where margins are attractive relative to risk and lending is sustainable within our conservative risk appetite. Our increased scale enables us to serve more customers and expand our reach across specialist segments.

We currently lend in the following specialist market segments:

- Buy-to-Let
- bespoke specialist and near prime residential
- second charge residential
- shared ownership residential
- commercial and semi-commercial
- bridging and short-term loans
- residential development
- asset finance
- funding lines.

Deep credit expertise

Our credit expertise and extensive product knowledge will help us to achieve market leadership. Each of our brands are led by experienced industry professionals and are supported by highly skilled teams with experience and insight spanning the entire mortgage life cycle. We have proprietary data analytics, which continue to enhance our deep credit knowledge. The Group uses this knowledge and data to adapt quickly to changing market conditions, identifying niche lending opportunities and tailoring its product offering accordingly.

Expanded underwriting capability Bespoke underwriting

Our Kent Reliance brand does not use automated or scorecard-based processes. All of its loans are underwritten by experienced and skilled underwriters, supported by technology to reduce the administrative burden on underwriters and mortgage intermediaries. We consider each loan on its own merit, 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 twice each week, demonstrating our responsiveness to broker needs.

Automated underwriting platform

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

Expanded intermediary relationships

Both OSB and CCFS have developed extensive intermediary relationships and the combined Group can now leverage both sets of intermediaries to support stronger origination volumes.



Mortgage Club Awards 2020

Best Lender for Buy-to-Let

WINNER

KENT RELIANCE FOR INTERMEDIARIES





Managing risks in our lending strategy

Both OSB and CCFS have developed risk identification, management processes and expertise. During 2020 the Group primarily focused on developing a considered and measured response to the global pandemic based on our strategies.

A particular area of focus was credit risk. The Group undertook additional stress testing and adjusted its risk appetite, primarily through tightening its lending criteria to effectively manage the risk of lending in a highly disruptive and economically uncertain market. For more information on the Group's risk management and principal risks and uncertainties see the Risk review section on pages 61 to 87.

Case study

Helping people into homes and inspiring the young



Al Kerr, one of OSB Group's biggest customers, knows the value of teamwork. Being a successful landlord is about recognising that it isn't just bricks and mortar, but it is more of a people business, whether it is working with those that support him or who he supports such as the young people he has helped and encouraged to build careers in property and related professions.

A cornerstone of his success is being passionate about having happy tenants and he instils his passion into his own team and shares it with his business partners. OSB is a long-term partner of Al's and so it wasn't a surprise when he asked us to help him undertake a simultaneous remortgage of his property portfolio. The long-term success of his business was being threatened by changes in regulation and to protect it, and the people he employs, it became an imperative to incorporate his borrowing by moving his mortgages from his own name into a company structure. To make things more complicated it was necessary to do this in a single day, which meant more than a year of planning, not only with banks such as OSB, but also solicitors, surveyors and other property professionals.

Then came the pandemic, making a difficult undertaking even more complex and creating challenges to the day-to-day operations of his business. With a dedicated team across the Group, we stepped up to the challenge and got the job done. In Al's words: 'The team at OSB pulled out all the stops and simplified the process as much as possible'.

His business is secure and he can now look forward to the next stage of his enterprise, working with partners like OSB, helping people into homes and inspiring the young to develop successful careers.



Sophisticated funding platform

The Group has stable funding from retail savings and capital markets expertise for programmatic issuance of mortgage-backed securities. This enables the Group to optimise its cost of funds while prudently managing funding and liquidity risks.

Retail savings

OSB Group is predominantly funded by retail savings deposits, operated under two brands: Kent Reliance and Charter Savings Bank (CSB).

Kent Reliance is a 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 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.

In line with its dynamic funding strategy, CSB has diversified its retail funding sources through pooled funding platforms. The range of products sourced via these platforms includes easy access and non-retail deposits.

Customer satisfaction and transparent savings products

Our customers' satisfaction is key to how we do business and at the heart of our corporate culture.

Our key strengths are:

- customer focus;
- transparent, good-value savings products.

The outstanding customer service that we consistently provide to our savings customers is evidenced by our high NPS. For 2020, Kent Reliance had NPS of +67 and CSB +72. In addition, 93% of Kent Reliance customers whose savings products matured in the year renewed with us and 77% of CSB's customers also did so. During the year, Kent Reliance opened just over 25,000 new accounts and CSB just over 21,500.

Both Banks were also recognised by the industry, winning multiple awards in the year, including Best Bank Savings Provider in the Moneyfacts Awards and Best Savings Provider in the Savings Champion Awards for CSB and Best Easy Access Savings provider in the Moneynet awards for Kent Reliance among others.

Kent Reliance's proposition for savers is simple: to offer consistently good-value savings products that meet customer needs for cash savings without having to price at the very top of the best buy tables. The Bank also offers loyalty rates for its existing customers.

CSB's philosophy is to maintain and develop its award-winning business, by diversifying its product offering to access funding pools. It also aims to offer competitively priced new savings products in its existing product lines. Operating with an agile, nimble approach, CSB can respond quickly to the funding requirements of the business, providing advantageous cost of funds.





Wholesale funding

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 duration funding. Wholesale funding enabled 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 has been a programmatic issuer of high-quality residential mortgage-backed securities (RMBS) through the Precise Mortgage Funding and Charter Mortgage Funding franchises with 14 securitisations worth more than £4.5bn since 2013.

OSB returned to the securitisation market in 2019 and has since issued three securitisations of organically originated mortgages under the Canterbury Finance programme totalling £2.6bn.

In 2020, CCFS also maintained warehouse funding capacity through two Tier 1 investment banks. These facilities act as a bridge to RMBS funding, helping the Group to maximise the efficiency of its liquidity position through the transition from retail deposit to securitisation funding.

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.

Bank of England funding

The Group also takes advantage of the Bank of England's funding schemes. In the first half of 2020, the Group was accepted to participate in the Term Funding Scheme for SMEs with drawings of £1.0bn as at the end of 2020. Drawings under the TFS scheme remained unchanged from 2019 at £2.6bn.



For more information about the Group's securitisation funding, see [pages 50-51](#)

Case study

Bucking the trend by investing to improve our services

Jenny Longbottom

Savings Operations Manager



The need to become better and better for our savers was never more important than in 2020. With the particular challenges that the year brought upon us all, physical premises were of paramount focus to ensure the health and safety of our customers and branch colleagues. We have implemented safety screens and one-way systems amongst other measures and we kept well informed of important information and updates. We have also collaborated with colleagues in the Customer Enquiry Team to help them support customers who found themselves having to do things slightly differently.

Despite these challenges, we continued to invest in the branch network and the Strood branch moved to larger premises with additional service points and private meeting space. We will continue to invest in our branches in the future and we are proud to grow our presence on the High Street when others are withdrawing and to be upgrading our branches for the benefit of our customers and colleagues alike.



Efficient, scalable and resilient infrastructure and systems

The Group has a unique and cost-efficient business model and maintains a robust, scalable and resilient infrastructure. Our customer service functions, based in our multiple locations across the UK and at our wholly-owned subsidiary OSB India, help us deliver on our aim of putting customers first.

Focus on customers

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

The Group has proven collections capabilities and expertise in case management and supporting customers in financial difficulty, from initial arrears through to repossession. This offers valuable insights into, as well as the opportunity to learn from, the performance of mortgage loan products. We have deep credit expertise through proprietary data analytics.

We reward our people based on the quality of service they provide to customers, further protecting our retail savings franchise and leading to high customer satisfaction. In 2020, OSB achieved a customer NPS of +67 and CCFS' was an excellent +72.

Our key strengths:

- Excellent customer experience
- High customer NPS
- High employee retention rates

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

We are proud of our low employee turnover in India, with the regretted attrition rate of just over 11%, outperforming local industry averages.

Focus on quality and cost discipline

The Combination has increased the Group's scope to deliver efficient, scalable and resilient infrastructure and invest in IT security, supported by data security and resilience experts.

Both OSB and CCFS are extremely cost-efficient with low cost to income ratios, reflecting historical high growth in income, the benefits of OSBI and high operating leverage as the balance sheet has grown.

Savings NPS for KR

+67

2019: +66

Savings NPS for CSB

+72

2019: +72



Case study

OSBI – resilient and flexible

Anil Philip

Head of Support Services, OSBI

As we went into 2020, little did we know that a pandemic would sweep the globe!

Hours before a sudden announcement by the Government of India that the whole country would go under a strict lockdown, a decision was made by the Group to set up all processes for work from home. Within a short period of time we had to enable 90% of colleagues to work remotely, many of them in locations other than Bangalore, find enough equipment, get those working in different states to safely collect the equipment and then to return home. Some of our colleagues spent seven weeks working from Hyderabad's hotels, unable to return home to Bangalore.

Despite these challenges we stood up to one of the biggest operational challenges at OSBI.



Coronavirus impact on the Group's lending segments

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

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

Self-certified mortgage payment deferrals were announced by the government in March 2020. Payment deferrals peaked in the second quarter at 26,000 accounts, representing 28% of the Group's mortgage book by value. Anecdotal evidence suggested that many people who requested a payment deferral were doing so to prudently safeguard their cash flow, rather than as a necessity, and the underlying performance of the Group's loan book seemed to confirm it. Arrears remained broadly stable throughout the year and as at 31 December 2020 the percentage

of loans and advances in three months plus arrears remained broadly stable at 1.3% for OSB (2019: 1.3%) and 0.5% for CCFS (2019: 0.3%). Volumes of mortgage payment deferrals reduced significantly and as at 31 December 2020 active payment deferrals represented only 1.3% of the Group's loan book by value.

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

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

 For more information on the impact of the coronavirus on the wider UK lending and savings markets, see Market review on pages 24-27

“

I had to change the way I interact with brokers

Helen Comben
Senior Business Development Manager, KRFI



Case study

A can-do attitude

Helen Comben

Senior Business Development Manager, KRFI

2020 started as any normal year with daily visits to brokers in the City and North London. We had an excellent start to the year with good levels of mortgages. When the lockdown began, we were all asked to work from home and I had to change the way I interact with brokers. In order to conduct face-to-face visits I used video conferencing. Brokers appreciated that by not being in meetings, I had more availability to proactively contact them regarding their cases and they could speak to me more easily. However, there is nothing better to establish and build broker relationships than meeting them and I can't wait to be back on the road soon!

In 2020 I won the Legal & General Best BDM award and having been a BDM for nearly 20 years, I genuinely believe that my brokers appreciate everything that I do for them, together with my honesty and the knowledge to look at a case with a can-do attitude.





The Group reports its lending business under two segments: OSB and CCFS

OneSavings Bank (OSB) segment

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

Year ended 31-Dec-2020	BTL/SME £m	Residential £m	Total £m
Gross loans and advances to customers	9,164.6	1,966.8	11,131.4
Expected credit losses	(67.0)	(16.6)	(83.6)
Net loans and advances to customers	9,097.6	1,950.2	11,047.8
Risk-weighted assets	4,282.9	874.4	5,157.3
Profit or loss for the year			
Net interest income	264.7	68.1	332.8
Gain on sale of loans	18.0	-	18.0
Other income	0.2	0.6	0.8
Total income	282.9	68.7	351.6
Impairment of financial assets	(47.0)	(3.7)	(50.7)
Contribution to profit	235.9	65.0	300.9
Year ended 31-Dec-2019	BTL/SME £m	Residential £m	Total £m
Gross loans and advances to customers	8,983.2	1,837.4	10,820.6
Expected credit losses	(21.6)	(14.0)	(35.6)
Net loans and advances to customers	8,961.6	1,823.4	10,785.0
Risk-weighted assets	4,244.0	846.0	5,090.0
Profit or loss for the year			
Net interest income	253.5	62.7	316.2
Other expense	(8.0)	(4.9)	(12.9)
Total income	245.5	57.8	303.3
Impairment of financial assets	(13.8)	1.9	(11.9)
Contribution to profit	231.7	59.7	291.4



OneSavings Bank – Buy-to-Let/SME sub-segment

Gross loan book

£9,164.6m

+2%

2019: £8,983.2m

Net interest income

£264.7m

+4%

2019: £253.5m

Contribution to profit

£235.9m

+2%

2019: £231.7m

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

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

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

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

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

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

The weighted average LTV of the Buy-to-Let book as at 31 December 2020 was 67% with an average loan size of £260,000 (2019: restated 68%¹ and £260,000). The weighted average interest coverage ratio for Buy-to-Let origination during 2020 was 201% (2019: restated 199%²).



Through its InterBay brand, OSB lends to borrowers investing in commercial and semi-commercial property, reported in the Commercial total, and more complex Buy-to-Let properties, reported in the Buy-to-Let total. The commercial sub-segment gross loan book reduced by 7% to £821.9m (2019: £888.0m) as the Group paused new lending activity in late March and returned to the market with a much reduced product suite in May, offering semi-commercial loans only to a maximum LTV of 60%. As the commercial market is traditionally more sensitive to economic downturns, the Group reduced its appetite for lending and new loans were underwritten with tightened criteria. The InterBay proposition began to be extended in November when the maximum LTV limit for semi-commercial loans was lifted to 70% and standard commercial lending was relaunched to a maximum LTV of 65%. The weighted average LTV of the commercial book was 71% and the average loan size was £385,000 in 2020 (2019: 67% and £375,000, respectively).

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

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

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

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

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

Net interest income in the Buy-to-Let/SME sub-segment increased 4% to £264.7m from £253.5m as a result of the loan book growth, partially offset by a delay in passing on the base rate cuts to depositors in full. The Buy-to-Let/SME sub-segment also benefitted from the gain on structured asset sales of £18.0m which was offset by impairment losses of £47.0m (2019: £13.8m). Impairment losses increased due to the impact of adopting COVID-19 forward-looking assumptions in the Group's IFRS 9 models and an impairment provision of £20.0m in relation to potential fraudulent activity by a third party on a secured funding line provided by the Group. Overall, the Buy-to-Let/SME sub-segment made a contribution to profit of £235.9m in 2020, up 2% compared with £231.7m in 2019.

The Group remains highly focused on the risk assessment of new lending, as demonstrated by the average book LTV in the Buy-to-Let/SME sub-segment³ as at 31 December 2020 of 67% (31 December 2019: restated 68%¹) with only 2.9% of loans exceeding 90% LTV (31 December 2019: 1.8%). The average LTV for new Buy-to-Let/SME origination³ remained stable at 71% (2019: restated 71%¹).

1. The Group restated the comparative LTVs due to a change in aggregation methodology.

2. Interest coverage ratio for 2019 was restated due to an improvement in calculation methodology.

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

**OneSavings Bank – Residential sub-segment****Gross loan book****£1,966.8m****+7%**

2019: £1,837.4m

Net interest income**£68.1m****+9%**

2019: £62.7m

Contribution to profit**£65.0m****+9%**

2019: £59.7m

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

Residential sub-segment: gross loans to customers

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

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

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

Prestige Finance, OSB's second charge mortgage brand, no longer offers new mortgages to borrowers and its loan book is in run-off and managed by Precise Mortgages. Second charge mortgages are currently offered by the Group under the Precise Mortgages brand as a sub-segment of CCFS. The OSB second charge residential loan book had a gross value of £295.4m at the end of 2020 (31 December 2019: £358.6m).

OSB continued to provide secured funding lines to non-bank lenders which operate in certain high-yielding, specialist sub-segments, such as residential first and second charge finance. The Group continued to adopt a cautious approach to these more cyclical businesses given macroeconomic uncertainty. Total credit approved limits as at 31 December 2020 were £29.2m with total loans outstanding of £10.7m secured against property-related mortgages (2019: £31.0m and £12.2m, respectively).



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

The average book LTV¹ remained low at 54% (2019: restated 57%²) with only 1.6% of loans by value with LTVs exceeding 90% (2019: 3.3%). The average LTV of new residential origination¹ during 2020 reduced to 61% (2019: restated 70%²) primarily as a result of growth in shared ownership originations which complete at much lower LTVs.

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

2. The Group restated the comparative LTVs due to a change in aggregation methodology.

Case study

A digital learning curve

Michael Walsh

Business Development Manager, Precise Mortgages



Mortgage brokers and intermediaries have always been fundamental to the success of Precise Mortgages and they have played a pivotal role in providing borrowers with sound advice, especially during the pandemic.

For Business Development Managers like myself, the days of being out and about in various towns and cities across the UK were quickly put on hold when lockdown started in March 2020. Gone was the opportunity to meet up with brokers in person to educate them on specialist lending, generate new business opportunities and strengthen relationships with their existing clients.

8%

CCFS underlying net loan book growth

To work from home efficiently, I had to quickly embrace video conferencing technologies and online webinars which allowed me to continue my day-to-day support for Scottish brokers. This digital learning curve on technology and remote working platforms gave me the opportunity to continue the growth of specialist lending in my region.

While homeworking looks to continue for the immediate future, I look forward to the day I can return to face-to-face meetings with my brokers to offer them on-site support and education on our specialist lending proposition.



Charter Court Financial Services (CCFS) segment

Gross loan book

£8,001.2m¹

+8%

2019: £7,374.4m²

Net interest income

£201.2m¹

n/a

2019: £202.2m²

Contribution to profit

£198.1m¹

-22%

2019: £254.8m²

1. Underlying.

2. Pro forma underlying.

Charter Court Financial Services targets specialist mortgage market segments with a focus on specialist Buy-to-Let, residential, bridging and second charge lending.

CCFS underlying gross loans to customers

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

1. Other relates to acquired loan portfolios.

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

Buy-to-Let sub-segment

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

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

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



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

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

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

Year ended 31-Dec-2019	Buy-to-Let £m	Residential £m	Bridging £m	Second charge £m	Other ¹ £m	Total pro forma underlying £m	Pre- acquisition profits £m	Acquisition- related items ² £m	Total statutory £m
Gross loans and advances to customers	4,748.5	2,170.8	214.4	218.6	22.1	7,374.4	–	294.7	7,669.1
Expected credit losses	(3.5)	(3.6)	(0.5)	(0.4)	–	(8.0)	–	0.7	(7.3)
Net loans and advances to customers	4,745.0	2,167.2	213.9	218.2	22.1	7,366.4	–	295.4	7,661.8
Risk-weighted assets	2,002.4	934.0	127.9	95.4	8.4	3,168.1	–	124.9	3,293.0
Profit or loss account									
Net interest income	114.3	63.6	15.5	7.1	1.7	202.2	(152.1)	(21.6)	28.5
Gain on sale of loans	–	–	–	–	58.7	58.7	(58.7)	–	–
Other income	0.1	0.2	0.1	–	(2.1)	(1.7)	10.0	3.3	11.6
Total income	114.4	63.8	15.6	7.1	58.3	259.2	(200.8)	(18.3)	40.1
Impairment of financial assets	(2.1)	(1.7)	(0.5)	(0.1)	–	(4.4)	4.3	(3.6)	(3.7)
Contribution to profit	112.3	62.1	15.1	7.0	58.3	254.8	(196.5)	(21.9)	36.4

1. Other relates to acquired loan portfolios and related net interest income as well as gains on structured asset sales and fee income from third party mortgage servicing.

2. For more details on acquisition-related adjustments, see Reconciliation of statutory to underlying and pro forma underlying results on page 60.



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

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

Residential sub-segment

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

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

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

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

Bridging sub-segment

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

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

Second charge sub-segment

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

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

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



Case study

Rising to the challenge

Alison Drysdale

Kent Reliance Technical Underwriting Specialist



This has been one of the most challenging and interesting years that I have experienced as an underwriter and the support of my colleagues meant that we were able to rise to the challenge.

I could not imagine at the beginning of the year that the majority of the team would be working from home, but it is testament to our 'Stronger Together' value as we continued to provide an excellent service to our brokers from our living rooms. The excellence we displayed won us 5 stars at the Financial Adviser Service Awards for both our brands: KRFI and Precise Mortgages.

5 stars

5 star award at the Financial Adviser Service Awards

In March, the underwriters supported colleagues in the servicing team with payment deferral requests to ensure that our customers had their requests processed in a timely manner as new business applications were temporarily paused. As soon as it was possible, we returned to the market and the team were able to continue with their role either at home or in the office.

Video conferencing allowed us to keep in touch as a team and made training and development of new underwriters possible, with a number of them obtaining new or increased mandates throughout the year.

I will never forget this year or the support my team has shown throughout.





Wholesale funding overview

Highlights

- 2020 securitisation transactions concluded with a combined value of £2.8bn (2019: £1.2bn).
- Sale of economic interest in two securitisations resulting in a statutory gain of £19.9m, £33.0m underlying (2019: £nil statutory, £58.6m pro forma underlying).

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

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

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

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

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

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

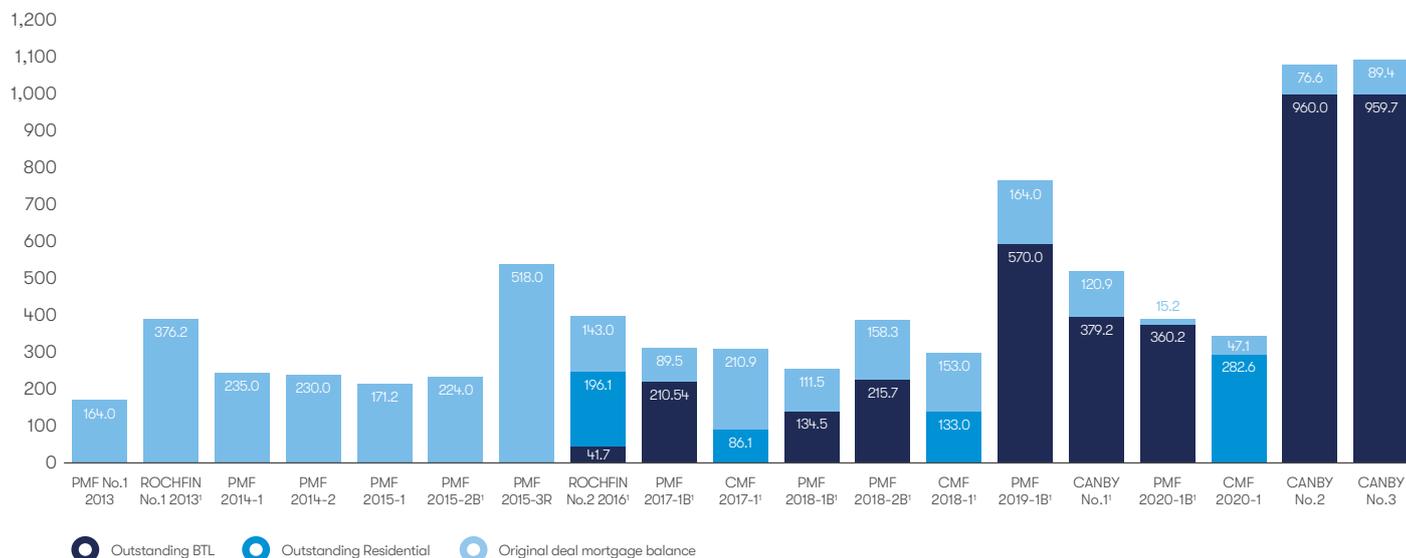
In addition to the placement of around £1.1bn RMBS bonds into the market during the period, the Group also completed two significant retained RMBS transactions, Canterbury No.2, which closed in March and Canterbury No.3 which closed in September. These transactions, totalling more than £2bn in issuance,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

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

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



Group issuances to 31 December 2020 (£m)



	PMF No.1 2013	ROCHFAN No.1 2013	PMF 2014-1	PMF 2014-2	PMF 2015-1	PMF 2015-2B	PMF 2015-3R	ROCHFAN No.2 2016	PMF 2017-1B	CMF 2017-1	PMF 2018-1B	PMF 2018-2B	CMF 2018-1	PMF 2019-1B	CANBY No.1	PMF 2020-1B	CMF 2020-1	CANBY No.2	CANBY No.3
Number of accounts 3+ months in arrears	0	0	0	0	0	0	0	156	3	7	0	1	9	2	12	0	1	3	4
Losses to date (£k)	0	0	0	0	5	0	0	1836	0	4	0	0	0	8	0	0	0	0	0
Weighted average mortgage interest rate	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	2.79%	3.73%	4.36%	3.75%	3.80%	4.38%	3.89%	3.91%	3.59%	4.10%	3.79%	3.83%
Senior note spread (over LIBOR)	1.15%	1.45%	0.80%	0.95%	0.95%	1.25%	n/a	1.30%	0.75%	0.50%	0.65%	0.68%	0.47%	n/a	n/a	n/a	n/a	n/a	n/a
Senior note spread (over SONIA)	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	0.93%	1.17%	0.93%	0.60%	0.95%	1.00%
Weighted average margin at closing	1.43%	n/a	0.88%	1.11%	1.10%	1.53%	1.00%	n/a	1.02%	0.64%	0.74%	0.77%	0.55%	1.27%	1.45%	1.13%	0.66%	1.14%	1.33%

1. Group derecognition deal.

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



Throughout the Strategic report the KPIs are presented on a statutory and an underlying basis for 2020, and a statutory and pro forma underlying basis for 2019.

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

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

Pro forma underlying results for 2019 assume that the Combination occurred on 1 January 2019 and include 12 months of results from CCFS. They also exclude exceptional items, integration costs and other acquisition-related items.

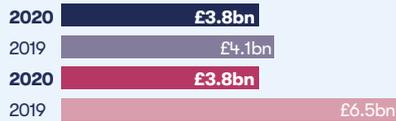
For a reconciliation of statutory results to underlying and pro forma underlying results, see page 60.

In 2020, the Group's external auditor performed an independent reasonable assurance review of certain alternative performance measures as highlighted with the symbol Δ – see the Appendix for the auditor's statement.

- Statutory 2020
- Statutory 2019
- Underlying 2020
- Pro forma underlying 2019
- OSB 2020 ● OSB 2019
- CCFS 2020 ● CCFS 2019

1. Gross new lending Δ

Statutory £3.8bn (2019: £4.1bn)
Underlying £3.8bn (2019: pro forma underlying £6.5bn)



Definition

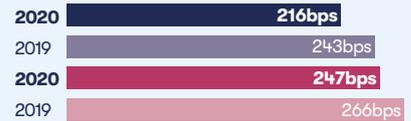
Gross new lending is defined as gross new organic lending before redemptions.

2020 performance

The reduction in gross new lending in the year reflects the impact of the coronavirus pandemic on the Group's lending activities.

2. Net interest margin (NIM) Δ

Statutory 216bps (2019: 243bps)
Underlying 247bps (2019: pro forma underlying 266bps)



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.

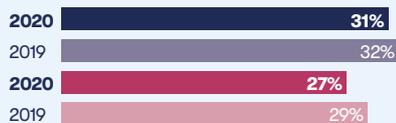
2020 performance

Both statutory and underlying NIM were lower in 2020 primarily due to a delay in passing on the base rate cuts in full to retail savers.

Statutory NIM was also impacted by the dilutive effect of including CCFS' results post Combination.

3. Cost to income ratio Δ

Statutory 31% (2019: 32%)
Underlying 27% (2019: pro forma underlying 29%)



Definition

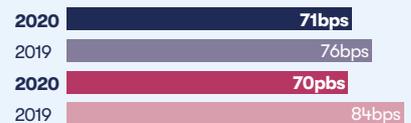
Cost to income ratio is defined as administrative expenses as a percentage of total income. It is a measure of operational efficiency.

2020 performance

Statutory and underlying cost to income ratios improved in 2020 as the Group benefitted from the delivery of synergies and lower discretionary spend during lockdowns. The statutory cost to income ratio was also impacted by a full year of amortisation of the fair value uplift on CCFS' net assets which reduced total income on a statutory basis.

4. Management expense ratio Δ

Statutory 71bps (2019: 76bps)
Underlying 70bps (2019: pro forma underlying 84bps)



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.

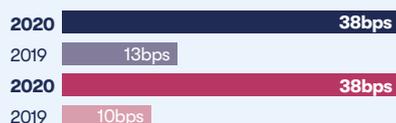
2020 performance

Statutory and underlying management expense ratios improved in 2020 as the Group benefitted from the delivery of synergies and lower discretionary spend during lockdowns.



5. Loan loss ratio^Δ

Statutory 38bps (2019: 13bps)
Underlying 38bps (2019: pro forma underlying 10bps)



Definition

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

2020 performance

Statutory and underlying loan loss ratios increased, despite the stable credit profile of the Group and positive house price movements in the year, primarily as a result of adopting more adverse forward-looking macroeconomic scenarios due to the pandemic, changes to the Group's staging criteria in line with PRA guidance, COVID-19 related enhancements to the Group's models and recognising an impairment provision in relation to potential fraudulent activity by a third party on a secured funding line provided by the Group.

6. Dividend per share^Δ

Statutory 14.5 pence per share
(2019: 4.9 pence per share)



Definition

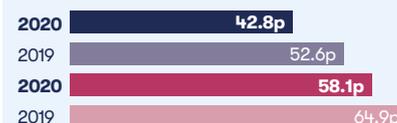
Dividend per share is defined as the sum of the recommended final dividend and any interim dividend for the year divided by the number of ordinary shares in issue at the year end.

2020 performance

The Board recommends a final dividend for 2020 of 14.5 pence per share, representing 25% of underlying profit attributable to ordinary shareholders. In the prior year, as the 2019 final recommended dividend was cancelled, 4.9 pence represents the 2019 interim dividend.

7. Basic EPS^Δ

Statutory 42.8 pence per share (2019: 52.6)
Underlying 58.1 pence per share (2019: pro forma underlying 64.9)



Definition

Basic EPS is defined as profit attributable to ordinary shareholders, which is profit after tax and after deducting coupons on non-controlling interest securities, gross of tax, divided by the weighted average number of ordinary shares in issue.

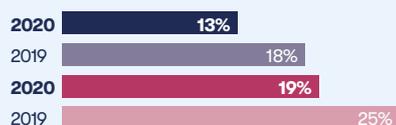
2020 performance

Statutory basic EPS decreased in 2020 as the increase in profit after taxation was more than offset by the impact of the additional shares issued for the all-share Combination with CCFS.

Underlying basic EPS reduced due to the reduction in underlying profit after taxation.

8. Return on equity^Δ

Statutory 13% (2019: 18%)
Underlying 19% (2019: pro forma underlying 25%)



Definition

Return on equity is defined as profit attributable to ordinary shareholders, which is profit after tax and after deducting coupons on non-controlling interest securities, gross of tax, as a percentage of a 13 point average of shareholders' equity (excluding £60m of non-controlling interest securities).

2020 performance

Statutory and underlying return on equity reduced in 2020 due to higher impairment losses and a strengthened equity position, which benefitted from the cancellation of the 2019 final dividend and strong capital generation from profitability.

The statutory return on equity was also adversely impacted by a full year of amortisation of the net fair value uplift to CCFS' net assets on Combination.

9. CRD IV fully-loaded Common Equity Tier 1 capital ratio

Statutory 18.3% (2019: 16.0%)



Definition

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

2020 performance

The CET1 ratio strengthened in the year supported by the cancellation of the final dividend for 2019, the application of the Capital Requirements Regulation 'Quick Fix' package and strong capital generation from profitability.

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

OSB +67 (2019: +66)
CCFS +72 (2019: +72)



Definition

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

2020 performance

OSB's savings customer NPS improved to +67 and CCFS' remained an outstanding +72.



Review of the Group's performance presented on a statutory basis; the 2019 results include CCFS from the date of the Combination

Statutory profit before and after tax

The Group reported 25% growth in statutory profit before taxation to £260.4m (2019: £209.1m) after exceptional items, integration costs and other acquisition-related items of £85.8m¹ (2019: £33.2m²) primarily due to the inclusion of a full year of profits from CCFS following the Combination in October 2019, which more than offset the impact of higher impairment charges as the Group adopted more adverse COVID-19 related forward-looking assumptions in its IFRS 9 models and recognised an impairment provision in relation to potential fraudulent activity by a third party on a secured funding line provided by the Group.

Statutory profit after taxation in 2020 increased by 24% to £196.3m (2019: £158.8m) including the after-tax exceptional items, integration costs and other acquisition-related items of £68.6m¹ (2019: £27.4m²), broadly in line with the increase in profit before tax.

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

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

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

Net interest margin (NIM)

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

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

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

Summary statutory results for 2020 and 2019

Summary Statement of Profit or Loss	Group 31-Dec-2020 £m	Group 31-Dec-2019 £m
Net interest income	472.2	344.7
Net fair value gain/(loss) on financial instruments	7.4	(3.3)
Gain/(loss) on sale of financial instruments	20.0	(0.1)
Other operating income	9.0	2.1
Administrative expenses	(157.0)	(108.7)
Provisions	(0.1)	-
Impairment of financial assets	(71.0)	(15.6)
Impairment of intangible assets	(7.0)	-
Gain on Combination with CCFS	-	10.8
Integration costs	(9.8)	(5.2)
Exceptional items	(3.3)	(15.6)
Profit before taxation	260.4	209.1
Profit after taxation	196.3	158.8

Key ratios *⁴

Net interest margin	216bps	243bps
Cost to income ratio	31%	32%
Management expense ratio	71bps	76bps
Loan loss ratio	38bps	13bps
Basic EPS, pence per share	42.8	52.6
Return on equity	13%	18%
Dividend per share, pence per share	14.5	4.9

Extracts from the Statement of Financial Position

	£m	£m
Loans and advances to customers	19,230.7	18,446.8
Retail deposits	16,603.1	16,255.0
Total assets	22,654.5	21,417.1

Key ratios

Common Equity Tier 1 ratio*	18.3%	16.0%
Total capital ratio	18.3%	17.3%
Leverage ratio	6.9%	6.5%

* For definitions of key ratios, see Key performance indicators on pages 52 to 53, for more detail on the calculation of key ratios, see the Appendix on pages 272 to 274.

In 2020, the Group's external auditor performed an independent reasonable assurance review of certain alternative performance measures as highlighted with the symbol Δ – see the Appendix for the auditor's statement.



Insertion of a new ultimate holding company

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

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

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

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

Net fair value gain/(loss) on financial instruments

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

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

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

Gain on sale of financial instruments

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

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

Other operating income

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

Administrative expenses

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

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

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

Impairment of financial assets

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

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

Impairment of intangible assets

The impairment of intangible assets of £7.0m related to the intangible assets recognised on the acquisition of CCFS and the impact of lower actual and expected lending volumes in CCFS due to COVID-19 on the recoverable amount of the broker relationship intangible.



Integration

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

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

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

Integration costs

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

Exceptional items

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

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

Dividend

The Board has recommended a final dividend for 2020 of 14.5 pence per share, representing 25% of full year underlying profit attributable to ordinary shareholders, as no interim dividend, which is normally one third of the prior year total dividend, was paid in the year. See the Appendix on page 275 for the calculation.

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

Balance sheet growth

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

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

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

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

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

The Group also utilises sophisticated securitisation platforms to complement its retail funding requirements and to optimise its collateral for commercial and central bank funding. For further details of securitisation activity in 2020, see the Wholesale funding overview on page 50.

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

Liquidity

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



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

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

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

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

Capital

The Group's capital position remained exceptionally strong with fully-loaded CET1 capital and total capital ratios of 18.3% as at 31 December 2020 (31 December 2019: 16.0% and 17.3% respectively). The total capital ratio was the same as the CET1 ratio following the insertion of OSBG as the ultimate holding company, as non-controlling interest securities (previously AT1 securities), subordinated debt and PSBs issued by OSB no longer qualify as regulatory capital at the Group level.

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

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

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

Summary Consolidated Statement of Cash Flows

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

Cash flow statement

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

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

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

1. As shown in the reconciliation of statutory to underlying results on page 60.
2. In 2019, this comprised £48.9m (£42.9m after tax) of acquisition-related items as shown in the reconciliation of statutory to pro forma underlying results on page 60, less CCFS' pre-acquisition transaction costs of £15.7m (£15.5m after tax).
3. Effective tax rate excludes a £4.4m charge for the impact of the deferred tax rate change and a benefit of £0.4m in respect of earlier years.



Review of the Group's performance, presented on an underlying basis for 2020 and a pro forma underlying basis for 2019

Underlying profit before and after tax

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

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

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

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

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 2020 exclude exceptional items, integration costs and other acquisition-related items. Pro forma underlying results for 2019 assume that the Combination occurred on 1 January 2019 and include 12 months of results from CCFS. They also exclude exceptional items, integration costs and other acquisition-related items.

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

 For more information on the APMs and the reconciliation between APMs and the statutory equivalents, see the Appendix on pages 272-274.

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

Summary Statement of Profit or Loss	Group 31-Dec-2020 £m	Group 31-Dec-2019 £m
Net interest income	534.0	518.4
Net fair value loss on financial instruments	(5.9)	(20.3)
Gain on sale of financial instruments	33.1	58.6
Other operating income	9.0	5.8
Administrative expenses	(152.7)	(165.1)
Provisions	(0.1)	-
Impairment of financial assets	(71.2)	(16.3)
Profit before taxation	346.2	381.1
Profit after taxation	264.9	294.2

Key ratios ^{1 Δ}

Net interest margin	247bps	266bps
Cost to income ratio	27%	29%
Management expense ratio	70bps	84bps
Loan loss ratio	38bps	10bps
Basic EPS, pence per share	58.1	64.9
Return on equity	19%	25%

Extracts from the Statement of Financial Position

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

1. For definitions of key ratios, see Key performance indicators on pages 52 to 53, for more detail on calculation of key ratios, see the Appendix on pages 272 to 274.

In 2020, the Group's external auditor performed an independent reasonable assurance review of certain alternative performance measures as highlighted with the symbol Δ – see the Appendix for the auditor's statement.

Net interest margin

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

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



Net fair value loss on financial instruments

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

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

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

Gain on sale of financial instruments

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

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

Other operating income

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

Administrative expenses

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

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

Impairment of financial assets

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

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

Balance sheet

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

Underlying retail deposits increased by 2% during 2020 to £16,600.0m (2019: £16,248.6m) as both Banks continued to attract new savers by offering attractively priced savings products and outstanding customer service. The balance of the Group's funding requirement was provided by the Bank of England's funding schemes and RMBS which provided £935.9m and £381.6m of net new funding respectively. For further details of the Group's securitisation activity in 2020, see the Wholesale funding overview on page 50.

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



Reconciliation of statutory to underlying and pro forma underlying results

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

1. Amortisation of the net fair value uplift to CCFS' mortgage loans and retail deposits on Combination.

2. Reversal of £17.0m of acquisition-related inception adjustments and recognition of £3.7m of inception adjustments under CCFS' entity level hedge accounting.

3. Recognition of additional gain on sale of securitised loans.

4. Amortisation of intangible assets recognised on Combination.

5. Adjustment to expected credit losses on CCFS loans on Combination.

6. Impairment of intangible asset post Combination.

7. Costs of integration of the two Banks post Combination, see note 13 to the financial statements.

8. Reversal of exceptional costs incurred during the year, see note 14 to the financial statements.

9. Recognition of a fair value uplift to CCFS' loan book less accumulated amortisation of the fair value uplift and a movement on credit provisions.

10. Fair value adjustment to hedged assets.

11. Adjustment to current tax asset and recognition of acquired intangibles on Combination.

12. Fair value adjustment to CCFS' retail deposits less accumulated amortisation.

13. Fair value adjustment to hedged liabilities.

14. Adjustment to deferred tax liability and other acquisition-related adjustments.



Key achievements in 2020

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

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

Executive summary

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

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

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

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



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

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

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

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

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

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

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

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

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

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



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

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

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

Priority areas for 2021

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

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

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

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

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



High level key risk indicators

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

Actual performance against these indicators is continually assessed and reported. Below is a detailed summary of the Group's key risk indicators with high level commentary on the performance observed during 2020.

Key risk indicators

Loan loss ratio



Commentary

Loan loss ratios increased as a result of adopting more adverse forward-looking macroeconomic scenarios due to the pandemic, changes to staging criteria, COVID-related enhancements to Group's models, and recognising an impairment provision for a potential fraudulent activity by a third party on a secured funding line.

Liquidity coverage ratio



Commentary

The OSB LCR increased primarily due to higher eligible high-quality liquid assets via retail deposits and TFSME drawdowns. The LCR also increased due to reduced pipeline requirements. The CCFS LCR remained broadly stable during 2020.

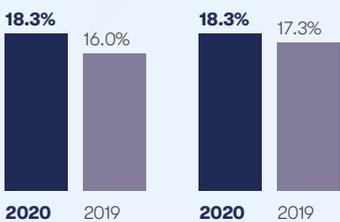
3+ months arrears



Commentary

Arrears levels remained low during 2020. A stable arrears ratio was observed across OSB, whilst the increasing arrears ratio observed across CCFS was largely driven by the seasoning of the loan portfolios.

CET1



Commentary

The Group's capital position remained exceptionally strong as the CET1 capital ratio benefitted from the cancelled 2019 final dividend, the application of the CRR 'Quick Fix' package and strong capital generation from profitability. The total capital ratio was the same as CET1 in 2020 as non-controlling interest securities, subordinated debt and PSBs issued by OSB no longer qualified as regulatory capital at the Group level.

Risk management

Approach to risk management

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

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

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

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



1. Risk principles and culture – the Group has established a set of risk principles which inform and guide all risk management activities and it has a strong, proactive and transparent ‘risk culture’ where all employees across the Group are aware of their responsibilities in relation to risk management.
2. Risk strategy and appetite – the Group has a clear business purpose, vision and values strategy which is supported by an articulated risk vision and underlying principles. The Group calibrates its risk appetite to reflect the Group’s strategic objectives and business operating plans, as well as external economic, business and regulatory constraints.
3. Risk assessment and control – the Group’s business model and strategy exposes it to a defined risk profile and the risk governance structure is informed by this risk profile such that the Group can identify and manage its risks in an effective and efficient manner.
4. Risk definitions and categorisation – the Group sets out its principal risks which represent the primary risks to which the Group is exposed.
5. Risk analytics (including stress testing and scenario analysis) – the Group uses quantitative analysis and statistical modelling to help improve its business decisions.
6. Risk data and Information Technology – the maintenance of high quality risk information, along with the Group’s data enrichment and aggregation capabilities, are central to the Risk function’s objectives being achieved.
7. Risk frameworks, policies and procedures – risk frameworks, policies and supporting documentation outline the process by which risk is effectively managed and governed within the Group.
8. Risk management information (MI) and reporting – the Group has established a comprehensive suite of risk MI and reports covering all principal risk types.
9. Risk governance and function organisation – risk governance refers to the processes and structures established by the Board to ensure that risks are assumed and managed within the Board-approved risk appetite, with clear delineation between risk taking, oversight and assurance responsibilities. The Group’s risk governance framework is structured to adhere to the ‘three lines of defence’ model.

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

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

Risk Management Framework



Key elements

Risk principles and culture
 Risk strategy and appetite
 Risk governance and function organisation
 Risk definitions and categorisation

Principal risks

Financial risks

Credit risk
 Market risk
 Liquidity and funding risk
 Solvency risk

Non-financial risks

Strategic and business risk
 Reputational risk
 Compliance/regulatory risk
 Operational risk
 Conduct risk
 Integration risk

Capabilities

Risk framework and policies

Risk data and IT

Risk analytics

Risk management information

Risk regulatory submissions

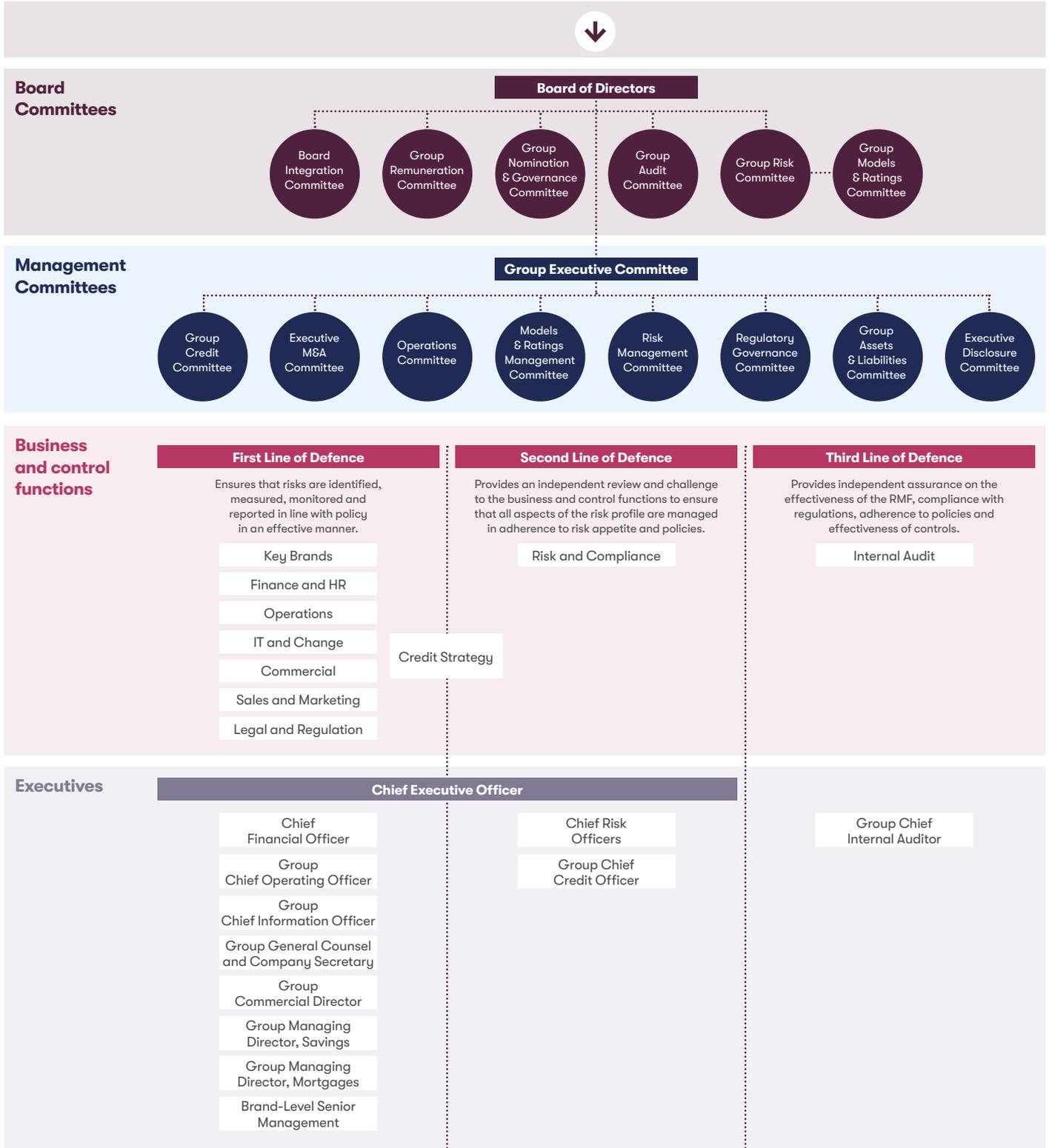
ICAAP

ILAAP

Recovery plan/
 Resolution pack



Group Organisational Structure





Risk appetite

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

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

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

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

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



Approach to managing climate change risk

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

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

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

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

How the Group identifies and assesses climate change risk

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

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

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



Processes in place to manage climate change risk

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

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

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

- The overarching Risk Management Framework was updated to articulate the Group's approach to climate change risk management.
- A dedicated working group was established to oversee and manage the Group's response to climate change risk.
- A detailed financial risk assessment of the Group's exposure to climate change risk was conducted as part of the 2020 ICAAP.
- The Chief Risk Officers of the two banks have designated senior management function (SMF) responsibility for the management of climate change risk.

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



Principal risks and uncertainties

The Board carried out an assessment of the principal risks and uncertainties which may threaten the Group’s operating model, strategic objectives, financial performance and regulatory compliance commitments. The outcome of that assessment is summarised in the below heatmap, with further details provided in each principal risk section.

Current assessment of principal risks



1 Strategic and business risk

Definition

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 a strong and dependable

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

Risk	Mitigation	Direction
<p>Performance against targets</p> <p>Performance against strategic and business targets does not meet stakeholder expectations. This has the potential to damage the Group’s franchise value and reputation.</p>	<p>Regular monitoring by the Board and the Group Executive Committee of business and financial performance against strategic agenda and risk appetite. The financial plan is subject to regular reforecasts. The balanced business scorecard is the primary mechanism to support the Board and assesses management performance against key targets. Use of stress testing to flex core business planning assumptions to assess potential performance under stressed operating conditions.</p>	<p>Increased</p> <p>The COVID-19 pandemic has adversely impacted the Group in meeting its strategic and business targets.</p> <p>Opportunities remain, including the Group realising integration benefits as planned, which will support the Group in any future macro-economic stress, whilst managing challenges posed by increasing levels of competition in our key market segments.</p>

**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 portfolio and may influence future business strategy as the Group's new business proposition becomes less attractive due to lower returns.

Regulatory requirements

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

Competition risk

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

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

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

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

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

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

Increased

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

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

Increased

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

Unchanged

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

2 Reputational risk

Definition

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

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

Risk appetite statement

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

Risk**Deterioration of reputation**

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

Mitigation

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

Direction**Unchanged**

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



3 Credit risk

Definition

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.

Risk	Mitigation	Direction
<p>Individual borrower defaults</p> <p>Borrowers may encounter idiosyncratic problems in repaying their loans, for example loss of a job or execution problems with a development project.</p> <p>While in most cases of default the Group's lending is secured, some borrowers may fail to maintain the value of the security.</p>	<p>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.</p> <p>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.</p> <p>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.</p> <p>Development lending is extended only after a deep investigation of the borrower's track record and stress testing the economics of the specific project.</p>	<p>Increased</p> <p>The impact of COVID-19 on the UK economy is uncertain and could result in a material increase in unemployment levels and decreases in property prices, which could drive higher impairment levels.</p> <p>The impact of the government support measures ending remains unknown and the knock-on impact into borrower defaults thereafter.</p>
<p>Macroeconomic downturn</p> <p>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.</p>	<p>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.</p>	<p>Increased</p> <p>The economic outlook is uncertain, driven by the potential range of outcomes resulting from COVID-19 and the end of government support measures.</p>
<p>Wholesale credit risk</p> <p>The Group has wholesale exposures both through call accounts used for transactional and liquidity purposes and through derivative exposures used for hedging.</p>	<p>The Group transacts only with high quality wholesale counterparties. Derivative exposures include collateral agreements to mitigate credit exposures.</p>	<p>Unchanged</p> <p>The Group's wholesale credit risk exposure remains limited to high quality counterparties, overnight exposures to clearing banks and swap counterparties.</p>



Market risk

Definition

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.

Risk	Mitigation	Direction
<p>Interest rate risk</p> <p>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.</p>	<p>The Group's Treasury function actively hedges to match the timing of cash flows from assets and liabilities.</p>	<p>Unchanged</p> <p>The Group continues to assess interest rate risk on a regular basis ensuring that risk exposure is limited.</p>
<p>Basis risk</p> <p>The risk of loss from an adverse divergence in interest rates. It arises where assets and liabilities reprice from different variable rate indices. These indices may be market rates (e.g. Bank Base Rate, Sterling Overnight Index Average (SONIA), or the London Interbank Offered Rate (LIBOR)) or administered (e.g. the Bank's Standard Variable Rate (SVR), other discretionary variable rates, or that received on call accounts with other banks).</p>	<p>Due to the Group balance sheet structure, no active management of basis risk was required by OSB Group during 2020.</p> <p>Key mitigants include new swaps being linked to SONIA and existing LIBOR linked swaps being transitioned to SONIA. LIBOR linked mortgages will also be transitioned to referencing either the Bank of England base rate or SONIA.</p>	<p>Unchanged</p> <p>Product design, balance sheet structure and replacing LIBOR swaps with SONIA swaps enabled the Group to maintain the overall level of basis risk across both Banks throughout the year.</p> <p>The basis risk position will reduce over 2021 as CCFS and OSB fully transition from LIBOR.</p>



5 Liquidity and funding risk

Definition

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 a strong retail savings franchise, supported by a high quality liquid asset portfolio comprised of cash and readily-monetisable assets, and through access to

pre-arranged secured funding facilities. The Board requirement to maintain balance sheet resources sufficient to survive a range of severe but plausible stress scenarios is interpreted in terms of the liquidity coverage ratio and the ILAAP stress scenarios.

Risk	Mitigation	Direction
<p>Retail funding stress</p> <p>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.</p> <p>Increased competition for retail savings driving up funding costs, adversely impacting retention levels and profitability.</p>	<p>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, thus there is no material risk of a retail run.</p> <p>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.</p> <p>The Group has further diversified its retail channels by expanding the range of pooled deposit providers used.</p> <p>The Group proactively manages its savings proposition through both the Liquidity Working Group and the Group Assets and Liabilities Committee. Finally, the Group has prepositioned mortgage collateral and securitised notes with the Bank of England which allows it to consider alternative funding sources to ensure it is not solely reliant on retail savings. The Group also has a mature RMBS programme and access to warehouse facilities.</p>	<p>Unchanged</p> <p>The Group's funding levels and mix remained strong throughout the year.</p> <p>During the year, OSB and CCFS were both able to attract significant flows of new deposits and depositors when required.</p>
<p>Wholesale funding stress</p> <p>A market-wide stress could close securitisation markets or make issuance costs unattractive for the Group.</p>	<p>The Group continuously monitors wholesale funding markets and is experienced in taking proactive management actions where required.</p> <p>The Group issued a number of securitisations during 2020 where both CCFS and OSB saw strong market demand for secured wholesale issuance.</p>	<p>Unchanged</p> <p>The Group's range of wholesale funding options available, including repo or sale of retained notes, collateral upgrade trades and warehouse facilities, remains broadly unchanged.</p>
<p>Refinancing of Term Funding Scheme (TFS) and TFSME</p> <p>The Group has drawn a total of £2.6bn funding under the TFS and £1.0bn under the TFSME creating a refinancing concentration around the maturity of the schemes.</p>	<p>The Group has fully factored in repayment of TFS into the funding plans of both Banks, with planned repayment prior to the contractual date to minimise timing and concentration risk. The Group has a wider range of funding options to manage this process.</p> <p>The Group has a TFSME allowance significantly above its wholesale funding requirements which allows the TFS scheme to be fully refinanced by TFSME.</p>	<p>Decreased</p> <p>The TFSME scheme will allow the Group to significantly extend the maturities of its Bank of England based funding.</p>



6 Solvency risk

Definition

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.

Risk	Mitigation	Direction
<p>Deterioration of capital ratios</p> <p>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.</p> <p>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.</p>	<p>Currently the Group operates from a strong capital position and has a consistent record of strong profitability.</p> <p>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.</p> <p>The Group also holds prudent levels of capital buffers based on CRD IV requirements and expected balance sheet growth.</p> <p>The Group engages actively with regulators, industry bodies, and advisers to keep abreast of potential changes and provides feedback through the consultation process.</p>	<p>Unchanged</p> <p>Proactive management of the Group's balance sheet and support measures provided by the PRA via the CRR 'Quick Fix' package which included a reset of the IFRS 9 capital transitional relief and the extension of the SME support factor, together with ongoing profitability, resulted in the Group's capital ratios strengthening.</p> <p>Risks remain around adverse credit profile performance, resulting from the ongoing COVID-19 pandemic and the removal of government support measures.</p>



7 Operational risk

Definition

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.

Risk	Mitigation	Direction
<p>IT security (including cyber risk)</p> <p>The risks resulting from a failure to protect the Group's systems and the data within them. This includes both internal and external threats.</p>	<p>The Group invested significantly in enhancing its protection against IT security threats, deploying a series of tools designed to identify and prevent network/system intrusions. This is further supported by documented and tested procedures intended to ensure the effective response to a security breach.</p>	<p>Increased</p> <p>Due to the COVID-19 pandemic and the resulting high number of employees working and accessing systems from home, the risk of a cyber-attack was heightened.</p> <p>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.</p> <p>The Group's ongoing penetration testing continues to drive enhancements by identifying potential areas of risk.</p>
<p>Data quality and completeness</p> <p>The risks resulting from data being either inaccurate or incomplete.</p>	<p>The Group established a dedicated Data Strategy Programme, designed to ensure a consistent approach to the maintenance and use of data. This includes both documented procedures and frameworks and also tools intended to improve the consistency of data use.</p>	<p>Unchanged</p> <p>Further progress was made during 2020 in embedding Group-wide governance frameworks, standards and controls. Further work is planned in 2021, to move closer to the Group's target end state.</p>
<p>Change management</p> <p>The risks resulting from unsuccessful change management implementations, including the failure to respond effectively to release-related incidents.</p>	<p>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.</p>	<p>Increased</p> <p>The Group continues to adopt an ambitious change agenda, driven by the integration programme. During 2020 this risk was monitored and managed well, however further change is planned in 2021, against the backdrop of the ongoing COVID-19 pandemic and likely periods of employees working from home.</p>
<p>IT failure</p> <p>The risks resulting from a major IT application or infrastructure failure impacting access to the Group's IT systems.</p>	<p>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.</p>	<p>Unchanged</p> <p>Whilst progress was made in reducing both the likelihood and impact of an IT failure, the risks remain, in particular due to the new operating environment. Further work is planned during 2021.</p>
<p>Organisational change and integration</p> <p>The risks resulting from the Group's ongoing integration activities, including systems, people and infrastructure.</p>	<p>There is a low risk integration project plan (e.g. no large-scale integration-related IT project change planned). The Group has an experienced and capable project management office, with close oversight and direction provided by the Group Executive and Board Integration Committees.</p>	<p>Unchanged</p> <p>To date, organisational change resulting from the integration project has been managed well, with no material risks emerging during 2020. Further work is required to reach the target end state and carefully considered plans, strong risk identification and monitoring and management capabilities remain in place.</p>



8 Conduct risk

Definition

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

Risk appetite statement

The Group aims to operate and conduct its business to the highest standards which ensure integrity and trust with respect to how the Group operates and manages its relationships with key stakeholders. In this regard, the Group has no appetite to knowingly assume risks which may result in an unfair outcome for customers and/or

cause disruptions in the market segments in which it operates. However, where the Group identifies potential conduct risks it will proactively intervene by managing, escalating and mitigating them promptly to ensure a fair outcome is achieved.

Risk	Mitigation	Direction
<p>Product suitability</p> <p>Whilst the Group originates relatively simple products, there remains a risk that products (primarily legacy) may be deemed to be unfit for their original purpose in line with current regulatory definitions.</p>	<p>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.</p>	<p>Unchanged</p> <p>Whilst this risk remained low as a result of increased awareness and dedicated oversight, the Group remains aware of the changes to the regulatory environment and their possible impact on product suitability.</p>
<p>Data protection</p> <p>The risk that customer data is accessed inappropriately, either as a consequence of network/system intrusion or through operational errors in the management of the data.</p>	<p>In addition to a series of network/system controls, the Group performs extensive root cause analysis of any data leaks in order to ensure that the appropriate mitigating actions are taken.</p>	<p>Unchanged</p> <p>Despite a number of additional controls introduced in 2020, the network/system threats continue to evolve in both volume and sophistication.</p>
<p>Integration risk</p> <p>The risk that the integration programme directly or indirectly causes poor outcomes for customers and the market.</p>	<p>During the integration process, the Group is committed to adopting a low-risk approach with a view to taking reasonable steps to avoid causing poor outcomes for its customers and the market. The Group will conduct detailed analysis of potential customer harm associated with particular integration steps.</p>	<p>Unchanged</p> <p>No material issues have been identified to date and controls are in place to ensure that the integration programme does not result in poor customer outcomes.</p>



9 Compliance/regulatory risk

Definition

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

Risk appetite statement

The Group views ongoing conformity with regulatory rules and standards across all the jurisdictions in which it operates as a critical component of its risk culture. The Group does not knowingly accept compliance risk which could result in regulatory

sanctions, financial loss or damage to its reputation. The Group will not tolerate any systemic failure to comply with applicable laws, regulations or codes of conduct relevant given its business operating model.

Risk	Mitigation	Direction
<p>Prudential regulatory changes</p> <p>The Group continues to see a high volume of key compliance regulatory changes that impact its business activities. These include: change in Standardised Approach capital rules and implementation of an IRB floor, implementation of the European Standardised Information Sheet, extending the Senior Managers and Certification Regime to all FCA regulated firms and introduction of Strong Customer Authentication requirements.</p> <p>The focus on external wall cladding for high-rise buildings was extended to smaller buildings in February 2021, and the value of properties supporting the Group's loan portfolios could be impacted, or customer behaviour could change if significant remediation activity is required to ensure building safety regulations are met.</p>	<p>The Group has an effective horizon scanning process to identify regulatory change.</p> <p>All significant regulatory initiatives are managed by structured programmes overseen by the Project Management team and sponsored at Executive level.</p> <p>The Group has proactively sought external expert opinions to support interpretation of the requirements and validation of its response, where required.</p> <p>The Group has initiated a study into external wall cladding and is reviewing its own property portfolio along with the collateral supporting lending portfolios. The Group also notes the recent support measures announced by the Government to help individuals to ensure compliance with building safety standards, including the removal of defective cladding.</p>	<p>Unchanged</p> <p>The Group continues to have a high level of interaction with the UK regulators and continues to respond effectively to all regulatory changes.</p>
<p>Conduct regulation</p> <p>Regulatory changes focused on the conduct of business could force changes in the way the Group carries out business and impose substantial compliance costs.</p> <p>Product design, underwriting, arrears and forbearance policies are misaligned to regulatory expectations which result in customers not being treated fairly, particularly those experiencing financial hardship or vulnerable customers, with the potential for reputational damage, redress and other regulatory actions.</p>	<p>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.</p> <p>All Group entities utilise underwriting, arrears, repossession, forbearance and vulnerable customer policies which are designed to comply with regulatory rules and expectations. These policies articulate the Group's commitment to ensuring that all customers, including those who are vulnerable or experiencing financial hardship, are treated fairly, consistently and in a way that considers their individual needs and circumstances.</p> <p>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.</p>	<p>Unchanged</p> <p>The level of regulatory change continues to be high, but the Group has sufficient resources and capabilities to respond to any changes in an effective and efficient manner.</p> <p>During the year, the Group took part in a number of FCA thematic reviews, including reviews on long-term forbearance in the second charge market and a Business model drivers and unaffordable lending review.</p>



10 Integration risk

Definition

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

Risk appetite statement

The Combination of OSB and CCFS is intended to enhance scale, bringing together resources and capabilities, and to explore further growth opportunities which deliver attractive long-term returns. The delivery against the integration strategy is framed within the Group's purpose, vision and values and the broader risk appetite. The integration is deemed to be inherently low risk owing to the retention of core operating brands, similarities of business models, no large-scale IT integration or substantial migration of customer accounts.

Accordingly, the Board has a low risk appetite for adverse integration activity outcomes, which put the strategic rationale of the merger, the Group's purpose, vision and values or broader risk appetite at risk. In the event that integration workstreams are subject to delay or reprioritisation, the Board expects the rationale to be clearly understood and justified, with defined mitigating actions implemented, overseen by robust levels of governance.

Risk

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

Mitigation

The Board is maintaining oversight of the integration process through the Board Integration Committee. A dedicated Integration Management Office has been established to drive the integration process forward.

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

Direction

— Unchanged

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



Principal risks and uncertainties (Continued)

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

Emerging risk	Description	Mitigating action
Political and macroeconomic uncertainty	The impact of COVID-19 and the removal of government support measures remains uncertain. The Group's lending activity is predominantly focused in the United Kingdom (with a legacy back book of mortgages in the Channel Islands) and, as such, will be impacted by any risks emerging from changes in the macroeconomic environment. Risks also remain around the disruption that the UK's exit from the European Union will have on the economy.	The Group implemented robust monitoring processes and via various stress testing activity (i.e. ad hoc, risk appetite and ICAAP) understands how the Group performs over a variety of macroeconomic stress scenarios and has developed a suite of early warning indicators, which are closely monitored to identify changes in the economic environment. The Board and management review detailed portfolio reports to identify any changes in the Group's risk profile.
Climate change	<p>As the worldwide focus on climate change intensifies, both the physical risks and the transitional risks associated with climate change continue to grow. Climate change risks include:</p> <p>Physical risks can relate to specific weather events, such as storms and flooding, or to longer-term shifts in the climate, such as rising sea levels. These risks could include adverse movements in the value of certain properties that are in coastal and low lying areas, or located in areas prone to increased subsidence and heave.</p> <p>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.</p> <p>Reputational risk arising from a failure to meet changing societal, investor or regulatory demands.</p>	<p>The Group developed an approach to assessing and managing the risks relating to climate change within its Risk Management Framework. This includes scenario analysis, development of key risk indicators and inclusion of climate risks within operational resilience activities.</p> <p>A cross-functional working group is overseeing the Group's response to climate change, in line with industry best practice and regulatory guidelines.</p> <p>As part of the Group's ICAAP a detailed analysis was conducted using third party data to complete an initial assessment of the financial risk that climate change could pose to the Group. This analysis will be developed further during 2021 and will be aligned with activity to develop an integrated ESG plan during the first half of 2021.</p> <p>The Group's Chief Risk Officers have designated senior management responsibility for the management of climate change risk; during 2021 a Board member will be specified to ensure that the Group meets regulatory and wider stakeholder expectations.</p>
Model risk	<p>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.</p> <p>Post the completion of the Combination with CCFS, the Group notes the increasing usage of models to conduct financial assessments whilst informing business decisions. The Group also notes changes in industry best practice with respect to managing model risk.</p>	<p>During 2020, Board and Executive level model oversight Committees and a suite of Group level policies were introduced.</p> <p>Further enhancements are planned during 2021 to ensure that the model governance arrangements meet regulatory expectations and model risk is managed effectively.</p>
LIBOR reform	The LIBOR benchmark may cease to be set after the end of 2021 due to the low level of supporting unsecured loans in the wholesale interbank loan market. The Group has exposure to the LIBOR benchmark within some of its customer lending products and wholesale derivative hedging transactions. If the benchmark were to cease or become unreliable, these loans and derivatives may reflect rates that do not accurately represent short-term funding costs, therefore having an adverse effect on returns.	The Group ALCO has set up a dedicated working group to focus on this risk and transition away from the LIBOR benchmark. Key mitigating actions include new swaps being linked to SONIA and existing LIBOR linked swaps being transitioned to SONIA. LIBOR linked mortgages will also be transitioned to referencing either the Bank of England base rate or SONIA.
Coronavirus	<p>The COVID-19 pandemic has had a material impact on individuals and businesses where the Group has operations, including the UK and India. The lockdown measures introduced to stem the spread of the virus have had a profound effect on how businesses operate and individuals work, which may have a materially adverse impact on the Group's profitability, capital and liquidity positions.</p> <p>It is unclear how the COVID-19 pandemic will evolve during 2021 and the impact that the roll-out of vaccines will have and whether any new strains emerge. A further risk relates to the impact once government support measures are withdrawn during 2021 and the resulting impact on business failures, unemployment levels and house prices.</p>	The Group has taken a considered approach to minimising and managing the impact of a coronavirus-related global pandemic. The Group approach represents a comprehensive response strategy covering both severity and consequences of a global pandemic. The Group's response strategy covers key aspects of an effective pandemic response approach, including prevention, continuity, impact assessment and stress testing. Supporting the Group's response strategy are established underlying capabilities to facilitate operational and financial resilience testing and planning, active monitoring and reporting procedures, and active communications with all employees (UK and India) and supervisory authorities.
Negative interest rates	<p>To support economic performance, resulting from the impact of the pandemic, the Bank of England may consider reducing the Bank of England base rate below 0%. The Group would be impacted across its lending portfolios with adverse movements in interest income, offset by reductions in interest payable on savings accounts.</p> <p>A further risk relates to increased operational and conduct risks arising from system and process changes required to accommodate negative interest rates.</p> <p>Negative interest rates may also impact customer behaviour, with changes in the demand for lending and savings products potentially impacting the Group's loan book growth plans and liquidity coverage levels.</p>	The Group has reviewed readiness for negative interest rates and presented findings to the Board. The review covered the terms and conditions of the Group's financial contracts and any systems limitations. Some key servicing systems have been identified as requiring further development to allow negative rates and in particular negative pay rates. Given a mixture of floors in terms and conditions for certain products and the Group's margins, negative interest rates would be unlikely to cause an issue until the Bank of England base rate reaches a rate of -75bps or below. A working group is currently examining further system development to manage significant negative rates.



Risk profile performance overview

Credit risk

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

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

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

Sensible new lending LTV criteria and favourable property price indexing resulted in the average weighted stock LTV for OSB¹ and CCFS reducing during 2020 to 64% and 67% respectively as at 31 December 2020 (31 December 2019: restated² OSB 65% and CCFS 69%), which resulted in a prudent average weighted LTV profile of 65% at the Group level.

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

Group and solo banks interest coverage ratios for new lending improved during 2020 to 201% for OSB and 193% for CCFS (2019: restated³ 199% OSB and 187% CCFS).

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

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

1. Average weighted LTV for OSB includes KR and Interbay Buy-to-Let, semi-commercial and commercial, first and second charge residential lending.

2. The Group restated the comparative LTVs due to a change in calculation methodology.

3. Interest coverage ratio for 2019 was restated due to an improvement in calculation methodology.

Expected Credit Losses (ECL)

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

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

- a. Macroeconomic scenarios – in 2020 the Group adopted a suite of more adverse economic scenarios, which reflected the potential impact of the COVID-19 pandemic across the UK economy. Rising unemployment levels may result in increasing levels of customers falling into arrears and defaulting on loan payments, whilst falling house prices may result in lower levels of equity and therefore potential future losses post sale. Downside scenarios also included the impact of economic disruption caused from the United Kingdom's exit from the European Union. Throughout the year, these scenarios were updated as the pandemic progressed and government support measures were introduced. The introduction and consequent updates made to forward-looking macroeconomic scenarios drove £21.2m of the total impairment charge in 2020 or 11bps of the annualised loan loss ratio.
- b. Staging criteria – the Group ensured it complied with industry best practice and regulatory guidance with respect to payment deferrals and their treatment in IFRS 9 staging criteria, which included payment deferrals on their own not being treated as a significant increase in credit risk. During 2020, the Group made iterative enhancements to staging criteria, leveraging both internal and external information to identify performing higher risk cohorts across the entire customer base, but also including the payment deferral population, moving eligible exposures into stage 2 where a lifetime loss allowance was held. In 2020 the impact from these staging enhancements was £4.8m of the annual impairment charge or 3bps of the annualised loan loss ratio.
- c. COVID-19 post model adjustments – the Group implemented a number of post model adjustments to ensure that modelled estimates remained appropriate, considering the impact that government support measures such as the repossession moratorium and payment deferrals had on credit bureau files and on loss given default and probability of default estimates. The quantum of these post model adjustments was impacted by the interaction with the severe forward-looking macroeconomic scenarios, during the impairment calculation process. The combined impact of these COVID-19 related post model adjustments contributed £10.4m to the total 2020 impairment charge which equated to c. 5bps of the annualised loan loss ratio.
- d. Model enhancements – post Combination the Group continued to make enhancements across the full suite of IFRS 9 impairment models, aligning modelling approaches and definitions where appropriate. An example of this was the implementation of an aligned definition of default. In line with the normal course of



business, modelled estimates were aligned to observed outcomes. The cumulative impact of these modelling enhancements contributed £10.7m to the total loan loss charge during 2020, representing 6bps of the loan loss ratio. The interaction of the severe forward-looking macroeconomic scenarios within IFRS 9 impairment calculations elevated the impact of these modelling enhancements.

- e. Funding line impairment – the Group recognised an impairment provision of £20.0m, which represented 11bps of the annualised loan loss ratio, in relation to potential fraudulent activity by a third party on a funding line of £28.6m provided by the Group, secured against lease receivables and the underlying hard assets. The Group’s funding line business is primarily secured against property-related mortgages¹ and we believe that this is an isolated incident. The outstanding funding line exposure was classified as in default (not past due) and therefore transferred to stage 3, with a consequent specific provision raised.

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

The Group continues to closely monitor impairment coverage levels:

	Gross carrying amount £m	Expected credit losses £m	Coverage ratio
As at 31 December 2020			
Stage 1	16,116.3	21.2	0.13%
Stage 2	2,691.0	31.0	1.15%
Stage 3 (+ POCI)	515.3	58.8	11.41%
Total	19,322.6	111.0	0.57%
As at 31 December 2019			
Stage 1	17,286.9	5.6	0.03%
Stage 2	749.5	5.6	0.75%
Stage 3 (+ POCI)	431.2	31.7	7.35%
Total	18,467.6	42.9	0.23%

Macroeconomic scenarios

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

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

i. How macroeconomic variables and scenarios are selected

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

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

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

ii. How macroeconomic scenarios are utilised within ECL calculations

Probability of default estimates are either scaled up or down based on the macroeconomic scenarios utilised.

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

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



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

iii. Macroeconomic scenario governance

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

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

iv. Changes made during 2020

a. Macroeconomic scenario

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

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

Details relating to the scenarios utilised to set the 31 December 2020 IFRS 9 provision levels are provided in the table below.

b. Significant increase in credit risk rules

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

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

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

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

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



Risk profile performance overview (Continued)

As at 31 December 2019		Base case %	Upside scenario %	Downside scenario %	Severe downside scenario %
Weighting applied		40	10	35	15
Economic driver	Measure				
Gross Domestic Product (GDP)	5 year average (yearly GDP growth %)	1.2	1.7	0.5	-0.3
	Cumulative growth/(fall) to peak/(trough) (%)	6.4	8.5	-3.6	-5.8
House Price Index (HPI)	5 year average (yearly HPI growth %)	1.3	3.2	-1.5	-3.2
	Cumulative growth/(fall) to peak/(trough) (%)	+5.6	+14.8	-13.4	-21.1
Bank Base Rate (BBR)	5 year average (%)	1.3	1.5	0.2	0.1
	Cumulative growth/(fall) to peak/(trough) (%)	+1.5	+1.7	-0.7	-0.6
Unemployment Rate (UR)	5 year average (%)	4.5	3.4	6.3	7.2
	Cumulative growth/(fall) to peak/(trough) (%)	+0.7	-1.0	+2.9	+4.1
Commercial Real Estate Index (CRE)	5 year average (yearly HPI growth %)	1.3	3.2	-1.5	-5.8
	Cumulative growth/(fall) to peak/(trough) (%)	+5.6	+14.8	-13.4	-40.0

Forbearance

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

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

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

- Temporary switch to interest only: a temporary account change to assist customers through periods of financial difficulty where arrears do not accrue at the original contractual payment. Any arrears existing at the commencement of the arrangement are retained.
- Interest rate reduction: the Group may, in certain circumstances, where the borrower meets the required eligibility criteria, transfer the mortgage to a lower contractual rate. Where this is a formal contractual change, the borrower will be requested to obtain independent financial advice as part of the process.
- Loan term extension: a permanent account change for customers in financial distress where the overall term of the mortgage is extended, resulting in a lower contractual monthly payment.
- Payment holiday: a temporary account change to assist customers through periods of financial difficulty where arrears accrue at the original contractual payment. Any arrears existing at the commencement of the arrangement are retained.
- Voluntary-assisted sale: a period of time is given to allow borrowers to sell the property and arrears accrue based on the contractual payment.
- Reduced monthly payments: a temporary arrangement for customers in financial distress. For example, a short-term arrangement to pay less than the contractual payment. Arrears continue to accrue based on the contractual payment.
- Capitalisation of interest: arrears are added to the loan balance and are repaid over the remaining term of the facility or at maturity for interest only products. A new payment is calculated, which will be higher than the previous payment.
- Full or partial debt forgiveness: where considered appropriate, the Group will consider writing off part of the debt. This may occur where the borrower has an agreed sale and there will be a shortfall in the amount required to redeem the Group's charge, in which case repayment of the shortfall may be agreed over a period of time, subject to an affordability assessment or where possession has been taken by the Group, and on the subsequent sale where there has been a shortfall loss.
- Arrangement to pay: where an arrangement is made with the borrower to repay an amount above the contractual monthly instalment, which will repay arrears over a period of time.
- Promise to pay: where an arrangement is made with the borrower to defer payment or pay a lump sum at a later date.
- Bridging loans which are more than 30 days past their maturity date. Repayment is rescheduled to receive a balloon or bullet payment at the end of the term extension where the institution can duly demonstrate future cash flow availability.



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

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

Fair value of collateral methodology

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

Solvency risk

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

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

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

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

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

Liquidity and funding risk

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

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

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

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

Market risk

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

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

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



Transition away from LIBOR

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

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

Interest rate risk

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

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

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

Basis risk

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

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

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

Operational risk

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

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

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

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

Regulatory and compliance risk

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

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

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



Conduct risk

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

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

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

Strategic and business risk

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

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

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

Reputational risk

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

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

Integration risk

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

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

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

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



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

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

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

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

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

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

The viability of the Group is assessed at both the Group and the underlying regulated Bank levels, through leveraging the risk management frameworks and stress testing capabilities of both regulated banks. Post Combination, the risk assessment and stress testing capabilities of OSB and CCFS have been progressively aligned; however, the strength of

the capital and funding profiles of both Banks provides an appropriate level of assurance that the Group and its entities can withstand a severe but plausible stress scenario.

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

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

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

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

In addition, the Group identifies a range of catastrophic scenarios, which could result in the failure of its current business model. Business model failure scenarios (Reverse Stress Tests or RSTs) are primarily used to inform the Board of the outer limits of the Group's risk profile. RSTs play an important role in helping the Board and Executives to assess the available recovery options to revive a failing business model. The RST exercise is based on analysing a range of scenarios, including an extreme macroeconomic downturn, a cyber-attack leading to a loss of customer data which is used for fraudulent activities,



extreme regulatory and taxation changes impacting Buy-to-Let lending volumes and a liquidity crisis caused by severe market conditions combined with idiosyncratic consequences.

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

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

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

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

The Board has also considered the potential implications of the pandemic in its assessment of the financial and operational viability of the Group and has a reasonable belief that the Group retains adequate levels of financial resources (capital and liquidity) and operational contingency. In assessing the viability of the Group, the Board has considered the potential impact and risks facing the Group with respect to the pandemic as set out in the Risk review on pages 61-63 and the Principal risks and uncertainties on page 80.

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

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

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

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

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

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

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

- Enhancing stress testing capabilities through more focused assessment of more vulnerable cohorts of its lending portfolio supported by increased granularity of monitoring and risk reporting.
- Increasing the diversification of its funding profile, supported by enhanced assessment of funding and liquidity risk profiles
- Continued improvements to the risk and control self-assessment procedures across key areas of operational risk, including operations and technology.
- Enhancing the assessment of operational resilience through the ongoing review of priority business functions, including supporting infrastructure and dependencies through a simulated business continuity exercise.

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



Customers

OSB Group encourages a culture that aims to:

- Communicate and work with each customer on an individual basis.
- Act with consistency across all channels.
- Promote a confident, open and trustworthy workforce.
- Offer simplicity and ease of business.
- Offer long-term value for money.
- Offer transparent products without the use of short-term bonus rates and to offer existing customers the benefit of loyalty rates.

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

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

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





Employees are required to complete a range of mandatory training modules throughout the year. In 2020, such modules were completed by 99.6% of all employees within the Group.

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

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

Customer engagement

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

Many of our customers are also members of the Kent Reliance Provident Society (KRPS), the Society formed from the membership of the former Kent Reliance Building Society. OSB and the Society have benefitted from member engagement through the online 'portal' launched late in 2015, enabling input from a geographically broader range of members. During 2020, five major studies were undertaken, assisting the Bank to understand opinions of savers.

Customer complaints

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

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

OSB savings customer NPS

+67

2019: +66

CCFS savings customer NPS

+72

2019: +72



“
In 2020, our Talent Acquisition Team filled almost a third of UK vacancies on a direct recruitment basis, resulting in a saving in excess of £400,000 on agency recruitment fees.

Tracey Hawkins

Group Head of Talent Acquisition

Employees

The skills, expertise and commitment of our colleagues are fundamental to the achievement of our strategic goals. Despite the broader challenges of 2020, we have continued to invest in training, development and employee engagement activities in order to ensure that the Group provides a compelling and attractive employee proposition both for our existing employees and for candidates considering joining the Group.

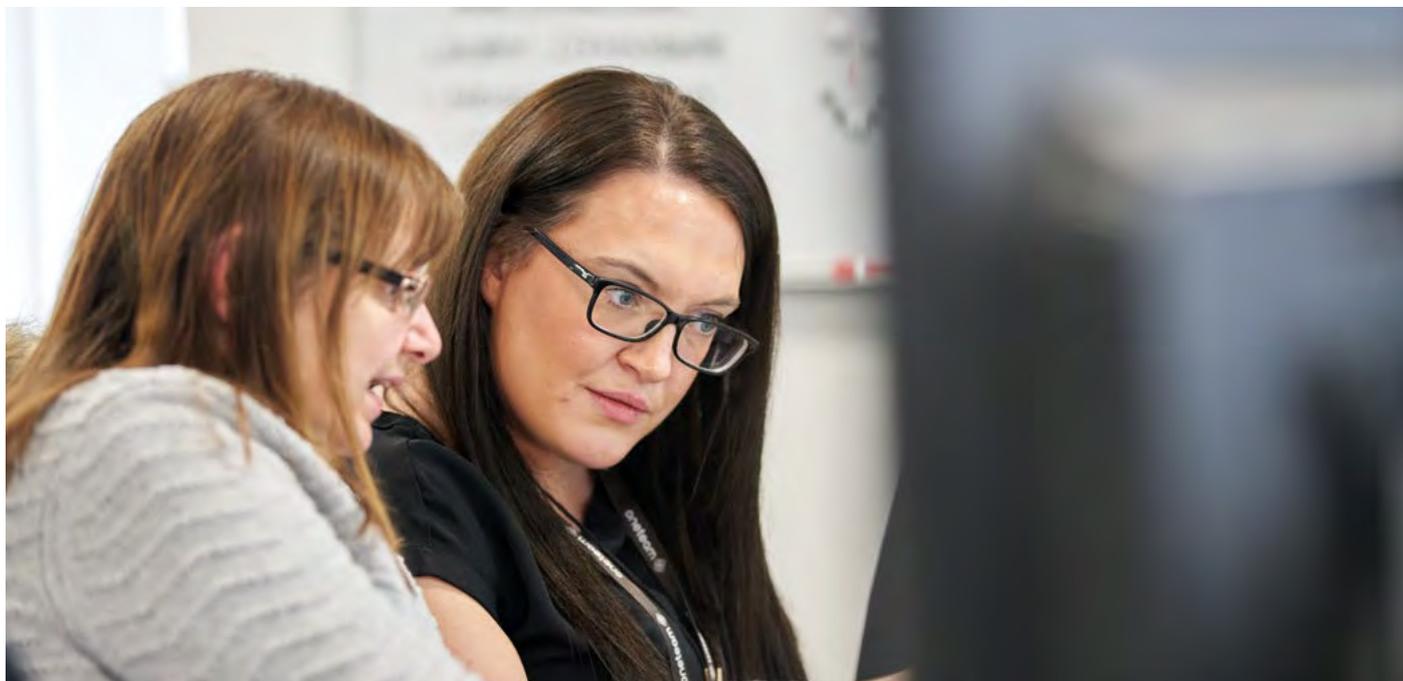
Throughout 2020, our central employee focus was on harmonisation-related activities, establishing a joined-up approach in terms of proactive communications in order to ensure that employees in all sites were kept up to date with all integration matters. Inevitably, a large proportion of employee communications during 2020 related to the pandemic, including guidance to ensure the safety of those employees who, due to the nature of their roles, were required to work from our office and branch locations. In addition, regular guidance and support was provided for employees who were required to work from home, with mass remote working creating a host of technical challenges and well-being considerations, which have been proactively addressed on an ongoing basis.

Ensuring a direct line of communication between the CEO and our employees remained a point of ongoing focus. Aside from regular all-employee email updates from the CEO, Andy Golding hosted a number of video calls with groups of senior managers and the wider employee base to provide updates on the Group’s response to the pandemic and our published results. In addition, employees have had the opportunity to raise questions with the CEO anonymously, with approximately 50 questions being raised during 2020 with responses being published centrally for all employees to view.

Recruitment

During 2020, the remit of OSB’s dedicated Talent Acquisition Team was broadened to focus on CCFS vacancies in addition to OSB roles. This ensured that across all locations and for each vacancy, a recruitment specialist partnered with the hiring managers in order to provide them with bespoke support in attracting high quality candidates for vacant positions and, through robust interview and selection processes, assisted them in making strong recruitment decisions.

We advertise vacancies internally on a weekly basis in order to provide career development opportunities for existing employees. In 2020, over 40% of UK vacancies were filled by way of internal appointments with 6% of vacancies within OSB India being filled by existing employees.



A key focus for our Talent Acquisition team was again placed on proactively identifying potential candidates directly and through improved use of our website and external job boards. In 2020, our Talent Acquisition Team filled almost a third of UK vacancies on a direct recruitment basis, resulting in a saving in excess of £400,000 on agency recruitment fees. Within OSB India, just over half of all the vacancies which closed in 2020 were as a result of direct recruitment activity.

Our recruitment procedures are fair and inclusive, with shortlisting, interviewing and selection always carried out without regard to gender, gender reassignment, sexual orientation, marital or civil partnership status, colour, race, caste, nationality, ethnic or national origin, religion or belief, age, pregnancy or maternity leave or trade union membership.

No candidate with a disability is 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 are made to ensure that no applicant is disadvantaged because of their disability and questions asked during the process are not discriminatory or unnecessarily intrusive; by way of example, in 2020, the Group arranged an interpreter for a deaf candidate during their interview and their subsequent onboarding. Advertisements for vacancies are reviewed to remove language associated with gender bias. In addition, Executive sign off is required for roles where only candidates from one gender are interviewed.

In 2020, OSB welcomed 83 new UK employees with a further 90 joining OSB India. With 49 employees joining CCFS, the Group-wide employee base at the end of the year totalled 1,786.

Training and development

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

Throughout 2020, a high level of focus was applied to OSB's Fit to Practice Scheme, which requires Line Managers to play a proactive role in identifying development needs, providing developmental feedback and establishing appropriate activities to continually progress the competence levels of their direct reports. Within CCFS, the approach regarding training and competence requirements was managed on a departmental basis. The OSB Fit to Practice Scheme will be deployed on a Group-wide basis in 2021, in order to ensure consistency of approach.

In early 2020, the OSB and CCFS People Development teams were structurally integrated and, throughout the Group, we continued to provide a wide range of workshops, including bespoke management development programmes, regulatory training and business change content to support operational and other training needs.



The pandemic and the associated requirement for many colleagues to work on a remote basis created a number of challenges in respect of delivering workshop-based training. This required the People Development team to transition core workshop content into modules which could be delivered on a remote basis. It also created a requirement to develop bespoke modules on related content in order to provide Line Managers with support on how to effectively manage employees remotely and how to identify and support employee well-being given associated challenges with isolation and the impact on mental health. During the fourth quarter, the recorded number of training hours for delegates at workshops averaged over 2,200 hours per month, which exceeded the volumes that were being achieved prior to the pandemic.

During 2020, our People Development team delivered over 500 separate workshops and facilitated the attendance of over 230 employees at other learning events which were either delivered externally or delivered internally by external training providers.

Group-wide, all monthly mandatory regulatory training requirements were completed by year end and throughout 2020 the average percentage of employees with overdue monthly mandatory training was less than 0.4%, demonstrating the importance we place on ensuring that our employees are suitably aware of key requirements.

The Group is also committed to supporting employees undertaking professional development and, in 2020, 15 employees received financial support to pursue their professional qualifications.

The remote working challenges of 2020 proved an obstacle in engaging individuals as part of the Group's Apprenticeship Scheme; however, we are pleased that four individuals completed their apprenticeship programmes and transitioned into permanent employed positions. We remain confident that the scheme both broadens employment opportunities and will continue to lead to permanent appointments and ongoing careers within the Group.

Retention and progression

The Group has a genuine desire to retain, support and develop its employee base. During 2020, 33 UK OSB employees and 44 CCFS employees were formally promoted to a more senior grade along with 50 employees within OSB India.

Our Group-wide regretted attrition rate for 2020 was less than 8% and represented a significant improvement on 2019's figure of almost 11%. The 2020 regretted attrition rate for OSB UK was just over 6%, similar to the rate at CCFS at just over 7%, and OSB India's rate of just over 11% compares favourably with both its 2019 figure of just over 16% and with average rates within its local market.

In terms of non-regretted attrition, this increased on a Group-wide basis from almost 5% in 2019 to over 15%. The increase in the UK was the direct result of the planned restructuring activities designed to achieve the Target Operating Models which were

established as a result of the Combination of OSB and CCFS. Within OSB India the non-regretted attrition rate was low in 2020, at just under 5%.

2020 saw a continued focus on talent management and future leadership through the delivery of our Emerging Manager and Leading the Way programmes. These programmes are aimed at those who are new to management roles and are designed to allow employees to deepen their understanding of the knowledge, skills and attitude required in a managerial or supervisory role.

In 2020, OSB India again identified a Primary Talent Group which was provided with a range of talent management activities in order to aid the ongoing progression of its members. Key activities undertaken included the provision of group stretch assignments, the opportunity to be mentored by senior leaders, psychometric assessments, career development interviews and internally-delivered bespoke leadership workshops.

Workshops

500

Promotions

127





Remuneration and benefits

The Group believes in rewarding our employees fairly and transparently, enabling them to share in the success of the business. Details of the Group's remuneration policies can be found in the Remuneration Report on pages 149 to 155.

As was detailed within the 2019 Annual Report, one of our key 2020 projects related to harmonising the different UK remuneration approaches and employee benefit offerings provided by OSB and CCFS.

This centred on the creation of a new Group Grading Structure with a robust classification process being undertaken to establish the new grade for each individual role. All core benefits were then subject to an external benchmarking review undertaken by the Group's external remuneration consultants in order to establish the differing levels of benefit which would be applicable to each grade. This resulted in a new Group Grading Structure which offers a consistent and compelling remuneration and benefits proposition to all existing and prospective employees at each and every level across the Group.

At the same time, harmonised approaches were established in respect of generic terms and conditions of employment, the methodologies for determining annual pay increases, discretionary bonus awards and all non-core benefits and schemes. The harmonised approach also provides employees with an element of choice, enabling them to determine their preference for either a higher employee pension contribution and a slightly lower discretionary bonus opportunity or a slightly lower employee pension contribution and a higher discretionary bonus opportunity. In addition, employees had an opportunity to select from two separate Health and Insurance packages, depending on their preferences regarding levels of cover for Life Insurance, Income Protection, Private Medical Insurance and a Medical Cash Plan.

For the vast majority of employees, the harmonised approach represented an enhanced benefits offering in comparison to their previous arrangements; and for some the changes represented a neutral position. For a very small number of employees who were seeing their allocated grade result in a reduction of their overall benefits package, the Group committed to offset the deficit via an appropriate increase to their basic salary.

Once the proposals were approved, they were shared with a number of employee forums and the Group Remuneration Committee ahead of their being launched to the UK employee base in early November 2020, which included a detailed Employee Guidance Pack and an online Q&A facility, which saw over 120 questions raised and relevant responses published.

Employees also received individual letters detailing their new grade and the associated benefits, the options which were applicable to them and confirmation of any changes to their existing terms and conditions of employment. All employee choices were confirmed by the end of November during a defined options window and became effective from 1 January 2021.

We also encourage our employees to hold shares in the Group for the long term, via our Sharesave Scheme, which is offered annually to all UK-based employees. The Sharesave Scheme allows employees to save a fixed amount of between £5 and £500 per month over either three or five years in order to use these savings at the end of the qualifying period to buy shares at a fixed option price. At the current time, around 57% of OSB employees and 58% of CCFS employees are members of our Sharesave Scheme.

Redundancy and redeployment

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

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

Employee engagement and culture

The 2021 Best Companies to Work For survey was delayed as a result of the pandemic; however, it was completed in January 2021 and we saw an impressive 81% of UK employees submit responses. This was the first year that OSB and CCFS employees have participated on a Group-wide basis.

We were pleased to retain the 'Two Star' rating which OSB achieved as a result of the 2020 survey, with Best Companies describing this rating as representing outstanding levels of employee engagement. It was particularly pleasing that this rating was achieved in the midst of the challenges posed by the pandemic and the added complexities of a newly-combined business with restructuring activities having taken place within several functions during the year.

In September, the Group also participated in the 2020 Banking Standards Board (BSB) survey. This was the fourth year that OSB had taken part, the second year that OSB India employees had participated and the first time for CCFS employees. The survey aims to influence positive change throughout the banking sector and provide insight into employees' perceptions of the application of the Group's values, potential barriers to challenge and to voice any observations of unethical or inappropriate behaviour.



Following high levels of participation and responses submitted by around 75% of employees, the headline results relating to UK employee responses showed an increase in all nine of the separate survey categories. 27 of the 36 main survey questions saw scores increase with seven others flat, with the average question score increasing by over 2% and OSB's average ranking increasing from 14th in 2019 to 13th out of the 29 banks who participated in the survey.

The additional questions posed by the BSB also saw strong responses to questions relating to the pandemic and the way the Group had managed the impact of the pandemic and had sought to help customers and support employees, including supporting health and well-being.

OSB India participates in a separate employee engagement survey, run by the Great Place to Work Institute, and has been officially certified as a 'Great Place to Work' for the fourth year in succession, with strong results in all five survey categories (credibility of management, respect for people, fairness at the workplace, pride and camaraderie between people). The overall 2020 results saw an increase of around 2% with scores improving in four of the five categories, with the highest score related to the pride category, reflecting the strong brand and culture that exists throughout the teams in Bangalore.

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

During late 2020, significant work was undertaken to establish a new set of Group values, with input sought from employees from all parts of the business by way of focus group discussions. The new Group values (Stronger Together, Take Ownership, Aim High, Respect and Stewardship) were launched in early 2021 along with new Purpose and Vision statements and we anticipate that this approach will enable further progress towards cultural harmonisation irrespective of workplace location.

Whilst four of the five new values link closely to those previously in place at OSB and CCFS, the new Stewardship value provides an opportunity for additional focus on behaviours that relate to the Group's responsibilities from an environmental, social and governance perspective.

2020 saw the expansion of OSB's Workforce Advisory Forum (OneVoice) to a Group-based forum, including employees from CCFS. OneVoice met on several occasions throughout the year and aims to enhance the level of engagement that the Group Executive Committee and the Board have with the wider workforce. OneVoice is attended by employees who have nominated themselves to represent employees within their respective department or office location, as well as rotating Non-Executive Directors and Group Executive Committee members. Within CCFS, the Employee Representative Committee met on several occasions during 2020. The Committee provides the opportunity for elected representatives from all parts of the business to discuss employee-related concerns and provide feedback to senior management. The level of senior engagement with this Committee was enhanced during the year, with the CCFS Chairman and rotating Non-Executive Directors also attending.

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

Employee recognition and awards

In 2020, the Group recognised the significant tenure of over 60 OSB employees who reached a 5, 10, 15, 20 or 25-year milestone of employment via our Long Service Award programme. There were three employees who reached 25 years' service and our longest-serving employee has been with the Group for over 33 years.

Our approach to recognising long service has now been harmonised and from January 2021, CCFS employees will also participate in the same programme and will receive vouchers upon achieving each 5-year milestone. In addition, OSB employees reaching a 10-year milestone will be allocated with an additional week of annual leave to use during their anniversary year, expanding on CCFS' previous approach to recognising significant levels of loyal service.

Every quarter, OSB employees are invited to nominate their colleagues as part of our OneTeam Award programme, which aligns with OSB's values. Throughout 2020, we received hundreds of nominations from which quarterly individual and team awards were established. CCFS continued to reward employees who consistently demonstrate behaviours which support established values with two employees being recognised each quarter as Charter Champions.

As we progress through 2021, we will be harmonising our approach to quarterly awards, which will be linked directly to our newly-established Group values.



Diversity and inclusion

We recognise the benefits that diversity of our people brings to the business and we actively promote and encourage a culture and environment which values and celebrates our differences. In 2020, we continued our journey to become a truly diverse and inclusive organisation, which is committed to providing equal opportunities through the recruitment, training and development of our employees.

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

2020 saw a significant focus on supporting mental health and well-being via the provision of related workshops which were delivered on a remote basis. Specific guidance, support and training relating to the pandemic was also provided given the challenges presented with the requirements of lockdown, isolation and home schooling.

The Group has published its 2020 Gender Pay Gap Report in line with legislation that applies to all UK companies with more than 250 employees. The full publication is available on the Group's website: www.osb.co.uk.

OSB's median gender pay gap as at the snapshot date of 5 April 2020 was 36.4%, reducing from the 2019 reported figure of 37.6%. The 2020 mean gap at 44.0% remained similar to the 43.1% which was reported in 2019.

CCFS' median gender pay gap as at the snapshot date of 5 April 2020 was 14.4%, with the mean gap at 29.8%, these figures showing a solid reduction from the 2019 reported figures of 17.8% and 49.8%, respectively.

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

We recognise that we need to focus on improving our gender balance and have made solid progress towards the commitments that OSB and CCFS have made as signatories of HM Treasury's Women in Finance Charter. Both OSB and CCFS had previously committed to a target of 30% of senior management positions within the UK being undertaken by female employees, with OSB's target date being the end of 2020 and CCFS by the end of 2022.

We saw solid progress throughout 2020 and, on a Group-wide basis, ended the year at 29.8%, with there being stages in the latter half of 2020 where we were tracking in line with or just ahead of the 30% target. A fresh target has now been established with the Group committing to increase this percentage to 33% by the end of 2023.

Last year we launched our Group-wide Diversity and Inclusion (D&I) Working Group, deliberately coinciding this with National Inclusion Week. This extended the focus of the existing CCFS working group and enabled us to replace the OSB specific Women's Networking Forum, ensuring a broader employee focus on D&I matters. The purpose of the D&I Working Group is to raise awareness and tackle issues of inclusion so that every single employee across our combined business is included and treated equally and fairly and, that we celebrate our differences – whatever they may be.

A range of activities were undertaken last year including a facilitated debate on World Religion Day between religious and non-religious employees, raising awareness on Valentine's Day in respect of different types of marital status, celebrating International Women's Day and focusing on the cultural heritage of employees on UNESCO World Day.

In June 2020, we celebrated PRIDE month by raising awareness and publishing emotive stories written by employees relating to their personal experiences of being part of the LGBTQ+ community, examples of discrimination that they had faced throughout their life as a result of their race and religion and how they had managed challenges in respect of their mental health and disabilities.





The Group is also a member of the Employers Network for Equality & Inclusion, the UK's leading employer network, covering all aspects of equality and inclusion issues in the workplace.

In 2020, we harmonised a range of employee policies in order to ensure clarity and consistency of approach for our entire UK employee base. Included within these were updated Group policies on flexible working and homeworking, acknowledging the needs of employees who have parental and/or carer responsibilities.

Within CCFS, we have around 21% of employees working under a formal flexible working arrangement relating to reduced or compressed working hours. Within OSB, around 8% of our UK employees work part-time hours with a further 12 individuals working a compressed working week.

In 2021, we will be seeking to undertake a Talent, Inclusion & Diversity Evaluation, which will measure our business across eight different areas of D&I practice. In addition, we will be seeking to obtain a more comprehensive overview of ethnicity throughout our employee base in order that this data can be analysed and related actions established. Moving forward, it will also enable the Group to undertake robust ethnicity pay gap reporting and establish data on ethnic diversity at senior levels within the Group.

At the end of 2020, around 55% of our UK OSB workforce was female, as was 60% of the CCFS employee base; and within OSB India, females constitute 40% of all employees. Currently, 17% of our Group Executive Committee are female as is 50% of the Board.

	Male	Female
Number of Board Directors (OSB Group)	4	4
Number of Directors of subsidiaries	16	4
Number of senior managers (not Directors) ¹	101	44
All other employees ¹	733	896

1. Includes OSB, OSB India and CCFS.

Human rights

We want each member of our workforce and other stakeholders to be treated with dignity and respect. OSB endorses the UN Declaration of Human Rights and supports the UN Guiding Principles of Business and Human Rights. The Group adheres to the International Labour Organisation Fundamental Conventions. We seek to engage with stakeholders with fairness, dignity and respect. The Group does not tolerate child labour or forced labour. OSB respects freedom of association and the rights of employees to be represented by trade unions or works councils. The Group is a fair employer and does not discriminate on the basis of gender, religion, age, caste, disability or ethnicity. Our policy applies throughout the Group and is communicated to our employees during induction training.

The Group's fourth annual statement in accordance with the Modern Slavery Act 2015 was published on our website in June 2020. Over the year, no instances of modern slavery were reported and we continue to ensure all relevant employment policies have direct consideration of the risk of modern slavery. Internal policies exist, which aim to ensure we establish good practices, act ethically and with integrity including the provision of relevant training. The Group continues to actively engage with its existing and new suppliers. As part of this initiative to identify and mitigate risk, we continue to enhance our ability to classify third-party services based upon the level of risk. We issue a Code of Conduct documenting our expectation of compliance with modern slavery regulations and we have incorporated, where appropriate, provisions in the relevant contractual documentation. We are mindful of the current COVID-19 pandemic outbreak and expect to report on this fully in next year's statement.

OSB and CCFS have anti-bribery and corruption policies which are reviewed annually and approved by the Group Audit Committee. The Group will not accept or condone any behaviour connected with accepting, requesting or offering any bribe or inducement in return for providing a favour.

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

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

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



OSB India

OSB India, a wholly-owned subsidiary of the Group, is based in Bangalore and as at the end of 2020 had 493 employees. OSB India supports the Group across various functions including Support Services, Operations, IT, Finance and Human Resources.

Interaction with UK colleagues is actively promoted and whilst pandemic-related travel restrictions did not permit this in 2020, the Group's normal approach is to provide significant numbers of OSB India employees with the opportunity to undertake planned visits to UK head office locations in order to undertake role specific training and further develop working relationships with their UK colleagues.

OSB India is a holder of ISO 27001: 2013 certification, which demonstrates high standards of information security. To that end, the business continuity site in Hyderabad was opened and became fully operational in 2017. OSB India prides itself on excellence in customer service and the ISO 9001: 2015 certification is a testament to meeting customer and regulatory requirements by providing outstanding customer service.

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





Environment

Our Environmental Policy states that we are committed to reducing our environmental impact and to continually improving our environmental performance as an integral part of our business strategy. This policy ensures that we meet or exceed all relevant environmental obligations under law and regulation. The policy is approved annually by the Group Nomination and Governance Committee. It has an accountable executive and it is reviewed by the Group Executive Committee prior to approval. We are committed to supporting the economy in its transition to being carbon-neutral.

The Environmental Policy contains various commitments, including:

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

2020 was yet another year when the Group took on initiatives, or advanced existing objectives, to achieve its goal of becoming a greener organisation.

We list below our objectives stated in our Environmental Policy:

Paper

- Minimise the use of paper in the office
- Reduce packaging as much as possible
- Buy recycled and recyclable paper products
- Reuse and recycle paper, where possible

Energy and water

- Seek to reduce amount used
- Adjust heating with energy consumption in mind
- Take into account efficiency when purchasing

Office supplies

- Evaluate the environmental impact of any new products ahead of purchase
- Favour more environmentally-friendly and efficient products
- Reuse and recycle everything where possible

Transportation

- Promote use of travel alternatives
- Encourage the use of public transport
- Encourage car sharing
- Favour green vehicles

The Group is committed to promoting awareness of environmental issues amongst our employees. It is the Group's objective that we increase employee awareness through training so they can carry out activities in an environmentally-friendly manner. We also involve our colleagues in the implementation of our policy to give greater commitment and pride in their activities. We also use local labour and materials where available to reduce carbon dioxide.

Implementation of a robust Environmental Management System (EMS) is a key factor to improving our operating efficiency while reducing environmental impacts. Our EMS is ISO 14001 certified by a UKAS accredited external certification body.

Greenhouse gas emissions

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

For the first time in 2020, greenhouse gas emissions have been reported for the OSB Group, incorporating CCFS. The focus has been on aligning the boundary and methodology of reporting to ensure consistent reporting going forward. However, this combined reporting, and the disruption to usual business practices caused by COVID-19, mean that comparisons with other years is unreliable.

We are committed to sourcing 100% green energy across the estate and over the coming months we will further develop details of the targets we would like to achieve. These will feature transition to a low carbon economy and offsetting our carbon emission.

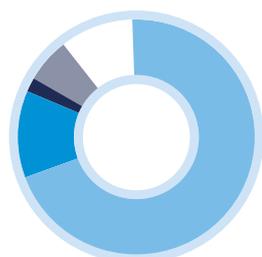


UK & India carbon footprint data 2020

Scope	Description	Specific fuels	2020 – tCO ₂ e	
Scope 1	Combustion of fuel on site and transportation	On site: natural gas, gas oil transport: petrol, diesel, unknown vehicle fuel	268	
Scope 2	Purchased energy	Electricity	Location based	789
			Market based	386
Scope 3	Supply chain emissions	Employee business mileage	71	
Total			Location based	1,129
			Market based	726
Intensity ratio	tCO ₂ e / £1m turnover		Location based	2.22
			Market based	1.43
Country breakdown tCO ₂ e	United Kingdom		624	55%
	India		505	45%
Energy usage kWh	Total kWh consumed	Electricity, natural gas, gas oil, petrol, diesel, unknown vehicle fuel	3,459,592	
	UK kWh		2,818,406	81%
	India kWh		641,186	19%

Emissions detail by fuel type

Location based method



Electricity	70%
Natural gas	12%
Diesel	2%
Unknown vehicle fuel	6%
F-Gas	10%

OSB Group plc is a ‘quoted company’ under the Streamlined Energy and Carbon Reporting regulations so must report annually on greenhouse gas emissions from Scope 1 and 2 Electricity, Gas and Transport. This is the first reporting year so no emissions from previous years are available as a comparison.

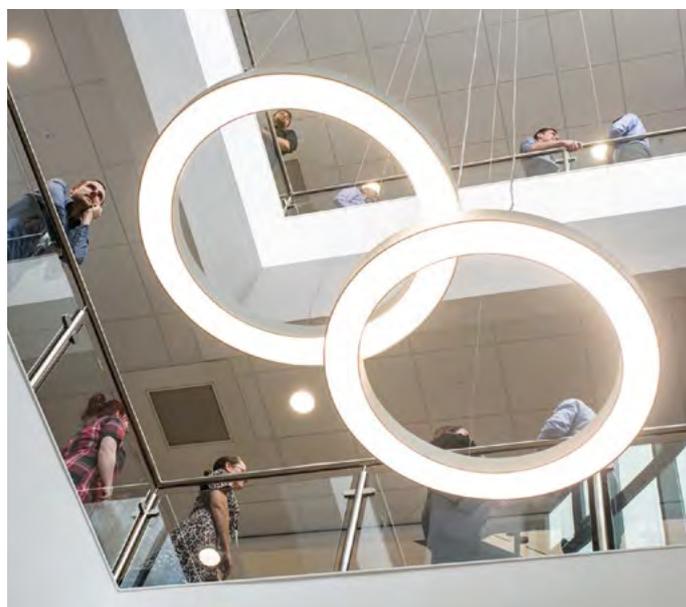
Methodology

The reporting period is the most recent financial year 01/01/2020 to 31/12/2020. This report has been compiled in line with the March 2019 BEIS ‘Environmental Reporting Guidelines: Including streamlined energy and carbon reporting guidance’, and the EMA methodology for SECR Reporting. All measured emissions from activities which the organisation has financial control over are included as required under The Companies (Directors’ Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018, unless otherwise stated in the exclusions statement.

The carbon figures have been calculated using the BEIS 2020 carbon conversion factors for all fuels, other than the market based electricity which has been taken from E.ON, EDF, SSE and Spark as the UK suppliers.

Energy efficiency actions taken

- OSBG has invested heavily this year in its Building Management System. This monitors and regulates our electrical and mechanical equipment such as power systems, lighting and ventilation. OSBG is almost at the stage where the enhanced system will give better control over the main offices.
- OSBG has just been audited on ISO 14001.
- Most of our estate has LED lighting and PIR sensors, but we are just refurbishing one of our oldest branches which will be fitted with energy saving LED panels and PIR sensors.
- We have invested heavily with employees and, as well as having our Green Ninja Team, we now have an Environmental committee which meets twice yearly, and covers all sites (OSB and CCFS).





£13,400

employee donations for charitable causes

£502,600

Group donations in 2020



Community

We care strongly about our local communities and are proud that each year, the Group engages with and supports people across both the UK and India, by taking part in a variety of charitable events and partnerships.

Due to the COVID-19 pandemic and the social distancing measures that have been introduced, we were constrained on what we could organise. However, 2020 remained a year of coming together and giving something back in different ways; we donated over £10,800 to causes close to our employees' hearts via our Community and Good Causes funds, almost £10,000 to charities through fund-matching and we came together virtually to take part in fundraisers, raising nearly £12,000 for our charity partners. OSB India also continued to support its local community in Bangalore by participating in charitable causes and programmes that required critical assistance.

Giving something back

In 2020, the Group's fundraising focus was on our national charity partners, My Shining Star: Children's Cancer Charity at OSB and Socks & Chocs at CCFS. We also continued to support other charities local to our offices, giving our employees the chance to make a difference both nationwide and closer to home. By focusing our efforts on our nominated charities, we can make a more meaningful impact to the lives of those that the charities support.

The OSB Community Fund and CCFS Good Causes Fund

As well as encouraging fundraising and volunteering, we also offer financial support for causes close to our employees' hearts through OSB's Community Fund and CCFS' Good Causes Fund initiatives. Given the challenging circumstances in 2020, we updated our criteria for grants so our employees could help even more communities local to them that may have been severely impacted by the pandemic. This meant that any employee could apply for funding on behalf of a registered charity or community project, even if they were not actively involved with the fundraiser. A total of 46 applications were received from across the Group in 2020, totalling donations of over £10,800 and we are hoping for even more in 2021 as the popularity of the scheme grows. This initiative is now also available in India.

Community investment

Sun Pier House

The Group also supports local communities to make a difference in our immediate surroundings and, where possible, we encourage our colleagues to volunteer, with the Group providing a volunteering day to every employee each year.

We donated £5,000 to Sun Pier House CIC, which is located right next to one of our offices in Chatham. This charity works with local artists, creative organisations and those who want to make the world better through cultural engagement by providing a base for a community of artists and creative businesses.



Our donation went towards improvements to the appearance of the Sun Wharf site, which will ultimately support the charity and Medway Council in their 2025 City of Culture bid. If successful, this bid could encourage as many as five million people to visit the area, with c. £220m of investment and potentially 800 new jobs being created, which could positively impact our Kent Reliance businesses.

Coventry Rugby Club

Our support provides over 100 hours of rugby-based learning activities for children in local schools, as well as supporting the Coventry Rugby Foundation.

Our partnership delivers rugby and reading in schools, led by one of Coventry's elite first team players, with a programme designed to inspire disadvantaged and disaffected children to read more.

We also support the club's Project:500 commitment to use rugby to drive positive engagement with children living in poverty, giving disadvantaged and disaffected children the chance to learn through sport and an opportunity to be part of a positive and inclusive community. We donated £1,000 to support this initiative.

We are active supporters of the extension to this programme, Feed:500, where families of nominated children from disadvantaged households receive food packages filled with fresh fruit, vegetables and protein during the festive period, with a three-day activity camp in between.

Colmore Junior School

Colmore Junior School was looking to develop its old hall into a reading for pleasure zone, as it does not have classrooms that can accommodate reading areas due to the age of the building.

The Head Teacher approached us for help with raising funds 'as there is no substitute to being read to'. The intention was to create an environment that teachers can take their classes to 'share stories and enable their imaginations to go wild'.

Colmore serves a diverse community which enrolls children from a range of backgrounds and those from less privileged backgrounds often enter the school having been exposed to 45 million fewer words than those from more affluent homes.

We were delighted to provide financial support to help the school reach its fund raising target, recognising that everyone at the school will benefit and those from disadvantaged backgrounds will inevitably be the biggest beneficiaries.

Wolverhampton Rugby Club

We have a long-standing relationship with Wolverhampton Rugby, which is a community-based, grassroots club serving both male and female teams from the age of six upwards.

Our support has meant people of all ages were able to come together, share talents, learn new skills and in turn, strengthen community bonds.

AFC Wulfrunians

Wulfrunians are a grassroots football club in the Wolverhampton area. We answered a public appeal and funded the purchase of a defibrillator machine.

This life-saving piece of equipment will benefit players and supporters both home and away across their different teams and also other teams that use this venue.



Our national charity partners

My Shining Star: Children's Cancer Charity

My Shining Star is a charity that supports families through the financial hardship associated with childhood cancer. Around 1,600 children are diagnosed with cancer in the UK every year; that means one in 500 children across the UK is diagnosed with cancer before they turn 14.

Families spend an extra £600 per month, on average, during their child's cancer treatment (mainly for transport, food and accommodation) and many fall into debt as a result, or families become separated as siblings of the child are left at home.

The money we raised throughout 2020 went directly to improving the lives of families in their darkest times. We organised Group-wide fundraisers, supported employees taking part in virtual marathons by matching what they had raised and held a successful Christmas appeal, which reached our target in just two weeks to purchase 30 luxury hampers for families whose children were undergoing treatment over Christmas 2020.

Our partnership with My Shining Star came to an end in 2020 and we are proud to say that between employees and OSB, we donated £34,600 during our two years supporting them.

Socks & Chocs

"A lot of people doing a little bit is better than a few people doing a lot" – that is the motto of Ian Northcott, the founder of Socks & Chocs.

Shocked at the plight of the homeless people he saw living rough on the streets of Birmingham while working as a policeman, Ian founded Socks & Chocs in 2010, initially handing out socks and chocolates at shelters across the city.

Since then Socks & Chocs has become a national charity, relieving hardship and distress among homeless people and those in need who are living in adverse housing conditions.

Socks & Chocs achieved this by:

- providing essential items, such as bedding, toiletries and clothing
- funding essential health needs which are not already readily accessible, such as foot care, and
- funding short-term emergency accommodation, particularly in, but not limited to, times of cold or otherwise inclement weather.

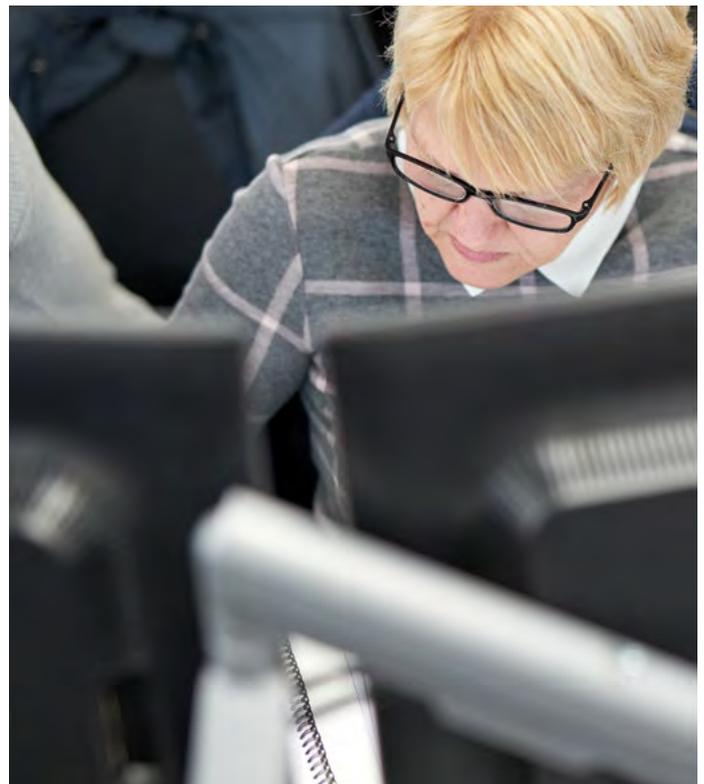
We named Socks & Chocs as our chosen charity partner in 2017 and, thanks to our employees' fantastic efforts, in the past three years we raised more than £150,000.

COVID-19 donation

In 2020, the Board endorsed the initiative by members of the Group Executive Committee to forgo their potential 2020 cash bonus. Members felt passionately that they wanted to give something back. As a business that provides finance for owned and rented homes, they were keen to help the homeless or those struggling to keep a roof over their heads, given the impact that COVID-19 could have on this group of already vulnerable people.

The Group Executive Committee asked the Group's charity champions to put forward some suggestions for homeless charities local to our main offices and, after the necessary due diligence was completed, the following charities were selected:

- £100,000 to Shelter, who offer support and advice to those facing housing issues or homelessness across the UK
- £50,000 to Good Shepherd (Wolverhampton)
- £50,000 to Porchlight (Kent)
- £25,000 to Society of St. James (Hampshire)
- the remaining £25,000 was donated to the HBS hospital in Bangalore, India, which is already one of our charity partners, to buy additional dialysis machines.





Our local charity partners

For OSB, our locations support our national charity partner by taking part in Group-wide fundraisers, but we also encourage our employees to support a charity on their doorstep. Plans for 2021 mean that we will have one national charity partner, and local charity partners in Wolverhampton, Kent, Fareham and Fleet.

By engaging with charity champions at each location, we are able to ensure that the views of each location are represented when local charity partners are voted for and agreed. Our charity champions have been instrumental in supporting our Giving Something Back initiative and have organised a number of fundraisers in support of our national and local charity partners.

Demelza Hospice Care for Children – supported by Kent Reliance

Kent Reliance branches continue to support Demelza as their local charity partner, fundraising in branches where possible and offering customers the dedicated Demelza Children's Account, whereby the charity receives an annual donation equivalent to an agreed percentage of the combined funds held across the associated accounts at the end of the year.

In 2020, we raised £12,000 primarily through the Kent Reliance branches and the annual charity donation arising from the Demelza Children's Account.

OSB India fundraising

Corporate social responsibility (CSR) is extremely important to OSB India. The concept of helping society is embedded in its corporate governance structure through their CSR policy and also through employee engagement.

As part of the OSB India CSR policy, funds are set aside each year to spend on social causes. This is governed by a CSR Committee and implemented by the Corporate and Social Responsibility Group. The focus is to help and contribute in areas where there is critical need and within the office locality so that employees are also able to contribute their time.

In 2020, the CSR Group continued to support the areas of child welfare, education and healthcare.

Child welfare and education

OSB India has partnered with SOS Children's Village, located in Bangalore, to fund education, food, clothing and housing for 20 orphans. Working together with SOS, OSB India employees helped to provide support for the holistic development of orphans, women and children belonging to vulnerable families. OSB India also hosted some events at SOS for employees to engage with the children, which was highly appreciated by both the children and employees.

Healthcare

OSB India is currently supporting HBS Hospital to provide dialysis sessions to 40 individuals who live below the poverty line. OSB India has also contributed two dialysis machines which can provide over 11,000 dialysis sessions over a period of five years. HBS Hospital is a non-profit hospital which provides critical healthcare to members of society who could otherwise not afford the care they need.

Introducing a new UK charity partner from 2021

At the end of 2020, our partnerships with our current charities came to an end. As a result, we engaged employees at OSB and CCFS in the process of selecting a new UK charity partner for 2021. By asking our colleagues to nominate and vote for the charities, we were able to select our first Group charity together and started a partnership with them in January 2021. We also followed a similar process for identifying our 2021 local charity partners.

Campaign Against Living Miserably (CALM)

With 53% of the Group vote (there were three contenders in the final vote), CALM has been chosen as our first Group charity partner. CALM campaign to raise awareness of mental health issues to create social change, encouraging people to talk about mental health and to seek help when they need it.

They are also a leading movement against suicide. Every week 125 people in the UK take their own lives. They provide frontline services for those struggling through their free, anonymous helpline and webchat service every day from 5pm to midnight.

We are excited to start our new partnership with CALM as the charity's mission aligns to the Group's focus on supporting well-being, both for ourselves and for our more vulnerable customers.

Looking forward to 2021

While our calendar of scheduled events for 2020 did not go quite as planned, we have learnt how to communicate and engage with our colleagues in new ways. With a new Group and local charity partners, we have been planning our activities for 2021 to ensure we can support our charity partners in the best way we can, given the circumstances and we will be working closely with them to help us achieve this.

We are also introducing a new initiative into our community strategy, which aligns with our focus on well-being within the Group, as something new and easy for our people to get involved with.

We have also been working on bringing the best of our community activities across both Banks and have developed a harmonised Group community strategy, which will be in place from 2021. By combining our community efforts, we hope to continue to support our employees in fulfilling their passion to support causes that are close to their hearts and to support the Group's desire to give back to those who need it most.



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. During the year, the policies of OSB and CCFS were reviewed and combined to apply at a Group level, as appropriate. The table provides cross references to where further information is included within the Annual Report.

Description of policies/statement	Due diligence undertaken	Outcomes/Impacts/Risks	Further information
Environmental matters			
Our Environmental Policy outlines our commitment to reducing our environmental impact and to continually improving our environmental performance as an integral part of our business strategy. The policy seeks to ensure that we meet or exceed all relevant legal and regulatory environmental obligations.	<p>The Environmental Policy was reviewed by the newly-established Environmental Working Group which focuses on:</p> <ul style="list-style-type: none"> • assessing the impact of business activities and driving initiatives to minimise the consumption of energy, water, paper, office supplies, transportation, maintenance and cleaning; • aligning the environmental data and actions for all entities within the Group; • developing an environmental culture across the Group; and • encouraging environmental responsibility with employees and within supply chains. 	<p>The focus of actions in 2020 has been on extending our environmental management system and sharing best practice across the Group. Key highlights for the year include:</p> <ul style="list-style-type: none"> • submitting our Energy Saving Opportunity Scheme (ESOS), which highlighted areas for improvement across our sites which have been taken forward for consideration; • purchasing electric vans for the fleet and electric vehicle charge points have been introduced in Chatham and Wolverhampton; • introducing video conferencing across the Group to reduce travel-related carbon footprint; • introducing automatic LED lighting where possible and as offices are refurbished; and • creating an Environmental Working Group across the Group to raise awareness of the work being undertaken and drive initiatives across all sites to improve employee engagement. 	Corporate Responsibility Report, see pages 100 to 101.



Description of policies/statement	Due diligence undertaken	Outcomes/Impacts/Risks	Further information
Employee matters			
<p>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.</p> <p>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).</p>	<p>The Group Flexible Working Policy was drafted by HR Management and reviewed by the Group's Legal and Company Secretariat function. The policy was then endorsed by the Governance Forum and approved by the Group Executive Committee.</p> <p>A similar process, as outlined above, was followed for the Group Homeworking Policy. In addition, the policy was reviewed by the Health and Safety, Data Protection and Information Security teams and the Governance Forum requested that an external review of content be undertaken given the high percentage of employees working from home as a result of COVID-19. An external review was undertaken prior to the policy being approved.</p>	<p>We seek to accommodate, where possible, all requests for flexible working, with the majority of requests being agreed.</p> <p>The Group Homeworking Policy introduced an attestation for those working from home (formally, informally and on an enforced basis).</p> <p>The attestation is linked to the Group Homeworking Policy 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.</p>	<p>Corporate Responsibility Report, see page 92.</p>
<p>Our Diversity and Inclusion Policy sets out the Group's commitment to promoting equality of opportunity, providing an inclusive workplace and eliminating any unfair treatment or unlawful discrimination.</p>	<p>In order to ensure appropriate Board oversight of matters relating to diversity and inclusion, updates are regularly provided to the Group Nomination and Governance Committee.</p> <p>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.</p> <p>An external adviser, Legal and HR were involved in drafting the new policy, which was endorsed by the Governance Forum and approved by the Group Executive Committee.</p>	<p>A Group-wide Diversity and Inclusion Working Group was established during 2020, broadening the scope of the Women's Networking Forum which was previously in place.</p> <p>The Group has progressed towards achievement of our published Women in Finance Charter target and in respect of published Gender Pay Gap data, which is related to our diversity and inclusion initiatives.</p> <p>In recent years, the Group's diversity and inclusion focus has tended to centre around gender.</p> <p>The Group is committed to ensuring a broader focus on diversity matters, with this being robustly demonstrated during National Inclusion Week 2020.</p>	<p>Corporate Responsibility Report, see pages 97 to 98.</p>
<p>Our Whistleblowing Policy – Raising a Concern ensures that all employees are encouraged to raise any concerns they may have about the conduct of others in the business or the way in which the business is run, in good faith and without fear of unfair treatment.</p>	<p>A Whistleblowing Report is regularly presented to the Group Audit Committee and an annual report is presented to the Board. The Chair of the Group Audit Committee is the designated Whistleblowers' Champion.</p>	<p>The Group Audit Committee receives a whistleblowing report quarterly and 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.</p>	<p>Group Audit Committee Report, see page 139.</p>



Description of policies/statement	Due diligence undertaken	Outcomes/Impacts/Risks	Further information
<p>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.</p>	<p>An external health and safety risk assessment was undertaken in 2020 at our offices and branches to ensure that we adhered to the UK Government-issued document Working Safely during COVID-19 in offices and contact centres.</p> <p>The Health and Safety Working Group meet 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.</p> <p>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.</p>	<p>Additional measures were put in place in accordance with COVID-19 guidelines to ensure any employees attending our offices or customers visiting our branches could do so in a safe way.</p> <p>Health and safety statistics are provided on a dashboard shared monthly with the Board along with an annual Health and Safety Report.</p> <p>Risk assessments are completed across the Group annually and in 2020 included COVID-secure certification.</p> <p>Annual health and safety training is completed by all employees.</p> <p>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.</p>	<p>Strategic Report, see page 23.</p>

Social matters

<p>Our Modern Slavery Statement outlines the measures we have taken to combat the risks of modern slavery and human trafficking in our businesses and supply chains.</p> <p>As part of our ongoing compliance, a review was undertaken of the policies potentially impacted by modern slavery and human trafficking with appropriate amendments made, where necessary.</p>	<p>The Modern Slavery Working Group annually reviews the Vendor Code of Conduct which is issued to our approved third party service providers at the time of onboarding and as part of the annual assessment. This year, the Vendor Code of Conduct has been updated to align with Home Office Guidance issued in respect of the additional risks of modern slavery posed by COVID-19.</p> <p>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, our standard contract terms include reference to the required modern slavery or relevant contract terms.</p> <p>All employees are required to complete mandatory training to raise awareness.</p>	<p>Our Vendor Management team includes specific testing of key controls within the Vendor Management Risk Assessment Matrix. Relationship owners are also tested for their awareness of the process and requirements in respect of modern slavery which forms part of the Group's mandatory training programme and awareness updates, in line with the Vendor Management Framework.</p> <p>There are breach reporting procedures in place and there were no reportable incidents in this financial year.</p>	<p>Corporate Responsibility Report, see page 98.</p>
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Description of policies/statement	Due diligence undertaken	Outcomes/Impacts/Risks	Further information
<p>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.</p>	<p>The required due diligence and risk assessment criteria changes and updates have been included in the policy to align with the European Banking Authority and other applicable guidelines.</p> <p>Activities during the year included:</p> <ul style="list-style-type: none"> ● a review of existing third party services to ensure alignment with the new policy and reclassification; ● implementation of the new policy which is being managed through business communication, training and awareness sessions scheduled for assigned relationship owners; and ● annual assurance update provided to the Board. 	<p>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 they are adhering to our requirements, so that we can in turn meet our obligations to stakeholders.</p>	<p>Strategic Report, see page 18.</p>
<p>Our Lending Policy sets out the parameters within which we are willing to lend money responsibly within our set criteria and credit risk appetite.</p>	<p>All changes to the Lending Policy require approval from the Group Credit Committee, with material changes escalated to the Group Risk Committee.</p> <p>As a second line of defence, the Credit Quality Assurance process monitors adherence to the policy through a risk-based sampling approach.</p> <p>System parameters and underwriting processes act as an additional control to ensure lending parameters are not breached.</p>	<p>The Group Risk Committee challenges how the Lending Policy is applied to ensure that the right outcomes are achieved.</p> <p>The credit risk appetite of the Group monitors the performance and make-up of the portfolio relative to pre-agreed trigger limits and therefore is a measure of the overall performance of the Lending Policy.</p> <p>Non-adherence to the credit risk appetite could lead to business being written outside the agreed risk appetite.</p>	<p>Corporate Responsibility Report, see page 90.</p>
<p>Our Group Complaint Handling Policy outlines, at a high level, our regulatory expectations for complaint handling from a customer-centric perspective.</p>	<p>We investigate complaints competently, diligently and impartially, supported by appropriately trained employees. Root cause analysis is used to identify and solve underlying issues rather than apply quick fixes.</p> <p>Complaint performance forms part of 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.</p>	<p>Complaints remained aligned to the level of business activity.</p> <p>Complaints are also a component of Executive bonus scheme metrics affecting remuneration outcomes.</p> <p>Complaints may be an early warning of not treating customers fairly, which has regulatory consequences for the Group.</p>	<p>Corporate Responsibility Report, see page 91.</p>



Non-Financial Information Statement (Continued)

Description of policies/statement	Due diligence undertaken	Outcomes/Impacts/Risks	Further information
<p>Our Group Customer Vulnerability Policy sets the standards and approach for the identification and treatment of vulnerable customers and provides guidance to all areas of the Group to ensure vulnerable customers consistently receive fair outcomes.</p>	<p>Regular case study reviews through the Vulnerable Customer Review Committee ensure best practice processes across the different customer journeys are monitored and shared with representatives from differing customer-facing and second line functions.</p> <p>The Compliance function conducts second line thematic reviews across both vulnerable customer and other operational processes should the need arise.</p>	<p>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.</p> <p>There is a potential impact to our reputation and regulatory risks for not treating customers fairly.</p> <p>Customer complaint data shows there were no systemic issues in vulnerability processes and outcomes for the year.</p>	<p>Corporate Responsibility Report, see page 90.</p>
<p>Our Group Data Protection Policy ensures that there are adequate policies and procedures in place to enable compliance with the General Data Protection Regulation (GDPR) and the Data Protection Act 2018; and confirms the necessary steps that should be taken when processing personal data.</p>	<p>The Group Data Protection Officer reports twice each year, to the Group Executive Committee and the Board, regarding compliance with the Data Protection Policy and reports on any data incidents and data subject access requests.</p>	<p>The privacy and security of personal information is respected and protected. We regard sound privacy practices as a key element of corporate governance and accountability. Non-compliance would expose the Group to the potential breach of GDPR provisions.</p>	<p>Corporate Responsibility Report, see page 91.</p>
<p>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.</p>	<p>As the second line of defence, the Compliance function reviewed customer journeys; these reviews are risk-based and look at customer outcomes across the collections and litigation processes to ensure customers are dealt with in an effective and fair manner.</p> <p>The Compliance function conducts second line thematic reviews across collection and litigation processes, should the need arise.</p>	<p>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.</p> <p>This has been an area of focus for the Board and Executives and adjustments were made to accommodate payment deferral requests, as a result of COVID-19.</p>	<p>Corporate Responsibility Report, see page 90.</p>



Description of policies/statement	Due diligence undertaken	Outcomes/Impacts/Risks	Further information
<p>Our Anti-Bribery and Corruption policies outline our stance to conduct all of our business in a 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.</p> <p>The purpose of the policies are to provide employees and contractors 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.</p>	<p>The policies are subject to an annual review process with approval provided by the Group Audit Committee.</p> <p>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.</p> <p>In addition, the requirements set out in the Anti-Bribery and Corruption policies are incorporated into the Group's Vendor Management and Outsourcing Policy.</p> <p>Gifts, hospitality and donations are closely monitored through a log maintained by Risk and Compliance in accordance with our associated policies and procedures.</p>	<p>No material issues or breaches have arisen from the Group's adherence to the existing Anti-Bribery and Corruption policies and processes.</p> <p>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.</p> <p>During the tender process for a new supplier, all employees involved in the process must ensure compliance with the Anti-Bribery and Corruption policies and requirements. This approach also applies to the Conflict of Interest Policy.</p>	<p>Corporate Responsibility Report, see page 90.</p>
<p>Our Conflict 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.</p>	<p>During the year, a combined Group level policy was adopted to ensure that a consistent approach is taken across the Group in relation to the systems and controls in place to identify, report and manage potential and realised conflicts of interest.</p> <p>A detailed roll-out plan has been developed to ensure the policy is implemented effectively which will include employee training, embedding a consistent Conflicts of Interest declaration process, developing Group-wide procedures and ensuring risk-based assurance activity on adherence to the policy is undertaken.</p> <p>In addition, Conflicts of Interest requirements are incorporated into the Group's Vendor Management and Outsourcing Policy.</p>	<p>No material issues or breaches have arisen from the Group's adherence to the existing Conflicts of Interest Policy and processes.</p> <p>As a financial services provider, we face the risk of actual and potential conflicts of interest periodically. We recognise that there may be instances where conflicts of interest are unavoidable and that a conflict may exist even if no unethical or improper act or outcome results from it. Where it is not possible to avoid a potential conflict of interest, we are committed to ensuring that any conflicts of interest that arise are managed fairly and in the best interests of our customers.</p> <p>Group Compliance maintains the conflict register, which is reviewed annually by the Risk Management Committees. In addition, the Group Nomination and Governance Committee reviews Executive and Director conflicts.</p>	<p>Corporate Governance Report, see page 126 and Corporate Responsibility Report, see page 91.</p>



Non-Financial Information Statement (Continued)

Description of policies/statement	Due diligence undertaken	Outcomes/Impacts/Risks	Further information
<p>Our Fraud Policy outlines our duty to comply with prevailing legal and regulatory requirements and to have appropriate systems and controls in place to mitigate the risk of fraud. This includes ensuring appropriate monitoring and escalation procedures are in place and are operating effectively.</p> <p>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.</p> <p>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.</p>	<p>The Policy is subject to an annual review with approval provided by the Group Audit Committee.</p> <p>Fraud awareness training forms part of the wider Financial Crime training package that is mandatory for each employee to complete on an annual basis.</p> <p>External stakeholders, customers, clients and relevant third parties are made aware of our robust stance towards fraud management through literature or similar communication channels.</p> <p>The Risk Management Committees and the Group Risk Committee regularly review and monitor fraud reporting.</p>	<p>As a financial services provider, we recognise that we are inherently exposed to the risk of fraud and that incidents will occur as a result of doing business. In order to mitigate these risks we have appropriate systems and controls in place.</p> <p>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.</p> <p>All potential fraud incidents are investigated by a dedicated Financial Crime team that is specifically trained in identifying and reporting fraudulent behaviour.</p>	<p>Corporate Responsibility Report, see page 90.</p>
<p>Our Anti-Money Laundering and Counter Terrorist Financing Policy seeks to explain the responsibility of senior managers, the Money Laundering and Reporting Officer (MLRO) and all employees. The policy requires that the highest ethical standards are met and requires all employees to act with integrity at all times. We have no appetite for breaching legislation or regulation regarding anti-money laundering or counter terrorist financing.</p>	<p>All employees are required to complete annual training.</p> <p>The policy is subject to an annual review process with approval provided by the Group Audit Committee.</p> <p>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 highlight activity deemed to be suspicious.</p> <p>All suspicious activity is investigated by a dedicated Financial Crime team who are specifically trained in identifying and reporting suspicious behaviour.</p>	<p>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.</p> <p>As a financial services provider, the Group recognises that it is inherently exposed to the risk of financial crime.</p> <p>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.</p>	<p>Group Audit Committee Report, see page 139.</p>



Description of policies/statement	Due diligence undertaken	Outcomes/Impacts/Risks	Further information
<p>Our Group Operational Resilience Policy documents the approach and expectations of the Group in establishing and maintaining the appropriate levels of operational resilience as well as the level of impact tolerance that the Group is willing to accept in respect of incidents or events that may impact the provision of its services.</p> <p>The policy is closely linked with our Business Continuity Plan.</p>	<p>The policy is subject to an annual review process with approval provided by the Risk Management Committees.</p> <p>We analyse the probability and consequences of an unplanned event that could affect the Group. We also identify the key risks faced by the Group and put measures and controls in place to protect the Group against these risks.</p> <p>In September 2020, a data centre recovery exercise took place which involved a full shutdown of primary servers. As a result, further enhancements will be worked through, during 2021.</p>	<p>In March 2020, the UK Government announced a UK-wide lockdown due to COVID-19.</p> <p>Whilst we believe that we have taken appropriate actions and have an operating model that is well positioned to support the Group throughout the crisis, we remain on alert to respond to any further changes in circumstances.</p> <p>Failing to be resilient could have a devastating effect on the business to the extent that it becomes difficult or even impossible to carry out business as usual activities.</p>	<p>Risk Report, see page 86.</p>

Description of the business model

A description of the business model is set out on pages 12 to 15 and includes non-financial KPIs.

Principal risks and uncertainties

A description of the principal risks and uncertainties is set out on pages 70 to 80.

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

Jason Elphick
 Group General Counsel and Company Secretary
 8 April 2021

Governance

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How our Board and Executive team set the strategic direction and provide oversight and control.

Key reads within this section:

Corporate Governance Report

“We are pleased to report full compliance”

 For more information
See page 120

Group Risk Committee Report

“We continued to enhance and integrate the Strategic Risk Management Framework”

 For more information
See page 142

Directors' Remuneration Report

“Extensive engagement with shareholders”

 For more information
See page 146







Board of Directors (biographies)



David Weymouth Chairman

Committee membership

Chair of the Board Integration and Group Nomination and Governance Committees; a member of the Group Remuneration Committee.

Experience and qualifications

David was previously Chief Information Officer at Barclays Bank plc and Chief Risk Officer at RSA Insurance Group plc. He sat on the Executive Committee of both companies. His experience as an executive includes a wide range of senior roles in operations, technology, risk and leadership. David is also Chairman of Mizuho International Plc and his other current non-executive directorships include Fidelity International Holdings (UK) Limited and The Royal London Mutual Insurance Society. He also served as a Non-Executive Director on the board of Bank of Ireland (UK) plc.

Key skills

David has over 40 years' experience in the financial services industry and has a degree in Modern Languages from University College London and an MBA from the University of Exeter.

Appointment

David was appointed to the OSB Board in September 2017 and held the position of Chairman until October 2019. He was re-appointed as Chairman on 4 February 2020.



Noël Harwerth Senior Independent Director

Committee membership

Member of the Group Audit, Group Nomination and Governance, Group Remuneration and Group Risk Committees.

Experience and qualifications

Noël was appointed to the Board of CCFCS in June 2017 and was its Senior Independent Director from August 2017. Noël is a Non-Executive Director of Scotiabank Europe plc. She is also a member of the UK Export Finance Board. She is a former Non-Executive Director of Sirius Minerals plc, Standard Life Aberdeen plc and RSA Insurance Group plc, prior to which she held a variety of senior roles with Citicorp for 15 years, latterly serving as the Chief Operating Officer of Citibank International plc. Noël has held non-executive roles with GE Capital Bank Limited, Sumitomo Mitsui Banking Corporation Europe Limited, Avocet Mining plc, Alent plc, Corus Group plc, Logica plc, The London Metal Exchange and Standard Life Assurance Limited.

Key skills

Noël has extensive experience in both the public sector with government bodies and the private sector with global banking companies, which brings valuable insight to the boardroom debate.

Appointment

Noël was appointed to the OSB Board and the position of Senior Independent Director in October 2019.



Andy Golding Chief Executive Officer

Committee membership

Member of the Board Integration Committee.

Experience and qualifications

Prior to joining OSB, Andy was CEO of Saffron Building Society, where he had been from 2004. Prior to that, he held senior positions at National Westminster Bank plc, John Charcol Limited and Bradford & Bingley plc. Andy served as a Non-Executive Director for Kreditech Holding SSL GmbH and Northamptonshire Healthcare NHS Foundation Trust. Andy is a director of the Building Societies Trust Limited. He served as a member of the Building Societies Association's Council and the Financial Conduct Authority's Smaller Business Practitioner Panel.

Key skills

Andy has over 30 years' experience in financial services.

Appointment

Andy was appointed to the OSB Board in December 2011.



April Talintyre Chief Financial Officer

Committee membership

Member of the Group Models and Ratings Committee.

Experience and qualifications

April was previously an Executive Director in the Rothesay Life pensions insurance business of Goldman Sachs Group and worked for Goldman Sachs International for over 16 years, including as an Executive Director in the Controllers Division in London and New York. April began her career at KPMG LLP in a general audit department.

Key skills

April has broad financial services experience and has been a member of the Institute of Chartered Accountants in England and Wales since 1992.

Appointment

April joined OSB in May 2012 and was appointed to the OSB Board in June 2012.



Graham Allatt

Independent Non-Executive Director

Committee membership

Chair of the Group Risk Committee and the Group Models and Ratings Committee; a member of the Group Audit Committee.

Experience and qualifications

Graham was previously Acting Group Credit Director at Lloyds TSB plc and Chief Credit Officer at Abbey National plc. Prior to this, he spent 18 years at National Westminster Bank plc culminating in the role of Managing Director, Credit Risk at NatWest Markets plc. A Fellow of the Institute of Chartered Accountants; Graham was involved with housing associations for nearly 30 years as Treasurer and Board member in the North of England and in London.

Key skills

Graham has significant banking, credit risk and financial services experience.

Appointment

Graham was appointed to the OSB Board in May 2014.



Rajan Kapoor

Independent Non-Executive Director

Committee membership

Chair of the Group Audit Committee and member of the Board Integration, Group Remuneration, Group Risk and Group Models and Ratings Committees.

Experience and qualifications

Rajan was appointed to the Board of CCFS in September 2016. He was Financial Controller of the Royal Bank of Scotland (RBS) Group plc and held a number of senior finance positions during a 28-year career with RBS.

Key skills

Rajan has extensive experience of financial and regulatory reporting in the UK and US with a strong background in internal financial controls, governance and compliance.

Rajan is a Fellow of the Institute of Chartered Accountants and of the Chartered Institute of Bankers in Scotland.

Appointment

Rajan was appointed to the OSB Board in October 2019.



Sarah Hedger

Independent Non-Executive Director

Committee membership

Member of the Group Audit, Group Remuneration and Board Integration Committees.

Experience and qualifications

Sarah previously held leadership positions at General Electric Company for 12 years in its Corporate, Aviation and Capital business development teams, leaving General Electric Company as Leader of Business Development and M&A for its global GE Capital division. Prior to General Electric Company, Sarah worked at Lazard & Co. Limited for 11 years, leaving as Director, Corporate Finance and also spent five years as an auditor at PricewaterhouseCoopers LLP (PwC). She is an Independent Non-Executive Director of Balta Group NV, a Belgian company listed on Euronext.

Key skills

Sarah has significant capital management and mergers and acquisitions experience in financial services. She is a qualified chartered accountant.

Appointment

Sarah was appointed to the OSB Board in February 2019.



Mary McNamara

Independent Non-Executive Director

Committee membership

Chair of the Group Remuneration Committee and member of the Group Nomination and Governance Committee.

Experience and qualifications

Mary is Chair of the Group Remuneration Committee and Senior Independent Director at Motorpoint plc. She served as a Non-Executive Director of Dignity plc and Chair of its Remuneration Committee. She was the CEO of the Commercial Division and a Director of the Banking Division at Close Brothers Group PLC. Prior to that, Mary was interim Chief Operating Officer of Skandia, the European arm of Old Mutual Group, and prior to that, spent 17 years at GE Capital, running a number of businesses including GE Fleet Services Europe and GE Equipment Finance.

Key skills

Mary has broad senior management experience in the banking and finance sectors.

Appointment

Mary was appointed to the OSB Board in May 2014.



A strong core team



Jens Bech
Group Commercial Director

Experience and qualifications

Jens joined OSB as Chief Risk Officer in 2012, before becoming Group Commercial Director in 2014.

Jens joined from the Asset Protection Agency, an executive arm of HM Treasury, where he held the position of Chief Risk Officer. Prior to joining the Asset Protection Agency, Jens spent nearly a decade at management consultancy Oliver Wyman Limited where he advised a global portfolio of financial services firms and supervisors on strategy and risk management. Jens led Oliver Wyman Limited's support of Iceland during the financial crisis.



Alan Cleary
Group Managing Director, Mortgages

Experience and qualifications

Alan joined OSB in October 2019, following the Combination with CCFS.

Alan was the Managing Director at Precise Mortgages, as well as being a co-founder of that business, and is responsible for Group mortgage product development, marketing and mortgage originations.

Alan has worked in the mortgage industry for over 25 years. He was Head of Sales at BM Solutions from inception in 2001 to 2005 when he became Director of Halifax Intermediaries, the largest intermediary mortgage brand in the UK at the time.



Jason Elphick
Group General Counsel and Company Secretary

Experience and qualifications

Jason joined OSB in June 2016. He has over 25 years of legal private practice and in-house financial services experience.

Jason's private practice experience was primarily in Australia with King & Wood Mallesons and in New York with Sidley Austin LLP and he has been admitted to practice in Australia, New York and England and Wales.

Jason's previous in-house financial services experience was as Director and Head of Bank Legal at Santander Group in London. Prior to this, he held various roles at National Australia Bank Limited, including General Counsel Capital and Funding, Head of Governance, Company Secretary and General Counsel Product, Regulation and Resolution.



Peter Elcock
Chief Risk Officer, CCFS

Experience and qualifications

Peter joined OSB in October 2019, following the Combination with CCFS.

Peter is responsible for the CCFS Risk and Compliance teams. He has over 39 years' experience in financial services, having held a number of senior positions in financial institutions, including 27 years at Barclays PLC in a variety of roles and most latterly at director level leading risk management strategy and change. He was previously the Chief Risk Officer at Coventry Building Society.



John Gaunt
Group Chief Information Officer

Experience and qualifications

John joined OSB in October 2019, following the Combination with CCFS.

John held the position of Director of IT and Change Management at CCFS and had responsibility for the operational and tactical delivery of all business matters relating to information technology, information security and change management.

With over 19 years' experience in information technology, information security and change management within the financial services sector, John has held a number of senior IT roles within Nationwide Building Society and Derbyshire Building Society.



Hasan Kazmi
Chief Risk Officer, OSB

Experience and qualifications

Hasan joined OSB in September 2015 as Chief Risk Officer.

Hasan has over 25 years of risk experience having worked at several financial institutions, including Barclays Capital, Royal Bank of Canada and Standard Chartered Bank. Prior to joining OSB, he was a Senior Director at Deloitte LLP within the Risk and Regulatory practice with responsibility for leading the firm's enterprise risk, capital, liquidity, recovery and resolution practice. Hasan graduated from the London School of Economics with a MSc in Systems Design and Analysis and a BSc in Management.



Clive Kornitzer
Group Chief Operating Officer

Experience and qualifications

Clive joined OSB in 2013. Clive has over 25 years of financial services experience, having worked at several financial organisations including Yorkshire Building Society, John Charcol Limited and Bradford and Bingley plc.

Prior to joining OSB, Clive spent six years at Santander Group where he was the Chief Operating Officer for the intermediary mortgage business. He has also held positions at the European Financial Management Association and has been the Chair of the FS Forums Retail Banking Sub-Committee. Clive is a Fellow of the Chartered Institute of Bankers.



Lisa Odendaal
Group Chief Internal Auditor

Experience and qualifications

Lisa joined OSB in April 2016. Prior to joining OSB, she worked for Grant Thornton LLP where she was an Associate Director responsible for leading several outsourced audit functions within its Business Risk Services division.

Lisa is a qualified Chartered Internal Auditor and has over 25 years of internal audit and operational experience gained in the UK, UAE and Switzerland, having worked at several financial institutions, including PwC, Morgan Stanley Group, HSBC and Man Group plc.



Paul Whitlock
Group Managing Director, Savings

Experience and qualifications

Paul joined OSB in October 2019, following the Combination with CCFS.

Paul was an Executive of Charter Savings Bank. Paul brings specialist knowledge of the savings market and is responsible for all aspects of the Group's savings strategy, products, propositions, sales, distribution and operations.

With over 20 years of UK and international experience in the retail banking industry, including senior positions at First Direct, HSBC and Shawbrook Bank Limited, Paul has extensive experience delivering banking products to the consumer market.



Richard Wilson
Group Chief Credit Officer

Experience and qualifications

Richard joined OSB in 2013.

Prior to joining OSB, Richard was head of the credit function for Morgan Stanley Group's UK origination business and subsequently looked after the Credit and Collections strategy within its UK, Russian and Italian businesses. Between 1988 and 2006, Richard held various roles at Yorkshire Building Society, including the position of Mortgage Application Centre Manager.



“ Good corporate governance is essential to provide the Executive team with the environment and culture in which to drive the success of the business.

David Weymouth
Chairman

The statement of corporate governance practices, including the Reports of the Committees, set out on pages 120 to 167 and information incorporated by reference, constitutes the Corporate Governance Report of OSB Group.

UK Corporate Governance Code (the Code) Compliance Statement

During 2020, the Company applied the principles and complied with the applicable provisions of the Code. The Code is available at www.frc.org.uk.

Dear Shareholder,

I am pleased to present to you the Company's Corporate Governance Report for 2020 and to report full compliance throughout the year with the Code.

You will have seen that we have made some governance changes since my last report.

OSB GROUP PLC was inserted as the ultimate holding company and became the listed entity (to which the Code applies) at the end of November 2020. The reports that follow therefore relate to our governance position prior to and since the insertion of OSB GROUP PLC as the listed entity.

The Board continues to be committed to the highest standards of corporate governance and considers that good corporate governance is essential to provide the Executive team with the environment and culture in which to drive the success of the business. This is against a backdrop of considerable uncertainty relating to COVID-19 and the terms of the UK's exit from the European Union. In addition, a key focus of the Board has been to continue with the integration of OSB and CCFS. Governance has been, and will continue to be, a key aspect of this process.

During the year, the Board and its Committees undertook an internal evaluation, details of which are set out in the report on page 128. The review concluded that the Board and its Committees continue to operate effectively. We intend to undertake an externally-facilitated Board evaluation in 2021.

There have been no further Board changes since my last report to you. All current members of the Board will be seeking re-election at the 2021 Annual General Meeting (AGM).

Our preference is to welcome shareholders in person to the AGM, particularly given the constraints we faced in 2020 due to the COVID-19 pandemic. At present, however, public health guidance and legislation issued by the UK Government in relation to the pandemic mean that there are restrictions on public gatherings and travel. Should a physical meeting be possible, this will be held at our offices at 90 Whitfield Street, Fitzrovia, London W1T 4EZ on 27 May 2021 at 11am.

Further details are set out in the Notice of AGM.

The Investor Relations function continues to assist the Board in developing a programme of meetings and presentations to both institutional and private shareholders, details of which are also set out in the report that follows.

David Weymouth
Chairman
8 April 2021



The role and structure of the Board

The Board of Directors (the Board) is responsible for the long-term success of the Company and provides leadership to the Group. The Board focuses on setting strategy, monitoring performance and ensures that the necessary financial and human resources are in place to enable the Company to meet its objectives. In addition, it ensures appropriate financial and business systems and controls are in place to safeguard shareholders' interests and to maintain effective corporate governance. The Board had a particular focus on integration matters and responding to COVID-19 in 2020.

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 a number of Committees, as indicated in the chart on page 123, which each have their own terms of reference which are reviewed at least annually. Details of each Committee's activities during 2020 are shown in the Group Nomination and Governance, Group Audit, Group Risk, Group Models and Ratings, Board Integration and Directors' Remuneration reports on pages 130 to 167.

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.

Accountability

In line with the Code provisions, the Board ensures that a fair, balanced and understandable assessment of the Group's position and prospects is presented in all financial and business reporting. The Board is responsible for determining the nature and extent of the principal risks it is willing to take in achieving its strategic objectives and maintains sound risk management and internal control systems. The Board has established formal and transparent arrangements for considering how it should apply the corporate reporting, risk management and internal control principles and for maintaining an appropriate relationship with the Group's auditors.

A summary of the matters reserved for decision by the Board is set out below:

Strategy and management

- Overall strategy of the Group
- Approval of long-term objectives
- Approval of annual operating and capital expenditure budgets
- Review of performance against strategy and objectives

Structure and capital

- Changes to the Group's capital or corporate structure
- Changes to the Group's management and control structure

Risk management

- Overall risk appetite of the Group
- Approval of the Strategic Risk Management Framework (SRMF)

Financial reporting and controls

- Approval of financial statements
- Approval of dividend policy
- Approval of significant changes in accounting policies
- Ensuring maintenance of a sound system of internal control and risk management

Remuneration

- Determining the Remuneration Policy for the Executive Directors and senior management (including Material Risk Takers)
- Overseeing the introduction of new share incentive plans or major changes to existing plans

Corporate governance

- Review of the Group's overall governance structure
- Determining the independence of Directors

Board members

- Changes to the structure, size and composition of the Board
- Appointment or removal of the Chairman, Chief Executive Officer, Senior Independent Director and Company Secretary

Other

- The making of political donations
- Reviewing the overall levels of insurance for the Group



Financial and business reporting

The Board is committed to ensuring that all external financial reporting presents a fair, balanced and understandable assessment of the Group's position and prospects. To achieve this, the Board reviews each report and considers the level of consistency throughout; whether there is a balanced review of the competitive landscape; the use of sufficiently simple language; the analysis of risks facing the business; and that there is equal prominence given to statutory and alternative performance measures. The Board has established a Group Audit Committee to assist in making its assessment. The activities of the Group Audit Committee are set out on pages 134 to 141.

Risk management and internal control

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

The Board has carried out a robust assessment of the principal risks facing the business, including those that would threaten its business model, future performance, solvency or liquidity. Further details are contained in the Viability Statement on pages 88 and 89.

The Board has established a Group Risk Committee to which it has delegated authority for oversight of the Group's risk appetite, risk monitoring and capital management. The Group Risk Committee provides oversight and advice to the Board on current risk exposures and our future risk strategy. The Committee also assists the Board in fostering a culture within the Group which emphasises and demonstrates the benefits of a risk-based approach to internal control and management.

Further details of the Group's risk management approach, structure and principal risks are set out in the Group Risk Committee Report on pages 142 to 145.

The Board has delegated authority to the Group Audit Committee for reviewing the effectiveness of the Company's internal control systems including oversight of financial reporting processes. The Group Audit Committee is supported by the Internal Audit function in discharging this responsibility and receives regular reports from the Group Chief Internal Auditor as to the overall effectiveness of the internal control system within the Group. The Group Audit Committee also receives reports from the external auditor on control matters. Details of the review of the effectiveness of the Company's internal control systems are set out in the Group Audit Committee Report on page 139.

Control environment

The Group is organised along the 'three lines of defence' model to ensure at least three stages of independent oversight to protect the customer and the Group from undue influence, conflict of interest and poor controls.

The first line of defence is provided by the operational business lines which identify, measure, assess and control risks through the day-to-day activities of the business within the frameworks set by the second line of defence. The second line of defence is provided by the Risk, Compliance and governance functions which include the Board and Group Executive Committee. As noted in this report, the Board sets the Company's risk appetite and is ultimately responsible for ensuring an effective SRMF is in place. The Compliance function maintains the 'key controls framework' which tracks and reports on key controls within the business to ensure compliance with the main provisions of the Financial Conduct Authority (FCA) and the Prudential Regulation Authority (PRA) handbooks. Policy documents also include key controls that map back to the key controls framework. The third line of defence is the Internal Audit function.

The Board is committed to the consistent application of appropriate ethical standards and the Conduct Risk Framework sets out the basic principles to be followed to ensure ethical considerations are embedded in all business processes and decision-making forums. The Group also maintains detailed policies and procedures in relation to the prevention of bribery and corruption, as well as a Whistleblowing Policy.

Directors

The Directors who served during the year are listed in the table on page 123. Graham Allatt, Noël Harwerth, Sarah Hedger, Rajan Kapoor, Mary McNamara and David Weymouth were appointed to the Board of the new holding Company on 28 February 2020.

The Board currently consists of eight Directors; the Chairman, two Executive Directors and five independent Non-Executive Directors (NEDs). The biographies of the Directors can be found on pages 116 and 117.



Board meetings and attendance

The Board met 15 times during the year, which was more than usual due to COVID-19. The Board has a formal meeting schedule with ad hoc meetings called as and when circumstances require. The Board held additional meetings during the first wave of COVID-19, meeting weekly in order to discuss the impact on the Group as a whole; those meetings are not included in table below.

There is an annual calendar of agenda items to ensure that all matters are given due consideration and are reviewed at the appropriate point in the regulatory and financial cycle. The Board has established a number of Committees as shown in the table below. The table also shows each Director's attendance at Board and Committee meetings they were eligible to attend in 2020.

Director	Board	Group Audit Committee	Group Remuneration Committee	Group Nomination and Governance Committee	Group Risk Committee	Board Integration Committee
David Weymouth (Chairman)	14/15	n/a	7/8	8/8	n/a	8/8
Graham Allatt	14/15	8/8	n/a	n/a	10/10	n/a
Andy Golding	15/15	n/a	n/a	n/a	n/a	8/8
Noël Harwerth	14/15	4/4	8/8	8/8	10/10	n/a
Sarah Hedger	15/15	8/8	5/5	n/a	n/a	8/8
Rajan Kapoor	15/15	8/8	8/8	n/a	10/10	8/8
Mary McNamara	15/15	n/a	8/8	6/6	n/a	n/a
April Talintyre	15/15	n/a	n/a	n/a	n/a	n/a

¹ The number of meetings set out within the attendance schedule includes those that were held for OneSavings Bank plc, before the listed entity changed to OSB GROUP PLC on 30 November 2020.

All Directors are expected to attend all meetings of the Board, any Committees of which they are members and to devote sufficient time to the Company's affairs to fulfil their duties as Directors. Where Directors are unable to attend a meeting, they are encouraged to submit any comments on the meeting materials in advance to the Chair, to ensure that their views are recorded and taken into account during the meeting. David Weymouth, Graham Allatt and Noël Harwerth provided comments for the meetings they were not able to attend.

As a result of COVID-19, all meetings since March 2020 have been held by telephone or videoconference. In October 2020, the Board trialled meeting (socially distanced) using split sites in Chatham, London and Wolverhampton. Since then, stricter COVID-19 measures have been imposed by the UK Government and the Board has reverted to meeting virtually.

Key Board activities during the year included:

- Strategy – the Board convened a mini-strategy session in October 2020
- Regular updates relating to performance in light of COVID-19
- Risk monitoring and review
- Governance and compliance
- External affairs and competitor analysis
- Talent review/succession planning
- Annual, interim and quarterly reporting
- Customer/brand/product review
- Policy review and update
- Investment proposals
- Culture – Purpose, Vision and Values

The Board assesses and monitors culture through regular updates from management, interactions with employees (informally and through OneVoice), reviewing and discussing the results of the Banking Standards Board (BSB) and Best Companies to Work For surveys. A representative from the BSB is invited to explain the results to the Directors, whether they are in line with other firms of a similar size and provide independent observations for potential areas of focus. During 2020, the Board requested and received regular updates from management regarding the levels of engagement of employees, particularly as measures responding to COVID-19 were implemented. The Board annually reviews regretted leaver analysis for signs of poor culture. The Board also oversees community activities undertaken by employees.

Roles of the Chairman and Chief Executive Officer

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, is responsible for setting the 'tone at the top' and ensuring that the Board has the right mix of skills, experience and development so that it can focus on the key issues affecting the business and for leading the Board and ensuring it acts effectively. Andy Golding, as CEO, has overall responsibility for managing the Group and implementing the strategies and policies agreed by the Board. A summary of the key areas of responsibility of the Chairman and CEO and how these have been discharged during the year, are set out on page 124.



Chairman's responsibilities	Activities carried out in 2020
Chairing the Board and general meetings of the Company.	David Weymouth chaired 14 out of the 15 Board meetings held during 2020. Unusually, he did not chair the AGM, which was held with the minimum quorum present due to COVID-19, in line with the restrictions on public gatherings imposed by the UK Government.
Setting the Board agenda and ensuring that adequate time is available for discussion of all agenda items.	The Chairman liaised with the Company Secretary to set the annual calendar of Board business and the agenda for each meeting. Time is allocated for each item of business at meetings.
Promoting the highest standards of integrity, probity and corporate governance throughout the Company.	The Board received regular updates from its Committees on changes in corporate governance and its application to the Company.
Ensuring that the Board receives accurate, timely and clear information in advance of meetings.	The Chairman, in liaison with the Company Secretary and the CEO, agreed the information to be distributed to the Board in advance of each meeting. Weekly updates were provided to the Board during the first wave of COVID-19.
Promoting a culture of openness and debate by facilitating the effective contribution of all NEDs. Ensuring constructive relations between Executives and NEDs and the CEO in particular.	The Chairman ran meetings in an open and constructive way, encouraging contribution from all Directors and regularly met with NEDs without management present so that any concerns could be expressed. The Chairman adapted his approach to ensure that virtual meetings were conducted in a manner that allowed all Directors to participate fully.
Regularly considering succession planning and the composition of the Board.	The Board received regular updates from the Group Nomination and Governance Committee. Details of the Committee's activities are explained in the Group Nomination and Governance Committee report on pages 130 to 133.
Ensuring training and development needs of all Directors are met and that all new Directors receive a full induction.	The Chairman, in liaison with the Company Secretary, has reviewed the Directors' training requirements. Details of induction and training held during the year are given on page 127.
Ensuring effective communication with shareholders and stakeholders.	The Chairman, along with the Board and assisted by the CEO, CFO and Investor Relations team, agreed a schedule of investor relations meetings. Details of meetings held during the year are shown on page 129. Some of these meetings were held virtually during the first wave of COVID-19, due to social distancing measures put in place by the UK Government.

Chief Executive Officer's responsibilities

Andy Golding's responsibilities as CEO are to ensure that the Group operates effectively at strategic, operational and administrative levels. He is responsible for all the Group's activities; he provides leadership and direction to encourage others to effect strategies agreed by the Board; channels expertise, energy and enthusiasm; builds individual capabilities within the team; develops and encourages talent within the business; identifies commercial and business opportunities for the Group, building strengths in key areas; and is responsible for all commercial activities of the Group, liaising with regulatory authorities where appropriate. He is responsible for the quality and financial well-being of the Group, represents the Group to external organisations and builds awareness of the Group externally.

In addition, Andy also has a specific focus on the delivery of integration objectives, as well as providing leadership and direction in response to COVID-19 and its impact on the business and employees throughout 2020 and beyond.

An experienced Group Executive team, comprising specialists in finance, banking, risk, legal and IT matters, assist the CEO in carrying out his responsibilities. The biographies for the Group Executive team are set out on pages 118 and 119.



Group Executive Committee

The CEO chairs the Group Executive Committee, whose members also include the Chief Financial Officer (CFO), Group Chief Operating Officer, Chief Risk Officers (CROs) of OSB and CCFS, Group General Counsel and Company Secretary, Group Commercial Director, Group Chief Information Officer, Group Chief Credit Officer, Group Managing Director for Mortgages, Group Managing Director for Savings and the Group Chief Internal Auditor. The Group Executive Committee is supported by a number of Management Committees. The purpose of the Group Executive Committee is to assist the CEO in the performance of his duties, including:

- The development and implementation of the strategic plan as approved by the Board.
- The development, implementation and oversight of a strong operating model that supports the strategic plan.
- The development and implementation of systems and controls to support the strategic plan.
- To review and oversee operational and financial performance.
- To prioritise and allocate the Group's resources in accordance with the strategic plan.
- To oversee the development of a high-performing senior management team.
- To oversee the customer proposition and experience to ensure consistency with the Group's obligation to treat customers fairly.
- To oversee the appropriate protection and control of private and confidential data.
- To review and oversee the key and strategic business risks.
- To oversee how the Purpose, Vision and Values are being embedded.
- To implement the integration of CCFS, including overseeing the Risk and Compliance functions, with a view to ensuring the effective management of risks across the individual entities and on an aggregated basis.

The Group Executive Committee's activities during the year included:

- The impact of COVID-19
- Business review
- Capital and funding
- Human resources and succession planning
- Governance, control and risk environment – current and forward looking
- Integration
- Monitoring target operating model progress
- Culture – Purpose, Vision and Values

Senior Independent Director

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

The SID is also available to shareholders should they wish to discuss concerns about the Company other than through the Chairman and CEO.

Company Secretary

The Company Secretary, Jason Elphick, plays a key role within the Company, advising on good governance and assisting the Board to discharge its responsibilities, acting with integrity and independence to protect the interests of the Company, its shareholders and employees of the Group. Jason advises the Company to ensure that it complies with all statutory and regulatory requirements and he works closely with the Chairman, CEO and Chairs of the Committees of the Board so that Board procedures (including setting agendas and the timely distribution of papers) are complied with and that there is a good communication flow between the Board, its Committees, senior management and NEDs. Jason also provides the Directors with advice and support, including facilitating induction programmes and training, in conjunction with the Chairman.



Effectiveness

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.

The Board comprises five NEDs, the Chairman and two Executive Directors. All of the NEDs, including the Chairman, have been determined by the Board to be independent in character and judgement and free from relationships or circumstances which may affect, or could appear to affect, the relevant individual's judgement. The independence of the NEDs is reviewed continuously, including a formal annual review. Any NED who does not meet the independence criteria will not stand for election or re-election at the AGM.

The size and composition of the Board is kept under review by the Group Nomination and Governance Committee and the Board to ensure an appropriate balance of skills and experience are represented. An external skills review was undertaken by Bvalco¹ during 2020. The Board is satisfied that its current composition allows it to operate effectively and that all Directors are able to bring specific insights and make valuable contributions to the Board, due to their varied commercial backgrounds. The NEDs provide constructive challenge to the Executives and the Chairman ensures that the views of all Directors are taken into consideration in the Board's deliberations. The Directors' biographies can be found on pages 116 and 117.

Non-Executive Directors' terms of appointment

NEDs are appointed for terms of three years, subject to annual re-election by shareholders. The initial term may be renewed up to a maximum of three terms (a total of nine years). The terms of appointment of NEDs specify the amount of time they are expected to devote to the business, which is a minimum of two and half days per month, calculated based on the time required to prepare for and attend Board and Committee meetings, the AGM, meetings with shareholders and training. NEDs are also committed to working additional hours as may be required in exceptional circumstances, such as COVID-19.

NEDs are required to confirm annually that they continue to have sufficient time to devote to the role.

¹ Bvalco has no other connection with the Company or individual Directors.

Appointment, retirement and re-election of Directors

The Board may appoint a Director, either to fill a vacancy or as an addition to the existing Board. All appointments are subject to a formal, rigorous and transparent procedure; succession is also considered. Appointments and succession planning are based on merit and objective criteria and, within this context, promotes diversity of gender, social and ethnic backgrounds, cognitive and personal strengths. Any new Director must then retire at the next AGM and is put forward for election by the shareholders.

All other Directors are put forward for re-election annually. In addition to any power of removal conferred by the Companies Act, any Director may be removed by special resolution, before the expiration of his or her period of office and, subject to the Articles, another person who is willing to act as a Director may be appointed by ordinary resolution in his or her place.

Conflicts of interest

The Company's Articles set out the policy for dealing with Directors' conflicts of interest and are in line with the Companies Act 2006. The Articles permit the Board to authorise conflicts and potential conflicts, as long as the potentially conflicted Director is not counted in the quorum and does not vote on the resolution to authorise the conflict.

Directors are required to complete an annual confirmation including a fitness and propriety questionnaire, which requires declarations of external interests and potential conflicts. In addition, all Directors are required to declare their interests in the business to be discussed at each Board and Committee meeting. The interests of new Directors are reviewed during the recruitment process and authorised, if appropriate, by the Board at the time of their appointment. The Group Nomination and Governance Committee reviews conflicts of interest relating to Directors at least annually; periodic reviews are also undertaken as required. The Group has adopted a Conflicts of Interest Policy, which includes a procedure for identifying potential conflicts of interest within the Group.

No Director had a material interest in any contract of significance in relation to the Group's business at any time during the year or at the date of this report.



Directors' indemnities

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

Directors' powers

As set out in the Articles, the business of the Company is managed by the Board, which may exercise all the powers of the Company. In particular, save as otherwise provided in company law or in the Articles, the Directors may allot (with or without conferring a right of renunciation), grant options over, offer, or otherwise deal with or dispose of shares in the Company to such persons at such times and generally on such terms and conditions as they may determine. The Directors may at any time after the allotment of any share but before any person has been entered in the Register as the holder, recognise a renunciation thereof by the allottee in favour of some other person and may accord to any allottee of a share, a right to effect such renunciation upon and subject to such terms and conditions as the Directors may think fit to impose. Subject to the provisions of company law, the Company may purchase any of its own shares (including any redeemable shares).

Training and development

The Chairman ensures that all Directors receive a tailored induction on joining the Board, with the aim of providing a new Director with the information required to allow him or her to contribute to the running of the Group as soon as possible. The induction programme is facilitated and monitored by the Company Secretary to ensure that all information provided is fully understood by a new Director and that any queries are dealt with. Typically, the induction programme will include a combination of key documents and face-to-face sessions covering the governance, regulatory and other arrangements of the Group.

As senior managers, under the Senior Managers Regime operated by the PRA and FCA, all Directors have had to maintain the skills, knowledge and expertise required to meet the demands of their positions of 'significant influence' within the Group. As part of the annual fitness and propriety assessment, Directors are required to complete a self-certification that they have undertaken sufficient training during the year to maintain their skills, knowledge and expertise and to make declarations as to their fitness and propriety. The Company Secretary supports the Directors to identify relevant internal and external courses to ensure Directors are kept up to date with key regulatory changes, their responsibilities as senior managers and other matters impacting the business.

Information and support

The Company Secretary and the Chairman agree an annual calendar of matters to be discussed at each Board meeting to ensure that all key Board responsibilities are discharged over the year. Board agendas are then distributed with accompanying detailed papers to Directors in advance of each Board and Committee meeting. These include reports from Executive Directors and other members of senior management. All Directors have direct access to senior management should they require additional information on any of the items to be discussed. The Board and Group Audit Committee also receive further regular and specific reports to allow the monitoring of the adequacy of the Group's systems and controls.

The information supplied to the Board and its Committees is kept under review and formally assessed on an annual basis as part of the Board evaluation exercise to ensure it is fit for purpose and that it enables sound decision-making. Additional and more frequent information was provided to the Board during the first wave of COVID-19.

There is a formal procedure through which Directors may obtain independent professional advice at the Group's expense. The Directors also have access to the services of the Company Secretary as described on page 125.



Board evaluation

The Board undertakes an evaluation of its performance and that of its Committees and individual Directors annually. An internal evaluation was conducted during 2020 using questionnaires. The Board was satisfied that no individual or group of Directors dominated the discussions or had undue influence in the decision-making process and the conclusion was that overall, the Board remained effective.

The Board is always looking at areas to improve and identified that it may benefit from an additional NED with specific experience such as Risk. The main focus for 2020 was the integration and navigation of the COVID-19 pandemic in a virtual environment. The Board has now redirected its efforts towards the longer-term strategy for the Group and will use lessons learnt from the pandemic to inform its approach.

An update of the actions taken since the last external evaluation is included in the table below.

Suggestion	Action taken
Explore ways in which NEDs can be increasingly equipped to provide more wide-ranging strategic challenge as the business grows.	The Chairman has reviewed Board and individual NED challenge as part of his regular one-to-one sessions with each NED. Action is taken, if required.
Increase the opportunities for NEDs to interact with each other, with Executives and with counterparts from the combined entity.	Informal catch-ups have been scheduled around some meetings.
Ensure that a skills matrix is in place (and adjusted following the Combination) for NEDs and Executives, with input from the Group Nomination and Governance Committee.	A skills matrix was developed by an external firm, details of which are outlined below. It was reviewed by the Group Nomination and Governance Committee.
Continue to monitor closely the implementation and integration of the new culture.	Workshops comprising employees from both OSB and CCFS were held with the aim of establishing the values of the combined Group. The Group Nomination and Governance Committee and the Board also receive an annual update on the results of the BSB survey; usually by a representative from BSB.
Consider dedicating additional time on Board meeting days to cover the extra workload of the combined Board.	50% extra time has been allocated to Board meetings. A number of additional meetings were held to discuss the impact of COVID-19. This will continue to be monitored and adjusted, as appropriate.
Consider additional support for the HR function, such as appointing a remuneration specialist.	A new Head of Reward has been recruited into the HR team.
Continue to monitor risk reporting to the Board, to ensure it gives a clear and effective summary of the debate and encourages NEDs to focus on the overarching risk picture.	Risk-based management information (MI) provided to the Board was enhanced to reflect increased alignment of risk assessment processes across the individual banking entities and to reflect the recently established Group risk appetite.
The Group Nomination and Governance Committee could be more proactive on succession, feeding back more detailed reports to the Board to fuel the creation of a skills matrix for NEDs, which acknowledges the value of the Board as a combined entity which can be stronger than the sum of its parts.	An external review was commissioned, which involved interaction with each Board member to create a detailed skills matrix of the existing Board. A revised skills matrix was presented to the Committee during 2020. The Committee discussed the skills matrix and whether there were sufficient skills on the Board and also considered Board succession, particularly, for the chairs of Board Committees. Changes were made to the Board and a succession plan activated. An externally-facilitated Board effectiveness review will be commissioned in 2021, which will continue to work on this and review the effectiveness of the Board as a whole.



Whistleblowing

The Group has established procedures by which employees may, in confidence, raise concerns relating to possible improprieties in matters of financial reporting, financial control or any other matter. The Whistleblowing Policy applies to all employees of the Group and is benchmarked against industry standards. The Group Audit Committee is responsible for monitoring the Group's whistleblowing arrangements and the policy. The Group Audit Committee regularly reports to the Board on its activities.

The Group is confident that the arrangements are effective, facilitate the proportionate and independent investigation of reported matters and allow appropriate follow-up action to be taken. Further details are provided in the Group Audit Committee Report on page 139.

Relations with shareholders

Dialogue with shareholders

The Group has a dedicated Investor Relations function which maintains regular, open and transparent dialogue with institutional investors and sell-side analysts. The team has access to the CEO and CFO who are available for meetings with shareholders and frequently attend industry conferences. Twice each year, post year-end and half-year results, the CEO and the CFO participate in roadshows, meeting larger investors; however, due to the restrictions imposed by the UK Government in response to COVID-19, such meetings have been held via video conference. In 2020, the Investor Relations team and management met a total of 113 individual existing and potential investors.

The Board's primary contact with institutional shareholders and sell-side analysts is through the CEO and the CFO. The Board is also regularly presented with shareholders' feedback, analysts' recommendations and market views via Investor Relations updates, topics which are frequently on the Board agenda.

Further details can be found in the section 172 statement on page 18.

As a result of the Combination with CCFS and becoming a PRA Level 2 firm, the Group consulted the top ten shareholders on proposed changes to the remuneration of the CEO and CFO. Meetings were attended by the Chairman, David Weymouth, providing an opportunity to discuss the proposed remuneration but also any other topics of interest to our investors.

Annual General Meeting

Our preference is to welcome shareholders in person to the AGM, particularly given the constraints we faced in 2020 due to the COVID-19 pandemic. At present, however, public health guidance and legislation issued by the UK Government in relation to the pandemic mean that there are restrictions on public gatherings and travel. Should a physical meeting be possible, this will be held at our offices at 90 Whitfield Street, Fitzrovia, London W1T 4EZ on 27 May 2021 at 11am. Where possible, the Chairs of each of the Committees of the Board will be present to answer questions put to them by shareholders. The Annual Report and Accounts and Notice of the AGM will be sent to shareholders at least 20 working days prior to the date of the meeting.

Shareholders are encouraged to participate in the AGM process and all resolutions will be proposed and voted on at the meeting on an individual basis by shareholders or their proxies. Voting results will be announced and made available on the Company's website, www.osb.co.uk.

Shareholders may require the Directors to call a general meeting other than an AGM as provided by the Companies Act 2006. Requests to call a general meeting may be made by members representing at least 5% of the paid-up capital of the Company as carries the right of voting at general meetings of the Company (excluding any paid-up capital held as treasury shares). A request must state the general nature of the business to be dealt with at the meeting and may include the text of a resolution that may properly be moved and is intended to be moved at the meeting. A request may be in hard copy form or in electronic form and must be authenticated by the person or persons making it. A request may be made in writing to the Company Secretary to the registered office or by sending an email to company.secretariat@osb.co.uk. At any general meeting convened on such request, no business shall be transacted, except that stated by the requisition or proposed by the Board.



Group Nomination and Governance Committee Report



“The main focus of the Committee this year has been on the Board skills assessment and subsequent resizing of the Board.

David Weymouth

Chair of the Group Nomination and Governance Committee

Committee member	Meetings attended
David Weymouth (Chair)	8/8
Noël Harwerth	8/8
Mary McNamara	6/6

Dear Shareholder,

I am pleased to present this report to you as Chair of the Group Nomination and Governance Committee.

The Committee is responsible for leading the process for the appointment of new members of the Board and to provide oversight and guidance to the Board on all matters of Corporate Governance relating to the Group. This includes ensuring that:

- the Board sets the tone from the top in relation to the values, ethics and culture of the Group leading to a sustainable business;
- the Board, its Committees and the boards of the subsidiary companies operate effectively and have an appropriate balance of diversity, skills, experience, availability, independence and knowledge of the Group to enable them to discharge their respective responsibilities effectively; and
- the Group adheres to best practice in relation to Corporate Governance in a manner that is proportionate to the size and complexity of the Group, in line with the Code and the requirements of the PRA and FCA.

The main focus of the Committee this year has been on the Board skills assessment and subsequent resizing of the Board. Following this, the Committee commenced the process for the appointment of a new NED with the right skills to bolster Board succession options. Per Ardua¹ has been appointed to assist in this process with a remit to provide a diverse list of candidates. The search process is continuing.

A number of other items were also considered by the Committee during 2020, including the Group’s progress in terms of achieving the commitments set out in the Women in Finance Charter and various diversity and inclusion initiatives including the establishment of the Group’s Diversity and Inclusion Working Group.

I am pleased to confirm that the Group had 29.8% of senior roles occupied by women during 2020, which was very close to the target of 30%. The target has been increased to achieve 33% by the end of 2023.

Further details on areas considered by the Committee are provided on the following pages.

David Weymouth
Chair of the Group Nomination and Governance Committee and Chairman of the Board
8 April 2021

¹ Per Ardua has no other connection with the Company or individual Directors.



Membership and meetings

The Committee met a total of eight times during 2020. The members of the Committee are Noël Harwerth, Mary McNamara, who was re-appointed with effect from 4 March 2020, and David Weymouth. Rod Duke and Sir Malcolm Williamson were members of the Committee until 4 February 2020 when they ceased to be members of the Board. David Weymouth was appointed Chair of the Committee with effect from 4 March 2020 and continued to serve throughout the year.

Responsibilities

The specific responsibilities and duties of the Committee are set out in its terms of reference which are available on our website, www.osb.co.uk.

Composition of the Board and its Committees

The Committee conducted a review of the composition of the Group Audit, Group Remuneration and Group Risk Committees and its own composition during 2020, carefully considering the skills of the existing members and looking at any skills gaps applicable to each Committee.

A number of changes had been made following the Combination with CCFS. The membership of the Committees was refreshed as a result of the departure of some NEDs. Sarah Hedger became a member of the Group Audit and Group Remuneration Committees; Noël Harwerth was appointed to the Group Audit Committee; and Mary McNamara was re-appointed to this Committee.

Succession planning

The Committee considered both Board and Executive level succession planning during 2020, including ways in which existing skills could be developed further and any recent additional skills which it was felt would complement the Board and its Committees. The Combination with CCFS provided an opportunity for a wholesale review of the balance of skills required on the Board with an external firm engaged to assist with this process. The findings were then used to discuss the optimum composition of the Board. The Committee also undertook a deep dive of succession planning for the Group Executive Committee.

A search is underway for a new NED with the right skills to bolster Board succession options.

Diversity

The Group recognises and embraces the benefits of having a diverse Board and workforce; and sees diversity at Board level as an essential element in maintaining a competitive advantage. We believe that a truly diverse Board and workforce will include and make good use of differences in the skills, regional and industry experience, age, background, race, gender and other distinctions between people. The Board recognises that diversity is the key to better decision-making and avoiding 'group think'.

These differences are considered in determining the optimum composition of the Board and, where possible, will be balanced appropriately. All Board appointments are made on merit, in the context of the skills, experience, independence and knowledge which the Board as a whole requires to be effective.

The Committee regularly reviews diversity initiatives including its annual review of the Diversity and Inclusion Policy. The Board remains committed to the Women in Finance Charter and has introduced measurable objectives with the Group committing to increase the percentage of female employees in senior management positions within the Group's UK population to 33% by the end of 2023. Currently, 17% of the Group Executive Committee and 50% of our Board are female. One of the eight Directors is from an ethnic minority. The Board recognises and embraces the benefits that diversity can bring; diversity and inclusion at Board level is an essential element in maintaining a competitive advantage. It is hoped that a diverse candidate list will be sourced as part of the search for a new NED.

Jason Elphick is the appointed Diversity and Inclusion Champion. His role is to promote diversity initiatives such as our commitment to those with a disability, mental health in the workplace and unconscious bias training. During 2020, the Diversity and Inclusion Working Group was established, consisting of volunteer representatives from across the Group, with the objective of developing and delivering the Group's Diversity and Inclusion agenda in order to promote, champion and encourage diversity, inclusion and equality within the workplace. The Diversity and Inclusion Working Group reports to the Group Executive Committee, who in turn provide information to the Committee and the Board on all matters relating to diversity, inclusion and equality.



Further details relating to diversity and inclusion are set out on **pages 97 to 98**



Governance

The Committee reviewed changes in the regulatory landscape, particularly the remit and composition of the Committees and the operation of two banking licences within the Group.

Activities during 2020

In last year's report the Committee identified eight key priorities.

A summary of actions taken and outcomes are set out in the table below.

Objective	Action taken
Ensuring that the composition and size of the Board and Board Committees remains appropriate post Combination with CCFS.	The Board size has been reduced from 14 to eight. A search is underway for a new NED to supplement skills on the Board.
Overseeing the development of succession plans for Group Executive Committee members and key Board roles.	A review of Board skills has led to a search for a new NED, which in turn will bolster Board succession options. A deep dive of succession planning relating to the Group Executive Committee was undertaken and further actions are planned for 2021.
Oversee the development of the revised Purpose, Vision and Values for the combined Group, along with the strategy to embed them.	The Committee endorsed a revised Purpose, Vision and Values which were launched in early 2021. As part of this launch, the Values were shared with employees using examples of how behaviours will be assessed as part of the performance appraisal process.
Review and agree the new combined diversity initiatives and reduction of the gender pay gap.	A new Diversity and Inclusion Working Group has been established and has delivered various campaigns throughout the year such as celebrating cultural heritage, International Women's Day, Black History Month and our own virtual PRIDE event. The Committee continued to review the gender pay gap in 2020, by overseeing and challenging the management initiatives in response to it and also in achieving Women in Finance Charter targets.
External Board and Committee effectiveness review.	An externally-facilitated Board evaluation will be undertaken in 2021. An internal evaluation was undertaken for 2020 and the Board concluded that it remained effective.
Oversee progress with the Group's combined purpose and sustainability initiatives.	An Environmental Working Group was established during the latter half of 2020. An update on the first meeting of the Environmental Working Group was presented to the Committee at the December 2020 meeting outlining its purpose, which is to drive initiatives and improve employee engagement with environmental initiatives.
Oversee the development of the talent pipeline and its relationship to succession planning.	The succession planning deep dive identified potential internal succession talent over a five-year horizon. This work will be developed and refined by the People Development team in 2021, as part of building a strong internal talent pipeline.
Provide oversight of the newly-established employee forum, OneVoice.	Mary McNamara attends OneVoice meetings on a quarterly basis as the designated NED to represent employees at Board level. She provides a verbal update to the Committee following each meeting. A summary of the topics discussed at OneVoice is presented to the Committee. All Directors are encouraged to attend at least one meeting of OneVoice during the year. Further details on the activities of OneVoice can be found on page 169.



Priorities for 2021

- Monitoring the application and embedding of corporate governance in the new Group.
- Overseeing the roll-out of the revised Purpose, Vision and Values.
- Continuing the work on Board succession planning – the current NED recruitment process.
- Overseeing the effective roll-out of the new Diversity and Inclusion Working Group and continued oversight/ involvement with OneVoice.
- Bring together environmental, social and governance initiatives and develop a robust oversight framework.
- Overseeing the development and implementation of Executive succession plans.



“The Committee is responsible for monitoring and reviewing the Group’s financial reports and disclosures.”

Rajan Kapoor
Chair of the Group Audit Committee

Committee member	Meetings attended
Rajan Kapoor (Chair)	8/8
Graham Allatt	8/8
Noël Harwerth	4/4
Sarah Hedger	8/8

Dear Shareholder,

I am pleased to present the report of the Group Audit Committee for 2020. The Committee is responsible for monitoring and reviewing the Group’s financial reports and disclosures, its accounting policies and practices and systems of internal controls, including internal financial controls. The Committee manages the relationship with the external auditor and oversees the work of the Internal Audit function.

The COVID-19 pandemic has significantly affected the Group’s operations and its financial performance. It has been a key consideration for the Committee in 2020. A considerable amount of time and effort was spent on the accounting judgements and estimates relating to the calculation of expected credit losses (ECL) and effective interest rate (EIR) in accordance with IFRS 9. Modelling the likely impact on ECL and EIR has been challenging in light of the unprecedented effect of the pandemic on the UK economy and the extensive support the government has provided to those affected. In common with other banks, the Group has no historical data points to model the impacts of these macroeconomic factors on ECL in particular. The Committee therefore considered benchmark information from external parties to inform its reviews. The changing economic conditions necessitated overlay judgements to modelled outputs. These are, by their nature, subjective; however, the Committee was satisfied that the approach taken by management to apply overlay and post model adjustments was robust and consistent. The Committee noted and took comfort from the work undertaken by the external auditor.

Following the identification of potential fraudulent activity by a third party in relation to a funding line provided by the Group, secured against lease receivables and the underlying hard assets, the Group undertook an internal review of all other funding lines and believes that this is an isolated incident. The Board has also commissioned an external review into internal processes and controls in its funding lines business and the Group Audit Committee and Group Risk Committee will oversee the implementation of recommendations following its completion.

Taken as a whole, the Committee has an appropriate balance of skills, including recent and relevant financial experience. In addition to members, standing invitations to Committee meetings are extended to the Chairman of the Board, Executive Directors, Chief Risk Officers, the Group Chief Internal Auditor and the external audit partner, all of whom attend meetings as a matter of practice. Other non-members may be invited to attend all or part of any meeting as and when appropriate.

The Company Secretary acts as Secretary to the Committee. The external auditor attended all meetings during the year and also met in private with the Committee. I discuss and agree the agenda with the Chief Financial Officer (CFO) and the Secretary in advance of each meeting and receive a full briefing on the key agenda items.



As well as being Chair of this Committee, I am also the Group Whistleblowers' Champion. The Committee oversees the framework and its operational effectiveness and reports to the Board on such matters. I have specific responsibility for overseeing the integrity, effectiveness and independence of the Group's policies and procedures on whistleblowing.

I would like to thank all Committee members for their diligent contribution during 2020. Noël Harwerth joined the Committee on 1 August 2020 and brings with her a wealth of experience.

Further details on the activities of the Committee during the year and how it discharged its responsibilities are provided in the report below.

Rajan Kapoor
Chair of the Group Audit Committee
8 April 2021

Membership and meetings

The Committee met eight times during the year. The current members of the Committee are Rajan Kapoor (Chair), Graham Allatt, Noël Harwerth and Sarah Hedger. Noël became a member of the Committee on 1 August 2020. Eric Anstee and Tim Brooke Thom were members until 4 February 2020 and 7 May 2020, respectively, when they ceased to be members of the Board. Rajan Kapoor served as Chair of the Group Audit Committee throughout the year and has wide-ranging financial experience in the banking industry. The members are all independent NEDs who also sit on other Board Committees (in addition to this Committee). The common membership facilitates effective governance across all finance, risk and remuneration matters; and ensures that agendas are aligned and duplication of responsibilities is avoided.

Responsibilities

The primary role of the Committee is to assist the Board in overseeing the systems of internal control and external financial reporting across the Group. The Committee's specific responsibilities are set out in its terms of reference, which are reviewed at least annually. These are available on the Company's website, www.osb.co.uk, and cover external and internal audit, financial reporting, compliance, whistleblowing, fraud and internal controls.

In addition, the Chair of the Group Audit Committee is available to meet with the Company's investors on request, in accordance with the Financial Reporting Council's (FRC) Stewardship Code.

Activities during 2020

The principal activities undertaken by the Committee during the year are described below.

Significant areas of judgement and estimates considered by the Committee

The following significant accounting judgements and estimates were considered by the Committee in relation to the interim and full-year results of the Group. In its assessment, the Committee considered and challenged reports from management, explaining each area of significant judgement and management's recommended approach. The Committee also received reports from the external auditor setting out their views on the accounting treatment and judgements underpinning the financial statements.



Loan book expected credit losses

The Committee received and challenged reports from management prior to each reporting date, explaining the approach taken to provisioning and the resulting changes in provision levels during the period. All members of the Group Risk Committee, who are not members of the Committee, were invited to join discussions on expected credit losses during the year.

As a result of COVID-19, the Committee received reports from the Group's economic adviser and management, with a focus on identifying appropriate macroeconomic scenarios and proposed probability weightings. The Committee reviewed management's proposals on how probabilities attached to the economic scenarios and approved the final weightings utilised within the Group's impairment calculations. The Group continued to utilise four scenarios; an upside, base case and two further downside scenarios. The Group undertakes regular industry benchmarking of the economic scenarios, weightings and the resulting overall coverage. These benchmarks, in addition to insight from the Group's economic advisers, support management in the selection and weighting of economic scenarios.

As COVID-19 is without precedent, the Group has regularly reviewed the key assumptions and judgements to ensure these appropriately reflect the unique economic and social environment. The Group has made adjustments to strengthen the identification of Significant Increases in Credit Risk in addition to making adjustments for model limitations due to either the impacts of, or government policy responses to, COVID-19.

In addition, the Committee also considered the impairment charge of £20m in relation to potentially fraudulent activity by a third party on one of the Group's secured funding lines, following an initial report from the Administrator appointed by the Group. Based on this initial report, the Committee has satisfied itself that the impairment charge is appropriate.

Loan book acquisition accounting and income recognition

The Group did not acquire any loans inorganically during the year. However, it has acquired portfolios of loans in prior years. Acquired loan books are initially recognised at fair value with interest recognised at the EIR. Significant judgement is required in calculating their EIR, using cash flow models, which include assumptions on the likely macroeconomic environment, including House Price Index (HPI), unemployment levels and interest rates, as well as loan level and portfolio attributes and history used to derive prepayment rates, the probability and timing of defaults and the amount of incurred losses. The EIRs on loan books purchased at significant discounts are particularly sensitive to the prepayment and default rates assumed, as the purchase discount is recognised over the expected life of the loan book through the EIR. New defaults are modelled at zero loss (as losses will be recognised in profit and loss as impairment losses) and therefore have the same impact on EIR as prepayments. Incurred losses at acquisition are calculated using the Group's collective provision model. The Committee reviewed and challenged reports from management before each reporting date on the approach taken. Particular focus was given to loan books where performance varied from expectation. The Committee reviewed a comparison of actual cash flows to those assumed in the cash flow models by book, to challenge management's assessment of the need to update cash flow projections and adjust carrying values accordingly.

The Committee considered the impact of COVID-19, and the associated government restrictions and support measures, on observed customer prepayment behaviour; whether it was temporary or permanent in nature and whether it was appropriate to reset future cash flow expectations. The Committee reviewed sensitivities provided by management illustrating the impact of extending or shortening the expected weighted average lives of acquired loan portfolios. Based on this work, the Committee is satisfied that the approach taken and judgements and estimates made were reasonable.



Effective interest rate

A number of assumptions are made when calculating the EIR for newly-originated loan assets. These include their expected lives, likely redemption profiles and the anticipated level of any early redemption charges (ERCs). Certain mortgage products offered by the Group include significant directly-attributable fee income, in particular certain Buy-to-Let products and/or those that transfer to a higher revert rate after an initial discount or fixed period. Judgement is used in assessing the expected rate of prepayment during the discounted or fixed period and during the period post rate reversion. The Group uses historical experience of customer behaviour in its assessment along with economic outlook and market conditions.

OSB applies a period spent on the higher reversion rate in the EIR for two, three and five-year fixed products. The assumed period spent on the revert rate is based on a careful consideration of past behavioural data and the potential impact of the economic and regulatory outlook. The Committee also reviewed and challenged other assumptions used in the EIR calculations, in particular prepayment curves applied in the redemption profile. Prepayment curves for fixed rate mortgages were approved by the Group Assets and Liabilities Committee (ALCO) prior to implementation.

CCFS applies a period spent on the higher reversion rate for all products based on observed historical behaviour of similar cohorts of products. Management closely monitor observed behaviour and compare these to assumptions applied in financial and accounting models. Proposals on changes to prepayment assumptions are considered and approved by ALCO on a quarterly basis. The Committee received information on the prepayment curve change proposals and supporting analysis to enable it to independently challenge the approach and conclusions.

The Committee considered the impact of COVID-19 and the associated government restrictions and support measures on observed customer prepayment behaviour; whether it was temporary in nature and whether forward-looking assumptions should be updated. The Committee received and reviewed sensitivities illustrating the impact of extending or shortening the expected weighted average lives of organically originated loan portfolios, which influence the expectation of income at higher reversionary rates, the period over which fees are recognised and the expectations of early repayment income. Having considered all the evidence, the Committee is satisfied that the approach taken and judgements made were reasonable.

Further details of the above significant areas of judgement and estimation can be found in note 3 to the financial statements.

Hedge accounting

Hedge accounting has been an area of focus for the Committee during the year. The Committee reviewed management's activities to develop the basis of hedge effectiveness testing and the introduction of new processes to support hedge accounting for Sterling Overnight Index Average (SONIA)-linked derivatives. The Committee also received regular reports on the selection and implementation of a new Group hedge accounting system solution.

The Committee was updated on the results of management's regular reviews of the amortisation profile of fair value adjustments on hedged assets associated with cancelled swaps in OSB, against the roll-off of the underlying legacy back book of long-dated fixed rate mortgages. The Committee endorsed the decision to accelerate the amortisation of fair value adjustments on hedged assets during the year, in line with the mortgage asset run-off, due to faster than expected prepayments.

Intangibles and investments in subsidiaries

The Committee reviewed management's assessment of whether the impact of the COVID-19 pandemic on the UK economy and the Group's business plans was an impairment assessment trigger for the Group's intangible assets and significant investments in subsidiaries at the Company level. The Committee challenged and satisfied itself on the appropriateness of the key underlying assumptions to the impairment assessments. This review resulted in the recognition of an impairment of £7.0m in respect of the intangible asset relating to broker relationships recognised on the Combination. This reflects the lower new business volumes in 2020 and expected in subsequent years, due to the pandemic.

Insertion of new holding company

The Committee reviewed and approved the basis of accounting for the insertion of OSB GROUP PLC as the new holding company for the Group in November 2020.

Financial reporting

The Committee's review of financial reporting during the year included the Annual Report and Accounts, the Interim Results, quarterly trading updates, analysts presentations and Pillar 3 disclosures. As part of its review, the Committee assessed management's application of key accounting policies, significant accounting judgements and compliance with disclosure requirements to ensure that these were consistent and appropriate to satisfy the relevant requirements. In particular, the Committee carefully considered the presentation of results on a statutory, underlying and pro forma underlying basis to ensure transparency and consistency throughout.



Viability and going concern

The Committee considered the current position of the Group, along with principal and emerging risks, and assessed the prospects of the Group before recommending the Group's long-term viability statement to the Board. The Committee also undertook a review, before recommending to the Board, that the going concern basis should be adopted in preparing the annual and interim financial statements.

Fair, balanced and understandable

The Committee considered, on behalf of the Board, whether the 2020 Annual Report and Accounts taken as a whole are fair, balanced and understandable and whether the disclosures are appropriate. The Committee reviewed the Group's procedures around the preparation, review and challenge of the Annual Report and Accounts and the consistency of the narrative sections with the financial statements and the use of alternative performance measures and associated disclosures.

Following its review, the Committee is satisfied that the Annual Report and Accounts is fair, balanced and understandable; and provides the information necessary for shareholders and other stakeholders to assess the Group's position and performance, business model and strategy in line with section 172 requirements as outlined on pages 16 to 23; the Committee has advised the Board accordingly.

Alternative performance measures

The Combination with CCFS in October 2019 significantly increased the size and scale of the Group. In order to show the performance of the Group on a consistent basis and to make comparisons between the years meaningful, the Group presents alternative performance measures (APMs) on an underlying and pro forma basis, alongside the statutory basis. See pages 272 to 274 for further details.

As these are important measures of how the Group performed, the Committee asked the external auditor, Deloitte, to provide assurance on their computation. Deloitte was selected as the Committee considered that they could perform the work efficiently and economically. The Committee was satisfied that this assignment did not affect Deloitte's independence as external auditor. A copy of Deloitte's independent assurance statement can be found on pages 270 and 271.

Pillar 3 disclosures

The Committee approved the Group's Pillar 3 regulatory disclosures for publication on the Group's website, following a review of the governance and control procedures around their preparation.

Internal Audit

The Committee is responsible for approving the remit of Internal Audit, together with the annual plan and ensuring that it has adequate resources and appropriate access to information to enable it to perform its function effectively and in accordance with the relevant professional standards. The Committee also ensures that the Internal Audit function has adequate standing and is free from management, or other restrictions, which may impair its independence and objectivity.

The primary role of the Internal Audit function is to provide independent, objective assurance and consulting services designed to add value and protect the assets, reputation and sustainability of the Group. It assists the Group in accomplishing its objectives by bringing a systematic and disciplined approach to evaluate and improve the effectiveness of the Group's governance, risk management and control processes. The Internal Audit Charter, which formally defines Internal Audit's purpose, authority and responsibility, was approved by the Committee in October 2020 and can be found on our website, www.osb.co.uk.

The Group Chief Internal Auditor regularly updated the Committee on progress against the 2020 Internal Audit Plan, particularly the impact of COVID-19, the results of audit assignments and any outstanding audit action points. Significant findings and themes were reviewed and discussed at meetings of the Committee throughout the year. Additionally, the Committee was kept informed of Internal Audit's review of the integration programme and its response to COVID-19.

The Committee also considered and approved the 2021 Internal Audit Plan which is based on an assessment of the key risks faced by the Group. During the year, the Committee, together with the Executives and external auditor, received written reports following the conclusion of each Internal Audit engagement. Management actions on all Internal Audit recommendations are tracked and reported to the Committee.



The Internal Audit function is resourced with an in-house team supported by a panel of third party accountancy firms that provide expert resource (on a co-source basis) for specific technical/specialist audits.

On an annual basis, the Committee assesses the effectiveness of the Internal Audit function. In 2020, this was facilitated by a survey completed by Committee members, the Executives (excluding the Group Chief Internal Auditor) and the external auditor, who maintains a close relationship with the Internal Audit function. In addition, the Committee considered the output of an internal audit quality assurance review performed by an independent consultant. The Committee was satisfied that the function had operated effectively during the year. An independent external evaluation is planned to take place in 2021 in line with the recommendations of the Chartered Institute of Internal Auditors.

Systems of internal control and risk management

The Committee approved the annual review of the Compliance Risk Assessment and Assurance Plan and received regular reports from the Group's Compliance function. The Committee used the Internal Audit and Compliance Reports for its assessment of the effectiveness of the Group's system of internal controls and risk management. The Committee also received a report on the effectiveness of the Group's system of controls from the CEO, which was based on a self-assessment process completed by senior managers and Executives.

The Committee received and reviewed reports from management on the status of the substantiation of balance sheet general ledger accounts at the reporting date. The systems of internal control and risk management have been in place throughout the year under review and up to the date of approval of the Annual Report and Accounts.

The Committee reviewed and approved a number of policies following their annual update, including: Pillar 3 disclosures, anti-bribery and corruption, data protection, data retention and record management, fraud, sanctions, loan impairment provisioning, whistleblowing, anti-money laundering and prevention of terrorist financing. The Committee received reports on fraud prevention arrangements, fraud incidents, whistleblowing and an annual report from the Money Laundering Reporting Officers for the two Banks during the year.

Whistleblowing

The Committee is responsible for monitoring the Group's Whistleblowing Policy and arrangements. Where concerns have been raised, a detailed report is provided on the investigation, actions taken, lessons learnt and changes made as a result.

The Chair of the Committee has overall responsibility for whistleblowing arrangements with oversight from the Board. Training and periodic updates are provided to all employees who are encouraged to use the multiple channels available to raise any concerns they may have. No concerns were raised that required a report to be made to the regulators.

External auditor

The Committee is responsible for overseeing the Group's relationship with its external auditor, Deloitte. This includes the ongoing assessment of the auditor's independence and the effectiveness of the external audit process, the results of which inform the Committee's recommendation to the Board relating to the auditor's appointment (subject to shareholder approval) or otherwise.

Appointment and tenure

The Committee confirms that the Group has complied with the Statutory Audit Services for Large Companies Market Investigation (mandatory use of competitive tender processes and Audit Committee Responsibilities) Order 2014, which requires FTSE 350 companies to put their statutory audit services out to tender no less frequently than every ten years.

New EU legislation adopted by the UK in 2016 set a maximum audit tenure of 20 years and also requires a tender at least every ten years. The new legislation is effective for financial periods commencing on or after 17 June 2016. Against this backdrop, the Group put the external audit contract out for tender for the 2019 financial year. There are no restrictive contractual provisions limiting the Company's choice of auditor. The next external audit tender is expected to be 2028 for the financial year 2029. Robert Topley has been the lead audit partner since 2019.

A resolution to re-appoint Deloitte as external auditor will be presented at the AGM.



Effectiveness

The Committee assesses the effectiveness of the external audit function on an annual basis. In 2020, the review was facilitated through a survey completed by members of the Committee, the Executive Directors and other key employees who had significant interaction with the external audit team during the year. The survey assessed the effectiveness of the lead partner and audit team, the audit approach and execution, the role of management in the audit process, communication, reporting and support to the Committee as well as the independence and objectivity of the external auditor. The assessment concluded that the external audit process was effective and objective, with some minor areas for improvement suggested.

External audit reports

Rob Topley, the lead external audit partner, attended all meetings of the Committee during 2020. He reported to the Committee at the half year and full year on the audit-related work and conclusions. This included Deloitte's view on accounting judgements made by management, compliance with IFRSs and observations on controls. The Committee also received helpful benchmark data from Deloitte during the year, especially relating to accounting for the impacts of the COVID-19 pandemic.

Non-audit services

The engagement of the external auditor to provide non-audit services to the Group could impact the assessment of its independence and objectivity. The Group has therefore established a policy governing the use of the external auditor for non-audit services.

The Group maintains active relationships with several other large firms and any decision to appoint the external auditor for non-audit services is taken in the context of its understanding of the Group, which can place it in a better position than other firms to undertake the work, and includes an assessment of the cost-effectiveness and practicality of using an alternative firm.

The EU statutory audit market reform legislation adopted in the UK applies a cap on permissible non-audit services of 70% of the preceding three-year average of audit fees for UK incorporated Public Interest Entities (PIEs). The Revised Ethical Standard issued by the FRC in December 2019 contained a 'whitelist' of permitted non-audit services, distinguishing between those which fall under the cap, including extended assurance work, and those not subject to the cap, being services required by a competent authority or regulator by law. The cap is applicable for financial periods commencing on or after 17 June 2019. As a result of the Combination with CCFS and the insertion of a new holding company in 2020, the Group contains multiple PIEs and the application of the rules needs to be considered carefully for each PIE. The rules on capping non-audit services will be applicable to the Company for the first time in 2023 (based on the average audit fees for 2020, 2021 and 2022), to OSB for the first time in 2022 (based on the average audit fees for 2019, 2020 and 2021) and applied to CCFS for the first time in 2020 (based on the average audit fees for 2017, 2018 and 2019).

Notwithstanding the above effective dates, the Committee has set a cap for non-audit services in 2020 of 50% of audit services. The Committee pre-approved a number of non-audit services in 2020, including interim profit verifications, the half-year review and an assurance review of certain key performance indicators in the Annual Report and Accounts. The Committee also agreed mandates for the CFO and the Chair of the Committee to approve additional permitted engagements subject to agreed thresholds.

The Committee closely monitors and receives regular reports on non-audit services.

The fees paid to the external auditor in respect of non-audit services during 2020 totalled £363,000, representing 16% of 2020 Group audit services of £2,263,000 (2019: £329,000 representing 16% of 2019 Group audit services of £2,115,000) and are summarised in the table below.

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



Audit-related assurance services include the interim review and profit verifications. Other assurance services in 2020 comprise an assurance review of APMs (2019: work related to the Combination and agreed-upon procedures in respect of securitisations). Other non-audit services primarily comprise work related to the insertion of the new holding company.

The Committee is satisfied that Deloitte is independent; in making this assessment, it took into account the non-audit services provided during the year and confirmations given by Deloitte as to its continued independence at various stages in the year.

Taxation

The Committee received an update on the Group's tax position and discussed matters such as the relationship with HMRC and tax compliance status. The Committee approved the Group's UK tax strategy which is available on the Company's website.

Group Audit Committee – key responsibilities

Internal control and risk management

- Review internal financial control systems to identify, assess and monitor financial risks and other internal control and risk management systems
- Review and approve systems and controls for the prevention of bribery and procedures for detecting fraud including conduct risk and related activities
- Review the adequacy and effectiveness of anti-money laundering systems and controls
- Review the adequacy and security of the Group's whistleblowing arrangements and procedures

Financial reporting

- Monitor the integrity of the financial statements, including annual and interim reports, trading updates, Pillar 3 disclosures and any other formal announcements relating to financial performance
- Provide challenge and oversight on the consistency, quality and appropriateness of significant accounting policies and on the methods used to account for significant or unusual transactions
- Ensure appropriate accounting standards, estimates and judgements have been followed, taking into account the view of the external auditor
- Recommend significant changes to accounting policy to the Board

Training

The Committee undertook training during the year, including making extensive use of the Audit Committee Institute and training programmes run by the major accountancy firms. The members of the Committee attended webinars and update meetings held by the FRC. In addition, Committee members attended a number of in-house workshops on specific areas. Some members of the Committee also interacted with key employees during the year to increase their knowledge and understanding of the business.

Effectiveness

The Committee formally considers its effectiveness annually. In 2020, the assessment was facilitated using a survey completed by members of the Committee and other attendees, including the external auditor. The review concluded that the Committee operated effectively throughout 2020 with no significant improvements required.



“ Supporting the Board to oversee and manage the Group’s risk profile during the COVID-19 pandemic.

Graham Allatt
Chair of the Group Risk Committee

Committee member	Meetings attended
Graham Allatt (Chair)	10/10
Noël Harwerth	10/10
Rajan Kapoor	10/10

Dear Shareholder,

I am pleased to present the Group Risk Committee report for the financial year ended 31 December 2020.

During 2020, the Committee exercised appropriate oversight of the Group and its banking entity level risk profiles against the backdrop of the pandemic-related business, economic and regulatory uncertainties. The Committee actively monitored the underlying drivers impacting the Group’s business and risk performance objectives; and assessed the appropriateness of management actions in the context of the inherent risk culture and appetite.

The Committee played an active and supportive role in assessing the implications of the COVID-19 pandemic on credit provisions, funding and liquidity positions and capital buffers to enable the Group and its banking entities to remain resilient to extreme but plausible shocks. Timely and granular information was provided relating to customer behaviours and outcomes, business forecasts, expected and stressed loan portfolio performance and credit provisions. Capital and funding requirements and operational performance thresholds were also subject to regular reporting.

The Group Audit and Risk Committees worked collaboratively in approving the IFRS 9-based credit provisions in the context of the emerging regulatory guidance, evolving economic scenarios (base and stressed) and the appropriateness of the underlying modelling-based judgements and estimates. The Risk function developed innovative ways of identifying segments of the portfolio showing early signs of stress because of the impact of COVID-19. The Committee spent considerable time discussing the results, the impact on IFRS 9 provisions and any appropriate corrective actions which the Group might take.

The Group’s operational capacity and contingency arrangements were continuously assessed with a view to maintaining customer service quality standards.

The post-Combination integration agenda continued to be an important area of focus with a view to escalating identified risks to and from the integration programme to the Board Integration Committee.

Significant time was allocated to reviewing, challenging and shaping the development process of the Group and banking entity level risk frameworks, policies and appetite statements. The Group and banking entity Internal Capital Adequacy Assessment Processes (ICAAPs) were also subject to extensive focus with respect to risk and capital-based assessments, judgements and conclusions.

The Committee also discharged its duties relating to the ongoing Group Internal Ratings-Based (IRB) programme, providing Board level oversight, review and approval of model development, performance monitoring and governance.



On a forward-looking basis, the Committee discussed the Group's plans and response to emerging risks such as climate change, London Interbank Offered Rate (LIBOR) reform and the potential for the Bank of England setting base rate at a negative level.

On behalf of the Committee, I would like to extend my appreciation to all colleagues and in particular the Risk and Compliance functions, who ensured that the Group's risk profile was managed in a prudent manner, whilst our customers continued to receive fair outcomes.

Further information on the role and activities of the Committee is provided in the following pages.

Graham Allatt
Chair of the Group Risk Committee
8 April 2021

Membership and meetings

The Committee met 10 times during the year, which included an additional ad hoc meeting to discuss the ICAAP. The current members are Graham Allatt as Chair, Noël Harwerth and Rajan Kapoor. Graham Allatt served as Chair of the Group Risk Committee throughout the year. Tim Brooke Thom ceased to be a member on 7 May 2020.

In addition to the members of the Committee, the Chairman of the Board has a standing invitation to the Committee, along with the CEO, CFO, CROs and Group Chief Credit Officer, unless the Chairman of the Committee informs any of them that they should not attend a particular meeting or discussion.

Responsibilities

The primary objective of the Committee is to support the Board in discharging its risk oversight and governance responsibilities. In particular, the Committee enables the Board to:

- Set a clear tone from the top in relation to a risk-based culture which fosters individual and collective accountability for risk management.
- Continuously review, challenge and recommend enhancements to the Group's Risk Management Framework (RMF).
- Ensure the Group organises and resources its risk management and oversight functions across the first and second line effectively.
- Actively assess performance against risk appetite and challenge management to ensure that the Board's strategic, business and regulatory objectives are not put at unacceptable levels of risk.

The Committee's specific responsibilities are set out in its terms of reference, which are available on the Company's website at www.osb.co.uk.

Activity during 2020

The key areas of the Committee's focus during 2020 are outlined in the following pages.

Risk appetite

The Committee played an active role in shaping and assessing the design of the Group's risk appetite in the context of economic and business outlook and uncertainties, the strategic growth agenda of the Group and regulatory developments. Members of the Committee participated in a risk appetite workshop in which risk appetite statements, risk metrics, limits and triggers were discussed and challenged prior to being recommended to the Board for approval. The Committee also ensured that the proposed risk appetite was subject to appropriate alignment to the Group's strategic agenda, business plans and stress testing capabilities. Risk appetites were set at both Group and banking entity levels.

The Committee also reviewed the Group's position against risk appetite across all principal risks and escalated issues to the Board, where appropriate.



Internal Ratings-Based Programme

The Committee reviewed regular project updates including a detailed plan to merge the OSB and CCFS-specific IRB projects which incorporated an approach to develop and implement enhanced model governance arrangements.

Credit risk

The Committee has monitored the performance of the Group's loan book on both aggregated and asset class sub-segment bases by assessing the key indicators of credit quality, security coverage, affordability and borrower risk profile. The Committee also assessed forward-looking credit risk indicators in the form of bureau data on customer credit scores, mover alerts and indebtedness, business and economic early warning indicators.

The Committee challenged and approved updates to policies including the Group Lending Policy, the Arrears Management and Forbearance Policy and the Loan Impairment Provisioning Policy, as well as the credit risk appetite. The Committee also exercised oversight over credit risk models and provided an appropriate level of challenge in relation to model construction and validation to ensure that the models are appropriate, robust and fit for the purpose for which they are intended. The Committee has also directed management on how to monitor model performance.

During 2020, the Committee (jointly with the Group Audit Committee) oversaw plans for the alignment of IFRS 9 methodologies and approaches across OSB and CCFS which included the alignment of the default definition, staging criteria and exceptional COVID-19 assumptions and judgements for model overlays and the identification of significant increases in credit risk. The Committees also assessed and approved the Group's provision adequacy levels throughout the year.

The Group recognised an impairment provision of £20m in relation to potential fraudulent activity by a third party on a funding line provided by the Group, secured against lease receivables and the underlying hard assets. The Group's funding line business is primarily secured against property-related mortgages¹ and following an internal review, the Group believes that this is an isolated incident. The Board has commissioned an external review of processes and controls in relation to the funding lines business and the Group Audit Committee and Group Risk Committee will review and jointly oversee the implementation of recommendations following its completion.

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

Market risk and liquidity risk

Market risk and liquidity risk are continually monitored by ALCO, which provides reports to the Committee. The Committee reviewed ALCO's regular assessments of the UK macroeconomic environment and potential impacts on the Group's assets and liquidity.

The Committee also reviewed and recommended the market and liquidity risk appetite to the Board for approval. The Committee oversaw the Group's liquidity management plans during COVID-19, ensuring that liquidity positions remained appropriate against the uncertain economic backdrop arising from the pandemic.

Solvency risk and ICAAP

The Committee was involved with the design and approval of appropriate macroeconomic scenarios to be used in the Group's and solo banking entity ICAAPs. The ICAAP demonstrates how the Group would manage its capital resources and requirements during a plausible but severe period of stress. The Committee assessed the results of all the risk-based capital assessments and stress testing outcomes before finally recommending the ICAAP documents to the Board for approval.

The Committee also reviewed and challenged the Group Capital Plan and monitored total capital and Common Equity Tier 1 (CET1) forecasts throughout the year, ensuring risks were understood and managed appropriately. The Committee also reviewed and recommended the solvency risk appetite to the Board for approval.

The Committee additionally started to consider moving towards a combined ICAAP for OSB and CCFS and sought external advice on the best approach for alignment.

Operational risk

The Committee received reports on operational risks at each of its meetings. The reports covered risk incidents that had arisen to allow the Committee to assess management's response and remedial action proposed. The reports also covered key risk indicators (KRIs), which can be quantitative or qualitative and provided insights regarding changes in the Group's operational risk profile. The Committee also reviewed and recommended the operational risk appetite to the Board for approval.

The Committee requested a detailed analysis of operational incidents that occurred during the course of 2020 to further understand any causes and trends. The Committee was satisfied that the actions taken were appropriate and that the control of operational incidents continued to improve.

Compliance and regulatory risk

The Committee received reports covering compliance and financial crime KRIs, which can be quantitative or qualitative and provide insights regarding changes in the Group's compliance and regulatory risk profile. The Committee also assessed and recommended enhancements to the compliance and financial crime risk appetite before recommending it for approval by the Board.



Risk Management Framework integration

The Committee considered the Integration Plan and harmonisation of the Risk Management Frameworks and functions of OSB and CCFS. An external firm assisted the Group with the creation of the Integration Plan which sets out the key components of the respective firms' frameworks. The scope of all components is broken down into three distinct groupings, namely; 'business as usual', 'regulatory requirements' and 'risk projects' and sets out a summary of workstreams and timelines to achieve harmonisation.

Other risk types

The Committee reviewed the Group profiles of conduct risk, reputational risk, climate change risk and business and strategic risk against their respective risk appetites.

Group Risk Committee – key responsibilities

Risk appetite and assessment

- Advise the Board on overall risk appetite, tolerance and strategy
- Review risk assessment processes that inform the Board's decision-making
- Consider the Group's capability to identify and manage new risks
- Advise the Board on proposed strategic transactions, including acquisitions or disposals, ensuring risk aspects and implications for risk appetite and tolerance are considered

Risk monitoring and framework

- Review credit risk, interest rate risk, liquidity risk, market risk, compliance and regulatory risks, solvency risk, conduct risk, reputational risk and operational risk exposures by reference to risk appetite
- Challenge and endorse the SRMF
- Provide challenge and oversight to the ICAAP framework
- Monitor actual and forecast risk and regulatory capital positions
- Recommend changes to capital utilisation
- Provide challenge and oversight to the Internal Liquidity Adequacy Assessment Process (ILAAP) framework
- Monitor the actual and forecast liquidity position
- Review reports on risk appetite thresholds, identify where a risk of a material breach of risk limits exists and ensure proposed actions are adequate
- Provide challenge and oversight to the Recovery Plan framework

CROs and risk governance structure

- Consider and approve the remit of the Risk function
- Recommend to the Board, the appointment and removal of the CROs
- Review promptly, all reports from the CROs
- Review and monitor management's responsiveness to the findings of the CROs
- Receive reports from ALCO and the Risk Management Committees

Other Committees

Group Models and Ratings Committee

The Group Models and Ratings Committee was established as a sub-committee of the Group Risk Committee in January 2020. The Committee met eight times during the year.

The primary purpose of the Committee is to act as the designated Committee for the purpose of material aspects of the rating and estimation processes (as articulated in Article 189 of the EU Capital Requirements Regulation) and provide assurance of the Group's models and ratings systems.

The Committee is chaired by the Chair of the Group Risk Committee, Graham Allatt. Rajan Kapoor and April Talintyre are members of the Committee.

Board Integration Committee

The Board Integration Committee was established soon after the Combination with CCFS. The Committee met eight times during the year.

The primary objective of the Committee is to oversee planning and execution of the integration of OSB and CCFS, including oversight of synergies realisation. David Weymouth is the Chair of the Committee; Andy Golding, Sarah Hedger and Rajan Kapoor are members. Further details on the progress of the integration are set out on page 56.



Directors' Remuneration Report

Annual Statement by the Chair of the Group Remuneration Committee



“We will continue to apply the Remuneration Policy robustly to ensure that there remains a strong link between the remuneration received by Executives and employees and the performance of the business.

Mary McNamara
Chair of the Group Remuneration Committee
8 April 2021

Committee member	Meetings attended
Mary McNamara (Chair)	8/8
Noël Harwerth	8/8
Sarah Hedger	5/5
Rajan Kapoor	8/8
David Weymouth	7/8

Dear Shareholder,

I am pleased to present the 2020 Directors' Remuneration Report which sets out details of our Directors' Remuneration Policy (the Remuneration Policy), Directors' remuneration in respect of 2020 and how we intend to operate the Remuneration Policy in 2021.

The primary objective of the Group Remuneration Committee is to advise the Board on developing an overall Remuneration Policy that is aligned with the business strategy and objectives, risk appetite, values and long-term interests of the Group, recognising the interests of all stakeholders, taking into account applicable laws, regulations and principles of good practice.

New Remuneration Policy

During the year, a new holding company structure was adopted which introduced OSB GROUP PLC as the new holding company of the OSB Group; the shares commenced trading on 30 November 2020. Under the relevant UK Directors' remuneration regulations, this constitutes a new company and therefore the approval of the Remuneration Policy must be refreshed by a shareholder vote at the 2021 Annual General Meeting (AGM). No changes are being proposed.

Accordingly, the Remuneration Policy set out in this report is, in all material respects, a roll-over of the Remuneration Policy that was set out in the 2019 Directors' Remuneration Report and which was approved at the 2020 AGM of OneSavings Bank plc (OSB) on 7 May 2020 by over 94% of shareholders. We are comfortable that the Remuneration Policy remains in line with our business strategy, the UK Corporate Governance Code, the CRD Regulations as applied by the PRA and FCA to a Level 2 firm and the remuneration guidelines from the main institutional investor groups.

We will continue to apply the Remuneration Policy robustly to ensure that there remains a strong link between the remuneration received by Executives and employees and the performance of the business, whilst being cognisant of our wider stakeholders and the role of financial service institutions within society as a whole.

Overview of 2020 performance and incentive outcomes

2020 was a challenging year for the Group with the integration of CCFS with OSB being undertaken against the backdrop of a global pandemic. It was pleasing to see the Executive team continue to lead the Group through this period taking all stakeholders into account in their decisions.

Our colleagues' safety was an absolute business priority as the pandemic hit and, as such, employees quickly adapted to working from home during most of 2020. Employee engagement remains strong and we harmonised the reward policies across the Group during the year, which was positively received.

Financial performance was resilient with strong return on equity delivered despite significant impairment charges. The focus on our customers remains paramount and Net Promoter Scores (NPS)



across the business in 2020 continued to reflect this, providing a strong base for future performance.

Operational performance was also delivered with appropriate checks and balances continuing to operate effectively despite the vast majority of employees working from home for the majority of the year.

The 2020 Executive Bonus Scheme was based 90% on the Balanced Business Scorecard, which measures corporate performance against Financial, Customer, Quality and Staff metrics, and 10% on personal objectives. Targets for each measure were set at the start of the year and assessed by the Committee following the end of the financial year.

Despite resilient business performance over the year, given the economic impact of the pandemic, there is only a relatively modest payout under the financial portion. There has, however, been strong delivery against the Customer, Quality and Staff categories. Under the Customer metric, the Group's customer and broker NPS scores were both outstanding with low levels of customer complaints, meaning that 11.2% out of the 15% was earned. The achievements against the Quality metrics were also particularly pleasing, given the operational changes, following the onset of the COVID-19 pandemic early in the year. Performance against the Staff metrics for employee engagement and gender diversity were also robust. Strong performance against these non-financial KPIs represent crucial building blocks for the foundation of future shareholder value, particularly in a year when the business has been digesting the Combination with CCFS.

This performance resulted in the Executive Directors earning 34.7% out of the 90% of bonus assessed against the scorecard. Performance against personal targets was also considered by the Board and Committee to be exemplary, with strong leadership throughout a challenging and uncertain year. This resulted in a payout of 6.5% out of a maximum 10% of bonus for both the CEO and CFO. The Committee believe that this payout was appropriate, reflecting the underlying performance of the Group and wider stakeholder experience. This payout is also consistent with the payout under employee bonus plans throughout the business.

As the results show, the Company has been very resilient in the face of the economic impact of COVID-19 on our markets and some of our stakeholders. However, recognising the broader societal impact of COVID-19 on our communities and the prudent cancellation of the final dividend for 2019, the Executive Directors and other members of the Group Executive Committee volunteered to waive their potential entitlement to the cash element of their 2020 bonus. The Board subsequently decided that half of the resultant saving would be retained in the business and the remaining half would be donated to charity. The minimum donation has been underwritten at £250,000 by the Group, with a £100,000 donation to Shelter which offers support and advice to those facing housing issues or homelessness across the UK. The remainder has been donated to charities that serve homeless

people in the UK communities in which the Group is based and to provide medical equipment to a local hospital in India.

As a result of performance during the year and after the voluntary waiver of the cash element of the bonus, payouts for 2020 performance are 20.6% of maximum for the CEO and CFO. The bonus will be paid in shares which must be held for a minimum of three years. Full details of the performance conditions and bonus payments are provided later in this report.

The 2018 award under the Performance Share Plan (PSP) will vest in May 2021 at 62.74% of maximum based on performance over the three-year performance period ending on 31 December 2020. Performance was based 40% on Earnings Per Share (EPS) growth, 40% on Total Shareholder Return (TSR) versus the companies in the FTSE 250 Index (excluding Investment Trusts) and 20% on Return On Equity (ROE). Given that the Combination with CCFS completed with more than a year left to run in the performance period, the Committee determined immediately following the Combination that the EPS and ROE targets should be assessed on a combined basis against targets adjusted to ensure that they were no tougher or easier to achieve based on the business plan immediately before and after the Combination. Performance against the EPS target range was between the threshold and maximum targets and so 63.7% of the EPS part of the award vested. The TSR of -1.9%, whilst slightly down over the period, placed OSB between the median and upper quartile of the FTSE 250 peer group and therefore 52.9% of the TSR part of the award vested. The average ROE over the performance period was 24.0% resulting in 80.5% of the ROE part of the award vesting. In total, 62.74% of the award vested and the Committee is comfortable that there has been a clear and strong link between reward and performance and that discretion was not required to adjust the incentive outcome. In line with the Remuneration Policy at the time of grant, shares received by the Executives on vesting (net of tax) will be held for a further two years before they can be sold.

Overall, the Committee believes that the Remuneration Policy is operating as intended and that the payouts under the incentive plans are appropriate. As such, no change to the Remuneration Policy is required at this time.

Implementation of the Remuneration Policy in 2021

Following the Combination with CCFS and as disclosed in last year's report, the Committee agreed that the CEO's salary should be increased to £815,000 to reflect the increase in scope of the role and the regulatory requirement to rebalance the pay package by reducing the variable pay opportunity. It was agreed, taking into account feedback from shareholders, that the increase would be phased over 2020 and 2021, with the second stage validated against specific integration objectives. The Committee has considered the achievement against these criteria (see page 165 for further details) and has confirmed that the second stage of the increase will be implemented with effect from 1 January 2021. The Committee is aware that this represents a significant increase,



Directors' Remuneration Report (Continued)

Annual Statement by the Chair of the Group Remuneration Committee (Continued)

however, continues to believe that this is the appropriate rate for the role. The Group has performed resiliently through the pandemic, as seen in operational and financial results and reflected in the share performance. Furthermore, given that there has been no impact on the salary review process throughout the Group, the Committee does not believe that it is necessary to change its original proposals. The rebalancing of the CFO's package was implemented in one step in 2020 as the overall increase was lower. As such, the CFO's salary will be increased in 2021 by 2%, in line with the average increase applicable to the workforce.

The pension contribution remains at 8% of salary, which is aligned to the rate for the majority of the workforce.

The 2021 annual bonus will be subject to a maximum limit of 110% of salary and will continue to be based 90% on performance against the Balanced Business Scorecard and 10% on personal objectives. 50% of any bonus will be deferred in shares, which may not be sold for at least three years.

PSP awards of 110% of salary will be made to the Executive Directors with performance being measured over the period to 31 December 2023. Performance will continue to be based on TSR (35% weighting), EPS growth (35% weighting), ROE (15% weighting) and risk (15% weighting). Furthermore, when assessing the performance outcome, the Committee may adjust the formulaic vesting outcome to ensure it is aligned with the underlying performance, risk appetite and individual conduct over the period.

The targets for each measure are set out in this report and the Committee is satisfied that these provide the appropriate stretch, taking into account the business plan, external operating environment, market expectations and the impact of the COVID-19 pandemic on the business.

In line with the changes implemented in 2020, the 2021 PSP awards will vest 20% each year between three and seven years after grant, with each vested tranche subject to a one-year holding period.

Consideration of shareholder views and response to the new UK Corporate Governance Code

Following extensive engagement with shareholders during the review of the Remuneration Policy in 2019 and early 2020, we again engaged with investors to confirm that they remained comfortable with the Remuneration Policy and how it is being operated, including in relation to the second stage salary increase for the CEO, which was subject to the specific integration targets in relation to the Combination with CCFS. We were pleased to receive ongoing investor support both in relation to the Remuneration Policy and its operation.

Consideration of employee policies and views

As the NED responsible for representing the workforce on the Board, I regularly meet with employees, individually and through forums such as OneVoice, to understand their views, including those on remuneration, and report these views to the Board. An overview of the Group reward policies and pay governance is provided to OneVoice, which includes an explanation of how executive pay aligns with the wider reward policy. Further details on the activities of OneVoice can be found on page 169.

Concluding remarks

I look forward to your support for the binding resolution to approve the new Remuneration Policy and the advisory resolution to approve the Annual Report on Remuneration at the 2021 AGM.

Mary McNamara

Chair of the Group Remuneration Committee

8 April 2021



Remuneration Policy

This section describes our Directors' Remuneration Policy (the Remuneration Policy) for which shareholder approval will be sought at the AGM on 27 May 2021 and which will formally come into effect from that date. It is intended that this Policy will last for three years from the 2021 AGM date. There are no changes to the OSB Remuneration Policy that was approved at the 2020 AGM; however, certain factual data has been updated where applicable.

Policy overview

This Remuneration Policy has been prepared in accordance with the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008, as subsequently amended. The Remuneration Policy has been developed taking into account a number of regulatory and governance principles, including:

- The 2018 UK Corporate Governance Code
- The regulatory framework applying to the Financial Services Sector (including the Dual-Regulated firms Remuneration Code and provisions of the EU Capital Requirements Directive)
- The executive remuneration guidelines of the main institutional investors and their representative bodies

Approach to designing the Remuneration Policy

The Committee is responsible for the development, implementation and review of the Directors' Remuneration Policy. In addressing this responsibility, the Committee works with management and external advisers to develop proposals and recommendations. The Committee considers the source of information presented to it, takes care to understand the detail and ensures that independent judgement is exercised when making decisions. The Group Risk Committee considers whether the Remuneration Policy and practices are in line with the risk appetite and the Group Audit Committee confirms incentive plan performance results, where appropriate.

The Code sets out principles against which the Committee should determine the Remuneration Policy for Executive Directors. These are shown in the first column of the table below, together with the Committee's approach, in the second column:

Principle	Committee approach
Clarity – remuneration arrangements should be transparent and promote effective engagement with shareholders and the workforce.	<ul style="list-style-type: none"> ● We aim to set out our approach to remuneration in this report as transparently as possible. ● We will engage with our Workforce Advisory Forum (OneVoice) to explain the alignment of the Executive Directors' Remuneration Policy with that of the workforce.
Simplicity – remuneration structures should avoid complexity and their rationale and operation should be easy to understand.	<ul style="list-style-type: none"> ● Within the required regulatory framework and in line with investor guidance, we have structured the Remuneration Policy to be as simple as possible. ● We have a simple policy offering pension at the same rate as employees, an annual bonus plan which cascades to most employees and, for senior employees, performance shares to provide alignment with longer-term performance. ● There is, however, a degree of complexity required for Executive Director packages to ensure a robust link to performance and to avoid reward for failure and to comply with investor and Code requirements.
Risk – remuneration arrangements should ensure reputational and other risks arising from excessive rewards and behavioural risks that can arise from target-based incentive plans are identified and mitigated.	<ul style="list-style-type: none"> ● We have mitigated these risks through careful policy design, including long-term performance measurement, the use of specific risk-based measures, deferral and shareholding requirements (including post cessation of employment) and discretion and clawback provisions if incentive payment levels are inappropriate.
Predictability – the range of possible values of rewards to individual Directors and any other limits or discretions should be identified and explained at the time of approving the Remuneration Policy.	<ul style="list-style-type: none"> ● We look carefully each year at the range of likely performance outcomes for incentive plans when setting performance target ranges for threshold, target and maximum payouts and would use discretion where necessary where this leads to an inappropriate pay outcome.
Proportionality – the link between individual awards, the delivery of strategy and the long-term performance of the Company should be clear. Outcomes should not reward poor performance.	<ul style="list-style-type: none"> ● Incentive plans are determined based on a proportion of base salary so there is a sensible balance between fixed pay and performance-linked elements. ● There are provisions to override the formula-driven outcome of incentive plan deferrals and clawbacks to ensure that poor performance is not rewarded or if incentive payments are too high for the performance delivered, in the view of the Committee. ● As illustrated by the chart showing our TSR performance and historical CEO remuneration on pages 161-162, we believe that there has been a strong link between Executive Directors' pay and performance.
Alignment to culture – incentive schemes should drive behaviours consistent with Company purpose, values and strategy.	<ul style="list-style-type: none"> ● The Balanced Business Scorecard used for the annual bonus is based on a wide range of measures linked to financial performance, customer, quality and employees, to ensure that payments are aligned to Company culture and values. ● Bonus plans operate widely throughout the Company and are approved by the Committee to ensure consistency with Company purpose, values and strategy.



Directors' Remuneration Report (Continued)
Remuneration Policy (Continued)

How the views of employees and shareholders are taken into account

The Chair is the designated Non-Executive Director in relation to employee matters; she regularly meets with employees, including through OneVoice. The Chair attends OneVoice to provide an overview of executive pay and governance within the Group and to provide the opportunity to give feedback, which is communicated to the Committee. The Committee also receives updates in relation to the remuneration structure throughout the Group, salary and bonus reviews each year. As set out in the Remuneration Policy table, in setting remuneration for the Executive Directors, the Committee takes note of the overall approach to reward for employees in the Group and salary increases will ordinarily be in line (in percentage of salary terms) with those of the wider workforce. Thus, the Committee is satisfied that the decisions made in relation to Executive Directors' pay are made with an appropriate understanding of the wider workforce.

The Committee undertook extensive engagement with shareholders during the review of the Remuneration Policy in late 2019 and early 2020 and has again consulted with shareholders prior to the Remuneration Policy being re-presented to shareholders at the 2021 AGM to confirm that they remain supportive. The Committee will seek to engage with major shareholders and the main shareholder representative bodies and proxy advisory firms when it is proposed that any material changes are to be made to the Remuneration Policy or its implementation. In addition, we will consider any shareholder feedback received in relation to the AGM.

The table below and the accompanying notes describe the Remuneration Policy for Executive Directors.

Element	Purpose and link to strategy	Operation and performance conditions	Maximum
Salary	To reward Executive Directors for the role and duties required. Recognises individual's experience, responsibility and performance.	Paid monthly. Base salaries are usually reviewed annually, with any changes usually effective from 1 January. No performance conditions apply to the payment of salary. However, when setting salaries, account is taken of an individual's specific role, duties, experience and contribution to the Company. As part of the salary review process, the Committee takes account of individual and corporate performance, increases provided to the wider workforce and the external market for UK listed companies both in the financial services sector and across all sectors.	Increases will generally be broadly in line with the average of the workforce. Higher increases may be awarded in exceptional circumstances such as a material increase in the scope of the role, following the appointment of a new Executive Director (which could also include internal promotions) to bring an initially below-market package in line with the market over time or in response to market factors.
Benefits	To provide market competitive benefits to ensure the well-being of employees.	The Company currently provides: <ul style="list-style-type: none"> ● car allowance ● life assurance ● income protection ● private medical insurance ● other benefits as appropriate for the role 	There is no maximum cap on benefits, as the cost of benefits may vary according to the external market.
Pension	To provide a contribution to retirement planning.	Executive Directors may participate in a defined contribution plan or, if they are in excess of the HM Revenue & Customs (HMRC) annual or lifetime allowances for contributions, may elect to receive cash in lieu of all or some of such benefit.	In line with the rate receivable by the majority of the workforce, which is currently 8% of salary.



Element	Purpose and link to strategy	Operation and performance conditions	Maximum
Annual bonus	To incentivise and reward individuals for the achievement of pre-defined, Committee-approved, annual financial, operational and individual objectives which are closely linked to the corporate strategy.	<p>The annual bonus targets will have a 90% weighting based on performance in line with an agreed balanced scorecard which includes an element of risk appraisal. Within the scorecard, at least 50% of the bonus will be based on financial performance. 10% of the bonus will be based on personal performance targets.</p> <p>The objectives in the scorecard, and the weightings on each element, will be set annually and may be flexed according to role. Each element will be assessed independently, but with Committee discretion to vary the payout (including to zero) to ensure there is a strong link between payout and performance.</p> <p>On top of this, there is a general discretion to adjust the outturn to reflect other exceptional factors at the discretion of the Committee.</p> <p>50% of any bonus earned will be delivered in shares, subject to a three-year holding period.</p> <p>In exceptional circumstances of high bonus payments, there may be a requirement to defer a proportion of bonus with vesting staggered over three to seven years, in line with the deferral arrangements for the PSP described below.</p> <p>Updated clawback and malus provisions apply, as described in note 1 overleaf.</p>	<p>The maximum bonus opportunity is 110% of salary per annum.</p> <p>The threshold level for payment is 25% of maximum for any measure.</p>
Performance Share Plan	<p>To incentivise and recognise execution of the business strategy over the longer term.</p> <p>Rewards strong financial performance over a sustained period.</p>	<p>PSP awards will typically be made annually at the discretion of the Committee, usually following the announcement of full-year results.</p> <p>Usually, awards will be based on a mixture of internal financial performance targets, risk-based measures and relative TSR. At least 50% of the PSP award will ordinarily be based on financial and relative TSR metrics.</p> <p>The performance targets will usually be measured over three years.</p> <p>Any vesting will be subject to an underpin, whereby the Committee must be satisfied:</p> <ul style="list-style-type: none"> (i) that the vesting reflects the underlying performance of the Company; (ii) that the business has operated within the Board's risk appetite framework; and (iii) that individual conduct has been satisfactory. <p>On top of this, there is a general discretion to adjust the outturn to reflect other exceptional factors at the discretion of the Committee.</p> <p>Awards granted after 1 January 2020 will vest in five equal tranches of 20%, following the Committee's determination of performance. At the time each tranche vests, a one-year holding period will apply. (Awards granted before this date will vest in accordance with the terms of the previous Policy.)</p> <p>Clawback and malus provisions apply as described in note 1 below.</p>	<p>The maximum PSP grant limit is 110% of salary in respect of grants in any financial year.</p> <p>The threshold level for payment is 25% of maximum for any measure.</p>
All-employee share plan (Sharesave Plan)	All employees, including Executive Directors, are encouraged to become shareholders through the operation of an all-employee share plan.	Tax-favoured plan under which regular monthly savings may be made over a three or five-year period and can be used to fund the exercise of an option, where the exercise price is discounted by up to 20%.	Maximum permitted savings based on HMRC limits.



Directors' Remuneration Report (Continued)

Remuneration Policy (Continued)

Element	Purpose and link to strategy	Operation and performance conditions	Maximum
Share ownership guidelines	To increase alignment between Executive Directors and shareholders.	<p>Executive Directors are expected to build and maintain a minimum holding of shares.</p> <p>Executive Directors must retain at least 50% of the shares acquired on vesting of any share awards (net of tax) until the required holding is attained.</p> <p>On cessation of employment, Executive Directors must retain the lower of the in-service shareholding requirement, or the Executive Directors' actual shareholding, for two years.</p>	<p>At least 250% of salary for the CEO and at least 200% of salary for the CFO or such higher level as the Committee may determine from time to time.</p> <p>The net of tax value of any unvested deferred awards (which are not subject to any future performance condition) may count towards the definition of a shareholding for this purpose.</p>

1. Clawback and malus provisions apply to both the annual bonus, including amounts deferred into shares and PSP awards. These provide for the recovery of incentive payments within seven years in the event of: (i) a material misstatement of results, (ii) an error, (iii) a significant failure of risk management, (iv) regulatory censure, (v) in instances of individual gross misconduct, (vi) corporate failure, (vii) reputational damage or (viii) any other exceptional circumstance as determined by the Board. A further three years may be applied following such a discovery, in order to allow for the investigation of any such event. In order to effect any such clawback, the Committee may use a variety of methods: withhold deferred bonus shares, future PSP awards or cash bonuses, or seek to recoup cash or shares already paid.

Choice of performance measures for Executive Directors' awards

The use of a balanced scorecard for the annual bonus reflects the balance of financial and non-financial business drivers across the Group. The combination of performance measures ties the bonus plan to both the delivery of corporate targets, risk measures and strategic/personal objectives. This ensures there is an appropriate focus on the balance between financial and non-financial targets and risk, with the scorecard composition being set by the Committee from year to year depending on the corporate plan.

The PSP is based on a mixture of financial and risk measures and relative TSR, in line with our key objectives of sustained growth in earnings leading to the creation of shareholder value over the long term within an appropriate risk framework. TSR provides a close alignment between the relative returns experienced by our shareholders and the rewards to Executives.

There is an underpin in place on the PSP to ensure that the payouts are aligned with underlying performance, financial and non-financial risk and individual conduct.

Annual bonus and PSP targets are set taking into account the business plans, shareholder expectations, the external market and regulatory requirements.

In line with HMRC regulations for such schemes, the Sharesave Plan does not operate performance conditions.

How the Group Remuneration Committee operates the variable pay policy

The Committee operates the share plans in accordance with their respective rules, the Listing Rules and HMRC requirements, where relevant. The Committee, consistent with market practice, retains discretion over a number of areas relating to the operation and administration of certain plans, including:

- Who participates in the plans.
- The form of the award (for example, conditional share award or nil cost option).
- When to make awards and payments; how to determine the size of an award; a payment; and when and how much of an award should vest.
- Whether share awards will be eligible to receive dividend equivalents and the method of calculation.
- The testing of a performance condition over a shortened performance period.
- How to deal with a change of control or restructuring of the Group.
- Whether a participant is a good/bad leaver for incentive plan purposes; what proportion of an award vests at the original vesting date or whether and what proportion of an award may vest at the time of leaving.
- How and whether an award may be adjusted in certain circumstances (e.g. for a rights issue, a corporate restructuring or for special dividends).
- What the weighting, measures and targets should be for the annual bonus plan and PSP from year to year.



The Committee also retains the discretion within the Remuneration Policy to adjust existing targets and/or set different measures for the annual bonus. For the PSP, if events happen that cause it to determine that the targets are no longer appropriate, an amendment could be made so they can achieve their original intended purpose and ensure the new targets are not materially less difficult to satisfy.

Any use of the above discretions would, where relevant, be explained in the Annual Report on Remuneration and may, as appropriate, be the subject of consultation with the Company's major shareholders.

The Group operates in a heavily regulated sector, the rules of which are subject to frequent evolution. The Committee therefore also retains the discretion to make adjustments to payments under this Policy as required by financial services regulations.

Conflicts of interest

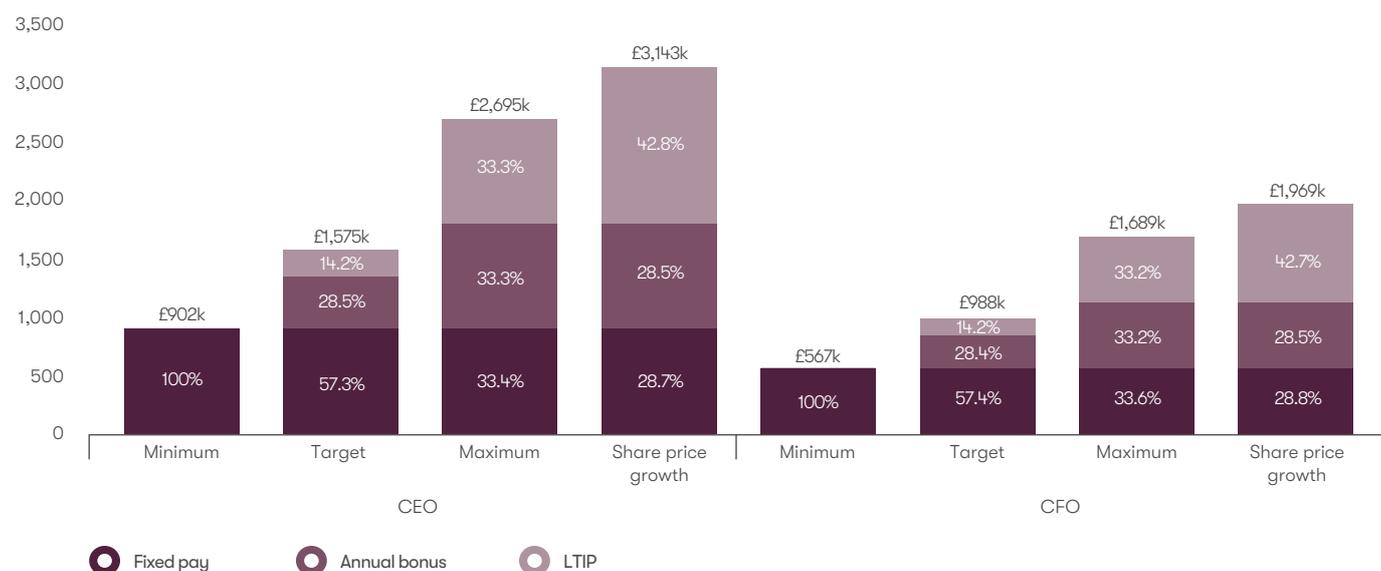
The Committee ensures that no Director is present when their remuneration is being discussed and considers any potential conflicts prior to meeting materials being distributed and at the beginning at each meeting.

Awards granted prior to the effective date

Any commitments entered into with Directors prior to the effective date of this Policy will be honoured. Details of any such payments will be set out in the Annual Report on Remuneration as they arise.

Illustrations of application of Remuneration Policy

The chart below illustrates how the composition of the Executive Directors' remuneration packages (as it is intended the Remuneration Policy will be implemented in 2021) would vary under various performance scenarios.



1. Minimum performance assumes no award is earned under the annual bonus plan and no vesting is achieved under the PSP – only fixed pay (salary, benefits and pension are payable).
2. At on-target, half of the annual bonus is earned (i.e. 55% of salary) and 25% of maximum is achieved under the PSP (i.e. 27.5% of salary).
3. At maximum, full vesting is achieved under both plans (i.e. 110% of salary under the bonus and PSP).
4. As at maximum, but illustrating the effect of a 50% increase in the share price on PSP awards.



Directors' Remuneration Report (Continued)

Remuneration Policy (Continued)

Other than as noted in the chart on page 153, share price growth and all-employee share plan participation are not considered in these scenarios.

The terms and provisions that relate to remuneration in the Executive Directors' service agreements are set out below. Service contracts are available for inspection at the Company's registered office.

Provision	Policy
Notice period	12 months on either side.
Termination payments	A payment in lieu of notice may be made on termination to the value of the Executive Director's basic salary at the time of termination. Such payments may be made in instalments and in such circumstances can be reduced to the extent that the Executive Directors mitigate their loss. Rights to DSBP and PSP awards on termination are shown below. The employment of each Executive Director is terminable with immediate effect without notice in certain circumstances, including gross misconduct, fraud or financial dishonesty, bankruptcy or material breach of obligations under their service agreements.
Remuneration	Salary, pension and core benefits are specified in the agreements. There is no contractual right to participate in the annual bonus plan or to receive long-term incentive awards.
Post-termination	These include six months post termination restrictive covenants against competing with the Company; nine months restrictive covenants against dealing with clients or suppliers of the Company; and nine months restrictive covenants against soliciting clients, suppliers and key employees.
Contract date	Andy Golding, 12 February 2020; April Talintyre, 12 February 2020.
Unexpired term	Rolling contracts.

Payments for loss of office

On termination, other than for gross misconduct, the Executive Directors will be contractually entitled to salary, pension and contractual benefits (car allowance, private medical cover, life assurance and income protection) over their notice period. The Company may make a payment in lieu of notice equivalent to the salary for the remaining notice period. Payments in lieu of notice would normally be phased and subject to mitigation, by offsetting the payments against earnings elsewhere.

The Company may also pay reasonable legal costs in respect of any compromise settlement.

Annual bonus on termination

There is no automatic/contractual right to bonus payments and the default position is that the individual will not receive a payment. The Committee may determine that an individual is a 'good leaver' and may elect to pay a pro-rated bonus for the period of employment at its discretion and based on full-year performance.

Deferred bonus awards on termination

In respect of outstanding awards made under the previous policy, deferred bonus awards normally lapse on termination of employment. However, in certain good leaver situations, awards may instead vest on the normal vesting date (or on cessation of employment in exceptional circumstances). Good leaver scenarios include: (i) death; (ii) injury, ill-health or disability; (iii) retirement with the agreement of the Company; (iv) redundancy; (v) the employing company ceasing to be a member of the Group; or (vi) any other circumstance the Committee determines good leaver treatment is appropriate. Shares which are subject to a holding period will ordinarily be released at the normal time. Where a portion of the annual bonus is required to be deferred in line with FCA regulations, the treatment on cessation will be in line with deferred awards made under the previous policy (as above).

Performance Share Plan awards on termination

Awards normally lapse on termination of employment. However, in certain good leaver situations, awards may vest on the normal vesting date and to the extent that the performance conditions are met. The Committee is, however, permitted under the PSP rules and FCA regulations to allow early vesting of the award to the extent it considers appropriate, taking into account performance to date. Unless the Committee determines otherwise, awards vesting in good leaver situations will be pro-rated for time employed during the performance period. Shares which are subject to a post-vesting holding period will ordinarily be released at the normal time.

Approach to recruitment and promotions

The ongoing remuneration package for a new Executive Director would be set in accordance with the terms of the Company's approved Remuneration Policy.

On recruitment, the salary may (but need not necessarily) be set at a lower rate, with phased increases (which may be above the average for the wider employee population) as the Executive Director gains experience. The salary would in all cases be set to reflect the individual's experience and skills and the scope of the role. Annual bonus and PSP award levels would be in line with the Remuneration Policy.

The Company may take into account and compensate for remuneration foregone upon leaving a previous employer using cash awards, the Company's share plans or awards under Listing Rule 9.4.2, as may be required. This would include: taking into account the quantum foregone; the extent to which performance conditions apply; the form of award; and the time left to vesting. These would be structured in line with any regulatory requirements (such as the PRA Rulebook).



For all appointments, the Committee may agree that the Company will meet certain appropriate relocation costs.

For an internal appointment, including the situation where an Executive Director is appointed following corporate activity, any variable pay element awarded in respect of their prior role would be allowed to pay out broadly according to its terms.

Should an individual be appointed to a role (Executive or Non-Executive) on an interim basis, the Company may provide additional remuneration, in line with the Remuneration Policy for the specific role, for the duration the individual holds the interim role.

For the appointment of a new Chairman or NED, the fee arrangement would be in accordance with the approved Remuneration Policy in force at that time.

External appointments

Executive Directors may accept one directorship of another company with the consent of the Board, which will consider the time commitment required. The Executive Director would normally be able to retain any fees from such an appointment.

The Remuneration Policy for the Chairman and Non-Executive Directors

Element	Purpose and link to strategy	Operation	Maximum opportunity
Fees	To attract and retain a high-calibre Chairman and NEDs by offering a market competitive fee.	<p>The Chairman and NEDs are entitled to an annual fee, with supplementary fees payable for additional responsibilities including the Chair of the Group Audit, Group Nomination and Governance, Group Remuneration and Group Risk Committees and for acting as the SID.</p> <p>Fees are reviewed periodically.</p> <p>The Chairman and NEDs are entitled to reimbursement of travel and other reasonable expenses incurred in the performance of their duties.</p>	There is no prescribed maximum annual increase. The Committee is guided by the general increase in the non-executive market but on occasion may need to recognise, for example, change in responsibility and/or time commitments.

Letters of appointment

The NEDs are appointed by letters of appointment that set out their duties and responsibilities. The key terms are:

Provision	Policy
Period of appointment	Initial three-year term, subject to annual re-election by shareholders. On expiry of the initial term and subject to the needs of the Board, NEDs may be invited to serve a further three years. NEDs appointed beyond nine years will be at the discretion of the Group Nomination and Governance Committee.
Notice periods	Three months on either side. The appointments are also terminable with immediate effect and without compensation or payment in lieu of notice if the Chairman or NEDs are not elected or re-elected to their position as a Director of the Company by shareholders.
Payment in lieu of notice	The Company is entitled to make a payment in lieu of notice on termination.

Letters of appointment are available for inspection at the Company's registered office. The effective dates of the current NEDs' appointments are shown in the table below.

Non-Executive Director	Date of appointment ¹
Graham Allatt	6 May 2014
Noël Harwerth	4 October 2019 (appointed to the CCFS Board in June 2017)
Sarah Hedger	1 February 2019
Rajan Kapoor	4 October 2019 (appointed to the CCFS Board in September 2016)
Mary McNamara	6 May 2014
David Weymouth	1 September 2017

1. These dates reflect the date that each NED joined OneSavings Bank plc (prior to the insertion of OSB GROUP PLC as the holding company and listed entity).



2020 Annual Report on Remuneration

Introduction

This section outlines details of the remuneration received by Executive Directors and Non-Executive Directors in respect of the financial year ended 31 December 2020. This Annual Report on Remuneration will, in conjunction with the Annual Statement of the Committee Chair on pages 146 to 148, be proposed for an advisory vote by shareholders at the forthcoming AGM to be held on 27 May 2021.

Where required, the data provided has been audited by Deloitte, which is indicated where applicable.

Membership and meetings

The Committee met a total of eight times during 2020. The members of the Committee are Mary McNamara (Chair), Noël Harwerth, Sarah Hedger (appointed with effect from 4 March 2020), Rajan Kapoor and David Weymouth. Sir Malcolm Williamson was a member of the Committee until 4 February 2020 when he ceased to be a member of the Board. The attendance of individual Committee members is set out in the Corporate Governance Report.

The Board considers each of the members of the Committee to be independent in accordance with the UK Corporate Governance Code.

Responsibilities

The Committee's responsibilities are set out in its terms of reference, which are available on the Company's website. In summary, the responsibilities of the Committee include:

- Pay for employees under the Committee's scope:
 - Setting the Remuneration Policy.
 - Determining total individual remuneration (including salary increases, bonus opportunities and outcomes and long-term incentive plan (LTIP) awards).
 - Ensuring that contractual terms on termination, and any payments made, are fair to the individual and the Company, that failure is not rewarded and that the duty to mitigate loss is fully recognised.
- Approving the design of, and determining targets for, any performance-related pay schemes operated by the Company and approving total payments made under such schemes.

Employees under the Committee's scope include Executive Directors, the Chairman of the Board, the Company Secretary and all employees that are identified as Material Risk Takers for the purposes of the PRA and FCA's Dual Regulated Remuneration Code (Code Staff).

Key matters considered by the Committee

Key issues reviewed and discussed by the Committee during the year included:

- Updates on the performance of in-flight PSP awards.
- Regular shareholder updates, as well as the approach and strategy in respect of shareholder engagement.
- CEO and CFO remuneration arrangements for 2021.
- Approval of the 2021 personal objectives for the CEO, CFO and Group Executive team.
- Summary of agreed NED remuneration arrangements.
- Annual review of the costs and performance of the external remuneration consultant.
- Review of the proposals from Group HR in respect of the harmonisation of grades, benefits, terms and conditions across the Group.
- Considering the impact of COVID-19 on the operation of the Remuneration Policy for Executives and all employees.
- Leaving arrangements for senior employees.
- All business as usual matters for employees under the Committee's scope.
- Review and approval of salary increases.
- Review and approval of bonus awards.
- Determining the grants under the PSP.
- Considering and recommending the Directors' Remuneration Report to the Board for approval.

Advisers to the Committee

Korn Ferry provided independent advice to the Committee during 2020, having been appointed following a competitive tender process in 2017. The total fees paid to Korn Ferry in 2020 were £148,810 and were charged on a time and materials basis. This figure includes a significant amount in respect of support for the Committee and management in relation to the integration.

Korn Ferry has no other connection with the Group or any individual Director and therefore the Committee is satisfied that it provides objective and independent advice. Korn Ferry is a member of the Remuneration Consultants Group and abides by the voluntary code of conduct of that body, which is designed to ensure objective and independent advice is given to remuneration committees.

The Committee consults with the CEO (as appropriate) and seeks input from the Group Risk Committee to ensure that any remuneration or pay scheme reflects the Company's risk appetite and profile and considers current and potential future risks.



The Committee also receives input on senior management remuneration from the CFO and Group HR Director. The Group General Counsel and Company Secretary acts as Secretary to the Committee and advises on regulatory and technical matters, ensuring that the Committee fulfils its duties under its terms of reference.

No individual is present in discussions directly relating to their own pay.

Directors' pay outcomes for 2020

Remuneration and fees payable for 2020 – (audited)

The table below sets out a single figure for the total remuneration received by each Executive Director and NED for the years ending 31 December 2020 and 31 December 2019.

Executive Directors	Year	Basic salary £'000	Taxable benefits ¹ £'000	Pension ² £'000	Annual bonus paid ³ £'000	Amount bonus deferred ³ £'000	LTIP ⁴ £'000	Total fixed pay £'000	Total variable pay £'000	Total £'000
Andy Golding	2020	735	21	59	–	167	406	816	572	1,388
	2019	516	21	67	296	296	186	604	778	1,382
April Talintyre	2020	500	16	40	–	113	272	556	385	941
	2019	347	16	45	199	199	98	408	496	904

1. Taxable benefits received include car allowance (CEO £20,000; CFO £15,000) and private medical cover.

2. Executive Directors currently receive pension contributions (or cash in lieu thereof) of 8% of salary, which is in line with the majority of the workforce.

3. 50% of bonus is payable in cash and 50% in shares deferred for three years. The cash portion of the 2020 bonus was waived prior to the Executive Directors becoming entitled to it.

4. The LTIP figure for the year ended 31 December 2019 has been restated based on the share price on vesting of £1.721785 for the 2017 PSP.

Total fees £'000	2019	2020
Chairman		
David Weymouth ¹	250	292
Non-Executive Directors		
Graham Allatt	91	114
Noël Harwerth ²	31	109
Sarah Hedger ³	67	84
Rajan Kapoor ²	29	120
Mary McNamara	90	105
Former Non-Executive Directors		
Eric Anstee ⁴	88	8
Tim Brooke Thom ⁵	26	50
Rod Duke ⁶	89	122
Margaret Hassall ⁵	71	45
Ian Ward ⁵	28	48
Sir Malcolm Williamson ^{1,4}	63	27
Total⁷	923	1,124

NEDs cannot participate in any of the Company's share schemes and are not eligible to join the Company pension scheme.

1. David Weymouth served as Chairman until 4 October 2019, his fee remained unchanged due to additional responsibilities; Sir Malcolm Williamson became Chairman from that date and subsequently stepped down on 4 February 2020. David Weymouth was re-appointed Chairman on 4 February 2020.

2. Appointed to the Board of OSB on completion of the Combination with CCFs on 4 October 2019.

3. Appointed to the Board of OSB on 1 February 2019.

4. Ceased to be a Director of OSB on 4 February 2020.

5. Ceased to be a Director of OSB on 7 May 2020.

6. Ceased to be a Director of OSB on 4 February 2020 and became Chairman of CCFSL on the same date (paid a fee of £125,000 as Chairman of CCFSL).

7. In 2019, an additional amount of £5,000 was payable to each NED for significant extra time spent on matters relating to the Combination.



Directors' Remuneration Report (Continued)
2020 Annual Report on Remuneration (Continued)

Executive bonus scheme

The performance against the measures for 2020 is set out below. Despite resilient business performance over the year, given the economic impact of the pandemic, there is only a relatively modest payout under the financial portion. There has, however, been strong delivery against the Customer, Quality and Staff categories. Under the Customer metric, the Group's customer and broker NPS scores were both outstanding with low levels of customer complaints, meaning that 11.2% out of the 15% was earned. The achievements against the Quality metrics were also particularly pleasing, given the operational changes following the onset of the COVID-19 pandemic early in the year. Performance against the Staff metrics for employee engagement and gender diversity was also robust.

Strong performance against these non-financial KPIs represents crucial building blocks for the foundation of future shareholder value, particularly in a year when the business has been digesting the Combination with CCFS.

2020 performance against the Balanced Business Scorecard

Category	Key performance indicator	Weighting	Targets ¹			Actual result ⁴	Outcome CEO	Outcome CFO
			Threshold (25%)	Budget (50%)	Max (100%)			
Financial (50%)	Underlying PBT (£m)	25%	389m	409m	429m	346.2m	0.0%	0.0%
	All-in ROE (%)	10%	19.3%	21.3%	23.3%	19.0%	0.0%	0.0%
	Cost to income ratio (%)	7.5%	30.6%	28.6%	26.6%	26.8%	7.1%	7.1%
	Net loan book growth (%)	7.5%	13%	15%	17%	9.4%	0.0%	0.0%
Customer (15%)	Customer satisfaction	6%	60	65	70	66.5	3.9%	3.9%
	Broker satisfaction	4%	22.5	27.5	32.5	48.9	4.0%	4.0%
	Complaints (%)	5%	0.10%	0.09%	0.08%	0.087%	3.3%	3.3%
Quality (15%)	Overdue actions (#)	5%	6	4	2	1.6	5.0%	5.0%
	Arrears (%)	5%	1.2%	1.0%	0.8%	1.01%	2.4%	2.4%
	High-severity incidents (#)	5%	4	2	1	2	2.5%	2.5%
Staff (10%)	Diversity (%) ²	4%	29%	29.5%	30%	29.8%	3.2%	3.2%
	Employee engagement ³	6%	690	700	710	700.9	3.3%	3.3%
Personal (10%)	Vary by Executive – see section below	10%					6.5%	6.5%
Total (before cash waiver)							41.2%	41.2%

1. Targets – based on a sliding scale between threshold, target and maximum.

2. Diversity – based on the Group's commitment to the Women in Finance Charter and the gender diversity of 151 employees in senior roles.

3. Employee engagement – Sunday Times Top 100 Best Companies to Work For survey score – targets set at the start of the year were based on position in the list; however, as the publication has been delayed due to the impact of the pandemic, the Committee agreed to assess the target on an absolute basis against the survey score.

4. The impact of the £20m impairment charge has been reflected in the figures, where relevant.



2020 personal performance

The Executive Directors were allocated up to a maximum of 10% of their bonus based on their personal performance against agreed objectives.

The priorities for 2020 were identified in our 2019 Annual Report and objectives built around these. Performance against the objectives for both Executive Directors was also considered by the Board and Committee to be exemplary, with strong leadership throughout a challenging and uncertain year.

The objectives set at the start of the year and the Committee's assessment of performance against them are set out below:

	Objectives	Key achievements
CEO	Embed a combined Purpose, Vision and Values across the Group whilst demonstrating role model behaviours considering the perspective of all stakeholders	Lived the OSB Group Values, leading by example and ensuring employees understood the behaviours expected of them through the pandemic.
	Integrate new Executive team in line with desired organisation structure and ensure a highly effective operation	Managed the new combined Executive team, ensuring clear division of responsibilities and a highly effective team culture, which has performed admirably through the exceptional circumstances over the year.
	Develop and maintain strong relationships with key stakeholders including regulators and investors	Transparent relationship with regulators with requests promptly actioned. Successful investor roadshow in the final quarter of 2020 was well received.
	Deliver strategic objectives in line with Board-approved operating plan	Delivered strategic objectives set out in the Strategic Report from page 56.
	Ensure cost synergies for the Combination with CCFS are delivered in line with strategic plan	Integration of CCFS with OSB is on track, including with respect to cost synergies. This has been delivered despite employees operating remotely for the majority of the year.
CFO	Progress against integration objectives including combining accounting systems and HR policies	Delivered integration objectives beyond expectations, including oversight of combined accounting systems and the roll-out of harmonised HR policies.
	Implement internal reorganisation to insert new holding company, OSB GROUP PLC, as the holding company for the Group	Ensured the smooth implementation of the insertion of the new holding company and the corresponding change in listed legal entity.
	Strengthen the Banks' capital and funding management	Capital and funding management processes have been reviewed and improved to strengthen the Banks for the future.
	Develop and maintain strong relationships with key stakeholders including regulators and investors	Transparent relationship with regulators with requests promptly actioned. Successful investor roadshow in the final quarter of 2020 was well received.
	Deliver strategic objectives in line with Board-approved operating plan	Delivered strategic objectives set out in the Strategic Report from page 56.
	Ensure cost synergies for the combination with CCFS are delivered in line with strategic plan	Integration of CCFS with OSB is on track, including with respect to cost synergies. This has been delivered despite employees operating remotely for the vast majority of the year.

Based on this performance, the Committee determined that 6.5% of a possible 10% for the individual element of the bonus should be paid to each of the CEO and CFO.

2020 bonus scheme payout

Taking into account the performance against the Balanced Business Scorecard and individual objectives, the CEO and CFO therefore each earned 41.2% of maximum (45.3% of salary). Half of the bonus would normally be paid in cash with the remainder deferred into shares for three years; however, as mentioned in the Chairman's statement, in response to the COVID-19 pandemic during the year and to recognise the cancelled final dividend for 2019, the Executive Directors chose to forgo the cash opportunity for the bonus (i.e. 50% of the total). The Board subsequently decided that half of the resultant saving will be retained in the business and the remaining half be donated to charity. As such, no cash bonus will be received by the Executives, with the share portion representing 22.7% of salary being subject to a three-year holding period. This assessment and payout is consistent with the payout under employee plans throughout the business.



Directors' Remuneration Report (Continued)
2020 Annual Report on Remuneration (Continued)

Long-term incentive plan (audited)

The 2018 LTIP award was granted on 24 May 2018 and measured performance over the three financial years to 31 December 2020. Awards will vest after publication of this report, based on the EPS, TSR and ROE performance, at 62.74% of maximum, as set out below.

Given that the Combination with CCFS completed with more than a year left to run in the performance period (c. 21 months into a 36-month performance period), the Committee determined that the EPS and ROE targets should be assessed on a combined basis against targets that were no tougher or easier to achieve based on the business plan immediately before and after the Combination (the adjustments were agreed by the Committee and the Chair of the Group Audit Committee).

Performance level	Percentage of that part of the award vesting	EPS element ¹ (40% of total award)	EPS performance	Vesting of EPS part (40% of total award)	Relative TSR (40% of total award)	Relative TSR performance versus FTSE 250 constituents	Vesting of TSR part (40% of total award)	Average ROE ^{2,3} (20% of total award)	Average ROE performance	Vesting of ROE part (20% of total award)
Below 'threshold'	0%	Less than 52.5p (6% CAGR)	58.1p	63.7%	Below median	71 out of 172	52.9%	20.3%	24.0%	80.5%
'Threshold'	25%	52.5p (6% CAGR)			Median			20.3%		
'Stretch'	100%	63.4p (12% CAGR)			Upper quartile			25.3%		

1. EPS targets were set in 2018 prior to the Combination with CCFS based on a 'Threshold' target of 6% CAGR and a 'Stretch' target of 12% CAGR measured from the 2017 base year.
2. ROE targets were set in 2018 prior to the Combination with CCFS based on achieving average ROE over 2018, 2019 and 2020 of between 20% for 'Threshold' vesting and 25% for 'Stretch' vesting.
3. The ROE performance condition is based on the average ROE over the three-year performance period and is subject to an underpin requiring that the CET1 ratio is not below the Board-approved minimum requirement.

The Committee is comfortable that the level of vesting is in line with underlying performance, risk appetite, individual conduct and shareholder experience over the performance period. As such, the awards will vest in May 2021, with the shares subject to a two-year holding period.

The 2018 PSP awards will therefore vest as follows:

Executive Directors	Number of shares granted	Number of shares due to vest	Number of shares lapsed	Value from share price increase/ (decrease) ¹	Total value vesting ²
Andy Golding	180,439	113,207	67,232	(£69,107)	£405,865
April Talintyre	121,005	75,918	45,087	(£46,344)	£272,178

1. Value of share price increased/(decreased) based on a £4.1956 share price at the time of grant of the award compared to the three-month average share price of £3.5852 to 31 December 2020.
2. Value of shares based on a three-month average share price of £3.5852 to 31 December 2020. This value will be restated next year based on the actual share price on the date of vesting. Dividend equivalents are not paid under the Performance Share Plan.



Executive pay outcomes in context

Percentage change in the remuneration of the Directors (audited)

The table below sets out the percentage change in base salary, value of taxable benefits and bonus for all the Directors compared with the average percentage change for employees. For these purposes, UK employees who have been employed for over a year (and therefore eligible for a salary increase) have been used as a comparator group as they are the analogous population (based on service and location). The percentage change for Executive and Non-Executive Directors is calculated based on the remuneration disclosed in the single figure tables on page 157. The changes to salary/fees between 2019 and 2020 are as a result of changes made to pay arrangements following the Combination with CCFS. The percentage is not included for Non-Executive Directors who joined the Board in 2019 as the disclosure would not be meaningful. There have been no changes to the benefits between 2019 and 2020. The change in bonus for Executive Directors and employees is as a result of the pandemic impacting the 2020 Balanced Business Scorecard performance as detailed on page 158.

	Average percentage change 2019–2020		
	Salary	Taxable benefits	Annual bonus
CEO	42.4%	0%	-71.9%
CFO	44.1%	0%	-71.5%
Graham Allatt	25.3%	0%	0%
Noël Harwerth ¹	n/a	n/a	n/a
Sarah Hedger ²	n/a	n/a	n/a
Rajan Kapoor ¹	n/a	n/a	n/a
Mary McNamara	16.2%	0%	0%
David Weymouth	16.7%	0%	0%
Former Non-Executive Directors			
Eric Anstee ³	n/a	n/a	n/a
Tim Brooke Thom ⁴	n/a	n/a	n/a
Rod Duke ³	n/a	n/a	n/a
Margaret Hassall ⁴	n/a	n/a	n/a
Ian Ward ⁴	n/a	n/a	n/a
Sir Malcolm Williamson ³	n/a	n/a	n/a
UK employees	5.5%	0%	-27.5%

1. Noël Harwerth and Rajan Kapoor joined the Board in October 2019.

2. Sarah Hedger joined the Board in February 2019.

3. Ceased to be a Director of OSB on 4 February 2020.

4. Ceased to be a Director of OSB on 7 May 2020.

Comparison of Company performance and CEO remuneration (audited)

The following table summarises the CEO single figure for total remuneration, annual bonus and LTIP payout as a percentage of maximum opportunity for the period between 2013 and 2020.

	2013	2014	2015	2016	2017	2018	2019	2020 ¹
Annual bonus (as a percentage of maximum opportunity)	92.5%	92.63%	93.00%	88.75%	85%	91.75%	75.89%	20.60%
LTIP vesting (as a percentage of maximum opportunity)	–	–	–	–	100%	50%	75.1%	62.74%
CEO single figure of remuneration (£'000)	518	777	848	910	1,614	1,602	1,382	1,388

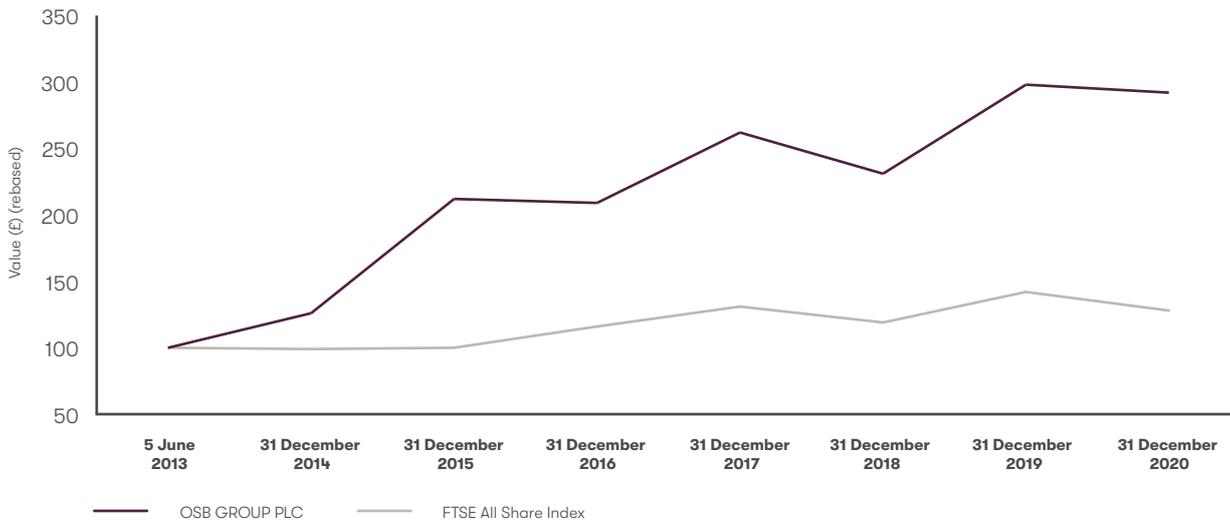
1. The cash portion of the 2020 bonus was waived by the Executive Directors before they became entitled to it. As such, only the share portion of the 2020 bonus was payable (i.e. half of the bonus of 41.2% of maximum).



Total shareholder return

The chart below shows the TSR performance of the Company over the period from listing to 31 December 2020 compared to the performance of the FTSE All Share Index. This index is considered to be the most appropriate index against which to measure performance as the Company has been a member of this index since Admission of OneSavings Bank plc to the London Stock Exchange.

Total shareholder return



This graph shows the value, at 31 December 2020, of £100 invested in OneSavings Bank plc on Admission (5 June 2014) and following the insertion of a new holding company in November 2020, the shares of OSB GROUP PLC, compared with the value of £100 invested in the FTSE All Share Index on the same date. The other points plotted are the values at intervening financial year ends.

Source: Datastream (Thomson Reuters)

CEO pay ratios

The ratio of the CEO's single figure of total pay to median employee pay is set out in the table on page 163. The ratio has been calculated in accordance with methodology B as it is the same pay data for employees as is used for the Gender Pay Gap analysis and is based on pay and benefits as at 5 April each year. Full-time equivalent pay for individuals that do not work full time has been calculated by increasing their pay pro-rata to that of a full-time individual. No further estimates or adjustments have been made. The employees identified are considered to be representative of the quartile positions as their total pay is in line with expected positioning and the proportion of fixed pay to variable pay is also in line with other individuals at those levels.

The median ratio has increased between 2019 and 2020 largely as a result of the decrease in the total pay for the median employee. This is primarily as a result of OSB's combination with CCFS, which resulted in the UK employee population, with whom the CEO is compared, doubling in size. The median ratio has decreased between 2018 and 2019 as a result of a combination of factors, which resulted in the total pay for the median individual within the workforce increasing, including positive changes to the Group's pay policy and changes in the employee population between 2018 and 2019. The decrease in the ratio between 2017 and 2018 was as a result of the above factors. Additionally, the total pay for the CEO decreased between 2017 and 2018.

There has been no change to the Company's employment models during this two-year period and the median ratio is consistent with the pay, reward and progression policies within the Company. The Directors' pay is set by the Committee with reference to both the internal relativities across the Group and taking into account external market benchmarks. As such, the pay ratio is considered appropriate and is not considered excessive, particularly when compared to other listed financial services companies.



CEO pay ratio	2017	2018	2019	2020
Method	B	B	B	B
CEO single figure	1,614	1,602	1,382	1,388
Upper quartile	62.1	59.5	54.6	47.4
Median	46.1	40.1	32.0	38.7
Lower quartile	24.8	22.3	22.5	25.8

2020	Basic salary (£'000)	Total pay (£'000)
CEO	735	1,388
Lower quartile – Employee A	25	29
Median – Employee B	31	36
Upper quartile – Employee C	47	54

Relative importance of the spend on employee pay (audited)

The table below shows the Company's total employee remuneration (including the Directors) compared to distributions to shareholders and operating profit before tax for the year under review and the prior year. In order to provide context for these figures, underlying operating profit as a key financial metric used for remuneration purposes, is shown.

	2020	2019
Total employee costs	£86.0m	£60.5m
Distributions to shareholders ¹	£64.9m	£12.0m
Underlying profit before tax (PBT)	£346.2m	£199.1m
Total employee costs vs PBT	24.8%	30.4%
Average headcount	1,816	1,278
Average PBT per employee	£190,639	£155,790

1. See note 17 to the financial statements.

Other disclosures relating to 2020 executive remuneration

Scheme interests awarded during the financial year (audited)

The table below shows the conditional share awards made to Executive Directors in 2020 under the PSP and the performance conditions attached to these awards. The Committee considered whether to reduce the grant level of the PSP awards in light of the share price fall at the time of grant, or whether to delay the grant. However, acknowledging that the pandemic was impacting the stock market generally and the performance conditions had been significantly adversely impacted by the pandemic, it determined that the 2020 awards should be granted at the normal grant level under the Remuneration Policy. It also decided against delaying the grant as it was not possible to forecast when the stock market was likely to stabilise. The Committee, however, has discretion to adjust the vesting level to ensure that the reward level reflects underlying performance, risk and individual conduct and in doing so will consider whether there have been any windfall gains in the event of a swift recovery in the stock market and the Company's share price. There will be full disclosure of the Committee's deliberations on this matter in the 2022 Directors' Remuneration Report:

Executive	Face value of award (percentage of salary)	Face value of award	Number of shares ¹	Percentage of awards released for achieving threshold targets	End of performance period	Performance conditions ² (weighting)
Andy Golding	110%	£808,500	312,935			EPS (35%) TSR (35%)
April Talintyre	110%	£550,000	212,881	25%	31 December 2022	ROE (15%) Non-financial/Risk (15%)

1. The number of shares awarded was calculated using a share price of £2.5836 (the average mid-market quotation for the preceding five days before grant on 19 March 2020).

2. Performance conditions are: (i) 35% TSR versus the FTSE 250 (25% vesting for median performance increasing to maximum vesting for upper quartile performance); (ii) 35% EPS (25% vesting for growth in EPS of 5% per annum increasing to maximum vesting for 12% per annum); (iii) 15% ROE (25% vesting for average ROE of 19% increasing to maximum vesting for an average of 25%) and (iv) 15% non-financial/risk scorecard, performance for which is commercially sensitive (full disclosure will be provided retrospectively).



Directors' Remuneration Report (Continued)
2020 Annual Report on Remuneration (Continued)

All-employee share plans (audited)

Executive	Date of grant	Exercise price	Market price 31 December 2020	Exercisable from	Exercisable to	Number of options granted	Number of options as at 31 December 2020
Andy Golding	1 November 2019 ¹	£2.65496	–	1 December 2022	1 June 2023	6,779	–
	28 October 2020	£2.29013	£4.2360	1 December 2023	1 June 2024	7,859	7,859
April Talintyre	1 November 2019 ¹	£2.65496	–	1 December 2022	1 June 2023	6,779	–
	28 October 2020	£2.29013	£4.2360	1 December 2023	1 June 2024	7,859	7,859

1. The options were cancelled on 14 and 15 October 2020, respectively.

Statement of Directors' shareholdings and share interests (audited)

Total shares owned by Directors:

	Interest in shares		Interest in share awards		Shareholding requirements	
	Beneficially owned at 1 January 2020	Beneficially owned at 31 December 2020	Without performance conditions at 31 December 2020 ¹	Subject to performance conditions as at 31 December 2020	Shareholding requirement (percentage of basic salary)	Current shareholding (percentage of basic salary) ²
Executive Directors						
Andy Golding	512,941	595,895	261,556	693,333	250%	425% (Met)
April Talintyre	220,346	268,122	177,622	468,589	200%	310% (Met)
Non-Executive Directors						
Rajan Kapoor	8,970	19,970	–	–	–	–
Mary McNamara ³	22,350	66,850	–	–	–	–
David Weymouth	13,178	18,678	–	–	–	–
Graham Allatt	–	–	–	–	–	–
Noël Harwerth	–	–	–	–	–	–
Sarah Hedger	–	–	–	–	–	–

1. Includes DSBP awards granted on 19 March 2020 at a price of £2.5836 (CEO 114,558 shares and CFO 77,172 shares).

2. Shareholding based on the closing share price on 31 December 2020 (£4.2360) and year-end salaries; it also includes interest in share awards without performance conditions (net of tax).

3. Includes 27,500 shares that are owned by spouse.

The Company operates an anti-hedging policy under which individuals are not permitted to enter into any personal hedging strategies in relation to shares subject to a vesting and/or retention period.

External appointments

Andy Golding is a Director/Trustee of the Building Societies Trust Limited. He receives no remuneration for this position.

Payments to departing Directors (audited)

Tim Brooke Thom, Margaret Hassall and Ian Ward stood down as Non-Executive Directors during the year and received a payment equal to three months' fee in lieu of the unexpired period of notice. This equated to £20,625, £18,750 and £20,000, respectively.



How we will implement the Remuneration Policy for Directors in 2021

Following significant changes to the Remuneration Policy and its operation for the 2020 financial year, there are no material changes proposed for the operation of the Remuneration Policy in the full year for 2021, which will be as follows:

Salary

Following the Combination with CCFS, the Committee agreed that the CEO's salary should be increased to £815,000 to reflect the increase in scope of the role and the regulatory requirement to rebalance the pay package by reducing the variable pay opportunity. It was agreed, taking into account feedback from shareholders, that the increase would be phased over 2020 and 2021, with the second stage validated against specific integration objectives. The objectives and assessment are as follows:

- i. performance against the integration plan – the Board's assessment is that to date, the integration of the two businesses has been successful, including achievement of operational integration objectives, low regretted attrition and strong support from shareholders.
- ii. the level of cost savings against published guidance – integration cost savings are ahead of plan.
- iii. whether the desired culture and customer focus has been delivered across the whole organisation – consistent focus on customer and culture delivered across the Group, with no material customer or employee concerns during 2020.
- iv. performance against the compliance plan – regulatory and compliance environment remained robust throughout the integration.

The Committee has considered the achievement against these criteria and has confirmed that the second stage of the increase to £815,000 be implemented with effect from 1 January 2021. The Committee is aware that this represents a significant increase; however, this remains the appropriate rate for the role. The Group has performed resiliently through the pandemic, as seen in operational and financial results and reflected in the share price performance. Furthermore, given that there has been no impact on the salary review process throughout the Group, the Committee does not believe it is necessary to change its original proposals. The rebalancing of the CFO's package was implemented in one step in 2020 as the overall increase was lower. As such, the CFO's salary will be increased in 2021 by 2% to £510,000, in line with the average workforce percentage increase.

Annual bonus

The 2021 annual bonus will be subject to a maximum limit of 110% of salary. The performance measures have been set in line with the Balanced Business Scorecard. Accordingly, the balance of the metrics is as follows:

Financial	Customer	Quality	Staff	Personal objectives
50% of bonus opportunity	15% of bonus opportunity	15% of bonus opportunity	10% of bonus opportunity	10% of bonus opportunity
Underlying PBT All-in ROE Cost to income ratio Net loan book growth	Customer satisfaction Broker satisfaction Complaints	Overdue management actions Arrears High-severity incidents	Diversity Employee engagement	Vary by Executive Details of objectives (and performance against these) will be disclosed retrospectively in next year's report

Performance targets are considered to be commercially sensitive so will not be published in advance. However, there will be full disclosure of the targets set and the extent of their achievement in the 2021 Annual Report on Remuneration. The Committee may apply discretion to adjust the resultant bonus from the Balanced Business Scorecard if the result fails to reflect broader performance and the wider shareholder experience.

Half of any bonus will be delivered in shares and cannot be sold for three years.



Directors' Remuneration Report (Continued)
2020 Annual Report on Remuneration (Continued)

Performance Share Plan

PSP awards of 110% of salary will be made to the Executive Directors with performance being measured over the three-year period to 31 December 2023.

The EPS and ROE target ranges have been set taking into account the business plan, external operating environment, market expectations. As such, the Threshold target for EPS has been increased from 5% CAGR to 7% CAGR and the Stretch target for EPS has been increased from 12% CAGR to 16% CAGR to ensure that there is appropriate stretch when measuring from the 2020 base year, which was adversely impacted by COVID-19 and other factors. Accordingly, in future years, the range may need to be reduced, if measured from a base point more reflective of business as usual. Similarly, the average ROE target which determines the vesting of 15% of the award has been set with a 17% average required for threshold vesting and a 23% average for Stretch vesting. These remain market leading levels of return.

The Committee agreed an increase to the EPS targets taking into account feedback from shareholders received during consultation. Overall, the Committee is comfortable that these targets provide the appropriate stretch and link between pay and performance delivered.

Performance level	EPS element (35% of total award)	TSR element (35% of total award)	Return on equity (15% of total award)	Non-financial/risk scorecard (15% of total award)	Percentage of that part of the award vesting
Below 'threshold'	Less than 7% CAGR	Below median	Below 17%	Commercially sensitive	0%
'Threshold'	7% CAGR	Median	17%		25%
'Stretch'	16% CAGR	Upper quartile	23%		100%
	Pro rata vesting in between the above points				

For the risk-based measure, the Committee will assess the risk management performance with regard to all relevant risks including, but not limited to, conduct, credit, funding, liquidity, market, operational and regulatory risk. There will be full retrospective disclosure of the Committee's assessment.

When assessing the performance outcome, the Committee may adjust the formulaic vesting outcome to ensure it is aligned with the underlying performance, risk appetite and individual conduct over the period. Awards will vest 20% each year between three and seven years after grant, with each vested tranche subject to a one-year holding period.

Share ownership guidelines

The CEO and the CFO are required to accumulate and maintain a holding in ordinary shares in the Company equivalent to no less than 250% of salary and 200% of salary, respectively. This is calculated on the basis of the value of beneficially-owned shares plus the net of tax value of deferred bonus shares or any other unvested share awards which are not subject to performance. Half of any vested share awards must be retained until the guideline is achieved. Based on the current share price, the CEO and CFO hold shares in excess of these levels. From 2020, the guidelines apply for two years following cessation of employment.

Chairman and Non-Executive Director fees

There are no changes to the NED fees for 2021:

Base fees	£'000	
Chairman	300	
Non-Executive Director	70	
Senior Independent Director	20	
Additional Board Committee fees	Chair	Member
Group Nomination and Governance Committee	20	5
Board Integration Committee	n/a	5
Group Audit Committee	30	5
Group Remuneration Committee	30	5
Group Risk Committee	30	5
Group Models and Ratings Committee	10	5



Statement of voting at the Annual General Meeting

Shareholders of OSB were asked to approve the 2019 Annual Report on Remuneration at the 2020 AGM. The Directors' Remuneration Policy was approved at the 2020 AGM. The votes received are set out below:

Resolution	Votes for	% of votes cast	Votes against	% of votes cast	Total votes cast	Votes withheld
To approve the 2019 Remuneration Report (2020 AGM)	346,107,741	89.80%	39,302,760	10.20%	385,410,501	3,400
To approve the Remuneration Policy (2020 AGM)	362,457,659	94.37%	21,608,346	5.63%	384,066,005	927,854

Major shareholders and shareholder advisory bodies were consulted in early 2021, to offer an opportunity for them to provide the Committee with feedback on the proposed approach for 2021 and with respect to the fact the same Remuneration Policy is being resubmitted in line with legal requirements, following the insertion of a new legal entity as the listed entity and holding company for the Group. There were no concerns raised.

Approval

This report was approved by the Board of Directors (on the recommendation of the Group Remuneration Committee) and signed on its behalf by:

Mary McNamara

Chair of the Group Remuneration Committee

8 April 2021



Directors' Report: Other Information

Share capital and rights attaching to shares

The Company had 447,312,780 ordinary shares of £3.04 each in issue as at 31 December 2020.

On 17 November 2020, the share capital of the Company was subdivided from 2 shares of £1.00 each into 200 shares of £0.01 each. On the same date, a further 408 shares of £0.01 each were allotted and issued; the nominal value of the shares increased from £0.01 to £3.04 each; and 608 shares were consolidated into 2 shares of £3.04 each.

On 27 November 2020, 49,998 deferred shares of £0.01 each were redeemed. On the same date 447,304,196 shares were issued at the nominal value of £3.04 each as part of a scheme of arrangement. Since that date, a further 8,582 shares were issued in relation to share plans at a price of £3.1454.

Further details relating to share capital can be found in note 43.

Without prejudice to any special rights previously conferred on the holders of any existing shares or class of shares, any share in the Company may be issued with such rights (including preferred, deferred or other special rights) or such restrictions, whether in regard to dividend, voting, return of capital or otherwise as the Company may from time to time by ordinary resolution determine (or, in the absence of any such determination, as the Directors may determine).

Authorities to allot and pre-emption rights

On 17 November 2020, shareholders re-established the general authority (that was approved at the AGM of OneSavings Bank plc (OSB) on 7 May 2020) for the Directors to allot up to £1,487,339 of the nominal value of ordinary shares of £0.01 each. In addition, shareholders gave authority for the Directors to grant rights to subscribe for, or to convert any security into, regulatory capital convertible instruments up to £535,442 of the nominal value of ordinary shares equivalent to 12% of issued share capital.

Repurchase of shares

The Company has an unexpired authority to repurchase ordinary shares up to a maximum of 44,620,136 ordinary shares. The Company did not repurchase any of its ordinary shares during 2020 (2019: none).

Employee share schemes

The details of the Company's employee share schemes are set out on page 151 in the Directors' Remuneration Report and in the Employee engagement section on page 169.

Results, dividends and dividend waiver

The results for the year are set out in the Statement of Comprehensive Income on page 188. Our dividend policy for 2021 remains a payout ratio of at least 25% of underlying profit after taxation to ordinary shareholders. The Directors recommend the payment of a final dividend of 14.5 pence per share payable on 2 June 2021, subject to approval at the AGM on 27 May 2021, with an ex-dividend date of 15 April 2021 and a record date of 16 April 2021 (2019: 4.9 pence total dividend).

The OSB GROUP PLC employee benefit trust, which holds 1,001,238 shares in the Company in connection with the operation of the Group's share plans, has lodged standing instructions to waive dividends on shares held by it that have not been allocated to employees. The total amount of dividends waived during 2020 was nil.

Directors and Directors' interests

The names of the Directors who served during the year can be found in the attendance chart on page 123.

Directors' interests in the shares of the Company are set out on page 164 in the Directors' Remuneration Report. None of the Directors had interests in shares of the Company greater than 0.35% of the ordinary shares in issue. There have been no changes to Directors' interests in shares since 31 December 2020.

Equal opportunities

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



Employee engagement

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

The Sharesave 'save as you earn' Scheme is an all-employee share option scheme which is open to all UK-based employees. The Sharesave Scheme allows employees to purchase options by saving a fixed amount of between £5 and £500 per month over a period of either three or five years, at the end of which the options, subject to leaver provisions, are usually exercisable. 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 OneVoice) was established in 2019 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 Company and its subsidiaries. OneVoice consists of volunteer representatives (of which there are 21 in total) from each of the various business areas and locations, as well as permanent members consisting of 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 on a rotational basis.

Members of the Board are keen to engage with our employees across all locations and find the experience of visiting our branches and offices within the UK and India invaluable; however, due to travel restrictions in place throughout 2020 as a result of COVID-19, these visits have not been physically possible. It is hoped that once restrictions are lifted and, provided it is safe to do so, visits to branches and offices will resume.

During 2020, three OneVoice meetings were held. In advance of each meeting, employee representatives are encouraged to engage with employees within their nominated business areas and across all Group locations to identify topics impacting the workforce, which it is felt should be brought to the attention of the Board and Group Executive Committee. A number of items were considered and discussed by OneVoice, including communication, HR harmonisation activities, integration, technology, as well as the impact of COVID-19, particularly, in relation to employee well-being.

The Group is committed to diversity and to making sure everyone in our business feels included, this year we introduced a Diversity and Inclusion Working Group. This working group brings together a broad mix of employees from across the UK business to drive our diversity and inclusion agenda. Jason Elphick, our Diversity Champion, delivered a Q&A session for employees to understand more about the Group's diversity and inclusion agenda.

Further details can be found in the Corporate Responsibility Report on pages 97 to 98.

Greenhouse gas emissions

Information relating to greenhouse gas emissions can be found on pages 100 to 101 in the Corporate Responsibility Report.

Political donations

Shareholder authority to make aggregate political donations not exceeding £50,000 was obtained at a general meeting on 17 November 2020. Neither the Company nor any of its subsidiaries made any political donations during the year.

Notifiable interests in share capital

At 31 December 2020, the Company had received the following notifications of major holdings of voting rights pursuant to the requirements of Rule 5 of the Disclosure Guidance and Transparency Rules:

	No. of ordinary shares	% of issued share capital
Jupiter Fund Management Plc ¹	71,392,487	15.99
Elliot Capital Advisors L.P.	31,039,235	6.94
Standard Life Aberdeen	25,088,457	5.61
GLG Partners LP ²	23,565,776	5.26
Eleva Capital SAS ³	14,851,300	3.32
Norges Bank ⁴	13,494,048	3.01

Since 31 December 2020, the Company received the following notifications:

	No. of ordinary shares	% of issued share capital
Norges Bank ⁴	13,384,341	2.99

1. Jupiter Fund Management Plc gave notice prior to the insertion of OSB GROUP PLC as the holding company and the listed entity (includes 0.09 per cent of financial instruments).
2. Includes 0.70 per cent of financial instruments.
3. Includes 1 per cent of financial instruments.
4. Includes 0.01 per cent of financial instruments.

GLG Partners LP gave notice on 11 March 2021 that its shareholding fell below the notifiable threshold.



Annual General Meeting

Accompanying this report is the Notice of the AGM which sets out the resolutions to be proposed to the meeting, together with an explanation of each. Our preference is to welcome shareholders in person to the AGM, particularly given the constraints we faced in 2020 due to the COVID-19 pandemic. At present, however, public health guidance and legislation issued by the UK Government in relation to the pandemic mean that there are restrictions on public gatherings and travel. Should a physical meeting be possible, this will be held at our offices at 90 Whitfield Street, Fitzrovia, London W1T 4EZ on 27 May 2021 at 11am.

Other information

Likely future developments in the Group are contained in the Strategic Report on pages 12 to 113.

Information on financial instruments including financial risk management objectives and policies including the policy for hedging the exposure of the Group to price risk, credit risk, liquidity risk and cash flow risk can be found in the Risk review on pages 81 to 87.

Details on how the Company has complied with section 172 can be found throughout the Strategic and Directors' Reports and on page 16 to 23.

Details relating to post-balance sheet events are set out in note 52.

Going concern statement

The Board undertakes regular rigorous assessments, in accordance with the 'Guidance on Risk Management, Internal Control and Related Financial and Business Reporting', published by the Financial Reporting Council in September 2014, of whether the Group is a going concern in light of current economic conditions and all available information about future risks and uncertainties.

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

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

- The financial and capital forecasts were prepared under stress scenarios which were assessed against the latest COVID-19-related economic forecasts provided by the Group's external economic advisors. Reverse stress tests were also run, to assess what combinations of House Price Index and unemployment variables would result in the Group utilising its regulatory capital buffers in full and breaching the Group's minimum prudential requirements along with analysis and insight from the Group's

ICAAP. The Directors assessed the likelihood of those reverse stress scenarios occurring within the next 12 months and concluded that the likelihood is remote.

- The latest liquidity and contingent liquidity positions and forecasts were assessed against the ILAAP stress scenarios, which were reviewed for suitability in the context of COVID-19-related stresses.
- The Group continues to assess the resilience of its business operating model and supporting infrastructure in the context of the emerging economic, business and regulatory environment. The key areas of focus continue to be on the provision of critical services to customers, employee health and safety and the evolving governmental policies and guidelines. The Group has assessed and enhanced its information technology platforms to support its employees with flexible working and homeworking across all locations, ensuring stable access to core systems, data and communication devices. The response to the pandemic demonstrates the inherent resilience of the Group's critical processes and infrastructure. It also reflects the necessary agility in responding to future operational demands. The operational dependencies on third party vendors and outsourcing arrangements continues to be an important area of focus.

The Group's financial projections, supported by the COVID-19 assessments, demonstrate that the Group has sufficient capital and liquidity to continue to meet its regulatory capital requirements as set out by the PRA.

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

Key information in respect of the Group's SRMF and objectives and processes for mitigating risks, including liquidity risk, are set out in detail on pages 64 to 69.

Approved by the Board and signed on its behalf by:

Jason Elphick
Group General Counsel and Company Secretary
OSB GROUP PLC
Registered number: 11976839
8 April 2021



Statement of Directors' Responsibilities

in respect of the Annual Report and the financial statements

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

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

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

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

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

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

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

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

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

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

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

- so far as the Director is aware, there is no relevant audit information of which the Company's auditor is unaware; and
- they have taken all the steps they ought to have taken as a Director in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Approved by the Board and signed on its behalf by:

Jason Elphick
Group General Counsel and Company Secretary
8 April 2021



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Independent Auditor's Report

To the Members of OSB GROUP PLC

Report on the audit of the financial statements

1. Opinion

In our opinion:

- the financial statements of OSB GROUP PLC (the 'parent company') and its subsidiaries (the 'Group') give a true and fair view of the state of the Group's and of the parent company's affairs as at 31 December 2020 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with international accounting standards in conformity with the requirements 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 flows;
- the related notes 1 to 54 of the consolidated financial statements; and

- the related notes 1 to 4 of the parent company financial statements.

The financial reporting framework that has been applied in the preparation of the Group and parent company financial statements is applicable law and international accounting standards in conformity with the requirements of the Companies Act 2006.

2. Basis for opinion

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

We are independent of the Group and the parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We confirm that non-audit services prohibited by the FRC's Ethical Standard were not provided 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 £14m which was determined by reference to normalised profit before tax and net assets. Normalised profit before tax is explained on page 182.

Scoping

Our Group audit scope focused primarily on three subsidiaries subject to a full scope audit. The subsidiaries selected for a full scope audit were OneSavings Bank plc, Charter Court Financial Services Limited and Interbay ML Ltd. These three subsidiaries account for 98% of the Group's total assets, 98% of the Group's total liabilities, 96% of the Group's interest receivable and similar income and 98% of the Group's profit before tax.



Significant changes in our approach

As explained in Note 1, OSB GROUP PLC is a recently incorporated entity which is the new ultimate holding company and listed entity of the Group. OneSavings Bank plc was the ultimate parent company of the Group until 27 November 2020 at which point it became a 100% subsidiary of OSB GROUP PLC. The consolidated financial statements of OSB GROUP PLC for the year ended 31 December 2020 are presented as if the new legal structure had existed in both current and prior years. The key audit matters presented in our report similarly reflect the activity of the whole Group for the year. The comparative information was audited as part of our opinion on the consolidated financial statements of OneSavings Bank plc for the year ended 31 December 2019.

In the prior year we identified the accounting for the acquisition of the Charter Court Financial Services Group and the classification of exceptional items and integration costs to be key audit matters. In the current year, due to the Group undertaking no acquisitions and a reduction in exceptional items and integration costs, these areas have not been identified as key audit matters for the year ended 31 December 2020.

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 specific consideration of the impacts of the Covid-19 pandemic and the Group's operational resilience, in order to understand, challenge and evidence the key judgements made by management;
- We obtained an understanding of relevant controls around management's going concern assessment;
- We obtained management's income statement, balance sheet and capital and liquidity forecasts and challenged key assumptions and their projected impact on capital and liquidity ratios, particularly with respect to loan book growth and potential credit losses;
- Supported by our in-house prudential risk specialists, we read the most recent ICAAP and ILAAP submissions, assessed management's capital and liquidity projections, assessed the results of management's capital reverse stress testing, challenged key assumptions and methods used in the capital reverse stress testing models and tested the mechanical accuracy of the capital reverse stress testing models;
- We read correspondence with regulators to understand the capital and liquidity requirements imposed by the Group's regulators, and evidence any changes to those requirements;
- We met with the Group's lead regulators, the Prudential Regulation Authority and the Financial Conduct Authority, and discussed their views on existing and emerging risks to the Group and we considered whether these were reflected appropriately in management's forecasts and stress tests;
- We assessed the historical accuracy of forecasts prepared by management; and
- We assessed the appropriateness of the disclosures made in the financial statements in view of the FRC guidance.

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

In relation to the reporting on how the Group has applied the UK Corporate Governance Code, we have nothing material to add or draw attention to in relation to the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting.

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



Independent Auditor's Report (Continued)

To the Members of OSB GROUP PLC

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.

In the prior year we identified the accounting for the acquisition of the Charter Court Financial Services Group and the classification of exceptional items and integration costs to be key audit matters. In the current year, due to the Group undertaking no acquisitions and the reduction in exceptional items and integration costs from £20.8m in 2019 to £13.1m in 2020, these areas have not been identified as key audit matters for the year ended 31 December 2020.



5.1. Loan impairment provisions

Refer to the judgements in applying accounting policies and critical accounting estimates on page 205 and Note 24 on page 219.

Key audit matter description IFRS 9 requires loan impairment provisions to be recognised on an expected credit loss (ECL) basis. The estimation of ECL provisions in the Group's loan portfolios is inherently uncertain and requires management to make significant judgements and estimates. ECL provisions as at 31 December 2020 were £111.0m (2019: £42.9m), which represented 0.58% (2019: 0.23%) 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.

Covid-19 has increased the complexity in estimating ECLs, particularly with regards to determining appropriate forward looking macroeconomic scenarios and appropriately identifying significant increases in credit risk. The ECL provision requires management to make significant judgements and estimates. We therefore consider this to be a key audit matter due to the risk of fraud or error in respect of the Group's ECL provision.

We identified five specific areas in relation to the ECL that require significant management judgement or relate to assumptions to which the overall ECL provision is particularly sensitive.

- **Significant increase in credit risk (SICR):** The assessment of whether there has been a significant increase in credit risk between the date of origination of the exposure and 31 December 2020. There is a risk that management's staging criteria does not capture SICR and/or are applied incorrectly.
- **Macroeconomic scenarios:** As set out on page 205, the Group sourced economic forecasts from a third party economics expert and considered four probability weighted scenarios, including base, upside, downside and severe downside scenarios. Due to the economic uncertainty arising from Covid-19, there have been significant changes to the economic assumptions in each of the scenarios, as well as a change to the weightings applied to each scenario. The key economic variables were determined to be the house price index (HPI) and unemployment. There is significant judgement in determining the probability weighting of each scenario and the assumptions and characteristics of each scenario applied.
- **Probability of Default (PD) for accounts which have taken Covid-19 payment holidays:** Management applies significant judgement in determining the PD for borrowers who have taken Covid-19 payment holidays. There are limited observed behavioural data for accounts which took payment holidays in 2020, and these data are likely to have been distorted by current government support measures and therefore may not be an accurate reflection of the underlying credit risk of the Covid-19 payment holiday population as at 31 December 2020.
- **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.
- **Commercial and individually assessed collateral valuations:** In 2020, management implemented a blended approach to value semi commercial properties held by the Group, using a combination of both residential and commercial index movements. The use of a blended commercial property index involves management judgement in determining the weightings assigned to the residential and commercial components of the blended commercial property index. In addition, management uses an in-house real estate team to estimate the market value of collateral on a case by case basis for individually assessed loans.



Independent Auditor's Report (Continued)

To the Members of OSB GROUP PLC

How the scope of our audit responded to the key audit matter

We obtained an understanding of the relevant financial controls over the ECL provision with particular focus on controls over significant management assumptions and judgements used in the ECL determination.

To challenge the Group's SICR criteria, we:

- Evaluated the Group's SICR policy and assessed whether it complies with IFRS 9;
- Assessed the PD 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;
- Challenged the appropriateness of changes made to management's staging framework in response to Covid-19 during the year against the requirements of IFRS 9 and, supported by our modelling specialists, assessed the appropriateness of the changes made in the staging model;
- Tested whether the PD thresholds set by management had been appropriately applied in practice as at 31 December 2020; and
- Performed an independent assessment for a sample of loan accounts, including a focused sample of Covid-19 payment holiday accounts which exited forbearance, to determine whether they have 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 management's assessment of scenarios considered and the probability weightings assigned to them in light of the economic position as at 31 December 2020;
- Involved our economic specialists to challenge the Group's economic outlook by reference to other available economic outlook data;
- Performed a benchmarking exercise to compare the appropriateness of selected macroeconomic variables and weightings to those used by peer lenders. The key economic variables were the house price index (HPI) and unemployment;
- Supported by our analytics and modelling specialists, assessed and challenged the changes made to the model methodology and computer code in the macroeconomics overlay model which applies the scenarios to the relevant ECL components; 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 PDs for accounts which took Covid-19 payment holidays in 2020 we:

- Evaluated the Group's staging framework and, considering PRA guidance, assessed whether the treatment of accounts which took Covid-19 payment holidays in 2020 complies with IFRS 9;
 - Supported by our analytics and modelling specialists, assessed and challenged the computer code script to determine whether the PD adjustments for accounts which took Covid-19 payment holidays in 2020 had been implemented within the model correctly;
 - Performed an independent assessment for a sample of loan accounts which took Covid-19 payment holidays in 2020 and those which had not taken such holidays to challenge the completeness and accuracy of the recording of payment holiday forbearance in the lending systems;
 - Assessed the recent performance of borrowers who were granted payment holidays in order to challenge the PDs applied;
 - Performed a peer benchmarking exercise to industry peers to compare the Group's ECL coverage ratio on the Covid-19 payment holiday population.
-



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

- Supported by our analytics and modelling specialists, challenged the changes made to computer code in the LGD models;
- Recalculated the PPD rates observed on defaulted cases and compared them with the rates used by the Group in the ECL models;
- Recalculated the FSD observed on recent property sales on the defaulted accounts and compared them with the rates used by the Group in the ECL models;
- Assessed the appropriateness of PPD and FSD assumptions adopted by management through benchmarking to industry peers; and
- Assessed the impact of findings raised in management's independent model validation conducted in 2020.

We performed the following procedures to challenge the Group's blended commercial property index used for commercial property valuations and the case by case estimate of the market value of collateral for individually assessed loans:

- Supported by our property valuation specialists, examined management's valuation policies, challenged the use of a blended commercial property index approach and tested a sample of collateral valuations for commercial properties and individually assessed loans by reference to available market data; and
- Tested the mechanical accuracy of management's blended commercial property index calculation and that the indexed valuation was appropriately applied in the ECL determination.

Key observations

We determined that the methodology used and the SICR criteria, PDs applied to accounts which took Covid-19 payment holidays in 2020, and PPD and FSD assumptions management have made in determining the ECL provision as at 31 December 2020 were reasonable. We determined management's collateral valuations to be reasonable and the blended commercial property index to be appropriately determined and applied.

Notwithstanding that estimating the probability and impact of future economic outcomes is inherently judgemental and that there is heightened economic uncertainty due to Covid-19, on balance, we consider that the macroeconomic scenarios selected by the Directors and the probability weightings applied generate an appropriate portfolio loss distribution. We therefore determined that loan impairment provisions are appropriately stated.



Independent Auditor's Report (Continued)

To the Members of OSB GROUP PLC

5.2. Effective interest rate income recognition

Refer to the judgements in applying accounting policies and critical accounting estimates on page 206, the accounting policy on pages 194 and 195 and Notes 4 and 5 on page 207.

Key audit matter description

In accordance with the requirements of IFRS 9, management is required to spread directly attributable fees, discounts, incentives and commissions on a constant yield basis (effective interest rate, EIR) over the shorter of the expected and contractual 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 2020 was £472.2m (2019: £344.7m).

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 income and similar income. As the EIR adjustments reflect changes to the timing and volume of forecast customer redemptions, they are inherently judgemental. The level of judgement exercised by management is increased given the limited availability of historical repayment information. For two of the loan portfolios, KRBS and Precise, the EIR adjustments are sensitive to changes in the behavioural life 'curves'. Covid-19 introduces additional uncertainty with regards to forecasting expected behavioural lives and prepayment rates due to its significant impact on the UK economy and housing market, as well as the measures taken by the UK government to stimulate the economy in response to Covid-19, such as the furlough scheme, payment holidays and the stamp duty holiday. We therefore identified the estimation of the behavioural life for these portfolios as a focus area of our audit.

We also identified a key audit matter in relation to EIR adjustments on the Group's legacy acquired portfolios. EIR on acquired loan portfolios is inherently more judgemental than originated loan portfolios as it involves modelling the expected cash flows on acquisition and comparing to actual and forecast cash flows at each balance sheet date. These loan portfolios are also underwritten outside of the Group's standard processes and therefore may have different profiles than self-originated loans.

**How the scope of our audit responded to the key audit matter**

We obtained an understanding of the relevant controls over EIR, focusing on the calculation and review of EIR adjustments and the determination of prepayment curves.

For the two portfolios where the EIR adjustments were most significant and sensitive to changes in behavioural life, we involved our in-house analytics and modelling specialists to run the Group's loan data for all products through our own independent EIR model, using the behavioural life curves derived by the Group. We compared our calculation of the EIR adjustment required to the amount recorded by management.

For the same portfolios, we involved our in-house modelling specialists to independently derive a behavioural life curve using the Group's loan data over recent years. We used these curves in our own independent EIR model to derive an independent output showing the EIR adjustments that should have been recorded in 2020. We compared this output to the amounts recorded by management.

We also tested the completeness and accuracy of a sample of inputs into the EIR model for originated loans.

For the legacy acquired portfolios, supported by our analytics and modelling specialists, we challenged the assumptions and modelling approach taken to determine the EIR adjustments, tested the completeness and accuracy of a sample of inputs to the modelling, re-performed the discounted cash flow calculations and challenged whether forecasts were consistent with historical performance and our understanding of the nature of the cash flows.

In challenging the Group's assumptions over the estimated life of loan accounts, we also independently considered whether behavioural data since the start of the first national lockdown in March 2020 were indicative of future behaviour. We considered factors such as the significant impact that Covid-19 has had on the UK economy and housing market, and the measures taken by the UK government to stimulate the economy, such as the furlough scheme, payment holidays and the stamp duty holiday.

Key observations

Notwithstanding that estimating the future behaviour of loan assets is inherently judgemental and that there is heightened economic uncertainty due to Covid-19, we determined that the EIR models and assumptions used were appropriate and that net interest income for the period is appropriately stated.

6. Our application of materiality**6.1. Materiality**

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

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



Independent Auditor's Report (Continued)

To the Members of OSB GROUP PLC

	Group financial statements	Parent company financial statements
Materiality	£14.0m (2019: £14.0m)	£13.3m
Basis for determining materiality	<p>We determined materiality for the Group by reference to 5% of normalised profit before tax of £271.1m (£13.6m), and 1% of net assets of £1,676.9m (£16.8m), capped at prior year materiality of £14m.</p> <p>Normalised profit before tax is statutory profit before tax of £260.4m for the year ended 31 December 2020 (2019: £209.1m) excluding integration costs of £9.8m (2019: £5.2m) and exceptional items of £3.3m (2019: £15.6m). In prior year the normalised profit before tax also excluded the negative goodwill credit of £10.8m.</p>	We determined materiality for the parent company by reference to 1% of net assets, capped at 95% of Group materiality.
Rationale for the benchmark applied	<p>We considered both a profit based measure and net assets as benchmarks for determining materiality. This is consistent with the prior year approach.</p> <p>The emergence of Covid-19 has caused significant economic uncertainty and we therefore capped the materiality at the prior year level of £14m.</p> <p>In the prior year we determined materiality for the Group by reference to a range of £11m to £15m based on 5% of normalised profit before tax of £219.1m and 1% of net assets of £1,477.0m as at 31 December 2019.</p>	The parent company is principally a holding company and we have therefore determined net assets to be the most relevant benchmark to determine materiality.

6.2. Performance materiality

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

	Group financial statements	Parent company financial statements
Performance materiality	60% of Group materiality (2019: 70%)	60% of parent company materiality
Basis and rationale for determining performance materiality	Group performance materiality was set at 60% of Group materiality (2019: 70%). In determining performance materiality, we considered a number of factors, including: our understanding of the control environment; our understanding of the business; and the low number of uncorrected misstatements identified in the prior year. We reduced performance materiality from the prior year in response to the potentially pervasive impact of Covid-19 on the control environment and financial reporting.	

6.3. Error reporting threshold

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £700k (2019: £700k), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

7. An overview of the scope of our audit

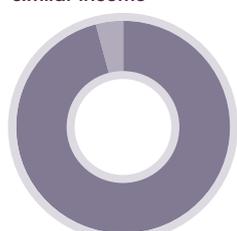
7.1. Identification and scoping of components

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



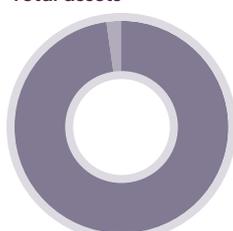
Our Group audit scope focused primarily on three subsidiaries: the two main banking entities OneSavings Bank plc and Charter Court Financial Services Limited, as well as Interbay ML Ltd, another significant lending subsidiary. These three subsidiaries were significant components and subject to a full scope audit (2019: three significant components subject to a full scope audit). They represent 96% (2019: 96%) of the Group's interest receivable and similar income, 98% (2019: 97%) of profit before tax, 98% (2019: 98%) of total assets and 98% (2019: 98%) of total liabilities. The subsidiaries were selected to provide an appropriate basis of undertaking audit work to address the risks of material misstatement including those identified as key audit matters above. Our audits of each of the subsidiaries were performed using lower levels of materiality based on their size relative to the Group. The materiality for each subsidiary audit ranged from £5.3m to £11.1m (2019: £5.4m to £10.2m).

Interest receivable and similar income



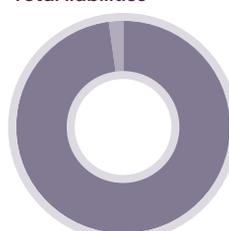
● Full audit scope 96%
● Review at group level 4%

Total assets



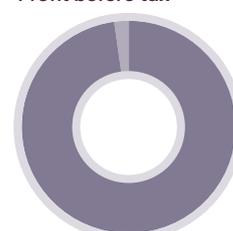
● Full audit scope 98%
● Review at group level 2%

Total liabilities



● Full audit scope 98%
● Review at group level 2%

Profit before tax



● Full audit scope 98%
● Review at group level 2%

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

7.2. Our consideration of the control environment

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

In the current year we relied on controls for some of the lending business and related interest income. For the areas where we relied on controls, we performed walkthroughs with management to understand the process and controls, identified and tested relevant controls that address risks of material misstatement in financial.

7.3 Oversight of the audit teams

All audit work for the purposes of the Group audit was performed by Deloitte LLP in the UK. The audit team for the Group and the parent company were based in London. There was a component audit team for the component audit of Charter Court Financial Services Limited which is based in Wolverhampton. The Senior Statutory Auditor has responsibility for directing and supervising all aspects of the audit work of the component auditor. In discharging this responsibility, the Group audit team held regular meetings with local management and had regular virtual meetings with the component audit team to oversee the component audit. The Group audit team maintained dialogue with the component auditor throughout all phases of the audit and performed a remote file review of the component audit team's work.

8. Other information

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

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

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

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



Independent Auditor's Report (Continued)

To the Members of OSB GROUP PLC

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. As set out on page 261, the Directors recorded an impairment provision of £20m in relation to potential fraudulent activity by a third-party on a secured funding line provided by the Group;
 - the internal controls established to mitigate risks of fraud or non-compliance with laws and regulations;
- the matters discussed among the audit engagement team including the component audit team and involving relevant internal specialists, including tax, valuations, real estate, IT 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, effective interest rate income recognition and the classification of exceptional items and integration costs. In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override.

We also obtained an understanding of the legal and regulatory frameworks that the Group operates in, focusing on provisions of those laws and regulations that had a direct effect on the determination of material amounts and disclosures in the financial statements. The key laws and regulations we considered in this context included the relevant provisions of the UK Companies Act 2006, 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 using the effective interest rate 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;
- in addressing the risk of fraud in the classification of exceptional items and integration costs, testing the appropriateness of the classification for a sample of these items;
- 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; and
- to address the risk of material misstatement in expected credit losses due to fraud, our work included testing the existence of a sample of collateral related to funding lines, including collateral related to the recently identified potential fraud by a third party funding line borrower.

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

Report on other legal and regulatory requirements

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

In our opinion the part of the directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

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

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

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

13. Corporate Governance Statement

The Listing Rules require us to review the directors' statement in relation to going concern, longer-term viability and that part of the Corporate Governance Statement relating to the Group's compliance with the provisions of the UK Corporate Governance Code specified for our review.



Independent Auditor's Report (Continued)

To the Members of OSB GROUP PLC

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the Corporate Governance Statement is materially consistent with the financial statements and our knowledge obtained during the audit:

- the directors' statement with regards to the appropriateness of adopting the going concern basis of accounting and any material uncertainties identified as set out on page 170;
- the directors' explanation as to its assessment of the Group's prospects, the period this assessment covers and why the period is appropriate as set out on pages 88 and 89;
- the directors' statement on fair, balanced and understandable as set out on page 138;
- the board's confirmation that it has carried out a robust assessment of the emerging and principal risks as set out on page 122;
- the section of the annual report that describes the review of effectiveness of risk management and internal control systems as set out on pages 122 and 139; and
- the section describing the work of the Audit Committee as set out on pages 134 to 141.

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

14.1. 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.

14.2. Directors' remuneration

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of directors' remuneration have not been made or the part of the directors' remuneration report to be audited is not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

15. Other matters which we are required to address

15.1. Auditor tenure

Following the recommendation of the Audit Committee, we were appointed by the shareholders of the OSB GROUP plc on 17 November 2020 to audit the Group financial statements for the year ended 31 December 2020 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is one year, covering the year ended 31 December 2020. Prior to our appointment to the parent company we have been the auditor of the Group headed by OneSavings Bank plc.

15.2. 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).



16. 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.

Robert Topley FCA (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
London, United Kingdom
8 April 2021



Consolidated Statement of Comprehensive Income

For the year ended 31 December 2020

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

The above results are derived wholly from continuing operations.

The notes on pages 192 to 263 form part of these accounts.

The financial statements on pages 188 to 263 were approved by the Board of Directors on 8 April 2021.



Consolidated Statement of Financial Position

As at 31 December 2020

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

The notes on pages 192 to 263 form part of these accounts. The financial statements on pages 188 to 263 were approved by the Board of Directors on 8 April 2021 and signed on its behalf by

Andy Golding
Chief Executive Officer

April Talintyre
Chief Financial Officer

Company number: 11976839



Consolidated Statement of Changes in Equity

For the year ended 31 December 2020

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

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

The reserves are further disclosed in note 44.



Consolidated Statement of Cash Flows

For the year ended 31 December 2020

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



Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

1. Insertion of OSB GROUP PLC

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

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

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

2. Accounting policies

a) Basis of preparation

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

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

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

b) Going concern

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

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

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

- Financial and capital forecasts were prepared under stress scenarios which were assessed against the latest COVID-19 related economic forecasts provided by the Group's external economic advisors. Reverse stress tests were also run, to assess what combinations of House Price Index and unemployment variables would result in the Group utilising its regulatory capital buffers in full and breaching the Group's minimum prudential requirements along with analysis and insight from the Groups Internal Capital Adequacy Assessment Process (ICAAP). The Directors assessed the likelihood of those reverse stress scenarios occurring within the next 12 months and concluded that the likelihood is remote.
- The latest liquidity and contingent liquidity positions and forecasts were assessed against the ILAAP stress scenarios, which were reviewed for suitability in the context of COVID-19 related stresses.
- The Group continues to assess the resilience of its business operating model and supporting infrastructure in the context of the emerging economic, business and regulatory environment. The key areas of focus continue to be on the provision of critical services to customers, employee health and safety and the evolving governmental policies and guidelines. The Group has assessed and enhanced its information technology platforms to support its employees with flexible working and homeworking across all locations, ensuring stable access to core systems, data and communication devices. The response to the pandemic demonstrates the inherent resilience of the Group's critical processes and infrastructure. It also reflects the necessary agility in responding to future operational demands. The Accounting policies continued operational dependencies on third-party vendors and outsourcing arrangements continue to be an important area of focus.



2. Accounting policies continued

The Group's financial projections, supported by the COVID-19 assessments, demonstrate that the Group has sufficient capital and liquidity to continue to meet its regulatory capital requirements as set out by the PRA.

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

c) Basis of consolidation

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

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

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

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

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

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

d) Business combinations

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



Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2020

2. Accounting policies continued

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

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

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

e) Foreign currency translation

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

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

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

f) Segmental reporting

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

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

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

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

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

g) Interest income and expense

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

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



2. Accounting policies continued

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

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

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

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

h) Fees and commissions

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

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

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

i) Integration costs and exceptional items

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

j) Taxation

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

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

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

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

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

k) Dividends

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



Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2020

2. Accounting policies continued

l) Cash and cash equivalents

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

m) Intangible assets

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

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

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

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

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

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

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

n) Property, plant and equipment

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

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

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

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

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

o) Investment in subsidiaries

In the Company's financial statements, investments in subsidiary undertakings are stated at cost less provision for any impairment. A full list of the Company's subsidiaries which are included in the Group's consolidated financial statements can be found in note 2 to the Company's financial statements on page 267.



2. Accounting policies continued

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

p) Financial instruments

i. Classification

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

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

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

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

The Group reassesses its business models each reporting period.

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

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

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

ii. Recognition

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

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

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



Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2020

2. Accounting policies continued

iii. Derecognition

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

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

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

iv. Offsetting

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

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

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

v. Amortised cost measurement

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

vi. Fair value measurement

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

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

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

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

vii. Identification and measurement of impairment of financial assets

The Group assesses all financial assets for impairment.



2. Accounting policies continued

Loans and advances to customers

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

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

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

Individual assessment

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

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

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

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

IFRS 9 modelled impairment

Measurement of ECL

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

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

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

Significant increase in credit risk (movement to stage 2)

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

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

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

Definition of default (movement to stage 3)

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



Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2020

2. Accounting policies continued

- 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 unlikelihood to pay criteria and following this has completed an internally-approved probation period. The borrower will move to stage 1 or stage 2 dependent on whether the SICR applies.

Forward-looking macroeconomic scenarios

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

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

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

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

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

Period over which ECL is measured

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

Purchased or originated credit impaired (POCI)

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

Intercompany loans

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

Other financial assets

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

q) Loans and receivables

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

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



2. Accounting policies continued

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

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

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

r) Investment securities

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

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

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

s) Deposits, debt securities in issue and subordinated liabilities

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

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

t) Sale and repurchase agreements

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

u) Derivative financial instruments

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

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

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



Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2020

2. Accounting policies continued

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

v) Hedge accounting

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

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

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

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

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

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

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

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

w) Debit and credit valuation adjustments

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

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

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

x) Provisions and contingent liabilities

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



2. Accounting policies continued

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

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

y) Employee benefits – defined contribution scheme

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

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

z) Share-based payments

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

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

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

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

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

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

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

aa) Leases

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

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

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

bb) Adoption of new standards

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

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



Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2020

2. Accounting policies continued

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

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

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

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

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

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

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

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

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

3. Judgements in applying accounting policies and critical accounting estimates

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

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

Judgements

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

(i) Loan book impairments

Significant increase in credit risk for classification in stage 2

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

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

(ii) IFRS 9 classification

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



3. 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 £111.0m (2019: £42.9m) at the reporting date as disclosed in note 24.

Modelled impairment

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

Loss given default model

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

Forward-looking macroeconomic scenarios

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

The Group sources economic forecasts from an appropriately qualified, independent third party. The Group considers four probability-weighted scenarios: base, upside, downside and severe downside scenarios. Due to the current uncertainty in relation to the ongoing COVID-19 global pandemic and the recently agreed Brexit trade agreement the choice of scenarios and weightings are subject to a significant degree of estimation. The Group's macroeconomic scenarios can be found in the Credit risk section of the Risk profile performance overview on page 81.

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

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

As at 31-Dec-19					
Total loans before provisions, £m	18,467.6	18,467.6	18,467.6	18,467.6	18,467.6
Modelled ECL, £m	37.4	24.4	14.6	48.1	62.5
Non-modelled ECL, £m	5.5	5.5	5.5	5.5	5.5
Total ECL, £m	42.9	29.9	20.1	53.6	68.0
ECL Coverage, %	0.23	0.16	0.11	0.29	0.37



Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2020

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

(ii) Loan book acquisition accounting and income recognition

Acquired loan books are initially recognised at fair value. Significant estimation is required in calculating their EIR using cash flow models which include assumptions on the likely macroeconomic environment, including HPI, unemployment levels and interest rates, as well as loan level and portfolio attributes and history used to derive prepayment rates and the amount of incurred losses. Through the Combination in 2019, the Precise Mortgages book is treated as an acquired book with a fair value uplift to book value, at the point of initial recognition, of £301.0m, reflecting a premium applied to the book. Fair value sensitivities have been completed on the Precise Mortgages book, including the market rate applied to the discounted cash flows, being one month LIBOR plus a margin (margin blended average used 2.91%). Where the margin applied is increased/decreased by 25bps the initial premium recognised on the book increases/decreases by £66.0m/£67.0m.

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

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

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

(iii) Effective interest rate on organic lending

Estimates are made when calculating the EIR for newly-originated loan assets. These include the likely customer redemption profiles.

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

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

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

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

Applying a six month extension in the expected weighted average life of the organic loan books, would result in a gain of c. £22.6m (2019: £23.6m) recognised in Net Interest Income. It includes a c. £13.8m (2019: £19.5m) gain in relation to the Kent Reliance loan book, where the impact of the proactive Choices programme, which offers borrowers a new product as an alternative to paying the Bank's higher Standard Variable Rate (SVR), may significantly reduce the likelihood of borrowers extending the period of time paying SVR and reduce the amount of the potential reset gain.

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



4. Interest receivable and similar income

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

1. Amortisation of fair value adjustments on CCFS loan book at Combination.

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

5. Interest payable and similar charges

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

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

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

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



Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2020

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

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

7. Gain/(loss) on sales of financial instruments

On 17 January 2020, the Group sold the Canterbury A2 note for proceeds of £225.4m. After incurring costs of £0.2m, a gain on sale of £1.9m was recognised.

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

On 23 January 2020, the Group securitised £375.5m of mortgage loans through Precise Mortgage Funding 2020-1B plc (PMF 2020-1B), issuing £388.9m of Sterling floating rate notes. The Group retained the class A2 notes, with all other note classes and the residual certificates being sold to the external market. As such, the Group has not consolidated PMF 2020-1B as substantially all of the risks and rewards have been transferred. The Group recognised a gain on sale of £2.0m on disposal. Excluding the impact of the fair value adjustment on the mortgages on Combination with OSB of £13.1m, the underlying gain on sale was £15.1m.

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

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

8. Other income

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

1. In 2019, £0.3m interest received on mortgages held at FVTPL was included in interest receivable and similar income (see note 4).

2. Other operating costs includes commission expense incurred on retail savings generated from the branch network which is included in administration expenses from 2020.

9. Administrative expenses

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

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



9. Administrative expenses continued

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

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

1. Includes review of interim financial information and profit verifications.

2. 2020 costs comprise an assurance review of APMs, 2019 costs related to the Combination and agreed upon procedures in respect of securitisations.

3. Primarily comprises work related to the insertion of a new holding company.

Staff costs comprise the following:

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

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

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

10. Impairment of intangible assets

Assets arising on the Combination with CCFS in 2019 included a broker relationships intangible asset with a fair value of £17.1m on Combination. A key input to the calculation of the fair value was CCFS anticipated lending volumes over three years post combination which have been revised due to COVID-19 impacts, with an impairment of £7.0m recognised. The remaining carrying value of the broker relationships intangible asset at 31 December 2020 is £5.8m (2019: £16.1m).



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For the year ended 31 December 2020

11. Directors' emoluments and transactions

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

1. Short-term employee benefits comprise Directors' salary costs, Non-Executive Directors' fees and other short-term incentive benefits, which are disclosed in the Annual Report on Remuneration.

2. Share-based payments represent the amounts received by Directors for schemes that vested during the year.

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

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

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

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

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

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

12. Share-based payments

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

The Group operates the following share-based schemes:

Sharesave Scheme

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

Deferred Share Bonus Plan (DSBP)

The DSBP applies to Executive Directors and certain senior managers with 50% of their performance bonuses to be deferred in shares for three years for Executive Directors and one or five years for senior managers. There are no further performance or vesting conditions attached to deferred awards for senior managers, which also applies to Executive Directors for awards granted from 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.

**12. Share-based payments** continued**Performance Share Plan (PSP)**

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

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

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

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

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

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

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

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

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



Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2020

12. Share-based payments continued

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

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

Sharesave Scheme

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

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

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

Deferred Share Bonus Plan

	2020	2019	2018	2017	2016
Contractual life, years	3	3	3	3	5
Mid-market share price, £	2.58	3.96	3.80	4.04	4.04
Attrition rate, %	–	8.4	9.7	11.8	11.8
Dividend yield, %	5.6	4.7	4.6	4.0	4.0
Grant date fair value, £	2.21	3.47	3.34	3.61	3.37

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

Performance Share Plan

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

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



12. Share-based payments continued

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

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

The inputs into the models are as follows:

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

CCFS PSP Mirror Schemes

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

13. Integration costs

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

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

Staff costs relate to key personnel who will leave the Group under the new operating model, but have been retained to assist in the integration for a fixed period.

14. Exceptional items

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

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



Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2020

15. Taxation

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

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

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

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

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

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

Factors affecting tax charge for the year

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

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

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

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

Factors that may affect future tax charges

In the March 2020 Budget, it was announced that the cuts in corporation tax rate to 18% and then to 17% previously enacted would not occur with the corporation tax rate held at 19%. As a result, closing deferred tax balances are calculated at 19% with the impact of the increase from 17%/18% to 19% reflected in the period.



15. Taxation continued

On 3 March 2021, the government announced that the corporation tax rate will increase from 19% to 25% from 1 April 2023. This rate change was not substantively enacted at the balance sheet date and so has not been reflected in these financial statements. The government has also acknowledged that this increase in the main rate will result in an uncompetitive position for UK banks which also currently pay the 8% Bank Surcharge, and so has also announced a review of the Bank Surcharge will take place in Autumn 2021. Given that the majority of the Group's deferred tax is recognised at the combined corporation tax and Bank Surcharge rate, we are not yet able to estimate the impact of the combined rate changes on our deferred tax balances. We have assessed the impact of the increase of the corporation tax rate in isolation and concluded that it will not have a material impact on the Group's deferred tax balances.

16. Earnings per share

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

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

	2020 £m	2019 £m
Statutory profit after tax	196.3	158.8
Less: Coupon on non-controlling interest securities classified as equity	(5.5)	(5.5)
Statutory profit attributable to ordinary shareholders	190.8	153.3
	2020	2019
Weighted average number of shares, millions		
Basic	446.2	291.6
Dilutive impact of share-based payment schemes	4.0	1.8
Diluted	450.2	293.4
Earnings per share, pence per share		
Basic	42.8	52.6
Diluted	42.4	52.2

17. Dividends

On 27 November 2020, OSB GROUP PLC became the ultimate parent company, and soon after the listed entity of Group, replacing OneSavings Bank plc which is now a 100% subsidiary of OSB GROUP PLC. There were no dividends paid in the period since the ultimate parent company was inserted.

	OSB GROUP PLC & OneSavings Bank plc 2020		OneSavings Bank plc 2019	
	£m	Pence per share	£m	Pence per share
Final dividend for the prior year	–	–	25.3	10.3
Interim dividend for the current year	–	–	12.0	4.9
	–		37.3	

The Directors recommend a final dividend of £64.9m, 14.5 pence per share (2019: nil, nil) payable on 2 June 2021 with an ex-dividend date of 15 April 2021 and a record date of 16 April 2021. This dividend is not reflected in these financial statements as it is subject to approval by shareholders at the AGM on 27 May 2021. This will make up the total dividend for 2020 of £64.9m, 14.5 pence per share (2019: £12.0m, 4.9 pence per share).

As at 31 December 2020 OSB GROUP PLC had no distributable reserves (2019: nil). The Company reduced the nominal value of OSB GROUP PLC shares from 304 pence each to 1 penny each on 26 February 2021 (see note 52). The recommended dividend of £64.9m will be made out of the distributable reserve position following this capital reduction exercise.



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For the year ended 31 December 2020

18. Cash and cash equivalents

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

	2020 £m	2019 £m
Cash in hand	0.5	0.4
Unencumbered loans and advances to credit institutions	2,370.1	2,052.5
Investment securities with original maturity less than 3 months	–	49.9
	2,370.6	2,102.8

19. Loans and advances to credit institutions

	2020 £m	2019 £m
Unencumbered:		
BoE call account	2,256.5	1,916.2
Call accounts	55.6	81.7
Cash held in special purpose vehicles ¹	51.0	44.0
Term deposits	7.0	10.6
Encumbered:		
BoE cash ratio deposit	52.3	41.7
Cash held in special purpose vehicles ¹	42.7	–
Cash margin given	211.1	110.4
	2,676.2	2,204.6

1. Cash held in special purpose vehicles is ring-fenced for the use in managing the Group's securitised debt facilities under the terms of securitisation agreements.

20. Investment securities

	2020 £m	2019 £m
Held at FVOCI:		
UK and EU Sovereign debt	–	149.8
RMBS loan notes	285.0	358.9
	285.0	508.7
Held at amortised cost:		
RMBS loan notes	186.2	126.6
	186.2	126.6
Less: Expected credit losses	–	–
	186.2	126.6
	471.2	635.3

At 31 December 2020 the Group had £147.1m (2019: £173.0m) of FVOCI RMBS and £13.7m (2019: nil) of amortised cost RMBS loan notes sold under repos.

The Directors consider that the primary purpose of holding investment securities is prudential. These securities are held as liquid assets with the intention of use on a continuing basis in the Group's activities and are classified as FVOCI and amortised cost in accordance with the Group's business model for each security.



20. Investment securities continued

Movements during the year of investment securities held by the Group are analysed as follows:

	2020 £m	2019 £m
At 1 January	635.3	58.9
Additions ¹	291.6	439.8
CCFS Combination	–	493.5
Disposals and maturities ²	(457.2)	(357.7)
Movement in accrued interest	0.5	–
Changes in fair value	1.0	0.8
At 31 December	471.2	635.3

1. Additions include £100.7m of retained RMBS loan notes following the deconsolidation of PMF 2020-1B.

2. Disposals and maturities include £49.9m of UK Sovereign debt which had an original maturity of less than three months.

At 31 December 2020, investment securities included investments in unconsolidated structured entities (note 46) of £100.7m (2019: nil) notes in PMF 2020-1B and £285.0m (2019: £358.9m) notes in PMF 2019-1B. The investments represent the maximum exposure to loss from unconsolidated structured entities.

21. Loans and advances to customers

	2020 £m	2019 £m
Held at amortised cost:		
Loans and advances (see note 22)	19,257.1	18,419.9
Finance leases (see note 23)	65.5	47.7
	19,322.6	18,467.6
Less: Expected credit losses (see note 24)	(111.0)	(42.9)
	19,211.6	18,424.7
Residential mortgages held at fair value	19.1	22.1
	19,230.7	18,446.8

22. Loans and advances

	2020			2019		
	OSB £m	CCFS £m	Total £m	OSB £m	CCFS £m	Total £m
Gross carrying amount						
Stage 1	9,310.8	6,749.5	16,060.3	9,999.2	7,240.0	17,239.2
Stage 2	1,362.0	1,327.6	2,689.6	442.4	307.1	749.5
Stage 3	344.5	48.1	392.6	277.7	16.7	294.4
Stage 3 (POCI)	48.6	66.0	114.6	53.6	83.2	136.8
	11,065.9	8,191.2	19,257.1	10,772.9	7,647.0	18,419.9

The mortgage loan balances pledged as collateral for liabilities are:

	2020 £m	2019 £m
BoE under TFS, TFSME and ILTR	5,203.2	4,458.3
Securitisation	435.4	366.7
Warehouse funding	–	97.4
Master servicer for securitisation vehicle	–	40.4
	5,638.6	4,962.8



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22. Loans and advances continued

The Group's securitisation programmes, use of TFS, TFSME and ILTR and Warehouse funding arrangements result in certain assets being encumbered as collateral against such funding. As at 31 December 2020, the percentage of the Group's gross customer loans and receivables that are encumbered was 29% (2019: 27%).

At 31 December 2019, £40.4m of retention loans (i.e. loans in securitisation portfolios that are retained by the originator) were treated as encumbered. For 2020, the Group has treated these as unencumbered as they are available to use to raise collateral as long as the risk and rewards of the loans remain with the Group.

The tables below show the movement in loans and advances to customers by IFRS 9 stage during the year, based on the following assumptions:

	Stage 1 £m	Stage 2 £m	Stage 3 £m	Stage 3 (POCI) £m	Total £m
At 31 December 2018	8,279.6	436.8	225.4	56.2	8,998.0
Originations ¹	4,098.6	–	–	–	4,098.6
CCFS Combination ³	7,091.1	43.5	–	94.4	7,229.0
Repayments and write-offs ²	(1,825.2)	(21.6)	(47.5)	(17.3)	(1,911.6)
Transfers:					
- To Stage 1	176.9	(162.7)	(14.2)	–	–
- To Stage 2	(495.9)	517.7	(21.8)	–	–
- To Stage 3	(86.1)	(64.5)	150.6	–	–
Incurring loss protection	0.2	0.3	1.9	3.5	5.9
At 31 December 2019	17,239.2	749.5	294.4	136.8	18,419.9
Originations ¹	3,767.0	–	–	–	3,767.0
Acquisitions	60.8	–	–	1.5	62.3
Disposals	(787.3)	(16.1)	(1.0)	–	(804.4)
Repayments and write-offs ²	(2,119.1)	(3.9)	(41.0)	(23.7)	(2,187.7)
Transfers:					
- To Stage 1	324.8	(293.5)	(31.3)	–	–
- To Stage 2 ⁴	(2,300.3)	2,344.5	(44.2)	–	–
- To Stage 3	(124.8)	(90.9)	215.7	–	–
At 31 December 2020	16,060.3	2,689.6	392.6	114.6	19,257.1

1. Originations include further advances and drawdowns on existing commitments.

2. Repayments and write-offs include customer redemptions.

3. The mortgages acquired in the all-share Combination with CCFS are shown at the acquisition date fair value.

4. Increase from previous year due to the additional qualitative and quantitative tests applied in 2020 for loans with payment deferrals. Payment deferrals increased in 2020 notably through COVID-19 initiatives and impacts.

During the year the Group purchased one external mortgage book at par. The Group did not purchase any external mortgage books during 2019 other than those acquired in the Combination.



23. Finance leases

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

	2020 £m	2019 £m
Gross investment in finance leases, receivable		
Less than one year	21.9	14.1
Between one and five years	50.4	38.5
More than 5 years	1.3	1.2
	73.6	53.8
Unearned finance income	(8.1)	(6.1)
Net investment in finance leases	65.5	47.7
Net investment in finance leases, receivable		
Less than one year	18.6	11.5
Between one and five years	45.7	35.0
More than five years	1.2	1.2
	65.5	47.7

The Group has recognised £2.6m of ECLs on finance leases as at 31 December 2020 (2019: £0.3m).

24. Expected credit loss

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

	ECL provision 2020 £m	Weighting 2020 %	Weighted ECL provision 2020 £m	ECL provision 2019 £m	Weighting 2019 %	Weighted ECL provision 2019 £m
At 31 December 2020						
Scenarios						
Upside	40.1	30	12.0	14.6	10	1.5
Base case	54.6	40	21.8	24.4	40	9.7
Downside scenario	113.5	23	26.1	48.1	35	16.8
Severe downside scenario	166.7	7	11.7	62.5	15	9.4
Total weighted provisions			71.6			37.4
Non-modelled provisions:						
Individually-assessed provisions	–	–	29.0	–	–	4.2
Post model adjustments ¹	–	–	10.4	–	–	1.3
Total provision			111.0			42.9

1. COVID-19 post model adjustments – the Group implemented a number of post model adjustments to ensure that modelled estimates remained appropriate, in light of the impact that COVID-19 support measures, such as the repossession moratorium and the impact of payment deferrals on the credit bureau files, had on probability of default and loss given default estimates. In addition updated model estimates were also aligned to recently observed actual performance. Additional information can be found in the Credit risk section of the Risk profile performance overview on pages 81 to 87.

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

	2020			2019		
	OSB £m	CCFS £m	Total £m	OSB £m	CCFS £m	Total £m
Stage 1	12.3	8.9	21.2	3.5	2.1	5.6
Stage 2	17.9	13.1	31.0	3.6	2.0	5.6
Stage 3	49.4	2.3	51.7	23.4	0.4	23.8
Stage 3 (POCI)	4.0	3.1	7.1	5.1	2.8	7.9
	83.6	27.4	111.0	35.6	7.3	42.9



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24. Expected credit loss continued

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

	Stage 1 £m	Stage 2 £m	Stage 3 £m	Stage 3 (POCI) £m	Total £m
At 31 December 2018	4.5	5.6	10.2	1.6	21.9
Originations	1.9	–	–	–	1.9
CCFS Combination	–	–	–	3.6	3.6
Repayments and write-offs	(0.6)	(0.4)	(4.3)	(0.2)	(5.5)
Remeasurement of loss allowance	(3.4)	(0.5)	18.8	(0.6)	14.3
Transfers:					
– To Stage 1	1.9	(1.6)	(0.3)	–	–
– To Stage 2	(0.2)	0.6	(0.4)	–	–
– To Stage 3	(0.1)	(1.0)	1.1	–	–
Changes in assumptions and model parameters	1.4	2.6	(3.2)	–	0.8
Incurred loss protection	0.2	0.3	1.9	3.5	5.9
At 31 December 2019	5.6	5.6	23.8	7.9	42.9
Originations	6.3	–	–	–	6.3
Acquisitions	–	–	0.1	–	0.1
Disposals	(0.1)	(0.2)	(0.1)	–	(0.4)
Repayments and write-offs	(0.7)	(0.3)	(4.1)	(1.1)	(6.2)
Remeasurement of loss allowance	6.3	7.7	29.0	(0.2)	42.8
Transfers:					
– To Stage 1	2.0	(1.4)	(0.6)	–	–
– To Stage 2	(1.0)	2.8	(1.8)	–	–
– To Stage 3	(0.1)	(1.2)	1.3	–	–
Changes in assumptions and model parameters	2.9	18.0	4.1	0.5	25.5
At 31 December 2020	21.2	31.0	51.7	7.1	111.0

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

	Carrying value 2020 £m	ECL 2020 £m	Coverage 2020 %	Carrying value 2019 £m	ECL 2019 £m	Coverage 2019 %
Criteria:						
Relative PD movement	946.9	17.0	1.80	588.2	4.8	0.82
Qualitative measures	1,680.7	12.7	0.76	79.8	0.4	0.44
30 days past due backstop	63.4	1.3	2.05	81.5	0.4	0.54
Total	2,691.0	31.0	1.15	749.5	5.6	0.75

The Group has a number of qualitative measures to determine whether a SICR has taken place. These triggers utilise both internal performance information, to analyse whether an account is in distress but not yet in arrears, and external credit bureau information, to determine whether the customer is experiencing financial difficulty with an external credit obligation.



25. Impairment of financial assets

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

	2020 £m	2019 £m
Write-offs in year	1.9	4.1
Disposals	0.4	–
CCFS Combination	–	3.6
Increase in ECL provision	68.7	7.9
	71.0	15.6

The CCFS Combination losses relate to the initial ECL recognised on the CCFS loan book following the Combination in October 2019.

26. Derivatives

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

	Gross amount of recognised financial assets/ (liabilities) £m	Net amount of financial assets/ (liabilities) presented in the Consolidated Statement of Financial Position £m	Contracts subject to master netting agreements not offset in the Consolidated Statement of Financial Position £m	Cash collateral paid/ (received) not offset in the Consolidated Statement of Financial Position £m	Net amount £m
At 31 December 2020					
Derivative assets:					
Interest rate risk hedging	12.3	12.3	(11.8)	–	0.5
	12.3	12.3	(11.8)	–	0.5
Derivative liabilities:					
Interest rate risk hedging	(163.6)	(163.6)	11.8	210.5	58.7
	(163.6)	(163.6)	11.8	210.5	58.7
At 31 December 2019					
Derivative assets:					
Interest rate risk hedging	21.1	21.1	(9.8)	(8.0)	3.3
	21.1	21.1	(9.8)	(8.0)	3.3
Derivative liabilities:					
Interest rate risk hedging	(92.8)	(92.8)	9.8	110.4	27.4
	(92.8)	(92.8)	9.8	110.4	27.4

Included within the Group's derivative liabilities is £0.1m (2019: £3.4m) relating to derivative contracts not covered by master netting agreements and therefore no cash collateral has been paid.



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26. Derivatives continued

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

	Total nominal £m	Less than 3 months £m	3 – 12 months £m	1 – 5 years £m	More than 5 years £m
At 31 December 2020					
Derivative assets	8,687.8	1,450.7	3,407.8	3,808.3	21.0
Derivative liabilities	10,392.4	148.0	1,868.0	8,065.9	310.5
	19,080.2	1,598.7	5,275.8	11,874.2	331.5
At 31 December 2019					
Derivative assets	7,795.4	1,110.8	2,608.2	3,760.9	315.5
Derivative liabilities	9,982.4	144.3	2,528.6	7,155.5	154.0
	17,777.8	1,255.1	5,136.8	10,916.4	469.5

The Group has 925 (2019: 1,175) derivative contracts with an average fixed rate of 0.47% (2019: 0.91%).

27. Hedge accounting

	2020 £m	2019 £m
Hedged assets		
Current hedge relationships	197.5	64.2
Swap inception adjustment	(100.5)	(67.8)
Cancelled hedge relationships	84.6	20.4
Fair value adjustments on hedged assets	181.6	16.8
Hedged liabilities		
Current hedge relationships	(11.8)	(2.9)
Swap inception adjustment	6.2	8.0
De-designated hedge relationships	(2.6)	–
Fair value adjustments on hedged liabilities	(8.2)	5.1

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

Cancelled hedge relationships predominantly represent the unamortised fair value adjustment for interest rate risk hedges that have been cancelled and replaced due to IBOR transition, securitisation activities and legacy long-term fixed rate mortgages (c. 25 years at origination).

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

	2020		2019	
	Hedged item £m	Hedging instrument £m	Hedged item £m	Hedging instrument £m
Loans and advances to customers				
Carrying amount of hedged item/nominal value of hedging instrument	11,282.4	11,159.7	10,312.5	10,248.3
Cumulative fair value adjustments	197.5	(156.9)	64.2	(75.6)
Fair value adjustments for the period	107.3	(117.4)	70.1	(75.1)
Cumulative fair value on cancelled hedge relationships	84.6	–	20.4	–

The cumulative fair value adjustments of the hedging instrument comprise £0.7m (2019: £13.2m) recognised within derivative assets and £157.6m (2019: £88.8m) recognised within derivative liabilities.



27. Hedge accounting continued

The movement in cancelled hedge relationships is as follows:

	2020 £m	2019 £m
At 1 January	20.4	17.3
New cancellations ¹	86.1	8.6
Amortisation	(17.9)	(5.5)
Derecognition of hedged item	(4.0)	–
At 31 December	84.6	20.4

1. Following the securitisation of mortgages during the year and LIBOR swaps transferred to SONIA swaps through the IBOR transition, the Group cancelled swaps which were effective prior to the event, with the designated hedge moved to cancelled hedge relationships to be amortised over the original life of the swap.

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

	2020		2019	
	Hedged item £m	Hedging instrument £m	Hedged item £m	Hedging instrument £m
Customer deposits				
Carrying amount of hedged item/nominal value of hedging instrument	6,849.9	6,858.0	6,684.6	6,687.5
Cumulative fair value adjustments	(11.8)	9.2	(2.9)	3.5
Fair value adjustments for the period	(4.1)	6.8	(4.6)	4.8

The cumulative fair value adjustments of the hedging instrument comprise £9.4m (2019: £5.9m) recognised within derivative assets and £0.2m (2019: £2.4m) recognised within derivative liabilities.

28. Other assets

	2020 £m	2019 £m
Prepayments	7.3	9.3
Other assets	1.8	5.0
	9.1	14.3

29. Deferred taxation asset

	Losses carried forward £m	Accelerated depreciation £m	Share-based payments £m	IFRS 9 transitional adjustments £m	Others ¹ £m	Total £m
At 31 December 2018	1.4	(0.1)	1.5	0.7	–	3.5
Profit or loss (charge)/credit	(0.5)	0.3	0.8	(0.1)	(0.7)	(0.2)
CCFS Combination	–	(0.1)	0.5	0.1	1.4	1.9
Transferred to corporation tax liability	–	–	(1.3)	–	–	(1.3)
Tax taken directly to OCI	–	–	–	–	(0.2)	(0.2)
Tax taken directly to equity	–	–	1.1	–	–	1.1
At 31 December 2019	0.9	0.1	2.6	0.7	0.5	4.8
Profit or loss credit/(charge)	–	0.3	0.9	–	(0.4)	0.8
Transferred to corporation tax liability	–	–	(0.6)	–	–	(0.6)
Tax taken directly to OCI	–	–	–	–	(0.5)	(0.5)
Tax taken directly to equity	–	–	0.2	–	–	0.2
At 31 December 2020	0.9	0.4	3.1	0.7	(0.4)	4.7

1. Others include deferred taxation assets recognised on financial assets classified as FVOCI, derivatives and short-term timing differences.



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29. Deferred taxation asset continued

In 2020, the profit or loss credit/(charge) includes £(0.3)m impact of the deferred tax rate change (2019: nil).

As at 31 December 2020, the Group had £3.5m (2019: £3.5m) of losses for which a deferred tax asset has not been recognised as the Group does not expect sufficient future profits to be available to utilise the losses.

30. Deferred taxation liability

The deferred tax liability recognised on the Combination relates to the timing differences of the recognition of assets and liabilities at fair value, where the fair values will unwind in future periods in line with the underlying asset or liability. The deferred tax liability has been measured using the relevant rates for the expected periods of utilisation.

	CCFS Combination £m
At 31 December 2018	–
CCFS Combination	70.1
Profit or loss credit	(7.0)
At 31 December 2019	63.1
Profit or loss credit	(14.8)
At 31 December 2020	48.3

In 2020, the profit or loss credit includes £4.7m impact of the deferred tax rate change (2019: nil).

31. Property, plant and equipment

	Freehold land and buildings £m	Leasehold improvements £m	Equipment and fixtures £m	Right of use assets		Total £m
				Property leases £m	Other leases £m	
Cost						
At 1 January 2019	16.0	0.9	11.0	3.8	–	31.7
Additions	3.1	1.5	2.4	2.5	0.1	9.6
CCFS Combination	–	0.3	2.1	6.4	1.2	10.0
Disposals and write-offs ¹	–	–	(1.2)	–	–	(1.2)
Foreign exchange difference	0.2	–	0.1	–	–	0.3
At 31 December 2019	19.3	2.7	14.4	12.7	1.3	50.4
Additions	–	0.3	2.5	0.6	–	3.4
Disposals and write-offs¹	–	–	(3.0)	(0.2)	–	(3.2)
Foreign exchange difference	(0.1)	–	(0.1)	–	–	(0.2)
At 31 December 2020	19.2	3.0	13.8	13.1	1.3	50.4
Depreciation						
At 1 January 2019	0.8	0.3	5.0	–	–	6.1
Charged in year	0.3	0.2	2.3	1.0	0.1	3.9
CCFS Combination	–	–	–	–	–	–
Disposals and write-offs	–	–	(1.2)	–	–	(1.2)
At 31 December 2019	1.1	0.5	6.1	1.0	0.1	8.8
Charged in year	0.3	0.4	2.9	1.8	0.2	5.6
Disposals and write-offs¹	–	–	(3.0)	(0.2)	–	(3.2)
At 31 December 2020	1.4	0.9	6.0	2.6	0.3	11.2
Net book value						
At 31 December 2020	17.8	2.1	7.8	10.5	1.0	39.2
At 31 December 2019	18.2	2.2	8.3	11.7	1.2	41.6

1. During the year the Group wrote off fully depreciated assets.



32. Intangible assets

	Development costs £m	Computer software and licences £m	Assets arising on consolidation ² £m	Total £m
Cost				
At 1 January 2019	–	13.6	–	13.6
Additions	0.5	3.8	–	4.3
CCFS Combination	–	–	23.6	23.6
Disposals and write-offs ¹	–	(2.0)	–	(2.0)
At 31 December 2019	0.5	15.4	23.6	39.5
Additions	1.8	2.6	–	4.4
Disposals and write-offs¹	–	(1.3)	–	(1.3)
At 31 December 2020	2.3	16.7	23.6	42.6
Amortisation				
At 1 January 2019	–	5.8	–	5.8
CCFS Combination	–	–	–	–
Charged in year	–	3.0	1.3	4.3
Disposals and write-offs ¹	–	(2.0)	–	(2.0)
At 31 December 2019	–	6.8	1.3	8.1
Charged in year	0.1	3.6	4.5	8.2
Impairment in the year	–	–	7.0	7.0
Disposals and write-offs¹	–	(1.3)	–	(1.3)
At 31 December 2020	0.1	9.1	12.8	22.0
Net book value				
At 31 December 2020	2.2	7.6	10.8	20.6
At 31 December 2019	0.5	8.6	22.3	31.4

1. During the year the Group wrote off fully amortised assets.

2. Assets arising on consolidation comprise broker relationships of £5.8m (2019: £16.1m), technology of £2.9m (2019: £3.2m), brand name of £1.2m (2019: £1.6m) and banking licence of £0.9m (2019: £1.4m). The carrying value of the intangible assets are reviewed each reporting period with a £7.0m impairment recognised in relation to broker relationships due to impacts of the COVID-19 pandemic.

33. Amounts owed to credit institutions

	2020 £m	2019 £m
BoE TFS	2,568.6	2,632.8
BoE TFSME	1,000.1	–
BoE ILTR	–	290.6
Warehouse funding	–	93.6
Commercial repo	0.1	41.4
Cash margin received	–	8.0
Loans from credit institutions	1.4	2.4
	3,570.2	3,068.8



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34. Amounts owed to retail depositors

	OSB 2020 £m	CCFS 2020 £m	Total 2020 £m	OSB 2019 £m	CCFS 2019 £m	Total 2019 £m
Fixed rate deposits	6,275.6	4,781.4	11,057.0	5,617.9	4,907.6	10,525.5
Variable rate deposits	3,429.7	2,116.4	5,546.1	3,817.9	1,911.6	5,729.5
	9,705.3	6,897.8	16,603.1	9,435.8	6,819.2	16,255.0

35. Amounts owed to other customers

	2020 £m	2019 £m
Fixed rate deposits	46.0	26.0
Variable rate deposits	26.9	3.7
	72.9	29.7

36. Debt securities in issue

	2020 £m	2019 £m
Asset backed loan notes at amortised cost	421.9	296.3
Amount due for settlement within 12 months	–	40.1
Amount due for settlement after 12 months	421.9	256.2
	421.9	296.3

The asset-backed loan notes are secured on fixed and variable rate mortgages and are redeemable in part from time to time, but such redemptions are limited to the net principal received from borrowers in respect of underlying mortgage assets. The maturity date of the funds matches the contractual maturity date of the underlying mortgage assets. It is likely that a large proportion of the underlying mortgage assets and, therefore these notes, will be repaid within five years.

Asset-backed loan notes may all be repurchased by the Group at any interest payment date on or after the call dates, or at any interest payment date when the current balance of the mortgages outstanding is less than or equal to 10% of the principal amount outstanding on the loan notes on the date they were issued.

Interest is payable at fixed margins above LIBOR or SONIA.

As at 31 December 2020, notes were issued through the following funding vehicles:

	2020 £m	2019 £m
CMF 2020-1 plc	288.6	–
Canterbury Finance No.3 plc	133.3	–
Canterbury Finance No.1 plc	–	256.2
Precise Mortgage Funding 2015-1 plc	–	40.1
	421.9	296.3



37. Lease liabilities

	2020 £m	2019 £m
At 1 January	13.3	3.8
CCFS Combination	–	7.7
New leases	0.1	3.6
Lease terminated	–	(0.8)
Lease repayments	(2.0)	(1.1)
Interest accruals	0.3	0.1
At 31 December	11.7	13.3

During the year, the Group incurred expenses of £0.7m (2019: £0.7m) in relation to short-term leases and nil (2019: £0.1m) in relation to low-value assets.

38. Other liabilities

	2020 £m	2019 £m
Falling due within one year:		
Accruals	19.7	23.1
Deferred income	0.6	1.1
Other creditors	7.5	10.7
	27.8	34.9

39. Provisions and contingent liabilities

The Financial Services Compensation Scheme (FSCS) provides protection of deposits for the customers of authorised financial services firms, should a firm collapse. FSCS protects retail deposits of up to £85k for single account holders and £170k for joint holders. As OSB and CCFS both hold banking licences, the full FSCS protection is available to customers of each bank.

The compensation paid out to consumers is initially funded through loans from the BoE and HM Treasury. In order to repay the loans and cover its costs, the FSCS charges levies on firms regulated by the PRA and the FCA. The Group is among those firms and pays the FSCS a levy based on its share of total UK deposits.

The Group has reviewed its current exposure to Payment Protection Insurance (PPI) claims, following the FCA deadline for PPI claims on 29 August 2019 and has recognised a provision of £0.3m as at 31 December 2020 (2019: £0.3m). The Group has maintained its provision for FCA conduct rules exposures of £1.2m (2019: £1.3m) to cover potential future claims.

An analysis of the Group's FSCS and other provisions is presented below:

	2020				2019			
	FSCS £m	Other regulatory provisions £m	ECL on undrawn loan facilities £m	Total £m	FSCS £m	Other regulatory provisions £m	ECL on undrawn loan facilities £m	Total £m
At 1 January	(0.2)	1.6	0.2	1.6	0.1	1.7	–	1.8
Refund/(paid) during the year	0.3	(0.2)	–	0.1	(0.1)	(0.1)	–	(0.2)
Charge/(credit)	–	0.1	–	0.1	(0.2)	–	0.2	–
At 31 December	0.1	1.5	0.2	1.8	(0.2)	1.6	0.2	1.6

In January 2020, the Group was contacted by the FCA in connection with a multi-firm thematic review into forbearance measures adopted by lenders in respect of a portion of the mortgage market. The Group is responding to information requests from the FCA. It is not possible to reliably predict or estimate the outcome of the review, if any, on the Group and is a contingent liability.



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40. Subordinated liabilities

	2020 £m	2019 £m
At 1 January	10.6	10.8
Repayment of debt at maturity	(0.1)	(0.2)
At 31 December	10.5	10.6

The Group's outstanding subordinated liabilities are summarised below:

	2020 £m	2019 £m
Linked to LIBOR:		
Floating rate subordinated loans 2022 (LIBOR +5%)	0.1	0.2
Floating rate subordinated loans 2022 (LIBOR +2%)	0.2	0.2
Fixed rate:		
Subordinated liabilities 2024 (7.45%)	10.2	10.2
	10.5	10.6

The fixed rate subordinated liabilities are repayable at the dates stated or earlier, in full, at the option of the Group with the prior consent of the PRA. All subordinated liabilities are denominated in Pounds Sterling and are unlisted.

The rights of repayment of the holders of these subordinated liabilities are subordinated to the claims of all depositors and all other creditors.

41. Perpetual Subordinated Bonds

	2020 £m	2019 £m
Sterling Perpetual Subordinated Bonds (4.5991%)	22.3	22.3
Sterling Perpetual Subordinated Bonds (4.6007%)	15.3	15.3
	37.6	37.6

The bonds are listed on the London Stock Exchange.

The 4.5991% bonds were issued with a clause in the terms relating to the Board's discretion over the payment of coupons being conditional and are therefore classified as financial liabilities. The coupon rate is 4.5991% until the next reset date on 7 March 2021.

The 4.6007% bonds were issued with no discretion over the payment of interest and may not be settled in the Group's own equity. They are therefore classified as financial liabilities. The coupon rate is 4.6007% until the next reset date on 27 August 2024.



42. Reconciliation of cash flows for financing activities

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

	Amounts owed to credit institutions (see note 33) £m	Debt securities in issue (see note 36) £m	Subordinated liabilities (see note 40) £m	PSBs (see note 41) £m	Total £m
At 31 December 2018	1,584.0	–	10.8	37.6	1,632.4
Cash movements:					
Principal drawdowns	587.7	285.0	–	–	872.7
Principal repayments	(273.7)	(64.6)	(0.2)	–	(338.5)
Non-cash movements:					
CCFS Combination	1,168.4	75.1	–	–	1,243.5
Accrued interest movement	2.4	0.8	–	–	3.2
At 31 December 2019	3,068.8	296.3	10.6	37.6	3,413.3
Cash movements:					
Principal drawdowns	1,505.0	486.2	–	–	1,991.2
Principal repayments	(998.9)	(104.6)	(0.1)	–	(1,103.6)
Deconsolidation of special purpose vehicles	–	(256.2)	–	–	(256.2)
Non-cash movements:					
Accrued interest movement	(4.7)	0.2	–	–	(4.5)
At 31 December 2020	3,570.2	421.9	10.5	37.6	4,040.2

43. Share capital

Ordinary shares	Number of shares authorised and fully paid	Nominal value £m	Premium £m
At 1 January 2019	244,487,537	2.4	158.8
Shares issued under OSB employee share plans	1,312,862	0.1	0.3
CCFS Combination	199,643,055	2.0	705.1
At 31 December 2019	445,443,454	4.5	864.2
Shares issued under OSB employee share plans	1,860,744	–	2.6
Cancellation of OneSavings Bank plc £0.01 share capital and share premium	(447,304,198)	(4.5)	(866.8)
Issuance of OSB GROUP PLC £3.04 share capital	447,304,198	1,359.8	–
Shares issued under OSBG employee share plans	8,582	–	–
At 31 December 2020	447,312,780	1,359.8	–

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

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



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44. Other reserves

The Group's other reserves are as follows:

	2020 £m	2019 £m
Share-based payment	7.8	5.6
Capital contribution	–	6.5
Transfer	(1,355.3)	(12.8)
Own shares	(4.0)	(3.7)
FVOCI	1.0	0.5
Foreign exchange	(1.0)	(1.0)
Non-controlling interest securities	60.0	60.0
	(1,291.5)	55.1

Capital contribution

The capital contribution reserve relates to one-off nil price share awards of shares in OSB granted to certain senior managers on OSB's admission to the London Stock Exchange in June 2014. The awards were granted by OSB's major shareholder at the time of the IPO. The reserve was transferred to retained earnings during the year following distribution of all the awards.

Transfer reserve

The transfer reserve in 2019 represented the difference between the value of net assets transferred to the Group from Kent Reliance Building Society in 2011 and the value of shares issued to the A ordinary shareholders. The net assets transferred were predominantly savings and mortgages that have now either been replaced by new products, which is a derecognition event of the initial net asset, or are no longer with the Group. The balance was therefore transferred to retained earnings in 2020.

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

Own shares

The Company has adopted the look-through approach for the EBT, including the EBT within the Company. As at 31 December 2020, the EBT held 1,001,238 OSBG shares (2019: 1,045,155 OSB shares). The Group and Company show these shares as a deduction from equity, being the cost at which the shares were acquired of £4.0m (2019: £3.7m).

FVOCI reserve

The FVOCI reserve represents the cumulative net change in the fair value of investment securities measured at FVOCI.

Foreign exchange

The foreign exchange reserve relates to the revaluation of the Group's Indian subsidiary, OSB India Private Limited.

Non-controlling interest securities

Non-controlling interest securities comprise £60.0m of Fixed Rate Resetting Perpetual Subordinated Contingent Convertible Securities issued by OSB. The securities previously qualified as Additional Tier 1 capital under the Capital Requirements Directive and Regulation (CRD IV) for OSB; however, they do not qualify for OSBG under the CRD IV with the application of article 85 – 87 requirements where there is an article 9 permission. The securities will be subject to full conversion into ordinary shares of OSB in the event that its CET1 capital ratio falls below 7%. The securities will pay interest at a rate of 9.125% per annum until the first reset date of 25 May 2022, with the reset interest rate equal to 835.9 basis points over the five-year semi-annual mid-swap rate for such a period. Interest is paid semi-annually on 25 May and 25 November. OSB may, at any time, cancel any interest payment at its full discretion and must cancel interest payments in certain circumstances specified in the terms and conditions of the securities. The securities are perpetual with no fixed redemption date. OSB may, in its discretion and subject to satisfying certain conditions, redeem all (but not some) of the securities at the principal amount outstanding plus any accrued but unpaid interest from the first reset date and on any interest payment date thereafter.



45. Financial commitments and guarantees

a) The Group did not have any contracted or anticipated capital expenditure commitments not provided for as at 31 December 2020 (2019: nil).

b) The Group's minimum lease commitments under operating leases not subject to IFRS 16 are summarised in the table below:

	2020 £m	2019 £m
Land and buildings: due within:		
One year	0.1	0.6
	0.1	0.6

c) Undrawn loan facilities:

	2020 £m	2019 £m
OSB mortgages	547.2	639.2
CCFS mortgages	420.8	568.1
Asset Finance	11.5	3.6
	979.5	1,210.9

Undrawn loan facilities are approved loan applications which have not yet been exercised. They are payable on demand and are usually drawn down or expire within three months.

d) The Group did not have any issued financial guarantees as at 31 December 2020 (2019: nil).

46. Risk management

Overview

Financial instruments form the vast majority of the Group's assets and liabilities. The Group manages risk on a consolidated basis and risk disclosures that follow are provided on this basis.

Types of financial instrument

Financial instruments are a broad definition which includes financial assets, financial liabilities and equity instruments. The main financial assets of the Group are loans to customers and liquid assets, which in turn consist of cash in the BoE call accounts, call accounts with other credit institutions and UK and EU sovereign debt. These are funded by a combination of financial liabilities and equity instruments. Financial liability funding comes predominantly from retail deposits and drawdowns under the BoE TFS, TFSME and ILTR, supported by debt securities, subordinated debt, wholesale and other funding. Equity instruments include own shares and non-controlling interest securities meeting the equity classification criteria. The Group's main activity is mortgage lending; it raises funds or invests in particular types of financial assets to meet customer demand and manage the risks arising from its operations. The Group does not trade in financial instruments for speculative purposes.

The Group uses derivative instruments to manage its financial risks. Derivative financial instruments (derivatives) are financial instruments whose value changes in response to changes in underlying variables such as interest rates. The most common derivatives are futures, forwards and swaps. Of these, the Group only uses swaps.

Derivatives are used by the Group solely to reduce (hedge) the risk of loss arising from changes in market rates. Derivatives are not used for speculative purposes.

Types of derivatives and uses

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



Notes to the Consolidated Financial Statements (Continued)

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46. Risk management continued

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.

Transition away from LIBOR

The PRA and FCA have continued to encourage banks to transition away from using LIBOR as a benchmark in all operations before the end of 2021. Throughout the UK banking sector, LIBOR remains a key benchmark and, for each market impacted, solutions to this issue are progressing through various industry bodies. The Group has closely monitored the market and the output from the various industry working groups managing the transition to new benchmark interest rates. This includes announcements made by LIBOR regulators (including the FCA) regarding the transition from GBP LIBOR to SONIA. The FCA has made clear that, at the end of 2021, it will no longer seek to persuade, or compel, banks to submit to LIBOR.

In 2018, the Group set up an internal working group, comprising all of the key business lines that are involved with this change, including work streams covering risk management, contracts, systems and conduct risk considerations, with strong oversight from the Compliance and Risk functions. The programme is overseen by the LIBOR Transition Working Group which reports into ALCO. Risk assessments have been completed to ensure this process is managed in a measured and controlled manner.

The Group no longer offers any LIBOR-linked loans and is transitioning new and back book swaps from a GBP LIBOR to a SONIA basis. The Group has no exposure to existing IBORs, other than to GBP LIBOR.

The Group adopted the Phase 1 amendments 'Interest Rate Benchmark reform: Amendments to IFRS 9/IAS 39 and IFRS 7'. These amendments modified specific hedge accounting requirements to allow hedge accounting to continue for affected hedges during the period of uncertainty before the hedged items or hedging instruments are amended as a result of the interest rate benchmark reform. The Group has not early adopted 'Interest Rate Benchmark Reform – Phase 2: Amendments to IFRS 9 Financial Instruments, IAS 39 Financial Instruments: Recognition and Measurement, IFRS 7 Financial Instruments: Disclosures, IFRS 4 Insurance Contracts and IFRS 16 Leases' which was issued in August 2020. These amendments will become mandatory for annual reporting periods beginning on or after 1 January 2021. Adopting these amendments will enable the Group to reflect the effects of transitioning from IBOR to alternative benchmark interest rates (also referred to as 'risk free rates' or RFRs) without giving rise to accounting impacts that would not provide useful information to users of financial statements.

The application of the Phase 1 amendments impacts the Group's accounting in the following ways. Hedge accounting relationships will continue even when, for IBOR fair value hedges, the benchmark interest rate component may not be separately identifiable.

The Group will not discontinue portfolio hedge accounting should the retrospective assessment of hedge effectiveness for a hedging relationship, that is subject to the interest rate benchmark reform, fall outside the 80-125 per cent range. For portfolio hedging relationships that are not subject to the interest rate benchmark reform the entity continues to cease hedge accounting if retrospective effectiveness is outside the 80-125 per cent range.

The Group will continue to apply the Phase 1 amendments to IFRS 9/IAS 39 until the uncertainty arising from the interest rate benchmark reform, with respect to the timing and the amount of the underlying cash flows to which the Group is exposed, ends. The Group expects this uncertainty will continue until the Group's contracts that reference IBORs are amended to specify the date on which the interest rate benchmark will be replaced and the basis for the cash flows of the alternative benchmark rate are determined, including any fixed spread.

The phase 1 relief does not extend to the requirement that the designated interest rate risk component continues to be reliably measurable and if the risk component is no longer reliably measurable, the hedging relationship is discontinued. The Group has determined that GBP LIBOR interest rate risk components continue to be reliably measurable.

Mortgages

New loan product transition was completed for CCFS in 2019 and OSB launched new BBR-linked products during 2020 to replace loans with a LIBOR component.



46. Risk management continued

At 31 December 2020, the Group had £8,001.7m of GBP LIBOR-linked lending, including funding lines and mortgages that will revert to LIBOR in the future, out of a total mortgage balance of £19,257.1m. The Group continues to work through the back book transition for existing loans which is planned to be completed before the end of 2021.

Investment securities

At 31 December 2020, the Group had £118.7m of GBP LIBOR-linked investment securities, comprising RMBS loan notes and the Group is monitoring the issuers' intentions in respect of IBOR transition with £40.0m transferred to SONIA coupons after the year end.

Retail savings

None of the OSB or CCFS current or back book retail savings products have a GBP LIBOR component within the product.

Non-controlling interest securities

The £60.0m non-controlling interest securities pay interest at a rate of 9.125% per annum until the first reset date on 25 May 2022. In advance of the reset date, the Group will agree the benchmark rate to be adopted.

Derivatives

As at 31 December 2020, the derivatives in the CCFS segment have all transitioned across to a SONIA basis with the OSB segment yet to complete. The total nominal amount of the Group's derivatives was £19,080.2m, of which the Group had GBP LIBOR-linked swaps with a nominal value of £8,020.0m and a fair value liability of £89.1m hedging assets and liabilities. It is planned that existing derivatives will be actively transitioned onto alternative benchmarks before the end of 2021.

Types of risk

The principal financial risks to which the Group is exposed are credit, liquidity and market risks, the latter comprising interest and exchange rate risk. In addition to financial risks, the Group is exposed to various other risks, most notably operational, conduct and regulatory, which are covered in the Risk review on pages 70 to 80.

Credit risk

Credit risk is the risk that losses may arise as a result of the Group's borrowers or market counterparties failing to meet their obligations to repay.

The Group has adopted the Standardised Approach for assessment of credit risk regulatory capital requirements. This approach considers risk weightings as defined under Basel II and Basel III principles.

The classes of financial instruments to which the Group is most exposed are loans and advances to customers, loans and advances to credit institutions, cash in the BoE call account, call and current accounts with other credit institutions and investment securities. The maximum credit risk exposure equals the total carrying amount of the above categories plus off-balance sheet undrawn committed mortgage facilities.

Credit risk – loans and advances to customers

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

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

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

The following tables show the Group's maximum exposure to credit risk and the impact of collateral held as security, capped at the gross exposure amount, by impairment stage. Capped collateral excludes the impact of forced sale discounts and costs to sell.



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46. Risk management continued

	2020					
	OSB		CCFS		Total	
	Gross carrying amount £m	Capped collateral held £m	Gross carrying amount £m	Capped collateral held £m	Gross carrying amount £m	Capped collateral held £m
Stage 1	9,366.8	9,303.4	6,749.5	6,747.9	16,116.3	16,051.3
Stage 2	1,363.4	1,359.8	1,327.6	1,327.6	2,691.0	2,687.4
Stage 3	352.6	323.3	48.1	48.1	400.7	371.4
Stage 3 (POCI)	48.6	48.4	66.0	66.0	114.6	114.4
	11,131.4	11,034.9	8,191.2	8,189.6	19,322.6	19,224.5

	2019					
	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	10,046.9	9,987.1	7,240.0	7,239.5	17,286.9	17,226.6
Stage 2	442.4	441.8	307.1	307.0	749.5	748.8
Stage 3	277.7	275.2	16.7	16.7	294.4	291.9
Stage 3 (POCI)	53.6	50.1	83.2	83.1	136.8	133.2
	10,820.6	10,754.2	7,647.0	7,646.3	18,467.6	18,400.5

The Group's main form of collateral held is property, based in the UK and the Channel Islands.

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:

Band	2020				2019			
	OSB £m	CCFS £m	Total £m	%	OSB £m	CCFS £m	Total £m	%
0% – 50%	1,740.3	419.3	2,159.6	11	1,732.6	567.8	2,300.4	12
50% – 60%	1,462.0	483.3	1,945.3	10	1,301.8	612.3	1,914.1	10
60% – 70%	2,813.4	1,109.3	3,922.7	20	2,435.7	1,588.5	4,024.2	22
70% – 80%	3,942.9	5,144.3	9,087.2	47	4,182.1	4,236.3	8,418.4	46
80% – 90%	879.1	1,033.7	1,912.8	10	946.0	641.5	1,587.5	9
90% – 100%	105.8	1.3	107.1	1	91.1	0.6	91.7	–
>100%	187.9	–	187.9	1	131.3	–	131.3	1
Total loans before provisions	11,131.4	8,191.2	19,322.6	100	10,820.6	7,647.0	18,467.6	100



46. Risk management continued

The table below shows the LTV banding for the OSB segments' two major lending streams:

OSB	2020				2019			
	BTL/SME £m	Residential £m	Total £m	%	BTL/SME £m	Residential £m	Total £m	%
Band								
0% – 50%	795.7	944.6	1,740.3	16	905.9	826.7	1,732.6	16
50% – 60%	1,228.1	233.9	1,462.0	13	1,062.8	239.0	1,301.8	12
60% – 70%	2,602.1	211.3	2,813.4	25	2,240.2	195.5	2,435.7	23
70% – 80%	3,693.4	249.5	3,942.9	35	3,993.5	188.6	4,182.1	38
80% – 90%	584.5	294.6	879.1	8	621.4	324.6	946.0	9
90% – 100%	89.4	16.4	105.8	1	45.1	46.0	91.1	1
>100%	171.4	16.5	187.9	2	114.3	17.0	131.3	1
Total loans before provisions	9,164.6	1,966.8	11,131.4	100	8,983.2	1,837.4	10,820.6	100

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

OSB	2020				
	Buy-to-Let £m	Commercial £m	Residential development £m	Funding lines £m	Total £m
Band					
0% – 50%	643.3	80.6	12.5	59.3	795.7
50% – 60%	1,040.1	84.3	64.2	39.5	1,228.1
60% – 70%	2,407.4	132.0	56.4	6.3	2,602.1
70% – 80%	3,411.7	251.3	–	30.4	3,693.4
80% – 90%	370.1	214.4	–	–	584.5
90% – 100%	54.1	35.3	–	–	89.4
>100%	117.9	24.0	–	29.5	171.4
Total loans before provisions	8,044.6	821.9	133.1	165.0	9,164.6

OSB	2019				
	Buy-to-Let £m	Commercial £m	Residential development £m	Funding lines £m	Total £m
Band					
0% – 50%	579.9	96.5	125.7	103.8	905.9
50% – 60%	894.3	119.8	5.0	43.7	1,062.8
60% – 70%	1,994.1	210.2	5.0	30.9	2,240.2
70% – 80%	3,514.5	445.7	–	33.3	3,993.5
80% – 90%	603.3	7.7	10.4	–	621.4
90% – 100%	38.9	1.4	–	4.8	45.1
>100%	102.0	6.7	–	5.6	114.3
Total loans before provisions	7,727.0	888.0	146.1	222.1	8,983.2



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46. Risk management continued

The tables below show the sub-segment LTV analysis of the OSB Residential lending stream:

	2020				2019			
	First charge £m	Second charge £m	Funding lines £m	Total £m	First charge £m	Second charge £m	Funding lines £m	Total £m
OSB								
Band								
0% – 50%	835.8	105.1	3.7	944.6	708.0	115.4	3.3	826.7
50% – 60%	167.2	64.5	2.2	233.9	158.1	77.5	3.4	239.0
60% – 70%	151.7	58.1	1.5	211.3	122.3	70.9	2.3	195.5
70% – 80%	208.1	39.9	1.5	249.5	137.0	49.5	2.1	188.6
80% – 90%	274.8	19.3	0.5	294.6	291.7	32.3	0.6	324.6
90% – 100%	12.4	3.6	0.4	16.4	40.0	5.7	0.3	46.0
>100%	10.7	4.9	0.9	16.5	9.5	7.3	0.2	17.0
Total loans before provisions	1,660.7	295.4	10.7	1,966.8	1,466.6	358.6	12.2	1,837.4

The table below shows the LTV banding for the CCFS segments' four major lending streams:

	2020					
	Buy-to-Let £m	Residential £m	Bridging £m	Second charge lending £m	Total £m	%
CCFS						
Band						
0% – 50%	92.7	242.1	50.4	34.1	419.3	5
50% – 60%	196.0	233.9	17.9	35.5	483.3	6
60% – 70%	632.9	400.2	16.8	59.4	1,109.3	14
70% – 80%	3,916.2	1,155.7	21.1	51.3	5,144.3	62
80% – 90%	600.7	410.8	–	22.2	1,033.7	13
90% – 100%	0.5	0.8	–	–	1.3	–
Total loans before provisions	5,439.0	2,443.5	106.2	202.5	8,191.2	100

	2019					
	Buy-to-Let £m	Residential £m	Bridging £m	Second charge lending £m	Total £m	%
CCFS						
Band						
0% – 50%	144.7	261.8	121.1	40.2	567.8	7
50% – 60%	283.9	253.1	29.4	45.9	612.3	8
60% – 70%	957.0	538.6	26.6	66.3	1,588.5	21
70% – 80%	3,246.6	897.7	37.5	54.5	4,236.3	56
80% – 90%	321.5	301.4	1.2	17.4	641.5	8
90% – 100%	0.2	0.4	–	–	0.6	–
Total loans before provisions	4,953.9	2,253.0	215.8	224.3	7,647.0	100



46. Risk management continued

Analysis of mortgage portfolio by arrears and collateral held

The tables below provide further information on collateral, capped at the value of each individual mortgage, over the mortgage portfolio by payment due status and IFRS 9 stage.

	2020					
	OSB		CCFS		Total	
	Loan balance £m	Capped collateral £m	Loan balance £m	Capped collateral £m	Loan balance £m	Capped collateral £m
Stage 1						
Not past due	9,322.8	9,259.7	6,744.8	6,743.2	16,067.6	16,002.9
Past due <1 month	44.0	43.7	4.7	4.7	48.7	48.4
	9,366.8	9,303.4	6,749.5	6,747.9	16,116.3	16,051.3
Stage 2						
Not past due	1,126.4	1,123.0	1,249.6	1,249.6	2,376.0	2,372.6
Past due <1 month	177.6	177.5	55.9	55.9	233.5	233.4
Past due 1 to 3 months	59.4	59.3	22.1	22.1	81.5	81.4
	1,363.4	1,359.8	1,327.6	1,327.6	2,691.0	2,687.4
Stage 3						
Not past due	130.1	100.9	15.3	15.3	145.4	116.2
Past due <1 month	16.9	16.9	4.0	4.0	20.9	20.9
Past due 1 to 3 months	56.9	56.8	9.1	9.1	66.0	65.9
Past due 3 to 6 months	51.0	51.0	9.0	9.0	60.0	60.0
Past due 6 to 12 months	33.9	33.9	3.9	3.9	37.8	37.8
Past due over 12 months	23.5	23.5	1.4	1.4	24.9	24.9
Possessions	40.3	40.3	5.4	5.4	45.7	45.7
	352.6	323.3	48.1	48.1	400.7	371.4
Stage 3 (POCI)						
Not past due	22.5	22.3	31.9	31.9	54.4	54.2
Past due <1 month	4.0	4.0	6.0	6.0	10.0	10.0
Past due 1 to 3 months	5.7	5.7	9.4	9.4	15.1	15.1
Past due 3 to 6 months	3.4	3.4	5.6	5.6	9.0	9.0
Past due 6 to 12 months	6.0	6.0	4.2	4.2	10.2	10.2
Past due over 12 months	7.0	7.0	2.4	2.4	9.4	9.4
Possessions	–	–	6.5	6.5	6.5	6.5
	48.6	48.4	66.0	66.0	114.6	114.4
Total loans before provisions	11,131.4	11,034.9	8,191.2	8,189.6	19,322.6	19,224.5



Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2020

46. Risk management continued

	2019					
	OSB		CCFS		Total	
	Loan balance £m	Capped collateral £m	Loan balance £m	Capped collateral £m	Loan balance £m	Capped collateral £m
Stage 1						
Not past due	9,964.3	9,904.5	7,236.2	7,235.7	17,200.5	17,140.2
Past due <1 month	82.6	82.6	3.8	3.8	86.4	86.4
	10,046.9	9,987.1	7,240.0	7,239.5	17,286.9	17,226.6
Stage 2						
Not past due	261.0	260.7	239.1	239.0	500.1	499.7
Past due <1 month	118.9	118.9	38.1	38.1	157.0	157.0
Past due 1 to 3 months	62.5	62.2	29.9	29.9	92.4	92.1
	442.4	441.8	307.1	307.0	749.5	748.8
Stage 3						
Not past due	71.3	71.0	4.8	4.8	76.1	75.8
Past due <1 month	36.3	36.1	1.4	1.4	37.7	37.5
Past due 1 to 3 months	28.8	28.5	6.0	6.0	34.8	34.5
Past due 3 to 6 months	45.9	45.3	4.5	4.5	50.4	49.8
Past due 6 to 12 months	27.4	27.2	–	–	27.4	27.2
Past due over 12 months	25.3	24.7	–	–	25.3	24.7
Possessions	42.7	42.4	–	–	42.7	42.4
	277.7	275.2	16.7	16.7	294.4	291.9
Stage 3 (POCI)						
Not past due	20.8	20.2	30.6	30.5	51.4	50.7
Past due <1 month	6.1	5.9	8.5	8.5	14.6	14.4
Past due 1 to 3 months	4.9	4.6	21.9	21.9	26.8	26.5
Past due 3 to 6 months	6.5	6.1	10.5	10.5	17.0	16.6
Past due 6 to 12 months	5.7	5.3	5.5	5.5	11.2	10.8
Past due over 12 months	8.3	7.2	1.2	1.2	9.5	8.4
Possessions	1.3	0.8	5.0	5.0	6.3	5.8
	53.6	50.1	83.2	83.1	136.8	133.2
Total loans before provisions	10,820.6	10,754.2	7,647.0	7,646.3	18,467.6	18,400.5



46. Risk management continued

The table below shows the analysis of mortgage portfolio by arrears for the OSB segments' two major lending streams:

OSB	2020			2019		
	BTL/SME £m	Residential £m	Total £m	BTL/SME £m	Residential £m	Total £m
Stage 1						
Not past due	7,873.4	1,449.4	9,322.8	8,514.9	1,449.4	9,964.3
Past due <1 month	20.8	23.2	44.0	48.7	33.9	82.6
	7,894.2	1,472.6	9,366.8	8,563.6	1,483.3	10,046.9
Stage 2						
Not past due	893.0	233.4	1,126.4	156.9	104.1	261.0
Past due <1 month	116.0	61.6	177.6	80.0	38.9	118.9
Past due 1 to 3 months	29.7	29.7	59.4	32.3	30.2	62.5
	1,038.7	324.7	1,363.4	269.2	173.2	442.4
Stage 3						
Not past due	98.9	31.2	130.1	39.6	31.7	71.3
Past due <1 month	9.0	7.9	16.9	22.5	13.8	36.3
Past due 1 to 3 months	36.7	20.2	56.9	9.8	19.0	28.8
Past due 3 to 6 months	26.5	24.5	51.0	17.0	28.9	45.9
Past due 6 to 12 months	15.8	18.1	33.9	9.1	18.3	27.4
Past due over 12 months	6.9	16.6	23.5	13.5	11.8	25.3
Possessions	37.7	2.6	40.3	38.7	4.0	42.7
	231.5	121.1	352.6	150.2	127.5	277.7
Stage 3 (POCI)						
Not past due	0.2	22.3	22.5	0.2	20.6	20.8
Past due <1 month	-	4.0	4.0	-	6.1	6.1
Past due 1 to 3 months	-	5.7	5.7	-	4.9	4.9
Past due 3 to 6 months	-	3.4	3.4	-	6.5	6.5
Past due 6 to 12 months	-	6.0	6.0	-	5.7	5.7
Past due over 12 months	-	7.0	7.0	-	8.3	8.3
Possessions	-	-	-	-	1.3	1.3
	0.2	48.4	48.6	0.2	53.4	53.6
Total loans before provisions	9,164.6	1,966.8	11,131.4	8,983.2	1,837.4	10,820.6



Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2020

46. Risk management continued

The tables below show the sub-segment analysis of mortgage portfolio by arrears of the OSB BTL/SME lending stream:

OSB	2020				
	Buy-to-Let £m	Commercial £m	Residential development £m	Funding lines £m	Total £m
Stage 1					
Not past due	6,847.1	756.8	133.1	136.4	7,873.4
Past due <1 month	13.4	7.4	–	–	20.8
	6,860.5	764.2	133.1	136.4	7,894.2
Stage 2					
Not past due	864.7	28.3	–	–	893.0
Past due <1 month	114.5	1.5	–	–	116.0
Past due 1 to 3 months	26.8	2.9	–	–	29.7
	1,006.0	32.7	–	–	1,038.7
Stage 3					
Not past due	54.3	16.0	–	28.6	98.9
Past due <1 month	8.5	0.5	–	–	9.0
Past due 1 to 3 months	34.7	2.0	–	–	36.7
Past due 3 to 6 months	25.4	1.1	–	–	26.5
Past due 6 to 12 months	13.8	2.0	–	–	15.8
Past due over 12 months	6.4	0.5	–	–	6.9
Possessions	35.0	2.7	–	–	37.7
	178.1	24.8	–	28.6	231.5
Stage 3 (POCI)					
Not past due	–	0.2	–	–	0.2
	–	0.2	–	–	0.2
Total loans before provisions	8,044.6	821.9	133.1	165.0	9,164.6



46. Risk management continued

	2019				Total £m
	Buy-to-Let £m	Commercial £m	Residential development £m	Funding lines £m	
OSB					
Stage 1					
Not past due	7,317.3	829.4	146.1	222.1	8,514.9
Past due <1 month	32.8	15.9	-	-	48.7
	7,350.1	845.3	146.1	222.1	8,563.6
Stage 2					
Not past due	128.6	28.3	-	-	156.9
Past due <1 month	78.5	1.5	-	-	80.0
Past due 1 to 3 months	29.2	3.1	-	-	32.3
	236.3	32.9	-	-	269.2
Stage 3					
Not past due	37.1	2.5	-	-	39.6
Past due <1 month	21.0	1.5	-	-	22.5
Past due 1 to 3 months	9.8	-	-	-	9.8
Past due 3 to 6 months	16.1	0.9	-	-	17.0
Past due 6 to 12 months	8.0	1.1	-	-	9.1
Past due over 12 months	13.1	0.4	-	-	13.5
Possessions	35.5	3.2	-	-	38.7
	140.6	9.6	-	-	150.2
Stage 3 (POCI)					
Not past due	-	0.2	-	-	0.2
	-	0.2	-	-	0.2
Total loans before provisions	7,727.0	888.0	146.1	222.1	8,983.2



Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2020

46. Risk management continued

The tables below show the sub-segment analysis of mortgage portfolio by arrears of the OSB Residential mortgages lending stream:

OSB	2020			
	First charge £m	Second charge £m	Funding lines £m	Total £m
Stage 1				
Not past due	1,226.5	212.2	10.7	1,449.4
Past due <1 month	19.4	3.8	–	23.2
	1,245.9	216.0	10.7	1,472.6
Stage 2				
Not past due	207.2	26.2	–	233.4
Past due <1 month	56.0	5.6	–	61.6
Past due 1 to 3 months	24.6	5.1	–	29.7
	287.8	36.9	–	324.7
Stage 3				
Not past due	26.4	4.8	–	31.2
Past due <1 month	6.8	1.1	–	7.9
Past due 1 to 3 months	15.8	4.4	–	20.2
Past due 3 to 6 months	19.1	5.4	–	24.5
Past due 6 to 12 months	13.1	5.0	–	18.1
Past due over 12 months	13.8	2.8	–	16.6
Possessions	2.6	–	–	2.6
	97.6	23.5	–	121.1
Stage 3 (POCI)				
Not past due	15.5	6.8	–	22.3
Past due <1 month	2.8	1.2	–	4.0
Past due 1 to 3 months	3.3	2.4	–	5.7
Past due 3 to 6 months	2.0	1.4	–	3.4
Past due 6 to 12 months	3.4	2.6	–	6.0
Past due over 12 months	2.4	4.6	–	7.0
	29.4	19.0	–	48.4
Total loans before provisions	1,660.7	295.4	10.7	1,966.8

**46. Risk management** continued

	2019			Total £m
	First charge £m	Second charge £m	Funding lines £m	
OSB				
Stage 1				
Not past due	1,164.8	272.4	12.2	1,449.4
Past due <1 month	27.7	6.2	–	33.9
	1,192.5	278.6	12.2	1,483.3
Stage 2				
Not past due	86.1	18.0	–	104.1
Past due <1 month	34.4	4.5	–	38.9
Past due 1 to 3 months	24.4	5.8	–	30.2
	144.9	28.3	–	173.2
Stage 3				
Not past due	28.1	3.6	–	31.7
Past due <1 month	11.2	2.6	–	13.8
Past due 1 to 3 months	13.8	5.2	–	19.0
Past due 3 to 6 months	20.7	8.2	–	28.9
Past due 6 to 12 months	14.5	3.8	–	18.3
Past due over 12 months	9.8	2.0	–	11.8
Possessions	3.3	0.7	–	4.0
	101.4	26.1	–	127.5
Stage 3 (POCI)				
Not past due	13.4	7.2	–	20.6
Past due <1 month	4.2	1.9	–	6.1
Past due 1 to 3 months	2.0	2.9	–	4.9
Past due 3 to 6 months	3.2	3.3	–	6.5
Past due 6 to 12 months	2.6	3.1	–	5.7
Past due over 12 months	2.3	6.0	–	8.3
Possessions	0.1	1.2	–	1.3
	27.8	25.6	–	53.4
Total loans before provisions	1,466.6	358.6	12.2	1,837.4



Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2020

46. Risk management continued

The table below shows the analysis of mortgage portfolio by arrears for the CCFS segments' four major lending streams:

CCFS	2020				
	Buy-to-Let £m	Residential £m	Bridging £m	Second charge lending £m	Total £m
Stage 1					
Not past due	4,652.5	1,846.4	72.6	173.3	6,744.8
Past due <1 month	2.1	1.9	–	0.7	4.7
	4,654.6	1,848.3	72.6	174.0	6,749.5
Stage 2					
Not past due	727.6	469.6	30.0	22.4	1,249.6
Past due <1 month	13.3	39.6	1.7	1.3	55.9
Past due 1 to 3 months	7.9	12.8	0.2	1.2	22.1
	748.8	522.0	31.9	24.9	1,327.6
Stage 3					
Not past due	6.7	7.9	0.2	0.5	15.3
Past due <1 month	1.3	2.7	–	–	4.0
Past due 1 to 3 months	1.0	7.9	–	0.2	9.1
Past due 3 to 6 months	2.3	6.3	0.3	0.1	9.0
Past due 6 to 12 months	1.0	2.7	–	0.2	3.9
Past due over 12 months	0.8	0.5	–	0.1	1.4
Possessions	4.3	1.1	–	–	5.4
	17.4	29.1	0.5	1.1	48.1
Stage 3 (POCI)					
Not past due	8.8	21.0	0.3	1.8	31.9
Past due <1 month	1.2	4.7	–	0.1	6.0
Past due 1 to 3 months	2.0	7.1	–	0.3	9.4
Past due 3 to 6 months	0.1	5.3	–	0.2	5.6
Past due 6 to 12 months	0.1	3.7	0.4	–	4.2
Past due over 12 months	0.6	1.4	0.4	–	2.4
Possessions	5.4	0.9	0.1	0.1	6.5
	18.2	44.1	1.2	2.5	66.0
Total loans before provisions	5,439.0	2,443.5	106.2	202.5	8,191.2

**46. Risk management** continued

CCFS	2019				
	Buy-to-Let £m	Residential £m	Bridging £m	Second charge lending £m	Total £m
Stage 1					
Not past due	4,767.9	2,056.4	195.5	216.4	7,236.2
Past due <1 month	0.5	1.1	–	2.2	3.8
	4,768.4	2,057.5	195.5	218.6	7,240.0
Stage 2					
Not past due	139.6	83.6	14.6	1.3	239.1
Past due <1 month	10.1	27.1	0.8	0.1	38.1
Past due 1 to 3 months	6.3	22.4	0.3	0.9	29.9
	156.0	133.1	15.7	2.3	307.1
Stage 3					
Not past due	1.1	3.2	0.2	0.3	4.8
Past due <1 month	0.5	0.9	–	–	1.4
Past due 1 to 3 months	1.6	4.4	–	–	6.0
Past due 3 to 6 months	3.2	1.2	0.1	–	4.5
	6.4	9.7	0.3	0.3	16.7
Stage 3 (POCI)					
Not past due	10.9	16.6	1.7	1.4	30.6
Past due <1 month	2.5	5.4	0.4	0.2	8.5
Past due 1 to 3 months	2.6	16.8	1.8	0.7	21.9
Past due 3 to 6 months	1.3	8.8	–	0.4	10.5
Past due 6 to 12 months	1.0	3.9	0.2	0.4	5.5
Past due over 12 months	0.9	0.3	–	–	1.2
Possessions	3.9	0.9	0.2	–	5.0
	23.1	52.7	4.3	3.1	83.2
Total loans before provisions	4,953.9	2,253.0	215.8	224.3	7,647.0

Forbearance measures undertaken

The Group has a range of options available where borrowers experience financial difficulties which impact their ability to service their financial commitments under the loan agreement. These are explained in the Principal risks and uncertainties on pages 70 to 80.



Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2020

46. Risk management continued

A summary of the forbearance measures undertaken (excluding COVID-19 related payment deferrals) during the year is shown below. The balances disclosed reflect the year end balance of the accounts where a forbearance measure was undertaken during the year.

Forbearance type	Number of	At	Number of	At
	accounts	31 December	accounts ¹	31 December
	2020	2020	2019	2019 ¹
		£m		£m
Interest-only switch	108	14.1	59	8.4
Interest rate reduction	22	2.2	35	1.6
Term extension	430	27.0	30	6.6
Payment deferral	447	38.7	87	4.1
Voluntary-assisted sale	2	0.1	26	1.0
Payment concession (reduced monthly payments)	34	1.7	73	3.6
Capitalisation of interest	2	0.1	–	–
Full or partial debt forgiveness	11	0.2	6	–
Total	1,056	84.1	316	25.3
Loan type				
First charge owner-occupier	570	54.0	85	10.5
Second charge owner-occupier	372	15.0	198	7.4
Buy-to-Let	113	14.9	32	7.4
Commercial	1	0.2	1	–
Total	1,056	84.1	316	25.3

1. CCFS forbearance is included post Combination.

As at 31 December 2020, active COVID-19 payment deferrals represented only 1.3% of the Group's loan book by value.

Geographical analysis by region

An analysis of loans by region is provided below:

Region	Group 2020				Group 2019			
	OSB £m	CCFS £m	Total £m	%	OSB £m	CCFS £m	Total £m	%
East Anglia	407.6	866.2	1,273.8	7	391.9	810.9	1,202.8	7
East Midlands	455.5	463.4	918.9	5	415.2	410.3	825.5	4
Greater London	4,851.9	2,837.4	7,689.3	40	4,738.7	2,713.7	7,452.4	41
Guernsey	35.8	–	35.8	–	45.3	–	45.3	–
Jersey	122.9	–	122.9	1	141.4	–	141.4	1
North East	140.1	208.4	348.5	2	136.7	179.5	316.2	2
North West	635.4	674.8	1,310.2	7	587.3	605.4	1,192.7	6
Northern Ireland	12.9	–	12.9	–	14.2	–	14.2	–
Scotland	47.0	214.2	261.2	1	48.5	190.9	239.4	1
South East	2,419.8	1,316.7	3,736.5	19	2,375.2	1,209.6	3,584.8	20
South West	757.0	478.5	1,235.5	6	747.5	466.0	1,213.5	7
Wales	249.2	209.9	459.1	2	239.3	202.6	441.9	2
West Midlands	744.5	529.2	1,273.7	7	702.2	496.0	1,198.2	6
Yorks and Humberside	251.8	392.5	644.3	3	237.2	362.1	599.3	3
Total loans before provisions	11,131.4	8,191.2	19,322.6	100	10,820.6	7,647.0	18,467.6	100



46. Risk management continued

Approach to measurement of credit quality

The Group categorises the credit quality of loans and advances to customers into internal risk grades based on the 12 month PD calculated at the reporting date. The PDs include a combination of internal behavioural and credit bureau characteristics. The risk grades are further grouped into the following credit quality segments:

- Excellent quality – where there is a very high likelihood the asset will be recovered in full with a negligible or very low risk of default.
- Good quality – where there is a high likelihood the asset will be recovered in full with a low risk of default.
- Satisfactory quality – where the assets demonstrate a moderate default risk.
- Lower quality – where the assets require closer monitoring and the risk of default is of greater concern.

The credit grade for the Group's investment securities and loans and advances to credit institutions is based on the external credit rating of the counterparty.

The following tables disclose the credit risk quality ratings of loans and advances to customers by IFRS 9 stage:

	Stage 1 £m	Stage 2 £m	Stage 3 £m	Stage 3 (POCI) £m	Total £m
2020					
OSB					
Excellent	4,689.6	295.4	–	–	4,985.0
Good	4,564.9	756.4	–	–	5,321.3
Satisfactory	106.7	242.8	–	–	349.5
Lower	5.6	68.8	–	–	74.4
Impaired	–	–	352.6	–	352.6
POCI	–	–	–	48.6	48.6
CCFS					
Excellent	4,352.8	398.8	–	–	4,751.6
Good	2,338.8	667.2	–	–	3,006.0
Satisfactory	55.3	140.2	–	–	195.5
Lower	2.6	121.4	–	–	124.0
Impaired	–	–	48.1	–	48.1
POCI	–	–	–	66.0	66.0
	16,116.3	2,691.0	400.7	114.6	19,322.6
2019					
OSB¹					
Excellent	5,033.6	11.0	–	–	5,044.6
Good	4,859.3	200.5	–	–	5,059.8
Satisfactory	147.3	154.8	–	–	302.1
Lower	6.7	76.1	–	–	82.8
Impaired	–	–	277.7	–	277.7
POCI	–	–	–	53.6	53.6
CCFS					
Excellent	3,632.7	20.5	–	–	3,653.2
Good	3,359.7	93.7	–	–	3,453.4
Satisfactory	222.8	39.1	–	–	261.9
Lower	24.8	153.8	–	–	178.6
Impaired	–	–	16.7	–	16.7
POCI	–	–	–	83.2	83.2
	17,286.9	749.5	294.4	136.8	18,467.6

1. The Group has restated the prior year comparatives for OSB to include finance lease assets.



Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2020

46. Risk management continued

The tables below show the Group's other financial assets by credit risk rating grade:

Group 2020	Excellent £m	Good £m	Satisfactory £m	Total £m
Investment securities	471.2	–	–	471.2
Loans and advances to credit institutions	2,432.9	233.4	9.9	2,676.2
Derivative assets	6.5	5.8	–	12.3
	2,910.6	239.2	9.9	3,159.7

Group 2019	Excellent £m	Good £m	Satisfactory £m	Total £m
Investment securities	635.3	–	–	635.3
Loans and advances to credit institutions	2,047.8	146.1	10.7	2,204.6
Derivative assets	11.6	9.5	–	21.1
	2,694.7	155.6	10.7	2,861.0

Credit risk – loans and advances to credit institutions and investment securities

The Group holds treasury instruments in order to meet liquidity requirements and for general business purposes. The credit risk arising from these investments is closely monitored and managed by the Group's Treasury function. In managing these assets, Group Treasury operates within guidelines laid down in the Treasury Policy approved by ALCO and performance is monitored and reported to ALCO monthly, including through the use of an internally developed rating model based on counterparty credit default swap spreads.

The Group has limited exposure to emerging markets (Indian operations) and non-investment grade debt. ALCO is responsible for approving treasury counterparties.

During the year, the average balance of cash in hand, loans and advances to credit institutions and investment securities on a monthly basis was £3,196.0m (2019: £2,016.2m).

The tables below show the industry sector of the Group's loans and advances to credit institutions and investment securities:

	2020		2019	
	£m	%	£m	%
BoE ¹	2,308.8	73	1,957.9	69
Other banks	367.4	12	246.7	9
Central government	–	–	149.8	5
Securitisation	471.2	15	–	–
Supranationals	–	–	485.5	17
Total	3,147.4	100	2,839.9	100

1. Balances with the BoE include £52.3m (2019: £41.7m) held in the cash ratio deposit.

The tables below show the geographical exposure of the Group's loans and advances to credit institutions and investment securities:

	2020		2019	
	£m	%	£m	%
United Kingdom	3,137.5	100	2,829.2	100
India	9.9	–	10.7	–
Total	3,147.4	100	2,839.9	100

The Group monitors exposure concentrations against a variety of criteria, including asset class, sector and geography. To avoid refinancing risks associated with any one counterparty, sector or geographical region, the Board has set appropriate limits.



46. Risk management continued

Liquidity risk

Liquidity risk is the risk of having insufficient liquid assets to fulfil obligations as they become due or the cost of raising liquid funds becoming too expensive.

The Group's approach to managing liquidity risk is to maintain sufficient liquid resources to cover cash flow imbalances and fluctuations in funding in order to retain full public confidence in the solvency of the Group and to enable the Group to meet its financial obligations as they fall due. This is achieved through maintaining a prudent level of liquid assets and control of the growth of the business. The Group has established a call account with the BoE and has access to its contingent liquidity facilities.

Liquidity management is the responsibility of ALCO, with day-to-day management delegated to Treasury as detailed in the Treasury Policy. ALCO is responsible for setting limits over the level and maturity profile of wholesale funding and for monitoring the composition of the Group financial position. For each material class of financial liability a contractual maturity analysis is provided below.

The Group also monitors a range of triggers, defined in the contingency funding plan and recovery and resolution plan, which are designed to capture liquidity stresses in advance in order to allow sufficient time for management action to take effect. These are monitored daily by the Risk team, with breaches immediately reported to the CRO, CEO, CFO and the Group Treasurer.

The tables below provide a contractual maturity analysis of the Group's financial assets and liabilities:

2020	Carrying amount £m	On demand £m	Less than 3 months £m	3 – 12 months £m	1 – 5 years £m	More than 5 years £m
Financial liability by type						
Amounts owed to retail depositors	16,603.1	3,810.7	2,733.5	6,517.5	3,541.4	–
Amounts owed to credit institutions	3,570.2	0.4	85.0	1,035.3	2,449.5	–
Amounts owed to other customers	72.9	26.9	7.5	38.5	–	–
Derivative liabilities	163.6	–	0.2	4.5	153.9	5.0
Debt securities in issue	421.9	–	–	–	421.9	–
Lease liabilities	11.7	–	0.2	0.7	3.6	7.2
Subordinated liabilities	10.5	–	0.2	0.1	10.2	–
Perpetual Subordinated Bonds	37.6	–	0.6	–	–	37.0
Total liabilities	20,891.5	3,838.0	2,827.2	7,596.6	6,580.5	49.2
Financial asset by type						
Cash in hand	0.5	0.5	–	–	–	–
Loans and advances to credit institutions	2,676.2	2,512.8	111.1	18.3	–	34.0
Investment securities	471.2	–	0.3	–	470.9	–
Loans and advances to customers	19,230.7	4.1	316.7	266.4	1,239.7	17,403.8
Derivative assets	12.3	–	1.3	3.7	7.1	0.2
Total assets	22,390.9	2,517.4	429.4	288.4	1,717.7	17,438.0
Cumulative liquidity gap		(1,320.6)	(3,718.4)	(11,026.6)	(15,889.4)	1,499.4



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46. Risk management continued

2019	Carrying amount £m	On demand £m	Less than 3 months £m	3 – 12 months £m	1 – 5 years £m	More than 5 years £m
Financial liability by type						
Amounts owed to retail depositors	16,255.0	4,050.7	2,411.9	6,579.3	3,213.1	–
Amounts owed to credit institutions	3,068.8	10.2	232.0	193.5	2,633.1	–
Amounts owed to other customers	29.7	3.7	2.8	23.1	0.1	–
Derivative liabilities	92.8	–	–	2.3	83.4	7.1
Debt securities in issue	296.3	–	–	40.1	256.2	–
Lease liabilities	13.3	–	0.3	1.0	3.8	8.2
Subordinated liabilities	10.6	–	0.2	0.1	10.3	–
Perpetual Subordinated Bonds	37.6	–	0.6	–	–	37.0
Total liabilities	19,804.1	4,064.6	2,647.8	6,839.4	6,200.0	52.3
Financial asset by type						
Cash in hand	0.4	0.4	–	–	–	–
Loans and advances to credit institutions	2,204.6	2,077.1	85.8	–	–	41.7
Investment securities	635.3	–	49.9	116.4	469.0	–
Loans and advances to customers	18,446.8	4.5	290.7	524.1	1,174.8	16,452.7
Derivative assets	21.1	–	0.3	3.0	16.0	1.8
Total assets	21,308.2	2,082.0	426.7	643.5	1,659.8	16,496.2
Cumulative liquidity gap		(1,982.6)	(4,203.7)	(10,399.6)	(14,939.8)	1,504.1

Liquidity risk – contractual cash flows

The following tables provide an analysis of the Group's gross contractual cash flows, derived using interest rates and contractual maturities at the reporting date and excluding impacts of early payments or non-payments:

2020	Carrying amount £m	Gross inflow/ outflow £m	Up to 3 months £m	3 – 12 months £m	1 – 5 years £m	More than 5 years £m
Financial liability by type						
Amounts owed to retail depositors	16,603.1	16,644.9	7,302.6	3,610.5	4,121.0	1,610.8
Amounts owed to credit institutions and other customers	3,643.1	3,658.8	113.4	1,048.9	826.6	1,669.9
Derivative liabilities	163.6	157.7	11.0	41.4	103.8	1.5
Debt securities in issue	421.9	426.4	17.3	52.0	67.3	289.8
Lease liabilities	11.7	13.2	0.5	1.2	6.4	5.1
Subordinated liabilities	10.5	13.1	0.4	0.5	12.2	–
Perpetual Subordinated Bonds	37.6	39.8	0.7	0.3	1.8	37.0
Total liabilities	20,891.5	20,953.9	7,445.9	4,754.8	5,139.1	3,614.1
Off-balance sheet loan commitments	979.5	979.5	979.5	–	–	–
Financial asset by type						
Cash in hand	0.5	0.5	0.5	–	–	–
Loans and advances to credit institutions	2,676.2	2,676.2	2,623.9	18.3	–	34.0
Investment securities	471.2	494.9	1.2	4.0	483.8	5.9
Loans and advances to customers	19,230.7	36,156.7	373.4	1,132.4	4,960.5	29,690.4
Derivative assets	12.3	12.1	3.2	4.6	4.3	–
Total assets	22,390.9	39,340.4	3,002.2	1,159.3	5,448.6	29,730.3



46. Risk management continued

2019	Carrying amount £m	Gross inflow/ outflow £m	Up to 3 months £m	3 – 12 months £m	1 – 5 years £m	More than 5 years £m
Financial liability by type						
Amounts owed to retail depositors	16,255.0	16,407.3	5,532.0	4,309.7	4,911.8	1,653.8
Amounts owed to credit institutions and other customers	3,098.5	3,133.3	255.1	229.5	2,648.7	–
Derivative liabilities	92.8	91.4	5.6	20.7	61.4	3.7
Debt securities in issue	296.3	315.3	14.4	82.9	218.0	–
Lease liabilities	13.3	22.4	0.7	1.4	17.1	3.2
Subordinated liabilities	10.6	14.2	0.4	0.5	13.3	–
Perpetual Subordinated Bonds	37.6	45.5	0.4	1.3	6.8	37.0
Total liabilities	19,804.1	20,029.4	5,808.6	4,646.0	7,877.1	1,697.7
Off-balance sheet loan commitments	1,210.9	1,210.9	1,210.9	–	–	–
Financial asset by type						
Cash in hand	0.4	0.4	0.4	–	–	–
Loans and advances to credit institutions	2,204.6	2,204.6	2,162.9	–	–	41.7
Investment securities	635.3	672.4	52.1	123.2	497.1	–
Loans and advances to customers	18,446.8	37,024.4	371.6	1,423.6	5,032.4	30,196.8
Derivative assets	21.1	23.4	2.4	5.7	15.1	0.2
Total assets	21,308.2	39,925.2	2,589.4	1,552.5	5,544.6	30,238.7

The actual repayment profile of retail deposits may differ from the analysis above due to the option of early withdrawal with a penalty.

Perpetual Subordinated Bonds have been shown to the next interest rate reset date.

The actual repayment profile of loans and advances to customers may differ from the analysis above since many mortgage loans are repaid prior to the contractual end date.

Liquidity risk – asset encumbrance

Asset encumbrance levels are monitored by ALCO. The following tables provide an analysis of the Group's encumbered and unencumbered assets:

	2020				
	Encumbered		Unencumbered		Total £m
	Pledged as collateral £m	Other ¹ £m	Available as collateral £m	Other ² £m	
Cash in hand	–	–	0.5	–	0.5
Loans and advances to credit institutions	211.1	95.0	2,256.5	113.6	2,676.2
Investment securities	161.0	–	310.2	–	471.2
Loans and advances to customers	5,638.6	–	2,752.0	10,840.1	19,230.7
Derivative assets	–	–	–	12.3	12.3
Non-financial assets	–	–	–	263.6	263.6
	6,010.7	95.0	5,319.2	11,229.6	22,654.5



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For the year ended 31 December 2020

46. Risk management continued

	2019				Total £m
	Encumbered		Unencumbered		
	Pledged as collateral £m	Other ¹ £m	Available as collateral £m	Other ² £m	
Cash in hand	–	–	0.4	–	0.4
Loans and advances to credit institutions	110.4	41.7	1,916.2	136.3	2,204.6
Investment securities	173.0	–	462.3	–	635.3
Loans and advances to customers	4,922.4	40.4	1,939.6	11,544.4	18,446.8
Derivative assets	–	–	–	21.1	21.1
Non-financial assets	–	–	–	108.9	108.9
	5,205.8	82.1	4,318.5	11,810.7	21,417.1

1. Represents assets that are not pledged but that the Group believes it is restricted from using to secure funding for legal or other reasons.

2. Represents assets that are not restricted for use as collateral, but the Group treats as available as collateral once they are readily available to secure funding in the normal course of business.

Liquidity risk – liquidity reserves

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

	2020 £m	2019 £m
Unencumbered balances with central banks	2,256.5	1,916.2
Unencumbered cash and balances with other banks	113.6	136.3
Other cash and cash equivalents	0.5	0.4
Unencumbered investment securities	310.2	462.3
	2,680.8	2,515.2

Market risk

Market risk is the risk of an adverse change in the Group's income or the Group's net worth arising from movement in interest rates, exchange rates or other market prices. Market risk exists, to some extent, in all the Group's businesses. The Group recognises that the effective management of market risk is essential to the maintenance of stable earnings and preservation of shareholder value.

Interest rate risk

The primary market risk faced by the Group is interest rate risk. Interest rate risk is the risk of loss from adverse movement in the overall level of interest rates. It arises from mismatches in the timing of repricing of assets and liabilities, both on and off-balance sheet. The Group does not run a trading book or take speculative interest rate positions and therefore all interest rate risk resides in the banking book (interest rate risk in the banking book (IRRBB)). IRRBB is most prevalent in mortgage lending where fixed rate mortgages are not funded by fixed rate deposits of the same duration, or where the fixed rate risk is not hedged by a fully matching interest rate derivative. Exposure is mitigated on a continuous basis through the use of derivatives and reserve allocations.

Currently interest rate risk is managed separately for OSB and CCFS due to the use of different treasury management and asset and liability management (ALM) systems. However, the methodology applied to the setting of risk appetites was aligned across the Group in 2020. Both Banks apply an economic value at risk approach as well as an earnings at risk approach for interest rate risk and basis risk. The interest rate sensitivity is impacted by behavioural assumptions used by the Group; the most significant of which are prepayments and reserve allocations. Expected prepayments are modelled based on historical analysis and current market rates. The reserve allocation strategy is approved by ALCO and set to reflect the current balance sheet and future plans.

Economic value at risk is measured using the impact of six different internally derived interest rate scenarios. The internal scenarios are defined by ALCO and are based on three 'shapes' of curve movement (shift, twist and flex). Historical data is used to calibrate the severity of the scenarios to the Group's risk appetite. The Board has set limits on interest rate risk exposure of 2.25% and 1% of CET1 for OSB and CCFS, respectively. The table below shows the maximum decreases to net interest income under these scenarios after taking into account the derivatives:



46. Risk management continued

	2020 £m	2019 £m
OSB	5.6	4.3
CCFS	0.7	3.7
Group	6.3	8.0

Exposure for earnings at risk is measured by the impact of a +/-50bps parallel shift in interest rates on the expected profitability of the Group in the next 12 months. The risk appetite limit is 2% of full year net interest income (NII). The table below shows the maximum decreases after taking into account the derivatives:

	2020 £m	2019 £m
OSB ¹	(0.1)	2.5
CCFS	2.2	0.6
Group	2.1	3.1

1. Due to product floors earnings increases in both the +50bps and -50bps scenarios.

The Group is also exposed to basis risk. Basis risk is the risk of loss from an adverse divergence in interest rates. It arises where assets and liabilities reprice from different variable rate indices. These indices may be market rates (e.g. bank base rate, LIBOR or SONIA) or administered (e.g. the Group's SVR, other discretionary variable rates, or that received on call accounts with other banks).

The Group measures basis risk using the impact of five scenarios on net interest income over a one-year period including movements such as diverging base, LIBOR and SONIA rates. Historical data is used to calibrate the severity of the scenarios to the Group's risk appetite. The Board has set a limit on basis risk exposure of 4% of full year net interest income. The table below shows the maximum decreases to net interest income at 31 December 2020 and 2019:

	2020 £m	2019 £m
OSB	5.4	9.3
CCFS	8.0	9.7
Group	13.4	19.0

Foreign exchange rate risk

The Group has limited exposure to foreign exchange risk in respect of its Indian operations. A 5% increase in exchange rates would result in a £0.4m (2019: £0.4m) effect in profit or loss and £0.5m (2019: £0.4m) in equity.

Structured entities

The structured entities consolidated within the Group at 31 December 2020 were Canterbury Finance No.2 plc, Canterbury Finance No.3 plc and CMF 2020-1 plc. These entities hold legal title to a pool of mortgages which are used as a security for issued debt. The transfer of mortgages fails derecognition criteria because the Group retained the subordinated notes and residual certificates issued and as such did not transfer substantially the risks and rewards of ownership of the securitised mortgages. Therefore, the Group is exposed to credit, interest rate and other risks on the securitised mortgages.

Cash flows generated from the structured entities are ring-fenced and are used to pay interest and principal of the issued debt securities in a waterfall order according to the seniority of the bonds. The structured entities are self-funded and the Group is not contractually or constructively obliged to provide further liquidity or financial support.

The structured entities consolidated within the Group at 31 December 2019 were Canterbury Finance No.1 plc and Precise Mortgage Funding 2015-1 plc.

Unconsolidated structured entities

Structured entities, which were sponsored by the Group include Precise Mortgage Funding 2015-2B plc, Precise Mortgage Funding 2017-1B plc, Charter Mortgage Funding 2017-1 plc, Precise Mortgage Funding 2018-1B plc, Charter Mortgage Funding 2018-1 plc, Precise Mortgage Funding 2019-1B plc, Canterbury Finance No.1 plc and Precise Mortgage Funding 2020-1B plc.



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For the year ended 31 December 2020

46. Risk management continued

These structured entities are not consolidated by the Group, as the Group does not control the entities and is not exposed to the risks and rewards of ownership from the securitised mortgages. The Group has no contractual arrangements with the unconsolidated structured entities other than the investments disclosed in note 20 and servicing the structured entities' mortgage portfolios. The Group has not provided any support to the unconsolidated structured entities listed and has no obligation or intention to do so.

During 2020 the Group received £5.0m interest income (2019: £2.7m) and £4.6m servicing income (2019: £1.1m) from unconsolidated structured entities.

47. Financial instruments and fair values

i. Financial assets and financial liabilities

The following tables summarise the classification and carrying value of the Group's financial assets and financial liabilities:

	Note	2020			Total carrying amount £m
		Fair value through profit or loss £m	FVOCI £m	Amortised cost £m	
Assets					
Cash in hand		–	–	0.5	0.5
Loans and advances to credit institutions	19	–	–	2,676.2	2,676.2
Investment securities	20	–	285.0	186.2	471.2
Loans and advances to customers	21	19.1	–	19,211.6	19,230.7
Derivative assets	26	12.3	–	–	12.3
		31.4	285.0	22,074.5	22,390.9
Liabilities					
Amounts owed to retail depositors	34	–	–	16,603.1	16,603.1
Amounts owed to credit institutions	33	–	–	3,570.2	3,570.2
Amounts owed to other customers	35	–	–	72.9	72.9
Debt securities in issue	36	–	–	421.9	421.9
Derivative liabilities	26	163.6	–	–	163.6
Subordinated liabilities	40	–	–	10.5	10.5
Perpetual Subordinated Bonds	41	–	–	37.6	37.6
		163.6	–	20,716.2	20,879.8

	Note	2019			Total carrying amount £m
		Fair value through profit or loss £m	FVOCI £m	Amortised cost £m	
Assets					
Cash in hand		–	–	0.4	0.4
Loans and advances to credit institutions	19	–	–	2,204.6	2,204.6
Investment securities	20	–	508.7	126.6	635.3
Loans and advances to customers	21	22.1	–	18,424.7	18,446.8
Derivative assets	26	21.1	–	–	21.1
		43.2	508.7	20,756.3	21,308.2
Liabilities					
Amounts owed to retail depositors	34	–	–	16,255.0	16,255.0
Amounts owed to credit institutions	33	–	–	3,068.8	3,068.8
Amounts owed to other customers	35	–	–	29.7	29.7
Debt securities in issue	36	–	–	296.3	296.3
Derivative liabilities	26	92.8	–	–	92.8
Subordinated liabilities	40	–	–	10.6	10.6
Perpetual Subordinated Bonds	41	–	–	37.6	37.6
		92.8	–	19,698.0	19,790.8

The Group has no financial assets nor financial liabilities classified as held for trading.

**47. Financial instruments and fair values** continued**ii. Fair values**

The following tables summarise the carrying value and estimated fair value of financial instruments not measured at fair value in the Statement of Financial Position:

	2020		2019	
	Carrying value £m	Estimated fair value £m	Carrying value £m	Estimated fair value £m
Assets				
Cash in hand	0.5	0.5	0.4	0.4
Loans and advances to credit institutions	2,676.2	2,676.2	2,204.6	2,204.6
Investment securities	186.2	186.6	126.6	126.6
Loans and advances to customers	19,211.6	19,352.0	18,424.7	18,654.2
	22,074.5	22,215.3	20,756.3	20,985.8
Liabilities				
Amounts owed to retail depositors	16,603.1	16,666.1	16,255.0	16,259.7
Amounts owed to credit institutions	3,570.2	3,570.2	3,068.8	3,068.8
Amounts owed to other customers	72.9	72.9	29.7	29.7
Debt securities in issue	421.9	421.9	296.3	296.3
Subordinated liabilities	10.5	10.7	10.6	10.7
Perpetual Subordinated Bonds	37.6	32.3	37.6	33.2
	20,716.2	20,774.1	19,698.0	19,698.4

The fair values in these tables are estimated using the valuation techniques below. The estimated fair value is stated as at 31 December and may be significantly different from the amounts which will actually be paid on the maturity or settlement dates of each financial instrument.

Cash in hand

This represents physical cash across the Group's branch network where fair value is considered to be equal to carrying value.

Loans and advances to credit institutions

This mainly represents the Group's working capital current accounts and call accounts with central governments and other banks with an original maturity of less than three months. Fair value is not considered to be materially different to carrying value.

Loans and advances to customers

This mainly represents secured mortgage lending to customers. The fair value of fixed rate mortgages has been estimated by discounting future cash flows at current market rates of interest. Future cash flows include the impact of expected credit losses. The interest rate on variable rate mortgages is considered to be equal to current market product rates and as such fair value is estimated to be equal to carrying value.

Amounts owed to retail depositors

The fair value of fixed rate retail deposits has been estimated by discounting future cash flows at current market rates of interest. Retail deposits at variable rates and deposits payable on demand are considered to be at current market rates and as such fair value is estimated to be equal to carrying value.

Amounts owed to credit institutions

This mainly represents amounts drawn down under the BoE TFS, TFSME and ILTR, warehouse funding and commercial repos. Fair value is considered to be equal to carrying value.

Amounts owed to other customers

This represents fixed rate saving products to corporations and local authorities with original maturities greater than three months. The fair value is estimated by discounting future cash flows at current market rates of interest.



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47. Financial instruments and fair values continued

Debt securities in issue

While the Group's debt securities in issue are listed, the quoted prices for an individual note may not be indicative of the fair value of the issue as a whole, due to the specialised nature of the market in such instruments and the limited number of investors participating in it. Fair value is not considered to be materially different to carrying value.

Subordinated liabilities and Perpetual Subordinated Bonds

The fair value of subordinated liabilities is estimated by using quoted market prices of similar instruments at the reporting date. The PSBs are listed on the London Stock Exchange with fair value being the quoted market price at the reporting date.

iii. Fair value classification

The following tables provide an analysis of financial assets and financial liabilities measured at fair value in the Statement of Financial Position grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

	Carrying amount £m	Principal amount £m	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
2020						
Financial assets						
Investment securities	285.0	284.7	–	285.0	–	285.0
Loans and advances to customers	19.1	21.8	–	–	19.1	19.1
Derivative assets	12.3	8,687.8	–	12.3	–	12.3
	316.4	8,994.3	–	297.3	19.1	316.4
Financial liabilities						
Derivative liabilities	163.6	10,392.4	–	163.6	–	163.6
2019						
Financial assets						
Investment securities	508.7	509.5	149.8	358.9	–	508.7
Loans and advances to customers	22.1	24.8	–	–	22.1	22.1
Derivative assets	21.1	7,795.4	–	21.0	0.1	21.1
	551.9	8,329.7	149.8	379.9	22.2	551.9
Financial liabilities						
Derivative liabilities	92.8	9,982.4	–	92.8	–	92.8

Level 1: Fair values that are based entirely on quoted market prices (unadjusted) in an actively traded market for identical assets and liabilities that the Group has the ability to access. Valuation adjustments and block discounts are not applied to Level 1 instruments. Since valuations are based on readily available observable market prices, this makes them most reliable, reduces the need for management judgement and estimation and also reduces the uncertainty associated with determining fair values.

Level 2: Fair values that are based on one or more quoted prices in markets that are not active or for which all significant inputs are taken from directly or indirectly observable market data. These include valuation models used to calculate the present value of expected future cash flows and may be employed either when no active market exists or when there are no quoted prices available for similar instruments in active markets.

Level 3: Fair values for which any one or more significant input is not based on observable market data and the unobservable inputs have a significant effect on the instrument's fair value. Valuation models that employ significant unobservable inputs require a higher degree of management judgement and estimation in determining the fair value. Management judgement and estimation are usually required for the selection of the appropriate valuation model to be used, determination of expected future cash flows on the financial instruments being valued, determination of the probability of counterparty default and prepayments, determination of expected volatilities and correlations and the selection of appropriate discount rates.



47. Financial instruments and fair values continued

The following table provides an analysis of financial assets and financial liabilities not measured at fair value in the Statement of Financial Position grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

2020	Carrying amount £m	Principal amount £m	Estimated fair value			Total £m
			Level 1 £m	Level 2 £m	Level 3 £m	
Financial assets						
Cash in hand	0.5	0.5	–	0.5	–	0.5
Loans and advances to credit institutions	2,676.2	2,676.1	–	2,676.2	–	2,676.2
Investment securities	186.2	186.2	–	186.6	–	186.6
Loans and advances to customers	19,211.6	19,200.1	–	3,314.5	16,037.5	19,352.0
	22,074.5	22,062.9	–	6,177.8	16,037.5	22,215.3
Financial liabilities						
Amounts owed to retail depositors	16,603.1	16,507.3	–	5,546.1	11,120.0	16,666.1
Amounts owed to credit institutions	3,570.2	3,569.3	–	3,570.2	–	3,570.2
Amounts owed to other customers	72.9	72.7	–	–	72.9	72.9
Debt securities in issue	421.9	421.8	–	421.9	–	421.9
Subordinated liabilities	10.5	10.3	–	–	10.7	10.7
Perpetual Subordinated Bonds	37.6	37.0	32.3	–	–	32.3
	20,716.2	20,618.4	32.3	9,538.2	11,203.6	20,774.1
2019	Carrying amount £m	Principal amount £m	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial assets						
Cash in hand	0.4	0.4	–	0.4	–	0.4
Loans and advances to credit institutions	2,204.6	2,204.3	–	2,204.6	–	2,204.6
Investment securities	126.6	126.4	126.6	–	–	126.6
Loans and advances to customers	18,424.7	18,281.3	–	3,409.1	15,245.1	18,654.2
	20,756.3	20,612.4	126.6	5,614.1	15,245.1	20,985.8
Financial liabilities						
Amounts owed to retail depositors	16,255.0	16,133.5	–	3,817.8	12,441.9	16,259.7
Amounts owed to credit institutions	3,068.8	3,063.3	–	3,068.8	–	3,068.8
Amounts owed to other customers	29.7	29.5	–	–	29.7	29.7
Debt securities in issue	296.3	295.5	–	296.3	–	296.3
Subordinated liabilities	10.6	10.4	–	–	10.7	10.7
Perpetual Subordinated Bonds	37.6	37.0	33.2	–	–	33.2
	19,698.0	19,569.2	33.2	7,182.9	12,482.3	19,698.4

48. Pension scheme

Defined contribution scheme

The amount charged to profit or loss in respect of contributions to the Group's defined contribution and stakeholder pension arrangements is the contribution payable in the period. The total pension cost in the year amounted to £4.3m (2019: £3.0m).

49. Operating segments

The Group segments its lending business and operates under two segments in line with internal reporting to the Board:

- OSB
- CCFS

The Group separately discloses the impact of Combination accounting but does not consider this a business segment.



Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2020

49. Operating segments continued

The financial position and results of operations of the above segments are summarised below:

2020	OSB £m	CCFS £m	Combination £m	Total £m
Balances at the reporting date				
Gross loans and advances to customers	11,131.4	8,001.2	209.1	19,341.7
Expected credit losses	(83.6)	(28.2)	0.8	(111.0)
Loans and advances to customers	11,047.8	7,973.0	209.9	19,230.7
Capital expenditure	5.3	2.4	–	7.7
Depreciation and amortisation	7.1	2.4	4.3	13.8
Profit or loss for the year				
Net interest income/(expense)	332.8	201.2	(61.8)	472.2
Other income	18.8	17.4	0.2	36.4
Total income/(expense)	351.6	218.6	(61.6)	508.6
Administrative expenses	(95.2)	(57.5)	(4.3)	(157.0)
Provisions	–	(0.1)	–	(0.1)
Impairment of financial assets	(50.7)	(20.5)	0.2	(71.0)
Impairment of intangible assets	–	–	(7.0)	(7.0)
Integration costs	(7.5)	(2.3)	–	(9.8)
Exceptional items	(3.3)	–	–	(3.3)
Profit/(loss) before taxation	194.9	138.2	(72.7)	260.4
Taxation	(46.9)	(32.0)	14.8	(64.1)
Profit/(loss) for the year	148.0	106.2	(57.9)	196.3
2019	OSB £m	CCFS £m	Combination £m	Total £m
Balances at the reporting date				
Gross loans and advances to customers	10,820.6	7,374.4	294.7	18,489.7
Expected credit losses	(35.6)	(8.0)	0.7	(42.9)
Loans and advances to customers	10,785.0	7,366.4	295.4	18,446.8
Capital expenditure	10.2	1.1	–	11.3
Depreciation and amortisation	6.3	1.3	0.6	8.2
Profit or loss for the year				
Net interest income/(expense)	316.2	50.1	(21.6)	344.7
Other (expense)/income	(12.9)	8.3	3.3	(1.3)
Total income/(expense)	303.3	58.4	(18.3)	343.4
Administrative expenses	(92.3)	(15.1)	(1.3)	(108.7)
Provisions	0.1	(0.1)	–	–
Impairment of financial assets	(11.9)	(0.1)	(3.6)	(15.6)
Gain on Combination with CCFS	–	–	10.8	10.8
Integration costs	(2.5)	(2.7)	–	(5.2)
Exceptional items	(15.6)	–	–	(15.6)
Profit/(loss) before taxation	181.1	40.4	(12.4)	209.1
Taxation	(47.1)	(10.2)	7.0	(50.3)
Profit/(loss) for the year	134.0	30.2	(5.4)	158.8



50. Country by country reporting

Country by Country Reporting (CBCR) was introduced through Article 89 of CRD IV, aimed at the banking and capital markets industry.

The name, nature of activities and geographic location of the Group's companies are presented below:

Jurisdiction	Country	Name	Activities
UK ¹	England	OSB GROUP PLC	Commercial banking
		OneSavings Bank plc	
		5D Finance Limited	
		Broadlands Finance Limited	
		Charter Court Financial Services Group Plc	
		Charter Court Financial Services Limited	
		Charter Mortgages Limited	
		Easioption Limited	
		Exact Mortgage Experts Limited	
		Guernsey Home Loans Limited	
		Heritable Development Finance Limited	
		Inter Bay Financial I Limited	
		Inter Bay Financial II Limited	
		InterBay Asset Finance Limited	
		Interbay Funding, Ltd	
		Interbay Group Holdings Limited	
		Interbay Holdings Ltd	
		Interbay ML, Ltd	
	Jersey Home Loans Limited		
	Prestige Finance Limited		
Reliance Property Loans Limited			
Rochester Mortgages Limited			
Guernsey	Guernsey Home Loans Limited		
Jersey	Jersey Home Loans Limited		

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

Jurisdiction	Country	Name	Activities
UK	England	Canterbury Finance No. 2 plc	Special purpose vehicle
		Canterbury Finance No. 3 plc	
		CMF 2020-1 plc	
		CML Warehouse Number 1 Limited	
		CML Warehouse Number 2 Limited	
		Precise Mortgage Funding 2014-1 plc	
		Precise Mortgage Funding 2014-2 plc	
		Precise Mortgage Funding 2015-1 plc	
Precise Mortgage Funding 2015-3R plc			
India	India	OSB India Private Limited	Back office processing



Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2020

50. Country by country reporting continued

Other disclosures required by the CBCR directive are provided below:

2020	UK	India	Consolidation ²	Total
Average number of employees	1,330	486	–	1,816
Turnover ¹ , £m	508.3	9.4	(9.1)	508.6
Profit/(loss) before tax, £m	260.1	1.3	(1.0)	260.4
Corporation tax paid, £m	128.6	0.2	–	128.8

2019	UK	India	Consolidation ²	Total
Average number of employees	1,335	454	–	1,789
Turnover ¹ , £m	343.1	8.9	(8.6)	343.4
Profit/(loss) before tax, £m	208.8	1.6	(1.3)	209.1
Corporation tax paid, £m	52.6	0.4	–	53.0

1. Turnover represents total income before impairment losses, regulatory provisions and operating costs, but after net interest, net commissions and fees, gains and losses on financial instruments and external servicing fees.

2. Relates to a management fee from Indian subsidiaries to OneSavings Bank plc for providing back office processing.

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

2020	UK £m	India £m	Total £m
Tax charge	63.8	0.3	64.1
Effects of:			
Other timing differences	15.7	(0.1)	15.6
Tax outside of profit or loss	0.2	–	0.2
Prior year tax paid during the year	41.8	–	41.8
Tax in relation to future periods prepaid	7.1	–	7.1
Tax paid	128.6	0.2	128.8

2019	UK £m	India £m	Total £m
Tax charge	49.8	0.5	50.3
Effects of:			
Other timing differences	4.3	(0.1)	4.2
Tax outside of profit or loss	(0.9)	–	(0.9)
Prior year tax paid during the year	22.1	–	22.1
Current year tax to be paid after the reporting date	(22.7)	–	(22.7)
Tax paid	52.6	0.4	53.0



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

	2020 £m	2019 £m
Adjustments for non-cash items:		
Depreciation and amortisation	13.8	8.2
Interest on investment securities	(7.5)	–
Interest on subordinated liabilities	0.8	0.7
Interest on Perpetual Subordinated Bonds	1.7	1.8
Interest on securitised debt	3.4	0.8
Interest on financing debt	10.9	2.4
Impairment charge on loans	71.0	15.6
Impairment on intangible assets acquired on Combination	7.0	–
(Gains)/losses on sale of financial instruments	(20.0)	0.1
Provisions	0.1	–
Interest on lease liabilities	0.3	0.1
Fair value (gains)/losses on financial instruments	(7.4)	3.3
Share-based payments	5.1	4.0
Gain on Combination with CCFS	–	(10.8)
Total adjustments for non-cash items	79.2	26.2
Changes in operating assets and liabilities:		
Increase in loans and advances to credit institutions	(154.0)	(36.8)
Increase in loans to customers	(1,705.0)	(2,230.8)
Increase in retail deposits	348.1	1,637.8
Net decrease/(increase) in other assets	1.3	(4.8)
Net decrease in derivatives and hedged items	(64.3)	(20.1)
Net increase/(decrease) in other customers deposits	43.2	(19.2)
Net decrease in other liabilities	(6.5)	(37.3)
Exchange differences on working capital	–	(0.6)
Total changes in operating assets and liabilities	(1,537.2)	(711.8)

52. Events after the reporting date

On 11 January 2021, OSB GROUP PLC published a Circular in relation to the Capital Reduction, which subject to shareholder approval as well as certain other conditions set out in the Circular, was undertaken to create the required distributable reserves to enable the Company to pay dividends and other distributions to shareholders in the future. The Circular stated that there would be no change to the total number of shares or the total capital in the Company or the Group's capital ratios as a result of the Capital Reduction.

On 26 February 2021, the Capital reduction became effective with OSB GROUP PLC reducing the nominal value of 447,312,780 shares from three hundred and four (304) pence each to one (1) penny each. Interim accounts as at 28 February 2021 have been prepared and delivered to Companies House as a requirement to support the recommended distribution of a dividend of £64.9m on 2 June 2021 by OSB GROUP PLC.

On 26 February 2021, the Group completed the purchase of a c. £55m portfolio of UK residential mortgages, which were serviced by the Group, from a third party. The portfolio was acquired at a discount to current balances.

On 17 March 2021, the Group issued a trading update stating that it had become aware of potential fraudulent activity by a third party in relation to one of the funding lines provided by the Group, secured against lease receivables and the underlying hard assets. The Group had an outstanding receivable against this funding line of £28.6m as at 31 December 2020. Following an initial report from the Administrator to the third-party company, appointed by the Group, the Group concluded that conditions existed as at the end of the reporting period which make this an adjusting post balance sheet event, with an impairment of £20.0m recognised in 2020.

53. Controlling party

As at 31 December 2020 there was no controlling party of OSB GROUP PLC.



Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2020

54. Capital management

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

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

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

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

Under Pillar 2, the Group and its regulated entities, complete an annual self-assessment of risks known as the Internal Capital Adequacy Assessment Process (ICAAP). The PRA applies additional requirements to this assessment amount to cover risks under Pillar 2 to generate a Total Capital Requirement. Further, the PRA sets capital buffers and the Group applies for imposition of the requirements and modification of rules incorporating the capital buffers and Pillar 2 pursuant to the Financial Services and Markets Act 2000.

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

Basel III came into force through CRD IV. Basel III complements and enhances Basel I and II with additional safety measures. Basel III changed definitions of regulatory capital, introduced new capital buffers, a non-risk adjusted leverage ratio, liquidity ratios and modified the way regulatory capital is calculated.

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

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



54. Capital management continued

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

	(Unaudited) 2020 £m	(Unaudited) 2019 £m
Common Equity Tier 1 capital		
Called up share capital	1,359.8	4.5
Share premium, capital contribution and share-based payment reserve	7.8	876.3
Retained earnings	1,608.6	553.2
Transfer reserve	(1,355.3)	(12.8)
Other reserves	(4.0)	(4.2)
Total equity attributable to ordinary shareholders	1,616.9	1,417.0
Foreseeable dividends	(64.9)	(49.9)
IFRS 9 transitional adjustment ¹	4.9	5.3
COVID-19 ECL transitional adjustment ²	31.0	–
Deductions from Common Equity Tier 1 capital		
Prudent valuation adjustment ³	(0.4)	(0.5)
Intangible assets ⁴	(20.6)	(31.4)
Deferred tax asset	(0.9)	(0.9)
Common Equity Tier 1 capital	1,566.0	1,339.6
Additional Tier 1 capital		
Non-controlling interest securities ⁵	–	60.0
Total Tier 1 capital	1,566.0	1,399.6
Tier 2 capital		
Subordinated debt and PSBs ⁵	–	47.4
Deductions from Tier 2 capital ⁵	–	(0.7)
Total Tier 2 capital	–	46.7
Total regulatory capital	1,566.0	1,446.3
Risk-weighted assets (unaudited)	8,565.7	8,383.0

1. The regulatory capital includes a £4.9m add-back under IFRS 9 transitional arrangements. This represents 75% of the IFRS 9 transitional adjustment booked directly to retained earnings of £6.5m. The full impact of IFRS 9, if applied, would reduce total regulatory capital to £1,561.1m.

2. The COVID-19 ECL transitional adjustment relates to the Group's increase in Stage 1 and Stage 2 ECL following the impacts of COVID-19 and for which transitional rules are being adopted for regulatory capital purposes.

3. The Group has adopted the simplified approach under the Prudent Valuation rules, recognising a deduction equal to 0.1% of fair value assets and liabilities after adjusting for hedge accounting.

4. All software assets continue to be fully deducted from capital in light of the pending intention of the PRA to consult on the CRR 'Quick Fix' package in this area.

5. Non-controlling interest securities, subordinated debt and PSBs that qualified as regulatory capital in prior years no longer do so at the Group level since the insertion of the holding company, OSB GROUP PLC.

The movement in CET1 during the year was as follows:

	(Unaudited) 2020 £m	(Unaudited) 2019 £m
At 1 January	1,339.6	561.6
Movement in retained earnings	1,055.4	113.6
Share premium from Sharesave Scheme vesting	2.6	0.3
Shares issued on Combination with CCFS	–	707.1
Movement in other reserves	(858.1)	(2.7)
Movement in foreseeable dividends	(15.0)	(24.7)
Movement in solo consolidation adjustment	–	5.4
IFRS 9 transitional adjustment	(0.4)	2.6
COVID-19 ECL transitional adjustment	31.0	–
Movement in prudent valuation adjustment	0.1	(0.4)
Net decrease/(increase) in intangible assets	10.8	(23.7)
Movement in deferred tax asset for carried forward losses	–	0.5
At 31 December	1,566.0	1,339.6



Company Statement of Financial Position

As at 31 December 2020

	Note	2020 £m	2019 £m
Assets			
Investments in subsidiaries and intercompany loans	2	1,425.9	–
Total assets		1,425.9	–
Equity			
Share capital	3	1,359.8	–
Retained earnings		4.0	–
Other reserves		62.1	–
Total equity		1,425.9	–

The profit after tax for the year ended 31 December 2020 of OSB GROUP PLC was £0.1m (2019: £nil). As permitted by section 408 of the Companies Act 2006, no separate Statement of Comprehensive Income is presented in respect of the Company.

The Company statement of financial position as at 31 December 2019 comprised Debtors £12,501, Called-up share capital not paid £37,499, 2 Ordinary shares of £1.00 each and Redeemable preference shares of £1.00 each £49,998.

The notes on pages 267 to 269 form an integral part of the Company financial statements.

The financial statements were approved by the Board of Directors on 8 April 2021 and were signed on its behalf by:

Andy Golding
Chief Executive Officer

April Talintyre
Chief Financial Officer

Company number: 11976839



Company Statement of Changes in Equity

For the year ended 31 December 2020

	Share capital £m	Transfer reserve £m	Own shares £m	Share-based payment reserve £m	Retained earnings £m	Total £m
Company incorporation on 22nd May 2019	–	–	–	–	–	–
Result for the period	–	–	–	–	–	–
At 31 December 2019	–	–	–	–	–	–
Profit for the year	–	–	–	–	0.1	0.1
Share-based payments	–	–	–	0.4	–	0.4
Own shares ¹	–	–	(4.0)	–	3.9	(0.1)
Shares issued on 27 November 2020	1,359.8	65.7	–	–	–	1,425.5
At 31 December 2020	1,359.8	65.7	(4.0)	0.4	4.0	1,425.9

1. The Company has adopted look-through accounting and consolidated the Employee Benefit Trust effective from 27 November 2020. The Company initially recognised £6.1m of own shares, with £3.9m recognised in retained earnings relating to gifts made to the EBT, and £2.2m in intercompany loans, relating to a loan from OSB to the EBT which funded the acquisition of shares prior to 27 November 2020. As at 31 December 2020, the EBT had £0.1m of outstanding intercompany borrowing.



Company Statement of Cash Flows

For the year ended 31 December 2020

	Note	2020 £m	2019 £m
Cash flows from operating activities			
Profit before taxation		0.1	–
Change in intercompany loans		(2.2)	–
Cash used in operating activities		(2.1)	–
Cash flows from financing activities			
Proceeds from issuance of shares under employee SAYE scheme		2.1	–
Cash generated from financing activities		2.1	–
Net increase in cash and cash equivalents		–	–
Cash and cash equivalents at the beginning of the year		–	–
Cash and cash equivalents at the end of the year		–	–
Movement in cash and cash equivalents		–	–



Notes to the Company Financial Statements

For the year ended 31 December 2020

1. Basis of preparation

The separate financial statements of the Company are presented as required by the Companies Act 2006. As permitted by that Act, the separate financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (EU), and are presented in pounds sterling.

The financial statements have been prepared on the historical cost basis. The principal accounting policies adopted are the same as those set out in note 2 to the Consolidated financial statements.

The Company has adopted the predecessor value method with an investment in subsidiary of OSBG being the book value of the balance sheet in OSB at the date of insertion.

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

2. Investment in subsidiary

The Company has one direct subsidiary, OneSavings Bank plc (OSB), which is carried at the net book value on the date the Company was inserted as the holding company of the Group.

	Shares in subsidiary undertakings £m	Intercompany loans payable £m
At 1 January 2020	–	–
Net book value of OSB on 27 November 2020	1,425.5	–
Additions	0.4	(2.2)
Repayments	–	2.2
At 31 December 2020	1,425.9	–

The Company holds ordinary shares in its direct subsidiary.



Notes to the Company Financial Statements (Continued)

For the year ended 31 December 2020

2. Investment in subsidiary continued

A list of the Company's direct and indirect subsidiaries as at 31 December 2020 is shown below:

Direct investments	Activity	Registered office	Ownership
OneSavings Bank plc	Mortgage lending and deposit taking	Reliance House	100%
Indirect investments	Activity	Registered office	Ownership
5D Finance Limited	Mortgage servicer	Reliance House	100%
Broadlands Finance Limited	Mortgage administration services	Charter Court	100%
Canterbury Finance No.2 plc	Special purpose vehicle	Churchill Place	–
Canterbury Finance No.3 plc	Special purpose vehicle	Churchill Place	–
Charter Court Financial Services Group Plc	Holding company	Charter Court	100%
Charter Court Financial Services Limited	Mortgage lending and deposit taking	Charter Court	100%
Charter Mortgages Limited	Mortgage administration and analytical services	Charter Court	100%
CMF 2020-1 plc	Special purpose vehicle	Churchill Place	–
CML Warehouse Number 1 Limited	Special purpose vehicle	Bartholomew	–
CML Warehouse Number 2 Limited	Special purpose vehicle	Churchill Place	–
Easioption Limited	Holding company	Reliance House	100%
Exact Mortgage Experts Limited	Group service company	Charter Court	100%
Guernsey Home Loans Limited	Mortgage provider	Reliance House	100%
Guernsey Home Loans Limited (Guernsey)	Mortgage provider	Guernsey	100%
Heritable Development Finance Limited	Mortgage originator and servicer	Reliance House	100%
Inter Bay Financial I Limited	Holding company	Reliance House	100%
Inter Bay Financial II Limited	Holding company	Reliance House	100%
InterBay Asset Finance Limited	Asset finance and mortgage provider	Reliance House	100%
Interbay Funding, Ltd	Mortgage servicer	Reliance House	100%
Interbay Group Holdings Limited	Holding company	Reliance House	100%
Interbay Holdings Ltd	Holding company	Reliance House	100%
Interbay ML, Ltd	Mortgage provider	Reliance House	100%
Jersey Home Loans Limited	Mortgage provider	Reliance House	100%
Jersey Home Loans Limited (Jersey)	Mortgage provider	Jersey	100%
OSB India Private Limited	Back office processing	India	100%
Precise Mortgage Funding 2014-1 plc	Special purpose vehicle	Great St. Helen's	–
Precise Mortgage Funding 2014-2 plc	Special purpose vehicle	Great St. Helen's	–
Precise Mortgage Funding 2015-1 plc	Special purpose vehicle	Great St. Helen's	–
Precise Mortgage Funding 2015-3R plc	Special purpose vehicle	Great St. Helen's	–
Prestige Finance Limited	Mortgage originator and servicer	Reliance House	100%
Reliance Property Loans Limited	Mortgage provider	Reliance House	100%
Rochester Mortgages Limited	Mortgage provider	Reliance House	100%

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

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

Special purpose vehicles which the Group controls are treated as subsidiaries for accounting purposes.

All of the entities listed above have been consolidated into the Group's consolidated financial statements.

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



2. Investment in subsidiary continued

The following are the registered offices of the subsidiaries:

Bartholomew – 1 Bartholomew Lane, London, England, EC2N 2AX

Charter Court – 2 Charter Court, Broadlands, Wolverhampton, WV10 6TD

Churchill Place – 5 Churchill Place, 10th Floor, London, E14 5HU

Great St. Helen's – 35 Great St. Helen's, London, EC3A 6AP

Guernsey – 1st Floor, Tudor House, Le Bordage, St Peter Port, Guernsey, GY1 1DB

India – Salarpuria Magnificia No. 78, 9th & 10th floor, Old Madras Road, Bangalore, India, 560016.

Jersey – 26 New Street, St Helier, Jersey, JE2 3RA

Reliance House – Reliance House, Sun Pier, Chatham, Kent, ME4 4ET

During the year the Company received a gift of £0.1m from OSB.

3. Share capital

	Ordinary shares, number	Nominal value £m
Incorporation on 2 May 2019, £1 nominal value shares	2	–
At 31 December 2019	2	–
Conversion of £1 ordinary shares to £0.01 ordinary shares	198	–
Issuance of 408 £0.01 ordinary shares	408	–
Conversion of £0.01 ordinary shares to £3.04 ordinary shares	(606)	–
Redemption of preference shares	–	–
Issuance of new £3.04 ordinary share on Insertion	447,304,196	1,359.8
Shares issued under employee share plans	8,582	–
At 31 December 2020	447,312,780	1,359.8

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

4. Directors and employees

The Company has no employees. OneSavings Bank plc, provides the Company with employee services and bears the costs associated with the Directors of the Company. These costs are not recharged to the Company. The Company will continue to have no employees.



Appendices

1. Independent assurance statement by Deloitte LLP to OSB GROUP PLC on selected Alternative Performance Measures

Opinion

We have performed an independent reasonable assurance engagement on the Alternative Performance Measures (collectively, the APMs) set out below for the financial year ended 31 December 2020. The assured APMs are highlighted with the symbol Δ throughout the OSB GROUP PLC (OSB Group) 2020 Annual Report and Accounts (ARA). The definition and the basis of preparation for each of the assured APMs is described in the Appendix to the 2020 ARA on pages 272 to 275 (OSB Group's APM Definitions and Basis of Preparation).

Statutory basis

- Gross new lending
- Net interest margin
- Cost to income
- Management expense ratio
- Loan loss ratio
- Dividend per share
- Basic earnings per share
- Return on equity

Underlying basis

- Net interest margin
- Cost to income
- Management expense ratio
- Loan loss ratio
- Basic earnings per share
- Return on equity

In our opinion, the assured APMs for the financial year ended 30 December 2020, have been prepared, in all material respects, in accordance with OSB Group's APM Definitions and Basis of Preparation.

Directors' responsibilities

The directors of OSB Group are responsible for

- selecting APMs with which to describe the entity's performance and appropriate criteria (as set out in the Group's APM Definitions and Basis of Preparation) to measure them;
- designing, implementing and maintaining internal controls relevant to the preparation and presentation of the assured APMs that are free from material misstatement, whether due to fraud or error; and
- preparing and presenting the APMs.

Our responsibilities

Our responsibility is to express an opinion on the assured APMs, based on our assurance work. We performed a reasonable assurance engagement in accordance with International Standard on Assurance Engagements (ISAE) 3000 (Revised), Assurance Engagements other than Audits or Reviews of Historical Financial Information.

We are required to plan and perform our procedures in order to obtain reasonable assurance as to whether the assured APMs have been prepared, in all material respects, in accordance with OSB Group's APM Definitions and Basis of Preparation.

The nature, timing and extent of the assurance procedures selected depended on our judgment, including the assessment of the risks of material misstatement, whether due to fraud or error, of the assured APMs. In making those risk assessments, we considered internal controls relevant to the preparation of the assured APMs.

Based on that assessment we carried out testing which included:

- Agreeing amounts used in the calculation of APMs which are derived or extracted from the audited financial statements of OSB Group for the year ended 31 December 2020 to the financial statements.
- For amounts used in the calculation of APMs which were not derived or extracted from the financial statements of OSB Group for the year ended 31 December 2020 testing, on a sample basis, the underlying data used in determining the assured APMs.
- Checking the mathematical accuracy of the calculations used to prepare the assured APMs and testing whether they were prepared in accordance with OSB Group's APM Definitions and Basis of Preparation;
- Reading the 2020 ARA and assessing whether the assured APMs were presented and described consistently.

We were not asked to give, and therefore have not given any assurance over (i) any APMs other than the assured APMs or (ii) other data in the ARA as part of this engagement.

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



Our independence and quality control

We have complied with the independence and other ethical requirements of the FRC Ethical Standard and the Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

We apply International Standard on Quality Control 1. Accordingly, we maintain a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Use of our report

This assurance report is made solely to OSB GROUP PLC in accordance with the terms of the engagement letter between us. Our work has been undertaken so that we might state to OSB GROUP PLC those matters we are required to state to them in an independent reasonable assurance report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than OSB GROUP PLC for our assurance work, for this assurance report or for the opinions we have formed.

Deloitte LLP, London
8 April 2021



Appendices

2. Alternative performance measures

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

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

Below we provide definitions and the calculation methodology of ratios used throughout this Annual Report both a on statutory basis for 2020 and 2019 and underlying basis for 2020 and pro forma underlying basis for 2019.

Key performance indicators

Gross new lending

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

	2020 £m	2019 £m
Gross new lending – statutory	3,767.0	4,141.0
Gross new lending – CCFS 2019 pre-acquisition	–	2,355.0
Gross new lending – underlying and pro forma underlying	3,767.0	6,496.0

Net interest margin (NIM)

NIM is defined as net interest income as a percentage of a 13 point average¹ of interest earning assets (cash, investment securities, loans and advances to customers and credit institutions). It represents the margin earned on loans and advances and liquid assets after swap expense/income and cost of funds.

	2020 £m	2019 £m
Net interest income – statutory A	472.2	344.7
CCFS 2019 pre-acquisition results	–	152.1
Add back: acquisition-related items ²	61.8	21.6
Net interest income – underlying and pro forma underlying B	534.0	518.4
13 point average of interest earning assets – statutory C	21,883.4	14,163.5
13 point average of interest earning assets – underlying and pro forma underlying D	21,663.2	19,484.3
NIM statutory equals A/C	2.16%	2.43%
NIM underlying and pro forma underlying equals B/D	2.47%	2.66%



Cost to income ratio

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

	2020 £m	2019 £m
Administrative expenses – statutory A	157.0	108.7
CCFS 2019 pre-acquisition results	–	57.7
Add back: acquisition-related items ²	(4.3)	(1.3)
Administrative expenses – underlying and pro forma underlying B	152.7	165.1
Total income – statutory C	508.6	343.4
CCFS 2019 pre-acquisition results	–	200.8
Add back: acquisition-related items ²	61.6	18.3
Total income – underlying pro forma underlying D	570.2	562.5
Cost to income statutory equals A/C	31%	32%
Cost to income underlying and pro forma underlying equals B/D	27%	29%

Management expense ratio

The management expense ratio is defined as administrative expenses as a percentage of a 13 point average¹ of total assets.

	2020 £m	2019 £m
Administrative expenses – statutory (as in cost to income ratio above) A	157.0	108.7
Administrative expenses – underlying and pro forma underlying (as in cost to income ratio above) B	152.7	165.1
13 point average of total assets – statutory C	22,140.1	14,298.0
13 point average of total assets – underlying and pro forma underlying D	21,931.8	19,752.6
Management expense ratio statutory equals A/C	0.71%	0.76%
Management expense ratio underlying and pro forma underlying equals B/D	0.70%	0.84%

Loan loss ratio

The loan loss ratio is defined as impairment of financial assets as a percentage of a 13 point average¹ of gross loans and advances. It is a measure of the credit performance of the loan book.

	2020 £m	2019 £m
Impairment of financial assets – statutory A	71.0	15.6
CCFS 2019 pre-acquisition results	–	4.3
Add back: acquisition-related items ²	0.2	(3.6)
Impairment of financial assets – underlying and pro forma underlying B	71.2	16.3
13 point average of gross loans – statutory C	18,739.0	12,171.5
13 point average of gross loans – underlying and pro forma underlying D	18,508.5	16,684.6
Loan loss ratio statutory equals A/C	0.38%	0.13%
Loan loss ratio underlying and pro forma underlying equals B/D	0.38%	0.10%



Appendices (Continued)

2. Alternative performance measures (Continued)

Return on equity (RoE)

RoE is defined as profit attributable to ordinary shareholders, which is profit after tax and after deducting coupons on non-controlling interest securities, as a percentage of a 13 point average¹ of shareholders' equity (excluding £60m of non-controlling interest securities).

	2020 £m	2019 £m
Profit after tax – statutory	196.3	158.8
Coupons on non-controlling interest securities	(5.5)	(5.5)
Profit attributable to ordinary shareholders – statutory A	190.8	153.3
CCFS 2019 pre-acquisition results	–	92.5
Add back: acquisition-related items ²	68.6	42.9
Profit attributable to ordinary shareholders – underlying and pro forma underlying B	259.4	288.7
13 point average of shareholders' equity (excluding non-controlling interest securities) – statutory C	1,514.2	866.6
13 point average of shareholders' equity (excluding non-controlling interest securities) – underlying and pro forma underlying D	1,363.8	1,147.1
Return on equity statutory equals A/C	13%	18%
Return on equity underlying and pro forma underlying equals B/D	19%	25%

Basic earnings per share

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

	2020 £m	2019 £m
Profit attributable to ordinary shareholders – statutory (as in RoE ratio above) A	190.8	153.3
Profit attributable to ordinary shareholders – underlying and pro forma underlying (as in RoE ratio above) B	259.4	288.7
Weighted average number of ordinary shares in issue – statutory C	446.2	291.6
Weighted average number of ordinary shares in issue – underlying and pro forma underlying D	446.2	444.8
Basic earnings per share statutory equals A/C	42.8	52.6
Basic earnings per share underlying and pro forma underlying equals B/D	58.1	64.9

1. 13 point average is calculated as an average of opening balance and closing balances for 12 months of the financial year.

2. The acquisition-related items are detailed in the reconciliation of statutory to underlying and pro forma underlying results in the Financial review.



Calculation of 2020 final dividend

The table below shows the basis of calculation of the Company's recommended final dividend for 2020:

	2020 £m	2019 £m
Statutory profit after tax	196.3	158.8
Less: Coupons on non-controlling interest securities classified as equity	(5.5)	(5.5)
Statutory profit attributable to ordinary shareholders	190.8	153.3
Add back: Group's integration costs	9.8	–
Tax on Group's integration costs	(2.4)	–
Add back: Group's exceptional items	3.3	15.6
Add back: amortisation of fair value adjustment	64.5	21.6
Add back: amortisation of inception adjustment	(13.3)	(3.3)
Add back: amortisation of cancelled swaps	(2.7)	–
Add back: amortisation of intangible assets acquired	11.3	1.3
Release of deferred taxation on the above amortisation adjustments	(14.8)	(7.0)
Gain on sale of financial assets	13.1	–
Less: gain on Combination	–	(10.8)
Add back: ECL on Combination	(0.2)	3.6
Add: CCFS pre-acquisition profits	–	92.5
Add back: CCFS pre-acquisition exceptional items	–	15.7
Add back: CCFS pre-acquisition integration costs	–	5.2
Tax on CCFS pre-acquisition integration costs	–	(1.6)
Add back: Tax on Heritable option	–	2.6
Underlying and pro forma underlying profit attributable to ordinary shareholders	259.4	288.7
Total dividend: 25% of underlying and pro forma underlying profit attributable to ordinary shareholders	64.9	72.2
Less interim dividends paid:		
CCFS (pre-acquisition)	–	(10.3)
OSB	–	(12.0)
Recommended final dividend	64.9	49.9
Number of ordinary shares in issue	447,312,780	445,443,454
Recommended final dividend per share	14.5	11.2



Appendices (Continued)

Glossary

AGM	Annual General Meeting	KRFI	Kent Reliance for Intermediaries
ALCO	Group Assets and Liabilities Committee	KRPS	Kent Reliance Provident Society Limited
BoE	Bank of England	LCR	Liquidity Coverage Ratio
CCFS	Charter Court Financial Services Group plc	LGD	Loss Given Default
CEO	Chief Executive Officer	LIBOR	London Interbank Offered Rate
CFO	Chief Financial Officer	LTIP	Long-Term Incentive Plan
CRD IV	Capital Requirement Directive and Regulation	LTV	Loan to value
CRO	Chief Risk Officer	NIM	Net Interest Margin
DSBP	Deferred Share Bonus Plan	NPS	Net Promoter Score
EAD	Exposure at Default	OSB	OneSavings Bank plc
ECL	Expected Credit Loss	OSBG	OSB GROUP PLC
EIR	Effective Interest Rate	PD	Probability of Default
EPS	Earnings Per Share	PPD	Propensity to go to Possession Given Default
EU	European Union	PRA	Prudential Regulation Authority
FCA	Financial Conduct Authority	PSBs	Perpetual Subordinated Bonds
FRC	Financial Reporting Council	PSP	Performance Share Plan
FSCS	Financial Services Compensation Scheme	RMBS	Residential Mortgage-Backed Securities
FSD	Forced Sale Discount	RoE	Return on equity
FTSE	Financial Times Stock Exchange	RWA	Risk weighted assets
HMRC	Her Majesty's Revenue and Customs	SAYE	Save As You Earn or Sharesave
HPI	House Price Inflation	SDLT	Stamp Duty Land Tax
IAS	International Accounting Standards	SICR	Significant Increase in Credit Risk
ICAAP	Internal Capital Adequacy Assessment Process	SID	Senior Independent Director
ICR	Interest Coverage Ratio	SME	Small Medium Enterprises
IFRS	International Financial Reporting Standards	SONIA	Sterling Overnight Index Average
ILAAP	Internal Liquidity Adequacy Assessment Process	SRMF	Strategic Risk Management Framework
ILTR	Indexed Long-Term Repo	TFS	Term Funding Scheme
IPO	Initial Public Offering		
IRB	Internal Ratings-Based approach to credit risk		
ISA	Individual Savings Account		



Company information

Registered office and head office

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Private shareholders are welcome to contact the Company Secretary if they have any questions or concerns they wish to be raised with the Board.



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